Baystate Health, Inc. and Subsidiaries

Consolidated Financial Statements as of and
for the Years Ended September 30, 2019 and 2018,
Consolidating and Combining Supplementary
Financial Information as of and
for the Year Ended September 30, 2019, 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.
Springfield, Massachusetts

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, 2019 and 2018, 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 audits 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, 2019 and 2018, 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.

Emphasis of Matter

As discussed in Note 2 to the consolidated financial statements, Baystate Health has changed its method of accounting for revenue and net assets in fiscal year 2019 due to the adoption of Accounting Standards Codification Topic 606, *Revenue from Contracts with Customers* and all subsequent amendments (collectively, "ASC 606") and the Accounting Standards Codification Topic 958, *Not-For-Profit Entities—Presentation of Financial Statements of Not-For-Profit Entities* ("ASU 2016-14"). Baystate Health adopted ASC 606 using the modified retrospective approach and ASU 2016-14 on a retrospective basis.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the disclosure of short-duration contracts included in Note 14 to the consolidated financial statements be presented to supplement the basic consolidated financial statements. Such information, although not a part of the basic consolidated financial statements, is required by the Financial Accounting Standards Board which considers it to be an essential part of financial reporting for placing the basic consolidated financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic consolidated financial statements, and other knowledge we obtained during our audit of the basic consolidated financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Report on Consolidating and Combining Supplementary Financial Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating and combining 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 and combining 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 and combining 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 and combining 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 and combining supplementary financial information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Deloitte + Touche LLP

December 20, 2019

BAYSTATE HEALTH, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
AS OF SEPTEMBER 30, 2019 AND 2018
(In thousands)

ASSETS	2019	2018
CURRENT ASSETS:		
Cash and cash equivalents	$ 133,458	$ 168,478
Investments	394,261	332,036
Accounts receivable, patients, less allowance for uncollectible accounts of $45,871 in 2018	156,970	151,480
Accounts receivable, other	85,759	72,673
Estimated final settlements receivable	26,655	33,284
Inventories	33,721	30,757
Prepaid expenses and other current assets	25,563	22,682
Total current assets	856,387	811,390
LONG-TERM ASSETS:		
Investments	66,392	66,927
Equity investment in unconsolidated affiliates	5,357	4,268
Deferred expenses and other long-term assets	39,163	43,337
Goodwill	5,684	5,684
Land, buildings, and equipment—net	718,930	728,114
Total long-term assets	835,526	848,330
ASSETS WHOSE USE IS LIMITED:		
Board-designated funds	283,734	291,374
Investments of captive insurance company	130,017	119,838
Investments held by trustee under debt agreements	1,321	1,427
Beneficial interest in perpetual trusts	39,505	40,155
Deferred compensation investments	66,973	62,597
Total assets whose use is limited	521,550	515,391
TOTAL ASSETS	$2,213,463	$2,175,111

LIABILITIES AND NET ASSETS	2019	2018
CURRENT LIABILITIES:		
Accounts payable	$ 150,986	$ 148,878
Medical claims payable	51,649	64,893
Accrued salaries and wages	91,821	89,638
Accrued interest payable	1,476	1,544
Estimated final settlements payable	40,317	39,203
Deferred revenue	15,441	14,299
Current portion of long-term debt	14,387	13,412
Current portion of capital lease obligations	2,391	2,962
Total current liabilities	368,468	374,829
Long-term debt	434,574	450,307
Capital lease obligations	12,444	14,860
Pension liability	100,438	25,367
Insurance liability loss reserves	139,867	140,433
Other liabilities	72,710	67,490
Total liabilities	1,128,501	1,073,286
NET ASSETS:		
Net assets without donor restrictions:		
Operating	1,389,698	1,316,155
Pension adjustment	(421,585)	(331,755)
Total net assets without donor restrictions	968,113	984,400
Net assets with donor restrictions	116,849	117,425
Total net assets	1,084,962	1,101,825
TOTAL LIABILITIES AND NET ASSETS	$2,213,463	$2,175,111

See notes to consolidated financial statements.

BAYSTATE HEALTH, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED SEPTEMBER 30, 2019 AND 2018
(In thousands)

	2019	2018
OPERATING REVENUES:		
Net patient service revenue		$1,429,530
Bad debts		(35,379)
Net patient service revenue (net of bad debts in 2018)	$1,483,911	1,394,151
Premiums	726,290	820,432
Other revenue	161,128	147,742
Net assets released from donor restrictions for operations	5,115	4,702
Total operating revenues	2,376,444	2,367,027
OPERATING EXPENSES:		
Salaries and wages	931,227	893,842
Supplies and expense	881,690	827,233
Medical claims and capitation	412,634	502,283
Depreciation and amortization	78,607	78,874
Interest expense	13,436	12,970
Total operating expenses	2,317,594	2,315,202
INCOME FROM OPERATIONS BEFORE OTHER EXPENSE	58,850	51,825
OTHER EXPENSE	(4,394)	-
INCOME FROM OPERATIONS	54,456	51,825
NONOPERATING INCOME (LOSS):		
Investment income	5,252	3,931
Net realized (loss) gain on investments	(4,651)	30,950
Net unrealized gain (loss) on investments	20,219	(9,320)
Equity (loss) gain in unconsolidated affiliates	(45)	1,963
Net interest cost on swap agreements	(426)	(745)
Change in fair value of swap agreements	(693)	1,487
Loss on extinguishment of debt	-	(5,716)
Other	(3,109)	(6,243)
Total nonoperating income—net	16,547	16,307
EXCESS OF REVENUES OVER EXPENSES	71,003	68,132
OTHER CHANGES IN NET ASSETS WITHOUT DONOR RESTRICTIONS:		
Net assets released from restrictions for capital	2,479	6,044
Funds utilized for property and equipment	812	3,430
Pension adjustment	(89,830)	25,391
Other	(751)	-
(DECREASE) INCREASE IN NET ASSETS WITHOUT DONOR RESTRICTIONS	$ (16,287)	$ 102,997

See notes to consolidated financial statements.

BAYSTATE HEALTH, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS
FOR THE YEARS ENDED SEPTEMBER 30, 2019 AND 2018
(In thousands)

	2019	2018
NET ASSETS WITHOUT DONOR RESTRICTIONS:		
Excess of revenues over expenses	$ 71,003	$ 68,132
Net assets released from restrictions for capital	2,479	6,044
Funds utilized for property and equipment	812	3,430
Pension adjustment	(89,830)	25,391
Other	(751)	-
(Decrease) increase in net assets without donor restrictions	(16,287)	102,997
NET ASSETS WITH DONOR RESTRICTIONS:		
Restricted investment income	332	606
Net realized and unrealized gain on investments	413	3,775
Change in fair value of perpetual trusts	(650)	2,283
Contributions	6,393	5,066
Net assets released from donor restrictions:		
For operations	(5,115)	(4,702)
For capital	(2,479)	(6,044)
Other	530	(751)
(Decrease) increase in net assets with donor restrictions	(576)	233
(DECREASE) INCREASE IN NET ASSETS	(16,863)	103,230
NET ASSETS—Beginning of year	1,101,825	998,595
NET ASSETS—End of year	$1,084,962	$1,101,825

See notes to consolidated financial statements.

BAYSTATE HEALTH, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30, 2019 AND 2018
(In thousands)

	2019	2018
OPERATING ACTIVITIES:		
(Decrease) increase in net assets	$ (16,863)	$ 103,230
Adjustments to reconcile (decrease) increase in net assets to net cash provided by operating activities:		
Depreciation and amortization	78,607	78,874
Pension adjustment	89,830	(25,391)
Net realized and unrealized gain on investments	(17,446)	(29,539)
Provision for bad debts	-	35,379
Gain on sale of assets, net	-	(3,753)
Change in fair value of perpetual trusts	650	(2,283)
Donor restricted contributions	(6,393)	(5,066)
Changes in equity investments in affiliates	(202)	271
Extinguishment of debt	-	5,716
Changes in operating assets and liabilities:		
Accounts receivable, patients	(5,490)	(40,925)
Net estimated final settlements	7,743	(9,166)
Accounts payable and accrued expenses	1,600	7,898
Pension liability	(14,759)	(18,060)
Medical claims payable	(13,244)	(6,853)
Insurance liability loss reserves	(566)	3,890
Other	(10,190)	(360)
Net cash provided by operating activities	93,277	93,862
INVESTING ACTIVITIES:		
Proceeds from sale and maturities of investments	218,146	89,652
Proceeds from sale of assets	-	10,054
Purchase of investments	(268,520)	(104,688)
Purchase of land, buildings, and equipment	(67,332)	(74,297)
Net cash used in investing activities	(117,706)	(79,279)
FINANCING ACTIVITIES:		
Proceeds from donor restricted contributions	6,393	5,066
Proceeds from debt issuance	-	67,060
Repayments of debt and capital lease obligations	(16,984)	(90,347)
Net cash used in financing activities	(10,591)	(18,221)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(35,020)	(3,638)
CASH AND CASH EQUIVALENTS—Beginning of year	168,478	172,116
CASH AND CASH EQUIVALENTS—End of year	$ 133,458	$ 168,478
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid for interest	$ 13,504	$ 13,897
Land, buildings, and equipment purchases included in accounts payable	$ 2,649	$ 3,349

See notes to consolidated financial statements.

1. ORGANIZATION

Baystate Health, Inc. (BH), based in Springfield, Massachusetts, is the parent corporation of a not-for-profit, multi-institutional integrated health care organization with the mission "to improve the health of the people in our communities every day, with quality and compassion."

BH and its consolidated subsidiaries (collectively, "Baystate Health") currently include 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 734-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.

- 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 Noble Hospital, Inc. and subsidiaries ("BNH consolidated") consisted 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 was the sole corporate member of Baystate Westfield Medical Corporation (WMC).

  - WMC was a tax-exempt, not-for-profit physician practice that provided medical services to residents of the greater Westfield community. In April 2019, WMC operations were moved into BMP. In September 2019, all of the remaining assets, liabilities, and net deficit of WMC were transferred to BNH and WMC was dissolved.

- Baystate Medical Practices, Inc. (BMP) is a tax-exempt, not-for-profit organization. BMP includes a multispecialty academic group practice established to support the educational and research programs of Baystate Health, as well as numerous primary care and outreach services. BMP also includes community-based primary care (internists and pediatricians), medical and surgical practices, obstetrical and gynecological, and hospitalist physicians dedicated to the care and management of patients hospitalized at BH-affiliated hospitals. BMP also provides preventative, diagnostic, and therapeutic health services enhancing the cardiovascular clinical, educational, community, and research activities for BH and its service area.

- Baystate Visiting Nurse Association & Hospice (BVNAH) is a tax-exempt, not-for-profit organization that provides comprehensive home health care committed to providing the highest quality care to patients and families, primarily in the home setting. BVNAH meets individual needs by bringing experienced nurses, rehabilitation therapists, social workers, and home care aides to patients' homes.

- Health New England, Inc. (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. (HOC) is a not-for-profit insurance subsidiary that services the health insurance needs of the Connecticut population. Beginning January 1, 2018, HOC no longer offered health coverage but remains in existence, and continues to manage and pay unresolved claims that were outstanding as of December 31, 2017.

- Ingraham Corporation (IC) is a for-profit, taxable corporation.

- Baystate Administrative Services, Inc. (BAS) is a tax-exempt, not-for-profit corporation that provides management support for the BH subsidiaries, including human resources, marketing, strategic planning, information services, and financial services.

- Baystate Health Foundation, Inc. (BHF) is a tax-exempt, charitable organization established for the purpose of fund-raising for health-care-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. BHIC offers malpractice insurance to members of BH's medical staff and certain nonemployed physicians 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 include recognition of net patient service revenue, which includes explicit and implicit price concessions; allowance for uncollectible accounts; investment valuation; and estimated final settlements receivable and payable, including risk-sharing contracts, medical claims payable, insurance liability loss reserves, and the pension liability.

Net Assets—Baystate Health reports 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:

Net Assets without Donor Restrictions—Net assets without donor restrictions are those that are not subject to donor-imposed stipulations. Net assets without donor restrictions may be designated for specific purposes by action of the Board of Trustees or may otherwise be limited by contractual agreements with outside parties.

Net Assets with Donor Restrictions—Net assets with donor restrictions are those whose use by Baystate Health are subject to donor-imposed stipulations that can be fulfilled by actions of Baystate Health, that expire by the passage of time, or that must be maintained permanently by Baystate Health. At September 30, 2019 and 2018, net assets with donor restrictions consist of amounts restricted as to spending for various purposes, such as education, research, clinical, health care program, and cumulative net appreciation of permanently restricted funds which are available for governing board appropriation. Net assets with donor restrictions also 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 net assets without donor restrictions. Expenses are reported as decreases in net assets without donor restrictions. Gains and losses on investments are reported as increases or decreases in net assets without donor restrictions, unless their use is restricted by explicit donor stipulations or by law. Expirations of donor 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 net assets with donor restrictions to net assets without donor restrictions. Donor 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 increases to net assets with donor restrictions. 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 commingled funds. 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.

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, nonoperating income (loss), or net assets with donor restrictions, as applicable. Investment-related expenses, such as custodial fees and investment fees, are netted against investment income and are immaterial for the years ended September 30, 2019 and 2018.

Baystate Health has elected the fair value option for its investments and reflects changes in the 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 (losses) on investments totaling $20,219,000 and ($9,320,000) for the years ended September 30, 2019 and 2018, 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.

Accounts Receivable, Patients—Net—For accounts receivable resulting from revenue recognized prior to October 1, 2018, an allowance for doubtful accounts was established to reduce the carrying value of such receivables to their estimated net realizable value. Generally, Baystate Health estimated this allowance based on the aging of the accounts receivable by hospital, the historical collection experience by hospital and for each type of payer, and other relevant factors. At September 30, 2018, the allowance for doubtful accounts was 23% of accounts receivable. Under the provisions of Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)* ("ASU 2014-09"), which was adopted effective October 1, 2018, accounts receivable, including billed accounts and unbilled accounts for which Baystate Health has the unconditional right to payment, and estimated amounts due from third-party payers for retroactive adjustments, are receivables if right to consideration is unconditional and only the passage of time is required before payment of that consideration is due. For patient accounts receivable subsequent to the adoption of ASU 2014-09 on October 1, 2018, the estimated uncollectable amounts are generally considered implicit price concessions that are a direct reduction to patient accounts receivable and revenue rather than an allowance for doubtful accounts.

Contract Assets—Under the provisions of ASU 2014-09, amounts related to services provided to patients for which they have not been billed and that do not meet the conditions of unconditional right to payment at the end of the reporting period are contract assets. For health care operations, contract assets consist primarily of services that have been provided to patients who are still receiving inpatient care in hospital facilities at the end of the reporting period. Contract assets related to health care operations are included in accounts receivable, patients in the accompanying consolidated statement of financial position at September 30, 2019. The opening and closing balances of contract assets for health care operations are as follows:

October 1, 2018	$12,521,000
September 30, 2019	12,839,000
Increase	$ 318,000

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

Equity Investment in Unconsolidated Affiliates—Baystate Health participates in joint ventures without operational control 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, 2019 and 2018, deferred financing costs totaled $2,774,000 and $2,293,000, respectively, and are classified as long-term debt in the accompanying consolidated statements of financial position.

Goodwill—Baystate Health tests its goodwill for impairment annually or whenever events or changes in circumstances indicate an impairment may have occurred. Baystate Health tested its goodwill for impairment as of July 1. There was no impairment of goodwill for the years ended September 30, 2019 and 2018.

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's 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—Net—Land, buildings, and equipment are stated at cost, less depreciation and amortization determined on the straight-line basis. Useful life is assigned using the American Hospital Association's guide, *Estimated Useful Lives of Depreciable Hospital Assets*.

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. 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 and insurance services are reported as operating revenues and expenses.

Other expense in the consolidated statement of operations for the year ended September 30, 2019, consisted of severance costs of approximately $2,100,000, and certain software implementation expenses incurred of approximately $2,300,000. Other activities are considered nonoperating and include investment income and realized gains and losses on investments for the noninsurance entities, 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, loss on debt extinguishment, and income taxes.

The consolidated statements of operations include excess of revenues over expenses as the performance indicator. Changes in net assets without donor restrictions which are excluded from excess of revenues over expenses include net assets released from restrictions for capital, funds utilized for property and equipment, and the pension adjustment.

Other Revenue— Other revenue includes non-patient pharmacy contracts, physician service agreements, other non-patient related point of service revenues, and amounts received under research grants and contracts. For other revenue related to contracts with customers, Baystate Health recognizes revenue in the period in which performance obligations under contracts are satisfied by transferring goods or services to our customers, in the amounts to which Baystate Health expects to be entitled, which are the transaction prices allocated to the distinct services.

Net Patient Service Revenue—Baystate Health reports net patient service revenue at the amounts that reflect the consideration to which Baystate Health expects to be entitled in exchange for providing patient care. These amounts are due from patients, third-party payers (including managed care payers and government programs) and others, and they include explicit and implicit price concessions, as well as variable consideration for retroactive revenue adjustments due to settlement of audits, reviews, and investigations. Generally, Baystate Health bills patients and third-party payers several days after the services are performed or shortly after discharge. Revenues are recognized as performance obligations are satisfied.

Baystate Health determines performance obligations based on the nature of the services Baystate Health provides. Baystate Health recognizes revenues for performance obligations satisfied over time based on actual charges incurred in relation to total expected charges. Baystate Health believes that this method provides a faithful depiction of the transfer of services over the term of performance obligations based on the inputs needed to satisfy the obligations. Generally, performance obligations satisfied over time relate to patients in Baystate Health's hospitals receiving inpatient services. Baystate Health measures performance obligations from admission to the point when there are no further services required for the patient, which is generally the time of discharge. Baystate Health recognizes revenues for performance obligations satisfied at a point in time, which generally relate to patients receiving outpatient services, when: (1) services are provided and (2) Baystate Health does not believe the patient requires additional services.

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

Baystate Health has elected the practical expedient allowed under ASC 606-10-32-18 and does not adjust the promised amount of consideration from patients and third-party payors for the effects of a significant financing component due to Baystate Health's expectation that the period between the time the service is provided to a patient and the time that the patient or a third-party payor pays for that service will generally be one year or less. However, Baystate Health does, in certain instances, enter into payment agreements with patients that allow payments in excess of one year. For those cases, the financing component is not deemed to be significant to the contract.

Baystate Health has elected the practical expedient provided by FASB ASC 340-40-25-4, "*incremental costs of obtaining a contract*" and all incremental customer contract acquisition costs are expensed as they are incurred, as the amortization period of the asset that Baystate Health otherwise would have recognized is one year or less in duration.

Baystate Health determines the transaction price based on gross charges for services provided, reduced by contractual adjustments provided to third-party payers, discounts provided to uninsured patients in accordance with the credit collection policy, and implicit price concessions provided primarily to uninsured patients. Baystate Health determines the estimates of contractual adjustments and discounts based on contractual agreements, discount policies, and historical experience. Baystate Health determines an estimate of implicit price concessions based on historical collection experience with these classes of patients using a portfolio approach as a practical expedient to account for patient contracts as collective groups rather than individually. The consolidated financial statement effects of using this practical expedient are not materially different from an individual contract approach.

Gross charges are retail charges. They are not the same as actual pricing and they generally do not reflect what a health care provider is ultimately paid and, therefore, are not displayed in Baystate Health's consolidated statements of operations. Health care providers are typically paid amounts that are negotiated with insurance companies or are set by the government. Gross charges are used to calculate Medicare outlier payments and to determine certain elements of payment under managed care contracts (such as stop-loss payments). Because Medicare requires that a hospital's gross charges be the same for all patients (regardless of payer category), gross charges are what hospitals charge all patients prior to the application of discounts and allowances.

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

Revenues under the traditional fee-for-service Medicare and Medicaid programs are based primarily on prospective payment systems. Retrospectively determined cost-based revenues under these programs, which were more prevalent in earlier periods, and certain other payments, such as Indirect Medical Education, Direct Graduate Medical Education, disproportionate share hospital payments, and bad debt expense reimbursement, which are based on filed cost reports, are estimated using historical trends and current factors. Cost report settlements under these programs are subject to audit by Medicare and Medicaid auditors and administrative and judicial review and it can take several years until final settlement of such matters is determined and completely resolved. Because the laws, regulations, instructions and rule interpretations governing Medicare, Medicaid, and Health Safety Net (HSN) reimbursement are complex and change frequently, the recorded estimates could change by material amounts.

During 2019 and 2018, 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 $16,786,000 and $8,548,000 in 2019 and 2018, respectively.

Settlements with third-party payers for retroactive revenue adjustments due to audits, reviews, or investigations are considered variable consideration and are included in the determination of the estimated transaction price for providing patient care using the most likely outcome method. These settlements are estimated based on the terms of the payment agreement with the payer, correspondence from the payer, and historical settlement activity, including an assessment to ensure that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the retroactive adjustment is subsequently resolved. Estimated settlements are adjusted in future periods as adjustments become known (that is, new information becomes available) or as years are settled or are no longer subject to such audits, reviews, and investigations.

Revenues under managed care plans are based primarily on payment terms involving predetermined rates per diagnosis, per-diem rates, discounted fee-for-service rates, and/or other similar contractual arrangements. These revenues are also subject to review and possible audit by the payers, which can take several years before they are completely resolved. The payers are billed for patient services on an individual patient basis. An individual patient's bill is subject to adjustment on a patient-by-patient basis in the ordinary course of business by the payers following their review and adjudication of each particular bill. Baystate Health estimates the discounts for contractual allowances at the individual hospital level utilizing billing data on an individual patient basis or by payor class. At the end of each month, on an individual hospital basis, Baystate Health estimates the expected reimbursement for patients of managed care plans based on the applicable contract terms. Contractual allowance estimates are periodically reviewed for accuracy by taking into consideration known contract terms, as well as payment history. Baystate Health does not believe there were any adjustments to estimates of patient bills that were material to our revenues. Managed care accounts, net of contractual allowances recorded, are further reduced to their net realizable value through implicit price concessions based on historical collection trends for these payers and other factors that affect the estimation process.

Baystate Health knows of no claims, disputes, or unsettled matters with any payer that would materially affect revenues for which it has not adequately provided in the accompanying consolidated financial statements.

Generally, patients who are covered by third-party payers are responsible for related copays, coinsurance, and deductibles, which vary in amount. Baystate Health also provides services to uninsured patients and offers uninsured patients a discount from standard charges. Baystate Health estimates the transaction price for patients with copays, coinsurance, and deductibles and for those who are uninsured based on historical collection experience and current market conditions. Under the credit and collection policy, the discount offered to certain uninsured patients is recognized as a contractual allowance, which reduces net operating revenues at the time the self-pay accounts are recorded. The uninsured patient accounts, net of contractual allowances recorded, are further reduced to their net realizable value at the time they are recorded through implicit price concessions based on historical collection trends for self-pay accounts and other factors that affect the estimation process. There are various factors that can impact collection trends, such as changes in the economy, which, in turn have, an impact on unemployment rates and the number of uninsured and underinsured patients; the volume of patients through our emergency departments; the increased burden of copays, coinsurance amounts, and deductibles to be made by patients with insurance; and business practices related to collection efforts. These factors continuously change and can have an impact on collection trends and the estimation process. Subsequent changes to the estimate of the transaction price are generally recorded as adjustments to net patient service revenue in the period of the change.

Baystate Health has provided implicit price concessions, primarily to uninsured patients and patients with copays, coinsurance, and deductibles. The implicit price concessions included in estimating the transaction price represent the difference between amounts billed to patients and the amounts Baystate Health expects to collect based on Baystate Health’s collection history with similar patients. Although outcomes vary, Baystate Health’s policy is to attempt to collect amounts due from patients, including copays, coinsurance, and deductibles due from patients with insurance, at the time of service while complying with all federal and state statutes and regulations, including, but not limited to, the Emergency Medical Treatment and Active Labor Act (EMTALA). Generally, as required by EMTALA, patients may not be denied emergency treatment due to inability to pay. Therefore, services, including the legally required medical screening examination and stabilization of the patient, are performed without delay to obtain insurance information. In nonemergency circumstances or for elective procedures and services, it is the policy to verify insurance prior to a patient being treated; however, there are various exceptions that can occur. Such exceptions can include, for example, instances where (1) Baystate Health is unable to obtain verification because the patient’s insurance company was unable to be reached or contacted; (2) a determination is made that a patient may be eligible for benefits under various government programs, such as Medicaid or Victims of Crime, and it takes several days or weeks before qualification for such benefits is confirmed or denied; and (3) under physician orders, Baystate Health provides services to patients that require immediate treatment.

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, 2019 and 2018, are as follows (in thousands):

	2019	2018
HSN assessment	$ 6,944	$ 6,651
HSN receipts	(4,629)	(4,828)
Free care (at cost)	10,559	11,751
Total	$12,874	$13,574

In addition to the charity care provided to patients, Baystate Health has 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.

Premium Revenue—Premium revenue primarily 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 2019 and 2018, 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 $3,099,000 and $1,489,000 in 2019 and 2018, 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 HNE's 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, 2019 and 2018, HNE recorded a net payable of approximately $2,250,000 and $3,215,000, 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 to the extent that the grantor is receiving commensurate value in return for the grants provided; and are accounted for as contributions where commensurate value is not provided to the grantor. 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.

Defined Benefit Pension Plan—Baystate Health recognizes the overfunded or underfunded status of its defined benefit pension plan as an asset or liability in its consolidated statements of financial position. Changes in the funded status of the plan is reported as a change in net assets without donor restrictions presented below the excess of revenues over expenses in the consolidated statements of operations and changes in net assets without donor restrictions 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, which are taxable entities; and HNE, which is exempt under IRC 501(c)(4).

Recently Adopted Accounting Pronouncements—On October 1, 2018, Baystate Health adopted the FASB ASU 2014-09 *Revenue from Contracts with Customers (Topic 606)* ("ASU 2014-09") using a modified retrospective method of application to all contracts existing on October 1, 2018. The core principle of the guidance in ASU 2014-09 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. For health care operations, the adoption of ASU 2014-09 resulted in changes to Baystate Health's presentation and disclosure of revenue primarily related to uninsured or underinsured patients. Prior to the adoption of ASU 2014-09, a significant portion of Baystate Health's provision for doubtful accounts related to self-pay patients, as well as copays, coinsurance amounts, and deductibles owed by patients with insurance. Under ASU 2014-09, the estimated uncollectible amounts due from these patients are generally considered implicit price concessions that are a direct reduction to net operating revenues, with a corresponding material reduction in the amounts presented separately as provision for doubtful accounts. For the year ended September 30, 2019, Baystate Health recorded approximately $37,543,000 of implicit price concessions as a direct reduction of net operating revenues that would have been recorded as provision for doubtful accounts prior to the adoption of ASU 2014-09.

In August 2016, the FASB issued ASU No 2016-14, *Presentation of Financial Statements of Not-For-Profit Entities* ("ASU 2016-14"). This guidance simplifies and improves how not-for-profit entities classify net assets as well as the information presented in consolidated financial statements and notes about liquidity, financial performance, and cash flows. Baystate Health implemented ASU 2016-14 as of September 30, 2019. As a result of adoption, net assets previously reported as temporarily restricted and permanently restricted in the amounts $59,110,000 and $58,315,000, respectively, were combined to create net assets with donor restrictions as stated in the consolidated statement of financial position as of September 30, 2018. The adoption of ASU 2016-14 did not have a material impact on the Baystate Health's financial position, results of operations, or cash flows. The adoption also resulted in enhanced disclosures about the classification of expenses and management of liquid resources as disclosed in Notes 5 and 20.

In June 2018, the FASB issued ASU No. 2018-08, *Not-For-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made* ("ASU 2018-08"), which clarifies whether a transfer of assets is a contribution or an exchange transaction. This guidance was effective for Baystate Health beginning October 1, 2018. The adoption of ASU 2018-08 did not have a significant impact on the consolidated financial statements.

Pending Accounting Pronouncements—In January 2016, the FASB issued ASU No. 2016-01, *Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities* ("ASU 2016-01"). This guidance revises accounting related to (a) the classification and measurement of investments in equity securities and (b) 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 for the annual reporting period ending September 30, 2020. Baystate Health has not determined the impact the adoption of this update will 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 onto the consolidated statement of financial position. In July 2018, the FASB issued ASU No. 2018-10, *Codification Improvements to Topic 842, Leases*, which clarifies some of the provisions of ASU No. 2016-02. In July 2018, the FASB issued ASU No. 2018-11, *Leases (Topic 842)—Targeted Improvements*, which provides additional transition methods when adopting ASU No. 2016-02, and also provides additional guidance to lessors with a practical expedient for separating components of a contract. This guidance is effective for Baystate Health beginning on October 1, 2019. The provisions of this update are to be applied using a modified retrospective approach. Baystate Health plans to elect the practical expedients upon transition that will retain the lease classification and initial direct costs for any leases that exist prior to the adoption of the standard. Baystate Health will not reassess whether any contracts entered into prior to adoption are leases. With the adoption of this update, Baystate Health expects to recognize material right-of-use assets and lease liabilities on the presentation of assets and liabilities, but does not expect a material impact to total net assets, or to the consolidated statements of operations and changes in net assets or cash flows.

In August 2016, the FASB issued ASU No. 2016-15, *Statement of Cash Flows (Topic 230): 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 for the annual reporting period ending September 30, 2020. Baystate Health has not determined the impact the adoption of this update will have on its consolidated financial statements.

In November 2016, the FASB issued ASU No. 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*, which requires the consolidated statements 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 for the annual reporting period ending September 30, 2020. 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 has not determined the impact the adoption of this update will have on its consolidated financial statements.

In March 2017, the 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*, which amends the requirements related to the presentation of the components of net periodic benefit cost in the consolidated statements of operations for an entity's sponsored defined benefit pension and other postretirement plans. This guidance is effective for Baystate Health for the annual reporting period ending September 30, 2020. Baystate Health has not determined the impact the adoption of this update will have on its consolidated financial statements.

In August 2018, the FASB issued ASU No. 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement*, which modifies the disclosure requirements on fair value measurements. This guidance is effective for Baystate Health beginning October 1, 2020. Baystate Health has not determined the impact the adoption of this update will have on its consolidated financial statements.

In August 2018, the FASB issued ASU No. 2018-14, *Compensation—Retirement Benefits—Defined Benefit Plans—General (Subtopic 715-20): Disclosure Framework—Changes to the Disclosure Requirements for Defined Benefit Plans*, which modifies the disclosure requirements for entities with defined benefit plans. This guidance is effective for Baystate Health for the annual reporting period ending September 30, 2022. Baystate Health has not determined the impact the adoption of this update will have on its consolidated financial statements.

In August 2018, the FASB issued ASU No. 2018-15, *Intangibles—Goodwill and Other—Internal-Use Software (Subtopic 350-40): Customers Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract*, which helps entities evaluate the fees paid by a customer in a cloud computing arrangement by providing guidance for determining when an arrangement includes a software license. This guidance is effective for Baystate Health for the annual reporting period ending September 30, 2022. Baystate Health has not determined the impact the adoption of this update will have on its consolidated financial statements.

In November 2018, the FASB issued ASU No. 2018-18, *Collaborative Arrangements (Topic 808): Clarifying the Interaction between Topic 808 and Topic 806*, which provides guidance on whether certain transactions between collaborative arrangement participants should be accounted for with revenue under ASC 606. This guidance is effective for Baystate Health for the annual reporting period ending September 30, 2022. Baystate Health has not determined the impact the adoption of this update will have on its consolidated financial statements.

3. NET PATIENT SERVICE REVENUE

Net patient service revenue recognized during the year ended September 30, 2019, from Baystate Health's major payer sources is as follows (in thousands):

	2019
Medicare	$ 649,983
Medicaid	271,349
Commercial and other	551,842
Self-pay	10,737
Total	$1,483,911

Net patient service revenue (after contractual allowances and discounts, but before provision for bad debts) recognized during the year ended September 30, 2018, from Baystate Health's major payer sources is as follows (in thousands):

	2018
Medicare	$ 636,585
Medicaid	260,578
Commercial and other	520,860
Self-pay	11,507
Total	$1,429,530

Self-pay revenue is primarily composed of patient responsibility payments from insured customers with copayment and deductible obligations.

The composition of net patient service revenue based on business lines for the year ended September 30, 2019, is as follows (in thousands):

	2019
Hospital	$1,303,640
Physician services	156,059
Home health care	24,212
Net patient service revenue, by business line	$1,483,911

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

The composition of cash, investments, and assets whose use is limited at September 30, 2019 and 2018, is as follows (in thousands):

	2019	2018
Cash and cash equivalents	$ 138,843	$ 165,055
Mutual funds	295,959	237,708
Fixed-income securities	207,939	188,997
Domestic equity securities	82,393	105,356
Beneficial interests in perpetual trusts	39,505	40,155
Limited partnerships	48,458	42,833
Commingled equity mutual funds	72,937	77,088
Commingled emerging markets funds	36,529	35,905
Commingled commodity funds	-	15,158
Commingled other funds	106,734	86,604
Hedge fund of funds	53,226	54,711
Commingled master limited partnership	10,318	12,415
Commingled hedge fund	22,820	20,847
	$1,115,661	$1,082,832

Cash, investments, and assets whose use is limited at September 30, 2019 and 2018, are included in the consolidated statements of financial position as follows (in thousands):

	2019	2018
Cash and cash equivalents	$ 133,458	$ 168,478
Investments	394,261	332,036
Long-term investments	66,392	66,927
Board-designated cash and investments	283,734	291,374
Investments of captive insurance company	130,017	119,838
Investments held by trustee under debt agreements	1,321	1,427
Beneficial interests in perpetual trusts	39,505	40,155
Deferred compensation investments	66,973	62,597
	$1,115,661	$1,082,832
Investment income and realized gains included in other revenue	$ 8,899	$ 8,663

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

5. LIQUIDITY AND FAIR VALUE MEASUREMENTS

Liquidity and Availability—The following financial assets are not subject to donor or other contractual restrictions and are available for expenditure generally within one year of the consolidated statement of financial position date. Board-designated funds have been established in which the Board of Trustees has the objective of setting funds aside that can be drawn upon for current needs. Also, as more fully described in Note 11, Baystate Heath has a general purpose line of credit of which approximately $13 million as of September 30, 2019, is available to be drawn upon in the event of an unanticipated liquidity need.

Baystate Health monitors liquidity position through days cash on hand, which is defined as total unrestricted cash and investments without donor or contractual restrictions, divided by total operating expenses minus depreciation and amortization, divided by the number of days in the period.

The following table depicts the liquidity position of the Baystate Health at September 30, 2019 and 2018 (in thousands):

	2019	**2018**
Cash and cash equivalents	$133,458	$168,478
Investment securities classified as current assets	394,261	332,036
Board-designated funds	283,734	291,374
Investments of captive insurance company	130,017	119,838
Total unrestricted cash and investments	$941,470	$911,726
Days cash on hand	153	149

Baystate Health has other assets limited or restricted as to use for donor-restricted purposes, debt service, and for future capital improvements. Additionally, certain other board-designated assets are designated for future capital expenditures and operating reserves. These assets limited to use, which are more fully described in Note 2, are not available for general expenditure within the next year. However, the board-designated amounts could be made available, if necessary, and are thus reflected in the amounts above.

Fair Value Measurements—Baystate Health calculates fair value as described in 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.

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, 2019 and 2018, are classified in the table below in one of the three categories described above (in thousands):

	Assets at Fair Value at September 30, 2019			
	Level 1	**Level 2**	**Level 3**	**Total**
Assets:				
Cash and cash equivalents	$ 138,843	$ -	$ -	$ 138,843
Mutual funds:				
Corporate bond funds	99,110	-	-	99,110
Deferred compensation investments:				
Corporate bond funds	20,552	-	-	20,552
Equity index funds	46,421	-	-	46,421
Equity index funds	129,876	-	-	129,876
Total mutual funds	295,959	-	-	295,959
Fixed-income securities—corporate bonds and US government securities	-	207,939	-	207,939
Domestic equity securities	82,393	-	-	82,393
Beneficial interests in perpetual trusts	-	-	39,505	39,505
Total assets at fair value	$ 517,195	$ 207,939	$ 39,505	764,639
Limited partnerships				48,458
Investments measured at NAV:				
Commingled international equity funds				72,937
Commingled emerging markets funds				36,529
Commingled—other funds				106,734
Hedge fund of funds				53,226
Commingled master limited partnerships				10,318
Commingled hedge fund				22,820
Total investments measured at NAV				302,564
Total assets				$ 1,115,661
Liabilities—interest rate swap agreement	$ -	$ 2,093	$ -	$ 2,093

	Assets at Fair Value at September 30, 2018			
	Level 1	**Level 2**	**Level 3**	**Total**
Assets:				
Cash and cash equivalents	$ 165,055	$ -	$ -	$ 165,055
Mutual funds:				
Corporate bond funds	92,871	-	-	92,871
Deferred compensation investments:				
Corporate bond funds	5,498	-	-	5,498
Equity index funds	57,099	-	-	57,099
Equity index funds	82,240	-	-	82,240
Total mutual funds	237,708	-	-	237,708
Fixed-income securities—corporate bonds and US government securities	-	188,997	-	188,997
Domestic equity securities	105,356	-	-	105,356
Beneficial interests in perpetual trusts	-	-	40,155	40,155
Total assets at fair value	$ 508,119	$ 188,997	$ 40,155	737,271
Limited partnerships				42,833
Investments measured at NAV:				
Commingled international equity funds				77,088
Commingled emerging markets funds				35,905
Commingled commodity funds				15,158
Commingled—other funds				86,604
Hedge fund of funds				54,711
Commingled master limited partnerships				12,415
Commingled hedge fund				20,847
Total investments measured at NAV				302,728
Total assets				$ 1,082,832
Liabilities—interest rate swap agreement	$ -	$ 1,400	$ -	$ 1,400

The amounts classified in the tables above exclude assets invested in Baystate Health's defined benefit plan (see Note 18).

A summary of changes in the fair value of the Level 3 assets for the years ended September 30, 2019 and 2018, is as follows (in thousands):

	2019	2018
Balance—beginning of year	$40,155	$37,872
Unrealized (loss) gain relating to investments still held at the reporting date	(650)	2,283
Balance—end of year	$39,505	$40,155

There were no transfers of Level 3 assets during fiscal September 30, 2019 and 2018.

A summary of investments (by major class) that use NAV or a 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, 2019 and 2018, is as follows (in thousands):

	September 30, 2019		
Description of Investment	**Fair Value**	**Redemption Frequency**	**Redemption Notice Period**
Commingled international equity funds	$ 72,937	Monthly	5–30 days
Commingled emerging markets funds	36,529	Monthly	14–30 days
Commingled—other funds	106,734	Daily/monthly	1–30 days
Hedge fund of funds	53,226	Quarterly	95 days
Commingled master limited partnership	10,318	Monthly	30 days
Commingled hedge fund	22,820	Monthly	3 days
Total	$ 302,564		

	September 30, 2018		
Description of Investment	**Fair Value**	**Redemption Frequency**	**Redemption Notice Period**
Commingled international equity funds	$ 77,088	Monthly	5–30 days
Commingled emerging markets funds	35,905	Monthly	14–30 days
Commingled commodity funds	15,158	Monthly	5 days
Commingled—other funds	86,604	Daily/monthly	1–30 days
Hedge fund of funds	54,711	Quarterly	95 days
Commingled master limited partnership	12,415	Monthly	30 days
Commingled hedge fund	20,847	Monthly	3 days
Total	$ 302,728		

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, 2019 and 2018.

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 and are actively traded.

Commingled Funds—The fair value of commingled funds 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.

Commingled Master Limited Partnerships and Commingled Hedge Funds—The estimated fair values of commingled master limited partnerships and commingled 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 commingled master limited partnerships and commingled 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.

Limited Partnerships—Baystate Health has also entered into partnership agreements with limited partnerships, 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 limited partnerships of less than 5% at the lower of cost or market. For those limited partnerships where the ownership interest is more than 5%, the ownership interests are reported using the equity method of accounting. As of September 30, 2019, approximately $48,211,000 of total capital commitments, including those held within the pension plan assets discussed in Note 18, remain outstanding. Certain of the limited 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.

Fixed-Income Securities—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 within the fair value hierarchy.

The fair value of long-term debt at September 30, 2019 and 2018, approximates $488,538,000 and $463,191,000, respectively.

6. PLEDGES RECEIVABLE

Pledges receivable at September 30, 2019 and 2018, are as follows (in thousands):

	2019	**2018**
Receivable in less than one year	$1,164	$2,030
Receivable in one to five years	1,007	1,443
Receivable in more than five years	-	10
Total pledges receivable	2,171	3,483
Less allowance for uncollectible pledges	(246)	(352)
Net pledges receivable	$1,925	$3,131

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 expenses and other long-term assets in the consolidated statements of financial position.

7. LAND, BUILDINGS, AND EQUIPMENT

Details of land, buildings, and equipment at September 30, 2019 and 2018, are as follows (in thousands):

	2019	2018
Land, land improvements, and leasehold improvements	$ 57,119	$ 55,639
Buildings	985,171	968,644
Fixed equipment	110,341	108,592
Moveable equipment	786,617	737,310
Assets under capital leases	35,500	35,500
Construction in progress	13,830	15,109
	1,988,578	1,920,794
Less accumulated depreciation and amortization	(1,269,648)	(1,192,680)
Total land, buildings, and equipment—net	$ 718,930	$ 728,114

Depreciation expense for the years ended September 30, 2019 and 2018, was $78,607,000 and $78,874,000, respectively. As of September 30, 2019, and 2018, the accumulated amortization on assets under capital lease is approximately $28,729,000 and $26,518,000, respectively.

8. RELATED-PARTY TRANSACTIONS

Baystate Health has a 50% ownership in Baycare Health Partners, Inc. ("Baycare"), a physician hospital organization and accountable care organization (ACO). BMC has provided an unconditional guarantee for a line of credit Baycare has obtained from a financial institution for $9,000,000 as of September 30, 2019 and 2018. There were no amounts outstanding under the line of credit at September 30, 2019 or 2018. This line of credit expires on July 31, 2020.

In 2015, Baycare formed the Pioneer Valley Accountable Care LLC (PVAC), an ACO serving Medicare members in western Massachusetts. Effective January 1, 2016, through PVAC, certain Baystate Health providers participate in the Medicare Next Generation ACO model. Under this arrangement, PVAC contracts with certain employed providers as well as unrelated entities to provide health care services and care coordination to Medicare members. Through its contract with PVAC, Baystate Health is subject to certain risk-sharing provisions under this agreement that will be calculated annually. As of September 30, 2019 and 2018, Baystate Health has accrued $3,643,000 and $6,400,000, respectively, in accounts receivable—other in the accompanying consolidated statements of financial position. During 2019 and 2018, Baystate Health recorded an adjustment to amounts accrued for settlements related to prior fiscal years. The net effect of such adjustment was an increase in net patient service revenue of $486,000 in 2019 and an increase in other revenue of $637,000 in 2018.

In 2017, Baycare formed the Baystate Health Care Alliance LLC (BCHA), who partnered with HNE to create the BeHealthy Partnership Plan (BHPP), an ACO serving Medicaid members in western Massachusetts. An ACO is a group of providers willing and capable of accepting accountability for the cost and quality of care for a defined population. In August 2017, HNE and BHCA executed agreements to participate in a major restructuring of the MassHealth Medicaid program through BHPP. Under this arrangement, BHCA contracts with the four BMC community health centers as well as an unrelated entity to provide health care services and care coordination for enrolled members effective March 1, 2018, through December 31, 2022. Both HNE and BMC (through its contract with BHCA) are subject to certain risk-sharing provisions under this agreement that will be calculated annually. At September 30, 2019 and 2018, Baystate Health has accrued $3,000,000 and $500,000, respectively, in accounts payable in the accompanying consolidated statements of financial position.

BHPP also receives delivery system reform incentive payments (DSRIP) from the Commonwealth of Massachusetts to support infrastructure creation. HNE oversees disbursement of DSRIP funds to BHCA, as appropriate, as ACO infrastructure initiatives and transformation activities are incurred. HNE records the DSRIP funds that have not been disbursed as a liability. During 2019 and 2018, HNE received approximately $7,400,000 and $9,400,000, respectively, in DSRIP funds. At September 30, 2019 and 2018, the DSRIP fund liability amounted to approximately $3,005,000 and $4,400,000, respectively, and is included in accounts payable in the accompanying consolidated statements of financial position. In 2019 and 2018, Baystate Health has recognized approximately $4,900,000 and $3,300,000, respectively, of DSRIP funding in other revenue in the accompanying consolidated statements of operations. Under certain termination provisions, Baystate Health may be required to repay some or all of the DSRIP funding received.

9. SHORT-TERM OBLIGATIONS AND COMMITMENTS

At September 30, 2019, there were no irrevocable letters of credit issued by a financial institution on behalf of BHIC; the letters of credit were terminated in January 2019. At September 30, 2018, 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 as of September 30, 2018, were pledged as security for these letters of credit. There were no amounts outstanding under the letters of credit as of September 30, 2018.

10. LEASES

Baystate Health leases 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 November 15, 2017, BMC entered into a tax-exempt lease financing agreement with the Massachusetts Development Finance Agency (MDFA) and a financial institution in the amount of $2,937,100. Proceeds from the financing were used to fund certain equipment related to a linear accelerator. Interest on the borrowing is fixed at 1.943% with principal and interest due monthly until maturity on November 15, 2024. This lease is classified as a capital lease and is included in the table below.

On December 29, 2016, BMC entered into a tax-exempt lease financing agreement with the 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 December 29, 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 were 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.

Future minimum lease payments at September 30, 2019, are as follows (in thousands):

Year Ending September 30	**Capital Leases**	**Operating Leases**
2020	$ 2,630	$15,542
2021	2,616	13,013
2022	2,616	10,964
2023	2,519	10,577
2024	2,141	6,712
Thereafter	3,118	41,242
Total minimum lease payments	15,640	$98,050
Less amount representing interest	(805)	
Present value of net minimum lease payments	14,835	
Less current portion	(2,391)	
Long-term portion	$12,444	

Rental expense of operating leases amounted to approximately $19,960,000 and $17,420,000 for the years ended September 30, 2019 and 2018, respectively.

11. LONG-TERM DEBT

BMC, BFMC, and BWH 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, 2019 and 2018, consist of the following (in thousands):

	Amount Outstanding	
	2019	**2018**
MDFA and MHEFA issues:		
BMC Series P-1	$ 37,573	$ 39,315
BMC Series P-2	24,682	25,714
BWH Series A	14,506	14,700
BMC Series O	17,203	18,058
BMC Series N	55,115	55,115
BFMC Series A	20,305	20,841
BMC Series M	31,462	32,917
BMC Series L	20,461	21,113
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	3,649	4,431
BMC Series H	1,556	2,222
BFMC Series M-4A	3,398	3,967
BMC Series G	29,200	32,900
Subtotal	395,520	407,703
BH note payable—line of credit	27,239	27,461
BH note payable—BWH acquisition	12,248	13,340
BWH note payable	11,921	12,319
BNH financing arrangements	274	375
Original issue premium	4,533	4,814
Issuance costs	(2,774)	(2,293)
Total long-term debt	448,961	463,719
Less current portion	(14,387)	(13,412)
Long-term debt, excluding current portion	$434,574	$450,307

Summary information for each issue is as follows:

BMC Series Q—BMC entered into a taxable private placement pursuant to a Note Purchase Agreement dated September 25, 2019 (the "Agreement") for the sale of its $167,800,000 3.4% Senior Secured Notes, Series Q 2019. The Agreement included a delayed draw in which the proceeds of the notes were delivered on December 11, 2019, upon the closing of the transaction. A portion of the proceeds from the notes has been used to redeem $12,000,000 of the outstanding BMC Series J-1 MHEFA Revenue Bonds; and a portion of the proceeds will be used on December 23, 2019, to fully redeem $29,200,000 of the outstanding BMC Series G MHEFA Revenue bonds. The balance of the proceeds is for general corporate purposes including capital investments associated with completion of the "Hospital of the Future" project under the BMC Master Facility Plan. The notes have a 30-year term, a 3.4% fixed interest rate, and a final maturity on July 1, 2049.

BMC Series P-1—On December 21, 2017, BMC issued Series P-1 MDFA Revenue Bonds in the aggregate principal amount of $40,595,000. Proceeds from the bonds were used to advance refund a portion of the outstanding BMC Series I MHEFA Revenue Bonds. The Bonds are subject to a mandatory tender on December 21, 2027. Interest on the bonds is fixed at 2.84% with a final maturity on December 21, 2036. 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 2.94%.

BMC Series P-2—On December 21, 2017, BMC issued Series P-2 MDFA Revenue Bonds in the aggregate principal amount of $26,465,000. Proceeds from the bonds were used to advance refund a portion of the outstanding BMC Series I MHEFA Revenue Bonds. The Bonds are subject to a mandatory tender on December 21, 2027. Interest on the bonds is fixed at 3.38% with a final maturity on December 21, 2036. 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 3.98%.

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 financed 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.

BMC 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 a loan from a financial institution. 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.

BMC Series N—On November 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.

BMC 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%.

BMC 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 a BMC expansion Project. Interest on the bonds is initially fixed at 3.59% 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, N.A. 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:

BMC Series I Bonds—BMC issued Series I MHEFA Revenue Bonds in the aggregate amount of $63,380,000. Interest rates ranged from 5.5% to 5.75%. Final maturity on the bonds was July 1, 2036. On December 21, 2017, BMC issued $67.1 million in revenue bonds with an average 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%. 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. A loss of $5.7 million on the debt extinguishment is reflected as a nonoperating loss in the 2018 consolidated statement of operations.

BMC 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 1.46% and 1.56% at September 30, 2019 and 2018, 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. Effective December 18, 2019, the irrevocable letter of credit has been renewed through December 18, 2024.

BMC 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 1.55% and 1.62% at September 30, 2019 and 2018, 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. Effective December 18, 2019, the irrevocable letter of credit has been renewed through December 18, 2024.

BMC 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 1.72% and 1.63% at September 30, 2019 and 2018, 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.

BMC 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 1.45% and 1.55% at September 30, 2019 and 2018, 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, 2025.

BMC 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"). Interest on the Series M-2 bonds is variable and resets weekly to reflect current market rates and was 1.62% and 1.61% at September 30, 2019 and 2018, respectively. Final maturity of BMC's contractual obligation in the Series M-2 bonds is June 15, 2023. These bonds are supported by a pooled letter of credit, which expires on October 31, 2020.

BMC 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 2.38% and 2.44% at September 30, 2019 and 2018, respectively. Final maturity of the bonds is January 1, 2022.

BMC 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 1.61% and 1.67% at September 30, 2019 and 2018, 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, 2020.

BMC 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. 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 1.69% and 1.43% at September 30, 2019 and 2018, respectively. Final maturity of the bonds is July 1, 2026. The bonds were secured by an irrevocable letter of credit issued by a financial institution that terminates on 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 $1,190,000 and $1,138,000 at September 30, 2019 and 2018, respectively, and are included in investments held by trustee under debt agreements in the accompanying consolidated statements of financial position.

Construction funds were established in accordance with these debt agreements. Construction fund balances amounted to approximately $131,000 and $289,000 at September 30, 2019 and 2018, respectively.

BH Notes Payable—On December 28, 2015, BH entered into a three-year $40,000,000 line of credit with a financial institution with an original maturity date of December 28, 2018. On December 20, 2018, the term was extended to mature on December 28, 2021. 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 2.94% and 3.02% at September 30, 2019 and 2018, 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 2.56% and 2.59% on September 30, 2019 and 2018, 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 Notes 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 3.54%. 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 has various current and long-term debt outstanding totaling approximately $274,000 as of September 30, 2019, of which approximately $93,000 is classified as current. The agreement with the longest duration extends through 2024. BNH has a combination of fixed-rate debt, with interest rates ranging from 0% to 5.05% as of September 30, 2019 and 2018.

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

Year Ending September 30	
2020	$ 14,387
2021	14,783
2022	42,439
2023	15,603
2024	46,293
Thereafter	313,697
	$447,202

BMC has entered into guaranty agreements on behalf of BFMC and BWH in connection with outstanding MHEFA bonds and the 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 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, 2019 and 2018, was $29,200,000 and $32,900,000, 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 2.05% and 2.16% at September 30, 2019 and 2018, respectively. There are termination provisions to this contract for each party.

The fair value of this agreement resulted in a swap liability of approximately $2,100,000 and $1,400,000 at September 30, 2019 and 2018, 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.

12. INTEREST EXPENSE

Baystate Health capitalizes interest cost as part of the historical cost of acquiring certain significant qualifying assets. During the years ended September 30, 2019 and 2018, interest cost was as follows (in thousands):

	2019	**2018**
Total interest cost	$13,632	$13,447
Net interest cost capitalized	(196)	(477)
Net interest cost expensed	$13,436	$12,970

13. 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. BH 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 BH’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, 2019 and 2018, reinsurance recoverables of $19,965,000 and $19,383,000, respectively, were recorded as deferred expenses 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, 2019 and 2018, 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, 2019 and 2018, is summarized as follows (in thousands):

	2019	**2018**
Balance at beginning of year	$101,762	$100,801
Incurred (recovered) related to:		
Current year	28,811	27,522
Prior years	(7,159)	(3,705)
Total incurred	21,652	23,817
Paid related to:		
Current year	(2,350)	(1,588)
Prior years	(20,319)	(21,268)
Total paid	(22,669)	(22,856)
Balance at end of year	$100,745	$101,762

14. MEDICAL CLAIMS PAYABLE

Activity in medical claims payable for the years ended September 30, 2019 and 2018, are as follows (in thousands):

	2019	2018
Medical claims payable:		
Claims payable—beginning of year	$ 35,338	$ 44,679
Risk-sharing payable—beginning of year	29,555	27,067
	64,893	71,746
Claims incurred:		
Current year	660,351	582,557
Prior years	(4,683)	1,020
	655,668	583,577
Claims paid:		
Current year	(615,579)	(528,536)
Prior years	(53,333)	(61,894)
	(668,912)	(590,430)
Risk-sharing payable—end of year	22,694	35,338
Medical claims payable—end of year	28,955	29,555
Total medical claims payable	$ 51,649	$ 64,893

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

The following is information about the development of paid and incurred health claims as of September 30, 2019, for HNE, which is presented net of reinsurance. The tables present claims development and cumulative claim payments by incurred year. The information about paid and incurred claims development prior to 2019 is presented as unaudited supplementary information (in thousands):

Commercial	**Cumulative Incurred Claims and Allocated Claims Adjustment Expenses, Net of Reinsurance For the Years Ended September 30,**			**Total of IBNR Liabilities Plus Expected Development on Reported Claims**	**Cumulative Number of Reported Claims**
	(Unaudited)				
Incurred Year	**2017**	**2018**	**2019**		
2017	$298,789	$297,585	$300,535	$ -	2,147,850
2018		290,587	288,692	51	1,983,889
2019			244,258	22,868	1,463,668
			833,485	22,919	
Cumulative incurred claims for the periods presented			$833,485	$22,919	
Claims adjustment expenses	$ 800	$ 772	$ 552		

	Cumulative Paid Claims and Paid Allocated Claims Adjustment Expenses, Net of Reinsurance For the Years Ended September 30,		
	(Unaudited)		
Incurred Year	**2017**	**2018**	**2019**
2017	$272,286	$297,536	$300,535
2018		265,792	288,641
2019			221,389
Cumulative paid claims for the periods presented			810,565
All outstanding liabilities prior to 2017, net of reinsurance			1,042
Liability for commercial medical claims payable, net of reinsurance			$ 24,514

Medicare & Medicare Supplement	Cumulative Incurred Claims and Allocated Claims Adjustment Expenses, Net of Reinsurance For the Years Ended September 30, (Unaudited)			Total of IBNR Liabilities Plus Expected Development on Reported Claims	Cumulative Number of Reported Claims
Incurred Year	**2017**	**2018**	**2019**		
2017	$75,472	$75,154	$ 75,002	$ -	593,022
2018		79,416	78,140	17	610,463
2019			79,340	6,617	573,450
			232,482	6,634	
Cumulative incurred claims for the periods presented			$232,482	$6,634	
Claims adjustment expenses	$ 320	$ 181	$ 162		

	Cumulative Paid Claims and Paid Allocated Claims Adjustment Expenses, Net of Reinsurance For the Years Ended September 30, (Unaudited)		
Incurred Year	**2017**	**2018**	**2019**
2017	$69,277	$75,077	$ 75,002
2018		70,330	78,122
2019			72,723
Cumulative paid claims for the periods presented			225,847
All outstanding liabilities prior to 2017, net of reinsurance			-
Liability for Medicare and Medicare supplemental medical claims payable, net of reinsurance			$ 6,797

Medicaid	Cumulative Incurred Claims and Allocated Claims Adjustment Expenses, Net of Reinsurance For the Years Ended September 30,			Total of IBNR Liabilities Plus Expected Development on Reported Claims	Cumulative Number of Reported Claims
Incurred Year	(Unaudited) 2017	2018	2019		
2017	$262,994	$259,783	$260,862	$ -	2,707,272
2018		202,214	203,384	10	2,184,917
2019			189,439	15,825	1,879,423
			653,685	15,835	
Cumulative incurred claims for the periods presented			$653,685	$15,835	
Claims adjustment expenses	$ 170	$ 582	$ 394		

	Cumulative Paid Claims and Paid Allocated Claims Adjustment Expenses, Net of Reinsurance For the Years Ended September 30,		
Incurred Year	(Unaudited) 2017	2018	2019
2017	$241,052	$259,328	$260,862
2018		185,824	203,374
2019			173,614
			637,850
Cumulative paid claims for the periods presented			637,850
All outstanding liabilities prior to 2017, net of reinsurance			-
Liability for Medicaid medical claims payable, net of reinsurance			$ 16,229

Reconciliation of the Disclosure of Paid and Incurred Claims Development to the Liability for Unpaid Claims and Claim Adjustment Expenses—The reconciliation of the net paid and incurred claims development tables for HNE to the liability for medical claims expense in the consolidated statement of financial position as of September 30, 2019, is as follows (in thousands):

Net outstanding liabilities:	
Commercial	$24,514
Medicare	6,797
Medicaid	16,229
Total gross liability for medical claims payable	$47,540

15. STATUTORY SURPLUS/CAPITAL

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

a) $1,000,000

b) The total of 2% of the first $150,000,000 of premium and 1% of the premium in excess of $150,000,000

c) Three months of uncovered health care expenditures

d) 4% of annual hospital expenditures, plus 8% of all other medical expenditures, excluding capitated arrangements

Based on calendar 2018 activity, the minimum capital amount as determined by each of the above tests is as follows: a) $1,000,000, b) $9,211,480, c) $8,174,305, and d) $46,177,560. At December 31, 2018, HNE's surplus exceeded the Commonwealth of Massachusetts' laws and regulations regarding minimum surplus.

National Association of Insurance Commissioners' (NAICs) Model Regulation—The Managed Care Organization Risk-Based Capital (RBC) Model Regulation (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, 2018, exceeded the Company Action Level.

Surplus Notes—On December 28, 2015, HNE entered into a surplus note agreement, borrowing $20,000,000 from Baystate Health in order to maintain minimum levels of surplus and RBC. 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.

16. INCOME TAXES

As of September 30, 2019, operating loss carryforwards for federal income tax purposes were approximately $28,555,000 for BMC, which expire in various years ranging from 2020 to 2038. 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.

17. FUNDS HELD IN TRUST BY OTHERS

BH 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 net assets with donor restrictions. During fiscal years 2019 and 2018, distributions from the Trusts were approximately $1,500,000 and $1,664,000, respectively, and are included in other revenue.

18. BENEFIT PLANS

BH 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.

The following table presents the change in the plan's projected benefit obligation, change in plan assets, and funded status of the plan at September 30, 2019 and 2018, (in thousands):

Change in Pension Obligation	**2019**	**2018**
Pension obligation—beginning of year	$868,561	$944,786
Service/administrative cost	2,000	4,000
Interest cost	36,732	35,078
Actuarial loss (gain)	117,954	(56,835)
Benefits paid	(57,933)	(61,266)
Net prior service cost	-	2,798
Pension obligation—end of year	$967,314	$868,561
Change in Plan Assets		
Fair value of plan assets—beginning of year	$846,029	$878,569
Actual return on plan assets	75,859	23,726
Employer contributions	5,000	5,000
Benefits paid	(57,933)	(61,266)
Fair value of plan assets—end of year	$868,955	$846,029
Funded Status		
Funded status of the plan	$ (98,359)	$ (22,533)
Pension liability	$ (98,359)	$ (22,533)
Amounts Recognized in Unrestricted Net Assets Consist of		
Net actuarial loss	$423,646	$333,218
Accumulated pension adjustment	$423,646	$333,218

Exclusive of other ownership interest, the underfunded status of the plan at September 30, 2019, is approximately $97,862,000, the change in the pension adjustment is $89,830,000 and the accumulated pension adjustment in net assets without donor restrictions is $421,585,000.

Exclusive of other ownership interest, the underfunded status of the plan at September 30, 2018, is approximately $22,734,000, the change in the pension adjustment is $25,391,000 and the accumulated pension adjustment in net assets without donor restrictions is $331,755,000.

The net actuarial loss and prior service credit expected to be recognized in benefit cost in 2020 is approximately $14,118,000 and $133,000, respectively.

The assumptions used to develop the projected benefit obligation at September 30, 2019 and 2018, are as follows:

	2019	2018
Discount rate	3.25 %	4.40 %
Rate of compensation increase	N/A	N/A

The mortality assumption was 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, 2019 and 2018.

Net Periodic Pension Benefit—Net pension benefit for the defined benefit plan for the years ended September 30, 2019 and 2018, includes the following components (in thousands):

	2019	2018
Service/administrative cost	$ 2,000	$ 4,000
Interest cost	36,732	35,078
Expected return on plan assets	(59,549)	(64,064)
Recognized net actuarial loss	11,084	11,860
Prior service cost	133	-
Net pension benefit	$ (9,600)	$(13,126)

The assumptions used to determine net pension benefit for the years ended September 30, 2019 and 2018, are as follows:

	2019	2018
Discount rate	4.40 %	3.85 %
Expected return on plan assets	7.25	7.50

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, 2019, were equities 45%, fixed income 40%, and other 15%.

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, at September 30, 2019 and 2018, is as follows:

	2019	2018
Common and preferred equity securities	40 %	46 %
US government and domestic fixed-income securities	43	40
Other investments	17	14
	100 %	100 %

Financial assets invested in the plan, in one of the three categories described previously, at September 30, 2019 and 2018, are classified as follows (in thousands). See Note 5 for definitions of Level 1, Level 2, and Level 3 of the fair value hierarchy.

	Assets at Fair Value as of September 30, 2019			
	Level 1	Level 2	Level 3	Total
Money market	$ 3,844	$ 4,655	$ -	$ 8,499
Mutual funds:				
Equity index funds	83,837	-	-	83,837
Total mutual funds	83,837	-	-	83,837
Fixed-income securities	-	352,493	-	352,493
Domestic equity securities	106,275	-	-	106,275
Total assets—at fair value	$ 193,956	$ 357,148	$ -	551,104
Plan assets—at contract value				16,286
Investments measured at NAV:				
Commingled international equity funds				98,496
Commingled emerging markets funds				44,883
Commingled master limited partnerships				15,686
Commingled hedge funds				27,970
Hedge fund of funds				41,393
Private market funds				73,137
Total investments measured at NAV				301,565
Total plan assets				$ 868,955

	Assets at Fair Value as of September 30, 2018			
	Level 1	Level 2	Level 3	Total
Money market	$ 5,414	$ 4,386	$ -	$ 9,800
Mutual funds:				
Equity index funds	38,415	-	-	38,415
Total mutual funds	38,415	-	-	38,415
Fixed-income securities	-	314,272	-	314,272
Domestic equity securities	160,975	-	-	160,975
Total assets—at fair value	$ 204,804	$ 318,658	$ -	523,462
Plan assets—at contract value				15,778
Investments measured at NAV:				
Commingled international equity funds				124,192
Commingled emerging markets funds				45,695
Commingled master limited partnerships				20,207
Commingled hedge funds				12,144
Hedge fund of funds				42,242
Private market funds				62,309
Total investments measured at NAV				306,789
Total plan assets				$ 846,029

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 at September 30, 2019 and 2018, is as follows (in thousands):

	September 30, 2019		
Description of Investment	**Fair Value**	**Redemption Frequency**	**Redemption Notice Period**
Commingled international equity funds	$ 98,496	Monthly	5–30 days
Commingled emerging markets funds	44,883	Monthly	14–30 days
Commingled master limited partnerships	15,686	Monthly	30 days
Commingled hedge funds	27,970	Monthly	3 days
Hedge fund of funds	41,393	Quarterly	95 days
Private market investments	73,137	*	*
Total	$301,565		

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

	September 30, 2018		
Description of Investment	**Fair Value**	**Redemption Frequency**	**Redemption Notice Period**
Commingled international equity funds	$124,192	Monthly	5–30 days
Commingled emerging markets funds	45,695	Monthly	14–30 days
Commingled master limited partnerships	20,207	Monthly	30 days
Commingled hedge funds	12,144	Monthly	3 days
Hedge fund of funds	42,242	Quarterly	95 days
Private market investments	62,309	*	*
Total	$306,789		

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

Contributions—Baystate Health expects to contribute $5,000,000 to the plan in 2020.

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**
2020	$ 65,744
2021	56,121
2022	58,547
2023	57,648
2024	55,626
Years 2025–2029	258,777
	$552,463

Defined Contribution Plans—BH 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 $46,771,000 in 2019 and $42,283,000 in 2018 and is included in supplies and expense in the consolidated statements of operations. The DC plan offers an employee contribution matching feature where the employer will contribute equal to 50% of the employee's contribution, subject to a maximum match of 2% of the employee's 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 through December 31, 2020.

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 $1,913,000 and $1,994,000 in 2019 and 2018, respectively, and is included in supplies and expense in the consolidated statements of operations.

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 $66,973,000 and $62,597,000 within other liabilities in the consolidated statements of financial position as of September 30, 2019 and 2018, respectively, which represents its obligation for benefits payable under the Plan. All amounts of compensation deferred under the Plan remain the assets of Baystate Health, until paid out to a participant or his/her beneficiary. Baystate Health is not required to segregate or set aside any assets to meet its obligation under the Plan. Baystate Health's contributions amounted to approximately $1,971,000 and $1,864,000 in 2019 and 2018, respectively, and is included in supplies and expense in the consolidated statements of operations.

Baystate Noble Retirement Plans:

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. BNH'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, BNH 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 BNH'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, BNH 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, 2019, is approximately $2,736,000 of which $2,639,000 is classified as long term and included as a pension liability in the consolidated statement of financial position. The balance due at September 30, 2018, was approximately $2,791,000 of which $2,634,000 was classified as long-term and included as a pension liability in the consolidated statement of financial position.

There were $158,000 in contributions made during each of the years ended September 30, 2019 and 2018.

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.

19. CONCENTRATIONS OF CREDIT RISK

Baystate Health grants 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, 2019 and 2018, is as follows:

	2019	2018
Medicare	20 %	20 %
Medicaid	14	17
Commercial & other	61	50
Self-pay patients	5	13
	100 %	100 %

20. FUNCTIONAL EXPENSES

Baystate Health provides general health care services to residents within their geographic location. Expenses related to providing these services for the years ended September 30, 2019 and 2018, are as follows (in thousands):

	2019				
	Program Activities			Supporting Activities	Total
	Hospitals	Health Plan	Physician	General and Administrative	Operating Expenses
Salaries and wages	$ 560,290	$ 10,109	$251,446	$109,382	$ 931,227
Supplies and expense	761,971	-	107,326	12,393	881,690
Medical claims and capitation	-	412,634	-	-	412,634
Depreciation and amortization	61,802	3,141	1,483	12,181	78,607
Interest expense	12,148	-	-	1,288	13,436
Other expense	3,631	-	763	-	4,394
	$1,399,842	$425,884	$361,018	$135,244	$2,321,988

	2018				
	Program Activities			Supporting Activities	
	Hospitals	Health Plan	Physician	General and Administrative	Total Operating Expense
Salaries and wages	$ 537,728	$ 10,116	$240,407	$105,591	$ 893,842
Supplies and expense	721,387	-	93,557	12,289	827,233
Medical claims and capitation	-	502,283	-	-	502,283
Depreciation and amortization	62,487	3,035	1,299	12,053	78,874
Interest expense	11,895	-	-	1,075	12,970
	$1,333,497	$515,434	$335,263	$131,008	$2,315,202

Certain costs have been allocated program activities and general and administrative activities. Such allocations are determined by management on an equitable basis; based on time and effort, or purpose of use, as applicable.

21. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions at September 30, 2019 and 2018, are available for the following purposes (in thousands):

	2019	2018
Research and education	$ 7,169	$ 7,739
Patient care services	51,622	51,371
Endowment funds with donor restrictions	18,553	18,160
Beneficial interest in perpetual trusts	39,505	40,155
	$116,849	$117,425

The income on endowment funds with donor restrictions and distributions from perpetual trusts 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 net assets with donor restrictions: (a) the original value of gifts donated to the endowment, (b) the original value of subsequent gifts to the endowment, and (c) accumulations to the 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 is classified as donor 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, 2019 and 2018, consisted of the following (in thousands):

As of September 30, 2019	Without Donor Restriction	With Donor Restriction	Total
Donor-restricted endowment funds	$ -	$61,395	$61,395
Board-designated endowment funds	28,805	-	28,805
Total endowment net assets	$28,805	$61,395	$90,200

As of September 30, 2018	Without Donor Restriction	With Donor Restriction	Total
Donor-restricted endowment funds	$ -	$62,237	$62,237
Board-designated endowment funds	28,867	-	28,867
Total endowment net assets	$28,867	$62,237	$91,104

For the year ended September 30, 2019, Baystate Health had the following endowment-related activities (in thousands):

	Without Donor Restriction	With Donor Restriction	Total
Endowment net assets—October 1, 2018	$ 28,867	$ 62,237	$ 91,104
Investment return:			
Investment income	311	674	985
Net appreciation	261	484	745
Total investment return	572	1,158	1,730
Contributions	437	288	725
Other	-	11	11
Amounts appropriated for expenditures	(1,071)	(2,299)	(3,370)
Total change in endowment funds	(62)	(842)	(904)
Endowment net assets—September 30, 2019	$ 28,805	$ 61,395	$ 90,200

For the year ended September 30, 2018, Baystate Health had the following endowment-related activities (in thousands):

	Without Donor Restriction	With Donor Restriction	Total
Endowment net assets—October 1, 2017	$ 27,576	$ 60,225	$ 87,801
Investment return:			
Investment income	242	523	765
Net appreciation	1,489	3,612	5,101
Total investment return	1,731	4,135	5,866
Contributions	443	228	671
Reclassification	159	(88)	71
Amounts appropriated for expenditures	(1,042)	(2,263)	(3,305)
Total change in endowment funds	1,291	2,012	3,303
Endowment net assets—September 30, 2018	$ 28,867	$ 62,237	$ 91,104

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 4% 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, 2019 or 2018.

22. STATE SURPLUS REVENUE RETENTION

Through September 30, 2019, 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 $23,400 and $67,800 as of September 30, 2019 and 2018, respectively. As of September 30, 2019 and 2018, the cumulative deficit attributable to state contracting of approximately $6,922,000 and $6,898,000, respectively, is included in the net assets without donor restrictions of BMC.

23. SUBSEQUENT EVENTS

See Note 11 for subsequent events related to the drawdown on Series Q bonds, and the extension of the letters of credit related to the Series J-1 and J-2 bonds.

Subsequent events have been evaluated for potential recognition in the consolidated financial statements through December 20, 2019, which is the date the consolidated financial statements were issued.

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CONSOLIDATING AND COMBINING SUPPLEMENTARY FINANCIAL INFORMATION

BAYSTATE HEALTH, INC. AND SUBSIDIARIES

CONSOLIDATING SCHEDULE OF ASSETS
AS OF SEPTEMBER 30, 2019
(In thousands)

ASSETS	BMC	BFMC	BWH	BNH	BMP	BVNAH	HNE	IC	Other Entities	Elim. & Reclass	Consolidated Totals
CURRENT ASSETS:											
Cash and cash equivalents	$ 67,908	$ 4,926	$ 1,703	$ 575	$ 1,416	$ 160	$ 20,316	$ 271	$ 36,183	$ -	$ 133,458
Investments	231,376	1,376	12,172	-	105	47	127,358	-	21,827	-	394,261
Accounts receivable, patients—net	126,287	12,069	9,348	7,143	17,095	3,988	-	-	-	(18,960)	156,970
Accounts receivable, other	9,962	126	98	144	8,450	24	61,383	14	5,558	-	85,759
Estimated final settlements receivable	22,079	1,565	2,992	19	-	-	-	-	-	-	26,655
Inventories	28,855	2,120	1,519	948	-	-	-	-	279	-	33,721
Prepaid expenses and other current assets	7,415	303	220	184	1,686	177	5,222	9	10,347	-	25,563
Due from affiliated companies	59,562	186	122	375	18,046	28	-	28	10,753	(89,100)	-
Line of credit, affiliate	-	-	-	-	-	-	-	-	7,490	(7,490)	-
Total current assets	553,444	22,671	28,174	9,388	46,798	4,424	214,279	322	92,437	(115,550)	856,387
LONG-TERM ASSETS:											
Investments	-	-	-	4,211	-	-	613	-	61,688	(120)	66,392
Equity investment in consolidated subsidiaries	-	-	-	-	-	-	-	-	48,417	(48,417)	-
Equity investment in unconsolidated affiliates	1,805	477	-	-	-	-	-	115	2,960	-	5,357
Beneficial interest in net assets of BHF	13,804	11,559	1,683	594	-	1,059	-	-	-	(28,699)	-
Deferred expense and other long-term assets	11,628	497	251	110	1,110	-	3,784	-	21,783	-	39,163
Goodwill	1,552	-	-	-	-	-	-	-	4,132	-	5,684
Land, buildings, and equipment—net	558,955	50,559	58,144	33,857	11,763	695	3,258	1,357	342	-	718,930
Line of credit, affiliate	-	-	-	-	-	-	-	-	20,000	(20,000)	-
Total long-term assets	587,744	63,092	60,078	38,772	12,873	1,754	7,655	1,472	159,322	(97,236)	835,526
ASSETS WHOSE USE IS LIMITED:											
Board-designated funds:											
Cash and investments	263,217	-	-	73	-	-	-	-	20,444	-	283,734
Beneficial interest in net assets of BHF	212	477	228	247	-	653	-	-	1,995	(3,812)	-
Due from unrestricted funds	1,095	-	-	-	-	-	-	-	-	(1,095)	-
Investments of captive insurance company	-	-	-	-	-	-	-	-	130,017	-	130,017
Investments held by trustee under debt agreements	1,111	79	131	-	-	-	-	-	-	-	1,321
Beneficial interest in net assets of BHF	2,747	5,065	7,043	-	-	957	-	-	21,441	(37,253)	-
Beneficial interest in perpetual trusts	-	-	2,253	-	-	-	-	-	37,252	-	39,505
Deferred compensation investments	-	-	-	-	-	-	-	-	66,973	-	66,973
Total assets whose use is limited	268,382	5,621	9,655	320	-	1,610	-	-	278,122	(42,160)	521,550
TOTAL ASSETS	$1,409,570	$91,384	$97,907	$48,480	$59,671	$7,788	$221,934	$1,794	$529,881	$(254,946)	$2,213,463

BAYSTATE HEALTH, INC. AND SUBSIDIARIES

CONSOLIDATING SCHEDULE OF LIABILITIES AND NET ASSETS
AS OF SEPTEMBER 30, 2019
(In thousands)

LIABILITIES AND NET ASSETS (DEFICIT)	BMC	BFMC	BWH	BNH	BMP	BVNAH	HNE	IC	Other Entities	Elim. & Reclass	Consolidated Totals
CURRENT LIABILITIES:											
Accounts payable	$ 65,181	$ 3,631	$ 3,539	$ 4,083	$ 16,386	$ 1,444	$ 22,659	$ 194	$ 33,498	$ 371	$ 150,986
Medical claims payable	-	-	-	-	-	-	70,609	-	-	(18,960)	51,649
Accrued salaries and wages	36,450	3,207	3,263	2,154	30,447	1,470	3,861	-	10,969	-	91,821
Accrued interest payable	1,341	-	35	100	-	-	-	-	-	-	1,476
Estimated final settlements payable	28,429	3,414	5,252	3,048	-	174	-	-	-	-	40,317
Deferred revenue	614	34	216	408	20	1,056	12,740	48	305	-	15,441
Current portion of long-term debt	11,518	1,148	888	93	-	-	-	-	740	-	14,387
Current portion of capital lease obligations	2,208	-	-	183	-	-	-	-	-	-	2,391
Due to affiliated companies	1,567	1,901	13,007	12,859	27,453	3,415	6,290	527	22,453	(89,472)	-
Line of credit, affiliate	-	-	-	6,791	261	-	-	437	-	(7,489)	-
Due to board-designated funds	-	-	-	-	-	-	-	-	1,095	(1,095)	-
Total current liabilities	147,308	13,335	26,200	29,719	74,567	7,559	116,159	1,206	69,060	(116,645)	368,468
Long-term debt	347,785	22,431	25,430	181	-	-	-	-	38,747	-	434,574
Capital lease obligations	11,942	-	-	502	-	-	-	-	-	-	12,444
Pension liability	51,668	9,157	2,460	2,578	18,325	2,619	-	-	13,631	-	100,438
Insurance liability loss reserves	7,550	281	220	275	10,741	90	-	-	120,710	-	139,867
Other liabilities	4,280	-	694	565	-	-	109	-	67,062	-	72,710
Line of credit, affiliate	-	-	-	-	-	-	20,000	-	-	(20,000)	-
Total liabilities	570,533	45,204	55,004	33,820	103,633	10,268	136,268	1,206	309,210	(136,645)	1,128,501
NET ASSETS (DEFICIT):											
Net assets without donor restrictions:											
Operating	1,071,015	59,488	39,419	9,558	43,404	2,987	85,666	588	115,011	(37,438)	1,389,698
Pension adjustment	(248,529)	(29,932)	(8,063)	-	(87,366)	(7,483)	-	-	(40,212)	-	(421,585)
Total net assets without donor restrictions	822,486	29,556	31,356	9,558	(43,962)	(4,496)	85,666	588	74,799	(37,438)	968,113
Net assets with donor restrictions	16,551	16,624	11,547	5,102	-	2,016	-	-	145,872	(80,863)	116,849
Total net assets (deficit)	839,037	46,180	42,903	14,660	(43,962)	(2,480)	85,666	588	220,671	(118,301)	1,084,962
TOTAL LIABILITIES AND NET ASSETS (DEFICIT)	$1,409,570	$ 91,384	$ 97,907	$48,480	$ 59,671	$ 7,788	$221,934	$1,794	$529,881	$(254,946)	$2,213,463

BAYSTATE HEALTH, INC. AND SUBSIDIARIES

CONSOLIDATING SCHEDULE OF OPERATIONS
FOR THE YEAR ENDED SEPTEMBER 30, 2019
(In thousands)

	BMC	BFMC	BWH	BNH	BMP	BVNAH	HNE	IC	Other Entities	Elim. & Reclass	Consolidated Totals
OPERATING REVENUES:											
Net patient service revenue	$1,277,003	$ 99,025	$82,703	$57,850	$181,550	$28,167	$ -	$ -	$ -	$(242,387)	$1,483,911
Premiums	-	-	-	-	-	-	724,327	-	24,180	(22,217)	726,290
Other revenue	109,424	6,107	3,413	4,024	147,836	1,050	16,305	601	156,700	(284,332)	161,128
Net assets released from donor restrictions for operations	1,793	293	1	232	680	48	-	-	3,808	(1,740)	5,115
Total operating revenues	1,388,220	105,425	86,117	62,106	330,066	29,265	740,632	601	184,688	(550,676)	2,376,444
OPERATING EXPENSES:											
Salaries and wages	457,734	38,353	37,611	30,531	258,938	16,886	34,859	-	56,315	-	931,227
Supplies and expense	745,312	59,815	47,590	37,081	117,170	11,857	47,972	446	100,519	(286,072)	881,690
Medical claims and capitation	-	-	-	-	-	-	655,283	-	21,955	(264,604)	412,634
Depreciation and amortization	57,084	5,505	6,433	3,615	1,705	424	3,610	117	114	-	78,607
Interest expense	10,307	667	839	335	9	-	-	10	1,269	-	13,436
Total operating expenses	1,270,437	104,340	92,473	71,562	377,822	29,167	741,724	573	180,172	(550,676)	2,317,594
INCOME (LOSS) FROM OPERATIONS BEFORE OTHER EXPENSE	117,783	1,085	(6,356)	(9,456)	(47,756)	98	(1,092)	28	4,516	-	58,850
OTHER EXPENSE	(292)	(55)	(57)	(97)	(763)	(57)	-	-	(3,073)	-	(4,394)
INCOME (LOSS) FROM OPERATIONS	117,491	1,030	(6,413)	(9,553)	(48,519)	41	(1,092)	28	1,443	-	54,456
NONOPERATING INCOME (LOSS):											
Investment income	5,003	20	74	-	-	-	-	-	155	-	5,252
Net realized (loss) gain on investments	(4,612)	14	(66)	1	-	5	-	-	7	-	(4,651)
Net unrealized gain (loss) on investments	9,495	(32)	166	-	-	12	3,569	-	7,009	-	20,219
Equity gain in consolidated subsidiaries	-	-	-	-	-	-	-	-	101	(101)	-
Equity gain in unconsolidated affiliates	123	-	-	-	-	-	-	100	(268)	-	(45)
Net interest cost on swap agreements	(426)	-	-	-	-	-	-	-	-	-	(426)
Change in fair value of swap agreements	(693)	-	-	-	-	-	-	-	-	-	(693)
Other	(5)	(12)	-	(6)	-	(21)	915	(15)	(3,965)	-	(3,109)
Total nonoperating income (loss)	8,885	(10)	174	(5)	-	(4)	4,484	85	3,039	(101)	16,547
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENSES	126,376	1,020	(6,239)	(9,558)	(48,519)	37	3,392	113	4,482	(101)	71,003
OTHER CHANGES IN NET ASSETS WITHOUT DONOR RESTRICTIONS:											
Net assets released from restrictions for capital	1,020	865	557	13	24	-	-	-	-	-	2,479
Funds utilized for property and equipment	698	-	-	114	-	-	-	-	-	-	812
Transfers for the cost of land, buildings, and equipment	1,707	-	51	7,500	1,492	-	-	-	(10,750)	-	-
Transfers (to) from affiliated companies, net	(63,667)	(1,500)	-	8,132	49,484	-	-	-	7,551	-	-
Contributed capital asset	-	-	-	-	-	-	-	-	-	-	-
Pension adjustment	(54,302)	(6,872)	(1,176)	-	(18,284)	(1,022)	-	-	(8,174)	-	(89,830)
Other	-	-	-	-	-	-	-	-	(751)	-	(751)
INCREASE (DECREASE) IN NET ASSETS WITHOUT DONOR RESTRICTIONS	$ 11,832	$ (6,487)	$ (6,807)	$ 6,201	$ (15,803)	$ (985)	$ 3,392	$113	$ (7,642)	$ (101)	$ (16,287)

BAYSTATE HEALTH, INC. AND SUBSIDIARIES

CONSOLIDATING SCHEDULE OF CHANGES IN NET ASSETS
FOR THE YEAR ENDED SEPTEMBER 30, 2019
(In thousands)

	BMC	BFMC	BWH	BNH	BMP	BVNAH	HNE	IC	Other Entities	Elim. & Reclass	Consolidated Totals
NET ASSETS WITHOUT DONOR RESTRICTIONS::											
Excess (deficiency) of revenues over expenses	$126,376	$ 1,020	$ (6,239)	$ (9,558)	$(48,519)	$ 37	$ 3,392	$113	$ 4,482	$ (101)	$ 71,003
Net assets released from restrictions for capital	1,020	865	557	13	24	-	-	-	-	-	2,479
Funds utilized for property and equipment	698	-	-	114	-	-	-	-	-	-	812
Transfers for the cost of land, buildings, and equipment	1,707	-	51	7,500	1,492	-	-	-	(10,750)	-	-
Transfers (to) from affiliates—net	(63,667)	(1,500)	-	8,132	49,484	-	-	-	7,551	-	-
Pension adjustment	(54,302)	(6,872)	(1,176)	-	(18,284)	(1,022)	-	-	(8,174)	-	(89,830)
Other	-	-	-	-	-	-	-	-	(751)	-	(751)
Increase (decrease) in net assets without donor restrictions	11,832	(6,487)	(6,807)	6,201	(15,803)	(985)	3,392	113	(7,642)	(101)	(16,287)
NET ASSETS WITH DONOR RESTRICTIONS:											
Restricted investment income	-	-	-	1	-	-	-	-	331	-	332
Net realized and unrealized gain on investments	-	-	-	(69)	-	-	-	-	482	-	413
Change in fair value of perpetual trusts	-	-	(58)	-	-	-	-	-	(592)	-	(650)
Contributions	-	-	-	-	-	-	-	-	6,393	-	6,393
Change in value of beneficial interest in net assets of BHF	(478)	(545)	(467)	197	-	115	-	-	(499)	1,677	-
Net assets released from donor restrictions:											
For operations	-	-	-	(103)	-	-	-	-	(5,012)	-	(5,115)
For capital	-	-	-	-	-	-	-	-	(2,479)	-	(2,479)
Other	-	-	-	(13)	-	-	-	-	819	(276)	530
(Decrease) increase in net assets with donor restrictions	(478)	(545)	(525)	13	-	115	-	-	(557)	1,401	(576)
INCREASE (DECREASE) IN NET ASSETS	11,354	(7,032)	(7,332)	6,214	(15,803)	(870)	3,392	113	(8,199)	1,300	(16,863)
NET ASSETS (DEFICIT)—Beginning of year	827,683	53,212	50,235	8,446	(28,159)	(1,610)	82,274	475	228,870	(119,601)	1,101,825
NET ASSETS (DEFICIT)—End of year	$839,037	$46,180	$42,903	$14,660	$(43,962)	$(2,480)	$85,666	$588	$220,671	$(118,301)	$1,084,962

BAYSTATE HEALTH, INC. AND SUBSIDIARIES

COMBINING SCHEDULE OF ASSETS—OTHER ENTITIES
AS OF SEPTEMBER 30, 2019
(In thousands)

	BH	BAS	BHF	BHIC	Other Entities Totals
ASSETS					
CURRENT ASSETS:					
Cash and cash equivalents	$ 15,774	$10,470	$ 8,955	$ 984	$ 36,183
Investments	4,532	2,543	14,752	-	21,827
Accounts receivable, other	1,306	427	1,062	2,763	5,558
Inventories	-	279	-	-	279
Prepaid expenses and other current assets	504	9,770	45	28	10,347
Due from affiliated companies	3,473	7,274	6	-	10,753
Line of credit, affiliate	7,490	-	-	-	7,490
Total current assets	33,079	30,763	24,820	3,775	92,437
LONG-TERM ASSETS:					
Investments	865	-	60,823	-	61,688
Equity investment in consolidated subsidiaries	48,417	-	-	-	48,417
Equity investment in unconsolidated affiliates	2,960	-	-	-	2,960
Deferred expense and other long-term assets	20,887	-	896	-	21,783
Goodwill	4,132	-	-	-	4,132
Land, buildings, and equipment—net	70	269	3	-	342
Line of credit, affiliate	20,000	-	-	-	20,000
Total long-term assets	97,331	269	61,722	-	159,322
ASSETS WHOSE USE IS LIMITED:					
Board-designated funds:					
Cash and investments	17,117	-	3,327	-	20,444
Beneficial interest in net assets of BHF	1,995	-	-	-	1,995
Investments of captive insurance company	-	-	-	130,017	130,017
Beneficial interest in net assets of BHF	21,441	-	-	-	21,441
Beneficial interest in perpetual trusts	-	-	37,252	-	37,252
Deferred compensation investments	66,973	-	-	-	66,973
	107,526	-	40,579	130,017	278,122
TOTAL ASSETS	$237,936	$31,032	$127,121	$133,792	$529,881

BAYSTATE HEALTH, INC. AND SUBSIDIARIES

COMBINING SCHEDULE OF LIABILITIES AND NET ASSETS—OTHER ENTITIES
AS OF SEPTEMBER 30, 2019
(In thousands)

	BH	BAS	BHF	BHIC	Other Entities Totals
LIABILITIES AND NET ASSETS (DEFICIT)					
CURRENT LIABILITIES:					
Accounts payable	$ 3,003	$ 26,834	$ 725	$ 2,936	$ 33,498
Accrued salaries and wages	-	10,678	291	-	10,969
Deferred revenue	305	-	-	-	305
Current portion of long-term debt	740	-	-	-	740
Due to affiliated companies	6,374	14,820	449	810	22,453
Due to board-designated funds	1,095	-	-	-	1,095
Total current liabilities	11,517	52,332	1,465	3,746	69,060
Long-term debt	38,747	-	-	-	38,747
Pension liability	-	13,299	332	-	13,631
Insurance liability loss reserves	19,965	-	-	100,745	120,710
Other liabilities	66,973	-	89	-	67,062
Total liabilities	137,202	65,631	1,886	104,491	309,210
NET ASSETS (DEFICIT):					
Net assets without donor restrictions:					
Operating	72,036	2,840	10,834	29,301	115,011
Pension adjustment	(2,131)	(37,439)	(642)	-	(40,212)
Total net assets without donor restrictions	69,905	(34,599)	10,192	29,301	74,799
Net assets with donor restrictions	30,829	-	115,043	-	145,872
Total net assets (deficit)	100,734	(34,599)	125,235	29,301	220,671
TOTAL LIABILITIES AND NET ASSETS	$237,936	$ 31,032	$127,121	$133,792	$529,881

BAYSTATE HEALTH, INC. AND SUBSIDIARIES

COMBINING SCHEDULE OF OPERATIONS—OTHER ENTITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2019
(In thousands)

	BH	BAS	BHF	BHIC	Other Entities Totals
OPERATING REVENUES:					
Premiums	$ -	$ -	$ -	$24,180	$ 24,180
Other revenue	22,338	128,309	3,292	2,761	156,700
Net assets released from donor restrictions for operations	687	-	3,121	-	3,808
Total operating revenues	23,025	128,309	6,413	26,941	184,688
OPERATING EXPENSES:					
Salaries and wages	-	53,386	2,929	-	56,315
Supplies and expense	21,193	75,244	3,164	918	100,519
Medical claims and capitation	-	-	-	21,955	21,955
Depreciation and amortization	3	109	2	-	114
Interest expense	1,269	-	-	-	1,269
Total operating expenses	22,465	128,739	6,095	22,873	180,172
INCOME (LOSS) FROM OPERATIONS BEFORE OTHER EXPENSE	560	(430)	318	4,068	4,516
OTHER EXPENSE	(1,590)	(1,483)	-	-	(3,073)
(LOSS) INCOME FROM OPERATIONS	(1,030)	(1,913)	318	4,068	1,443
NONOPERATING INCOME (LOSS):					
Investment income	24	(7)	138	-	155
Net realized gain (loss) on investments	109	-	(102)	-	7
Net unrealized gain (loss) on investments	2,205	-	256	4,548	7,009
Equity gain in consolidated subsidiaries	101	-	-	-	101
Equity gain in unconsolidated affiliates	(268)	-	-	-	(268)
Other	(3,870)	(6)	(89)	-	(3,965)
Total nonoperating (loss) income	(1,699)	(13)	203	4,548	3,039
(DEFICIENCY) EXCESS OF REVENUES OVER EXPENSES	(2,729)	(1,926)	521	8,616	4,482
OTHER CHANGES IN NET ASSETS WITHOUT DONOR RESTRICTIONS:					
Transfers for the cost of land, buildings, and equipment	(10,559)	-	(191)	-	(10,750)
Transfers from affiliated companies—net	7,551	-	-	-	7,551
Pension adjustment	-	(8,056)	(118)	-	(8,174)
Other	(740)	-	(11)	-	(751)
(DECREASE) INCREASE IN NET ASSETS WITHOUT DONOR RESTRICTIONS	$ (6,477)	$ (9,982)	$ 201	$ 8,616	$ (7,642)

BAYSTATE HEALTH, INC. AND SUBSIDIARIES

COMBINING SCHEDULE OF CHANGES IN NET ASSETS—OTHER ENTITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2019
(In thousands)

	BH	BAS	BHF	BHIC	Other Entities Totals
NET ASSETS WITHOUT RESTRICTIONS:					
(Deficiency) excess of revenues over expenses	$ (2,729)	$ (1,926)	$ 521	$ 8,616	$ 4,482
Transfers for the cost of land, buildings, and equipment	(10,559)	-	(191)	-	(10,750)
Transfers from affiliated companies, net	7,551	-	-	-	7,551
Pension adjustment	-	(8,056)	(118)	-	(8,174)
Other	(740)	-	(11)	-	(751)
Increase (decrease) in net assets without restrictions	(6,477)	(9,982)	201	8,616	(7,642)
NET ASSETS WITH DONOR RESTRICTIONS:					
Restricted investment income	-	-	331	-	331
Net realized and unrealized gain on investments	-	-	482	-	482
Change in fair value of perpetual trusts	-	-	(592)	-	(592)
Contributions	726	-	5,667	-	6,393
Change in value of beneficial interest in net assets of BHF	(499)	-	-	-	(499)
Net assets released from donor restrictions:					
For operations	(527)	-	(4,485)	-	(5,012)
For capital	-	-	(2,479)	-	(2,479)
Other	740	-	79	-	819
Increase (decrease) in net assets with donor restrictions	440	-	(997)	-	(557)
(DECREASE) INCREASE IN NET ASSETS	(6,037)	(9,982)	(796)	8,616	(8,199)
NET ASSETS (DEFICIT)—Beginning of year	106,771	(24,617)	126,031	20,685	228,870
NET ASSETS (DEFICIT)—End of year	$100,734	$(34,599)	$125,235	$29,301	$220,671