

Baystate Health, Inc. and Subsidiaries

Consolidated Financial Statements as of and for
the Years Ended September 30, 2020 and 2019,
Consolidating and Combining Supplementary
Financial Information as of and for the
Year Ended September 30, 2020, 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, 2020 and 2019, and the related consolidated statements of operations, changes in net assets, and cash flows for the years then ended, and the related notes to consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Baystate Health as of September 30, 2020 and 2019, 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 leases in fiscal year 2020 due to the adoption of Accounting Standards Codification Topic 842, *Leases*. Our opinion is not modified with respect to this matter.

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

January 5, 2021

BAYSTATE HEALTH, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AS OF SEPTEMBER 30, 2020 AND 2019 (In thousands)

ASSETS	2020	2019	LIABILITIES AND NET ASSETS	2020	2019
CURRENT ASSETS:			CURRENT LIABILITIES:		
Cash and cash equivalents	\$ 717,557	\$ 133,458	Accounts payable	\$ 175,449	\$ 150,986
Investments	404,792	394,261	Medical claims payable	72,176	51,649
Accounts receivable, patients	148,943	156,970	Accrued salaries and wages	107,686	91,821
Accounts receivable, other	70,859	85,759	Accrued interest payable	2,376	1,476
Estimated final settlements receivable	9,269	26,655	Estimated final settlements payable	40,617	40,317
Inventories	35,276	33,721	Deferred revenue	84,000	15,441
Prepaid expenses and other current assets	<u>29,957</u>	<u>25,563</u>	Contract liabilities	230,442	-
			Current portion of long-term debt	12,237	14,387
Total current assets	<u>1,416,653</u>	<u>856,387</u>	Current portion of operating lease obligations	11,876	-
			Current portion of capital lease obligations	<u>-</u>	<u>2,391</u>
LONG-TERM ASSETS:			Total current liabilities	736,859	368,468
Investments	70,078	66,392			
Equity investment in unconsolidated affiliates	4,112	5,357	LONG-TERM DEBT	554,923	434,574
Deferred expenses and other long-term assets	22,436	39,163			
Goodwill	5,877	5,684	CAPITAL LEASE OBLIGATIONS	-	12,444
Land, buildings, and equipment—net	695,833	718,930			
Operating lease right-of-use assets	<u>70,267</u>	<u>-</u>	OPERATING LEASE OBLIGATIONS	58,809	-
Total long-term assets	<u>868,603</u>	<u>835,526</u>			
			PENSION LIABILITY	112,503	100,438
ASSETS WHOSE USE IS LIMITED:			INSURANCE LIABILITY LOSS RESERVES	143,908	139,867
Board-designated funds	301,062	283,734	OTHER LIABILITIES	<u>103,227</u>	<u>72,710</u>
Investments of captive insurance company	139,704	130,017	Total liabilities	<u>1,710,229</u>	<u>1,128,501</u>
Investments held by trustee under debt agreements	99	1,321			
Beneficial interest in perpetual trusts	41,513	39,505	NET ASSETS:		
Deferred compensation investments	<u>74,617</u>	<u>66,973</u>	Net assets without donor restrictions:		
Total assets whose use is limited	556,995	521,550	Operating	1,441,038	1,389,698
			Pension adjustment	<u>(430,612)</u>	<u>(421,585)</u>
			Total net assets without donor restrictions	1,010,426	968,113
			Net assets with donor restrictions	<u>121,596</u>	<u>116,849</u>
			Total net assets	<u>1,132,022</u>	<u>1,084,962</u>
TOTAL ASSETS	<u>\$2,842,251</u>	<u>\$2,213,463</u>	TOTAL LIABILITIES AND NET ASSETS	<u>\$2,842,251</u>	<u>\$2,213,463</u>

See notes to consolidated financial statements.

BAYSTATE HEALTH, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS FOR THE YEARS ENDED SEPTEMBER 30, 2020 AND 2019 (In thousands)

	2020	2019
OPERATING REVENUES:		
Net patient service revenue	\$ 1,439,513	\$ 1,483,911
Premiums	772,530	726,290
Other revenue	274,938	161,128
Net assets released from donor restrictions for operations	<u>5,255</u>	<u>5,115</u>
Total operating revenues	<u>2,492,236</u>	<u>2,376,444</u>
OPERATING EXPENSES:		
Salaries and wages	962,831	931,227
Supplies and expense	966,474	891,227
Medical claims and capitation	436,088	412,634
Depreciation and amortization	79,218	78,607
Interest expense	<u>12,621</u>	<u>13,436</u>
Total operating expenses	<u>2,457,232</u>	<u>2,327,131</u>
INCOME FROM OPERATIONS BEFORE OTHER EXPENSE	35,004	49,313
OTHER EXPENSE	<u>-</u>	<u>(4,394)</u>
INCOME FROM OPERATIONS	<u>35,004</u>	<u>44,919</u>
NONOPERATING INCOME (LOSS):		
Investment income	5,790	5,252
Net realized gain (loss) on investments	9,884	(4,651)
Net unrealized gain on investments	17,880	20,219
Equity loss in unconsolidated affiliates	(1,216)	(45)
Net interest cost on swap agreements	(581)	(426)
Change in fair value of swap agreements	(132)	(693)
Other components of net periodic pension (cost) benefit—net	(8,104)	9,537
Other	<u>(14,289)</u>	<u>(3,109)</u>
Total nonoperating income—net	<u>9,232</u>	<u>26,084</u>
EXCESS OF REVENUES OVER EXPENSES	44,236	71,003
OTHER CHANGES IN NET ASSETS WITHOUT DONOR RESTRICTIONS:		
Net assets released from restrictions for capital	1,558	2,479
Funds utilized for property and equipment	-	812
Pension adjustment	(9,027)	(89,830)
Other	<u>-</u>	<u>(751)</u>
INCREASE (DECREASE) IN NET ASSETS WITHOUT DONOR RESTRICTIONS	<u>\$ 36,767</u>	<u>\$ (16,287)</u>

See notes to consolidated financial statements.

BAYSTATE HEALTH, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS FOR THE YEARS ENDED SEPTEMBER 30, 2020 AND 2019 (In thousands)

	2020	2019
NET ASSETS WITHOUT DONOR RESTRICTIONS:		
Excess of revenues over expenses	\$ 44,236	\$ 71,003
Net assets released from restrictions for capital	1,558	2,479
Funds utilized for property and equipment	-	812
Pension adjustment	(9,027)	(89,830)
Other	<u>-</u>	<u>(751)</u>
Increase (decrease) in net assets without donor restrictions	<u>36,767</u>	<u>(16,287)</u>
NET ASSETS WITH DONOR RESTRICTIONS:		
Restricted investment income	321	332
Net realized and unrealized gain on investments	2,329	413
Change in fair value of perpetual trusts	2,008	(650)
Contributions	6,850	6,393
Net assets released from donor restrictions:		
For operations	(5,255)	(5,115)
For capital	(1,558)	(2,479)
Other	<u>52</u>	<u>530</u>
Increase (decrease) in net assets with donor restrictions	<u>4,747</u>	<u>(576)</u>
INCREASE (DECREASE) IN NET ASSETS	<u>41,514</u>	<u>(16,863)</u>
NET ASSETS—End of prior year	1,084,962	1,101,825
CUMULATIVE EFFECT OF ADOPTION OF ASU NO. 2016-01 (Note 2)	<u>5,546</u>	<u>-</u>
NET ASSETS—Beginning of year	<u>1,090,508</u>	<u>1,101,825</u>
NET ASSETS—End of year	<u><u>\$ 1,132,022</u></u>	<u><u>\$ 1,084,962</u></u>

See notes to consolidated financial statements.

BAYSTATE HEALTH, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED SEPTEMBER 30, 2020 AND 2019 (In thousands)

	2020	2019
OPERATING ACTIVITIES:		
Increase (decrease) in net assets	\$ 41,514	\$ (16,863)
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities:		
Depreciation and amortization	79,218	78,607
Amortization of right of use operating leases	12,867	-
Pension adjustment	9,027	89,830
Net realized and unrealized gain on investments	(32,719)	(17,446)
Change in fair value of perpetual trusts	(2,008)	650
Donor-restricted contributions	(6,850)	(6,393)
Changes in equity investments in affiliates	1,245	(202)
Changes in operating assets and liabilities:		
Accounts receivable, patients	8,027	(5,490)
Net estimated final settlements	17,686	7,743
Accounts payable and accrued expenses	42,635	1,600
Pension liability	3,038	(14,759)
Medical claims payable	20,527	(13,244)
Insurance liability loss reserves	4,041	(566)
Contract liabilities	230,442	-
Deferred revenue	68,559	-
Operating lease obligations	(12,448)	-
Other	55,998	(10,190)
Net cash provided by operating activities	<u>540,799</u>	<u>93,277</u>
INVESTING ACTIVITIES:		
Proceeds from sale and maturities of investments	305,258	218,146
Purchase of investments	(314,646)	(268,520)
Purchase of land, buildings, and equipment	<u>(55,879)</u>	<u>(67,332)</u>
Net cash used in investing activities	<u>(65,267)</u>	<u>(117,706)</u>
FINANCING ACTIVITIES:		
Proceeds from donor-restricted contributions	6,850	6,393
Proceeds from debt issuance	167,800	-
Payment of debt issuance costs	(989)	-
Finance lease principal payments	(2,633)	-
Repayments of debt and capital lease obligations	<u>(62,461)</u>	<u>(16,984)</u>
Net cash provided by (used in) financing activities	<u>108,567</u>	<u>(10,591)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	584,099	(35,020)
CASH AND CASH EQUIVALENTS—Beginning of year	<u>133,458</u>	<u>168,478</u>
CASH AND CASH EQUIVALENTS—End of year	<u>\$ 717,557</u>	<u>\$ 133,458</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION—Cash paid for interest	<u>\$ 11,721</u>	<u>\$ 13,504</u>
SUPPLEMENTAL DISCLOSURES OF NONCASH INVESTING AND FINANCING ACTIVITIES—		
Land, buildings, and equipment purchases included in accounts payable	<u>\$ 1,242</u>	<u>\$ 2,649</u>

See notes to consolidated financial statements.

BAYSTATE HEALTH, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED SEPTEMBER 30, 2020 AND 2019

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 68-bed, tax-exempt, not-for-profit, acute-care community hospital.
- Baystate Noble Hospital, Inc. (BNH), located in Westfield, Massachusetts, 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.
- 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 and technology 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 consolidated 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; provider relief income related to the CARES Act; 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 BH Board of Trustees (the “Board”) 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, 2020 and 2019, 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 that 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. All investments 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, 2020 and 2019.

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 on investments totaling \$17,880,000 and \$20,219,000 for the years ended September 30, 2020 and 2019, 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—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. Any 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—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 statements of financial position. The opening and closing balances of contract assets for health care operations are as follows:

	2020	2019
October 1	\$ 12,839,000	\$ 12,521,000
September 30	<u>14,841,000</u>	<u>12,839,000</u>
Increase	<u>\$ 2,002,000</u>	<u>\$ 318,000</u>

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, 2020 and 2019, deferred financing costs totaled \$3,438,000 and \$2,774,000, 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, 2020 and 2019.

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.

Right-of-Use Lease Assets and Lease Liabilities—Baystate Health determines if an arrangement is a lease at inception of the contract. The right-of-use assets represent the right to use the underlying assets for the lease term and the lease liabilities represent the obligation to make lease payments arising from the leases. Right-of-use assets are recognized at commencement date based on the present value of lease payments over the lease term, adjusted for any initial direct costs incurred and lease incentives received. For operating leases, the liability is initially measured as the present value of the unpaid lease payments. For finance leases, the lease liability is initially measured as the present value of unpaid lease payments and is subsequently measured at amortized cost using the effective interest method. Baystate Health uses the implicit rate noted within the contract, when available. Otherwise, Baystate Health uses its incremental borrowing rate estimated using existing debt issuances. Baystate Health does not recognize leases, for operating or finance type, with an initial term of 12 months or less (“short-term leases”) in the consolidated statement of financial position, and the lease expense for these short-term leases is recognized on a straight-line basis over the lease term within supplies and expense in the consolidated statement of operations. Finance lease right-of-use assets are included in property and equipment with the related liabilities included in current and long-term debt in the consolidated statement of financial position. Operating lease right-of-use assets and related current and long-term liabilities are separately presented in the consolidated statement of financial position. Expenses for operating leases are recognized within supplies and expense in the consolidated statement of operations and amortization of assets held under finance leases are included in depreciation and amortization expense in the consolidated statement of operations.

Baystate Health’s finance leases are primarily for real estate. Baystate Health’s operating leases are primarily for real estate, vehicles, and medical and office equipment. Real estate leases include outpatient, medical office, ground, and corporate administrative office space. Baystate Health’s real estate lease agreements typically have an initial term of 2 to 10 years. Baystate Health’s equipment

lease agreements typically have an initial term of 2 to 4 years. These real estate leases may include one or more options to renew, with renewals that can extend the lease term from 2 to 10 years. The exercise of lease renewal options is at Baystate Health's sole discretion. For accounting purposes, options to extend or terminate the lease are included in the lease term when it is reasonably certain that the option will be exercised.

Certain of Baystate Health's lease agreements for real estate include payments based on actual common area maintenance expenses and others include rental payments adjusted periodically for inflation. These variable lease payments are recognized in supplies and expense, but are not included in the right-of-use asset or liability balances. Baystate Health's lease agreements do not contain any material residual value guarantees, restrictions, or covenants.

Medicare Cash Advances—Accelerated Medicare payments requested by Baystate Health for its acute care hospitals were received in April 2020, and were provided through the Coronavirus Aid, Relief and Economic Security Act (the "CARES Act"). Under the terms of the CARES Act, the advance payment amounts will be recouped by Medicare over 29 months, beginning one year from receipt of the advance payments. No recoupments have been made against these advance payments during the year ended September 30, 2020. These amounts are recorded as contract liabilities as of September 30, 2020.

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 which are considered nonoperating 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, 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 nonpatient pharmacy contracts, physician service agreements, other nonpatient-related point of service revenues, amounts received under research grants and contracts, and CARES Act funding and other grant revenue related to the COVID-19 pandemic of approximately \$113,000,000. 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.

The CARES Act authorized \$100 billion in funding to hospitals and other health care providers to be distributed through the Public Health and Social Services Emergency Fund (“Provider Relief Fund”). Furthermore, the Paycheck Protection Program and Health Care Enhancement Act (“PPHCE Act,” collectively the “Acts”) enacted on April 24, 2020, provides an additional \$75 billion in emergency appropriations to the Provider Relief Fund. Payments from the Provider Relief Fund are intended to compensate health care providers for lost revenues and qualified expenses incurred in response to the COVID-19 pandemic and are not required to be repaid, provided that the recipients attest to and comply with certain terms and conditions, including limitations on balance billing and not using the funding to reimburse expenses or losses that other sources are obligated to reimburse. Baystate Health received \$151,232,000 in payments under the Acts as of September 30, 2020, of which \$66,635,000 was included in deferred revenue in the consolidated statement of financial position. For the year ended September 30, 2020, the consolidated statement of operations includes \$84,597,000 of grants recognized in other revenue under the Acts.

In addition to amounts received from the Provider Relief Fund, Baystate Health received \$22,759,000 from the Commonwealth of Massachusetts for the purposes of supporting the pandemic relief. For the year ended September 30, 2020, the consolidated statement of operations includes \$22,759,000 recognized in other revenue related to these grants.

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 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 PPS regulations. 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 2020 and 2019, 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 \$13,767,000 and \$16,786,000 in 2020 and 2019, 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, 2020 and 2019, are as follows (in thousands):

	2020	2019
HSN assessment	\$ 7,051	\$ 6,944
HSN receipts	(3,445)	(4,629)
Free care (at cost)	<u>8,303</u>	<u>10,559</u>
 Total	 <u>\$ 11,909</u>	 <u>\$ 12,874</u>

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-day 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 2020 and 2019, 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 a (decrease) increase in premium revenue of approximately \$(1,924,000) and \$3,099,000 in 2020 and 2019, 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, 2020 and 2019, HNE recorded a net payable of approximately \$2,401,000 and \$2,250,000, 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—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*. 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 ended September 30, 2020. The cumulative effect of the adoption resulted in a \$5,546,000 increase in net assets, reported in other changes in net assets without donor restriction for the year ended September 30, 2020.

Effective October 1, 2019, Baystate Health adopted the FASB ASU No. 2016-02, *Leases (Topic 842): Section A—Leases: Amendments to the FASB Accounting Standards Codification; Section B—Conforming Amendments Related to Leases: Amendments to the FASB Accounting Standards Codification; and Section C—Background Information and Basis for Conclusions*, which supersedes existing guidance on accounting for leases and generally requires all leases to be recognized in the balance sheet. Under ASU No. 2016-02, at inception, a lessee must classify leases with a term over one year as either a finance or operating lease, with both classifications resulting in the recognition of a defined right-of-use (ROU) asset and liability in the consolidated statement of financial position. Recognition in the consolidated statement of operations will differ depending on the lease classification, with finance leases recognizing the amortization of the ROU asset separate from the interest on the lease liability and operating leases recognizing a single total lease expense. Lessor accounting under ASU No. 2016-02 would be substantially unchanged from the previous lease requirements. Baystate Health adopted this ASU, including supplemental guidance from ASU No. 2018-11, *Leases (Topic 842); Targeted Improvements*, issued in July 2018, and ASU No. 2018-20, *Leases (Topic 842); Narrow-Scope Improvements for Lessors*, issued in December 2018, on October 1, 2019. The provisions of this update were applied using an optional modified retrospective transition method. Baystate Health elected the transition package of three practical expedients, which, among other things, does not require the reassessment under the new standard of prior conclusions about lease identification, lease classifications, and initial direct costs. Baystate Health also elected the short-term lease recognition exemption for all leases that

qualify, permitting Baystate Health to not apply the recognition requirements of this standard to leases with a term of 12 months or less and an accounting policy to not separate lease and nonlease components for certain classes of assets. Baystate Health did not elect the use-of-hindsight practical expedient, and therefore will continue to utilize lease terms determined under the existing lease guidance. Baystate Health will use its incremental borrowing rate as the discount rate. As of October 1, 2019, for operating leases, Baystate Health recognized an ROU asset of approximately \$78,388,000 and a lease liability of approximately \$78,388,000. The standard had a material impact on Baystate Health's consolidated statements of financial position, however, did not have an impact on the consolidated statements of operations, changes in net assets or consolidated statements of 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 was effective for Baystate Health for the annual reporting period ended September 30, 2020. The adoption of ASU No. 2016-15 did not have a material impact on the 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 was effective for Baystate Health for the annual reporting period ended September 30, 2020. The adoption did not have a material impact on the 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*. This ASU requires an employer to report the service cost component in the same line item as other compensation costs arising from services rendered by employees during the period. It also requires the other components of net periodic pension cost and net periodic postretirement benefit cost to be presented separately from the service cost component and outside a subtotal of income from operations. Baystate Health adopted this ASU on October 1, 2019, and applied the adoption retrospectively as required. The impact of the adoption resulted in the reclassification of the other components of net benefit cost from salaries and wages expense to nonoperating revenue and expenses. The reclassification resulted in a decrease of \$9,537,000 in the previously reported income from operations for the year ended September 30, 2019, with no impact on excess of revenues over expenses. The related disclosure of functional expenses for the year ended September 30, 2019, also reflects this reclassification.

Pending Accounting Pronouncements—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, 2020 and 2019, from Baystate Health’s major payer sources is as follows (in thousands):

	2020	2019
Medicare	\$ 586,334	\$ 649,983
Medicaid	271,304	271,349
Commercial and other	567,955	551,842
Self-pay	<u>13,920</u>	<u>10,737</u>
Total net patient service revenue	<u>\$ 1,439,513</u>	<u>\$ 1,483,911</u>

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, 2020 and 2019, is as follows (in thousands):

	2020	2019
Hospital	\$ 1,267,014	\$ 1,303,640
Physician services	148,139	156,059
Home health care	<u>24,360</u>	<u>24,212</u>
Total net patient service revenue	<u>\$ 1,439,513</u>	<u>\$ 1,483,911</u>

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

The composition of cash, investments, and assets whose use is limited at September 30, 2020 and 2019, is as follows (in thousands):

	2020	2019
Cash and cash equivalents	\$ 723,309	\$ 138,843
Mutual funds	444,315	295,959
Fixed-income securities	200,725	207,939
Domestic equity securities	24,571	82,393
Beneficial interests in perpetual trusts	41,513	39,505
Private market funds	54,394	48,458
Commingled international equity funds	73,195	72,937
Commingled emerging markets funds	9,389	36,529
Commingled-other funds	67,747	106,734
Hedge fund of funds	40,989	53,226
Commingled master limited partnership	153	10,318
Commingled hedge fund	21,500	22,820
Commingled real assets	30,068	-
Redemption receivable from alternative investments	17,554	-
	<u>\$ 1,749,422</u>	<u>\$ 1,115,661</u>

Cash, investments, and assets whose use is limited at September 30, 2020 and 2019, are included in the consolidated statements of financial position as follows (in thousands):

	2020	2019
Cash and cash equivalents	\$ 717,557	\$ 133,458
Investments	404,792	394,261
Long-term investments	70,078	66,392
Board-designated cash and investments	301,062	283,734
Investments of captive insurance company	139,704	130,017
Investments held by trustee under debt agreements	99	1,321
Beneficial interests in perpetual trusts	41,513	39,505
Deferred compensation investments	74,617	66,973
	<u>\$ 1,749,422</u>	<u>\$ 1,115,661</u>
Investment income and realized gains included in other revenue	<u>\$ 10,877</u>	<u>\$ 8,899</u>

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 statements 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 Health has a general purpose line of credit of which approximately \$20 million as of September 30, 2020, is available to be drawn upon in the event of an unanticipated liquidity need.

During April 2020, Baystate Health requested and received approximately \$221,639,000 and \$8,803,000 of cash advances from accelerated Medicare and Medicaid Safety Net payment requests, respectively, under the CARES Act, which are recorded as contract liabilities in the consolidated statement of financial position as of September 30, 2020.

The CARES Act provides for deferred payment of the employer portion of social security taxes between March 27, 2020, and December 31, 2020, with 50% of the deferred amount due no later than December 31, 2021, and the remaining 50% due no later than December 31, 2022. Baystate Health began deferring the employer portion of social security taxes in mid-April 2020, with approximately \$23,000,000 recorded in long-term other liabilities in the consolidated statement of financial position as of September 30, 2020.

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, 2020 and 2019 (in thousands):

	2020	2019
Cash and cash equivalents	\$ 717,557	\$ 133,458
Investment securities classified as current assets	404,792	394,261
Board-designated funds	301,062	283,734
Investments of captive insurance company	<u>139,704</u>	<u>130,017</u>
Total unrestricted cash and investments	<u>\$ 1,563,115</u>	<u>\$ 941,470</u>
Days cash on hand	240	153

For the year ended September 30, 2020, days cash on hand increased 87 days related to funds received as Medicare cash advances and deferred payments of the employer portion of social security taxes under the CARES Act.

Baystate Health has other assets limited or restricted as to use for donor-restricted purposes, debt service, and future capital improvements. Additionally, certain other board-designated assets are designated for future capital expenditures and operating reserves. These assets whose use is limited, 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 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, 2020 and 2019, are classified in the table below in one of the three categories described above (in thousands):

	Assets at Fair Value at September 30, 2020			
	Level 1	Level 2	Level 3	Total
Assets:				
Cash and cash equivalents	<u>\$ 723,309</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 723,309</u>
Mutual funds:				
Corporate bond funds	104,561	-	-	104,561
Deferred compensation investments:				
Corporate bond funds	24,274	-	-	24,274
Equity index funds	50,343	-	-	50,343
Equity index funds	<u>265,137</u>	<u>-</u>	<u>-</u>	<u>265,137</u>
Total mutual funds	<u>444,315</u>	<u>-</u>	<u>-</u>	<u>444,315</u>
Fixed-income securities—corporate bonds and US government securities	<u>-</u>	<u>200,725</u>	<u>-</u>	<u>200,725</u>
Domestic equity securities	<u>24,571</u>	<u>-</u>	<u>-</u>	<u>24,571</u>
Beneficial interests in perpetual trusts	<u>-</u>	<u>-</u>	<u>41,513</u>	<u>41,513</u>
Total assets at fair value	<u>\$ 1,192,195</u>	<u>\$ 200,725</u>	<u>\$ 41,513</u>	<u>1,434,433</u>
Investments measured at NAV:				
Commingled international equity funds				73,195
Commingled emerging markets funds				9,389
Commingled—other funds				67,747
Hedge fund of funds				40,989
Commingled master limited partnerships				153
Commingled hedge fund				21,500
Commingled real assets				30,068
Private market funds				<u>54,394</u>
Total investments measured at NAV				<u>297,435</u>
Redemption receivable from alternative investments				<u>17,554</u>
Total assets				<u>1,749,422</u>
Liabilities—interest rate swap agreement	<u>\$ -</u>	<u>\$ 2,225</u>	<u>\$ -</u>	<u>\$ 2,225</u>

	<u>Assets at Fair Value at September 30, 2019</u>			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Assets:				
Cash and cash equivalents	<u>\$ 138,843</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 138,843</u>
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	<u>129,876</u>	<u>-</u>	<u>-</u>	<u>129,876</u>
Total mutual funds	<u>295,959</u>	<u>-</u>	<u>-</u>	<u>295,959</u>
Fixed-income securities—corporate bonds and US government securities	<u>-</u>	<u>207,939</u>	<u>-</u>	<u>207,939</u>
Domestic equity securities	<u>82,393</u>	<u>-</u>	<u>-</u>	<u>82,393</u>
Beneficial interests in perpetual trusts	<u>-</u>	<u>-</u>	<u>39,505</u>	<u>39,505</u>
Total assets at fair value	<u>\$ 517,195</u>	<u>\$ 207,939</u>	<u>\$ 39,505</u>	<u>764,639</u>
Limited partnerships				<u>48,458</u>
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				<u>22,820</u>
Total investments measured at NAV				<u>302,564</u>
Total assets				<u>\$ 1,115,661</u>
Liabilities—interest rate swap agreement	<u>\$ -</u>	<u>\$ 2,093</u>	<u>\$ -</u>	<u>\$ 2,093</u>

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, 2020 and 2019, is as follows (in thousands):

	2020	2019
Balance—beginning of year	\$ 39,505	\$ 40,155
Unrealized gain (loss) relating to investments still held at the reporting date	<u>2,008</u>	<u>(650)</u>
Balance—end of year	<u>\$ 41,513</u>	<u>\$ 39,505</u>

There were no transfers of Level 3 assets during the years ended September 30, 2020 and 2019.

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, 2020 and 2019, is as follows (in thousands):

Description of Investment	September 30, 2020		
	Fair Value	Redemption Frequency	Redemption Notice Period
Commingled international equity funds	\$ 73,195	Monthly	5–30 days
Commingled emerging markets funds	9,389	Monthly	30 days
Commingled—other funds	67,747	Daily/monthly	1–30 days
Hedge fund of funds	40,989	Quarterly	95 days
Commingled master limited partnership	153	Monthly	30 days
Commingled hedge fund	21,500	Monthly	3 days
Commingled real assets	30,068	Quarterly	90 days
Private market funds	<u>54,394</u>	*	*
Total	<u>\$ 297,435</u>		

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

Description of Investment	September 30, 2019		
	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	<u>22,820</u>	Monthly	3 days
Total	<u>\$ 302,564</u>		

Valuation Techniques—Valuation techniques maximize the use of relevant observable inputs and minimize the use of unobservable inputs. The following is a description of the valuation methodologies used for assets and liabilities measured at fair value on a recurring basis. There have been no changes in the methodologies used at September 30, 2020 and 2019.

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. As of September 30, 2020 a full redemption of the commingled real assets fund in the amount of \$30,068,000 has been requested, but as it is not liquid, it will be redeemed quarterly over a six to nine month time period. 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.

Private Market Funds—Baystate Health has also entered into partnership agreements with limited partnerships, which are in private markets. Upon the adoption of ASU No. 2016-01, BH records these partnerships at NAV or NAV equivalent, as a practical expedient to estimate fair value. Prior to the adoption of ASU No. 2016-01, BH's policy was 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, 2020, approximately \$43,775,000 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, 2020 and 2019, approximates \$549,116,000 and \$488,538,000, respectively.

6. PLEDGES RECEIVABLE

Pledges receivable at September 30, 2020 and 2019, are as follows (in thousands):

	2020	2019
Receivable in less than one year	\$ 936	\$ 1,164
Receivable in one to five years	787	1,007
Receivable in more than five years	<u>8</u>	<u>-</u>
Total pledges receivable	1,731	2,171
Less allowance for uncollectible pledges	<u>(153)</u>	<u>(246)</u>
Net pledges receivable	<u>\$1,578</u>	<u>\$1,925</u>

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, 2020 and 2019, are as follows (in thousands):

	2020	2019
Land, land improvements, and leasehold improvements	\$ 58,767	\$ 57,119
Buildings	995,013	985,171
Fixed equipment	110,803	110,341
Moveable equipment	825,620	786,617
Assets under capital leases	-	35,500
Assets under financing leases	37,149	-
Construction in progress	<u>13,942</u>	<u>13,830</u>
	2,041,294	1,988,578
Less accumulated depreciation and amortization	<u>(1,345,461)</u>	<u>(1,269,648)</u>
Total land, buildings, and equipment—net	<u>\$ 695,833</u>	<u>\$ 718,930</u>

Depreciation expense for the years ended September 30, 2020 and 2019, was \$79,218,000 and \$78,607,000, respectively. As of September 30, 2020, the accumulated amortization on assets under financing leases was approximately \$32,523,000. As of September 20, 2019, the accumulated amortization on assets under capital leases was approximately \$28,729,000.

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 \$1,000,000 and \$9,000,000 as of September 30, 2020 and 2019, respectively. There were no amounts outstanding under the line of credit at September 30, 2020 or 2019. This line of credit expires on July 31, 2021.

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, 2020 and 2019, Baystate Health has accrued \$1,600,000 and \$3,643,000, respectively, in accounts receivable, other in the accompanying consolidated statements of financial position. During 2020 and 2019, 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 \$526,000 and \$486,000, respectively.

In 2017, Baycare formed the Baystate Health Care Alliance LLC (BHCA), 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, 2020 and 2019, Baystate Health has accrued \$4,100,000 and \$3,000,000, respectively, in accounts payable in the accompanying consolidated statements of financial position related to the contract.

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 2020 and 2019, HNE received approximately \$4,440,000 and \$7,400,000, respectively, in DSRIP funds. At September 30, 2020 and 2019, the DSRIP fund liability amounted to approximately \$880,000 and \$3,005,000, respectively, and is included in accounts payable in the accompanying consolidated statements of financial position. In 2020 and 2019, Baystate Health has recognized approximately \$3,600,000 and \$4,900,000, 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. COMMITMENTS AND CONTINGENCIES

COVID-19 Pandemic—In March 2020, the global COVID-19 pandemic began to significantly affect Baystate Health’s patients, communities, employees, and business operations. Patient volumes and the related revenue for most of Baystate Health’s health care services were materially impacted from mid-March through September 30, 2020, and continue to be impacted subsequent to year-end. Various policies were implemented by federal, state, and local governments in response to the COVID-19 pandemic that caused restrictions on nonessential medical services, travel bans, physical distancing, and shelter-in-place orders. These policies forced Baystate Health to reduce hours and temporarily close certain operations, as well as significantly reduce surgical procedures, outpatient diagnostic and treatment services, and physician patient visits. A significant reduction in emergency care visits was experienced as well. Baystate Health’s response to the COVID-19 pandemic also required additional staff and supply resources. These circumstances had a material negative impact on operating results. In addition, even with appropriate protective measures, exposure to COVID-19 increases the risk that clinicians and others in Baystate Health’s facilities may contract the virus, which could further limit the ability to treat all patients who seek care. If more COVID-19 surges were to occur, some of Baystate Health’s facilities could experience workforce disruptions. Supply chain disruptions, including shortages; delays; and significant price increases in medical supplies, pharmaceuticals, and personal protective equipment, have impacted and are expected to continue to impact Baystate Health’s operations. In addition, broad economic factors resulting from the COVID-19 pandemic, including increased continuing unemployment rates and reduced consumer spending, are impacting service mix, revenue mix, and patient volumes.

Following the COVID-19 outbreak, the values of investment securities temporarily declined. These economic and market conditions and other effects of the COVID-19 outbreak may continue to adversely affect Baystate Health. The extent of the adverse impact of the COVID-19 outbreak on Baystate Health’s investments and the amounts reported in the 2020 consolidated statement of financial position and consolidated statement of operations cannot be predicted at this time.

While nonessential medical services have resumed at Baystate Health's facilities, Baystate Health expects consolidated patient volumes and revenue will continue to be negatively impacted by the continuing presence of COVID-19 in our markets. Baystate Health has taken and continues to take various actions to increase its liquidity and mitigate the impact on operations from the COVID-19 pandemic. To increase liquidity, Baystate Health has temporarily restricted new capital projects. Furthermore, Baystate Health has taken steps to control spending and reallocate resources to support its hospitals and clinicians. These steps included implementing executive pay reductions, redeploying staff to different roles and locations across the system, implementing furloughs and schedule reductions, and negotiating supplier concessions, all of which began in April 2020. As discussed in Note 2, Baystate Health received significant grants during the latter part of fiscal year 2020, which helped to mitigate some of the negative financial impacts of the COVID-19 pandemic. Known and unknown risks and uncertainties caused by the COVID-19 pandemic, including those described above, are having, and will likely continue to have, a material impact on Baystate Health's business, financial condition, results of operations, and cash flows. At this point, Baystate Health cannot estimate the length or severity of the pandemic, which limits Baystate Health's ability to forecast the pandemic's impact on Baystate Health's consolidated financial position, results of operations, and cash flows. The impact to Baystate Health's consolidated financial position, results of operations, and cash flows are heavily dependent on Baystate Health's ability to emerge from the pandemic by regaining patient volumes in each of the markets served by Baystate Health. Baystate Health believes the actions it has taken, as supplemented by the various forms of government aid received, position Baystate Health to have liquidity adequate to fund essential services and make timely debt service payments during the COVID-19 pandemic.

Health Care Regulatory Environment—The health care industry is subject to numerous and complex laws and regulations of federal, state, and local governments. These laws and regulations include, but are not limited to, matters such as licensure, accreditation, privacy, government health care program participation requirements and government reimbursement for patient services, fraud and abuse requirements, and requirements for tax-exempt organizations. Both the CARES Act and the PPPHCE Act Terms and Conditions require attestation to accept related funding. In addition, requirements to earn the funds are numerous and guidance as to the requirements have been continually updated, and continue to be updated, by the Department of Health and Human Services (HHS). Laws and regulations concerning government programs, including Medicare, Medicaid, CARES Act, and PPPHCE Act, are subject to varying interpretation. Compliance with such laws and regulations is complex and can be subject to future government review and interpretation as well as significant regulatory enforcement actions, including fines, penalties, and potential exclusion from government health care programs such as Medicare and Medicaid. As a result of investigations by governmental agencies, Baystate Health periodically receives requests for information and notices regarding alleged noncompliance with those laws and regulations, billing, payment or other reimbursement matters initiating investigations, or indicating the existence of whistleblower litigation which, in some instances, have resulted in BH entering into significant settlement agreements. There can be no assurance that regulatory authorities will not challenge Baystate Health's compliance with these laws and regulations. In addition, the contracts Baystate Health has with commercial payers also provide for retroactive audit and review of claims. The health care industry in general is experiencing an increase in these activities as federal and state governments increase their enforcement activities and institute new programs designed to identify potential irregularities in reimbursement or quality of patient care. Based on the information received to date, management does not believe the ultimate resolution of these matters will have a material adverse effect on Baystate Health's future consolidated financial position or results of operations.

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.

Future maturities of lease liabilities at September 30, 2020, are as follows (in thousands):

Years Ending September 30	Finance Leases	Operating Leases
2021	\$ 3,053	\$ 13,722
2022	3,053	11,831
2023	2,977	10,322
2024	2,287	7,421
2025	2,086	5,832
Thereafter	<u>1,032</u>	<u>31,565</u>
Total minimum lease payments	14,488	80,693
Less amount representing interest	<u>(639)</u>	<u>(10,008)</u>
Total lease obligations	13,849	70,685
Less current portion	<u>(2,880)</u>	<u>(11,876)</u>
Long-term portion	<u>\$ 10,969</u>	<u>\$ 58,809</u>

Supplemental lease activity for the year ended September 30, 2020, is as follows (in thousands):

Components of Lease Expense	Classification in Statement of Operations	2020
Operating lease expense	Supplies and expense	<u>\$ 10,861</u>
Finance lease expense:		
Amortization of ROU assets—finance leases	Depreciation and amortization	3,335
Interest on lease liabilities—finance leases	Interest expense	<u>1,060</u>
		<u>4,395</u>
Short term and variable lease expense	Supplies and expense	<u>9,405</u>
Total lease cost		<u>\$ 24,661</u>

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

Years 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	<u>3,118</u>	<u>41,242</u>
Total minimum lease payments	15,640	<u>\$ 98,050</u>
Less amount representing interest	<u>(805)</u>	
Present value of net minimum lease payments	14,835	
Less current portion	<u>(2,391)</u>	
Long-term portion	<u>\$ 12,444</u>	

Rental expense of operating leases amounted to approximately \$19,960,000 and is included in supplies and expense on the consolidated statement of operations for the year ended September 30, 2019.

The weighted-average remaining lease term and weighted-average discount rate at September 30, 2020, were as follows:

	Weighted-Average Remaining Lease Term (Years)	Weighted-Average Discount Rate
Operating leases	8.96	3.0 %
Finance leases	4.77	1.9

Supplemental cash flow information related to leases for the year ended September 30, 2020, was as follows (in thousands):

	2020
Land, buildings, and equipment acquired through financing leases	<u>\$ 1,649,000</u>
Right of use assets acquired in exchange for operating lease liabilities	<u>\$ 4,824,000</u>
Beginning operating lease right-of-use asset balance	<u>\$ 78,388,000</u>
Beginning operating lease liability balance	<u>\$ 78,388,000</u>

2020

Cash paid for amounts included in the measurement of lease liabilities:

Operating cash outflows from finance leases	\$ 1,060,000
Operating cash outflows from operating leases	12,713,000
Financing cash outflows from finance leases	<u>2,633,000</u>

\$ 16,406,000

11. LONG-TERM DEBT

BMC, BFMC, and BWH have loan agreements with the Massachusetts Development Finance Agency (MDFA) (effective October 1, 2010, Massachusetts Health and Educational Facilities Authority (MHEFA) merged into MDFA), the MHEFA, and private placements for construction projects and equipment. Long-term obligations outstanding at September 30, 2020 and 2019, consist of the following (in thousands):

	<u>Amount Outstanding</u>	
	2020	2019
Bond issuances:		
BMC Series Q	\$ 167,800	\$ -
BMC Series P-1	35,790	37,573
BMC Series P-2	23,616	24,682
BWH Series A	14,031	14,506
BMC Series O	16,331	17,203
BMC Series N	54,825	55,115
BFMC Series A	19,752	20,305
BMC Series M	29,922	31,462
BMC Series L	19,791	20,461
BMC Series J-1	33,000	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
BMC Series H	-	1,556
BFMC Series M-4A	2,802	3,398
BMC Series G	-	29,200
	<u>509,070</u>	<u>395,520</u>
Subtotal	509,070	395,520
Finance lease obligations	13,849	-
BH note payable—line of credit	20,217	27,239
BH note payable—BWH acquisition	11,508	12,248
BWH note payable	11,510	11,921
BNH financing arrangements	181	274
Original issue premium	4,263	4,533
Issuance costs	<u>(3,438)</u>	<u>(2,774)</u>
Total long-term debt	567,160	448,961
Less current portion	<u>(12,237)</u>	<u>(14,387)</u>
Long-term debt, excluding current portion	<u>\$ 554,923</u>	<u>\$ 434,574</u>

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 was 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 J-1 Bonds—BMC issued Series J-1 MHEFA Revenue Bonds in the original aggregate amount of \$45,000,000. As part of the Series Q issuance, \$12,000,000 of this bond was repaid. Interest on the bonds is variable and is 0.10% and 1.46% at September 30, 2020 and 2019, 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 0.12% and 1.55% at September 30, 2020 and 2019, 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 0.10% and 1.72% at September 30, 2020 and 2019, 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 September 15, 2025.

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 0.10% and 1.45% at September 30, 2020 and 2019, 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 was variable and reset weekly to reflect current market rates and was 1.62% at September 30, 2019. This bond was repaid in full on August 3, 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 was variable based on monthly resets and is 2.38% at September 30, 2019. This bond was repaid in full on January 10, 2020.

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 0.13% and 1.61% at September 30, 2020 and 2019, 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, 2021.

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 was variable and reset every 35 days, and was 1.69% at September 30, 2019. As part of the Series Q issuance, this bond was repaid in full on December 23, 2019.

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 \$99,000 and \$1,190,000 at September 30, 2020 and 2019, 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 at September 30, 2019.

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 0.85% and 2.94% at September 30, 2020 and 2019, 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 0.62% and 2.56% on September 30, 2020 and 2019, 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 \$181,000 as of September 30, 2020, of which approximately \$58,000 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, 2020 and 2019.

The combined aggregate future principal payments of all long-term debt as of September 31, 2020, are as follows (in thousands):

Years Ending September 30	Long-Term Debt	Finance Lease Obligations	Total
2021	\$ 9,357	\$ 2,880	\$ 12,237
2022	30,235	2,884	33,119
2023	10,365	2,828	13,193
2024	42,004	2,187	44,191
2025	26,423	2,053	28,476
Thereafter	<u>434,102</u>	<u>1,017</u>	<u>435,119</u>
	<u>\$ 552,486</u>	<u>\$ 13,849</u>	<u>\$ 566,335</u>

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, 2020 and 2019, was \$25,390,000 and \$29,200,000, respectively. The agreement provides for the financial institution to pay variable-rate payments to BMC equal to 56.9% of one-month LIBOR, plus 0.32%, and for BMC to pay the financial institution a fixed

rate of 3.021%. The LIBOR was 0.41% and 2.05% at September 30, 2020 and 2019, respectively. There are termination provisions to this contract for each party.

The fair value of this agreement resulted in a swap liability of approximately \$2,225,000 and \$2,100,000 at September 30, 2020 and 2019, 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, 2020 and 2019, interest cost was as follows (in thousands):

	2020	2019
Total interest cost	\$ 12,824	\$ 13,632
Net interest cost capitalized	<u>(203)</u>	<u>(196)</u>
Net interest cost expensed	<u>\$ 12,621</u>	<u>\$ 13,436</u>

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, 2020 and 2019, reinsurance recoverables of \$20,645,000 and \$19,965,000, 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, 2020 and 2019, 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, 2020 and 2019, is summarized as follows (in thousands):

	2020	2019
Balance at beginning of year	<u>\$ 100,745</u>	<u>\$ 101,762</u>
Incurred (recovered) related to:		
Current year	29,452	28,811
Prior years	<u>(6,206)</u>	<u>(7,159)</u>
Total incurred	<u>23,246</u>	<u>21,652</u>
Paid related to:		
Current year	(2,394)	(2,350)
Prior years	<u>(17,663)</u>	<u>(20,319)</u>
Total paid	<u>(20,057)</u>	<u>(22,669)</u>
Balance at end of year	<u>\$ 103,934</u>	<u>\$ 100,745</u>

14. MEDICAL CLAIMS PAYABLE

Activity in medical claims payable for the years ended September 30, 2020 and 2019, are as follows (in thousands):

	2020	2019
Medical claims payable:		
Claims payable—beginning of year	\$ 22,694	\$ 35,338
Risk-sharing payable—beginning of year	<u>28,955</u>	<u>29,555</u>
	<u>51,649</u>	<u>64,893</u>
Claims incurred:		
Current year	482,417	660,351
Prior years	<u>(3,988)</u>	<u>(4,683)</u>
	<u>478,429</u>	<u>655,668</u>
Claims paid:		
Current year	(405,304)	(615,579)
Prior years	<u>(52,598)</u>	<u>(53,333)</u>
	<u>(457,902)</u>	<u>(668,912)</u>
Risk-sharing payable—end of year	29,599	22,694
Medical claims payable—end of year	<u>42,577</u>	<u>28,955</u>
Total medical claims payable	<u>\$ 72,176</u>	<u>\$ 51,649</u>

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, 2020, 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 2020 is presented as unaudited supplementary information (in thousands):

Commercial	Cumulative Incurred Claims and Allocated Claims Adjustment Expenses, Net of Reinsurance			Total of IBNR Liabilities Plus Expected Development on Reported Claims	Cumulative Number of Reported Claims
	For the Years Ended September 30, (Unaudited)				
	2018	2019	2020		
Incurring Year					
2018	\$290,587	\$288,692	\$289,183	\$ 2	1,009,128
2019	-	244,258	241,704	833	772,941
2020	-	-	<u>249,415</u>	<u>30,120</u>	737,061
			<u>780,302</u>	<u>\$30,955</u>	
Cumulative incurred claims for the periods presented			<u>\$780,302</u>		
Claims adjustment expenses	<u>\$ 772</u>	<u>\$ 552</u>	<u>\$ 736</u>		
	Cumulative Paid Claims and Paid Allocated Claims Adjustment Expenses, Net of Reinsurance				
	For the Years Ended September 30, (Unaudited)				
Incurring Year	2018	2019	2020		
2018	\$265,792	\$288,641	\$289,181		
2019	-	221,389	240,871		
2020	-	-	<u>219,295</u>		
Cumulative paid claims for the periods presented			749,347		
All outstanding liabilities prior to 2018—net of reinsurance			<u>2,127</u>		
Liability for commercial medical claims payable—net of reinsurance			<u>\$ 33,818</u>		

Medicare & Medicare Supplement	Cumulative Incurred Claims and Allocated Claims Adjustment Expenses, Net of Reinsurance			Total of IBNR Liabilities Plus Expected Development on Reported Claims	Cumulative Number of Reported Claims
Incurred Year	For the Years Ended September 30, (Unaudited)				
	2018	2019	2020		
2018	\$79,416	\$78,140	\$ 78,090	\$ -	269,926
2019	-	79,340	78,593	504	278,069
2020	-	-	<u>73,757</u>	<u>8,299</u>	265,381
			<u>230,440</u>	<u>8,803</u>	
Cumulative incurred claims for the periods presented			<u>\$230,440</u>	<u>\$8,803</u>	
Claims adjustment expenses	<u>\$ 181</u>	<u>\$ 162</u>	<u>\$ 206</u>		
	Cumulative Paid Claims and Paid Allocated Claims Adjustment Expenses, Net of Reinsurance				
	For the Years Ended September 30, (Unaudited)				
	2018	2019	2020		
2018	\$70,330	\$78,122	\$ 78,090		
2019	-	72,723	78,089		
2020	-	-	<u>65,458</u>		
Cumulative paid claims for the periods presented			221,637		
All outstanding liabilities prior to 2018—net of reinsurance			<u>-</u>		
Liability for Medicare and Medicare supplemental medical claims payable—net of reinsurance			<u>\$ 9,009</u>		

Medicaid	Cumulative Incurred Claims and Allocated Claims Adjustment Expenses, Net of Reinsurance			Total of IBNR Liabilities Plus Expected Development on Reported Claims	Cumulative Number of Reported Claims
	For the Years Ended September 30, (Unaudited)				
	2018	2019	2020		
Incurring Year					
2018	\$202,214	\$203,384	\$203,393	\$ -	1,149,716
2019	-	189,439	187,850	164	1,018,764
2020	-	-	<u>185,615</u>	<u>17,989</u>	983,046
			<u>576,858</u>	<u>18,153</u>	
Cumulative incurred claims for the periods presented			<u>\$576,858</u>	<u>\$18,153</u>	
Claims adjustment expenses	<u>\$ 582</u>	<u>\$ 394</u>	<u>\$ 443</u>		
	Cumulative Paid Claims and Paid Allocated Claims Adjustment Expenses, Net of Reinsurance				
	For the Years Ended September 30, (Unaudited)				
Incurring Year	2018	2019	2020		
2018	\$185,824	\$203,374	\$203,393		
2019	-	173,614	187,686		
2020	-	-	<u>167,626</u>		
Cumulative paid claims for the periods presented			558,705		
All outstanding liabilities prior to 2017—net of reinsurance			-		
Liability for Medicaid medical claims payable—net of reinsurance			<u>\$ 18,596</u>		

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, 2020, is as follows (in thousands):

Net outstanding liabilities:	
Commercial	\$ 33,818
Medicare	9,009
Medicaid	<u>18,596</u>
Total gross liability for medical claims payable	<u>\$ 61,423</u>

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 following four 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 2019 activity, the minimum capital amount as determined by each of the above tests is as follows: a) \$1,000,000, b) \$8,791,316, c) \$6,958,460, and d) \$40,163,907. At December 31, 2019, 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, 2019, 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, 2020, operating loss carryforwards for federal income tax purposes were approximately \$24,795,000 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 consolidated 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 2020 and 2019, distributions from the Trusts were approximately \$1,674,000 and \$1,500,000, 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 necessary on an actuarial basis to provide for benefits in accordance with the Employee Retirement Income Security Act of 1974, using the accrued benefit (net credit) actuarial cost method.

Plan Freeze—Effective December 31, 2015, participants in the plan ceased to accrue benefits. On January 1, 2016, the participants in the plan became participants in the redesigned Baystate Health defined contribution plan (the “DC plan”). In connection with the plan freeze, the period for amortizing actuarial gains and losses was changed from the average expected future service of active participants to the average expected future lifetime as a plan participant for all participants.

Settlement Charge—During 2020, lump-sum payments from the plan exceeded the settlement threshold; therefore, a settlement charge (exclusive of other ownership interests) of \$15,956,000 was recorded in other components of net periodic pension (cost) benefit, net in the 2020 accompanying consolidated statement of operations.

The following table presents the change in the plan's projected benefit obligation, change in plan assets, and funded status of the plan at September 30, 2020 and 2019 (in thousands):

Change in Pension Obligation	2020	2019
Pension obligation—beginning of year	\$ 967,314	\$ 868,561
Service/administrative cost	-	2,000
Interest cost	30,378	36,732
Actuarial loss	59,342	117,954
Benefits paid	(33,393)	(57,933)
Settlements	<u>(36,802)</u>	<u>-</u>
Pension obligation—end of year	<u>\$ 986,839</u>	<u>\$ 967,314</u>
Change in Plan Assets		
Fair value of plan assets—beginning of year	\$ 868,955	\$ 846,029
Actual return on plan assets	72,496	75,859
Employer contributions	5,000	5,000
Benefits paid	(33,393)	(57,933)
Settlements	<u>(36,802)</u>	<u>-</u>
Fair value of plan assets—end of year	<u>\$ 876,256</u>	<u>\$ 868,955</u>
Funded Status		
Funded status of the plan	<u>\$ (110,583)</u>	<u>\$ (98,359)</u>
Pension liability	<u>\$ (110,583)</u>	<u>\$ (98,359)</u>
Amounts Recognized in Unrestricted Net Assets Consist of		
Net actuarial loss	<u>\$ 432,722</u>	<u>\$ 423,646</u>
Accumulated pension adjustment	<u>\$ 432,722</u>	<u>\$ 423,646</u>

Exclusive of other ownership interest, the underfunded status of the plan at September 30, 2020, is approximately \$110,028,000, the change in the pension adjustment is \$9,029,000 and the accumulated pension adjustment in net assets without donor restrictions is \$430,612,000.

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.

The net actuarial loss and prior-service credit expected to be recognized in benefit cost in 2021 is approximately \$14,390,000 and \$133,000, respectively.

The assumptions used to develop the projected benefit obligation at September 30, 2020 and 2019, are as follows:

	2020	2019
Discount rate	2.70 %	3.25 %
Rate of compensation increase	N/A	N/A

The mortality assumption for 2020 was the Pri-2012 table with generational projection using Scale MP 2019. The mortality assumption for 2019 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, 2020 and 2019.

Net Periodic Pension Benefit—Net pension benefit for the defined benefit plan for the years ended September 30, 2020 and 2019, includes the following components (in thousands):

	2020	2019
Administrative cost	\$ -	\$ 2,000
Interest cost	30,378	36,732
Expected return on plan assets	(52,523)	(59,549)
Recognized net actuarial loss	14,118	11,084
Settlements	16,042	-
Prior service cost	<u>133</u>	<u>133</u>
Net pension cost (benefit)	<u>\$ 8,148</u>	<u>\$ (9,600)</u>

The assumptions used to determine net pension benefit for the years ended September 30, 2020 and 2019, are as follows:

	2020	2019
Discount rate	3.25 %	4.40 %
Expected return on plan assets	6.75	7.25

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, 2020, 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, 2020 and 2019, is as follows:

	2020	2019
Common and preferred equity securities	43 %	40 %
US government and domestic fixed-income securities	40	43
Other investments	<u>17</u>	<u>17</u>
	<u>100 %</u>	<u>100 %</u>

Financial assets invested in the plan, in one of the three categories described previously, at September 30, 2020 and 2019, 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, 2020			
	Level 1	Level 2	Level 3	Total
Money market	\$ 3,974	\$ 4,747	\$ -	\$ 8,721
Mutual funds—equity index funds	251,009	-	-	251,009
Fixed-income securities	-	327,575	-	327,575
Domestic equity securities	<u>13,756</u>	<u>-</u>	<u>-</u>	<u>13,756</u>
Total assets—at fair value	<u>\$ 268,739</u>	<u>\$ 332,322</u>	<u>\$ -</u>	<u>601,061</u>
Plan assets—at contract value				<u>16,638</u>
Investments measured at NAV:				
Commingled international equity funds				98,868
Commingled emerging markets funds				12,866
Commingled master limited partnerships				204
Commingled hedge funds				26,352
Hedge fund of funds				20,166
Private market funds				<u>81,207</u>
Total investments measured at NAV				<u>239,663</u>
Redemption receivable from alternative investments				<u>18,894</u>
Total plan assets				<u>\$ 876,256</u>

	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
Fixed-income securities	-	352,493	-	352,493
Domestic equity securities	<u>106,275</u>	<u>-</u>	<u>-</u>	<u>106,275</u>
Total assets—at fair value	<u>\$ 193,956</u>	<u>\$ 357,148</u>	<u>\$ -</u>	<u>551,104</u>
Plan assets—at contract value				<u>16,286</u>
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				<u>73,137</u>
Total investments measured at NAV				<u>301,565</u>
Total plan assets				<u>\$ 868,955</u>

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, 2020 and 2019, is as follows (in thousands):

Description of Investment	September 30, 2020		
	Fair Value	Redemption Frequency	Redemption Notice Period
Commingled international equity funds	\$ 98,868	Monthly	5–30 days
Commingled emerging markets funds	12,866	Monthly	30 days
Commingled master limited partnerships	204	Monthly	30 days
Commingled hedge funds	26,352	Monthly	3 days
Hedge fund of funds	20,166	Quarterly	95 days
Private market investments	<u>81,207</u>	*	*
Total	<u>\$ 239,663</u>		

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

Description of Investment	September 30, 2019		
	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	<u>\$ 301,565</u>		

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

Contributions—Baystate Health expects to contribute \$5,000,000 to the plan in 2021.

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
2021	\$ 62,022
2022	59,480
2023	59,186
2024	56,243
2025	52,958
Years 2026–2030	<u>256,663</u>
	<u>\$ 546,552</u>

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 \$45,921,000 in 2020 and \$46,771,000 in 2019 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 \$1,946,000 and \$1,913,000 in 2020 and 2019, 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 \$74,617,000 and \$66,973,000 within other liabilities in the consolidated statements of financial position as of September 30, 2020 and 2019, respectively, which represent 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 \$1,902,000 and \$1,971,000 in 2020 and 2019, 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, 2020, is approximately \$2,639,000, of which \$2,525,000 is classified as long-term and included as a pension liability in the consolidated statement of financial position. The balance due at September 30, 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.

Noble’s contributions amounted to approximately \$197,000 and \$158,000 in 2020 and 2019, respectively, and is included in supplies and expense in the consolidated statements of operations.

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, 2020 and 2019, is as follows:

	2020	2019
Medicare	20 %	20 %
Medicaid	8	14
Commercial and other	67	61
Self-pay patients	<u>5</u>	<u>5</u>
	<u>100 %</u>	<u>100 %</u>

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, 2020 and 2019, are as follows (in thousands):

	2020				
	Program Activities			Supporting Activities	Total Operating Expenses
	Hospitals	Health Plan	Physician	General and Administrative	
Salaries and wages	\$ 540,864	\$ 11,348	\$ 263,190	\$ 147,429	\$ 962,831
Supplies and expense	846,225	-	114,836	5,413	966,474
Medical claims and capitation	-	436,088	-	-	436,088
Depreciation and amortization	63,079	2,823	2,238	11,078	79,218
Interest expense	<u>11,738</u>	<u>-</u>	<u>-</u>	<u>883</u>	<u>12,621</u>
	<u>\$ 1,461,906</u>	<u>\$ 450,259</u>	<u>\$ 380,264</u>	<u>\$ 164,803</u>	<u>\$ 2,457,232</u>
	2019				
	Program Activities			Supporting Activities	Total Operating Expenses
	Hospitals	Health Plan	Physician	General and Administrative	
Salaries and wages	\$ 560,290	\$ 10,109	\$ 251,446	\$ 109,382	\$ 931,227
Supplies and expense	761,971	-	107,326	21,930	891,227
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	<u>3,631</u>	<u>-</u>	<u>763</u>	<u>-</u>	<u>4,394</u>
	<u>\$ 1,399,842</u>	<u>\$ 425,884</u>	<u>\$ 361,018</u>	<u>\$ 144,781</u>	<u>\$ 2,331,525</u>

Certain costs have been allocated to 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, 2020 and 2019, are available for the following purposes (in thousands):

	2020	2019
Research and education	\$ 8,952	\$ 7,169
Patient care services	51,783	51,622
Endowment funds with donor restrictions	19,348	18,553
Beneficial interest in perpetual trusts	<u>41,513</u>	<u>39,505</u>
	<u>\$ 121,596</u>	<u>\$ 116,849</u>

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, 2020 and 2019, consisted of the following (in thousands):

As of September 30, 2020	Without Donor Restriction	With Donor Restriction	Total
Donor-restricted endowment funds	\$ -	\$ 62,924	\$ 62,924
Board-designated endowment funds	<u>31,779</u>	<u>-</u>	<u>31,779</u>
Total endowment net assets	<u>\$ 31,779</u>	<u>\$ 62,924</u>	<u>\$ 94,703</u>
As of September 30, 2019	Without Donor Restriction	With Donor Restriction	Total
Donor-restricted endowment funds	\$ -	\$ 61,395	\$ 61,395
Board-designated endowment funds	<u>28,805</u>	<u>-</u>	<u>28,805</u>
Total endowment net assets	<u>\$ 28,805</u>	<u>\$ 61,395</u>	<u>\$ 90,200</u>

For the year ended September 30, 2020, Baystate Health had the following endowment-related activities (in thousands):

	Without Donor Restriction	With Donor Restriction	Total
Endowment net assets—October 1, 2019	<u>\$ 28,805</u>	<u>\$ 61,395</u>	<u>\$ 90,200</u>
Investment return:			
Investment income	299	652	951
Net appreciation	<u>996</u>	<u>2,415</u>	<u>3,411</u>
Total investment return	<u>1,295</u>	<u>3,067</u>	<u>4,362</u>
Contributions	2,799	766	3,565
Other	-	(2)	(2)
Amounts appropriated for expenditures	<u>(1,120)</u>	<u>(2,302)</u>	<u>(3,422)</u>
Total change in endowment funds	<u>2,974</u>	<u>1,529</u>	<u>4,503</u>
Endowment net assets—September 30, 2020	<u>\$ 31,779</u>	<u>\$ 62,924</u>	<u>\$ 94,703</u>

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	<u>\$ 28,867</u>	<u>\$ 62,237</u>	<u>\$ 91,104</u>
Investment return:			
Investment income	311	674	985
Net appreciation	<u>261</u>	<u>484</u>	<u>745</u>
Total investment return	<u>572</u>	<u>1,158</u>	<u>1,730</u>
Contributions	437	288	725
Other	-	11	11
Amounts appropriated for expenditures	<u>(1,071)</u>	<u>(2,299)</u>	<u>(3,370)</u>
Total change in endowment funds	<u>(62)</u>	<u>(842)</u>	<u>(904)</u>
Endowment net assets—September 30, 2019	<u>\$ 28,805</u>	<u>\$ 61,395</u>	<u>\$ 90,200</u>

Baystate Health’s investment and spending policies for endowment assets are intended to provide a predictable stream of funding to programs supported by its endowment, while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that Baystate Health must hold in perpetuity or for a donor-specified term. Under this policy, as approved by the Board of Trustees, the endowment assets are invested in a manner that will generate 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, 2020 or 2019.

22. STATE SURPLUS REVENUE RETENTION

Through September 30, 2020, BMC had no surplus in excess of the Commonwealth of Massachusetts’ rules and 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 \$23,000 and \$23,400 as of September 30, 2020 and 2019, respectively. As of September 30, 2020 and 2019, the cumulative deficit attributable to state contracting of approximately \$6,945,000 and \$6,922,000, respectively, is included in the net assets without donor restrictions of BMC.

23. SUBSEQUENT EVENTS

Medicare Cash Advances—On October 1, 2020, the Continuing Appropriations Act, 2021 and Other Extensions Act (the “Act”) was passed, which revised the Medicare Accelerated and Advance Payment (AAP) Program repayment terms and interest rate for amounts received between the passage of the CARES Act and the end of the COVID-19 public health emergency. The Act delays the beginning of the recoupment of the advance payments to 12 months after the receipt of AAP funds and extends the full repayment term to 29 months. In addition, the Act caps recoupments at 25% for the first 11 months of repayment and 50% for the following 6 months. The interest rate is capped at 4% for amounts that remain outstanding at the end of the revised recoupment period.

CARES Act—HHS continues to issue additional guidance on the reporting and recognition requirements for Provider Relief Fund recipients. The application of the additional guidance is not expected to have a material effect on the amount of PRF funding recognized by Baystate Health. Final reporting to HHS will occur in 2021, and additional changes to guidance from HHS that occur prior to the final data submission may result in further revisions to the amount utilized and recognized by Baystate Health.

Subsequent events have been evaluated for potential recognition in the consolidated financial statements through January 5, 2021, 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, 2020 (In thousands)

	BMC	BFMC	BWH	BNH	BMP	BVNAH	HNE	IC	Other Entities	Elim. & Reclass	Consolidated Totals
ASSETS											
CURRENT ASSETS:											
Cash and cash equivalents	\$ 530,067	\$ 28,932	\$ 15,192	\$10,816	\$10,265	\$ 6,726	\$ 71,142	\$ 283	\$ 44,134	\$ -	\$ 717,557
Investments	236,878	1,611	12,896	-	409	300	135,375	-	17,323	-	404,792
Accounts receivable, patients	125,612	9,077	8,510	4,890	16,024	3,676	-	-	-	(18,846)	148,943
Accounts receivable, other	8,858	182	95	19	7,603	98	48,615	9	5,380	-	70,859
Estimated final settlements receivable	6,699	1,588	784	198	-	-	-	-	-	-	9,269
Inventories	30,134	2,172	1,593	941	-	-	-	-	436	-	35,276
Prepaid expenses and other current assets	12,549	403	258	219	2,495	184	2,995	9	10,845	-	29,957
Due from affiliated companies	30,596	1	54	18	5,287	108	-	28	10,511	(46,603)	-
Line of credit, affiliate	-	-	-	-	-	-	-	-	468	(468)	-
Total current assets	981,393	43,966	39,382	17,101	42,083	11,092	258,127	329	89,097	(65,917)	1,416,653
LONG-TERM ASSETS:											
Investments	-	-	-	4,205	-	-	84	-	65,909	(120)	70,078
Equity investment in consolidated subsidiaries	-	-	-	-	-	-	-	-	48,387	(48,387)	-
Equity investment in unconsolidated affiliates	1,853	479	-	-	-	-	-	83	1,697	-	4,112
Beneficial interest in net assets of BHF	13,935	11,238	1,517	309	-	1,058	-	-	-	(28,057)	-
Deferred expense and other long-term assets	-	-	23	110	-	-	8	-	22,295	-	22,436
Goodwill	1,552	-	-	-	193	-	-	-	4,132	-	5,877
Land, buildings, and equipment—net	546,901	47,402	54,211	30,929	10,691	491	3,697	1,244	267	-	695,833
Operating lease right-of-use assets	43,017	109	45	215	17,613	1,621	7,645	3,082	2	(3,082)	70,267
Line of credit, affiliate	-	-	-	-	-	-	-	-	20,000	(20,000)	-
Total long-term assets	607,258	59,228	55,796	35,768	28,497	3,170	11,434	4,409	162,689	(99,646)	868,603
ASSETS WHOSE USE IS LIMITED:											
Board-designated funds:											
Cash and investments	276,553	-	-	72	-	-	-	-	24,437	-	301,062
Beneficial interest in net assets of BHF	2,620	475	234	401	-	662	-	-	2,022	(6,414)	-
Due from unrestricted funds	1,108	-	-	-	-	-	-	-	-	(1,108)	-
Investments of captive insurance company	-	-	-	-	-	-	-	-	139,704	-	139,704
Investments held by trustee under debt agreements	23	76	-	-	-	-	-	-	-	-	99
Beneficial interest in net assets of BHF	2,787	5,319	7,456	-	-	1,013	-	-	22,542	(39,117)	-
Beneficial interest in perpetual trusts	-	-	2,395	-	-	-	-	-	39,118	-	41,513
Deferred compensation investments	-	-	-	-	-	-	-	-	74,617	-	74,617
Total assets whose use is limited	283,091	5,870	10,085	473	-	1,675	-	-	302,440	(46,639)	556,995
TOTAL ASSETS	\$1,871,742	\$109,064	\$105,263	\$53,342	\$70,580	\$15,937	\$269,561	\$4,738	\$554,226	\$(212,202)	\$2,842,251

BAYSTATE HEALTH, INC. AND SUBSIDIARIES

CONSOLIDATING SCHEDULE OF LIABILITIES AND NET ASSETS AS OF SEPTEMBER 30, 2020 (In thousands)

	BMC	BFMC	BWH	BNH	BMP	BVNAH	HNE	IC	Other Entities	Elim. & Reclass	Consolidated Totals
LIABILITIES AND NET ASSETS (DEFICIT)											
CURRENT LIABILITIES:											
Accounts payable	\$ 81,052	\$ 3,742	\$ 3,854	\$ 3,078	\$ 17,794	\$ 1,623	\$ 25,635	\$ 180	\$ 38,648	\$ (157)	\$ 175,449
Medical claims payable	-	-	-	-	-	-	91,022	-	-	(18,846)	72,176
Accrued salaries and wages	46,415	3,585	3,537	2,505	32,698	1,845	5,861	-	11,240	-	107,686
Accrued interest payable	2,251	-	35	90	-	-	-	-	-	-	2,376
Estimated final settlements payable	29,766	3,442	3,610	3,696	-	103	-	-	-	-	40,617
Deferred revenue	58,710	3,607	2,336	2,723	20	1,798	13,322	49	1,435	-	84,000
Contract liabilities	181,362	16,093	13,567	9,529	4,700	5,191	-	-	-	-	230,442
Current portion of long-term debt	9,112	1,201	918	266	-	-	-	-	740	-	12,237
Current portion of operating lease obligations	8,277	52	30	125	2,441	198	751	15	2	(15)	11,876
Due to affiliated companies	1,309	2,006	9,734	1,584	10,871	3,215	3,974	581	13,174	(46,448)	-
Line of credit, affiliate	-	-	-	-	168	-	-	299	-	-	(467)
Due to board-designated funds	-	-	-	-	-	-	-	-	1,108	(1,108)	-
Total current liabilities	418,254	33,728	37,621	23,596	68,692	13,973	140,565	1,124	66,347	(67,041)	736,859
LONG-TERM DEBT	477,731	21,234	24,535	438	-	-	-	-	30,985	-	554,923
OPERATING LEASE OBLIGATIONS	35,013	57	15	90	15,318	1,423	6,893	3,067	-	(3,067)	58,809
PENSION LIABILITY	58,953	10,074	2,629	2,481	20,858	2,755	-	-	14,753	-	112,503
INSURANCE LIABILITY LOSS RESERVES	7,550	281	220	275	10,913	90	-	-	124,579	-	143,908
OTHER LIABILITIES	17,808	1,057	1,634	1,283	4,778	503	22	-	76,142	-	103,227
LINE OF CREDIT, AFFILIATE	-	-	-	-	-	-	20,000	-	-	(20,000)	-
Total liabilities	<u>1,015,309</u>	<u>66,431</u>	<u>66,654</u>	<u>28,163</u>	<u>120,559</u>	<u>18,744</u>	<u>167,480</u>	<u>4,191</u>	<u>312,806</u>	<u>(90,108)</u>	<u>1,710,229</u>
NET ASSETS (DEFICIT):											
Net assets without donor restrictions:											
Operating	1,093,648	56,688	34,858	20,368	39,268	2,706	102,081	547	128,281	(37,407)	1,441,038
Pension adjustment	(253,937)	(30,612)	(8,188)	-	(89,247)	(7,584)	-	-	(41,044)	-	(430,612)
Total net assets without donor restrictions	839,711	26,076	26,670	20,368	(49,979)	(4,878)	102,081	547	87,237	(37,407)	1,010,426
Net assets with donor restrictions	<u>16,722</u>	<u>16,557</u>	<u>11,939</u>	<u>4,811</u>	<u>-</u>	<u>2,071</u>	<u>-</u>	<u>-</u>	<u>154,183</u>	<u>(84,687)</u>	<u>121,596</u>
Total net assets (deficit)	<u>856,433</u>	<u>42,633</u>	<u>38,609</u>	<u>25,179</u>	<u>(49,979)</u>	<u>(2,807)</u>	<u>102,081</u>	<u>547</u>	<u>241,420</u>	<u>(122,094)</u>	<u>1,132,022</u>
TOTAL LIABILITIES AND NET ASSETS (DEFICIT)	<u>\$1,871,742</u>	<u>\$109,064</u>	<u>\$105,263</u>	<u>\$53,342</u>	<u>\$ 70,580</u>	<u>\$15,937</u>	<u>\$269,561</u>	<u>\$4,738</u>	<u>\$554,226</u>	<u>\$(212,202)</u>	<u>\$2,842,251</u>

BAYSTATE HEALTH, INC. AND SUBSIDIARIES

CONSOLIDATING SCHEDULE OF OPERATIONS FOR THE YEAR ENDED SEPTEMBER 30, 2020 (In thousands)

	BMC	BFMC	BWH	BNH	BMP	BVNAH	HNE	IC	Other Entities	Elim. & Reclass	Consolidated Totals
OPERATING REVENUES:											
Net patient service revenue	\$1,257,952	\$ 86,312	\$79,089	\$ 47,249	\$171,943	\$28,274	\$ -	\$ -	\$ -	\$(231,306)	\$1,439,513
Premiums	-	-	-	-	-	-	769,929	-	25,367	(22,766)	772,530
Other revenue	201,495	14,963	6,182	6,782	168,813	941	18,535	592	169,310	(312,675)	274,938
Net assets released from donor restrictions for operations	<u>1,344</u>	<u>641</u>	<u>20</u>	<u>147</u>	<u>861</u>	<u>130</u>	<u>-</u>	<u>-</u>	<u>4,248</u>	<u>(2,136)</u>	<u>5,255</u>
Total operating revenues	<u>1,460,791</u>	<u>101,916</u>	<u>85,291</u>	<u>54,178</u>	<u>341,617</u>	<u>29,345</u>	<u>788,464</u>	<u>592</u>	<u>198,925</u>	<u>(568,883)</u>	<u>2,492,236</u>
OPERATING EXPENSES:											
Salaries and wages	478,385	37,555	36,625	25,953	270,689	17,613	39,133	-	56,878	-	962,831
Supplies and expense	829,073	59,154	49,069	33,622	124,445	11,623	63,093	463	110,743	(314,811)	966,474
Medical claims and capitation	-	-	-	-	-	-	666,946	-	23,214	(254,072)	436,088
Depreciation and amortization	57,161	5,314	6,218	4,462	2,302	307	3,244	113	97	-	79,218
Interest expense	<u>9,888</u>	<u>765</u>	<u>824</u>	<u>261</u>	<u>189</u>	<u>-</u>	<u>-</u>	<u>3</u>	<u>691</u>	<u>-</u>	<u>12,621</u>
Total operating expenses	<u>1,374,507</u>	<u>102,788</u>	<u>92,736</u>	<u>64,298</u>	<u>397,625</u>	<u>29,543</u>	<u>772,416</u>	<u>579</u>	<u>191,623</u>	<u>(568,883)</u>	<u>2,457,232</u>
(LOSS) INCOME FROM OPERATIONS	<u>86,284</u>	<u>(872)</u>	<u>(7,445)</u>	<u>(10,120)</u>	<u>(56,008)</u>	<u>(198)</u>	<u>16,048</u>	<u>13</u>	<u>7,302</u>	<u>-</u>	<u>35,004</u>
NONOPERATING INCOME (LOSS):											
Investment income	5,535	2	82	-	-	-	-	-	171	-	5,790
Net realized gain (loss) on investments	9,053	23	137	4	(62)	11	-	-	718	-	9,884
Net unrealized gain (loss) on investments	2,259	(58)	41	9	(81)	15	4,166	-	11,529	-	17,880
Equity gain in consolidated subsidiaries	-	-	-	-	-	-	-	-	(31)	31	-
Equity gain in unconsolidated affiliates	80	-	-	-	-	-	-	(33)	(1,263)	-	(1,216)
Net interest cost on swap agreements	(581)	-	-	-	-	-	-	-	-	-	(581)
Change in fair value of swap agreements	(132)	-	-	-	-	-	-	-	-	-	(132)
Other components of net periodic pension cost—net	(4,856)	(611)	(112)	-	(1,688)	(90)	-	-	(747)	-	(8,104)
Other	<u>(2,461)</u>	<u>(13)</u>	<u>-</u>	<u>(8)</u>	<u>-</u>	<u>(19)</u>	<u>(3,799)</u>	<u>(21)</u>	<u>(7,968)</u>	<u>-</u>	<u>(14,289)</u>
Total nonoperating income (loss)	<u>8,897</u>	<u>(657)</u>	<u>148</u>	<u>5</u>	<u>(1,831)</u>	<u>(83)</u>	<u>367</u>	<u>(54)</u>	<u>2,409</u>	<u>31</u>	<u>9,232</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENSES	95,181	(1,529)	(7,297)	(10,115)	(57,839)	(281)	16,415	(41)	9,711	31	44,236
OTHER CHANGES IN NET ASSETS WITHOUT DONOR RESTRICTIONS:											
Net assets released from restrictions for capital	628	202	307	402	34	-	-	-	(15)	-	1,558
Transfers for the cost of land, buildings, and equipment	(1,201)	-	(51)	-	(1,492)	-	-	-	2,744	-	-
Transfers (to) from affiliated companies—net	(76,647)	(1,500)	2,463	20,523	55,161	-	-	-	-	-	-
Pension adjustment	<u>(5,408)</u>	<u>(680)</u>	<u>(125)</u>	<u>-</u>	<u>(1,881)</u>	<u>(101)</u>	<u>-</u>	<u>-</u>	<u>(832)</u>	<u>-</u>	<u>(9,027)</u>
INCREASE (DECREASE) IN NET ASSETS WITHOUT DONOR RESTRICTIONS	<u>\$ 12,553</u>	<u>\$ (3,507)</u>	<u>\$ (4,703)</u>	<u>\$ 10,810</u>	<u>\$ (6,017)</u>	<u>\$ (382)</u>	<u>\$ 16,415</u>	<u>\$ (41)</u>	<u>\$ 11,608</u>	<u>\$ 31</u>	<u>\$ 36,767</u>

BAYSTATE HEALTH, INC. AND SUBSIDIARIES

CONSOLIDATING SCHEDULE OF CHANGES IN NET ASSETS FOR THE YEAR ENDED SEPTEMBER 30, 2020 (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	\$ 95,181	\$ (1,529)	\$ (7,297)	\$(10,115)	\$(57,839)	\$ (281)	\$ 16,415	\$(41)	\$ 9,711	\$ 31	\$ 44,236
Net assets released from restrictions for capital	628	202	307	402	34	-	-	-	(15)	-	1,558
Transfers for the cost of land, buildings, and equipment	(1,201)	-	(51)	-	(1,492)	-	-	-	2,744	-	-
Transfers from (to) affiliates—net	(76,647)	(1,500)	2,463	20,523	55,161	-	-	-	-	-	-
Pension adjustment	(5,408)	(680)	(125)	-	(1,881)	(101)	-	-	(832)	-	(9,027)
	<u>12,553</u>	<u>(3,507)</u>	<u>(4,703)</u>	<u>10,810</u>	<u>(6,017)</u>	<u>(382)</u>	<u>16,415</u>	<u>(41)</u>	<u>11,608</u>	<u>31</u>	<u>36,767</u>
Increase (decrease) in net assets without donor restrictions											
NET ASSETS WITH DONOR RESTRICTIONS:											
Restricted investment income	-	-	-	-	-	-	-	-	321	-	321
Net realized and unrealized gain on investments	-	-	-	-	-	-	-	-	2,329	-	2,329
Change in fair value of perpetual trusts	-	-	143	-	-	-	-	-	1,865	-	2,008
Contributions	-	-	-	-	-	-	-	-	9,410	(2,560)	6,850
Transfers to unrestricted net assets	-	-	-	-	-	-	-	-	-	-	-
Change in value of beneficial interest in net assets of BHF	172	(67)	249	(291)	-	55	-	-	1,101	(1,219)	-
Net assets released from donor restrictions:											
For operations	-	-	-	-	-	-	-	-	(5,255)	-	(5,255)
For capital	-	-	-	-	-	-	-	-	(1,558)	-	(1,558)
Other	-	-	-	-	-	-	-	-	97	(45)	52
	<u>172</u>	<u>(67)</u>	<u>392</u>	<u>(291)</u>	<u>-</u>	<u>55</u>	<u>-</u>	<u>-</u>	<u>8,310</u>	<u>(3,824)</u>	<u>4,747</u>
Increase (decrease) in net assets with donor restrictions											
INCREASE (DECREASE) IN NET ASSETS	<u>12,725</u>	<u>(3,574)</u>	<u>(4,311)</u>	<u>10,519</u>	<u>(6,017)</u>	<u>(327)</u>	<u>16,415</u>	<u>(41)</u>	<u>19,918</u>	<u>(3,793)</u>	<u>41,514</u>
NET ASSETS (DEFICIT)—End of prior year	839,037	46,180	42,903	14,660	(43,962)	(2,480)	85,666	588	220,671	(118,301)	1,084,962
CUMULATIVE EFFECT OF ADOPTION OF ASU NO. 2016-01 (NOTE 2)	<u>4,671</u>	<u>27</u>	<u>17</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>831</u>	<u>-</u>	<u>5,546</u>
NET ASSETS (DEFICIT)—Beginning of year	<u>843,708</u>	<u>46,207</u>	<u>42,920</u>	<u>14,660</u>	<u>(43,962)</u>	<u>(2,480)</u>	<u>85,666</u>	<u>588</u>	<u>221,502</u>	<u>(118,301)</u>	<u>1,090,508</u>
NET ASSETS (DEFICIT)—End of year	<u>\$856,433</u>	<u>\$42,633</u>	<u>\$38,609</u>	<u>\$ 25,179</u>	<u>\$(49,979)</u>	<u>\$(2,807)</u>	<u>\$102,081</u>	<u>\$547</u>	<u>\$241,420</u>	<u>\$(122,094)</u>	<u>\$1,132,022</u>

BAYSTATE HEALTH, INC. AND SUBSIDIARIES

COMBINING SCHEDULE OF ASSETS—OTHER ENTITIES AS OF SEPTEMBER 30, 2020 (In thousands)

	BH	BAS	BHF	BHIC	Other Entities Totals
ASSETS					
CURRENT ASSETS:					
Cash and cash equivalents	\$ 13,194	\$ 14,047	\$ 11,531	\$ 5,362	\$ 44,134
Investments	2,788	704	13,831	-	17,323
Accounts receivable, other	268	693	934	3,485	5,380
Inventories	-	436	-	-	436
Prepaid expenses and other current assets	2,047	8,650	26	122	10,845
Due from affiliated companies	3,574	6,872	65	-	10,511
Line of credit, affiliate	468	-	-	-	468
	<u>22,339</u>	<u>31,402</u>	<u>26,387</u>	<u>8,969</u>	<u>89,097</u>
Total current assets					
LONG-TERM ASSETS:					
Investments	865	-	65,044	-	65,909
Equity investment in consolidated subsidiaries	48,387	-	-	-	48,387
Equity investment in unconsolidated affiliates	1,697	-	-	-	1,697
Deferred expense and other long-term assets	21,567	-	728	-	22,295
Goodwill	4,132	-	-	-	4,132
Land, buildings, and equipment—net	68	185	14	-	267
Operating lease right-of-use assets	-	2	-	-	2
Line of credit, affiliate	20,000	-	-	-	20,000
	<u>96,716</u>	<u>187</u>	<u>65,786</u>	<u>-</u>	<u>162,689</u>
Total long-term assets					
ASSETS WHOSE USE IS LIMITED:					
Board-designated funds:					
Cash and investments	21,066	-	3,371	-	24,437
Beneficial interest in net assets of BHF	2,022	-	-	-	2,022
Investments of captive insurance company	-	-	-	139,704	139,704
Beneficial interest in net assets of BHF	22,542	-	-	-	22,542
Beneficial interest in perpetual trusts	-	-	39,118	-	39,118
Deferred compensation investments	74,617	-	-	-	74,617
	<u>120,247</u>	<u>-</u>	<u>42,489</u>	<u>139,704</u>	<u>302,440</u>
TOTAL ASSETS	<u>\$ 239,302</u>	<u>\$ 31,589</u>	<u>\$ 134,662</u>	<u>\$ 148,673</u>	<u>\$ 554,226</u>

BAYSTATE HEALTH, INC. AND SUBSIDIARIES

COMBINING SCHEDULE OF LIABILITIES AND NET ASSETS—OTHER ENTITIES AS OF SEPTEMBER 30, 2020 (In thousands)

	BH	BAS	BHF	BHIC	Other Entities Totals
LIABILITIES AND NET ASSETS (DEFICIT)					
CURRENT LIABILITIES:					
Accounts payable	\$ 2,022	\$ 32,375	\$ 690	\$ 3,561	\$ 38,648
Accrued salaries and wages	-	10,907	333	-	11,240
Deferred revenue	1,435	-	-	-	1,435
Current portion of long-term debt	740	-	-	-	740
Current portion of operating lease obligations	-	2	-	-	2
Due to affiliated companies	3,088	8,705	649	732	13,174
Due to board-designated funds	<u>1,108</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,108</u>
Total current liabilities	8,393	51,989	1,672	4,293	66,347
LONG-TERM DEBT	30,985	-	-	-	30,985
PENSION LIABILITY	-	14,403	350	-	14,753
INSURANCE LIABILITY LOSS RESERVES	20,645	-	-	103,934	124,579
OTHER LIABILITIES	<u>74,617</u>	<u>1,352</u>	<u>173</u>	<u>-</u>	<u>76,142</u>
Total liabilities	<u>134,640</u>	<u>67,744</u>	<u>2,195</u>	<u>108,227</u>	<u>312,806</u>
NET ASSETS (DEFICIT):					
Net assets without donor restrictions:					
Operating	74,595	2,104	11,136	40,446	128,281
Pension adjustment	<u>(2,131)</u>	<u>(38,259)</u>	<u>(654)</u>	<u>-</u>	<u>(41,044)</u>
Total net assets without donor restrictions	72,464	(36,155)	10,482	40,446	87,237
Net assets with donor restrictions	<u>32,198</u>	<u>-</u>	<u>121,985</u>	<u>-</u>	<u>154,183</u>
Total net assets (deficit)	<u>104,662</u>	<u>(36,155)</u>	<u>132,467</u>	<u>40,446</u>	<u>241,420</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 239,302</u>	<u>\$ 31,589</u>	<u>\$ 134,662</u>	<u>\$ 148,673</u>	<u>\$ 554,226</u>

BAYSTATE HEALTH, INC. AND SUBSIDIARIES

COMBINING SCHEDULE OF OPERATIONS—OTHER ENTITIES FOR THE YEAR ENDED SEPTEMBER 30, 2020 (In thousands)

	BH	BAS	BHF	BHIC	Other Entities Totals
OPERATING REVENUES:					
Premiums	\$ -	\$ -	\$ -	\$ 25,367	\$ 25,367
Other revenue	26,749	134,822	3,022	4,717	169,310
Net assets released from donor restrictions for operations	686	201	3,361	-	4,248
Total operating revenues	<u>27,435</u>	<u>135,023</u>	<u>6,383</u>	<u>30,084</u>	<u>198,925</u>
OPERATING EXPENSES:					
Salaries and wages	-	53,971	2,907	-	56,878
Supplies and expense	25,543	80,958	3,433	809	110,743
Medical claims and capitation	-	-	-	23,214	23,214
Depreciation and amortization	2	93	2	-	97
Interest expense	691	-	-	-	691
Total operating expenses	<u>26,236</u>	<u>135,022</u>	<u>6,342</u>	<u>24,023</u>	<u>191,623</u>
INCOME (LOSS) FROM OPERATIONS	<u>1,199</u>	<u>1</u>	<u>41</u>	<u>6,061</u>	<u>7,302</u>
NONOPERATING INCOME (LOSS):					
Investment income	26	(4)	149	-	171
Net realized gain (loss) on investments	432	-	286	-	718
Net unrealized gain (loss) on investments	6,752	-	(307)	5,084	11,529
Equity gain in consolidated subsidiaries	(31)	-	-	-	(31)
Equity gain in unconsolidated affiliates	(1,263)	-	-	-	(1,263)
Other components of net periodic pension cost—net	-	(736)	(11)	-	(747)
Other	(7,881)	2	(89)	-	(7,968)
Total nonoperating (loss) income	<u>(1,965)</u>	<u>(738)</u>	<u>28</u>	<u>5,084</u>	<u>2,409</u>
(DEFICIENCY) EXCESS OF REVENUES OVER EXPENSES	(766)	(737)	69	11,145	9,711
OTHER CHANGES IN NET ASSETS WITHOUT DONOR RESTRICTIONS:					
Net assets released from restrictions for capital	-	-	(15)	-	(15)
Transfers for the cost of land, buildings, and equipment	3,058	-	(314)	-	2,744
Pension adjustment	-	(819)	(13)	-	(832)
INCREASE (DECREASE) IN NET ASSETS WITHOUT DONOR RESTRICTIONS	<u>\$ 2,292</u>	<u>\$ (1,556)</u>	<u>\$ (273)</u>	<u>\$ 11,145</u>	<u>\$ 11,608</u>

BAYSTATE HEALTH, INC. AND SUBSIDIARIES

COMBINING SCHEDULE OF CHANGES IN NET ASSETS—OTHER ENTITIES FOR THE YEAR ENDED SEPTEMBER 30, 2020 (In thousands)

	BH	BAS	BHF	BHIC	Other Entities Totals
NET ASSETS WITHOUT RESTRICTIONS:					
(Deficiency) excess of revenues over expenses	\$ (766)	\$ (737)	\$ 69	\$ 11,145	\$ 9,711
Net assets released from restrictions for capital	-	-	(15)	-	(15)
Transfers for the cost of land, buildings, and equipment	3,058	-	(314)	-	2,744
Pension adjustment	-	(819)	(13)	-	(832)
	<u>2,292</u>	<u>(1,556)</u>	<u>(273)</u>	<u>11,145</u>	<u>11,608</u>
Increase (decrease) in net assets without donor restrictions					
NET ASSETS WITH DONOR RESTRICTIONS:					
Restricted investment income	-	-	321	-	321
Net realized and unrealized gain on investments	-	-	2,329	-	2,329
Change in fair value of perpetual trusts	-	-	1,865	-	1,865
Contributions	739	-	8,671	-	9,410
Change in value of beneficial interest in net assets of BHF	1,101	-	-	-	1,101
Net assets released from donor restrictions:					
For operations	(471)	-	(4,784)	-	(5,255)
For capital	-	-	(1,558)	-	(1,558)
Other	-	-	97	-	97
	<u>1,369</u>	<u>-</u>	<u>6,941</u>	<u>-</u>	<u>8,310</u>
Increase (decrease) in net assets with donor restrictions					
(DECREASE) INCREASE IN NET ASSETS	<u>3,661</u>	<u>(1,556)</u>	<u>6,668</u>	<u>11,145</u>	<u>19,918</u>
NET ASSETS (DEFICIT)—End of prior year	100,734	(34,599)	125,235	29,301	220,671
CUMULATIVE EFFECT OF ADOPTION OF ASU NO. 2016-1 (NOTE 2)					
	<u>267</u>	<u>-</u>	<u>564</u>	<u>-</u>	<u>831</u>
NET ASSETS (DEFICIT)—Beginning of year	<u>101,001</u>	<u>(34,599)</u>	<u>125,799</u>	<u>29,301</u>	<u>221,502</u>
NET ASSETS (DEFICIT)—End of year	<u>\$ 104,662</u>	<u>\$ (36,155)</u>	<u>\$ 132,467</u>	<u>\$ 40,446</u>	<u>\$ 241,420</u>