

Baystate Health, Inc. and Subsidiaries

Consolidated Financial Statements as of and
for the Years Ended September 30, 2015 and 2014,
Consolidating Supplementary Financial Information as
of and for the Year Ended September 30, 2015, and
for the Three Months Ended September 30, 2015, and
Independent Auditors' Report

Baystate Health, Inc. and Subsidiaries

Table of Contents

	Page
Independent Auditors' Report	1-2
Consolidated Financial Statements as of and for the years ended September 30, 2015 and 2014:	
Statements of Financial Position	3
Statements of Operations	4
Statements of Changes in Net Assets	5
Statements of Cash Flows	6
Notes to Consolidated Financial Statements	7-46
Consolidating Supplementary Financial Information as of and for the year ended September 30, 2015, and for the three months ended September 30, 2015:	47
Schedule of Assets	48
Schedule of Liabilities and Net Assets	49
Schedule of Operations	50
Schedule of Changes in Net Assets	51
Schedule of Cash Flows	52
Baystate Medical Center and Subsidiary:	
Schedule of Assets	53
Schedule of Liabilities and Net Assets	54
Schedule of Operations	55
Schedule of Changes in Net Assets	56
Schedule of Cash Flows	57

Baystate Noble Hospital and Subsidiaries:

Schedule of Assets	58
Schedule of Liabilities and Net Assets	59
Schedule of Operations	60
Schedule of Changes in Net Assets	61

Other Entities

Schedule of Assets	62
Schedule of Liabilities and Net Assets	63
Schedule of Operations	64
Schedule of Changes in Net Assets	65
Schedule of Cash Flows	66

INDEPENDENT AUDITORS' REPORT

To the Board of Trustees of
Baystate Health, Inc.:

We have audited the accompanying consolidated financial statements of Baystate Health, Inc. and subsidiaries ("Baystate Health"), which comprise the consolidated statements of financial position as of September 30, 2015 and 2014; the related consolidated statements of operations, changes in net assets, and cash flows for the years then ended; and the related notes to consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with 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 these 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 the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to Baystate Health'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 Baystate Health'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 Baystate Health, Inc. and subsidiaries as of September 30, 2015 and 2014, 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.

Report on Consolidating Supplementary Financial Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating supplementary financial information listed in the table of contents is presented for the purpose of additional analysis of the consolidated financial statements rather than to present the financial position, results of operations, and cash flows of the individual companies and is not a required part of the consolidated financial statements. This consolidating supplementary financial information is the responsibility of Baystate Health's management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. Such consolidating supplementary financial information has been subjected to the auditing procedures applied in our audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such consolidating supplementary financial 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, such consolidating supplementary financial information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Deloitte + Touche LLP

January 5, 2016

Baystate Health, Inc. and Subsidiaries

Consolidated statements of financial position As of September 30, 2015 and 2014 (In thousands)

	<u>2015</u>	<u>2014</u>		<u>2015</u>	<u>2014</u>
Assets			Liabilities and net assets		
Current assets:			Current liabilities:		
Cash and cash equivalents	\$ 182,971	\$ 179,075	Accounts payable	\$ 135,596	\$ 112,065
Investments	303,285	327,655	Medical claims payable	74,342	48,573
Accounts receivable, patients, less allowance for uncollectible accounts of \$33,683 in 2015 and \$31,547 in 2014	131,392	138,689	Accrued salaries and wages	110,593	100,212
Accounts receivable, other	45,652	36,312	Accrued interest payable	2,816	2,251
Estimated final settlements receivable	26,836	15,867	Estimated final settlements payable	50,812	55,141
Inventories	27,489	26,048	Deferred revenue	17,406	14,665
Prepaid expenses and other current assets	29,312	23,343	Current portion of long-term debt	30,960	7,840
			Current portion of capital lease obligations	3,690	3,541
Total current assets	<u>746,937</u>	<u>746,989</u>	Total current liabilities	426,215	344,288
Long-term assets:			Long-term debt	515,855	457,081
Investments	57,798	57,842	Capital lease obligations	8,212	9,864
Equity investment in unconsolidated affiliates	2,287	2,737	Pension liability	117,724	99,502
Notes receivable	68,516	67,846	Insurance liability loss reserves	123,535	126,059
Deferred expense and other long-term assets	18,091	18,715	Other liabilities	47,982	42,770
Goodwill	5,684	1,551			
Land, buildings, and equipment, net	711,620	657,095	Total liabilities	<u>1,239,523</u>	<u>1,079,564</u>
	<u>863,996</u>	<u>805,786</u>	Net assets:		
Assets whose use is limited:			Unrestricted:		
Board-designated funds	246,977	255,333	Operating	1,074,094	1,034,366
Investments of captive insurance company	108,576	108,467	Pension adjustment	(347,052)	(231,272)
Investments held by trustee under debt agreements	34,390	1,297			
Beneficial interest in perpetual trusts	34,162	37,388	Total unrestricted	727,042	803,094
Deferred compensation investments	38,461	35,889	Temporarily restricted	55,040	54,611
	<u>462,566</u>	<u>438,374</u>	Permanently restricted	51,894	53,880
			Total net assets	<u>833,976</u>	<u>911,585</u>
Total assets	<u>\$ 2,073,499</u>	<u>\$ 1,991,149</u>	Total liabilities and net assets	<u>\$ 2,073,499</u>	<u>\$ 1,991,149</u>

See notes to consolidated financial statements.

Baystate Health, Inc. and Subsidiaries

Consolidated statements of operations For the years ended September 30, 2015 and 2014 (In thousands)

	<u>2015</u>	<u>2014</u>
Operating revenues:		
Net patient service revenue	\$ 1,242,785	\$ 1,171,589
Bad debts	<u>20,743</u>	<u>23,918</u>
Net patient service revenue, net of bad debts	1,222,042	1,147,671
Premiums	821,995	590,083
Other revenue	89,364	84,108
Net assets released from restrictions for operations	<u>5,160</u>	<u>5,192</u>
Total operating revenues	<u>2,138,561</u>	<u>1,827,054</u>
Operating expenses:		
Salaries and wages	811,397	715,502
Supplies and expense	687,235	586,322
Medical claims and capitation	569,696	393,965
Depreciation and amortization	69,207	63,404
Interest expense	<u>10,892</u>	<u>10,591</u>
Total operating expenses	<u>2,148,427</u>	<u>1,769,784</u>
(Loss) income from operations before other income	(9,866)	57,270
Other income, net	<u>69,651</u>	<u>-</u>
Income from operations	<u>59,785</u>	<u>57,270</u>
Nonoperating income (loss):		
Investment income	6,225	5,391
Net realized gain on investments	9,810	11,807
Net unrealized (loss) gain on investments	(40,548)	21,446
Equity (loss) gain in unconsolidated affiliates	(312)	48
Net interest cost on swap agreements	(1,964)	(2,220)
Change in fair value of swap agreements	(84)	1,141
Net assets from acquired subsidiary	-	2,164
Income taxes and other	<u>1,105</u>	<u>(9,770)</u>
Total nonoperating (loss) income	<u>(25,768)</u>	<u>30,007</u>
Excess of revenues over expenses	34,017	87,277
Other changes in unrestricted net assets:		
Net assets released from restrictions for capital	3,618	4,336
Funds utilized for property and equipment	2,095	2,810
Transfers from (to) restricted net assets	136	(157)
Pension adjustment	(115,780)	(37,558)
Other	<u>(138)</u>	<u>31</u>
(Decrease) increase in unrestricted net assets	<u>\$ (76,052)</u>	<u>\$ 56,739</u>

See notes to consolidated financial statements.

Baystate Health, Inc. and Subsidiaries

Consolidated statements of changes in net assets For the years ended September 30, 2015 and 2014 (In thousands)

	<u>2015</u>	<u>2014</u>
Unrestricted net assets:		
Excess of revenues over expenses	\$ 34,017	\$ 87,277
Net assets released from restrictions for capital	3,618	4,336
Funds utilized for property and equipment	2,095	2,810
Transfers from (to) restricted net assets	136	(157)
Pension adjustment	(115,780)	(37,558)
Other	<u>(138)</u>	<u>31</u>
(Decrease) increase in unrestricted net assets	<u>(76,052)</u>	<u>56,739</u>
Temporarily restricted net assets:		
Restricted investment income	243	362
Net realized and unrealized (loss) gain on investments	(2,506)	3,603
Contributions	7,263	4,231
Transfers (to) from unrestricted net assets	(136)	157
Net assets released from restrictions:		
For operations	(5,160)	(5,192)
For capital	(3,618)	(4,336)
Net assets from acquired subsidiary	4,024	1,161
Other	<u>319</u>	<u>(150)</u>
Increase (decrease) in temporarily restricted net assets	<u>429</u>	<u>(164)</u>
Permanently restricted net assets:		
Contributions	359	5
Change in fair value of perpetual trusts	(3,226)	47
Net assets from acquired subsidiary	<u>881</u>	<u>2,383</u>
(Decrease) increase in permanently restricted net assets	<u>(1,986)</u>	<u>2,435</u>
(Decrease) increase in net assets	(77,609)	59,010
Net assets — beginning of year	<u>911,585</u>	<u>852,575</u>
Net assets — end of year	<u>\$ 833,976</u>	<u>\$ 911,585</u>

See notes to consolidated financial statements.

Baystate Health, Inc. and Subsidiaries

Consolidated statements of cash flows For the years ended September 30, 2015 and 2014 (In thousands)

	<u>2015</u>	<u>2014</u>
Operating activities:		
(Decrease) increase in net assets	\$ (77,609)	\$ 59,010
Adjustments to reconcile (decrease) increase in net assets to net cash provided by operating activities:		
Depreciation and amortization	69,207	63,404
Accretion on notes receivable	(1,382)	(1,366)
Pension adjustment	115,780	37,558
Net realized and unrealized loss (gain) on investments	32,564	(35,590)
Provision for bad debts	20,743	24,281
Change in fair value of perpetual trusts	3,226	(47)
Restricted contributions	(7,622)	(4,176)
Changes in equity investment of affiliate	(2,345)	242
Net assets from acquired subsidiary	(773)	(5,707)
Changes in operating assets and liabilities:		
Accounts receivable, patients	(5,622)	(41,604)
Net estimated final settlements	(19,632)	6,153
Accounts payable and accrued expenses	15,839	15,567
Pension liability	(98,211)	(16,606)
Medical claims payable	25,769	(1,062)
Insurance liability loss reserves	(2,822)	(1,396)
Other	(15,728)	(15,811)
Net cash provided by operating activities	<u>51,382</u>	<u>82,850</u>
Investing activities:		
Proceeds from sale and maturities of investments	777,263	840,604
Purchase of investments	(805,160)	(796,614)
Acquisition of BWH	-	(40,500)
Proceeds from asset sale	-	2,648
Cash acquired in acquisitions	1,202	3,717
Purchase of land, buildings, and equipment	<u>(100,185)</u>	<u>(71,806)</u>
Net cash used in investing activities	<u>(126,880)</u>	<u>(61,951)</u>
Financing activities:		
Proceeds from restricted contributions	7,622	4,176
Repayment of notes receivable	713	570
Proceeds from debt issuance	82,797	32,245
Repayments of debt and capital lease obligations	<u>(11,738)</u>	<u>(23,708)</u>
Net cash provided by financing activities	<u>79,394</u>	<u>13,283</u>
Net increase in cash and cash equivalents	3,896	34,182
Cash and cash equivalents — Beginning of year	<u>179,075</u>	<u>144,893</u>
Cash and cash equivalents— End of year	<u>\$ 182,971</u>	<u>\$ 179,075</u>
Supplemental cash flows information:		
Cash paid for interest	<u>\$ 13,533</u>	<u>\$ 10,649</u>
Capital lease obligations	<u>\$ -</u>	<u>\$ 1,230</u>

See notes to consolidated financial statements.

Baystate Health, Inc. and Subsidiaries

Notes to consolidated financial statements As of and for the years ended September 30, 2015 and 2014

1. Organization

Baystate Health, Inc. (“Baystate Health” or BH), based in Springfield, Massachusetts, is the parent corporation of an integrated health care delivery system with the mission “to improve the health of the people in our community every day, with quality and compassion.”

Baystate Health currently includes the following:

- Baystate Medical Center, Inc. (BMC), located in Springfield, Massachusetts, is the largest of the five hospitals in the Baystate Health system. BMC, the leading health facility in western Massachusetts, is the only tertiary care referral medical center and Level I trauma center in the region. It is also home to western New England’s only neonatal and pediatric intensive care units. BMC is a 710-bed, tax-exempt, not-for-profit, academic teaching hospital.
- Baystate Total Home Care, Inc. (BTHC) is a tax-exempt, not-for-profit corporation, which is organized to benefit, support, and further the charitable activities of BMC by holding, leasing, improving, and managing real estate held by, or acquired on behalf of, BMC. BTHC serves as the operating entity in connection with the new markets tax credit (NMTC) financing for the BMC Expansion Project.
- Baystate Franklin Medical Center, Inc. (BFMC), located in Greenfield, Massachusetts, is a 89-bed, tax-exempt, not-for-profit, acute care community hospital. BFMC serves the northern tier of northwestern Massachusetts and southern Vermont.
- Baystate Wing Hospital Corporation (BWH), located in Palmer, Massachusetts, is a 74-bed, tax-exempt, not-for-profit, acute care community hospital acquired in 2014.
- Baystate Noble Hospital, Inc. and subsidiaries (“BNH consolidated”) consists of three tax-exempt, not-for-profit corporations located in Westfield, Massachusetts, acquired in 2015:

Baystate Noble Hospital, Inc. (BNH) is a 97-bed tax-exempt, not-for-profit acute care community hospital. BNH provides inpatient, outpatient, and emergency care services for residents in the greater Westfield community. BNH is the sole corporate member of the following organizations:

Baystate Westfield Medical Corporation (WMC) is a tax-exempt, not-for-profit physician practice that provides medical services to residents of the greater Westfield community.

Baystate Noble Visiting Nurse and Hospice Services, Inc. (BNVNAH) is a tax-exempt, not-for-profit community-based home health care and hospice agency, whose primary purpose is to provide home health services and promote and maintain community health to the city of Westfield and surrounding communities.

- Baystate Mary Lane Hospital Corporation (BMLH), located in Ware, Massachusetts, is a 25-bed, tax-exempt, not-for-profit, acute care community hospital. BMLH provides services to more than 16 central Massachusetts communities.

- Baystate Medical Practices, Inc. (BMP) is a tax-exempt, not-for-profit organization formed in 2010. BMP includes a multispecialty academic group practice established to support the educational and research programs of Baystate Health, as well as numerous primary care and outreach services. BMP also includes community-based primary care (internists and pediatricians), medical and surgical practices, obstetrical and gynecological, and hospitalist physicians dedicated to the care and management of patients hospitalized at BH-affiliated hospitals. BMP also provides preventative, diagnostic, and therapeutic health services enhancing the cardiovascular clinical, educational, community, and research activities for BH and its service area.
- Baystate Visiting Nurse Association & Hospice (BVNAH) is a tax-exempt, not-for-profit organization that provides comprehensive home health care committed to providing the highest quality care to patients and families, primarily in the home setting. BVNAH meets individual needs by bringing experienced nurses, rehabilitation therapists, social workers, and home care aides to patients' homes.
- Health New England, Inc. and subsidiaries (HNE) is a not-for-profit health maintenance organization located in Springfield, Massachusetts. HNE's service area in Massachusetts includes Franklin, Berkshire, Hampden, and Hampshire counties and parts of Worcester County. HNE also serves Hartford, Litchfield, and Tolland counties in Connecticut. In 2013, HNE converted from a for-profit to a not-for-profit organization and filed an application for tax-exempt status. In November 2015, the Internal Revenue Service (IRS) approved tax-exempt status for HNE, with an effective application date of January 1, 2013. HNE includes the following subsidiaries:

HNE Holding Company, which is the parent company of HNE Advisory Services, Inc. (HAS); Health New England Insurance Services, Inc. (HIS); and HNE Insurance Company, Inc. (HIC); three for-profit subsidiaries. Through HAS, HNE provides administrative services for self-insured employee health benefit plans sponsored by employer groups. HIS provides insurance brokerage services. Through HIC, an insurance subsidiary, HNE provides the Medicare Supplement line of business that began coverage on January 1, 2013.

HNE of Connecticut, Inc. is a not-for-profit insurance subsidiary that services the health insurance needs of the Connecticut population.

- Ingraham Corporation (IC) is a for-profit, taxable corporation that served as a holding company for Baystate Health Ambulance, Inc. (BHA).
- BHA was a for-profit, taxable corporation that delivered mobile critical care providing 24-hour service throughout western New England. On May 24, 2014, BH exited this business line through a sale of all BHA's fixed assets to a third party and was dissolved during 2015.
- Baystate Administrative Services, Inc. (BAS) is a tax-exempt, not-for-profit corporation that provides management support for the BH subsidiaries, including human resources, marketing, strategic planning, information services, and financial services.
- Baystate Health Foundation, Inc. (BHF) is a tax-exempt, charitable organization established for the purpose of fund-raising for healthcare-related activities, in support, and for the benefit, of BH and those subsidiaries of BH that are tax-exempt, not-for-profit corporations and to hold endowment, charitable donations, and other funds for their benefit.

- Baystate Health Insurance Company, Ltd. (BHIC), is a captive insurance company organized and licensed in the Cayman Islands, British West Indies. BHIC provides professional liability and other insurance coverage to the corporate members of BH and their employees. In 2004, BHIC began offering malpractice insurance to members of BH's medical staff who meet criteria for participation.

2. Significant accounting policies

Principles of Consolidation — The accompanying consolidated financial statements include the accounts of BH and its subsidiaries noted above. All intercompany and subsidiary accounts and transactions have been eliminated in consolidation.

Use of Estimates — The preparation of consolidated 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 consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates are made in the areas of the allowance for uncollectible patient accounts receivable, reserve for contractual allowances, investment valuation, estimated final settlements payable, medical claims payable, accrued insurance liability loss reserves, income taxes, pension liability, and the fair value of assets acquired and liabilities assumed (see Note 3).

Net Assets — Baystate Health and its subsidiaries report net assets and revenues, expenses, gains, and losses based upon the existence or absence of donor-imposed restrictions. In the accompanying consolidated financial statements, net assets that have similar characteristics have been combined into the following categories:

Unrestricted — Net assets that are not subject to donor-imposed stipulations. Net assets may be designated for specific purposes by action of the Board of Trustees or may otherwise be limited by contractual agreements with outside parties.

Temporarily Restricted — Net assets whose use by Baystate Health and its subsidiaries are subject to donor-imposed stipulations that can be fulfilled by actions of Baystate Health and its subsidiaries or that expire by the passage of time. At September 30, 2015 and 2014, temporarily restricted net assets consist of amounts restricted as to spending for various purposes, such as education, research, clinical, and health care programs, as well as cumulative net appreciation of permanent endowment funds which is available for governing board appropriation.

Permanently Restricted — Net assets subject to donor-imposed stipulations that they be maintained permanently by Baystate Health and its subsidiaries. At September 30, 2015 and 2014, permanently restricted net assets consist of the original cost of permanent endowment gifts and beneficial interests in perpetual trusts.

Revenues from sources other than donor-restricted contributions are reported as increases in unrestricted net assets. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments are reported as increases or decreases in unrestricted net assets, unless their use is restricted by explicit donor stipulations or by law. Expirations of temporary restrictions recognized on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as releases from temporarily restricted net assets to unrestricted net assets. Temporary restrictions on gifts to acquire long-lived assets are considered met in the period in which the assets are acquired or placed in service.

Contributions, including unconditional promises to give and grant awards, are recognized as revenues in the period received. Contributions received with donor-imposed restrictions are reported as permanently or temporarily restricted, depending upon the specific restriction. Conditional promises to give are not recognized until the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair values at the date of the gift. Contributions to be received after one year are discounted at a risk-free rate commensurate with the expected payment term. Amortization of the discount is recorded as contribution revenue in the appropriate net asset category. Allowance is made for uncollectible contributions based upon management's judgment and analysis of the creditworthiness of the donors, past collection experience, and other relevant information.

Cash and Cash Equivalents — Cash and cash equivalents include all highly liquid investments with a maturity of three months or less when purchased.

Investments — Investments include cash equivalents, mutual funds, fixed-income securities, as well as interests in limited partnerships and common collective trusts. Investments in equity securities with readily determinable fair values and all investments in debt securities are recorded at estimated fair value in the consolidated statements of financial position. The accounting for the investments held by the pension plan is discussed in Note 17.

Baystate Health has also entered into partnership agreements with limited partnerships ("alternative investments"), the majority of which are in private markets, whereby they have agreed to certain capital commitments. Baystate Health's policy is to record its ownership interest in these alternative investments of less than 5% at the lower of cost or market. For those alternative investments where the ownership interest is more than 5%, the ownership interests are reported using the equity method of accounting. As of September 30, 2015, approximately \$23,286,000 of total capital commitments, including those held within the pension plan assets discussed in Note 17, remain outstanding. Certain of the partnerships may hold some securities without readily determinable fair values and, consequently, the general partner may estimate fair value for such securities. These estimates may differ significantly from the values that would have been used had a ready market existed and may also differ significantly from the values at which such investments may be sold and the differences could be material.

Interest and dividends on investments are included in other revenue or nonoperating income in the consolidated statements of operations, unless the income or loss is restricted by donor or law. Realized gains and losses and unrealized gains and losses on investments are included in nonoperating income or temporarily restricted net assets, as applicable. Investment-related expenses, such as custodial fees and investment fees, are netted against investment revenues and are immaterial for the years ended September 30, 2015 and 2014.

Baystate Health and its subsidiaries have elected the fair value option for certain of their investments. Baystate Health made this election to reflect changes in fair value of its investments, including both increases and decreases and whether realized or unrealized, in its excess of revenue over expenses. Within excess revenues over expenses, Baystate Health recognized net unrealized losses on investments totaling \$40,548,000 in 2015 as compared to net unrealized gains on investments totaling \$21,446,000 in 2014.

Certain investments are included in pooled investment funds. Current market value is used to determine the percent of each fund in the pool. Income from investments of a pool, including gains or losses, is allocated to participating funds based on the respective fund's percentage of the pool.

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

Notes Receivable — In December and May 2009, BMC loaned \$31,186,783 and \$32,617,500, respectively, to a third party relating to project costs of approximately \$252,000,000 for the construction of a new hospital facility at 759 Chestnut Street, Springfield, Massachusetts. The loans are part of a financing arrangement that utilizes NMTCs to reduce cash required by BMC to construct this new facility. Each loan bears interest at 2.139% annually, with annual cash payments during the first seven years of the 33-year term based on an interest rate of 1.00%. The notes are recorded as notes receivable in the consolidated statements of financial position as of September 30, 2015 and 2014.

Equity Investment in Unconsolidated Affiliates — Baystate Health participates in joint ventures with 50% or less ownership and accounts for the investment in those unconsolidated affiliates as equity investments.

Deferred Expenses and Other Long-Term Assets — Deferred expenses include unamortized bond issuance expenses, which are amortized over the weighted-average terms of the bonds.

Goodwill — Goodwill is assessed annually for indicators of impairment on July 1 of each year. There were no such indicators in the years ended September 30, 2015 and 2014. Goodwill of \$1,551,000 was previously reported as a component of deferred expenses and other long-term assets in the 2014 consolidated financial statements, and has been reclassified to be consistent with current year presentation.

Assets Whose Use is Limited — Assets whose use is limited include assets held by the trustee under indenture agreements and designated assets set aside by the Board of Trustees for future capital improvements and other strategic initiatives, which are in furtherance of Baystate Health and its subsidiaries' exempt and charitable purposes. Also included are investments of the captive insurance company, investments held by trustees under debt agreements, deferred compensation investments, and beneficial interests in perpetual trusts.

Land, Buildings, and Equipment — Land, buildings, and equipment are stated at cost, less depreciation and amortization determined on the straight-line basis.

Maintenance and repairs are charged to expense as incurred. Betterments and major renewals are capitalized. Cost of assets sold or retired and the related amounts of accumulated depreciation are eliminated from the accounts in the year of disposal and the resulting gain or loss is included in other revenue. Buildings and equipment under capital lease obligations are amortized using the straight-line method over the shorter period of the lease term or the estimated useful life. Useful life is assigned in accordance with the American Hospital Association's guide, *Estimated Useful Lives of Depreciable Hospital Assets*. Such amortization is included in depreciation and amortization in the consolidated statements of operations. Interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets.

Consolidated Statements of Operations — All activities of Baystate Health deemed by management to be ongoing and central to the provision of health care services are reported as operating revenues and expenses. Included in other income, net in the consolidated statements of operations for the year ended September 30, 2015, is a pension curtailment credit of approximately \$71,400,000 (see Note 17), net of severance charges of approximately \$1,700,000. Other activities are considered nonoperating and include board-designated investment income and realized gains and losses, unrealized gains and losses on investments, investment return on deferred compensation plan investments and related compensation expense, changes in BHIC loss reserves, equity gains and losses in unconsolidated affiliates, contributions of net assets from acquired subsidiaries, interest on swap agreements, changes in fair value of swap agreements, income taxes, and acquisition-related costs associated with the purchase of BWH and BNH consolidated.

The consolidated statements of operations include excess of revenues over expenses as the performance indicator. Changes in unrestricted net assets, which are excluded from excess of revenues over expenses, include net assets released from restrictions for capital, funds utilized for property and equipment, transfers to restricted net assets, and the pension adjustment.

Net Patient Service Revenue — Net patient service revenue is reported at estimated net realizable amounts from patients, third-party payers, and others for services rendered and includes estimated retroactive revenue adjustments due to future audits, reviews, and investigations. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered and such amounts are adjusted in future periods as adjustments become known or as years are no longer subject to such audits, reviews, and investigations. Contracts, laws, and regulations governing Medicare, Medicaid, Blue Cross, and the Health Safety Net (HSN) programs are complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. Blue Cross and other managed care plans have negotiated with Baystate Health and its subsidiaries various forms of contractual payment rates. The most common payment rates include discounted charges, per case, per diems, and fee schedules.

Medicaid payment rates are negotiated between the Division of Medical Assistance and individual hospitals. Medicare Prospective Payment System (PPS) regulations determine payment due acute care hospitals for inpatient services provided to Medicare beneficiaries. Medicare payments for outpatient services are a blend of PPS and fee schedules.

During 2015 and 2014, Baystate Health recorded adjustments to amounts accrued for settlements related to prior fiscal years. The net effect of such adjustments was an increase to net patient service revenue of approximately \$24,065,000 and \$23,610,000 in 2015 and 2014, respectively.

Medicare and Medicaid Electronic Health Record (EHR) Program — Certain health care providers can earn up to four incentive payments between federal fiscal years 2011 and 2016 if certain specific program criteria are met. In the initial year, the providers are required to establish an EHR system and maintain its meaningful use status for a continuous 90-day period. In subsequent years, such meaningful use must be maintained for the entire 365-day federal fiscal year. Baystate Health records the revenue related to this program when management is reasonably assured that Baystate Health has complied with the terms of the program.

Baystate Health has included approximately \$6,078,000 and \$6,398,000 in other revenue related to the program in fiscal years 2015 and 2014, respectively. The estimate is based on cost report data, which is subject to audit, and the amounts recognized are subject to change. Baystate Health's attestation of compliance with the meaningful use criteria is subject to audit by the federal or state government or its designee.

Premium Revenue — Premium revenue represents insurance membership contract revenue at HNE. The contracts generally cover a 12-month period and are subject to cancellation by the employer group or HNE upon 30 days' written notice. Premiums are due monthly and are recognized as revenue during the period in which HNE is obligated to provide services to members.

Medical Claims and Capitation, Net — The cost of medical claims and capitation is accrued for in the period in which services are provided and include certain estimated amounts. The estimates for claims expense may be more or less than the amounts ultimately paid when the claims are settled. Such changes in estimates are reflected in the consolidated statements of operations.

Health Safety Net — In April 2006, the Commonwealth of Massachusetts passed Chapter 58 of the Acts of 2006, “An Act Providing Access to Affordable, Quality, Accountable Health Care;” the goal of which is to provide near-universal health insurance coverage to Massachusetts residents through a combination of Medicaid expansions, subsidized private insurance programs, insurance market reforms, and the HSN.

The HSN reimburses hospitals for uncompensated care based on actual services provided at rates approximating the PPS, subject to available funds. Like its predecessor, the Uncompensated Care Pool, the HSN is partially funded by acute hospitals through an assessment on gross charges billed to nongovernmental payers.

Charity Care and Community Support — It is the policy of Baystate Health to provide care to any patient in need of medical care, regardless of the patient’s ability to pay for such care. Based upon the patient’s financial capability to pay, such care is provided free of charge or at amounts below normal charges. Because amounts determined to qualify as charity care are not pursued, they are not reported as revenue. The net cost of charity care includes the direct and indirect cost of providing charity care services, offset by revenues received from indigent care pools (primarily the HSN). The cost is estimated by utilizing a ratio of cost to gross charges applied to the gross uncompensated care charges associated with providing charity care.

The costs of charity care provided during the years ended September 30, 2015 and 2014, are as follows (in thousands):

	<u>2015</u>	<u>2014</u>
HSN assessment	\$ 6,379	\$ 5,452
HSN receipts	(6,731)	(9,192)
Free care (at cost)	<u>12,245</u>	<u>12,642</u>
Total	<u>\$ 11,893</u>	<u>\$ 8,902</u>

In addition to the charity care provided to patients, Baystate Health and its subsidiaries have ongoing community outreach initiatives in the areas of health services access, education, safety, and community reinvestment. The initiatives include free-standing health centers, improving school-based health services, implementing an immunization tracking system to link preschool-aged children to primary care providers, youth development programs, increasing minority employment, improving the community’s health status, wellness, health and safety programs for senior citizens, and health screenings and forums.

Allowance for Uncollectible Accounts — Accounts receivable are reduced by an allowance for uncollectible accounts. In evaluating the collectibility of accounts receivable, Baystate Health analyzes its past history and identifies trends for each of its major payer sources of revenue to estimate the appropriate allowance for uncollectible accounts and provision for bad debts. Management regularly reviews data about these major payer sources of revenue in evaluating the sufficiency of the allowance for uncollectible accounts. For receivables associated with services provided to patients who have third-party coverage, Baystate Health analyzes contractually due amounts and provides an allowance for uncollectible accounts and a provision for bad debts, if necessary. For receivables associated with self-pay patients, Baystate Health records a significant provision for bad debts in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The difference between the standard rates and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for uncollectible accounts.

Baystate Health's allowance for uncollectible accounts for self-pay patients decreased from 100% of self-pay accounts receivable at September 30, 2014, to approximately 95% of self-pay accounts receivable at September 30, 2015. In addition, Baystate Health's self-pay write-offs, net of recoveries decreased approximately \$1,510,000 from \$46,533,000 for fiscal year 2014 to \$45,023,000 for fiscal year 2015. Baystate Health has not changed its charity care or uninsured discount policies during fiscal year 2014 or 2015. Baystate Health does not maintain a material allowance for uncollectible accounts from third-party payers, nor did it have significant write-offs from third-party payers. Baystate Health recognizes patient service revenue associated with services provided to patients who have third-party payer coverage on the basis of contractual rates for the services rendered. For uninsured patients who do not qualify for charity care, Baystate Health recognizes revenue on the basis of its standard rates for services provided (or on the basis of discounted rates, if negotiated or provided by policy).

Net patient service revenue (after contractual allowances and discounts) recognized during the years ended September 30, 2015 and 2014, from Baystate Health's major payer sources is as follows (in thousands):

	<u>2015</u>	<u>2014</u>
Medicare	\$ 521,153	\$ 463,884
Medicaid	206,683	240,412
Commercial and other	501,872	450,813
Self-pay	<u>13,077</u>	<u>16,480</u>
Total	<u>\$ 1,242,785</u>	<u>\$ 1,171,589</u>

Impairment of Long-Lived Assets — Long-lived assets to be held and used are reviewed for impairment whenever circumstances indicate that the carrying amount of an asset may not be recoverable. Long-lived assets to be disposed of are reported at the lower of the carrying amount or fair value, less cost to sell.

Research Grants and Contracts — Revenue related to research grants and contracts is recognized as the related costs are incurred. Indirect costs relating to certain government grants and contracts are reimbursed at fixed rates negotiated with the government agencies. Research grants and contracts have been accounted for as exchange transactions. Amounts received in advance of incurring the related expenditures are recorded as unexpended research grants and are included with refundable advances and deferred revenue in the accompanying consolidated statements of financial position.

Accounting for Defined Benefit Pension and Other Postretirement Plans — Baystate Health recognizes the overfunded or underfunded status of its defined benefit and postretirement plans as an asset or liability in its consolidated statements of financial position. Changes in the funded status of the plans are reported as a change in unrestricted net assets presented below the excess of revenues over expenses in the consolidated statements of operations and changes in net assets in the year in which the changes occur.

Income Taxes — All of Baystate Health's consolidated entities are recognized by the IRS as tax-exempt, not-for-profit organizations under Section 501(c)(3) of the Internal Revenue Code, except for BHIC, IC and its subsidiary, and HNE and its subsidiaries. On December 20, 2012, HNE's shareholders voted to convert HNE from a for-profit stock corporation to a 501(c)(4) not-for-profit corporation. In 2013, HNE filed an application for tax-exempt status, and in November 2015, the IRS approved 501(c)(4) status for HNE with an effective date of January 1, 2013.

New Accounting Pronouncements — Effective October 1, 2014, Baystate Health adopted Accounting Standard Update (ASU) No. 2015-07, *Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*. This guidance removes the requirement to categorize within the fair value hierarchy all investments for which the fair value is measured using the net asset value (NAV) per share practical expedient. This guidance also removes the requirement to make certain disclosures for all investments that are eligible to be measured at fair value using the NAV per share practical expedient. The adoption of this guidance, which was retrospectively applied, affected the disclosures presented in Notes 5 and 17.

In May 2014, the Financial Accounting Standards Board (FASB) issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)* (“ASU 2014-09”). ASU 2014-09 affects any entity that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets, unless those contracts are within the scope of other standards. The core principle of the guidance in ASU 2014-09 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In August 2015, the FASB issued ASU No. 2015-14, *Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date* (“ASU 2015-14”). ASU 2015-14 defers the effective date of ASU 2014-09 for all affected entities. As a result, ASU 2014-09 is effective for the annual reporting periods beginning after December 13, 2017, including interim reporting periods within that reporting period. Earlier application is permitted only as of annual reporting periods beginning after December 15, 2016, including interim reporting periods within that reporting period. Baystate Health has not determined the impact on its consolidated financial statements from the adoption of this standard.

In April 2015, the FASB issued ASU No. 2015-03, *Simplifying the Presentation of Debt Issuance Costs*. The purpose of this ASU is to change the presentation of debt issuance costs in the consolidated financial statements. Under this ASU, debt issuance costs will be recorded as a direct reduction of the debt obligation, as opposed to an asset. The related amortization of such costs will be recorded as interest expense. The ASU is effective for periods beginning after December 15, 2015, and is to be retrospectively applied for all periods presented. Early adoption of this ASU is permitted. The adoption of ASU No. 2015-03 is not expected to have a material impact on Baystate Health’s consolidated financial position, results of operations, or cash flows.

In May 2015, the FASB issued ASU No. 2015-09, *Disclosures about Short-Duration Contracts*. This guidance expands the disclosures that an insurance entity must provide about its short-duration insurance contracts. This ASU is effective for periods beginning after December 15, 2015. Early adoption of this ASU is permitted. Baystate Health has not determined the impact on its consolidated financial statements from the adoption of this standard.

In July 2015, the FASB issued ASU No. 2015-11, *Inventory (Topic 330): Simplifying the Measurement of Inventory*. The new guidance requires inventories to be valued at the lower of cost or net realizable value. This guidance does not apply to entities using the last-in, first-out valuation method. The standard will be effective for the first interim period within annual reporting periods beginning after December 15, 2016. Early adoption is permitted. Baystate Health has not determined the impact on its consolidated financial statements from the adoption of this standard.

In September 2015, the FASB issued ASU No. 2015-16, *Business Combinations (Topic 805), Simplifying the Accounting for Measurement-Period Adjustments* (“ASU 2015-16”). ASU 2015-16 requires that an acquirer recognize adjustments to provisional amounts that are identified during the measurement period in the reporting period in which the adjustment amounts are determined. ASU 2015-16 requires that the acquirer record, in the same period’s consolidated financial statements,

the effect on earnings of changes in depreciation, amortization, or other income effects, if any, as a result of the change to the provisional amounts, calculated as if the accounting had been completed at the acquisition date. This standard will be effective for the first interim period within annual reporting periods beginning after December 15, 2015. Early adoption is permitted. Baystate Health has not determined the impact on its consolidated financial statement from the adoption of this standard.

3. Acquisitions

Baystate Noble — Effective July 1, 2015, Baystate Health acquired The Trustees of Noble Hospital, Inc and subsidiaries (Noble). Noble was renamed Baystate Noble Hospital, Inc. following the acquisition. The acquisition is expected to have a positive impact on quality, access, and affordability of health care in western Massachusetts. No cash consideration was paid in connection with the transaction.

The consolidated statement of operations for 2015 includes the operations of BNH consolidated since the date of acquisition. In 2015, the consolidated statement of operations includes total operating revenues of approximately \$20,145,000 related to BNH consolidated and deficiency of revenues over expenses of approximately \$311,000.

This transaction was accounted for as an acquisition in accordance with ASU No. 2010-07, *Not-for-profit Entities (Topic 958): Mergers and Acquisitions*, which required the assets and liabilities of BNH consolidated to be accounted for at fair value, as of the date of acquisition.

The amounts assigned to BNH consolidated major assets and liabilities at the acquisition date are as follows (in thousands):

Fair value of assets acquired:	
Current assets	\$ 9,842
Property, plant, and equipment	19,463
Other noncurrent assets	<u>4,426</u>
Total	<u>33,731</u>
Fair value of liabilities assumed:	
Current liabilities	21,662
Long-term liabilities	<u>11,296</u>
Total	<u>32,958</u>
Fair value of net assets acquired	<u>\$ 773</u>
Contribution of net assets from acquired subsidiary	<u>\$ 773</u>

Components of the \$773,000 include an unrestricted net deficit of \$4,132,000, temporarily restricted net assets of \$4,024,000, and permanently restricted net assets of \$881,000. The \$4,132,000 unrestricted net deficit is recorded as goodwill in the accompanying consolidated statement of financial position.

Costs related to the acquisition totaled approximately \$706,000 and are included in other nonoperating income (loss) as income taxes and other in the consolidated statement of operations.

The fair value adjustments required to account for the Noble acquisition have been recorded in the financial statements of BNH consolidated.

Baystate Wing — Effective September 1, 2014, Baystate Health acquired Wing Memorial Hospital and Medical Centers (Wing) of Palmer, Massachusetts, from UMass Memorial Healthcare. Wing was renamed Baystate Wing Hospital Corporation following the acquisition. The 74-bed hospital and its five community medical centers are focused on high-quality, patient-centered care delivery by physicians specializing in 45 medical disciplines. The acquisition of Wing is expected to have a positive impact on quality, access, and affordability of health care in western Massachusetts. Cash consideration of \$40,500,000 was paid in connection with the Wing acquisition.

The consolidated statement of operations for 2014 includes the operations of BWH since the date of acquisition. In 2014, the consolidated statement of operations includes total operating revenues of approximately \$7,480,000 related to BWH and excess of revenues over expenses of approximately \$860,000.

This transaction was accounted for as an acquisition in accordance with ASU No. 2010-07, which required the assets and liabilities of Wing to be accounted for at fair value, as of the date of acquisition. The excess of the fair value of the net assets at the date of acquisition of Wing over the cash consideration paid was recognized as a contribution of net assets from acquired subsidiaries and is included in nonoperating gains.

The amounts assigned to Wing's major assets and liabilities at the acquisition date are as follows (in thousands):

Fair value of assets acquired:	
Current assets	\$ 37,448
Property, plant, and equipment	38,281
Other noncurrent assets	<u>3,241</u>
Total	<u>78,970</u>
Fair value of liabilities assumed:	
Current liabilities	18,350
Long-term liabilities	<u>14,412</u>
Total	<u>32,762</u>
Fair value of net assets acquired	46,208
Purchase price	<u>40,500</u>
Contribution of net assets from acquired subsidiary	<u>\$ 5,708</u>

Costs related to the acquisition totaled approximately \$4,370,000 and are included in other nonoperating expenses in the consolidated statement of operations.

The fair value adjustments required to account for the Wing acquisition have been recorded in BWH's financial statements.

4. Cash, investments, and assets whose use is limited

The composition of cash, investments, and assets whose use is limited at September 30, 2015 and 2014, is as follows (in thousands):

	<u>2015</u>	<u>2014</u>
Cash and cash equivalents	\$ 166,457	\$ 158,937
Mutual funds	305,415	351,282
Fixed-income securities	161,333	185,561
Alternative investments — limited partnerships	36,467	33,610
Domestic equity securities	2,874	2,544
Beneficial interests in perpetual trusts	34,162	37,388
Commingled equity mutual funds	104,817	112,465
Commingled emerging markets funds	16,579	32,610
Commingled commodity funds	24,528	19,607
Commingled other funds	83,800	-
Hedge fund of funds	70,188	68,942
	<u>\$ 1,006,620</u>	<u>\$ 1,002,946</u>

Cash, investments, and assets whose use is limited at September 30, 2015 and 2014, are included in the consolidated statements of financial position as follows (in thousands):

	<u>2015</u>	<u>2014</u>
Cash and cash equivalents	\$ 182,971	\$ 179,075
Investments	303,285	327,655
Long-term investments	57,798	57,842
Board-designated cash and investments	246,977	255,333
Investments of captive insurance company	108,576	108,467
Investments held by trustee under debt agreements	34,390	1,297
Beneficial interests in perpetual trusts	34,162	37,388
Deferred compensation investments	38,461	35,889
	<u>\$ 1,006,620</u>	<u>\$ 1,002,946</u>
Investment income included in other revenue	<u>\$ 8,978</u>	<u>\$ 11,717</u>

5. Fair value measurements

Baystate Health calculates fair value as described in Accounting Standards Codification (ASC) 820-10, *Fair Value Measurements and Disclosures: Overall*, to value its financial assets and liabilities, when applicable. Fair value is based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In order to increase consistency and comparability in fair value measurements, ASC 820-10 establishes a three-level valuation hierarchy that prioritizes observable and unobservable inputs used to measure fair value. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The three levels are defined as follows:

Level 1 — Quoted prices (unadjusted) in active markets that are accessible at the measurement date for identical assets or liabilities. The fair value hierarchy gives the highest priority to Level 1 inputs.

Level 2 — Observable inputs that are based on inputs not quoted in active markets, but corroborated by market data.

Level 3 — Unobservable inputs are used when little or no market data is available. The fair value hierarchy gives the lowest priority to Level 3 inputs.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. In determining fair value, Baystate Health utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible, as well as consider counterparty credit risk in its assessment of fair value.

As a result of the adoption of ASU 2015-07 as discussed in Note 2, investments for which the fair value is measured using the NAV per share as a practical expedient are not categorized within the fair value hierarchy.

Financial assets and liabilities carried at fair value for the years ended September 30, 2015 and 2014, are classified in the table below in one of the three categories described above (in thousands):

	Assets at Fair Value at September 30, 2015			
	Level 1	Level 2	Level 3	Total
Assets:				
Cash equivalents	\$ 166,457	\$ -	\$ -	\$ 166,457
Mutual funds:				
Corporate bond fund	133,960	-	-	133,960
Deferred compensation investments:				
Corporate bond fund	5,516	-	-	5,516
Other	32,945	-	-	32,945
Other	127,266	5,728	-	132,994
Total mutual funds	299,687	5,728	-	305,415
Fixed-income securities —				
Corporate bonds & US government securities	-	161,333	-	161,333
Total fixed-income securities	-	161,333	-	161,333
Domestic equity securities	2,874	-	-	2,874
Beneficial interests in perpetual trusts	-	-	34,162	34,162
Total assets at fair value	\$ 469,018	\$ 167,061	\$ 34,162	670,241
Alternative investments (at cost)				36,467
Investments measured at NAV:				
Commingled domestic equity funds				67,577
Commingled international equity funds				37,240
Commingled emerging markets funds				16,579
Commingled commodity funds				24,528
Commingled — other funds				83,800
Hedge fund of funds				70,188
Total investments measured at NAV				299,912
Total assets				\$ 1,006,620
Liabilities — interest rate swap agreements	\$ -	\$ 5,707	\$ -	\$ 5,707

Assets at Fair Value at September 30, 2014

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Assets:				
Cash equivalents	\$ 158,937	\$ -	\$ -	\$ 158,937
Mutual funds:				
Corporate bond fund	164,310	-	-	164,310
Deferred compensation investments:				-
Corporate bond fund	5,421	-	-	5,421
Other	30,468	-	-	30,468
Other	<u>151,083</u>	<u>-</u>	<u>-</u>	<u>151,083</u>
Total mutual funds	<u>351,282</u>	<u>-</u>	<u>-</u>	<u>351,282</u>
Fixed-income securities —				
Corporate bonds & US government securities	<u>-</u>	<u>185,561</u>	<u>-</u>	<u>185,561</u>
Total fixed-income securities	<u>-</u>	<u>185,561</u>	<u>-</u>	<u>185,561</u>
Domestic equity securities	<u>2,544</u>	<u>-</u>	<u>-</u>	<u>2,544</u>
Beneficial interests in perpetual trusts	<u>-</u>	<u>-</u>	<u>37,388</u>	<u>37,388</u>
Total assets at fair value	<u>\$ 512,763</u>	<u>\$ 185,561</u>	<u>\$ 37,388</u>	<u>735,712</u>
Alternative investments (at cost)				<u>33,610</u>
Investments measured at NAV:				
Commingled equity mutual funds				112,465
Commingled emerging market funds				32,610
Commingled commodity funds				19,607
Hedge fund of funds				<u>68,942</u>
Total investments measured at NAV				<u>233,624</u>
Total assets				<u>\$ 1,002,946</u>
Liabilities — interest rate swap agreements				
	<u>\$ -</u>	<u>\$ 5,806</u>	<u>\$ -</u>	<u>\$ 5,806</u>

The amounts classified in the tables above exclude assets invested in Baystate Health's defined benefit plan and limited partnership interests that Baystate Health has recorded at cost.

A summary of changes in the fair value of the Level 3 assets for the years ended September 30, 2015 and 2014, is as follows (in thousands):

	<u>2015</u>	<u>2014</u>
Balance at beginning of year	\$ 37,388	\$ 35,118
Unrealized (losses) gains relating to investments still held at the reporting date	(3,226)	1,451
Transfers in of BWH assets	-	2,175
Sales	<u>-</u>	<u>(1,356)</u>
Balance at end of year	<u>\$ 34,162</u>	<u>\$ 37,388</u>

A summary of investments (by major class) with a reported NAV that have restrictions on Baystate Health's ability to redeem its investment at the measurement date as of September 30, 2015 and 2014, is as follows (in thousands):

<u>Description of Investment</u>	<u>September 30, 2015</u>		
	<u>Fair Value</u>	<u>Redemption Frequency</u>	<u>Redemption Notice Period</u>
Commingled equity mutual funds	\$ 104,817	Monthly	5 days
Commingled emerging markets funds	16,579	Monthly	15 days
Commingled commodity funds	24,528	Monthly	30 days
Commingled other funds	83,800	Monthly	30 days
Hedge fund of funds	67,581	Annually	65–95 days
Hedge fund of funds	<u>2,607</u>	Every three years	65–95 days
Total	<u>\$ 299,912</u>		

<u>Description of Investment</u>	<u>September 30, 2014</u>		
	<u>Fair Value</u>	<u>Redemption Frequency</u>	<u>Redemption Notice Period</u>
Commingled equity mutual funds	\$ 112,465	Monthly	5 days
Commingled emerging markets funds	32,610	Monthly	15 days
Commingled commodity funds	19,607	Monthly	30 days
Hedge fund of funds	66,394	Annually	65–95 days
Hedge fund of funds	<u>2,548</u>	Every three years	65–95 days
Total	<u>\$ 233,624</u>		

Valuation Techniques — Valuation techniques maximize the use of relevant observable inputs and minimize the use of unobservable inputs. The following is a description of the valuation methodologies used for assets and liabilities measured at fair value on a recurring basis. There have been no changes in the methodologies used at September 30, 2015 and 2014.

The fair value of investments is determined in accordance with the current fair value guidance and as described below.

Cash Equivalents — The carrying value of cash equivalents approximates fair value as maturities are less than three months and/or include money market funds that are based on quoted prices and are actively traded.

Mutual Funds — The fair values of mutual funds are based on quoted market prices or net assets value. These funds are required to publish their NAV and to transact at that price. The mutual funds held by Baystate Health are deemed to be actively traded.

Common Collective Trusts — The fair value of common collective trusts is based on the NAV of the fund, representing the fair value of the underlying investments, which is generally securities traded on an active market. The NAV is used as a practical expedient to estimate fair value.

Limited Partnerships — The estimated fair values of limited partnerships, for which no quoted market prices are readily available, are determined based upon the information provided by the fund managers. Such information is generally based on NAV of the fund, which is used as a practical expedient to estimate fair value. Certain funds are subject to a minimum holding period or lockup, cannot be redeemed at the measurement date or within 90 days thereof, are subject to redemption notice periods in excess of 90 days, or have the ability to limit the aggregate amount of shareholder redemptions. The limited partnerships allocate gains, losses, and expenses to the partners based on the ownership percentage as described in the respective partnership or hedge fund agreements.

Fixed-Income Securities — Certain bonds are valued at the closing price reported in the active market in which the bond is traded. Other bonds are valued based on yields currently available on comparable securities of issuers with similar credit ratings. When quoted prices are not available for identical or similar bonds, the bond is valued under a discounted cash flows approach that maximizes observable inputs, such as current yields of similar instruments, but includes adjustments for certain risks that may not be observable, such as credit and liquidity risks.

Domestic Equity Securities — The fair value of domestic equity securities are principally based on quoted market prices that are traded in an active market.

Beneficial Interest in Perpetual Trusts — The estimated fair values of Baystate Health's beneficial interests in perpetual trusts are determined based upon information provided by the trustees. Such information is generally based on the pro rata interest in the net assets of the underlying investments. The assets held in trust consist primarily of cash equivalents and marketable securities. The fair values of the perpetual trusts are measured using the fair value of the assets contributed to the trusts. The measurement for a beneficial interest in a perpetual trust is categorized as a Level 3 fair value measurement because Baystate Health will never receive the trust's assets.

Interest Rate Swaps — Baystate Health uses inputs other than quoted prices that are observable to value the interest rate swaps. Baystate Health considers these inputs to be Level 2 inputs in the context of the fair value hierarchy. The fair values represent the estimated amounts Baystate Health would receive or pay to terminate agreements, taking into consideration current interest rates and the current creditworthiness of the counterparty.

The following methods and assumptions were used by Baystate Health in estimating the fair value of its financial instruments that are not measured at fair value on a recurring basis for disclosures in the consolidated financial statements:

Receivables and Payables — The carrying value of Baystate Health’s receivables and payables approximates fair value, as maturities are short term.

Long-Term Debt — The estimated fair value of Baystate Health’s bonds is based on current traded value or a discounted cash flows analysis based on Baystate Health’s current incremental borrowing rates for similar types of borrowing arrangements. The fair value inputs for long-term debt are considered to be Level 2.

The fair value of long-term debt at September 30, 2015 and 2014, approximates \$566,422,000 and \$478,240,000, respectively.

6. Pledges receivable

Pledges receivable at September 30, 2015 and 2014, are as follows (in thousands):

	<u>2015</u>	<u>2014</u>
Receivable in less than one year	\$ 2,056	\$ 2,587
Receivable in one to five years	3,146	1,906
Receivable in more than five years	<u>14</u>	<u>44</u>
Total pledges receivable	5,216	4,537
Less allowance for uncollectible pledges	<u>(602)</u>	<u>(423)</u>
Net pledges receivable	<u>\$ 4,614</u>	<u>\$ 4,114</u>

The current portion of net pledges receivable are included in accounts receivable, other in the consolidated statements of financial position. The long-term portion of net pledges receivable is recorded in deferred expense and other long-term assets in the consolidated statements of financial position.

7. Land, buildings, and equipment

Details of land, buildings, and equipment at September 30, 2015 and 2014, are as follows (in thousands):

	<u>2015</u>	<u>2014</u>
Land, land improvements, and leasehold improvements	\$ 54,089	\$ 47,938
Buildings	806,285	761,003
Fixed equipment	105,801	98,710
Moveable equipment	616,403	559,627
Assets under capital leases	31,621	28,633
Construction in progress	<u>70,479</u>	<u>19,054</u>
	1,684,678	1,514,965
Less accumulated depreciation and amortization	<u>(973,058)</u>	<u>(857,870)</u>
Total land, buildings, and equipment — net	<u>\$ 711,620</u>	<u>\$ 657,095</u>

Depreciation expense for the years ended September 30, 2015 and 2014, was \$69,115,000 and \$63,389,000, respectively. As of September 30, 2015 and 2014, the accumulated depreciation on equipment under capital lease is approximately \$17,969,000 and \$15,001,000, respectively.

8. Short-term obligations and commitments

Baystate Health has a 50% ownership in Baycare Health Partners, Inc., a physician hospital organization. BMC has provided an unconditional guarantee for a \$6,000,000 line of credit from a financial institution. There were no amounts outstanding under the line of credit at September 30, 2015 and 2014. This line of credit expires on July 31, 2016.

At September 30, 2015 and 2014, a financial institution has issued irrevocable letters of credit on behalf of BHIC totaling \$1,300,000. Investments with a fair value of approximately \$2,856,000 and \$2,853,000 were pledged as security for these letters of credit as of September 30, 2015 and 2014, respectively. The letters of credit are subject to annual renewal and there are no amounts outstanding under the letters of credit as of September 30, 2015 and 2014.

9. Leases

Baystate Health and its subsidiaries lease certain real property and equipment under noncancelable leases expiring at various dates through 2023 with varying renewal options. Rentals generally include insurance and maintenance costs.

On November 2, 2011, BMC entered into a tax-exempt lease financing agreement with the Massachusetts Development Finance Agency (MDFA) and a financial institution in the amount of \$20,000,000. Proceeds from the financing were used to fund certain equipment, some of which are related to the BMC Expansion Project. Interest on the borrowing is fixed at 2.19%, with principal and interest payments due monthly until maturity on November 2, 2018. This lease is classified as a capital lease and is included in the table below.

Future minimum lease payments at September 30, 2015, are as follows (in thousands):

Year Ending September 30	Capital Leases	Operating Leases
2016	\$ 3,981	\$ 14,016
2017	3,996	10,451
2018	3,821	8,604
2019	643	7,125
2020	14	4,003
Thereafter	-	10,068
Total minimum lease payments	12,455	\$ 54,267
Less amount representing interest	(553)	
Present value of net minimum lease payments	11,902	
Less current portion	(3,690)	
Long-term portion	\$ 8,212	

Rental expense of operating leases amounted to approximately \$17,788,000 and \$16,208,000 for the years ended September 30, 2015 and 2014, respectively.

10. Long-term debt

BMC and BFMC have loan agreements with the MDFA (effective October 1, 2010, Massachusetts Health and Educational Facilities Authority (MHEFA) merged into MDFA) and with the MHEFA for construction projects and equipment. Long-term obligations outstanding at September 30, 2015 and 2014, consist of the following (in thousands):

	<u>Amount Outstanding</u>	
	<u>2015</u>	<u>2014</u>
MDFA and MHEFA issues:		
BMC Series N	\$ 55,115	\$ -
BFMC Series A	22,000	-
BMC Series M	36,832	37,997
BMC Series L	22,955	23,534
BMC Series I	63,380	63,380
BMC Series J-1	45,000	45,000
BMC Series J-2	45,000	45,000
BMC Series K-1	20,045	20,045
BMC Series K-2	26,365	26,365
BMC Series M-2	6,519	7,138
BMC Series H	4,222	4,889
BFMC Series M-4A	5,487	5,937
BMC Series G	43,345	46,630
BTHC NMTC debt	<u>107,791</u>	<u>107,710</u>
	504,056	433,625
BH note payable	17,760	18,500
BWH note payable	13,429	13,745
BNH commercial mortgages	4,545	-
BNH financing arrangements	2,890	-
Original issue premium (discount)	<u>4,135</u>	<u>(949)</u>
Total long-term debt	546,815	464,921
Less current portion	<u>(30,960)</u>	<u>(7,840)</u>
Long-term debt, excluding current portion	<u>\$ 515,855</u>	<u>\$ 457,081</u>

Summary information for each issue is as follows:

On October 6, 2014, BMC issued Series N MDFA Revenue Bonds in the aggregate principal amount of \$55,115,000. The proceeds from the bonds are financing the build-out of inpatient rooms, operating rooms, inpatient pharmacy, medical equipment, information technology equipment, and other capital projects. The bonds are 30-year bonds with final maturity on July 1, 2044, and carry a fixed 5% interest rate. In connection with the construction project, BMC has entered into a construction contract in the amount of approximately \$39,773,000.

On December 4, 2014, BFMC issued Series A MDFA Revenue Bonds in the aggregate principal amount of \$22,000,000. The proceeds from the bonds are financing the construction of a new surgical unit at

BFMC. The bonds are 30-year bonds with final maturity on December 4, 2044, and carry a fixed 2.9% interest rate. BMC has entered into a guaranty agreement on behalf of BFMC in connection with this bond. In connection with the construction project, BFMC has entered into a construction contract in the amount of approximately \$17,035,000.

Series M Bonds — On August 9, 2012, BMC issued Series M MDFA Revenue Bonds in the aggregate principal amount of \$40,137,000. BMC used the proceeds from the bonds to redeem 100% of Series F MHEFA Revenue Bonds, exercising an early redemption option related to the Series F obligation. The bonds are subject to mandatory tender on August 8, 2022. Interest on the bonds is fixed at 2.37% through August 8, 2022, with final maturity on July 1, 2033. An annual average balance of \$15,000,000 must be maintained on deposit with the financial institution or the interest rate on such bonds may be adjusted upward, not to exceed 2.97%.

The Series F bonds were issued on June 1, 2002, to reimburse and fund certain capital renovation and equipment expenditures and fund the construction of a new cancer center known as the D'Amour Center for Cancer Care.

Series L Bonds — On November 2, 2011, BMC issued Series L MDFA Revenue Bonds in the aggregate principal amount of \$25,000,000. Proceeds from the bonds were used to fund the construction of a new emergency department in conjunction with the BMC Expansion Project. Interest on the bonds is initially fixed at 2.95% through November 1, 2021, with final maturity on July 1, 2041.

BMC Hospital Expansion MHEFA Bond Issuances — On June 25, 2009, BMC issued Series I, Series J-1, Series J-2, Series K-1, and Series K-2 MHEFA Revenue Bonds in a combined aggregate principal amount of \$199,790,000. Proceeds from the bonds were used to pay off the Bank of America, NA loan of \$65,000,000 (borrowed in October 2008) and fund the construction, improvement, equipping, and other related capital expenditures of a seven-story building located at 759 Chestnut Street in Springfield, Massachusetts ("BMC Expansion Project"). Details of the related MHEFA bond issuances are as follows:

Series I Bonds — BMC issued Series I MHEFA Revenue Bonds in the aggregate amount of \$63,380,000. Interest rates range from 5.5% to 5.75%. Final maturity on the bonds is July 1, 2036.

Series J-1 Bonds — BMC issued Series J-1 MHEFA Revenue Bonds in the aggregate amount of \$45,000,000. Interest on the bonds is variable and is 0.01% and 0.04% at September 30, 2015 and 2014, respectively. Final maturity on the bonds is July 1, 2044. The bonds are secured by an irrevocable letter of credit issued by a financial institution that terminates in January 2017.

Series J-2 Bonds — BMC issued Series J-2 MHEFA Revenue Bonds in the aggregate amount of \$45,000,000. Interest on the bonds is variable and was 0.01% and 0.04% at September 30, 2015 and 2014, respectively. Final maturity on the bonds is July 1, 2044. The bonds are secured by an irrevocable letter of credit issued by a financial institution that terminates in January 2017.

Series K-1 Bonds — BMC issued Series K-1 MHEFA Revenue Bonds in the aggregate amount of \$20,045,000. The bonds were subject to mandatory tender on July 1, 2013. The initial interest on the bonds was fixed at 5% through June 30, 2013, with final maturity on July 1, 2039.

On July 1, 2013, the Series K-1 MHEFA Revenue Bonds were purchased pursuant to a mandatory tender and remarketed on such date. The reoffering of the bonds contained a conversion of the interest rate from the long-term fixed rate to a daily rate of 0.01% at September 30, 2015, along with a provision of a letter of credit from a financial institution. The daily rate at September 30, 2014, was 0.02%. The daily interest rate is determined by the remarketing agent and the letter of credit will expire on October 1, 2016.

Series K-2 Bonds — BMC issued Series K-2 MHEFA Revenue Bonds in the aggregate amount of \$26,365,000. The bonds were subject to mandatory tender on July 1, 2015. The initial interest on the bonds was fixed at 5% through June 30, 2015, with final maturity on July 1, 2039.

On July 1, 2015, the Series K-2 MHEFA Revenue Bonds were purchased pursuant to the mandatory tender and remarketed on such date. The reoffering of the bonds contained a conversion of the interest rate from the long-term fixed rate to a weekly rate of 0.01% at September 30, 2015, along with a provision of a letter of credit from a financial institution. The weekly rate is determined by the remarketing agent and the letter of credit will expire on July 1, 2020.

Series M-2 — On June 30, 2008, BMC entered into a loan commitment under a capital asset program financed by MHEFA through the issuance of variable-rate demand Revenue Bonds, Series M-2. Proceeds of \$10,158,000 were used to refund the then-outstanding Revenue Bonds, BMC Issue, Series J-2, which were issued in 1995 (“Series J-2-1995”). The Series J-2-1995 bonds were issued to reimburse and fund certain capital renovation and equipment expenditures and fund the purchase of an office building. Interest on the Series M-2 bonds is variable and resets weekly to reflect current market rates and was 0.03% and 0.06% at September 30, 2015 and 2014, respectively. Final maturity of the bonds is June 15, 2023. These bonds are supported by a pooled letter of credit which expires on October 31, 2016.

Series H Bonds — On January 18, 2007, BMC issued Series H MHEFA Revenue Bonds in the aggregate principal amount of \$10,000,000. Proceeds from the bonds were used to reimburse and fund certain capital additions and fund the construction of a new parking garage. Interest on the bonds is variable based on monthly resets and was 0.90% and 0.88% at September 30, 2015 and 2014, respectively. Final maturity of the bonds is January 1, 2022.

Series M-4A Bonds — On February 1, 2005, BFMC entered into a loan commitment under a capital asset program financed by MHEFA through the issuance of variable-rate demand Revenue Bonds, Series M-4A. Proceeds of \$9,100,000 were used to fund certain capital additions, renovations, and equipment expenditures related to the emergency department, radiology department, and in-patient facilities. Interest on the bonds is variable and resets weekly to reflect current market rates and was 0.03% and 0.06% at September 30, 2015 and 2014, respectively. Final maturity of the bonds is June 15, 2024. These bonds are supported by a pooled letter of credit which expires on October 31, 2016.

Series G Bonds — On October 27, 2005, BMC issued Series G MHEFA Revenue Bonds in the aggregate principal amount of \$71,740,000. Proceeds from the bonds were used to advance refund a portion of the outstanding Revenue Bonds, BMC Issue, Series E. The Series E bonds were issued to finance or refinance the following: (a) construction of a new 104,500 gross square foot ambulatory care center; (b) construction of a new 100,000 gross square foot building to house the ambulatory surgery center, medical library, and education space; (c) renovation of various existing spaces within BMC; and (d) acquisition of equipment for the new facilities. Series G bonds’ proceeds were also used to finance routine capital construction, renovations, and equipping of various facilities of BMC. Interest on the bonds is variable and resets every 35 days and was 0.01% and 0.03% at September 30, 2015 and 2014, respectively. Final maturity of the bonds is July 1, 2026. The bonds are secured by an irrevocable letter of credit issued by a financial institution that terminates November 13, 2017.

Significant Debt Covenants — The bond agreements include various financial covenants, the most restrictive of which are a pledge of revenues and the maintenance of a ratio of net revenue available to meet debt service to total principal and interest requirements of at least 1.1 (as defined by the agreement). Baystate Health was in compliance with those bond covenants during the fiscal years ended September 30, 2015 and 2014.

NMTC Debt — In December and May 2009, BMC entered into financing arrangements with US Bancorp Community Development Corporation (“US Bancorp”), Banc of America Community Development Corporation (“Banc of America”), and MHIC New Markets Fund II, LLC (MHIC) to fund a portion of the costs of the construction of a new hospital facility (“BMC Expansion Project”) in Springfield, Massachusetts, using the NMTC Program. The NMTC Program is a program of the Community Development Financial Institutions Fund, a bureau of the US Treasury. The NMTC Program permits taxpayers to receive a credit against federal income taxes for making qualified equity investments in designated community development entities (CDEs).

In connection with the December and May 2009 financing arrangements, BMC loaned \$23,580,283 and \$32,617,500, respectively, to USBCDE Investment Fund XXXIII, LLC (the “Investment Fund”), a wholly owned subsidiary of US Bancorp. The notes bear interest at 2.139% annually, with annual cash payments during the first seven years of each 33-year term based on an interest rate of 1.00%. Also in connection with the December 2009 financing arrangement, BMC loaned \$7,606,500 to MHIC. The notes bear interest at 1% annually, with no cash payments during the first seven years of the 33-year term. The notes are recorded as notes receivable in the consolidated statements of financial position as of September 30, 2015 and 2014.

Under the December 2009 financing arrangement, BTHC has borrowed \$37,692,500 from four CDEs established for the purpose of providing funds under the NMTC Program. US Bancorp through the Investment Fund controls two of the CDEs and MHIC controls the other two. As of September 30, 2015 and 2014, BTHC has outstanding loans of \$27,490,000 and \$27,490,000 due to US Bancorp CDEs and MHIC CDEs, respectively, related to the December 2009 financing. The loans were issued in four tranches from each of the controlling entities. US Bancorp loans were issued in tranches A, B, C, and D. The US Bancorp CDEs A loan totaled \$19,886,783, the B loan \$2,653,217, the C loan \$3,693,500, and the D loan \$1,256,500. Each of the loans has a 33-year term and bear interest at rates ranging from 0.8911% to 1.8315% annually. MHIC loans were issued in tranches A, B, Series 2, and Series 4. The MHIC CDEs A loan totaled \$7,606,500, the B loan \$1,366,000, the Series 2 loan \$1,000,000, and the Series 4 loan \$230,000. Each of the loans has a 33-year term and bear interest at rates ranging from 1.00% to 1.935%.

Under the May 2009 financing arrangement, BTHC has borrowed approximately \$69,424,000 from CDEs established for the purpose of providing funds under the NMTC Program. US Bancorp, through the Investment Fund, controls four of the CDEs and Banc of America controls the other CDE. As of September 30, 2015 and 2014, BTHC has outstanding loans of approximately \$43,340,000 and \$43,340,000 due to U.S. Bancorp CDEs and Banc of America CDE, respectively. The loans were issued in two tranches, an A tranche and a B tranche. The A loans from the US Bancorp CDEs totaled \$32,617,500, have a 33-year term, and bear interest at rates ranging from 0.816% to 1.00% annually. The B loans from the US Bancorp CDEs totaled \$10,722,500, have a 33-year term, and bear interest at rates ranging from 0.5% to 1.2832% annually. The A loan from the Banc of America CDE of \$20,000,000 has a seven-year term and bears interest at 5.992% annually. This amount was reported in the current portion of long-term debt at September 30, 2015. The B loan from the Banc of America-controlled CDE of \$6,084,000 has a seven-year term and provides that if there has been no default, the principal balance will be forgiven at the end of the seven-year term. The B loan bears interest at 2% annually. Interest payments are due quarterly.

Certain buildings and equipment have been pledged as collateral for the borrowings.

BMC recorded interest income of approximately \$1,382,000 and \$1,366,000 in 2015 and 2014, respectively, related to the financing arrangement agreements. No interest was capitalized at BTHC in 2015 and 2014 relating to the financing arrangement agreements.

In 2016, US Bancorp may put its interest in the Investment Fund to BMC for a put price of \$1,000. If US Bancorp does not exercise its put rights, BMC may call its interest in the Investment Fund for a call price equal to the fair value of US Bancorp's interest in the Investment Fund.

A debt service fund has been established in accordance with these debt agreements. Debt services fund balances amounted to approximately \$3,627,000 at September 30, 2015, and \$1,297,000 at September 30, 2014.

During 2015, a construction fund was established in accordance with these debt agreements. Construction fund balances amounted to approximately \$30,763,000 at September 30, 2015.

BH Note Payable — On August 29, 2014, BH entered into a variable rate, 10-year term loan through a financial institution in the amount of \$18,500,000. The interest rate on this term loan is equivalent to London InterBank Offered Rate (LIBOR), plus 0.475%. The interest rate on this loan was 0.672% on September 30, 2015. Proceeds from the term loan were used in the financing of BH's September 1, 2014, purchase of BWH. Cash and short-term investments have been pledged as collateral for this borrowing.

BWH Note Payable — On September 30, 2014, BWH entered into a 10-year loan through a financial institution in the amount of \$13,745,000 at a fixed rate of 3.542%. Proceeds from the loan were used to repay debt held by BWH in the same amount at a rate of 5.15%. As of September 30, 2015, BWH was not in compliance with its debt service coverage ratio requirement. BWH obtained a waiver directly from the financial institution.

BNH Long-Term Debt — BNH consolidated has various current and long-term debt outstanding totaling approximately \$7,400,000 as of September 30, 2015, of which approximately \$2,000,000 is classified as current. The agreement with the longest duration extends through 2029. BNH consolidated has a combination of fixed- and variable-rate debt, with interest rates ranging from 0.04% to 5.5% as of September 30, 2015. BNH has received waivers directly from a financial institution for not being in compliance with financial covenants as of September 30, 2015.

The combined aggregate future principal payments of all long-term borrowings are as follows (in thousands):

Year Ending September 30

2016	\$ 30,960
2017	12,186
2018	12,808
2019	13,076
2020	13,734
Thereafter	<u>459,916</u>
	<u>\$ 542,680</u>

BMC has entered into a guaranty agreement on behalf of BFMC and BWH in connection with outstanding MHEFA bonds and BWH note payable, respectively.

Interest Rate Swap Agreements — BMC periodically enters into interest rate swap agreements to moderate its exposure to interest rate changes and to lower the overall cost of borrowings. Gains and losses realized on termination of contracts are deferred and amortized over the remaining life of the associated contract.

In 2004, BMC entered into an interest rate swap agreement with a financial institution with an original notional amount of \$67,470,000. The notional amount outstanding at September 30, 2015 and 2014, was \$18,245,000 and \$23,985,000, respectively. Under the terms of the agreement, BMC pays a fixed rate of 3.26% and receives variable payments based upon the Securities Industry and Financial Markets Association rate. The agreement, in effect, converts \$29,394,000 of notional variable-rate debt to fixed-rate debt.

In September 2005, BMC, in anticipation of the issuance of the Series G bonds, entered into an interest rate swap agreement with a financial institution with an original notional amount of \$71,740,000. The notional amount outstanding at September 30, 2015 and 2014, was \$43,345,000 and \$46,630,000, respectively. The agreement provides for the financial institution to pay variable-rate payments to BMC equal to 56.9% of one-month LIBOR, plus 0.32%, and for BMC to pay the financial institution a fixed rate of 3.021%. The LIBOR was 0.2% and 0.15% at September 30, 2015 and 2014, respectively. The agreement, in effect, converts \$46,630,000 of variable-rate debt to a fixed rate of interest. There are termination provisions to this contract for each party.

The fair value of these agreements resulted in swap liabilities of approximately \$5,707,000 and \$5,806,000 at September 30, 2015 and 2014, respectively, and is included in other long-term liabilities in the consolidated statements of financial position.

The net interest cost and the change in the fair value of the associated interest rate swaps are included in nonoperating income in the consolidated statements of operations.

11. Interest expense

Baystate Health and its subsidiaries capitalize interest cost as part of the historical cost of acquiring certain significant qualifying assets. During the years ended September 30, 2015 and 2014, interest cost was as follows (in thousands):

	<u>2015</u>	<u>2014</u>
Total interest cost	\$ 13,938	\$ 10,741
Net interest cost capitalized	<u>(3,046)</u>	<u>(150)</u>
Net interest cost expensed	<u>\$ 10,892</u>	<u>\$ 10,591</u>

12. Insurance liability loss reserves

Baystate Health, with the exception of HNE, addresses its professional and general liability expense, in part, by depositing funds with BHIC, which utilizes these funds to pay claims and, in part, to purchase commercial excess liability insurance. The commercial insurance generally provides coverage on a “claims-made” basis. Under the claims-made policies, claims based on occurrences during their term, but reported subsequently, will be uninsured should the policy not be renewed or replaced with other

coverage. Management has the intention of renewing its insurance policies in the future and believes it will have the ability to obtain such policy renewals. Baystate Health and certain of its subsidiaries have also purchased excess professional and general coverage from other insurers. In addition, BHIC insures the workers' compensation, employer's liability, excess workers' compensation, and long-term disability of certain of Baystate Health's subsidiaries.

BHIC reinsures a portion of its risks in order to limit its exposure to losses. Reinsurance contracts do not relieve Baystate Health from its obligations to policyholders. Failure of reinsurers to honor their obligations could result in losses to Baystate Health. Consequently, Baystate Health evaluates the financial condition of its reinsurers to minimize its exposure to significant losses from reinsurer insolvencies.

Reinsurance recoverables were based on actuarial reports prepared by independent consulting actuaries. At September 30, 2015 and 2014, reinsurance recoverables of \$10,250,000 and \$13,050,000, respectively, were recorded as deferred expense and other long-term assets in the consolidated statements of financial position. There were no specifically identified claims subject to reinsurance recoverables at September 30, 2015 and 2014, or deducted from losses incurred and paid during the years then ended.

Reserves have been provided with the assistance of a consulting actuary for asserted claims and for unasserted claims probable of assertion arising from both reported and unreported incidents, which are based on historical experience and existing reported incidents.

Activity in the BHIC liability for losses and loss adjustment expenses for the years ended September 30, 2015 and 2014, is summarized as follows (in thousands):

	<u>2015</u>	<u>2014</u>
Balance at beginning of year	\$ 15,543	\$ 16,498
Incurred (recovered) related to:		
Current year	3,400	3,100
Prior years	<u>(2,352)</u>	<u>(3,480)</u>
Total incurred (recovered)	<u>1,048</u>	<u>(380)</u>
Paid related to:		
Current year	(25)	(44)
Prior years	<u>(1,166)</u>	<u>(531)</u>
Total paid	<u>(1,191)</u>	<u>(575)</u>
Balance at end of year	<u>\$ 15,400</u>	<u>\$ 15,543</u>

13. Medical claims and capitation expense

Medical claims and capitation expense for the years ended September 30, 2015 and 2014, include the following components (in thousands):

	<u>2015</u>	<u>2014</u>
Physician and other outpatient specialty services	\$ 294,157	\$ 203,213
Inpatient care and same-day surgery	110,944	73,128
Pharmacy	155,903	92,973
Primary care capitation	6,269	4,416
Other medical services	25,785	17,515
Coordination of benefits	(614)	(332)
Net reinsurance losses	<u>444</u>	<u>1,477</u>
	592,888	392,390
Provider risk-sharing — net	<u>(23,192)</u>	<u>1,575</u>
Total medical claims and capitation expense	<u>\$ 569,696</u>	<u>\$ 393,965</u>

Activity in medical claims payable for 2015 and 2014 is as follows (in thousands):

	<u>2015</u>	<u>2014</u>
Medical claims payable:		
Claims payable, beginning of year	\$ 13,286	\$ 41,882
Risk-sharing payable, beginning of year	<u>35,287</u>	<u>11,072</u>
	<u>48,573</u>	<u>52,954</u>
Claims incurred:		
Current year	607,249	398,514
Prior years	<u>(2,489)</u>	<u>(1,909)</u>
	<u>604,760</u>	<u>396,605</u>
Claims paid:		
Current year	(535,545)	(369,875)
Prior years	<u>(43,446)</u>	<u>(31,111)</u>
	<u>(578,991)</u>	<u>(400,986)</u>
Risk-sharing payable, end of year	26,992	13,286
Medical claims payable, end of year	<u>47,350</u>	<u>35,287</u>
Total medical claims payable	<u>\$ 74,342</u>	<u>\$ 48,573</u>

Amounts incurred related to prior years vary from previously estimated liabilities as the claims are ultimately settled. HNE's accounting for the provisions included in the Affordable Care Act (ACA) regarding reinsurance, risk adjustment, and risk corridor (the "3Rs") is as follows:

- **Transitional Reinsurance Program** — The ACA established a temporary three-year transitional reinsurance program, under which all issuers of major medical commercial insurance products and self-insured plan sponsors are required to contribute funding in amounts set by HHS. Funds collected will be utilized to reimburse issuers' high claims costs incurred for qualified individual members. HNE is entitled to certain reimbursements from this program. HNE recorded a receivable and offset health care costs to reflect our estimate of these recoveries. At September 30, 2015 and 2014, HNE recorded a receivable under the temporary three-year reinsurance program of approximately \$877,000 and \$398,000, respectively.
- **Risk Adjustment** — The ACA established a permanent risk adjustment program to transfer funds from qualified individual and small group insurance plans with below-average risk scores to plans with above-average risk scores. Based on the risk score of our qualified plan members relative to the average risk score of members of other qualified plans throughout the Commonwealth, HNE estimates the ultimate 2014 risk adjustment receivables or payables and reflects the impact as an adjustment to premium revenue. At September 30, 2015 and 2014, HNE recorded a net payable of approximately \$4,320,000 and \$0, respectively, under the risk adjustment program.
- **Risk Corridor** — The ACA established a temporary three-year risk-sharing program for qualified individual and small group insurance plans. Under this program, HNE makes or receives a payment to (or from) HHS based on the ratio of allowable costs to target costs (as defined by the ACA). HNE records a risk corridor receivable or payable as an adjustment to premium revenue based on our estimate of the ultimate 2015 risk-sharing amount. At September 30, 2015 and 2014, no receivables or payables were recorded under the risk corridor program.

14. Statutory surplus/capital

Minimum surplus requirements under Commonwealth of Massachusetts law — In accordance with insurance laws and regulations established by the Commonwealth of Massachusetts, HNE is required to maintain a minimum surplus of the largest of the four following tests:

- a) \$1,000,000
- b) The total of 2% of the first \$150,000,000 of premium and 1% of the premium in excess of \$150,000,000
- c) Three months of uncovered health care expenditures
- d) 4% of annual hospital expenditures, plus 8% of all other medical expenditures, excluding capitated arrangements

Based on calendar year 2014 activity, the minimum capital amount as determined by each of the above tests is as follows: a) \$1,000,000, b) \$7,478,399, c) \$6,665,958, and d) \$34,248,298. As of December 31, 2014, the date for which the calculation is required, HNE was in compliance with the Commonwealth of Massachusetts' laws and regulations regarding minimum surplus.

National Association of Insurance Commissioners' (NAICs) model regulation — The managed care organization risk-based capital (RBC) model regulation (“Model Regulation”) was adopted by the NAICs in 1997 to establish benchmarks for maintaining minimum levels of statutory RBC. The Model Regulation prescribes specific actions that insurance departments should take when certain RBC thresholds are not met. Calculation of the RBC in accordance with the Model Regulation RBC formula is required in connection with the annual statutory filing. As of December 31, 2014, HNE’s statutory capital was in compliance with the Model Regulation.

Surplus notes —On December 28, 2015, HNE entered into a surplus notes agreement, borrowing \$20,000,000 from Baystate Health. HNE entered into the surplus notes to maintain minimum levels of surplus and RBC as of December 31, 2015. The surplus notes accrue interest payable to Baystate Health at a rate per annum equal to the three-year US Treasury rate until the principal is paid in full.

15. Income taxes

Income tax expense for the years ended September 30, 2015 and 2014, for HNE and its subsidiaries was \$0 and \$95,000, respectively. Net federal and state deferred tax assets totaled \$0 and \$40,000 as of September 30, 2015 and 2014, respectively.

IC and its subsidiary incurred income tax credits of approximately \$213,000 for the year ended September 30, 2015, and income tax expense of approximately \$405,000 for the year ended September 30, 2014. As of September 30, 2015, operating loss carryforwards for federal income tax purposes were approximately \$24,282,000 for BMC, which expire in various years ranging from 2016 to 2033. This results in a deferred tax asset; however, because utilization of these net operating losses is not reasonably assured, BMC has recorded a full valuation allowance offsetting this deferred tax asset.

16. Funds held in trust by others

Baystate Health and its subsidiaries are beneficiaries of certain perpetual trusts (the “Trusts”), from which they receive unrestricted income. Appreciation or depreciation in the value of the Trusts is recorded as an increase or decrease to permanently restricted net assets. During fiscal years 2015 and 2014, distributions from the Trusts were approximately \$1,661,000 and \$2,072,000, respectively, and are included in operating revenue.

17. Benefit plans

Baystate Health and certain of its consolidated subsidiaries and other ownership interests participate in a noncontributory, defined benefit cash balance retirement plan (the “plan”) covering substantially all of their eligible employees.

Baystate Health’s policy is to fund amounts as are necessary on an actuarial basis to provide for benefits in accordance with the Employee Retirement Income Security Act of 1974, using the accrued benefit (net credit) actuarial cost method.

Plan Freeze — On September 9, 2015, the Board of Trustees voted to approve an amendment to freeze the plan. Effective December 31, 2015, participants in the plan will cease to accrue benefits. On January 1, 2016, the plan participants from the defined benefit plan will become participants in the redesigned Baystate Health defined contribution plan (the “DC plan”). In connection with the plan freeze, the period for amortizing actuarial gains and losses was changed from the average expected future service of active participants to the average expected future lifetime as a plan participant for all participants. As shown in the tables below, the plan freeze was accounted for as a curtailment and

resulted in a one-time credit to net periodic pension cost of approximately \$71,931,000 (\$71,400,000 exclusive of other ownership interest). This curtailment credit is recorded in other income, net in the consolidated statement of operations for the year ended September 30, 2015. Additionally, a curtailment gain of approximately \$47,898,000 reduced the pension obligation and is recorded as an increase to unrestricted net assets.

The following table presents the change in the plan's projected benefit obligation, change in plan assets, and funded status of the plan as of September 30, 2015 and 2014, net of unconsolidated other ownership interest (in thousands):

	<u>2015</u>	<u>2014</u>
Change in pension obligation		
Pension obligation at beginning of year	\$ 913,489	\$ 823,568
Service cost	28,756	27,840
Interest cost	40,054	41,202
Actuarial loss	37,385	73,261
Benefits paid	(51,769)	(52,382)
Curtailment	<u>(47,898)</u>	<u>-</u>
Pension obligation at end of year	<u>\$ 920,017</u>	<u>\$ 913,489</u>
Change in plan assets		
Fair value of plan assets at beginning of year	\$ 813,718	\$ 744,845
Actual return on plan assets	(6,340)	81,255
Employer contributions	50,000	40,000
Benefits paid	<u>(51,769)</u>	<u>(52,382)</u>
Fair value of plan assets at end of year	<u>\$ 805,609</u>	<u>\$ 813,718</u>
Funded status		
Funded status of the plan	<u>\$ (114,408)</u>	<u>\$ (99,771)</u>
Pension liability	<u>\$ (114,408)</u>	<u>\$ (99,771)</u>
Amounts recognized in unrestricted net assets consist of		
Net actuarial loss	\$ 348,683	\$ 317,178
Prior service credit	<u>-</u>	<u>(84,928)</u>
Accumulated pension adjustment	<u>\$ 348,683</u>	<u>\$ 232,250</u>

Exclusive of other ownership interest, the underfunded status of the plan at September 30, 2015, is approximately \$114,951,000, the change in the pension adjustment is \$115,780,000, and the total pension liability is \$347,052,000.

Exclusive of other ownership interest, the underfunded status of the plan at September 30, 2014, is approximately \$99,502,000, the change in the pension adjustment is \$37,588,000, and the total pension liability is \$231,272,000.

The net actuarial loss and prior service credit expected to be recognized in benefit cost in 2016 is approximately \$9,104,000 and \$0, respectively.

The assumptions used to develop the projected benefit obligation as of September 30, 2015 and 2014, are as follows:

	<u>2015</u>	<u>2014</u>
Discount rate	4.55 %	4.45 %
Rate of compensation increase	3.00	3.00

At September 30, 2015, the mortality assumption was determined using the non-collar adjusted RP-2014 mortality tables.

The accumulated benefit obligation was approximately \$917,918,000 and \$856,277,000 at September 30, 2015 and 2014, respectively.

Net Periodic Pension Cost — Net pension cost for the defined benefit plan for the years ended September 30, 2015 and 2014, includes the following components (in thousands):

	<u>2015</u>	<u>2014</u>
Service cost	\$ 28,756	\$ 27,840
Interest cost	40,054	41,202
Expected return on plan assets	(61,054)	(56,242)
Amortization of prior service credit	(12,997)	(12,998)
Recognized net actuarial loss	25,375	23,475
Curtailement	<u>(71,931)</u>	<u>-</u>
Net pension cost	<u>\$ (51,797)</u>	<u>\$ 23,277</u>

The assumptions used to determine net pension cost for the years ended September 30, 2015 and 2014, are as follows:

	<u>2015</u>	<u>2014</u>
Discount rate	4.50 %	5.05 %
Expected return on plan assets	7.75	7.75
Rate of compensation increase	3.00	3.00

Plan Assets — The plan's investment objectives are to achieve long-term growth in excess of inflation and to provide a rate of return that meets or exceeds the actuarial expected long-term rate of return on plan assets. In order to minimize risk, the plan attempts to minimize the variability in yearly returns. The plan diversifies its holdings among sectors, industries, and companies. The target allocations of assets at September 30, 2015, were equities 30%, fixed income 40%, and other 30%.

To develop the expected long-term rate of return on plan assets assumption, Baystate Health considered the historical return and the future expectations for returns for each asset class, as well as the target asset allocation of the pension investment portfolio.

Baystate Health's pension plan asset allocation, by asset category, as of September 30, 2015 and 2014, is as follows:

	<u>2015</u>	<u>2014</u>
Common and preferred equity securities	35 %	32 %
US government and domestic fixed-income securities	43	40
Other investments	<u>22</u>	<u>28</u>
	<u>100 %</u>	<u>100 %</u>

Financial assets invested in the plan, in one of the three categories described previously, as of September 30, 2015 and 2014, are classified as follows (in thousands). See Note 5 for definitions of Level 1, Level 2, and Level 3 of the fair value hierarchy.

	Assets at Fair Value as of September 30, 2015			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Money market	\$ 1,506	\$ 6,236	\$ -	\$ 7,742
Mutual funds:				
Corporate bond fund	177,554	-	-	177,554
Other	<u>86,294</u>	<u>-</u>	<u>-</u>	<u>86,294</u>
Total mutual funds	<u>263,848</u>	<u>-</u>	<u>-</u>	<u>263,848</u>
Fixed-income securities — US government securities	<u>-</u>	<u>144,705</u>	<u>-</u>	<u>144,705</u>
Total assets — at fair value	<u>\$ 265,354</u>	<u>\$ 150,941</u>	<u>-</u>	<u>416,295</u>
Pension plan assets — at contract value				<u>14,706</u>
Investments measured at NAV:				
Commingled domestic equity funds				80,687
Commingled international equity funds				50,106
Commingled commodity funds				36,843
Commingled emerging markets funds				31,946
Hedge fund of funds				130,343
Private equity funds				<u>44,683</u>
Total investments measured at NAV				<u>374,608</u>
Total pension plan assets				<u>\$ 805,609</u>

	Assets at Fair Value as of September 30, 2014			
	Level 1	Level 2	Level 3	Total
Money market	\$ 1,995	\$ 2,304	\$ -	\$ 4,299
Mutual funds:				
Corporate bond fund	175,946	-	-	175,946
Other	121,180	-	-	121,180
Total mutual funds	297,126	-	-	297,126
Fixed-income securities — US government securities	-	132,759	-	132,759
Total assets — at fair value	\$ 299,121	\$ 135,063	\$ -	434,184
Pension plan assets — at contract value				14,307
Investments measured at NAV:				
Commingled domestic equity funds				76,249
Commingled international equity funds				54,614
Commingled emerging markets funds				39,218
Commingled commodity funds				17,383
Hedge fund of funds				127,765
Private equity funds				49,998
Total investments measured at NAV				365,227
Total pension plan assets				\$ 813,718

A summary of investments (by major class) with a reported NAV that have restrictions on the Plan's ability to redeem its investment at the measurement date as of September 30, 2015 and 2014, is as follows (in thousands):

<u>Description of Investment</u>	<u>September 30, 2015</u>		
	<u>Fair Value</u>	<u>Redemption Frequency</u>	<u>Redemption Notice Period</u>
Commingled equity mutual funds	\$ 130,793	Monthly	5 days
Commingled emerging markets funds	31,946	Monthly	15 days
Commingled commodity funds	36,843	Monthly	30 days
Hedge fund of funds	116,820	Annually	65-95 days
Hedge fund of funds	13,523	Every three years	65-95 days
Private market investments	<u>44,683</u>	*	*
Total	<u>\$ 374,608</u>		

<u>Description of Investment</u>	<u>September 30, 2014</u>		
	<u>Fair Value</u>	<u>Redemption Frequency</u>	<u>Redemption Notice Period</u>
Commingled equity mutual funds	\$ 130,863	Monthly	5 days
Commingled emerging markets funds	39,218	Monthly	15 days
Commingled commodity funds	17,383	Monthly	30 days
Hedge fund of funds	114,446	Annually	65-95 days
Hedge fund of funds	13,319	Every three years	65-95 days
Private market investments	<u>49,998</u>	*	*
Total	<u>\$ 365,227</u>		

* Liquidity data not available, funds are considered to be highly illiquid.

Contributions — Baystate Health expects to contribute approximately \$20,000,000 to the plan in 2016.

Estimated Future Benefit Payments — The following approximate benefit payments, which reflect expected future service, as appropriate, are expected to be paid over the next 10 calendar years (in thousands):

<u>Calendar Years</u>	<u>Pension Benefits</u>
2016	\$ 87,709
2017	63,007
2018	61,302
2019	58,461
2020	56,305
Years 2021–2025	<u>265,830</u>
	<u>\$ 592,614</u>

Defined Contribution Plans — Baystate Health and certain of its consolidated subsidiaries and other ownership interest participate in the DC plan, which covers all employees hired after December 31, 2004. Effective December 31, 2015, the DC plan will also cover all employees previously in the defined benefit plan. Under the DC plan, Baystate Health contributes up to 7.5% of the employee’s compensation based on age and years of service. Excluding the deferred compensation plan discussed below, total expense under the DC plan was approximately \$12,342,000 in 2015 and \$11,694,000 in 2014. Effective January 1, 2016, the DC plan will offer an employee contribution matching feature where the employer will contribute equal to 50% of the employees contribution, subject to a maximum match of 2% of the employees compensation. For those defined benefit participants aged 55 or older as of January 1, 2016, Baystate Health will be contributing an additional 4% transition benefit for the next five plan years.

HNE provides a 401(k) retirement plan (the “HNE Plan”) to its employees. Each year, employees may contribute up to 75% of pretax annual compensation, as defined in the HNE Plan document. HNE matches 100% of the first 6% of employee contributions to the HNE Plan. Additional contributions may be made by HNE at its discretion. Contributions and compensation levels are subject to certain limitations under the Internal Revenue Code. The HNE Plan expense amounted to approximately \$1,570,000 and \$1,558,000 in 2015 and 2014, respectively.

Deferred Compensation Plan — As a component of its defined contribution retirement plan, Baystate Health established a nonqualified deferred compensation plan (the “Plan”), effective January 1, 2002, which allows certain highly compensated employees the option to defer specified amounts of their annual compensation on a pretax basis and also allows Baystate Health, at its discretion, the option to provide deferred compensation to key employees. A participant in the Plan is notified if a voluntary contribution is made by Baystate Health to that participant’s account. In addition, the participant’s account is credited to reflect investment returns based on measuring investments selected by either the participant or the Plan administrator in accordance with the plan document. The participant has the option to take a distribution of their account in its entirety, upon severance from employment with Baystate Health. Baystate Health has recorded \$38,461,000 and \$35,889,000 within other liabilities in the consolidated statements of financial position as of September 30, 2015 and 2014, respectively, which represents its obligation for benefits payable under the Plan. All amounts of compensation deferred under the Plan remain the assets of Baystate Health, until paid out to a participant or his/her beneficiary. Baystate Health is not required to segregate or set aside any assets to meet its obligation under the Plan. Baystate Health’s contributions amounted to approximately \$1,429,000 and \$1,160,000 in 2015 and 2014, respectively.

Baystate Noble Retirement Plans and Other Postretirement Benefits:

Retirement Plan—Through March 2005, Noble maintained a noncontributory defined benefit pension plan (the “Noble Plan”) covering certain eligible employees of BNH and its subsidiaries, who have completed one year of service. The benefits were based on years of service and final average earnings. Noble’s policy was to make annual cash contributions to the Noble Plan in amounts at least equal to the minimum contribution as determined by the Noble Plan’s actuary.

Effective April 1, 2006, Noble amended the Noble Plan to freeze all accrued benefits for certain participants in the Noble Plan whose benefits are not subject to collective bargaining agreements. The accrued benefit for these participants is equal to the accrued benefit determined as of April 1, 2006. The amendment prohibits new or rehired employees, not subject to a collective bargaining agreement, from becoming participants in the Noble Plan. This curtailment resulted in a reduction in the Noble Plan’s projected benefit obligation and unrecognized prior service cost which was recorded in 2006.

Pursuant to Noble’s application for a distressed termination, the Pension Benefit Guaranty Corporation (PBGC) became the trustee of the Noble Plan on May 1, 2013. As part of the settlement, Noble has agreed to enter into a note payable to the PBGC totaling \$4,200,000. The amount is payable over 15 years. The balance due at September 30, 2015, is approximately \$2,933,000, of which \$2,773,000 included is classified as long term and included as a pension liability in the consolidated statement of financial position.

There were no contributions made during the years ended September 30, 2015 and 2014.

Defined Contribution Plan—The Noble 403(b) Savings Plan became effective on April 1, 2006. All eligible employees may elect to make contributions and BNH matches certain contributions up to the defined limits. In addition, BNH contributes between 2% and 10% of certain employee’s eligible compensation based upon the employee’s age and years of vesting service. Employees are fully vested in BNH’s contributions after four years of employment.

18. Concentrations of credit risk

Baystate Health and its subsidiaries grant credit without collateral to its patients, most of whom are local residents and are insured under third-party payer agreements. The mix of receivables from patients and third-party payers at September 30, 2015 and 2014, is as follows:

	<u>2015</u>	<u>2014</u>
Medicare	22 %	22 %
Medicaid	16	16
Blue Cross	2	2
Health maintenance organizations	36	38
Commercial	13	12
Self-pay patients	<u>11</u>	<u>10</u>
	<u>100 %</u>	<u>100 %</u>

19. Functional expenses

Baystate Health and its subsidiaries provide general health care services to residents within their geographic location. Expenses related to providing these services for the years ended September 30, 2015 and 2014, are as follows (in thousands):

	<u>2015</u>	<u>2014</u>
Health care services	\$2,072,114	\$1,692,025
General and administrative	<u>76,313</u>	<u>77,759</u>
	<u>\$2,148,427</u>	<u>\$1,769,784</u>

20. Temporarily and permanently restricted net assets

Temporarily restricted net assets at September 30, 2015 and 2014, are available for the following purposes (in thousands):

	<u>2015</u>	<u>2014</u>
Research and education	\$ 6,759	\$ 11,568
Patient care services	<u>48,281</u>	<u>43,043</u>
Total	<u>\$ 55,040</u>	<u>\$ 54,611</u>

Permanently restricted net assets are invested in perpetuity, the income which is generally expendable to support the delivery of health care services.

ASC 958-205, *Endowment of Not-for-Profit Organizations*, provides guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA). Massachusetts enacted UPMIFA on July 2, 2009. Baystate Health is subject to ASC 958-205 disclosure requirements regarding its endowment funds.

Baystate Health's endowments consist of numerous individual funds established for a variety of purposes. As required by accounting principles generally accepted in the United States of America, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Baystate Health requires the preservation of the fair value 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, Baystate Health classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment funds that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure. Baystate Health considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (a) the duration and preservation of the fund, (b) the purpose of Baystate Health and the donor-restricted endowment fund, (c) general economic conditions, (d) the possible effect of inflation and deflation, (e) the expected total return from income and the appreciation of investments, and (f) the investment policies of Baystate Health.

Endowment net asset composition, by type of fund, as of September 30, 2015 and 2014, consisted of the following (in thousands):

<u>As of September 30, 2015</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ 36,332	\$ 17,732	\$ 54,064
Board-designated endowment funds	<u>24,008</u>	<u>-</u>	<u>-</u>	<u>24,008</u>
Total endowment net assets	<u>\$ 24,008</u>	<u>\$ 36,332</u>	<u>\$ 17,732</u>	<u>\$ 78,072</u>

<u>As of September 30, 2014</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ 37,843	\$ 16,492	\$ 54,335
Board-designated endowment funds	<u>22,920</u>	<u>-</u>	<u>-</u>	<u>22,920</u>
Total endowment net assets	<u>\$ 22,920</u>	<u>\$ 37,843</u>	<u>\$ 16,492</u>	<u>\$ 77,255</u>

For the year ended September 30, 2015, Baystate Health had the following endowment-related activities (in thousands):

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets at October 1, 2014	<u>\$ 22,920</u>	<u>\$ 37,843</u>	<u>\$ 16,492</u>	<u>\$ 77,255</u>
Investment return:				
Investment income	169	91	-	260
Net appreciation	<u>(924)</u>	<u>(2,349)</u>	<u>-</u>	<u>(3,273)</u>
Total investment return	(755)	(2,258)	-	(3,013)
Contributions	103	-	359	462
Net asset reclassifications	-	140	-	140
Prior year reclassification	(211)	(231)	-	(442)
Board-designated funds transferred in	3,000	-	-	3,000
Transferred in - Noble acquisition	-	2,993	881	3,874
Amounts appropriated for expenditures	<u>(1,049)</u>	<u>(2,155)</u>	<u>-</u>	<u>(3,204)</u>
Total change in endowment funds	<u>1,088</u>	<u>(1,511)</u>	<u>1,240</u>	<u>817</u>
Endowment net assets at September 30, 2015	<u>\$ 24,008</u>	<u>\$ 36,332</u>	<u>\$ 17,732</u>	<u>\$ 78,072</u>

For the year ended September 30, 2014, Baystate Health had the following endowment-related activities (in thousands):

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets at October 1, 2013	<u>\$ 22,088</u>	<u>\$ 36,194</u>	<u>\$ 16,327</u>	<u>\$ 74,609</u>
Investment return:				
Investment income	167	80	-	247
Net appreciation	<u>1,578</u>	<u>3,741</u>	<u>-</u>	<u>5,319</u>
Total investment return	1,745	3,821	-	5,566
Contributions	102	-	5	107
Net asset reclassifications	-	(31)	-	(31)
Transferred in - Wing acquisition	-	-	(160)	(160)
Amounts appropriated for expenditures	<u>(1,015)</u>	<u>(2,141)</u>	<u>-</u>	<u>(3,156)</u>
Total change in endowment funds	<u>832</u>	<u>1,649</u>	<u>165</u>	<u>2,646</u>
Endowment net assets at September 30, 2014	<u>\$ 22,920</u>	<u>\$ 37,843</u>	<u>\$ 16,492</u>	<u>\$ 77,255</u>

Baystate Health's investment and spending policies for endowment assets are intended to provide a predictable stream of funding to programs supported by its endowment, while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that Baystate Health must hold in perpetuity or for a donor-specified term. Under this policy, as approved by the Board of Trustees, the endowment assets are invested in a manner that will generate an 8.5% over the long term. Actual returns in any given year may vary from this amount.

To satisfy its long-term rate-of-return objectives, Baystate Health relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). Baystate Health targets a diversified asset allocation that consists of equities, fixed income, and alternative investments.

Baystate Health has a policy of appropriating for distribution each year, no more than 5% of its endowment funds' current fair value. In establishing this policy, Baystate Health considered the long-term expected return on its endowments.

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor requires Baystate Health to retain as a fund of perpetual duration. There was no deficiency of this nature at September 30, 2015 and 2014.

21. State surplus revenue retention

Through September 30, 2015, BMC had no surplus in excess of the Commonwealth of Massachusetts' regulations governing the excess of state revenues over expenses for not-for-profit organizations. The total deficit attributable to state contracting for BMC was approximately \$148,000 (2014 — \$137,000). As of September 30, 2015, the cumulative deficit attributable to state contracting of approximately \$6,547,000 is included in the unrestricted net assets of BMC.

22. Subsequent events

Subsequent events have been evaluated for potential recognition in the consolidated financial statements through January 5, 2016, which is the date the consolidated financial statements were issued.

On December 28, 2015, Baystate Health entered into a three-year \$40,000,000 line of credit with a financial institution, maturing on December 28, 2018. The interest rate on the borrowing is variable at LIBOR, plus 0.70% per annum. An initial borrowing of \$20,000,000 was made as described in Note 14.

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Consolidating Supplementary Financial Information

Baystate Health, Inc. and Subsidiaries

Consolidating Schedule of Assets

As of September 30, 2015

(In Thousands)

	Consolidated BMC	BFMC	BWH	BNH Consolidated	BMLH	BMP	BVNAH	HNE	Consolidated IC	Other Entities	Eliminations and Reclass	Consolidated Total
Assets												
Current assets:												
Cash and cash equivalents	\$ 83,403	\$ 14,995	\$ 2,722	\$ 1,035	\$ 1,264	\$ 10,113	\$ 509	\$ 34,280	\$ 23	\$ 34,627	\$ -	\$ 182,971
Investments	167,945	-	8,384	572	2,296	-	-	108,249	-	15,839	-	303,285
Accounts receivable, patients, net	102,691	9,828	6,951	7,278	2,709	15,930	3,848	-	-	-	(17,843)	131,392
Accounts receivable, other	5,321	180	343	224	38	5,510	11	28,540	25	5,460	-	45,652
Estimated final settlements receivable	24,633	525	1,496	-	182	-	-	-	-	-	-	26,836
Inventories	23,417	1,735	588	912	790	-	-	-	-	47	-	27,489
Prepaid expenses and other current assets	10,338	423	228	141	209	1,212	36	6,553	10	10,162	-	29,312
Due from affiliated companies	32,972	413	88	(82)	83	3,741	41	-	34	8,110	(45,400)	-
Line of credit, affiliate	-	-	-	-	-	-	-	-	-	1,348	(1,348)	-
Total current assets	<u>450,720</u>	<u>28,099</u>	<u>20,800</u>	<u>10,080</u>	<u>7,571</u>	<u>36,506</u>	<u>4,445</u>	<u>177,622</u>	<u>92</u>	<u>75,593</u>	<u>(64,591)</u>	<u>746,937</u>
Long-term assets:												
Investments	-	-	-	4,030	-	-	-	492	-	53,396	(120)	57,798
Equity investment in consolidated for-profit subsidiaries	-	-	-	-	-	-	-	-	-	48,090	(48,090)	-
Equity investment in unconsolidated affiliates	1,744	548	-	-	-	-	-	-	-	(5)	-	2,287
Notes receivable	68,516	-	-	-	-	-	-	-	-	-	-	68,516
Beneficial interest in net assets of BHF	14,227	13,406	147	-	776	-	766	-	-	-	(29,322)	-
Deferred expense and other long-term assets	3,869	155	146	130	-	-	-	37	-	13,754	-	18,091
Goodwill	1,552	-	-	-	-	-	-	-	-	4,132	-	5,684
Land, buildings, and equipment, net	<u>577,649</u>	<u>47,566</u>	<u>39,235</u>	<u>19,508</u>	<u>9,206</u>	<u>11,778</u>	<u>1,812</u>	<u>2,478</u>	<u>1,803</u>	<u>585</u>	<u>-</u>	<u>711,620</u>
	<u>667,557</u>	<u>61,675</u>	<u>39,528</u>	<u>23,668</u>	<u>9,982</u>	<u>11,778</u>	<u>2,578</u>	<u>3,007</u>	<u>1,803</u>	<u>119,952</u>	<u>(77,532)</u>	<u>863,996</u>
Assets whose use is limited:												
Board-designated funds:												
Cash and investments	204,018	-	11,192	-	-	-	-	-	-	31,767	-	246,977
Beneficial interest in net assets of BHF	-	-	-	-	184	-	328	-	-	1,702	(2,214)	-
Due from unrestricted funds	972	-	-	-	-	-	-	-	-	-	(972)	-
Investments of captive insurance company	-	-	-	-	-	-	-	-	-	108,576	-	108,576
Investments held by trustee under debt agreements	22,416	11,974	-	-	-	-	-	-	-	-	-	34,390
Beneficial interest in net assets of BHF	1,287	4,637	-	-	6,377	-	863	-	-	19,016	(32,180)	-
Beneficial interest in perpetual trusts	-	-	1,983	-	-	-	-	-	-	32,179	-	34,162
Deferred compensation investments	-	-	-	-	-	-	-	-	-	38,461	-	38,461
	<u>228,693</u>	<u>16,611</u>	<u>13,175</u>	<u>-</u>	<u>6,561</u>	<u>-</u>	<u>1,191</u>	<u>-</u>	<u>-</u>	<u>231,701</u>	<u>(35,366)</u>	<u>462,566</u>
Total assets	<u>\$ 1,346,970</u>	<u>\$ 106,385</u>	<u>\$ 73,503</u>	<u>\$ 33,748</u>	<u>\$ 24,114</u>	<u>\$ 48,284</u>	<u>\$ 8,214</u>	<u>\$ 180,629</u>	<u>\$ 1,895</u>	<u>\$ 427,246</u>	<u>\$ (177,489)</u>	<u>\$ 2,073,499</u>

Baystate Health, Inc. and Subsidiaries

Consolidating Schedule of Liabilities and Net Assets

As of September 30, 2015

(In Thousands)

	Consolidated BMC	BFMC	BWH	BNH Consolidated	BMLH	BMP	BVNAH	HNE	Consolidated IC	Other Entities	Eliminations and Reclass	Consolidated Total
Liabilities and net assets (deficit)												
Current liabilities:												
Accounts payable	\$ 49,768	\$ 8,216	\$ 5,123	\$ 10,496	\$ 1,130	\$ 8,751	\$ 1,368	\$ 31,441	\$ 203	\$ 18,709	\$ 391	\$ 135,596
Medical claims payable	-	-	-	-	-	-	-	92,185	-	-	(17,843)	74,342
Accrued salaries and wages	48,502	4,303	4,596	2,505	1,485	31,007	1,440	4,249	-	12,506	-	110,593
Accrued interest payable	2,627	-	41	148	-	-	-	-	-	-	-	2,816
Estimated final settlements payable	36,202	3,388	4,867	4,286	1,360	-	709	-	-	-	-	50,812
Deferred revenue	1,413	229	104	318	276	185	521	13,720	40	600	-	17,406
Current portion of long-term debt	27,231	637	356	1,996	-	-	-	-	-	740	-	30,960
Current portion of capital lease obligations	3,261	-	31	398	-	-	-	-	-	-	-	3,690
Due to affiliated companies	755	1,903	1,169	764	607	26,181	2,896	4,747	681	5,576	(45,279)	-
Line of credit, affiliate	-	-	-	-	-	627	-	-	721	-	(1,348)	-
Due to board-designated funds	-	-	-	-	-	-	-	-	-	972	(972)	-
Total current liabilities	169,759	18,676	16,287	20,911	4,858	66,751	6,934	146,342	1,645	39,103	(65,051)	426,215
Long-term debt	453,475	26,850	13,074	5,436	-	-	-	-	-	17,020	-	515,855
Capital lease obligations	7,121	-	63	1,028	-	-	-	-	-	-	-	8,212
Pension liability	62,290	10,493	-	2,775	2,442	22,768	2,607	-	-	14,349	-	117,724
Insurance liability loss reserves	8,489	144	250	298	51	10,321	63	-	-	25,650	78,269	123,535
Deposit liability	-	-	-	-	-	-	-	-	-	86,384	(86,384)	-
Other liabilities	7,094	711	1,064	572	-	-	-	-	-	38,543	(2)	47,982
Total liabilities	708,228	56,874	30,738	31,020	7,351	99,840	9,604	146,342	1,645	221,049	(73,168)	1,239,523
Net assets (deficit):												
Unrestricted:												
Operating	827,321	56,500	39,360	(1,944)	16,192	20,311	3,279	34,287	250	108,046	(29,508)	1,074,094
Pension adjustment	(204,093)	(25,032)	-	-	(6,581)	(71,867)	(6,298)	-	-	(33,181)	-	(347,052)
Unrestricted	623,228	31,468	39,360	(1,944)	9,611	(51,556)	(3,019)	34,287	250	74,865	(29,508)	727,042
Temporarily restricted	11,287	9,899	1,264	3,791	606	-	142	-	-	60,231	(32,180)	55,040
Permanently restricted	4,227	8,144	2,141	881	6,546	-	1,487	-	-	71,101	(42,633)	51,894
Total net assets (deficit)	638,742	49,511	42,765	2,728	16,763	(51,556)	(1,390)	34,287	250	206,197	(104,321)	833,976
Total liabilities and net assets (deficit)	\$ 1,346,970	\$ 106,385	\$ 73,503	\$ 33,748	\$ 24,114	\$ 48,284	\$ 8,214	\$ 180,629	\$ 1,895	\$ 427,246	\$ (177,489)	\$ 2,073,499

Baystate Health, Inc. and Subsidiaries

Consolidating Schedule of Operations For the year ended September 30, 2015 (In Thousands)

	Consolidated BMC	BFMC	BWH	BNH Consolidated	BMLH	BMP	BVNAH	HNE	Consolidated IC	Other Entities	Eliminations and Reclass	Consolidated Total
Operating revenues:												
Net patient service revenue	\$ 1,058,652	\$ 91,208	\$ 73,567	\$ 20,671	\$ 25,418	\$ 158,914	\$ 19,160	\$ -	\$ (14)	\$ -	\$ (204,791)	\$ 1,242,785
Bad debts	10,296	1,377	2,019	878	967	5,258	6	-	(58)	-	-	20,743
Net patient service revenue, net of bad debts	1,048,356	89,831	71,548	19,793	24,451	153,656	19,154	-	44	-	(204,791)	1,222,042
Premiums	-	-	-	-	-	-	-	818,370	-	3,625	-	821,995
Other revenue	75,137	4,244	2,337	324	2,215	96,984	795	13,209	736	125,801	(232,418)	89,364
Net assets released from restrictions for operations	1,765	356	50	28	30	574	31	-	-	4,596	(2,270)	5,160
Total operating revenues	1,125,258	94,431	73,935	20,145	26,696	251,214	19,980	831,579	780	134,022	(439,479)	2,138,561
Operating expenses:												
Salaries and wages	404,889	36,223	40,026	9,873	12,020	205,232	12,953	38,320	-	51,861	-	811,397
Supplies and expense	600,451	47,583	35,683	9,880	14,535	80,318	8,895	42,386	507	78,664	(231,667)	687,235
Medical claims and capitation	-	-	-	-	-	-	-	777,508	-	-	(207,812)	569,696
Depreciation and amortization	56,389	4,215	2,848	594	1,403	1,609	267	1,619	117	146	-	69,207
Interest expense	10,039	107	505	109	-	6	-	-	7	119	-	10,892
Total operating expenses	1,071,768	88,128	79,062	20,456	27,958	287,165	22,115	859,833	631	130,790	(439,479)	2,148,427
Income (loss) from operations before other income, net	53,490	6,303	(5,127)	(311)	(1,262)	(35,951)	(2,135)	(28,254)	149	3,232	-	(9,866)
Other income (loss), net	42,448	4,327	(229)	-	1,531	13,986	1,217	-	-	6,371	-	69,651
Income (loss) from operations	95,938	10,630	(5,356)	(311)	269	(21,965)	(918)	(28,254)	149	9,603	-	59,785
Nonoperating income (loss):												
Investment income	4,496	-	109	-	77	-	-	-	-	852	691	6,225
Net realized gain (loss) on investments	7,059	-	276	-	(17)	-	11	53	-	859	1,569	9,810
Net unrealized loss on investments	(28,625)	-	(477)	-	(36)	-	(25)	(4,260)	-	(2,743)	(4,382)	(40,548)
Equity loss in consolidated for-profit subsidiaries	-	-	-	-	-	-	-	-	-	(2,146)	2,146	-
Equity gain (loss) in unconsolidated affiliates	29	-	-	-	-	-	-	-	-	(341)	-	(312)
Net interest cost on swap agreements	(1,964)	-	-	-	-	-	-	-	-	-	-	(1,964)
Change in fair value of swap agreements	(84)	-	-	-	-	-	-	-	-	-	-	(84)
Income taxes and other	-	-	-	-	-	-	(14)	(6)	214	(5,434)	6,345	1,105
Total nonoperating (loss) income	(19,089)	-	(92)	-	24	-	(28)	(4,213)	214	(8,953)	6,369	(25,768)
Excess (deficiency) of revenues over expenses	76,849	10,630	(5,448)	(311)	293	(21,965)	(946)	(32,467)	363	650	6,369	34,017
Other changes in unrestricted net assets:												
Net assets released from restrictions for capital	3,142	103	18	-	4	-	-	-	-	-	351	3,618
Funds utilized for property and equipment	2,039	-	56	-	-	-	-	-	-	-	-	2,095
Transfers for the cost of land, buildings, and equipment	2,580	301	1,211	199	-	2,455	-	-	-	(6,395)	(351)	-
Transfers (to) from affiliated companies, net	(47,516)	-	-	2,300	883	38,631	771	-	(4,639)	9,706	-	136
Pension adjustment	(68,710)	(7,277)	-	-	(2,479)	(24,443)	(1,970)	-	2,131	(13,032)	-	(115,780)
Net deficit from acquired subsidiary	-	-	-	(4,132)	-	-	-	-	-	-	4,132	-
Other	-	2	-	-	-	-	-	-	-	(140)	-	(138)
(Decrease) increase in unrestricted net assets	\$ (31,616)	\$ 3,759	\$ (4,163)	\$ (1,944)	\$ (1,299)	\$ (5,322)	\$ (2,145)	\$ (32,467)	\$ (2,145)	\$ (9,211)	\$ 10,501	\$ (76,052)

Baystate Health, Inc. and Subsidiaries

Consolidating Schedule of Changes in Net Assets

For the year ended September 30, 2015

(In Thousands)

	Consolidated BMC	BFMC	BWH	BNH Consolidated	BMLH	BMP	BVNAH	HNE	Consolidated IC	Other Entities	Eliminations and Reclass	Consolidated Total
Unrestricted net assets:												
Excess (deficiency) of revenues over expenses	\$ 76,849	\$ 10,630	\$ (5,448)	\$ (311)	\$ 293	\$ (21,965)	\$ (946)	\$ (32,467)	\$ 363	\$ 650	\$ 6,369	\$ 34,017
Net assets released from restrictions for capital	3,142	103	18	-	4	-	-	-	-	-	351	3,618
Funds utilized for property and equipment	2,039	-	56	-	-	-	-	-	-	-	-	2,095
Transfers for the cost of land, buildings, and equipment	2,580	301	1,211	199	-	2,455	-	-	-	(6,395)	(351)	-
Transfers (to) from affiliated companies, net	(47,516)	-	-	2,300	883	38,631	771	-	(4,639)	9,706	-	136
Pension adjustment	(68,710)	(7,277)	-	-	(2,479)	(24,443)	(1,970)	-	2,131	(13,032)	-	(115,780)
Net deficit from acquired subsidiary	-	-	-	(4,132)	-	-	-	-	-	-	4,132	-
Other	-	2	-	-	-	-	-	-	-	(140)	-	(138)
(Decrease) increase in unrestricted net assets	<u>(31,616)</u>	<u>3,759</u>	<u>(4,163)</u>	<u>(1,944)</u>	<u>(1,299)</u>	<u>(5,322)</u>	<u>(2,145)</u>	<u>(32,467)</u>	<u>(2,145)</u>	<u>(9,211)</u>	<u>10,501</u>	<u>(76,052)</u>
Temporarily restricted net assets:												
Restricted investment income	-	-	-	-	-	-	-	-	-	243	-	243
Net realized and unrealized gain on investments	-	-	-	(338)	-	-	-	-	-	(2,168)	-	(2,506)
Contributions	-	-	(13)	128	-	-	-	-	-	7,148	-	7,263
Transfers for the cost of land, buildings, and equipment	-	-	(4)	-	-	-	-	-	-	(3,352)	3,356	-
Transfers from affiliated companies, net	-	-	-	-	-	-	-	-	-	(390)	254	(136)
Net assets released from restrictions:												
For operations	-	-	(56)	(23)	-	-	-	-	-	(5,081)	-	(5,160)
For capital	-	-	(18)	-	-	-	-	-	-	-	(3,600)	(3,618)
Change in value of beneficial interest in net assets of BHF	(2,562)	2,461	146	-	32	-	(39)	-	-	-	(38)	-
Net assets of acquired subsidiary	-	-	-	4,024	-	-	-	-	-	4,024	(4,024)	4,024
Other	-	-	-	-	-	-	-	-	-	142	177	319
(Decrease) increase in temporarily restricted net assets	<u>(2,562)</u>	<u>2,461</u>	<u>55</u>	<u>3,791</u>	<u>32</u>	<u>-</u>	<u>(39)</u>	<u>-</u>	<u>-</u>	<u>566</u>	<u>(3,875)</u>	<u>429</u>
Permanently restricted net assets:												
Contributions	-	-	-	-	-	-	-	-	-	359	-	359
Change in value of perpetual trusts	-	-	(192)	-	-	-	-	-	-	(3,034)	-	(3,226)
Change in value of beneficial interest in net assets of BHF	38	(452)	-	-	(661)	-	112	-	-	(1,748)	2,711	-
Net assets of acquired subsidiary, net	-	-	-	881	-	-	-	-	-	881	(881)	881
Increase (decrease) in permanently restricted net assets	<u>38</u>	<u>(452)</u>	<u>(192)</u>	<u>881</u>	<u>(661)</u>	<u>-</u>	<u>112</u>	<u>-</u>	<u>-</u>	<u>(3,542)</u>	<u>1,830</u>	<u>(1,986)</u>
(Decrease) increase in net assets	<u>(34,140)</u>	<u>5,768</u>	<u>(4,300)</u>	<u>2,728</u>	<u>(1,928)</u>	<u>(5,322)</u>	<u>(2,072)</u>	<u>(32,467)</u>	<u>(2,145)</u>	<u>(12,187)</u>	<u>8,456</u>	<u>(77,609)</u>
Net assets (deficit) at beginning of year	<u>672,882</u>	<u>43,743</u>	<u>47,065</u>	<u>-</u>	<u>18,691</u>	<u>(46,234)</u>	<u>682</u>	<u>66,754</u>	<u>2,395</u>	<u>218,384</u>	<u>(112,777)</u>	<u>911,585</u>
Net assets (deficit) at end of year	<u>\$ 638,742</u>	<u>\$ 49,511</u>	<u>\$ 42,765</u>	<u>\$ 2,728</u>	<u>\$ 16,763</u>	<u>\$ (51,556)</u>	<u>\$ (1,390)</u>	<u>\$ 34,287</u>	<u>\$ 250</u>	<u>\$ 206,197</u>	<u>\$ (104,321)</u>	<u>\$ 833,976</u>

Baystate Health, Inc. and Subsidiaries

Consolidating Schedule of Cash Flows For the year ended September 30, 2015 (In Thousands)

	Consolidated BMC	BFMC	BWH	BNH Consol.	BMLH	BMP	BVNAH	HNE	Consolidated IC	Other Entities	Elim. & Reclass.	Consolidated Total
Operating activities:												
(Decrease) increase in net assets	\$ (34,140)	\$ 5,768	\$ (4,300)	\$ 2,728	\$ (1,928)	\$ (5,322)	\$ (2,072)	\$ (32,467)	\$ (2,145)	\$ (12,187)	\$ 8,456	\$ (77,609)
Adjustments to reconcile (decrease) increase in net assets to net cash provided by (used in) operating activities:												
Depreciation and amortization	56,389	4,215	2,848	594	1,403	1,609	267	1,619	117	146	-	69,207
Accretion on notes receivable	(1,382)	-	-	-	-	-	-	-	-	-	-	(1,382)
Pension adjustment	68,710	7,277	-	-	2,479	24,443	1,970	-	(2,131)	13,032	-	115,780
Net realized and unrealized loss (gain) on investments	20,961	-	201	286	57	-	(14)	(52)	-	8,312	2,813	32,564
Provision for bad debts	10,296	1,377	2,019	878	965	5,258	6	-	(56)	-	-	20,743
Change in fair value of perpetual trusts	-	-	191	-	-	-	-	-	-	3,035	-	3,226
Restricted contributions	-	-	13	(128)	-	-	-	-	-	(7,507)	-	(7,622)
Changes in equity investment of affiliate	(202)	-	-	-	-	-	-	-	-	(773)	(1,370)	(2,345)
Net assets from acquired subsidiary	-	-	-	(773)	-	-	-	-	-	-	-	(773)
Changes in operating assets and liabilities:												
(Increase) decrease in accounts receivable, patients	(7,107)	(2,019)	(735)	(275)	(872)	(3,666)	630	-	(7)	-	8,429	(5,622)
Net estimated final settlements	(19,948)	582	9	(49)	(33)	-	(193)	-	-	-	-	(19,632)
Accounts payable and accrued expenses	871	2,481	(869)	(1,513)	(44)	4,566	(158)	9,479	(125)	857	294	15,839
Pension liability	(59,593)	(6,116)	-	(12)	(2,092)	(21,746)	(1,689)	-	848	(7,811)	-	(98,211)
Medical claims payable	-	-	-	-	-	-	-	34,198	-	-	(8,429)	25,769
Transfers to (from) affiliated companies, net	47,516	-	-	-	(883)	(38,631)	(771)	-	-	(7,575)	344	-
Transfers for the cost of land, buildings, and equipment	(2,580)	(301)	-	-	(4)	(2,455)	-	-	-	5,212	128	-
Insurance liability loss reserves	1,160	-	(412)	-	-	1,277	-	-	-	(1,051)	(3,796)	(2,822)
Other	(6,769)	390	2,816	(780)	(138)	4,778	1,096	(17,013)	(161)	773	(720)	(15,728)
Net cash provided by (used in) operating activities	74,182	13,654	1,781	956	(1,090)	(29,889)	(928)	(4,236)	(3,660)	(5,537)	6,149	51,382
Investing activities:												
Proceeds from sale and maturities of investments	663,641	-	5,614	-	9,944	-	-	38,390	-	62,487	(2,813)	777,263
Purchase of investments	(678,516)	(11,877)	(5,843)	(19)	(10,031)	-	14	(34,511)	-	(64,377)	-	(805,160)
Cash acquired in acquisition	-	-	-	1,202	-	-	-	-	-	-	-	1,202
Purchase of land, buildings, and equipment	(73,643)	(16,036)	(3,613)	(765)	(1,572)	(2,976)	(6)	(1,500)	-	(74)	-	(100,185)
Transfers for the cost of land, buildings, and equipment	2,580	301	-	-	4	2,455	-	-	-	(5,212)	(128)	-
Change in beneficial interest in net assets of BHF	2,524	(2,009)	(147)	-	634	-	(44)	-	-	1,906	(2,864)	-
Net cash (used in) provided by investing activities	(83,414)	(29,621)	(3,989)	418	(1,021)	(521)	(36)	2,379	-	(5,270)	(5,805)	(126,880)
Financing activities:												
Proceeds from restricted contributions	-	-	(13)	128	-	-	-	-	-	7,507	-	7,622
Transfers (to) from affiliated companies, net	(47,516)	-	-	-	883	38,631	771	-	-	7,575	(344)	-
Repayment of notes receivable	713	-	-	-	-	-	-	-	-	-	-	713
Change in line of credit, affiliate	-	-	-	-	-	(95)	-	-	(137)	232	-	-
Proceeds from debt issuance	60,797	22,000	-	-	-	-	-	-	-	-	-	82,797
Repayments of debt and capital lease obligations	(9,734)	(451)	(346)	(467)	-	-	-	-	-	(740)	-	(11,738)
Net cash provided by (used in) financing activities	4,260	21,549	(359)	(339)	883	38,536	771	-	(137)	14,574	(344)	79,394
Net (decrease) increase in cash and cash equivalents	(4,972)	5,582	(2,567)	1,035	(1,228)	8,126	(193)	(1,857)	(3,797)	3,767	-	3,896
Cash and cash equivalents at beginning of year	88,375	9,413	5,289	-	2,492	1,987	702	36,137	3,820	30,860	-	179,075
Cash and cash equivalents at end of year	\$ 83,403	\$ 14,995	\$ 2,722	\$ 1,035	\$ 1,264	\$ 10,113	\$ 509	\$ 34,280	\$ 23	\$ 34,627	\$ -	\$ 182,971

Baystate Health, Inc. and Subsidiaries

Consolidating Schedule of Assets — Baystate Medical Center and Subsidiary As of September 30, 2015 (In Thousands)

	BMC	BTHC	Eliminations and Reclass	Consolidated Total
Assets				
Current assets:				
Cash and cash equivalents	\$ 82,883	\$ 520	\$ -	\$ 83,403
Investments	167,945	-	-	167,945
Accounts receivable, patients, net	102,691	-	-	102,691
Accounts receivable, other	5,321	-	-	5,321
Estimated final settlements receivable	24,633	-	-	24,633
Inventories	23,417	-	-	23,417
Prepaid expenses and other current assets	10,338	25	(25)	10,338
Due from affiliated companies	51,804	-	(18,832)	32,972
	<u>469,032</u>	<u>545</u>	<u>(18,857)</u>	<u>450,720</u>
Total current assets				
Long-term assets:				
Equity investment in unconsolidated affiliates	1,744	-	-	1,744
Notes receivable	194,581	-	(126,065)	68,516
Beneficial interest in net assets of BHF	14,227	-	-	14,227
Deferred expense and other long-term assets	2,775	1,094	-	3,869
Goodwill	1,552	-	-	1,552
Land, buildings, and equipment, net	349,443	233,317	(5,111)	577,649
	<u>564,322</u>	<u>234,411</u>	<u>(131,176)</u>	<u>667,557</u>
Assets whose use is limited:				
Board-designated funds:				
Cash and investments	204,018	-	-	204,018
Due from unrestricted funds	972	-	-	972
Investments held by trustee under debt agreements	22,235	181	-	22,416
Beneficial interest in net assets of BHF	1,287	-	-	1,287
	<u>228,512</u>	<u>181</u>	<u>-</u>	<u>228,693</u>
Total assets	<u>\$ 1,261,866</u>	<u>\$ 235,137</u>	<u>\$ (150,033)</u>	<u>\$ 1,346,970</u>

Baystate Health, Inc. and Subsidiaries

Consolidating Schedule of Liabilities and Net Assets — Baystate Medical Center and Subsidiary

As of September 30, 2015

(In Thousands)

	<u>BMC</u>	<u>BTHC</u>	<u>Eliminations and Reclass</u>	<u>Consolidated Total</u>
Liabilities and net assets (deficit)				
Current liabilities:				
Accounts payable	\$ 49,764	\$ 4	\$ -	\$ 49,768
Accrued salaries and wages	48,502	-	-	48,502
Accrued interest payable	2,106	2,077	(1,556)	2,627
Estimated final settlements payable	36,202	-	-	36,202
Deferred revenue	1,438	-	(25)	1,413
Current portion of long-term debt	6,523	20,708	-	27,231
Current portion of capital lease obligations	3,261	-	-	3,261
Due to affiliated companies	<u>755</u>	<u>18,832</u>	<u>(18,832)</u>	<u>755</u>
Total current liabilities	148,551	41,621	(20,413)	169,759
Long-term debt	366,392	211,592	(124,509)	453,475
Capital lease obligations	7,121	-	-	7,121
Pension liability	62,290	-	-	62,290
Insurance liability loss reserves	8,489	-	-	8,489
Other liabilities	<u>7,094</u>	<u>-</u>	<u>-</u>	<u>7,094</u>
Total liabilities	<u>599,937</u>	<u>253,213</u>	<u>(144,922)</u>	<u>708,228</u>
Net assets (deficit):				
Unrestricted:				
Operating	850,508	(18,076)	(5,111)	827,321
Pension adjustment	<u>(204,093)</u>	<u>-</u>	<u>-</u>	<u>(204,093)</u>
Unrestricted	646,415	(18,076)	(5,111)	623,228
Temporarily restricted	11,287	-	-	11,287
Permanently restricted	<u>4,227</u>	<u>-</u>	<u>-</u>	<u>4,227</u>
Total net assets (deficit)	<u>661,929</u>	<u>(18,076)</u>	<u>(5,111)</u>	<u>638,742</u>
Total liabilities and net assets (deficit)	<u>\$ 1,261,866</u>	<u>\$ 235,137</u>	<u>\$ (150,033)</u>	<u>\$ 1,346,970</u>

Baystate Health, Inc. and Subsidiaries

Consolidating Schedule of Operations — Baystate Medical Center and Subsidiary For the year ended September 30, 2015 (In Thousands)

	<u>BMC</u>	<u>BTHC</u>	<u>Eliminations and Reclass</u>	<u>Consolidated Total</u>
Operating revenues:				
Net patient service revenue	\$ 1,058,652	\$ -	\$ -	\$ 1,058,652
Bad debts	<u>10,296</u>	<u>-</u>	<u>-</u>	<u>10,296</u>
Net patient service revenue, net of bad debts	1,048,356	-	-	1,048,356
Other revenue	81,530	11,225	(17,618)	75,137
Net assets released from restrictions for operations	<u>1,765</u>	<u>-</u>	<u>-</u>	<u>1,765</u>
Total operating revenues	<u>1,131,651</u>	<u>11,225</u>	<u>(17,618)</u>	<u>1,125,258</u>
Operating expenses:				
Salaries and wages	404,889	-	-	404,889
Supplies and expense	611,642	133	(11,324)	600,451
Depreciation and amortization	46,073	10,479	(163)	56,389
Interest expense	<u>7,879</u>	<u>8,453</u>	<u>(6,293)</u>	<u>10,039</u>
Total operating expenses	<u>1,070,483</u>	<u>19,065</u>	<u>(17,780)</u>	<u>1,071,768</u>
Income (loss) from operations before other income, net	61,168	(7,840)	162	53,490
Other income, net	<u>42,448</u>	<u>-</u>	<u>-</u>	<u>42,448</u>
Income (loss) from operations	<u>103,616</u>	<u>(7,840)</u>	<u>162</u>	<u>95,938</u>
Nonoperating income (loss):				
Investment income	4,496	-	-	4,496
Net realized gain on investments	7,059	-	-	7,059
Net unrealized loss on investments	(28,625)	-	-	(28,625)
Equity gain in unconsolidated affiliates	29	-	-	29
Net interest cost on swap agreements	(1,964)	-	-	(1,964)
Change in fair value of swap agreements	<u>(84)</u>	<u>-</u>	<u>-</u>	<u>(84)</u>
Total nonoperating loss	<u>(19,089)</u>	<u>-</u>	<u>-</u>	<u>(19,089)</u>
Excess (deficiency) of revenues over expenses	84,527	(7,840)	162	76,849
Other changes in unrestricted net assets:				
Net assets released from restrictions for capital	3,142	-	-	3,142
Funds utilized for property and equipment	2,039	-	-	2,039
Transfers for the cost of land, buildings, and equipment	2,580	-	-	2,580
Transfers to affiliated companies, net	(47,516)	-	-	(47,516)
Pension adjustment	<u>(68,710)</u>	<u>-</u>	<u>-</u>	<u>(68,710)</u>
(Decrease) increase in unrestricted net assets	<u>\$ (23,938)</u>	<u>\$ (7,840)</u>	<u>\$ 162</u>	<u>\$ (31,616)</u>

Baystate Health, Inc. and Subsidiaries

Consolidating Statement of Changes in Net Assets — Baystate Medical Center and Subsidiary For the year ended September 30, 2015 (In Thousands)

	<u>BMC</u>	<u>BTHC</u>	<u>Eliminations and Reclass</u>	<u>Consolidated Total</u>
Unrestricted net assets:				
Excess (deficiency) of revenues over expenses	\$ 84,527	\$ (7,840)	\$ 162	\$ 76,849
Net assets released from restrictions for capital	3,142	-	-	3,142
Funds utilized for property and equipment	2,039	-	-	2,039
Transfers for the cost of land, buildings, and equipment	2,580	-	-	2,580
Transfers to affiliated companies, net	(47,516)	-	-	(47,516)
Pension adjustment	(68,710)	-	-	(68,710)
	<u>(23,938)</u>	<u>(7,840)</u>	<u>162</u>	<u>(31,616)</u>
(Decrease) increase in unrestricted net assets				
Temporarily restricted net assets —				
Change in value of beneficial interest in net assets of BHF	(2,562)	-	-	(2,562)
	<u>(2,562)</u>	<u>-</u>	<u>-</u>	<u>(2,562)</u>
Decrease in temporarily restricted net assets				
Permanently restricted net assets —				
Change in value of beneficial interest in net assets of BHF	38	-	-	38
	<u>38</u>	<u>-</u>	<u>-</u>	<u>38</u>
Increase in permanently restricted net assets				
(Decrease) increase in net assets	(26,462)	(7,840)	162	(34,140)
Net assets (deficit) at beginning of year	688,391	(10,236)	(5,273)	672,882
Net assets (deficit) at end of year	<u>\$ 661,929</u>	<u>\$ (18,076)</u>	<u>\$ (5,111)</u>	<u>\$ 638,742</u>

Baystate Health, Inc. and Subsidiaries

Consolidating Schedule of Cash Flows — Baystate Medical Center and Subsidiary For the year ended September 30, 2015 (In Thousands)

	BMC	BTHC	Eliminations and Reclass	Consolidated Total
Operating activities:				
(Decrease) increase in net assets	\$ (26,462)	\$ (7,840)	\$ 162	\$ (34,140)
Adjustments to reconcile (decrease) increase in net assets to net cash provided by (used in) operating activities:				
Depreciation and amortization	46,073	10,479	(163)	56,389
Accretion on notes receivable	(1,382)	-	-	(1,382)
Pension adjustment	68,710	-	-	68,710
Net realized and unrealized loss on investments	20,961	-	-	20,961
Provision for bad debts	10,296	-	-	10,296
Changes in equity investment of affiliate	(202)	-	-	(202)
Changes in operating assets and liabilities:				
Accounts receivable, patients	(7,107)	-	-	(7,107)
Net estimated final settlements	(19,948)	-	-	(19,948)
Accounts payable and accrued expenses	867	(31)	35	871
Pension liability	(59,593)	-	-	(59,593)
Transfers to affiliated companies, net	47,516	-	-	47,516
Transfers for the cost of land, buildings, and equipment	(2,580)	-	-	(2,580)
Insurance liability loss reserves	1,160	-	-	1,160
Other	(6,738)	(2,705)	2,674	(6,769)
Net cash provided by (used in) operating activities	<u>71,571</u>	<u>(97)</u>	<u>2,708</u>	<u>74,182</u>
Investing activities:				
Proceeds from sale and maturities of investments	663,545	96	-	663,641
Purchase of investments	(678,516)	-	-	(678,516)
Purchase of land, buildings, and equipment, net	(73,643)	-	-	(73,643)
Transfers for the cost of land, buildings, and equipment	2,580	-	-	2,580
Change in beneficial interest in net assets of BHF	2,524	-	-	2,524
Net cash (used in) provided by investing activities	<u>(83,510)</u>	<u>96</u>	<u>-</u>	<u>(83,414)</u>
Financing activities:				
Transfers to affiliated companies, net	(47,516)	-	-	(47,516)
Repayment of notes receivable	3,421	-	(2,708)	713
Proceeds from bond issuance	60,797	-	-	60,797
Repayment of debt and capital lease obligations	(9,734)	-	-	(9,734)
Net cash provided by (used in) financing activities	<u>6,968</u>	<u>-</u>	<u>(2,708)</u>	<u>4,260</u>
Net decrease in cash and cash equivalents	(4,971)	(1)	-	(4,972)
Cash and cash equivalents at beginning of year	<u>87,854</u>	<u>521</u>	<u>-</u>	<u>88,375</u>
Cash and cash equivalents at end of year	<u>\$ 82,883</u>	<u>\$ 520</u>	<u>\$ -</u>	<u>\$ 83,403</u>

Baystate Health, Inc. and Subsidiaries

Consolidating Schedule of Assets — Baystate Noble Hospital and Subsidiaries

As of September 30, 2015

(In Thousands)

	BNH	BWMC	BNVNAH	Eliminations and Reclass	Consolidated Total
Assets					
Current assets:					
Cash and cash equivalents	\$ 783	\$ 224	\$ 28	\$ -	\$ 1,035
Investments	572	-	-	-	572
Accounts receivable, patients, net	4,740	798	1,740	-	7,278
Accounts receivable, other	205	19	-	-	224
Inventories	912	-	-	-	912
Prepaid expenses and other current assets	117	4	20	-	141
Due from affiliated companies	160	-	-	(242)	(82)
Total current assets	<u>7,489</u>	<u>1,045</u>	<u>1,788</u>	<u>(242)</u>	<u>10,080</u>
Long-term assets:					
Investments	4,030	-	-	-	4,030
Deferred expense and other long-term assets	110	20	-	-	130
Land, buildings, and equipment, net	<u>18,019</u>	<u>1,258</u>	<u>231</u>	<u>-</u>	<u>19,508</u>
	<u>22,159</u>	<u>1,278</u>	<u>231</u>	<u>-</u>	<u>23,668</u>
Total assets	<u>\$ 29,648</u>	<u>\$ 2,323</u>	<u>\$ 2,019</u>	<u>\$ (242)</u>	<u>\$ 33,748</u>

Baystate Health, Inc. and Subsidiaries

Consolidating Schedule of Liabilities and Net Assets — Baystate Noble Hospital and Subsidiaries

As of September 30, 2015

(In Thousands)

	BNH	BWMC	BNVNAH	Eliminations and Reclass	Consolidated Total
Liabilities and net assets					
Current liabilities:					
Accounts payable	\$ 9,256	\$ 61	\$ 1,421	\$ (242)	\$ 10,496
Accrued salaries and wages	1,810	319	376	-	2,505
Accrued interest payable	148	-	-	-	148
Estimated final settlements payable	4,116	(6)	176	-	4,286
Deferred revenue	-	-	318	-	318
Current portion of long-term debt	1,960	36	-	-	1,996
Current portion capital lease obligations	398	-	-	-	398
Due to affiliated companies	426	-	338	-	764
	<u>18,114</u>	<u>410</u>	<u>2,629</u>	<u>(242)</u>	<u>20,911</u>
Total current liabilities					
Long-term debt	5,063	373	-	-	5,436
Capital lease obligations	1,028	-	-	-	1,028
Pension liability	2,775	-	-	-	2,775
Insurance liability loss reserves	221	77	-	-	298
Other liabilities	572	-	-	-	572
	<u>27,773</u>	<u>860</u>	<u>2,629</u>	<u>(242)</u>	<u>31,020</u>
Total liabilities					
Net assets (deficit):					
Unrestricted	(2,797)	1,463	(610)	-	(1,944)
Temporarily restricted	3,791	-	-	-	3,791
Permanently restricted	881	-	-	-	881
	<u>1,875</u>	<u>1,463</u>	<u>(610)</u>	<u>-</u>	<u>2,728</u>
Total net assets (deficit)					
Total liabilities and net assets (deficit)	<u>\$ 29,648</u>	<u>\$ 2,323</u>	<u>\$ 2,019</u>	<u>\$ (242)</u>	<u>\$ 33,748</u>

Baystate Health, Inc. and Subsidiaries

Consolidating Schedule of Operations — Baystate Noble Hospital and Subsidiaries

For the three months ended September 30, 2015

(In Thousands)

	BNH	BWMC	BNVNAH	Eliminations and Reclass	Consolidated Total
Operating revenues:					
Net patient service revenue	\$ 15,586	\$ 2,610	\$ 2,475	\$ -	\$ 20,671
Bad debts	<u>863</u>	<u>15</u>	<u>-</u>	<u>-</u>	<u>878</u>
Net patient service revenue, net of bad debts	14,723	2,595	2,475	-	19,793
Other revenue	169	125	64	(34)	324
Net assets released from restrictions for operations	<u>28</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>28</u>
Total operating revenues	<u>14,920</u>	<u>2,720</u>	<u>2,539</u>	<u>(34)</u>	<u>20,145</u>
Operating expenses:					
Salaries and wages	6,340	2,292	1,241	-	9,873
Supplies and expense	7,198	1,417	1,299	(34)	9,880
Depreciation and amortization	541	27	26	-	594
Interest expense	<u>99</u>	<u>7</u>	<u>3</u>	<u>-</u>	<u>109</u>
Total operating expenses	<u>14,178</u>	<u>3,743</u>	<u>2,569</u>	<u>(34)</u>	<u>20,456</u>
Income (loss) from operations	<u>742</u>	<u>(1,023)</u>	<u>(30)</u>	<u>-</u>	<u>(311)</u>
Nonoperating income:	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total nonoperating income	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of revenues over expenses	742	(1,023)	(30)	-	(311)
Other changes in unrestricted net assets:					
Transfers for the cost of land, buildings and equipment	199	-	-	-	199
Transfers from affiliated companies, net	2,300	-	-	-	2,300
Net (deficit) assets of acquired subsidiary	(4,891)	1,340	(581)	-	(4,132)
Other	<u>(1,146)</u>	<u>1,146</u>	<u>-</u>	<u>-</u>	<u>-</u>
(Decrease) increase in unrestricted net assets	<u>\$ (2,796)</u>	<u>\$ 1,463</u>	<u>\$ (611)</u>	<u>\$ -</u>	<u>\$ (1,944)</u>

Baystate Health, Inc. and Subsidiaries

Consolidating Schedule of Changes in Net Assets — Baystate Noble Hospital and Subsidiaries

For the three months ended September 30, 2015

(In Thousands)

	<u>BNH</u>	<u>BWMC</u>	<u>BNVNAH</u>	<u>Eliminations and Reclass</u>	<u>Consolidated Total</u>
Unrestricted net assets:					
Excess (deficiency) of revenues over expenses	\$ 742	\$ (1,023)	\$ (30)	\$ -	\$ (311)
Net assets released from restrictions for capital	199	-	-	-	199
Transfers from affiliated companies, net	2,300	-	-	-	2,300
Net (deficit) assets from acquired subsidiary	(4,891)	1,340	(581)	-	(4,132)
Other	<u>(1,146)</u>	<u>1,146</u>	<u>-</u>	<u>-</u>	<u>-</u>
(Decrease) increase in unrestricted net assets	<u>(2,796)</u>	<u>1,463</u>	<u>(611)</u>	<u>-</u>	<u>(1,944)</u>
Temporarily restricted net assets:					
Net realized and unrealized loss on investments	(338)	-	-	-	(338)
Contributions	128	-	-	-	128
Net assets released from restrictions:					
For operations	-	-	(23)	-	(23)
Net assets from acquired subsidiary	<u>4,000</u>	<u>-</u>	<u>24</u>	<u>-</u>	<u>4,024</u>
Increase in temporarily restricted net assets	<u>3,790</u>	<u>-</u>	<u>1</u>	<u>-</u>	<u>3,791</u>
Permanently restricted net assets —					
Net assets of acquired subsidiary	<u>881</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>881</u>
Increase in permanently restricted net assets	<u>881</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>881</u>
Increase (decrease) in net assets	1,875	1,463	(610)	-	2,728
Net assets (deficit) at beginning of year	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net assets (deficit) at end of year	<u>\$ 1,875</u>	<u>\$ 1,463</u>	<u>\$ (610)</u>	<u>\$ -</u>	<u>\$ 2,728</u>

Baystate Health, Inc. and Subsidiaries

Consolidating Schedule of Assets — Other Entities

As of September 30, 2015

(In Thousands)

	BH	BAS	BHF	BHIC	Other Entities Total
Assets					
Current assets:					
Cash and cash equivalents	\$ 16,803	\$ 3,309	\$ 11,239	\$ 3,276	\$ 34,627
Investments	7,887	62	7,890	-	15,839
Accounts receivable, other	295	339	1,779	3,047	5,460
Inventories	-	47	-	-	47
Prepaid expenses and other current assets	30	10,103	21	8	10,162
Due from affiliated companies	1,134	6,702	274	-	8,110
Line of credit, affiliate	1,348	-	-	-	1,348
Total current assets	<u>27,497</u>	<u>20,562</u>	<u>21,203</u>	<u>6,331</u>	<u>75,593</u>
Long-term assets:					
Investments	1,060	-	52,336	-	53,396
Equity investment in consolidated for-profit subsidiaries	48,090	-	-	-	48,090
Equity investment in unconsolidated affiliates	(5)	-	-	-	(5)
Deferred expense and other long-term assets	11,172	-	2,582	-	13,754
Goodwill	4,132	-	-	-	4,132
Land, buildings, and equipment, net	120	465	-	-	585
	<u>64,569</u>	<u>465</u>	<u>54,918</u>	<u>-</u>	<u>119,952</u>
Assets whose use is limited:					
Board-designated funds:					
Cash and investments	28,767	-	3,000	-	31,767
Beneficial interest in net assets of BHF	1,702	-	-	-	1,702
Investments of captive insurance company	-	-	-	108,576	108,576
Beneficial interest in perpetual trusts	-	-	32,179	-	32,179
Beneficial interest in net assets of BHF	19,016	-	-	-	19,016
Deferred compensation investments	38,461	-	-	-	38,461
	<u>87,946</u>	<u>-</u>	<u>35,179</u>	<u>108,576</u>	<u>231,701</u>
Total assets	<u>\$ 180,012</u>	<u>\$ 21,027</u>	<u>\$ 111,300</u>	<u>\$ 114,907</u>	<u>\$ 427,246</u>

Baystate Health, Inc. and Subsidiaries

Consolidating Schedule of Liabilities and Net Assets — Other Entities

As of September 30, 2015

(In Thousands)

	BH	BAS	BHF	BHIC	Other Entities Total
Liabilities and net assets (deficit)					
Current liabilities:					
Accounts payable	\$ 2,006	\$ 15,428	\$ 284	\$ 991	\$ 18,709
Accrued salaries and wages	-	12,299	207	-	12,506
Deferred revenue	600	-	-	-	600
Current portion of long-term debt	740	-	-	-	740
Due to affiliated companies	4,104	462	1,010	-	5,576
Due to board-designated funds	972	-	-	-	972
Total current liabilities	8,422	28,189	1,501	991	39,103
Long-term debt	17,020	-	-	-	17,020
Pension liability	-	13,998	351	-	14,349
Insurance liability loss reserves	10,250	-	-	15,400	25,650
Deposit liability	-	-	-	86,384	86,384
Other liabilities	38,461	-	82	-	38,543
Total liabilities	74,153	42,187	1,934	102,775	221,049
Net assets (deficit):					
Unrestricted:					
Operating	80,525	9,332	6,057	12,132	108,046
Pension adjustment	(2,131)	(30,492)	(558)	-	(33,181)
Unrestricted	78,394	(21,160)	5,499	12,132	74,865
Temporarily restricted	5,234	-	54,997	-	60,231
Permanently restricted	22,231	-	48,870	-	71,101
Total net assets (deficit)	105,859	(21,160)	109,366	12,132	206,197
Total liabilities and net assets	\$ 180,012	\$ 21,027	\$ 111,300	\$ 114,907	\$ 427,246

Baystate Health, Inc. and Subsidiaries

Consolidating Schedule of Operations — Other Entities For the year ended September 30, 2015 (In Thousands)

	BH	BAS	BHF	BHIC	Other Entities Total
Operating revenues:					
Premiums	\$ -	\$ -	\$ -	\$ 3,625	\$ 3,625
Other revenue	15,327	108,470	2,004	-	125,801
Net assets released from restrictions for operations	994	382	3,220	-	4,596
Total operating revenues	16,321	108,852	5,224	3,625	134,022
Operating expenses:					
Salaries and wages	914	48,966	1,981	-	51,861
Supplies and expense	14,030	59,509	3,342	1,783	78,664
Depreciation and amortization	3	142	1	-	146
Interest expense	119	-	-	-	119
Total operating expenses	15,066	108,617	5,324	1,783	130,790
Income (loss) from operations before other income, net	1,255	235	(100)	1,842	3,232
Other income, net	-	6,297	74	-	6,371
Income (loss) from operations	1,255	6,532	(26)	1,842	9,603
Nonoperating income (loss):					
Investment income	483	2	367	-	852
Net realized gain (loss) on investments	548	(5)	(98)	414	859
Net unrealized (loss) gain on investments	(1,459)	3	(131)	(1,156)	(2,743)
Equity loss in consolidated for-profit subsidiaries	(2,146)	-	-	-	(2,146)
Equity loss in unconsolidated affiliates	(341)	-	-	-	(341)
Other	(5,434)	-	-	-	(5,434)
Total nonoperating (loss) income	(8,349)	-	138	(742)	(8,953)
(Deficiency) excess of revenues over expenses	(7,094)	6,532	112	1,100	650
Other changes in unrestricted net assets:					
Transfers for the cost of land, buildings, and equipment	(6,425)	30	-	-	(6,395)
Transfers from affiliated companies, net	9,706	-	-	-	9,706
Pension adjustment	(2,131)	(10,782)	(119)	-	(13,032)
Other	-	-	(140)	-	(140)
(Decrease) increase in unrestricted net assets	\$ (5,944)	\$ (4,220)	\$ (147)	\$ 1,100	\$ (9,211)

Baystate Health, Inc. and Subsidiaries

Consolidating Schedule of Changes in Net Assets — Other Entities For the year ended September 30, 2015 (In Thousands)

	<u>BH</u>	<u>BAS</u>	<u>BHF</u>	<u>BHIC</u>	<u>Other Entities Total</u>
Unrestricted net assets:					
(Deficiency) excess of revenues over expenses	\$ (7,094)	\$ 6,532	\$ 112	\$ 1,100	\$ 650
Transfers for the cost of land, buildings, and equipment	(6,425)	30	-	-	(6,395)
Transfers from affiliated companies, net	9,706	-	-	-	9,706
Pension adjustment	(2,131)	(10,782)	(119)	-	(13,032)
Other	-	-	(140)	-	(140)
	<u>(5,944)</u>	<u>(4,220)</u>	<u>(147)</u>	<u>1,100</u>	<u>(9,211)</u>
(Decrease) increase in unrestricted net assets					
Temporarily restricted net assets:					
Restricted investment income	-	-	243	-	243
Net realized and unrealized loss on investments	-	-	(2,168)	-	(2,168)
Contributions	-	-	7,148	-	7,148
Transfers for the cost of land, buildings, and equipment	-	-	(3,352)	-	(3,352)
Transfers to affiliated companies, net	-	-	(390)	-	(390)
Net assets released from restrictions —					
For operations	-	-	(5,081)	-	(5,081)
Net assets from acquired subsidiary	4,024	-	-	-	4,024
Other	-	-	142	-	142
	<u>4,024</u>	<u>-</u>	<u>(3,458)</u>	<u>-</u>	<u>566</u>
Increase (decrease) in temporarily restricted net assets					
Permanently restricted net assets:					
Contributions	-	-	359	-	359
Net assets from acquired subsidiary	881	-	-	-	881
Change in value of perpetual trusts	-	-	(3,034)	-	(3,034)
Change in value of beneficial interest in net assets of BHF	(1,748)	-	-	-	(1,748)
	<u>(867)</u>	<u>-</u>	<u>(2,675)</u>	<u>-</u>	<u>(3,542)</u>
Decrease in permanently restricted net assets					
(Decrease) increase in net assets	(2,787)	(4,220)	(6,280)	1,100	(12,187)
Net assets (deficit) at beginning of year	<u>108,646</u>	<u>(16,940)</u>	<u>115,646</u>	<u>11,032</u>	<u>218,384</u>
Net assets (deficit) at end of year	<u>\$ 105,859</u>	<u>\$ (21,160)</u>	<u>\$ 109,366</u>	<u>\$ 12,132</u>	<u>\$ 206,197</u>

Baystate Health, Inc. and Subsidiaries

Consolidating Schedule of Cash Flows - Other Entities

For the year ended September 30, 2015

(In Thousands)

	BH	BAS	BHF	BHIC	Other Entities Total
Operating activities:					
(Decrease) increase in net assets	\$ (2,787)	\$ (4,220)	\$ (6,280)	\$ 1,100	\$ (12,187)
Adjustments to reconcile changes in net assets to net cash (used in) provided by operating activities:					
Depreciation and amortization	3	142	1	-	146
Pension adjustment	2,131	10,782	119	-	13,032
Net realized and unrealized loss on investments	1,213	1	2,434	4,664	8,312
Change in fair value of perpetual trusts	-	-	3,035	-	3,035
Restricted contributions	-	-	(7,507)	-	(7,507)
Changes in equity investment of affiliate	(773)	-	-	-	(773)
Changes in operating assets and liabilities:					
Accounts payable and accrued expenses	(628)	2,065	93	(673)	857
Pension liability	-	(7,712)	(99)	-	(7,811)
Transfers to (from) affiliated companies, net	(7,575)	-	-	-	(7,575)
Transfers for the cost of land, buildings, and equipment	5,212	-	-	-	5,212
Insurance liability loss reserves	(2,800)	-	-	1,749	(1,051)
Other	3,977	(2,655)	(828)	279	773
Net cash (used in) provided by operating activities	(2,027)	(1,597)	(9,032)	7,119	(5,537)
Investing activities:					
Proceeds from sale and maturities of investments	40,566	(2)	12,906	9,017	62,487
Purchase of investments	(39,219)	-	(11,368)	(13,790)	(64,377)
Purchase of land, buildings, and equipment, net	-	(67)	(7)	-	(74)
Transfers for the cost of land, buildings, and equipment	(5,212)	-	-	-	(5,212)
Change in beneficial interest in net assets of BHF	1,906	-	-	-	1,906
Net cash (used in) provided by investing activities	(1,959)	(69)	1,531	(4,773)	(5,270)
Financing activities:					
Proceeds from restricted contributions	-	-	7,507	-	7,507
Transfers (to) from affiliated companies, net	7,575	-	-	-	7,575
Change in line of credit, affiliate	232	-	-	-	232
Repayment of debt	(740)	-	-	-	(740)
Net cash provided by financing activities	7,067	-	7,507	-	14,574
Net increase (decrease) in cash and cash equivalents	3,081	(1,666)	6	2,346	3,767
Cash and cash equivalents at beginning of year	13,722	4,975	11,233	930	30,860
Cash and cash equivalents at end of year	\$ 16,803	\$ 3,309	\$ 11,239	\$ 3,276	\$ 34,627