Baystate Health, Inc. and Subsidiaries

Consolidated Financial Statements as of and
for the Years Ended September 30, 2017 and 2016,
Consolidating Supplementary Financial Information
as of and for the Year Ended September 30, 2017,
and Independent Auditors' Report

BAYSTATE HEALTH, INC. AND SUBSIDIARIES

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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, 2017 and 2016, and the related consolidated statements of operations, changes in net assets, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with 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 as of September 30, 2017 and 2016, and the results of its operations, its changes in net assets, and its 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, 2018

BAYSTATE HEALTH, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
AS OF SEPTEMBER 30, 2017 AND 2016
(In thousands)

ASSETS	2017	2016
CURRENT ASSETS:		
Cash and cash equivalents	$ 172,116	$ 192,890
Investments	302,517	328,509
Accounts receivable, patients, less allowance for uncollectible accounts of $41,732 in 2017 and $36,715 in 2016	146,534	136,174
Accounts receivable, other	82,071	56,885
Estimated final settlements receivable	28,529	17,934
Inventories	30,537	28,863
Prepaid expenses and other current assets	25,832	24,505
Total current assets	788,136	785,760
LONG-TERM ASSETS:		
Investments	61,108	56,885
Equity investment in unconsolidated affiliates	2,466	2,673
Notes receivable		69,344
Deferred expense and other long-term assets	37,132	32,874
Goodwill	5,684	5,684
Land, buildings, and equipment, net	732,988	714,632
	839,378	882,092
ASSETS WHOSE USE IS LIMITED:		
Board-designated funds	284,048	269,526
Investments of captive insurance company	114,801	84,808
Investments held by trustee under debt agreements	10,882	15,272
Beneficial interest in perpetual trusts	37,872	35,569
Deferred compensation investments	58,272	46,200
	505,875	451,375
TOTAL ASSETS	$2,133,389	$2,119,227

LIABILITIES	2017	2016
CURRENT LIABILITIES:		
Accounts payable	$ 136,717	$ 150,340
Medical claims payable	71,746	59,878
Accrued salaries and wages	89,366	95,665
Accrued interest payable	2,471	2,243
Estimated final settlements payable	43,614	39,556
Deferred revenue	20,220	24,740
Current portion of long-term debt	10,216	13,016
Current portion of capital lease obligations	5,560	5,063
Total current liabilities	379,910	390,501
LONG-TERM DEBT	468,933	545,904
CAPITAL LEASE OBLIGATIONS	14,823	17,673
PENSION LIABILITY	68,818	133,908
INSURANCE LIABILITY LOSS RESERVES	136,543	126,616
OTHER LIABILITIES	65,767	54,886
Total liabilities	1,134,794	1,269,488
NET ASSETS:		
Unrestricted:		
Operating	1,238,547	1,144,311
Pension adjustment	(357,144)	(405,452)
Total unrestricted	881,403	738,859
Temporarily restricted	61,388	57,381
Permanently restricted	55,804	53,499
Total net assets	998,595	849,739
TOTAL LIABILITIES AND NET ASSETS	$2,133,389	$2,119,227

See notes to consolidated financial statements.

BAYSTATE HEALTH, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED SEPTEMBER 30, 2017 AND 2016
(In thousands)

	2017	2016
OPERATING REVENUES:		
Net patient service revenue	$ 1,382,983	$ 1,338,863
Bad debts	(33,091)	(29,846)
Net patient service revenue, net of bad debts	1,349,892	1,309,017
Premiums	917,422	944,172
Other revenue	125,259	94,112
Net assets released from restrictions for operations	4,712	5,634
Total operating revenues	2,397,285	2,352,935
OPERATING EXPENSES:		
Salaries and wages	860,177	868,551
Supplies and expense	758,743	725,368
Medical claims and capitation	643,010	625,463
Depreciation and amortization	78,779	75,542
Interest expense	13,766	11,387
Total operating expenses	2,354,475	2,306,311
INCOME FROM OPERATIONS BEFORE OTHER EXPENSE	42,810	46,624
OTHER EXPENSE	(18,896)	(17,643)
INCOME FROM OPERATIONS	23,914	28,981
NONOPERATING INCOME (LOSS):		
Investment income	3,631	2,343
Net realized gain on investments	24,500	38,360
Net unrealized gain on investments	25,643	11,034
Equity (loss) gain in unconsolidated affiliates	(613)	74
Net interest cost on swap agreements	(1,182)	(1,633)
Change in fair value of swap agreements	2,034	702
Income taxes and other	(7,288)	(19,454)
Total nonoperating income—net	46,725	31,426
EXCESS OF REVENUES OVER EXPENSES	70,639	60,407
OTHER CHANGES IN UNRESTRICTED NET ASSETS:		
Net assets released from restrictions for capital	2,150	3,327
Funds utilized for property and equipment	8,822	400
Contributed capital asset	12,543	6,084
Pension adjustment	48,312	(58,400)
Other	78	(1)
INCREASE IN UNRESTRICTED NET ASSETS	$ 142,544	$ 11,817

See notes to consolidated financial statements.

BAYSTATE HEALTH, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS
FOR THE YEARS ENDED SEPTEMBER 30, 2017 AND 2016
(In thousands)

	2017	2016
UNRESTRICTED NET ASSETS:		
Excess of revenues over expenses	$ 70,639	$ 60,407
Net assets released from restrictions for capital	2,150	3,327
Funds utilized for property and equipment	8,822	400
Contributed capital asset	12,543	6,084
Pension adjustment	48,312	(58,400)
Other	78	(1)
Increase in unrestricted net assets	142,544	11,817
TEMPORARILY RESTRICTED NET ASSETS:		
Restricted investment income	250	223
Net realized and unrealized gain on investments	5,435	4,849
Contributions	5,800	6,488
Net assets released from restrictions:		
For operations	(4,712)	(5,634)
For capital	(2,150)	(3,327)
Other	(616)	(258)
Increase in temporarily restricted net assets	4,007	2,341
PERMANENTLY RESTRICTED NET ASSETS:		
Contributions	2	198
Change in fair value of perpetual trusts	2,303	1,407
Increase in permanently restricted net assets	2,305	1,605
INCREASE IN NET ASSETS	148,856	15,763
NET ASSETS—Beginning of year	849,739	833,976
NET ASSETS—End of year	$ 998,595	$849,739

See notes to consolidated financial statements.

BAYSTATE HEALTH, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30, 2017 AND 2016
(In thousands)

	2017	2016
OPERATING ACTIVITIES:		
Increase in net assets	$ 148,856	$ 15,763
Adjustments to reconcile increase in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	78,779	75,542
Accretion on notes receivable	(287)	(1,401)
Pension adjustment	(48,312)	58,400
Net realized and unrealized gain on investments	(63,130)	(56,096)
Provision for bad debts	33,091	29,846
Change in fair value of perpetual trusts	(2,303)	(1,407)
Restricted contributions	(5,802)	(6,686)
Changes in equity investment of affiliate	125	(194)
Contributed capital asset	(12,543)	(6,084)
Changes in operating assets and liabilities:		
Accounts receivable, patients	(43,451)	(34,628)
Net estimated final settlements	(6,537)	(2,354)
Accounts payable and accrued expenses	(19,699)	(1,243)
Pension liability	(16,782)	(42,216)
Medical claims payable	11,868	(14,464)
Insurance liability loss reserves	9,833	3,081
Other	(24,391)	(20,387)
Net cash provided by (used in) operating activities	39,315	(4,528)
INVESTING ACTIVITIES:		
Proceeds from sale and maturities of investments	893,866	904,674
Purchase of investments	(862,678)	(852,347)
Purchase of land, buildings, and equipment	(97,135)	(78,023)
Net cash used in investing activities	(65,947)	(25,696)
FINANCING ACTIVITIES:		
Proceeds from restricted contributions	5,802	6,686
Repayment of notes receivable	117	573
Proceeds from debt issuance	17,700	71,304
Repayments of debt and capital lease obligations	(18,738)	(38,420)
Loss on extinguishment of debt	977	-
Net cash provided by financing activities	5,858	40,143
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(20,774)	9,919
CASH AND CASH EQUIVALENTS—Beginning of year	192,890	182,971
CASH AND CASH EQUIVALENTS—End of year	$ 172,116	$ 192,890
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION— Cash paid for interest	$ 13,649	$ 14,340

See notes to consolidated financial statements.

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 four hospitals in the Baystate Health system. BMC, the leading health facility in western Massachusetts, is the only tertiary care referral medical center and Level 1 trauma center in the region. It is also home to western New England's only neonatal and pediatric intensive care units. BMC is a 724-bed, tax-exempt, not-for-profit, academic teaching hospital.

- Baystate Total Home Care, Inc. (BTHC) is a tax-exempt, not-for-profit corporation, wholly owned by BMC, 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 served 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 an 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.

  – Baystate Mary Lane Hospital Corporation (BMLH), located in Ware, Massachusetts, was a 25-bed, tax-exempt, not-for-profit, acute care community hospital. BMLH was merged into BWH as of September 10, 2016, and BMLH no longer provides inpatient services.

- Baystate Noble Hospital, Inc. and subsidiaries ("BNH consolidated") consists of two tax-exempt, not-for-profit corporations located in Westfield, Massachusetts:

  – 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 Baystate Westfield Medical Corporation (WMC).

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

- 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.

  – 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. In 2015, BNVNAH was included in BNH consolidated; as of October 1, 2016, BNVNAH was merged into BVNAH.

- Health New England, Inc. (HNE) is a tax-exempt, 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. HNE includes the following subsidiaries:

  – HNE Holding Company 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.

  – 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.

- Baystate Administrative Services, Inc. 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. 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 its 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 accounts receivable, reserve for contractual allowances, investment valuation, estimated final settlements receivable and payable, medical claims payable, insurance liability loss reserves, income taxes, and the pension liability.

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, 2017 and 2016, 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 permanently restricted 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, 2017 and 2016, 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 revenue 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, and equity securities, as well as interests in limited partnerships, hedge funds, 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.

Baystate Health has also entered into partnership agreements with limited partnerships ("alternative investments"), a 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, 2017, approximately $66,131,000 of total capital commitments, including those held within the pension plan assets discussed in Note 16, 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 (loss) in the consolidated statements of operations, unless the income or loss is restricted by donor or law. Realized and unrealized gains and losses on investments are included in other revenue or nonoperating income (loss) 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, 2017 and 2016.

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, whether realized or unrealized, in its excess of revenue over expenses. Within excess revenues over expenses, Baystate Health recognized net unrealized gains on investments totaling $25,643,000 and $11,034,000 for the years ended September 30, 2017 and 2016, respectively.

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 2009 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 were part of a financing arrangement that utilized NMTCs to reduce cash required by BMC to construct this new facility. Each loan bore 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 were recorded as notes receivable in the consolidated statements of financial position as of September 30, 2016. See Note 9 for discussion of the unwind of the NMTC program in 2017.

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.

Costs of Borrowing—Deferred financing costs are amortized over the weighted-average term of the bonds. At September 30, 2017 and 2016, deferred financing costs totaled $2,836,000 and $3,743,000, respectively, and are classified as long-term debt in the accompanying consolidated statements of financial position.

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, 2017 and 2016.

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, 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 using 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.

Other expense in the consolidated statement of operations for the year ended September 30, 2017, consists of a pension settlement charge of approximately $16,000,000 (see Note 16) and severance costs of approximately $2,900,000. Other expense—net in the consolidated statement of operations for the year ended September 30, 2016, consists of severance and benefit costs related to a reduction in force. 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, equity gains and losses in unconsolidated affiliates, interest on swap agreements, changes in fair value of swap agreements, and income taxes.

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, contributed capital asset, funds utilized for property and equipment, 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 2017 and 2016, Baystate Health recorded adjustments to amounts accrued for settlements related to prior fiscal years. The net effect of such adjustments was an increase in net patient service revenue of approximately $17,305,000 and $29,215,000 in 2017 and 2016, 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 $1,883,000 and $3,587,000 in other revenue related to the program in fiscal years 2017 and 2016, 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.

HSN—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, 2017 and 2016, are as follows (in thousands):

	2017	**2016**
HSN assessment	$ 6,828	$ 6,742
HSN receipts	(4,154)	(6,488)
Free care (at cost)	13,221	14,054
Total	$15,895	$14,308

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 freestanding 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 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 91% of self-pay accounts receivable at September 30, 2016, to approximately 88% of self-pay accounts receivable at September 30, 2017. In addition, Baystate Health's self-pay write-offs, net of recoveries decreased approximately $2,659,000 from $53,104,000 for fiscal year 2016 to $50,445,000 for fiscal year 2017. Baystate Health has not changed its charity care or uninsured discount policies during fiscal year 2016 or 2017. 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, 2017 and 2016, from Baystate Health's major payer sources is as follows (in thousands):

	2017	2016
Medicare	$ 586,515	$ 591,018
Medicaid	240,449	213,397
Commercial and other	545,128	519,993
Self-pay	10,891	14,455
Total	$ 1,382,983	$ 1,338,863

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.

HNE enters into risk-sharing arrangements with certain providers and payors, whereby a settlement amount is calculated based on actual medical claims experience as compared to budgeted amounts or a predetermined risk corridor, based upon contractual arrangements. These settlements are estimated and accrued during the period the related services were rendered and adjusted in future periods as final settlements are determined. During 2016, HNE recorded adjustments to amounts accrued for risk-sharing settlements related to the prior fiscal year as a change in estimate. The net effect of the adjustments was an increase in premium revenue of approximately $6,923,000 and $9,600,000 in 2017 and 2016, respectively.

Risk Adjustment—The Affordable Care Act 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 of Massachusetts, HNE estimates the ultimate risk adjustment receivables or payables and reflects the impact as an adjustment to premium revenue. At September 30, 2017 and 2016, HNE recorded a net payable of approximately $3,208,000 and $3,033,000, respectively, under the risk adjustment program.

Medical Claims and Capitation—The cost of medical claims and capitation including claims related to self-insurance is accrued for in the period in which services are provided and includes 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 in the year the change occurs.

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 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 Internal Revenue Service as tax-exempt, not-for-profit organizations under Section 501(c)(3) of the Internal Revenue Code (IRC), except for BHIC, IC, HAS, HIS, and HIC. HNE is exempt under IRC 501(c)(4).

New Accounting Pronouncements—On December 31, 2016, Baystate Health adopted Accounting Standards Update (ASU) No. 2015-03, *Simplifying the Presentation of Debt Issuance Costs*. This guidance requires debt issuance costs to be presented as a direct deduction from the related debt rather than as an asset. The related amortization of such costs is recorded as interest expense. The adoption of this guidance resulted in a $3,743,000 reduction to total assets and total liabilities as previously reported in the September 30, 2016, consolidated statement of financial position as retrospective application is required. As of September 30, 2017 and 2016, $2,836,000 and $3,743,000, respectively, of debt issuance costs are included in long-term debt.

In March 2017, the Financial Accounting Standards Board (FASB) issued ASU No. 2017-07, *Compensation—Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*. This ASU requires an employer to report the service cost component in the same line item as other compensation costs arising from services rendered by employees during the period. It also requires the other components of net periodic pension cost and net periodic postretirement benefit cost to be presented separately from the service cost component and outside a subtotal of income from operations. Baystate Health is still evaluating the impact this guidance may have on its consolidated financial statements.

In January 2017, the FASB issued ASU No. 2017-01, *Business Combinations (Topic 805)—Clarifying the Definition of a Business*, which provides a framework to use in determining when a set of assets and activities is a business. This ASU is effective for Baystate Health for the reporting period beginning on October 1, 2019. Baystate Health is still evaluating the impact this guidance may have on its consolidated financial statements.

In November 2016, the FASB issued ASU No. 2016-18, *Statement of Cash Flows—Restricted Cash*, which requires the statement of cash flows to explain changes during the period in total cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. This ASU is effective for Baystate Health beginning on October 1, 2019. Upon adoption, Baystate Health will include restricted cash and restricted cash equivalents within cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts in the consolidated statements of cash flows and related disclosures. Baystate Health is still evaluating the impact this guidance may have on its consolidated financial statements.

In August 2016, the FASB issued ASU No. 2016-15, *Classification of Certain Cash Receipts and Cash Payments*. This guidance adds or clarifies guidance on the classification of certain cash receipts and payments in the consolidated statements of cash flows. This guidance is effective for Baystate Health beginning October 1, 2019. Baystate Health is still evaluating the impact this guidance may have on its consolidated financial statements.

In August 2016, the FASB issued ASU No 2016-14, *Presentation of Financial Statements of Not-For-Profit Entities.* This guidance simplifies and improves how not-for-profit entities classify net assets as well as the information presented in financial statements and notes about liquidity, financial performance, and cash flows. This guidance is effective for Baystate Health beginning October 1, 2018. Baystate Health is still evaluating the impact this guidance may have on its consolidated financial statements.

In May 2016, the FASB issued ASU No. 2016-12, *Revenue from Contracts with Customers: Narrow-Scope Improvements and Practical Expedients*, which amends certain aspects of the FASB's revenue standard ASU No. 2014-09, *Revenue from Contracts with Customers*. In March 2016, the FASB issued ASU No. 2016-08, *Revenue from Contracts with Customers: Principal Versus Agent Considerations (Reporting Revenue Gross Versus Net)*. This guidance amends the principal versus agent implementation guidance and illustrations in the FASB's revenue standard, ASU No. 2014-09. In July 2015, the FASB issued ASU No. 2015-14, *Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date,* which defers the effective date of the FASB's revenue standard, ASU No. 2014-09, by one year for all entities and permits early adoption on a limited basis. In May 2014, the FASB issued ASU No. 2014-09. This guidance outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. After the deferral of the effective date, this guidance is effective for Baystate Health beginning October 1, 2018. Baystate Health is still evaluating the impact this guidance may have on its consolidated financial statements.

In March 2016, the FASB issued ASU No. 2016-07, *Investments—Equity Method and Joint Ventures: Simplifying the Transition to the Equity Method of Accounting*. This guidance eliminates the requirement to retrospectively apply the equity method to an investment that subsequently qualifies for such accounting as a result of an increase in the level of ownership interest or degree of influence. This guidance is effective for Baystate Health beginning October 1, 2017. Baystate Health is still evaluating the impact this guidance may have on its consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02, *Leases*. This guidance introduces a lessee model that brings substantially all leases in the consolidated balance sheet. This guidance is effective for Baystate Health beginning October 1, 2019. Retrospective application is required. Baystate Health is still evaluating the impact this guidance may have on its consolidated financial statements.

In January 2016, the FASB issued ASU No. 2016-01, *Recognition and Measurement of Financial Assets and Financial Liabilities.* This guidance revises accounting related to (1) the classification and measurement of investments in equity securities and (2) the presentation of certain fair value changes for financial liabilities measured at fair value. It also amends certain disclosure requirements associated with the fair value of financial instruments. This guidance is effective for Baystate Health beginning October 1, 2019. Baystate Health is still evaluating the impact this guidance may have on its consolidated financial statements.

In September 2015, the FASB issued ASU No. 2015-16, *Simplifying the Accounting for Measurement-Period Adjustments.* This guidance requires an acquirer in a business combination to recognize adjustments to provisional amounts that are identified during the measurement period in the reporting period in which the adjustment amounts are determined. The effect on earnings of changes in depreciation or 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 as of the acquisition date, must be recorded in the reporting period in which the adjustment amounts are determined rather than retrospectively. Also, the acquirer must present separately on the face of the income statement, or disclose in the notes, the portion of the amount recorded in current-period earnings by line item that would have been recorded in previous reporting periods if the adjustment to the provisional amounts had been recognized as of the acquisition date. This guidance is effective for Baystate Health beginning October 1, 2017. Baystate Health is still evaluating the impact this guidance may have on its consolidated financial statements.

In July 2015, the FASB issued ASU No. 2015-11, *Simplifying the Measurement of Inventory*. This guidance requires entities to measure most inventories at the lower of cost or net realizable value. This guidance is effective for Baystate Health beginning October 1, 2017. Baystate Health is still evaluating the impact this guidance may have on its consolidated financial statements.

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 guidance is effective for Baystate Health beginning October 1, 2017. Baystate Health is still evaluating the impact this guidance may have on its consolidated financial statements.

3. CASH, INVESTMENTS, AND ASSETS WHOSE USE IS LIMITED

The composition of cash, investments, and assets whose use is limited at September 30, 2017 and 2016, is as follows (in thousands):

	2017	2016
Cash and cash equivalents	$ 172,212	$ 207,041
Mutual funds	232,940	218,335
Fixed-income securities	156,688	163,932
Domestic equity securities	37,806	49,595
Beneficial interests in perpetual trusts	37,872	35,569
Limited partnerships	34,030	33,126
Commingled equity mutual funds	86,661	59,146
Commingled emerging markets funds	47,504	53,239
Commingled commodity funds	14,305	10,474
Commingled other funds	92,731	68,281
Hedge fund of funds	64,484	67,303
Commingled master limited partnership	31,462	37,216
Commingled hedge fund	32,921	26,402
	$ 1,041,616	$ 1,029,659

Cash, investments, and assets whose use is limited at September 30, 2017 and 2016, are included in the consolidated statements of financial position as follows (in thousands):

	2017	2016
Cash and cash equivalents	$ 172,116	$ 192,890
Investments	302,517	328,509
Long-term investments	61,108	56,885
Board-designated cash and investments	284,048	269,526
Investments of captive insurance company	114,801	84,808
Investments held by trustee under debt agreements	10,882	15,272
Beneficial interests in perpetual trusts	37,872	35,569
Deferred compensation investments	58,272	46,200
	$ 1,041,616	$ 1,029,659
Investment income and realized gains included in other revenue	$ 10,644	$ 4,752

BHIC and HNE investment income and realized gains are included in other revenue, as this revenue is integral to their operations.

4. FAIR VALUE MEASUREMENTS

Baystate Health calculates fair value as described in Accounting Standards Codification (ASC) 820, *Fair Value Measurements and Disclosures*, 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 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 No. 2015-07, *Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*, investments for which the fair value is measured using the net asset value (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, 2017 and 2016, are classified in the table below in one of the three categories described above (in thousands):

	Assets at Fair Value at September 30, 2017			
	Level 1	Level 2	Level 3	Total
Assets:				
Cash and cash equivalents	$ 172,212	$ -	$ -	$ 172,212
Mutual funds:				
Corporate bond funds	88,022	-	-	88,022
Deferred compensation investments:				
Corporate bond funds	6,631	-	-	6,631
Equity index funds	51,641	-	-	51,641
Equity index funds	86,646	-	-	86,646
Total mutual funds	232,940	-	-	232,940
Fixed-income securities—corporate bonds and US government securities	-	156,688	-	156,688
Domestic equity securities	37,806	-	-	37,806
Beneficial interests in perpetual trusts	-	-	37,872	37,872
Total assets at fair value	$ 442,958	$ 156,688	$ 37,872	637,518
Limited partnerships				34,030
Investments measured at NAV:				
Commingled domestic equity funds				21,489
Commingled international equity funds				65,172
Commingled emerging markets funds				47,504
Commingled commodity funds				14,305
Commingled—other funds				92,731
Hedge fund of funds				64,484
Commingled master limited partnerships				31,462
Commingled hedge fund				32,921
Total investments measured at NAV				370,068
Total assets				$ 1,041,616
Liabilities—interest rate swap agreements	$ -	$ 3,122	$ -	$ 3,122

	Assets at Fair Value at September 30, 2016			
	Level 1	Level 2	Level 3	Total
Assets:				
Cash and cash equivalents	$ 207,041	$ -	$ -	$ 207,041
Mutual funds:				
Corporate bond funds	83,147	-	-	83,147
Deferred compensation investments:				
Corporate bond funds	5,970	-	-	5,970
Equity index funds	40,230	-	-	40,230
Equity index funds	88,988	-	-	88,988
Total mutual funds	218,335	-	-	218,335
Fixed-income securities—corporate bonds and US government securities	-	163,932	-	163,932
Total fixed-income securities	-	163,932	-	163,932
Domestic equity securities	49,595	-	-	49,595
Beneficial interests in perpetual trusts	-	-	35,569	35,569
Total assets at fair value	$ 474,971	$ 163,932	$ 35,569	674,472
Limited partnerships				33,126
Investments measured at NAV:				
Commingled domestic equity funds				19,360
Commingled international equity funds				39,786
Commingled emerging markets funds				53,239
Commingled commodity funds				10,474
Commingled—other funds				68,281
Hedge fund of funds				67,303
Commingled master limited partnerships				37,216
Commingled hedge fund				26,402
Total investments measured at NAV				322,061
Total assets				$1,029,659
Liabilities—interest rate swap agreements	$ -	$ 5,156	$ -	$ 5,156

The amounts classified in the tables above exclude assets invested in Baystate Health's defined benefit plan.

A summary of changes in the fair value of the Level 3 assets for the years ended September 30, 2017 and 2016, is as follows (in thousands):

	2017	**2016**
Balance at beginning of year	$ 35,569	$34,162
Unrealized gains relating to investments still held at the reporting date	2,303	1,407
Balance at end of year	$ 37,872	$35,569

There were no transfers of Level 3 assets as of September 30, 2017 and 2016.

A summary of investments (by major class) that use NAV or an NAV equivalent as a practical expedient to estimate fair value, that have restrictions on Baystate Health's ability to redeem its investment at the measurement date as of September 30, 2017 and 2016, is as follows (in thousands):

	September 30, 2017		
Description of Investment	**Fair Value**	**Redemption Frequency**	**Redemption Notice Period**
Commingled domestic equity funds	$ 21,489	Monthly	5 days
Commingled international equity funds	65,172	Monthly	5–30 days
Commingled emerging markets funds	47,504	Monthly	30 days
Commingled master limited partnership	31,462	Monthly	30 days
Commingled commodity funds	14,305	Monthly	5 days
Commingled hedge fund	32,921	Weekly	5 days
Commingled—other funds	92,731	Daily/monthly	1–30 days
Hedge fund of funds	63,734	Quarterly	95 days
Hedge fund of funds	750	Every 2–3 years	95 days
Total	$370,068		

	September 30, 2016		
Description of Investment	**Fair Value**	**Redemption Frequency**	**Redemption Notice Period**
Commingled domestic equity funds	$ 19,360	Monthly	5 days
Commingled international equity funds	39,786	Monthly	5–30 days
Commingled emerging markets funds	53,239	Monthly	30 days
Commingled master limited partnership	37,216	Monthly	30 days
Commingled commodity funds	10,474	Monthly	5 days
Commingled hedge fund	26,402	Weekly	5 days
Commingled—other funds	68,281	Daily/monthly	1–30 days
Hedge fund of funds	58,062	Quarterly	95 days
Hedge fund of funds	9,241	Every 2–3 years	95 days
Total	$322,061		

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, 2017 and 2016.

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 values. These funds are required to publish their NAV and to transact at that price.

Commingled Funds—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 and Hedge Funds—The estimated fair values of limited partnerships and hedge funds, 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 or NAV equivalent 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 and hedge funds 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 is 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 trusts' 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, 2017 and 2016, approximates $500,951,000 and $601,366,000, respectively.

5. PLEDGES RECEIVABLE

Pledges receivable at September 30, 2017 and 2016, are as follows (in thousands):

	2017	**2016**
Receivable in less than one year	$2,213	$1,748
Receivable in one to five years	2,602	3,520
Receivable in more than five years	-	143
Total pledges receivable	4,815	5,411
Less allowance for uncollectible pledges	(510)	(561)
Net pledges receivable	$4,305	$4,850

The current portion of net pledges receivable is 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.

6. LAND, BUILDINGS, AND EQUIPMENT

Details of land, buildings, and equipment at September 30, 2017 and 2016, are as follows (in thousands):

	2017	2016
Land, land improvements, and leasehold improvements	$ 55,303	$ 55,481
Buildings	908,283	886,849
Fixed equipment	109,043	106,448
Moveable equipment	713,319	673,128
Assets under capital leases	30,526	29,154
Construction in progress	40,205	8,767
	1,856,679	1,759,827
Less accumulated depreciation and amortization	(1,123,691)	(1,045,195)
Total land, buildings, and equipment—net	$ 732,988	$ 714,632

Depreciation expense for the years ended September 30, 2017 and 2016, was $78,779,000 and $75,344,000, respectively. As of September 30, 2017 and 2016, the accumulated amortization on equipment under capital lease is approximately $23,462,000 and $20,950,000, respectively.

7. SHORT-TERM OBLIGATIONS AND COMMITMENTS

Baystate Health has a 50% ownership in Baycare Health Partners, Inc. (“Baycare”), a physician hospital organization. BMC has provided an unconditional guarantee for a line of credit Baycare has obtained from a financial institution for $7,000,000 and $6,000,000 as of September 30, 2017 and 2016, respectively. There were no amounts outstanding under the line of credit at September 30, 2017 or 2016. This line of credit expires on July 31, 2018.

In 2017, HNE together with Baycare and one other unrelated entity formed the Baystate Health Care Alliance with Health New England HealthCare ACO (BHCA), an Accountable Care Organization. An Accountable Care Organization is a group of providers willing and capable of accepting accountability for the total cost and quality of care for a defined population. In August 2017, BHCA executed an agreement to participate in a major restructuring of the MassHealth program. Effective March 1, 2018, BHCA will be financially accountable for cost, quality and member experience for the enrolled members.

At September 30, 2017 and 2016, a financial institution has issued irrevocable letters of credit on behalf of BHIC totaling $300,000. Investments with a fair value of approximately $429,000 and $2,950,516 were pledged as security for these letters of credit as of September 30, 2017 and 2016, 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, 2017 and 2016.

8. LEASES

Baystate Health and its subsidiaries lease certain real property and equipment under noncancelable leases expiring at various dates through 2033 with varying renewal options. Rentals generally include insurance and maintenance costs.

On December 29, 2016, BMC entered into a tax-exempt lease financing agreement with the Massachusetts Development Finance Agency (MDFA) and a financial institution in the amount of $3,000,000. Proceeds from the financing were used to fund certain equipment related to a linear accelerator. Interest on the borrowing is fixed at 1.860% with principal and interest due monthly until maturity on September 23, 2023. This lease is classified as a capital lease and is included in the table below.

On September 22, 2016, BMC entered into a tax-exempt lease financing agreement with the MDFA and a financial institution in the amount of $14,063,000. Proceeds from the financing are held in an acquisition escrow fund to be used to fund certain equipment related to a cogeneration combined heat and power plant project. Interest on the borrowing is fixed at 1.593% with principal and interest payments due monthly until maturity on September 22, 2026. This lease is classified as a capital lease and is included in the table below.

On November 2, 2011, BMC entered into a tax-exempt lease financing agreement with the 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, 2017, are as follows (in thousands):

Year Ending September 30	**Capital Leases**	**Operating Leases**
2018	$ 5,871	$13,453
2019	2,983	11,419
2020	2,021	9,360
2021	2,006	7,165
2022	2,004	6,388
Thereafter	6,680	25,482
Total minimum lease payments	21,565	$73,267
Less amount representing interest	(1,182)	
Present value of net minimum lease payments	20,383	
Less current portion	(5,560)	
Long-term portion	$14,823	

Rental expense of operating leases amounted to approximately $16,604,000 and $16,011,000 for the years ended September 30, 2017 and 2016, respectively.

9. 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, 2017 and 2016, consist of the following (in thousands):

	Amount Outstanding	
	2017	**2016**
MDFA and MHEFA issues:		
BWH Series A	$ 14,700	$ -
BMC Series O	18,897	19,719
BMC Series N	55,115	55,115
BFMC Series A	21,362	21,868
BMC Series M	34,297	35,602
BMC Series L	21,745	22,359
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	5,168	5,863
BMC Series H	2,889	3,556
BFMC Series M-4A	4,500	5,010
BMC Series G	36,490	39,965
BTHC NMTC debt	-	81,789
Subtotal	414,953	490,636
BH note payable—line of credit	33,741	37,241
BH note payable—Wing	16,280	17,020
BWH note payable	12,703	13,074
BNH financing arrangements	889	1,125
Original issue premium	3,419	3,567
Issue costs	(2,836)	(3,743)
Total long-term debt	479,149	558,920
Less current portion	(10,216)	(13,016)
Long-term debt, excluding current portion	$ 468,933	$ 545,904

Summary information for each issue is as follows:

BWH Series A—On April 13, 2017, BWH issued Series A MDFA Revenue Bonds in the aggregate principal amount of $14,700,000. Proceeds from the bonds are financing the construction of a new emergency department at BWH. The bonds are subject to a mandatory tender on September 30, 2024. Interest on the bonds is fixed at 2.61%. BH and BMC have entered into a guaranty agreement on behalf of BWH in connection with this bond.

Series O—On May 12, 2016, BMC issued Series O MDFA Revenue Bonds in the aggregate principal amount of $20,000,000. Proceeds from the bonds were used to redeem 100% of the BTHC A loan from the Banc of America CDE. The bonds are subject to a mandatory tender on May 12, 2026. Interest on the bonds is fixed at 1.98% through May 12, 2026, with final maturity on May 12, 2036.

Series N—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 financed 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.

BFMC Series A—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 financed 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.

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%.

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 Banc 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. Subsequent to September 30, 2017, the Series I bonds were fully defeased (Note 21).

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 0.95% and 0.83% at September 30, 2017 and 2016, 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 2020.

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 is 0.95% and 0.85% at September 30, 2017 and 2016, 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 2020.

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 0.92% and 0.78% at September 30, 2017 and 2016, respectively, along with a provision of a letter of credit from a financial institution. The daily interest rate is determined by the remarketing agent and the letter of credit will expire on October 21, 2020.

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 0.94% and 0.83% at September 30, 2017 and 2016, respectively, 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 1.03% and 0.91% at September 30, 2017 and 2016, 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, 2018.

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 is 1.84% and 1.38% at September 30, 2017 and 2016, 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 is 1.03% and 0.91% at September 30, 2017 and 2016, 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, 2018.

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 is 0.92% and 0.78% at September 30, 2017 and 2016, respectively. Final maturity of the bonds is July 1, 2026. At September 30, 2017, the bonds were secured by an irrevocable letter of credit issued by a financial institution that terminated December 13, 2017. Effective December 12, 2017, the bonds were secured by an irrevocable letter of credit issued by a financial institution that terminated December 12, 2022.

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).

A debt service fund has been established in accordance with these debt agreements. Debt services fund balances amounted to approximately $1,488,000 and $1,209,000 at September 30, 2017 and 2016, respectively.

Construction funds were established in accordance with these debt agreements. Construction fund balances amounted to approximately $9,394,000 and $14,063,000 at September 30, 2017 and 2016, respectively.

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 bore 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 bore interest at 1% annually, with no cash payments during the first seven years of the 33-year term. The notes were recorded as notes receivable in the consolidated statement of financial position as of September 30, 2016.

Under the December 2009 financing arrangement, BTHC 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, 2017 and 2016, BTHC has outstanding loans of $0 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 totaled $2,653,217, the C loan totaled $3,693,500, and the D loan totaled $1,256,500. Each of the loans had a 33-year term and bore 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 totaled $1,366,000, the Series 2 loan totaled $1,000,000, and the Series 4 loan totaled $230,000. Each of the loans had a 33-year term and bore 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 (BOA) controls the other CDE. As of September 30, 2017 and 2016, BTHC has no outstanding loans due to US Bancorp CDEs. As of September 30, 2017 and 2016, no amounts were outstanding related to the BOA CDE. 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, had a 33-year term, and bore interest at rates ranging from 0.816% to 1.00% annually. The B loans from the US Bancorp CDEs totaled $10,722,500, had a 33-year term, and bore interest at rates ranging from 0.5% to 1.2832% annually. The A loan from the BOA CDE of $20,000,000 had a seven-year term with interest at 5.992% annually. This amount was paid in full in May 2016. The B loan from the BOA-controlled CDE of $6,084,000 had a seven-year term, and provided that if there has been no default, the principal balance will be forgiven at the end of the seven-year term. This B loan was forgiven in 2016 and resulted in a contribution of a capital asset of $6,084,000 in the consolidated statements of operations and changes in net assets for the year ended September 30, 2016.

In 2016, US Bancorp had the ability to put its interest in the Investment Fund to BMC for a put price of $1,000. If US Bancorp did not exercise its put rights, BMC had the ability to 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.

In December 2016, BMC executed the put option agreements and paid US Bancorp and MHIC $1,000 each for the purchase of each member’s interest in the Investment Fund and MHIC Investment Fund, LLC, respectively. This made BMC the sole owner of both investment funds and the notes receivable and payable of the investment funds were forgiven. All of the net assets of BTHC were transferred to BMC in December 2016. The entire transaction resulted in a net contributed capital asset of approximately $12,543,000 which is included in other changes in unrestricted net assets and a loss on the extinguishment of debt of approximately $977,000 which is included in nonoperating income (loss)—income taxes and other in the consolidated statement of operations in 2017.

BMC recorded interest income of approximately $287,495 and $1,402,000 in 2017 and 2016, respectively, related to the financing arrangement agreements. No interest was capitalized at BTHC in 2017 and 2016 relating to the financing arrangement agreements.

BH Notes Payable—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 London InterBank Offered Rate (LIBOR), plus 0.70% per annum. The interest rate on this loan was 2.02% and 1.55% at September 30, 2017 and 2016, respectively. BMC has entered into a guaranty agreement on behalf of BH in connection with this note.

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 LIBOR, plus 0.475%. The interest rate on this loan was 1.71% and 1% on September 30, 2017 and 2016, respectively. 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%.

BNH Long-Term Debt—BNH consolidated has various current and long-term debt outstanding totaling approximately $899,000 as of September 30, 2017, of which approximately $240,000 is classified as current. The agreement with the longest duration extends through 2024. BNH consolidated has a combination of fixed-rate debt, with interest rates ranging from 0% to 5.05% as of September 30, 2017 and 2016.

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

Year Ending September 30	
2018	$ 10,216
2019	44,412
2020	11,565
2021	11,896
2022	12,234
Thereafter	388,243
	$478,566

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, 2017 and 2016, was $9,340,000 and $12,160,000, 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.

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, 2017 and 2016, was $36,490,000 and $39,965,000, 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 1.24% and 0.53% at September 30, 2017 and 2016, respectively. There are termination provisions to this contract for each party.

The fair value of these agreements resulted in swap liabilities of approximately $3,122,000 and $5,156,000 at September 30, 2017 and 2016, 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 (loss) in the consolidated statements of operations.

10. 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, 2017 and 2016, interest cost was as follows (in thousands):

	2017	**2016**
Total interest cost	$13,973	$13,765
Net interest cost capitalized	(207)	(2,378)
Net interest cost expensed	$13,766	$11,387

11. INSURANCE LIABILITY LOSS RESERVES

Baystate Health, with the exception of HNE, addresses its professional and general liability expense, in part, through insurance coverage provided by BHIC, and, in part, by purchasing 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, 2017 and 2016, reinsurance recoverables of $16,742,000 and $17,500,000, 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, 2017 and 2016, 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, 2017 and 2016, is summarized as follows (in thousands):

	2017	**2016**
Balance at beginning of year	$ 15,552	$15,400
Opening adjustment—insurance accounting	73,382	-
	88,934	15,400
Incurred (recovered) related to:		
Current year	27,878	3,373
Prior years	(3,592)	(257)
Total incurred	24,286	3,116
Paid related to:		
Current year	(1,412)	(20)
Prior years	(11,007)	(2,944)
Total paid	(12,419)	(2,964)
Balance at end of year	$100,801	$15,552

For the period from October 1, 2004, to September 30, 2016, BHIC had written all of its hospital program policies to allow for unlimited retrospective premiums. The liabilities associated with these policies were included in a deposit liability. Effective October 1, 2016, BHIC amended all of its in-force hospital program policies (including those related to prior years) to limit retrospective premiums in order to transfer sufficient risk to BHIC, and thus the current year’s financial results for the hospital program are presented using insurance accounting. On October 1, 2016, BHIC recorded an adjustment for this insurance accounting transition which effectively reclassified the deposit liability to liability for losses and loss-adjustment expenses.

12. MEDICAL CLAIMS PAYABLE

Activity in medical claims payable for 2017 and 2016 is as follows (in thousands):

	2017	2016
Medical claims payable:		
Claims payable—beginning of year	$ 35,356	$ 47,350
Risk-sharing payable—beginning of year	24,522	26,992
	59,878	74,342
Claims incurred:		
Current year	645,274	652,793
Prior years	(7,291)	(7,026)
	637,983	645,767
Claims paid:		
Current year	(575,711)	(601,463)
Prior years	(50,404)	(76,611)
	(626,115)	(678,074)
Risk-sharing payable—end of year	27,067	24,522
Medical claims payable—end of year	44,679	35,356
Total medical claims payable	$ 71,746	$ 59,878

Amounts incurred related to prior years vary from previously estimated liabilities as the claims are ultimately settled.

13. 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 $53,883,039, 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 2016 activity, the minimum capital amount as determined by each of the above tests is as follows: a) $1,000,000; b) $10,801,086; c) $6,971,727; and d) $53,883,039. At December 31, 2016, HNE's surplus was below the Commonwealth of Massachusetts' laws and regulations regarding minimum surplus. HNE has submitted a comprehensive financial plan to the insurance commissioner and the commissioner may issue corrective orders.

National Association of Insurance Commissioners' (NAICs) Model Regulation—The Managed Care Organization Risk-Based Capital (RBC) Model Regulation (the "Model Regulation") was adopted by the NAIC in December 1997 to establish benchmarks for minimum levels of statutory RBC. The Model Regulation prescribes specific actions that insurance departments should take (i.e., action levels) when certain RBC thresholds are not met. Calculation of RBC in accordance with the Model Regulation RBC formula is required in connection with the annual statutory filing. HNE's statutory capital at December 31, 2016, was at the company action level. HNE has submitted a comprehensive financial plan to the insurance commissioner and the commissioner may issue corrective orders.

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.

14. INCOME TAXES

As of September 30, 2017, operating loss carryforwards for federal income tax purposes were approximately $25,365,000 for BMC, which expire in various years ranging from 2018 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.

15. 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 in permanently restricted net assets. During fiscal years 2017 and 2016, distributions from the Trusts were approximately $1,521,000 and $1,470,000, respectively, and are included in operating revenue.

16. 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—Effective December 31, 2015, participants in the plan ceased to accrue benefits. On January 1, 2016, the participants in the plan became 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.

Settlement Charge—During 2017, lump-sum payments from the plan exceeded the settlement threshold, therefore a settlement charge of $15,960,000 was recorded in other expense in the 2017 accompanying consolidated statement of operations.

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, 2017 and 2016, (in thousands):

	2017	**2016**
Change in Pension Obligation		
Pension obligation—beginning of year	$ 1,010,220	$ 920,017
Service cost	3,600	7,004
Interest cost	36,043	40,172
Actuarial (gain) loss	(36,087)	107,455
Benefits paid	(26,959)	(64,428)
Settlements	(42,031)	-
Pension obligation—end of year	$ 944,786	$ 1,010,220
Change in Plan Assets		
Fair value of plan assets—beginning of year	$ 879,904	$ 805,609
Actual return on plan assets	52,655	103,723
Employer contributions	15,000	35,000
Benefits paid	(26,959)	(64,428)
Settlements	(42,031)	-
Fair value of plan assets—end of year	$ 878,569	$ 879,904
Funded Status		
Funded status of the plan	$ (66,217)	$ (130,317)
Pension liability	$ (66,217)	$ (130,317)
Amounts Recognized in Unrestricted Net Assets Consist of		
Net actuarial loss	$ 358,777	$ 407,418
Accumulated pension adjustment	$ 358,777	$ 407,418

Exclusive of other ownership interest, the underfunded status of the plan at September 30, 2017, is approximately $66,130,000, the change in the pension adjustment is $48,312,000 and the accumulated pension adjustment in unrestricted net assets is $357,144,000.

Exclusive of other ownership interest, the underfunded status of the plan at September 30, 2016, is approximately $131,169,000, the change in the pension adjustment is $58,400,000 and the accumulated pension adjustment in unrestricted net assets is $405,452,000.

The net actuarial loss and prior service credit expected to be recognized in benefit cost in 2017 is approximately $11,860,000 and $0, respectively.

The assumptions used to develop the projected benefit obligation as of September 30, 2017 and 2016, are as follows:

	2017	**2016**
Discount rate	3.85 %	3.70 %
Rate of compensation increase	N/A	N/A

At September 30, 2017, the mortality assumption was changed from RP-2014 with generational projection from 2006 using Scale MP-2014 adjusted to grade down to a long-term rate of mortality improvement of 0.75% over a 15-year convergence period to RP-2014 with generational projection from 2006 using Scale MP-2016 modified to converge to a 0.75% long-term rate of mortality improvement after 15 years diagonally starting in 2012 for ages 65-84 (lesser mortality improvement rates are used at older ages). At September 30, 2016, the mortality assumption was determined using the noncollar-adjusted RP-2014 mortality tables.

The accumulated benefit obligation was approximately $944,786,000 and $1,010,220,000 at September 30, 2017 and 2016, respectively.

Net Periodic Pension Cost—Net pension cost for the defined benefit plan for the years ended September 30, 2017 and 2016, includes the following components (in thousands):

	2017	**2016**
Service cost	$ 3,600	$ 7,004
Interest cost	36,043	40,172
Expected return on plan assets	(68,328)	(64,106)
Recognized net actuarial loss	12,266	9,104
Settlement	15,960	-
Net pension cost	$ (459)	$ (7,826)

The assumptions used to determine net pension cost for the years ended September 30, 2017 and 2016, are as follows:

	2017	**2016**
Discount rate	3.70 %	4.55 %
Expected return on plan assets	7.75	7.75
Rate of compensation increase	N/A	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, 2017, 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, 2017 and 2016, is as follows:

	2017	**2016**
Common and preferred equity securities	47 %	42 %
US government and domestic fixed-income securities	39	44
Other investments	14	14
	100 %	100 %

Financial assets invested in the plan, in one of the three categories described previously, as of September 30, 2017 and 2016, are classified as follows (in thousands). See Note 4 for definitions of Level 1, Level 2, and Level 3 of the fair value hierarchy.

	Assets at Fair Value as of September 30, 2017			
	Level 1	**Level 2**	**Level 3**	**Total**
Money market	$ 5,914	$ 2,923	$ -	$ 8,837
Mutual funds:				
Corporate bond fund	159,221	-	-	159,221
Equity index funds	74,383	-	-	74,383
Total mutual funds	233,604	-	-	233,604
Fixed-income securities—US government securities	-	163,498	-	163,498
Domestic equity securities	66,434	-	-	66,434
Total assets—at fair value	$305,952	$166,421	$ -	472,373
Plan assets—at contract value				15,441
Investments measured at NAV:				
Commingled domestic equity funds				33,933
Commingled international equity funds				108,646
Commingled emerging markets funds				76,831
Commingled master limited partnerships				49,771
Commingled hedge funds				44,721
Hedge fund of funds				29,342
Private market funds				47,511
Total investments measured at NAV				390,755
Total plan assets				$878,569

	Assets at Fair Value as of September 30, 2016			
	Level 1	Level 2	Level 3	Total
Money market	$ 7,959	$ 3,954	$ -	$ 11,913
Mutual funds:				
Corporate bond fund	187,665	-	-	187,665
Equity index funds	60,488	-	-	60,488
Total mutual funds	248,153	-	-	248,153
Fixed-income securities—US government securities	-	172,636	-	172,636
Domestic equity securities	78,736	-	-	78,736
Total assets—at fair value	$334,848	$176,590	$ -	511,438
Plan assets—at contract value				15,122
Investments measured at NAV:				
Commingled domestic equity funds				30,571
Commingled international equity funds				55,571
Commingled emerging markets funds				82,214
Commingled master limited partnerships				58,726
Commingled hedge funds				42,688
Hedge fund of funds				44,434
Private market funds				39,140
Total investments measured at NAV				353,344
Total plan assets				$879,904

A summary of investments (by major class) that use NAV or an NAV equivalent as a practical expedient to estimate fair value, that have restrictions on the plan's ability to redeem its investment at the measurement date as of September 30, 2017 and 2016, is as follows (in thousands):

	September 30, 2017		
Description of Investment	**Fair Value**	**Redemption Frequency**	**Redemption Notice Period**
Commingled equity mutual funds	$ 33,933	Monthly	5 days
Commingled international equity funds	108,646	Monthly	5–30 days
Commingled emerging markets funds	76,831	Monthly	30 days
Commingled master limited partnerships	49,771	Monthly	30 days
Commingled hedge funds	44,721	Weekly	5 days
Hedge fund of funds	28,151	Quarterly	95 days
Hedge fund of funds	1,191	Every 2–3 years	95 days
Private market investments	47,511	*	*
Total	$390,755		

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

Description of Investment	September 30, 2016 Fair Value	Redemption Frequency	Redemption Notice Period
Commingled equity mutual funds	$ 30,571	Monthly	5 days
Commingled international equity funds	55,571	Monthly	5–30 days
Commingled emerging markets funds	82,214	Monthly	30 days
Commingled master limited partnerships	58,726	Monthly	30 days
Commingled hedge funds	42,688	Weekly	5 days
Hedge fund of funds	28,346	Quarterly	95 days
Hedge fund of funds	16,088	Every 2–3 years	95 days
Private market investments	39,140	*	*
Total	$353,344		

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

Contributions—Baystate Health expects to contribute $15,000,000 to the plan in 2018.

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):

Calendar Years	Pension Benefits
2018	$ 67,996
2019	64,588
2020	59,868
2021	55,242
2022	55,955
Years 2023–2027	268,549
	$572,198

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 January 1, 2016, the DC plan also covers all employees previously participating in the defined benefit plan. Under the DC plan, Baystate Health contributes up to 5% of the employee's compensation based on years of service. Excluding the deferred compensation plan discussed below, total expense under the DC plan was approximately $41,134,000 in 2017 and $39,471,000 in 2016. Effective January 1, 2016, the DC plan offers 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 IRC. The HNE Plan expense amounted to approximately $1,772,000 and $1,830,000 in 2017 and 2016, 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 his/her account in its entirety, upon severance from employment with Baystate Health. Baystate Health has recorded $58,272,000 and $46,200,000 within other liabilities in the consolidated statements of financial position as of September 30, 2017 and 2016, 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 $3,882,000 and $1,825,000 in 2017 and 2016, respectively.

Baystate Noble Retirement Plans and Other Postretirement Benefits:

Retirement Plan—Through March 2005, BNH 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, 2017, is approximately $2,844,000 of which $2,687,000 is classified as long term and included as a pension liability in the consolidated statement of financial position. The balance due at September 30, 2016, is approximately $2,896,000, of which $2,739,000 is classified as long term and included as a pension liability in the consolidated statement of financial position.

There were $158,000 and $0 in contributions made during the years ended September 30, 2017 and 2016, respectively.

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.

17. 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, 2017 and 2016, is as follows:

	2017	2016
Medicare	21 %	20 %
Medicaid	20	21
Blue Cross	1	1
Health maintenance organizations	34	34
Commercial	12	13
Self-pay patients	12	11
	100 %	100 %

18. 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, 2017 and 2016, are as follows (in thousands):

	2017	2016
Health care services	$ 2,266,451	$ 2,226,147
General and administrative	88,024	80,164
	$ 2,354,475	$ 2,306,311

19. TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS

Temporarily restricted net assets at September 30, 2017 and 2016, are available for the following purposes (in thousands):

	2017	2016
Research and education	$ 9,024	$ 6,951
Patient care services	52,364	50,430
	$61,388	$57,381

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, 2017 and 2016, consisted of the following (in thousands):

As of September 30, 2017	**Unrestricted**	**Temporarily Restricted**	**Permanently Restricted**	**Total**
Donor-restricted endowment funds	$ -	$42,293	$17,932	$60,225
Board-designated endowment funds	27,576	-	-	27,576
Total endowment net assets	$27,576	$42,293	$17,932	$87,801

As of September 30, 2016	**Unrestricted**	**Temporarily Restricted**	**Permanently Restricted**	**Total**
Donor-restricted endowment funds	$ -	$38,819	$17,930	$56,749
Board-designated endowment funds	25,267	-	-	25,267
Total endowment net assets	$25,267	$38,819	$17,930	$82,016

For the year ended September 30, 2017, Baystate Health had the following endowment-related activities (in thousands):

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets—October 1, 2016	$ 25,267	$ 38,819	$ 17,930	$ 82,016
Investment return:				
Investment income	265	644	-	909
Net appreciation	2,393	5,202	-	7,595
Total investment return	2,658	5,846	-	8,504
Contributions	627	-	2	629
Reclassification	-	(76)	-	(76)
Amounts appropriated for expenditures	(976)	(2,296)	-	(3,272)
Total change in endowment funds	2,309	3,474	2	5,785
Endowment net assets—September 30, 2017	$ 27,576	$ 42,293	$ 17,932	$ 87,801

For the year ended September 30, 2016, Baystate Health had the following endowment-related activities (in thousands):

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets—October 1, 2015	$ 24,008	$ 36,332	$ 17,732	$ 78,072
Investment return:				
Investment income	172	304	-	476
Net appreciation	1,974	4,293	-	6,267
Total investment return	2,146	4,597	-	6,743
Contributions	189	-	198	387
Reclassification	-	(90)	-	(90)
Amounts appropriated for expenditures	(1,076)	(2,020)	-	(3,096)
Total change in endowment funds	1,259	2,487	198	3,944
Endowment net assets—September 30, 2016	$ 25,267	$ 38,819	$ 17,930	$ 82,016

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 a 6.8% return 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, 2017 and 2016.

20. STATE SURPLUS REVENUE RETENTION

Through September 30, 2017, 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 $126,000(2016—$158,000). As of September 30, 2017 and 2016, the cumulative deficit attributable to state contracting of approximately $6,831,000 and $6,705,000, respectively, is included in the unrestricted net assets of BMC.

21. SUBSEQUENT EVENTS

Subsequent events have been evaluated for potential recognition in the consolidated financial statements through January 5, 2018, which is the date the consolidated financial statements were issued.

On December 21, 2017, BMC issued $67.1 million in revenue bonds with a fixed interest rate of 2.6% to advance refund $63.4 million of outstanding Series I Bonds with an average interest rate of 5.6% percent. The net proceeds were used to purchase US Government securities. Those securities were deposited with an escrow agent to provide for all future debt service payments on the Series I Bonds. As a result, the Series I Bonds are considered defeased.

* * * * * *

CONSOLIDATING SUPPLEMENTARY FINANCIAL INFORMATION

BAYSTATE HEALTH, INC. AND SUBSIDIARIES

CONSOLIDATING SCHEDULE OF ASSETS
AS OF SEPTEMBER 30, 2017
(In thousands)

ASSETS	Consol. BMC	BFMC	BWH	Consol. BNH	BMP	BVNAH	HNE	Consol. IC	Other Entities	Elim. & Reclass	Consolidated Totals
CURRENT ASSETS:											
Cash and cash equivalents	$ 65,430	$ 3,343	$ 4,387	$ 1,993	$ 2,141	$ 534	$ 60,605	$ 44	$ 33,639	$ -	$ 172,116
Investments	173,178	4,680	6,184	702	-	-	103,768	-	14,005	-	302,517
Accounts receivable, patients—net	113,757	11,299	9,517	6,083	17,282	5,826	-	-	-	(17,230)	146,534
Accounts receivable, other	13,515	105	283	355	6,499	20	54,893	2	6,399	-	82,071
Estimated final settlements receivable	24,981	613	2,589	346	-	-	-	-	-	-	28,529
Inventories	26,575	1,471	1,458	924	-	-	-	-	109	-	30,537
Prepaid expenses and other current assets	8,700	320	239	315	2,369	64	3,166	12	10,647	-	25,832
Due from affiliated companies	52,724	827	642	26,199	11,468	31	-	35	12,497	(104,423)	-
Line of credit, affiliate	-	-	-	-	-	-	-	-	14,623	(14,623)	-
Total current assets	478,860	22,658	25,299	36,917	39,759	6,475	222,432	93	91,919	(136,276)	788,136
LONG-TERM ASSETS:											
Investments	-	-	-	-	-	-	775	-	60,453	(120)	61,108
Equity investment in consolidated subsidiaries	-	-	-	-	-	-	-	-	48,239	(48,239)	-
Equity investment in unconsolidated affiliates	1,936	530	-	-	-	-	-	-	-	-	2,466
Beneficial interest in net assets of BHF	14,267	13,339	2,082	293	-	871	-	-	-	(30,852)	-
Deferred expense and other long-term assets	12,699	542	267	130	565	-	2,936	-	19,993	-	37,132
Goodwill	1,552	-	-	-	-	-	-	-	4,132	-	5,684
Land, buildings, and equipment, net	579,244	55,747	54,087	22,784	9,700	2,539	6,900	1,571	416	-	732,988
Line of credit, affiliate	-	-	-	-	-	-	-	-	20,000	(20,000)	-
	609,698	70,158	56,436	23,207	10,265	3,410	10,611	1,571	153,233	(99,211)	839,378
ASSETS WHOSE USE IS LIMITED:											
Board-designated funds:											
Cash and investments	247,017	-	6,221	3,836	-	-	-	-	26,974	-	284,048
Beneficial interest in net assets of BHF	111	-	217	-	-	367	-	-	1,991	(2,686)	-
Due from unrestricted funds	1,089	-	-	-	-	-	-	-	-	(1,089)	-
Investments of captive insurance company	-	-	-	-	-	-	-	-	114,801	-	114,801
Investments held by trustee under debt agreements	1,567	76	9,239	-	-	-	-	-	-	-	10,882
Beneficial interest in net assets of BHF	1,444	4,706	7,079	-	-	963	-	-	21,430	(35,622)	-
Beneficial interest in perpetual trusts	-	-	2,250	-	-	-	-	-	35,622	-	37,872
Deferred compensation investments	-	-	-	-	-	-	-	-	58,272	-	58,272
	251,228	4,782	25,006	3,836	-	1,330	-	-	259,090	(39,397)	505,875
TOTAL ASSETS	$1,339,786	$97,598	$106,741	$63,960	$50,024	$11,215	$233,043	$1,664	$504,242	$(274,884)	$2,133,389

BAYSTATE HEALTH, INC. AND SUBSIDIARIES

CONSOLIDATING SCHEDULE OF LIABILITIES AND NET ASSETS
AS OF SEPTEMBER 30, 2017
(In Thousands)

LIABILITIES AND NET ASSETS (DEFICIT)	Consol. BMC	BFMC	BWH	Consol. BNH	BMP	BVNAH	HNE	Consol. IC	Other Entities	Elim. & Reclass	Consolidated Totals
CURRENT LIABILITIES:											
Accounts payable	$ 60,290	$ 4,534	$ 5,985	$ 6,218	$ 12,849	$ 2,529	$ 25,116	$ 222	$ 18,731	$ 243	$ 136,717
Medical claims payable	-	-	-	-	-	-	88,976	-	-	(17,230)	71,746
Accrued salaries and wages	35,328	3,329	3,455	2,050	27,906	1,553	4,396	-	11,349	-	89,366
Accrued interest payable	2,312	-	37	122	-	-	-	-	-	-	2,471
Estimated final settlements payable	34,847	1,761	3,419	3,298	-	289	-	-	-	-	43,614
Deferred revenue	654	517	319	288	16	1,125	16,955	41	305	-	20,220
Current portion of long-term debt	7,838	1,052	385	201	-	-	-	-	740	-	10,216
Current portion of capital lease obligations	5,075	-	32	453	-	-	-	-	-	-	5,560
Due to affiliated companies	2,124	2,342	11,878	35,849	28,266	5,936	7,367	556	9,603	(103,921)	-
Line of credit, affiliate	-	-	-	6,791	436	-	-	446	6,950	(14,623)	-
Due to board-designated funds	-	-	-	-	-	-	-	-	1,089	(1,089)	-
Total current liabilities	148,468	13,535	25,510	55,270	69,473	11,432	142,810	1,265	48,767	(136,620)	379,910
LONG-TERM DEBT	367,749	24,670	26,866	367	-	-	-	-	49,281	-	468,933
CAPITAL LEASE OBLIGATIONS	14,225	-	-	598	-	-	-	-	-	-	14,823
PENSION LIABILITY	32,485	6,729	2,046	2,687	11,868	2,259	-	-	10,744	-	68,818
INSURANCE LIABILITY LOSS RESERVES	7,519	287	387	485	10,258	64	-	-	117,543	-	136,543
OTHER LIABILITIES	4,616	236	1,145	572	-	-	282	-	58,916	-	65,767
LINE OF CREDIT, AFFILIATE—LT	-	-	-	-	-	-	20,000	-	-	(20,000)	-
Total liabilities	575,062	45,457	55,954	59,979	91,599	13,755	163,092	1,265	285,251	(156,620)	1,134,794
NET ASSETS (DEFICIT):											
Unrestricted:											
Operating	958,588	59,098	45,275	(1,466)	32,675	2,376	69,951	399	109,656	(38,005)	1,238,547
Pension adjustment	(209,575)	(25,002)	(7,220)	-	(74,250)	(6,750)	-	-	(34,347)	-	(357,144)
Unrestricted	749,013	34,096	38,055	(1,466)	(41,575)	(4,374)	69,951	399	75,309	(38,005)	881,403
Temporarily restricted	11,452	9,832	3,075	4,566	-	226	-	-	66,523	(34,286)	61,388
Permanently restricted	4,259	8,213	9,657	881	-	1,608	-	-	77,159	(45,973)	55,804
Total net assets (deficit)	764,724	52,141	50,787	3,981	(41,575)	(2,540)	69,951	399	218,991	(118,264)	998,595
TOTAL LIABILITIES AND NET ASSETS (DEFICIT)	$1,339,786	$ 97,598	$106,741	$63,960	$ 50,024	$11,215	$233,043	$1,664	$504,242	$(274,884)	$2,133,389

BAYSTATE HEALTH, INC. AND SUBSIDIARIES

CONSOLIDATING SCHEDULE OF OPERATIONS
FOR THE YEAR ENDED SEPTEMBER 30, 2017
(In thousands)

	Consol. BMC	BFMC	BWH	Consol. BNH	BMP	BVNAH	HNE	Consol. IC	Other Entities	Elim. & Reclass	Consolidated Totals
OPERATING REVENUES:											
Net patient service revenue	$1,148,413	$94,206	$83,050	$67,233	$168,405	$27,322	$ -	$ -	$ -	$(205,646)	$1,382,983
Bad debts	15,409	1,960	4,321	3,088	7,905	408	-	-	-	-	33,091
Net patient service revenue—net of bad debts	1,133,004	92,246	78,729	64,145	160,500	26,914	-	-	-	(205,646)	1,349,892
Premiums	-	-			-	-	915,209	-	23,610	(21,397)	917,422
Other revenue	83,343	5,064	6,414	2,776	128,164	785	17,198	730	141,848	(261,063)	125,259
Net assets released from restrictions for operations	1,513	458	-	428	322	32	-	-	3,644	(1,685)	4,712
Total operating revenues	1,217,860	97,768	85,143	67,349	288,986	27,731	932,407	730	169,102	(489,791)	2,397,285
OPERATING EXPENSES:											
Salaries and wages	413,861	36,812	37,038	32,230	232,150	18,172	35,844	-	54,070	-	860,177
Supplies and expense	652,933	54,090	51,616	38,310	93,000	11,274	49,663	518	89,273	(281,934)	758,743
Medical claims and capitation	-	-	-	-	-	-	826,581	-	24,286	(207,857)	643,010
Depreciation and amortization	60,444	5,365	5,482	2,642	1,526	396	2,711	116	97	-	78,779
Interest expense	11,307	742	525	272	5	4	-	6	905	-	13,766
Total operating expenses	1,138,545	97,009	94,661	73,454	326,681	29,846	914,799	640	168,631	(489,791)	2,354,475
INCOME (LOSS) FROM OPERATIONS BEFORE OTHER EXPENSES	79,315	759	(9,518)	(6,105)	(37,695)	(2,115)	17,608	90	471	-	42,810
OTHER EXPENSE—Net	(9,958)	(1,606)	(356)	-	(3,539)	(265)	-	-	(3,172)	-	(18,896)
INCOME (LOSS) FROM OPERATIONS	69,357	(847)	(9,874)	(6,105)	(41,234)	(2,380)	17,608	90	(2,701)	-	23,914
NON-OPERATING INCOME (LOSS):											
Investment income	3,433	56	34	-	-	-	-	-	108	-	3,631
Net realized gain (loss) on investments	22,172	425	162	-	-	19	(228)	-	1,950	-	24,500
Net unrealized gain (loss) on investments	14,127	157	621	-	-	14	642	-	10,082	-	25,643
Equity gain in consolidated subsidiaries	-	-	-	-	-	-	-	-	26	(26)	-
Equity gain in unconsolidated affiliates	33	-	-	-	-	-	-	-	(646)	-	(613)
Net interest cost on swap agreements	(1,182)	-	-	-	-	-	-	-	-	-	(1,182)
Change in fair value of swap agreements	2,034	-	-	-	-	-	-	-	-	-	2,034
Income taxes and other	(977)	-	-	-	-	(10)	2,475	(62)	(8,714)	-	(7,288)
Total non-operating income (loss)	39,640	638	817	-	-	23	2,889	(62)	2,806	(26)	46,725
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENSES	108,997	(209)	(9,057)	(6,105)	(41,234)	(2,357)	20,497	28	105	(26)	70,639
OTHER CHANGES IN UNRESTRICTED NET ASSETS:											
Net assets released from restrictions for capital	852	852	407	-	39	-	-	-	-	-	2,150
Funds utilized for property and equipment	8,810	12	-	-	-	-	-	-	-	-	8,822
Transfers for the cost of land, buildings, and equipment	963	-	5,748	210	496	-	-	-	(7,417)	-	-
Transfers (to) from affiliated companies—net	(54,467)	(1,900)	-	5,579	43,338	1,955	-	-	5,495	-	-
Contributed capital asset	12,543	-	-	-	-	-	-	-	-	-	12,543
Pension adjustment	29,179	3,701	611	-	9,947	541	-	-	4,333	-	48,312
Net deficit from acquired subsidiary	-	-	-	763	-	(763)	-	-	-	-	-
Other	-	-	-	-	2	-	1	-	75	-	78
INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS	$ 106,877	$ 2,456	$ (2,291)	$ 447	$ 12,588	$ (624)	$ 20,498	$ 28	$ 2,591	$ (26)	$ 142,544

BAYSTATE HEALTH, INC. AND SUBSIDIARIES

CONSOLIDATING SCHEDULE OF CHANGES IN NET ASSETS
FOR THE YEAR ENDED SEPTEMBER 30, 2017
(In thousands)

	Consol. BMC	BFMC	BWH	Consol. BNH	BMP	BVNAH	HNE	Consol. IC	Other Entities	Elim. & Reclass	Consolidated Totals
UNRESTRICTED NET ASSETS:											
Excess (deficiency) of revenues over expenses	$108,997	$ (209)	$ (9,057)	$(6,105)	$(41,234)	$(2,357)	$20,497	$ 28	$ 105	$ (26)	$ 70,639
Net assets released from restrictions for capital	852	852	407	-	39	-	-	-	-	-	2,150
Funds utilized for property and equipment	8,810	12	-	-	-	-	-	-	-	-	8,822
Transfers for the cost of land, buildings, and equipment	963	-	5,748	210	496	-	-	-	(7,417)	-	-
Transfers from (to) affiliates—net	(54,467)	(1,900)	-	5,579	43,338	1,955	-	-	5,495	-	-
Contributed capital asset	12,543	-	-	-	-	-	-	-	-	-	12,543
Pension adjustment	29,179	3,701	611	-	9,947	541	-	-	4,333	-	48,312
Net deficit of acquired subsidiary	-	-	-	763	-	(763)	-	-	-	-	-
Other	-	-	-	-	2	-	1	-	75	-	78
Increase (decrease) in unrestricted net assets	106,877	2,456	(2,291)	447	12,588	(624)	20,498	28	2,591	(26)	142,544
TEMPORARILY RESTRICTED NET ASSETS:											
Restricted investment income	-	-	-	-	-	-	-	-	250	-	250
Net realized and unrealized gain (loss) on investments	-	-	-	54	-	-	-	-	5,381	-	5,435
Contributions	-	-	33	971	-	-	-	-	4,796	-	5,800
Transfers (to) from restricted net assets	-	-	-	-	-	-	-	-	(82)	82	-
Net assets released from restrictions:											
For operations	-	-	-	(428)	-	-	-	-	(4,284)	-	(4,712)
For capital	-	-	-	-	-	-	-	-	(2,150)	-	(2,150)
Change in value of beneficial interest in net assets of BHF	563	(133)	(65)	-	-	90	-	-	-	(455)	-
Other	-	-	-	-	-	(1)	-	-	33	(648)	(616)
Increase (decrease) in temporarily restricted net assets	563	(133)	(32)	597	-	89	-	-	3,944	(1,021)	4,007
PERMANENTLY RESTRICTED NET ASSETS:											
Contributions	-	-	-	-	-	-	-	-	2	-	2
Change in value of perpetual trusts	-	-	169	-	-	(1)	-	-	2,132	3	2,303
Change in value of beneficial interest in net assets of BHF	(21)	(109)	434	-	-	36	-	-	1,640	(1,980)	-
(Decrease) increase in permanently restricted net assets	(21)	(109)	603	-	-	35	-	-	3,774	(1,977)	2,305
INCREASE (DECREASE) IN NET ASSETS	107,419	2,214	(1,720)	1,044	12,588	(500)	20,498	28	10,309	(3,024)	148,856
NET ASSETS (DEFICIT)—Beginning of year	657,305	49,927	52,507	2,937	(54,163)	(2,040)	49,453	371	208,682	(115,240)	849,739
NET ASSETS (DEFICIT)—End of year	$764,724	$52,141	$50,787	$ 3,981	$(41,575)	$(2,540)	$69,951	$399	$218,991	$(118,264)	$998,595

BAYSTATE HEALTH, INC. AND SUBSIDIARIES

CONSOLIDATING SCHEDULE OF ASSETS—BAYSTATE MEDICAL CENTER AND SUBSIDIARY

AS OF SEPTEMBER 30, 2017

(In thousands)

ASSETS	BMC	BTHC	Elim. & Reclass	Consolidated Totals
CURRENT ASSETS:				
Cash and cash equivalents	$ 65,430	$ -	$ -	$ 65,430
Investments	173,178	-	-	173,178
Accounts receivable, patients—net	113,757	-	-	113,757
Accounts receivable, other	13,515	-	-	13,515
Estimated final settlements receivable	24,981	-	-	24,981
Inventories	26,575	-	-	26,575
Prepaid expenses and other current assets	8,700	-	-	8,700
Due from affiliated companies	52,724	-	-	52,724
Total current assets	478,860	-	-	478,860
LONG-TERM ASSETS:				
Equity investment in unconsolidated affiliates	1,936	-	-	1,936
Beneficial interest in net assets of BHF	14,267	-	-	14,267
Deferred expense and other long-term assets	12,699	-	-	12,699
Goodwill	1,552	-	-	1,552
Land, buildings, and equipment—net	579,244	-	-	579,244
	609,698	-	-	609,698
ASSETS WHOSE USE IS LIMITED:				
Board-designated funds:				
Cash and investments	247,017	-	-	247,017
Beneficial interest in net assets of BHF	111	-	-	111
Due from unrestricted funds	1,089	-	-	1,089
Investments held by trustee under debt agreements	1,567	-	-	1,567
Beneficial interest in net assets of BHF	1,444	-	-	1,444
	251,228	-	-	251,228
TOTAL ASSETS	$ 1,339,786	$ -	$ -	$ 1,339,786

BAYSTATE HEALTH, INC. AND SUBSIDIARIES

CONSOLIDATING SCHEDULE OF LIABILITIES AND NET ASSETS—BAYSTATE MEDICAL CENTER AND SUBSIDIARY

AS OF SEPTEMBER 30, 2017

(In thousands)

LIABILITIES AND NET ASSETS (DEFICIT)	BMC	BTHC	Elim. & Reclass	Consolidated Totals
CURRENT LIABILITIES:				
Accounts payable	$ 60,290	$ -	$ -	$ 60,290
Accrued salaries and wages	35,328	-	-	35,328
Accrued interest payable	2,312	-	-	2,312
Estimated final settlements payable	34,847	-	-	34,847
Deferred revenue	654	-	-	654
Current portion of long-term debt	7,838	-	-	7,838
Current portion capital lease obligations	5,075	-	-	5,075
Due to affiliated companies	2,124	-	-	2,124
Total current liabilities	148,468	-	-	148,468
LONG-TERM DEBT	367,749	-	-	367,749
CAPITAL LEASE OBLIGATIONS	14,225	-	-	14,225
PENSION LIABILITY	32,485	-	-	32,485
INSURANCE LIABILITY LOSS RESERVES	7,519	-	-	7,519
OTHER LIABILITIES	4,616	-	-	4,616
Total liabilities	575,062	-	-	575,062
NET ASSETS (DEFICIT):				
Unrestricted:				
Operating	958,588	-	-	958,588
Pension adjustment	(209,575)	-	-	(209,575)
Unrestricted	749,013	-	-	749,013
Temporarily restricted	11,452	-	-	11,452
Permanently restricted	4,259	-	-	4,259
Total net assets (deficit)	764,724	-	-	764,724
TOTAL LIABILITIES AND NET ASSETS (DEFICIT)	$ 1,339,786	$ -	$ -	$ 1,339,786

BAYSTATE HEALTH, INC. AND SUBSIDIARIES

CONSOLIDATING SCHEDULE OF OPERATIONS—BAYSTATE MEDICAL CENTER AND SUBSIDIARY
FOR THE YEAR ENDED SEPTEMBER 30, 2017
(In thousands)

	BMC	BTHC	Elim. & Reclass	Consolidated Totals
OPERATING REVENUES:				
Net patient service revenue	$1,148,413	$ -	$ -	$1,148,413
Bad debts	15,409	-	-	15,409
Net patient service revenue—net of bad debts	1,133,004	-	-	1,133,004
Other revenue	84,889	2,300	(3,846)	83,343
Net assets released from restrictions for operations	1,513	-	-	1,513
Total operating revenues	1,219,406	2,300	(3,846)	1,217,860
OPERATING EXPENSES:				
Salaries and wages	413,861	-	-	413,861
Supplies and expense	655,232	26	(2,325)	652,933
Depreciation and amortization	58,067	2,540	(163)	60,444
Interest expense	11,117	1,711	(1,521)	11,307
Total operating expenses	1,138,277	4,277	(4,009)	1,138,545
INCOME (LOSS) FROM OPERATIONS BEFORE OTHER INCOME	81,129	(1,977)	163	79,315
OTHER INCOME—Net	(9,958)	-	-	(9,958)
INCOME (LOSS) FROM OPERATIONS	71,171	(1,977)	163	69,357
NON-OPERATING INCOME (EXPENSE):				
Investment income	3,433	-	-	3,433
Net realized gain on investments	22,172	-	-	22,172
Net unrealized gain on investments	14,127	-	-	14,127
Equity gain in unconsolidated affiliates	33	-	-	33
Net interest cost on swap agreements	(1,182)	-	-	(1,182)
Change in fair value of swap agreements	2,034	-	-	2,034
Income taxes and other	(977)	-	-	(977)
Total non-operating income	39,640	-	-	39,640
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENSES	110,811	(1,977)	163	108,997
OTHER CHANGES IN UNRESTRICTED NET ASSETS:				
Net assets released from restrictions for capital	852	-	-	852
Funds utilized for property and equipment	8,810	-	-	8,810
Transfers for the cost of land, buildings, and equipment	963	-	-	963
Transfers to affiliated companies, net	(80,923)	21,671	4,785	(54,467)
Contributed capital asset	12,543	-	-	12,543
Pension adjustment	29,179	-	-	29,179
(DECREASE) INCREASE IN UNRESTRICTED NET ASSETS	$ 82,235	$19,694	$ 4,948	$ 106,877

BAYSTATE HEALTH, INC. AND SUBSIDIARIES

CONSOLIDATING STATEMENT OF CHANGES IN NET ASSETS—BAYSTATE MEDICAL CENTER AND SUBSIDIARY
FOR THE YEAR ENDED SEPTEMBER 30, 2017
(In thousands)

	BMC	BTHC	Elim. & Reclass	Consolidated Totals
UNRESTRICTED NET ASSETS:				
Excess (deficiency) of revenues over expenses	$110,811	$ (1,977)	$ 163	$108,997
Net assets released from restrictions for capital	852	-	-	852
Funds utilized for property and equipment	8,810	-	-	8,810
Transfers for the cost of land, buildings, and equipment	963	-	-	963
Transfers to affiliated companies, net	(80,923)	21,671	4,785	(54,467)
Contributed capital asset	12,543	-	-	12,543
Pension adjustment	29,179	-	-	29,179
Increase in unrestricted net assets	82,235	19,694	4,948	106,877
TEMPORARILY RESTRICTED NET ASSETS:				
Change in value of beneficial interest in net assets of BHF	563	-	-	563
Increase in temporarily restricted net assets	563	-	-	563
PERMANENTLY RESTRICTED NET ASSETS:				
Change in value of beneficial interest in net assets of BHF	(21)	-	-	(21)
Decrease in permanently restricted net assets	(21)	-	-	(21)
INCREASE IN NET ASSETS	82,777	19,694	4,948	107,419
NET ASSETS (DEFICIT)—Beginning of year	681,947	(19,694)	(4,948)	657,305
NET ASSETS (DEFICIT)—End of year	$764,724	$ -	$ -	$764,724

BAYSTATE HEALTH, INC. AND SUBSIDIARIES

CONSOLIDATING SCHEDULE OF CASH FLOWS—BAYSTATE MEDICAL CENTER AND SUBSIDIARY FOR THE YEAR ENDED SEPTEMBER 30, 2017 (In thousands)

	BMC	BTHC	Elim. & Reclass	Consolidated Totals
OPERATING ACTIVITIES				
(Decrease) increase in net assets	$ 82,777	$ 19,694	$ 4,948	$ 107,419
Adjustments to reconcile change in net assets to net cash provided by operating activities:				
Depreciation and amortization	58,067	2,540	(163)	60,444
Accretion on note receivable	(287)			(287)
Pension adjustment	(29,179)	-	-	(29,179)
Net realized and unrealized loss (gain) on investments	(38,620)	-	-	(38,620)
Provision for bad debts	15,409	-	-	15,409
Changes in equity investment of affiliate	125	-	-	125
Contributed capital asset	(12,543)	-	-	(12,543)
(Increase) decrease in accounts receivable, patients	(20,092)	-	-	(20,092)
Net change in estimated final settlements	(3,634)	-	-	(3,634)
Increase (decrease) in accounts payable and accrued expenses	(15,934)	(1,522)	-	(17,456)
Change in accrued pension liability—net	(10,094)	-	-	(10,094)
Transfers to (from) affiliated companies—net	80,923	(21,671)	(4,785)	54,467
Transfers for the cost of land, buildings, and equipment	(963)	-	-	(963)
Increase in insurance liability loss reserves	(970)	-	-	(970)
Other	(22,894)	(20,819)	-	(43,713)
Net cash provided by operating activities	82,091	(21,778)	-	60,313
INVESTING ACTIVITIES:				
Proceeds from sale and maturities of investments	776,552	97	-	776,649
Purchase of investments	(724,773)	-	-	(724,773)
Purchase of land, buildings, and equipment—net	(63,099)	-	(4,785)	(67,884)
Transfers for the cost of land, buildings, and equipment	963	-	-	963
Change in beneficial interest in net assets of BHF	(653)	-	-	(653)
Net cash (used in) provided by investing activities	(11,010)	97	(4,785)	(15,698)
FINANCING ACTIVITIES:				
Transfers to affiliated companies—net	(80,923)	21,671	4,785	(54,467)
Decrease in note receivable	117	-	-	117
Proceeds from bond issuance	3,000	-	-	3,000
Repayment of long-term debt	(12,449)	-	-	(12,449)
Loss on extinguishment of debt	977	-	-	977
Net cash provided by (used in) financing activities	(89,278)	21,671	4,785	(62,822)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(18,197)	(10)	-	(18,207)
CASH AND CASH EQUIVALENTS—Beginning of year	83,627	10	-	83,637
CASH AND CASH EQUIVALENTS—End of year	$ 65,430	$ -	$ -	$ 65,430

BAYSTATE HEALTH, INC. AND SUBSIDIARIES

CONSOLIDATING SCHEDULE OF ASSETS—OTHER ENTITIES
AS OF SEPTEMBER 30, 2017
(In thousands)

ASSETS	BH	BAS	BHF	BHIC	Other Entities Totals
CURRENT ASSETS:					
Cash and cash equivalents	$ 22,944	$ -	$ 9,838	$ 857	$ 33,639
Investments	2,019	-	11,986	-	14,005
Accounts receivable, other	345	771	1,933	3,350	6,399
Inventories	-	109	-	-	109
Prepaid expenses and other current assets	306	10,098	41	202	10,647
Due from affiliated companies	2,181	9,941	375	-	12,497
Line of credit, affiliate	14,623	-	-	-	14,623
Total current assets	42,418	20,919	24,173	4,409	91,919
LONG-TERM ASSETS:					
Investments	1,084	-	59,369	-	60,453
Equity investment in consolidated subsidiaries	48,239	-	-	-	48,239
Deferred expense and other long-term assets	17,664	-	2,329	-	19,993
Goodwill	4,132	-	-	-	4,132
Land, buildings, and equipment—net	75	336	5	-	416
Line of credit, affiliate	20,000	-	-	-	20,000
	91,194	336	61,703	-	153,233
ASSETS WHOSE USE IS LIMITED:					
Board-designated funds:					
Cash and investments	23,690	-	3,284	-	26,974
Beneficial interest in net assets of BHF	1,991	-	-	-	1,991
Investments of captive insurance company	-	-	-	114,801	114,801
Beneficial interest in perpetual trusts	-	-	35,622	-	35,622
Beneficial interest in net assets of BHF	21,430	-	-	-	21,430
Deferred compensation investments	58,272	-	-	-	58,272
	105,383	-	38,906	114,801	259,090
Total assets	$ 238,995	$ 21,255	$ 124,782	$ 119,210	$ 504,242

BAYSTATE HEALTH, INC. AND SUBSIDIARIES

CONSOLIDATING SCHEDULE OF LIABILITIES AND NET ASSETS—OTHER ENTITIES AS OF SEPTEMBER 30, 2017 (In thousands)

LIABILITIES AND NET ASSETS (DEFICIT)	BH	BAS	BHF	BHIC	Other Entities Totals
CURRENT LIABILITIES:					
Accounts payable	$ 1,959	$ 15,466	$ 460	$ 846	$ 18,731
Accrued salaries and wages	-	11,103	246	-	11,349
Deferred revenue	305	-	-	-	305
Current portion of long-term debt	740	-	-	-	740
Due to affiliated companies	3,944	4,219	774	666	9,603
Line of credit, affiliate	-	6,950	-	-	6,950
Due to board-designated funds	1,089	-	-	-	1,089
Total current liabilities	8,037	37,738	1,480	1,512	48,767
LONG-TERM DEBT	49,281	-	-	-	49,281
PENSION LIABILITY	-	10,452	292	-	10,744
INSURANCE LIABILITY LOSS RESERVES	16,742	-	-	100,801	117,543
OTHER LIABILITIES	58,842	-	74	-	58,916
Total liabilities	132,902	48,190	1,846	102,313	285,251
NET ASSETS (DEFICIT):					
Unrestricted:					
Operating	78,345	4,724	9,690	16,897	109,656
Pension adjustment	(2,131)	(31,659)	(557)	-	(34,347)
Unrestricted	76,214	(26,935)	9,133	16,897	75,309
Temporarily restricted	5,234	-	61,289	-	66,523
Permanently restricted	24,645	-	52,514	-	77,159
Total net assets (deficit)	106,093	(26,935)	122,936	16,897	218,991
TOTAL LIABILITIES AND NET ASSETS	$238,995	$ 21,255	$124,782	$119,210	$504,242

BAYSTATE HEALTH, INC. AND SUBSIDIARIES

CONSOLIDATING SCHEDULE OF OPERATIONS—OTHER ENTITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2017
(In thousands)

	BH	BAS	BHF	BHIC	Other Entities Totals
OPERATING REVENUES:					
Premiums	$ -	$ -	$ -	$ 23,610	$ 23,610
Other revenue	15,774	117,826	2,958	5,290	141,848
Net assets released from restrictions for operations	725	3	2,916	-	3,644
Total operating revenues	16,499	117,829	5,874	28,900	169,102
OPERATING EXPENSES:					
Salaries and wages	1,533	50,155	2,382	-	54,070
Supplies and expense	17,021	67,517	3,197	1,538	89,273
Medical claims and capitation	-	-	-	24,286	24,286
Depreciation and amortization	3	89	5	-	97
Interest expense	812	93	-	-	905
Total operating expenses	19,369	117,854	5,584	25,824	168,631
INCOME (LOSS) FROM OPERATIONS BEFORE OTHER INCOME	(2,870)	(25)	290	3,076	471
OTHER EXPENSE	-	(3,152)	(20)	-	(3,172)
(LOSS) INCOME FROM OPERATIONS	(2,870)	(3,177)	270	3,076	(2,701)
NON-OPERATING INCOME (EXPENSE):					
Investment income	15	-	93	-	108
Net realized gain (loss) on investments	1,269	-	681	-	1,950
Net unrealized gain (loss) on investments	7,517	-	582	1,983	10,082
Equity gain in consolidated for-profit subsidiaries	26	-	-	-	26
Equity gain in unconsolidated affiliates	(646)	-	-	-	(646)
Other	(8,623)	-	(91)	-	(8,714)
Total non-operating (expense) income	(442)	-	1,265	1,983	2,806
(DEFICIENCY) EXCESS OF REVENUES OVER EXPENSES	(3,312)	(3,177)	1,535	5,059	105
OTHER CHANGES IN UNRESTRICTED NET ASSETS:					
Transfers for the cost of land, buildings, and equipment	(7,357)	-	(60)	-	(7,417)
Transfers (to) from affiliated companies, net	5,800	-	1,395	(1,700)	5,495
Pension adjustment	-	4,272	61	-	4,333
Other	-	(1)	76	-	75
(DECREASE) INCREASE IN UNRESTRICTED NET ASSETS	$ (4,869)	$ 1,094	$ 3,007	$ 3,359	$ 2,591

BAYSTATE HEALTH, INC. AND SUBSIDIARIES

CONSOLIDATING SCHEDULE OF CHANGES IN NET ASSETS—OTHER ENTITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2017
(In thousands)

	BH	BAS	BHF	BHIC	Other Entities Totals
UNRESTRICTED NET ASSETS:					
(Deficiency) excess of revenues over expenses	$ (3,312)	$ (3,177)	$ 1,535	$ 5,059	$ 105
Transfers for the cost of land, buildings, and equipment	(7,357)	-	(60)	-	(7,417)
Transfers (to) from affiliated companies—net	5,800	-	1,395	(1,700)	5,495
Pension adjustment	-	4,272	61	-	4,333
Other	-	(1)	76	-	75
(Decrease) increase in unrestricted net assets	(4,869)	1,094	3,007	3,359	2,591
TEMPORARILY RESTRICTED NET ASSETS:					
Restricted investment income	-	-	250	-	250
Net realized and unrealized gain (loss) on investments	-	-	5,381	-	5,381
Contributions	-	-	4,796	-	4,796
Transfers from affiliated companies—net	-	-	(82)	-	(82)
Net assets released from restrictions:					
For operations	-	-	(4,284)	-	(4,284)
For capital	-	-	(2,150)	-	(2,150)
Other	-	-	33	-	33
Increase in temporarily restricted net assets	-	-	3,944	-	3,944
PERMANENTLY RESTRICTED NET ASSETS:					
Contributions	-	-	2	-	2
Change in fair value of perpetual trusts	-	-	2,132	-	2,132
Change in value of beneficial interest in net assets of BHF	1,640	-	-	-	1,640
Decrease in permanently restricted net assets	1,640	-	2,134	-	3,774
(DECREASE) INCREASE IN NET ASSETS	(3,229)	1,094	9,085	3,359	10,309
NET ASSETS (DEFICIT)—Beginning of year	109,322	(28,029)	113,851	13,538	208,682
NET ASSETS (DEFICIT)—End of year	$106,093	$(26,935)	$122,936	$16,897	$218,991