MAXIMUS INC
Form 10-K
November 20, 2017
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended September 30, 2017

Commission file number: 1-12997

MAXIMUS, INC.
(Exact name of registrant as specified in its charter)

Virginia	54-1000588
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
1891 Metro Center Drive, Reston, Virginia	20190
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: (703) 251-8500
Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, no par value	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None
Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ý No o
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes o No ý
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ý No o
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ý No o
Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ý
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company,” and “emerging growth company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer ý	Accelerated filer o	
Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o	Emerging growth company o

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes o No ý

The aggregate market value of outstanding voting stock held by non-affiliates of the registrant as of March 31, 2017 was $3,963,270,858 based on the last reported sale price of the registrant's Common Stock on The New York Stock Exchange as of the close of business on that day.

There were 65,136,568 shares of the registrant's Common Stock outstanding as of November 6, 2017.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive Proxy Statement for its 2018 Annual Meeting of Shareholders to be held on March 14, 2018, which definitive Proxy Statement will be filed with the Securities and Exchange Commission not later than 120 days after the end of the registrant's fiscal year, are incorporated by reference into Part III of this Form 10-K.

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

Included in this Annual Report on Form 10-K are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements are based on current expectations, estimates, forecasts and projections about our Company, the industry in which we operate and other matters, as well as management's beliefs and assumptions and other statements that are not historical facts. Words such as "anticipate," "believe," "could," "expect," "estimate," "intend," "may," "opportunity," "plan," "potential," "project," "should," "will" and similar expressions are intended to identify forward-looking statements and convey uncertainty of future events or outcomes. These statements are not guarantees and involve risks, uncertainties and assumptions that are difficult to predict. Actual outcomes and results may differ materially from such forward-looking statements due to a number of factors, including without limitation:

- a failure to meet performance requirements in our contracts, which might lead to contract termination and actual or liquidated damages;
- the effects of future legislative or government budgetary and spending changes;
- our failure to successfully bid for and accurately price contracts to generate our desired profit;
- our ability to maintain technology systems and otherwise protect confidential or protected information;
- our ability to attract and retain executive officers, senior managers and other qualified personnel to execute our business;
- our ability to manage capital investments and startup costs incurred before receiving related contract payments;
- the ability of government customers to terminate contracts on short notice, with or without cause;
- our ability to maintain relationships with key government entities from whom a substantial portion of our revenue is derived;
- the outcome of reviews or audits, which might result in financial penalties and impair our ability to respond to invitations for new work;
- a failure to comply with laws governing our business, which might result in the Company being subject to fines, penalties, suspension, debarment and other sanctions;
- the costs and outcome of litigation;
- difficulties in integrating or achieving projected revenues and earnings for acquired businesses;
- matters related to business we have disposed of or divested; and
- other factors set forth in Exhibit 99.1 of this Annual Report on Form 10-K under the caption "Special Considerations and Risk Factors."

As a result of these and other factors, our past financial performance should not be relied on as an indication of future performance. Additionally, we caution investors not to place undue reliance on any forward-looking statements as these statements speak only as of the date when made. Except as otherwise required by law, we undertake no obligation to publicly update or revise any forward-looking statements, whether resulting from new information, future events or otherwise.

PART I

ITEM 1. Business.

Throughout this annual report, the terms "MAXIMUS," "Company," "we," "our" and "us" refer to MAXIMUS, Inc. and its subsidiaries.

General

We are a leading operator of government health and human services programs worldwide. We act as a partner to governments under our mission of Helping Government Serve the People®. We use our experience, business process management expertise, innovation and technology solutions to help government agencies run effective, efficient and accountable programs.

Our company was founded in 1975 and grew both organically and through acquisitions during the early 2000s. Beginning in 2006, we narrowed our service offerings to focus in the area of business process services (BPS) primarily in the health services and human services markets. In parallel, we divested or exited a number of non-core businesses that fell outside these two areas. Our subsequent growth was driven by the expansion of our health services business around the globe, new welfare-to-work contracts outside the United States and the growth of our business with the United States Federal Government. This growth has been both organic and through acquisitions.

Beginning in fiscal year 2017, we experienced what we believe is a temporary slowdown due to an industry pause tied to the transition of a new presidential administration in the United States. Although the transition is occurring at the federal level, we are seeing the effects on our U.S.-based health business as many states depend upon federal funds to finance the services they provide. As a result, our short-term growth expectations were impacted by longer procurement cycles and increased delays, mostly due to policy and budget uncertainty. Further, agency staffing shortfalls tied to the slow presidential nomination process hindered the decision-making process at both the federal and the state level.

Longer-term, we believe the ongoing demand for our services driven by demographic, economic and legislative trends, coupled with our strong position within our industry, will continue to foster future growth. Our long-term growth thesis is based on the following factors:

- Demographic trends, including increased longevity and more complex health needs, place an increased burden on government social benefit programs. At the same time, programs that address societal needs must be a good use of taxpayer dollars and achieve their intended outcomes. We believe the macro-economic trends of demographics and government needs will continue to drive demand for our services.
- Our contract portfolio offers us excellent revenue visibility. Much of our revenue is derived from long-term contractual arrangements with governments. A contract will often have a base period followed by additional option periods. As a result, single contracts may last several years and client relationships may be decades long. At any time, we are typically able to identify more than 90% of our subsequent twelve months' anticipated revenue from our existing contracts.
- We maintain a strong reputation within the government health and human services industry. Our deep client relationships and reputation for delivering outcomes and creating efficiencies creates a strong barrier to entry in a risk-averse environment. Entering our markets typically requires expertise in complex procurement processes, operation of multi-faceted government programs and an ability to serve and engage with diverse populations.
- We have a portfolio target operating profit margin that ranges between 10% and 15% with high cash conversion, a healthy balance sheet and access to a $400 million credit facility. Our financial flexibility allows us to fund investments in the business, complete strategic mergers and acquisitions to further supplement our core capabilities and seek new adjacent platforms.
- We have an active program to identify potential strategic acquisitions. Our past acquisitions have successfully enabled us to expand our business processes, knowledge and client relationships into adjacent markets and new geographies. Over the past five years, these include:

In 2017, we acquired Revitalised Limited (Revitalised), a U.K. provider of digital solutions for engaging people in the areas of health, fitness and well-being.

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- In 2016, we acquired Ascend Management Innovations, LLC (Ascend), a provider of independent, specialized health assessments and data management tools to government agencies in the U.S.
- In 2016, we acquired Assessments Australia, a provider of assessments that identify the support services required to help individuals succeed in a community environment.
- In 2015, we acquired Acentia, LLC (Acentia), a provider of system modernization, software development, program management and other information technology services to the U.S. Federal Government.
- In 2015, we acquired Remploy, a leading provider of disability employment services in the U.K.
- In 2013, we acquired Health Management Limited (Health Management), a leading provider of occupational health services and independent medical assessments in the U.K.

Our business segments

The Company is organized and managed based on the services we provide: Health Services, U.S. Federal Services and Human Services.

We operate in the United States, Australia, United Kingdom, Canada, Saudi Arabia, and Singapore.

For more information on our segment presentation and geographic distribution of our business, including comparative revenue, gross profit, operating income, identifiable assets and related financial information for the 2017, 2016 and 2015 fiscal years, see "Note 2. Business segments" within Item 8 of this Annual Report on Form 10-K, which we incorporate by reference herein.

Health Services Segment

Our Health Services Segment generated 56% of our total revenue in fiscal year 2017.

The Health Services Segment provides a variety of business process services (program administration), assessments and appeals, and related consulting services, primarily for state, provincial and national government programs.

Approximately 78% of our revenue for this segment comes from our comprehensive program administration services for government health benefit programs. These services help people access, navigate and use health benefits and other government programs. They include:

- Support for Medicaid, the Children's Health Insurance Program (CHIP) and the Affordable Care Act (ACA) in the U.S., Health Insurance BC (British Columbia) in Canada
- Program eligibility and enrollment services to help beneficiaries make the best choice for their health insurance coverage and improve their access to health care
- Application assistance and independent health plan enrollment counseling to beneficiaries
- Beneficiary outreach, education, eligibility, enrollment and renewal services
- Centralized multilingual customer contact centers and multichannel self-service options for easy enrollment
- Document and record management
- Premium payment processing and administration, such as invoicing and reconciliation
- Digital eHealth and well-being solutions

We are a leading player in many of the health program administration markets that we serve. For example, we are:

- The largest provider of Medicaid enrollment and CHIP services in the U.S.
- A leading operator of customer contact centers for state-based health insurance exchanges in the U.S.

Approximately 21% of the Segment’s revenue is from our independent appeals and assessments services. These services help governments engage with program recipients, while at the same time helping them improve the efficiency, cost effectiveness, quality and accountability of their health and disability benefits programs. They include:

- Support for the Health Assessment Advisory Service (HAAS) in the U.K.
- Independent disability, long-term sick and other health assessments, including those related to long-term services and supports such as Preadmission Screening and Resident Reviews (PASRR)
- Occupational health clinical assessments

We are a leading player in many of the health appeals and assessments markets that we serve. For example, we are:

- A leading provider of government-sponsored health benefit assessments and appeals in the U.S. and the U.K.
- One of the largest providers of disability and long-term sick support services and occupational health services in the U.K.

The rest of the Segment’s revenue is from specialized consulting services.

Our contracts may be reimbursed on a performance-based, cost-plus, fixed rate fee or a combination of all the above. The Segment may experience seasonality due to transaction-based work, such as program open enrollment periods and activity related to contract life cycles.

Health Services Market Environment

According to the Organization for Economic Cooperation and Development, health care spending in the U.S. still far exceeds that of other high-income countries. The Kaiser Family Foundation noted an acceleration of U.S. health care spending in 2014 due, in part, to increased coverage under the ACA and predicts that spending growth will continue at a higher rate than in recent years, but not to the double-digit growth seen in previous decades. We believe that effectively managing these costs, as well as improving quality and access to health care, is a major policy priority for governments. Governments seek efficient and cost-effective solutions to manage their public health benefit programs. This includes programs meant to support individuals with disabilities and long-term medical conditions, as well as individuals with shorter-term health conditions.

In the U.S., as a result of Medicaid expansion and the ACA, many states have made program changes. These changes have occurred most notably through benefit changes or individuals who are now eligible for coverage through the ACA health insurance exchanges or via Medicaid expansion. In recent years, many state Medicaid programs have further expanded managed care to new populations and new geographies that have historically been served through fee-for-service Medicaid. More recently, some states are seeking increased flexibility in the operations of their Medicaid programs via waivers requested through the Centers for Medicare & Medicaid Services. Some of these waivers include individual responsibility components such as beneficiary work requirements and co-pays for benefits. We believe that these waivers may create a more palatable path for additional states to contemplate new ways to operate their health benefit programs over the coming years. The issuance of waivers is contingent upon federal approval.

Many governments are also looking for innovative solutions to support disabled and elderly populations who require long-term services and supports (LTSS). A general trend in the LTSS market has been to ensure that individuals are in the right setting and receiving the right level of support and care. In many cases, this means allowing individuals to receive care at home or in a community-based setting, rather than institutional facilities. With no financial ties to health insurance plans or providers, our conflict-free assessment services assist governments in determining the most appropriate placement and health care services for program beneficiaries.

Outside of the U.S., many governments are seeking partners to help them manage, administer or operate their social benefit programs. Countries like the U.K. are examining how public health relates to productivity, cost reduction and economic growth. The U.K. Government provides a range of social welfare benefits for people who are unable to work as a result of a disability, long-term illness or other health condition. For individuals with long-term sickness or disabilities who are claiming the Employment Support Allowance benefit (a government-provided disability or long term sick benefit), the government requires an independent health assessment provided by a vendor through the Health Assessment Advisory Service (HAAS). The assessment report is then used by the government to determine an individual's level of benefits. We believe there is continued market demand to conduct

independent assessments for participants in public benefit programs and to support employers and their employees through our commercial occupational health services.

We believe the current health market environment positions us to benefit from continued demand across all of our geographies from service areas such as operations program management and independent health and benefit assessments. Overall, we expect the underlying demand for our services to increase over the next several years.

U.S. Federal Services Segment

Our U.S. Federal Services Segment generated 22% of our total revenue in fiscal year 2017.

The U.S. Federal Services Segment provides business process services (program administration) for federal government programs, assessment and appeals services for both federal and similar state-based programs, and technology solutions for federal civilian programs. The acquisition of Acentia in 2015 transformed us to a full-service provider of business process services and technology solutions to federal agencies and provided us with access to twelve new contract vehicles with the U.S. Federal Government. We currently serve 22 federal agencies.

Approximately 27% of the Segment’s revenue is from our comprehensive program administration services for federal government benefit programs. These include:

- Centralized customer contact centers and support services
- Document and record management
- Case management, citizen engagement and consumer education

Approximately 34% of the Segment’s revenue is from our independent assessments and appeals services. These include:

- Independent medical reviews and worker's compensation benefit appeals
- Health benefit appeals
- Program eligibility appeals

Approximately 39% of the Segment’s revenue is from our technology solutions. These include:

- Modernization of systems and information technology (IT) infrastructure
- Infrastructure operations and support
- Software development, operations and management
- Data analytics

We are typically reimbursed for our services on a cost-plus or a time-and-materials basis, although revenue may also be based upon participant numbers or other transaction-based measures. Our assessments and appeals business is typically based upon the number and type of cases processed. The Segment is not expected to experience seasonality related to its programs. However, it may experience fluctuations as a result of volume variations or program maturity including lower revenue and profitability related to transaction or performance based-contracts during program startup. Some of the contracts may also be structured as cost-reimbursable, which typically carry the lowest level of risk but also carry lower levels of operating margin.

U.S. Federal Services Market Environment

The U.S. federal services market has been impacted by what we believe is a temporary industry pause tied to the transition to the new U.S. administration. Political struggles around agency budgets, as well as agency staffing shortfalls, have hindered the federal procurement and decision-making process.

While federal agency budgets still face fiscal pressures and the new administration is looking for improved efficiencies, we continue to see opportunities to apply our cost-effective and efficient solutions in the federal market. Federal agencies are tasked with cost-effectively managing programs at a time when changing demographics are leading to rising caseloads in many federal programs.

Many federal agencies must also address the maintenance of legacy systems and the pressing need for infrastructure as IT modernization continues to grow. Legacy processes and systems are fundamental to government operations, yet they are unsustainably expensive to operate in an environment that requires online agility and rapid response to new demands, requirements and global challenges. We are in a prime position to help agencies modernize and operate their mission-critical systems.

Other key factors that will likely impact the U.S. federal market include a variety of political, economic, social and technological issues:

- A focus on the citizen experience and citizen services, as well as digital services
- Agencies moving from transformation initiatives to operations and maintenance
- Agencies seeking consolidation and shared services to achieve cost efficiencies
- Changes in the acquisition and contracting environment, including consolidation of General Services Administration schedules

Human Services Segment

Our Human Services Segment generated 22% of our total revenue in fiscal year 2017.

The Human Services Segment provides national, state and local human services agencies with a variety of business process services and related consulting services for government programs.

Approximately 75% of the Segment’s revenue is from comprehensive workforce services that help disadvantaged individuals transition from government assistance programs to sustainable employment and economic independence. These services:

- Support a variety of programs including the Work Programme and Work Choice in the U.K.; jobactive, Disability Employment Services and Work for the Dole in Australia; Temporary Assistance to Needy Families (TANF) in the U.S.; the Employment Program of British Columbia, Canada; the Taqat and Taqat Plus programs in Saudi Arabia; and Workforce Singapore as a Career Matching Provider
- Include eligibility determination, case management, job readiness preparation, job search and employer outreach, job retention and career advancement, and selected educational and training services

A further 16% of the Segment’s revenue is generated from children's services, which includes full and specialized child support case management services, customer contact center operations, and program and systems consulting services. Revenue is typically based upon fixed fees or performance-based measures.

The balance of the Segment’s revenue comes from other specialized services. These include program consulting services, including independent verification and validation, cost allocation plans and other specialized consulting offerings; management tools and professional consulting services for higher education institutions; and tax credit and employer services.

We are typically reimbursed based on the number of activities or through fees for case management with incentives; with an emphasis in recent years to move towards the incentive fees. The Segment is not expected to experience seasonality related to its programs.

Human Services Market Environment

We believe our established presence, strong brand recognition, and ability to achieve the requisite performance requirements and outcomes makes us well-positioned to compete for human services opportunities.

We offer clients demonstrated results and decades of proven experience in administering welfare-to-work programs in the U.S., the U.K., Australia, Canada, Saudi Arabia and Singapore. In Australia, we are one of the largest welfare-to-work providers. We also have an established presence in the U.K.'s welfare-to-work market and presently provide employment and job training services under the Work Programme, which was a key component of the government's austerity plan to rein in costly benefits programs and reduce mounting debt.

Given lower unemployment rates in several of our markets, we have seen a shift from mainstream welfare-to-work programs to those that serve individuals with disabilities. Through our acquisition of Remploy, we have increased our presence in the U.K. disability employment services market where we help people with disabilities and health conditions obtain mainstream employment. We believe these services are transferrable to our other geographies and position us well for emerging trends in the disability services market.

In addition, governments seek assistance from private firms for children's services, such as family maintenance and child support. We currently provide services across North America.

We believe ongoing initiatives and measures to reduce costs and improve efficiencies, combined with our outstanding performance, expertise and proven solutions, will continue to drive demand for our core human services across multiple geographies. Our ability to provide value-for-money is important in a market which is very price competitive.

Our clients

Our primary clients are government agencies, with the majority at the national, provincial and state level and, to a lesser extent, some at the county and municipal level. In the year ended September 30, 2017, approximately 49% of our total revenue was derived from U.S. state government agencies, 26% from foreign government agencies, 19% from agencies of the U.S. Federal Government and 6% from other sources including local municipalities and commercial customers.

In the U.S., even when our direct clients are state governments, a significant amount of our revenue is ultimately funded via the U.S. Federal Government in the form of cost-sharing arrangements with the states, such as is the case with Medicaid.

In the event of a shutdown of the U.S. Federal Government, a portion of our U.S. Federal Services Segment may be impacted. Many of our federally funded health and human services programs are typically deemed essential, which means that a short-term shutdown would not be expected to cause significant disruption to these operations. Our contract portfolio also contains some services that may be considered discretionary. As a result, we could incur costs in providing the portion of work that is considered discretionary with no certainty of recovery. In all cases, an extended delay may affect certain government programs that rely upon federal funding and may also have an effect on our cash flows if payments are delayed.

For the year ended September 30, 2017, our most significant clients were the U.S. Federal Government, which provided 19% of our consolidated revenue, the State of New York, which provided 15%, and the U.K. Government, which provided 12%. Within these governments, we may be serving several distinct agencies.

We typically contract with government clients under four primary pricing arrangements: performance-based, cost-plus, fixed-price and time-and-materials. For the year ended September 30, 2017, 42% of our contracts were performance-based, 35% were cost-plus, 18% were fixed-price and 5% were time-and-materials.

Generally, the relationships with our clients are longer-term and typical contracts, including option periods, tend to be several years long before they are subject to competitive rebid. See the "Backlog" section below for more details.

Backlog

At September 30, 2017, we estimate that we had approximately $5.7 billion in backlog. Backlog represents an estimate of the remaining future revenue from existing signed base contracts and revenue from contracts that have been formally awarded, but not yet signed. Our backlog estimate includes revenue expected under the current terms of executed contracts and revenue from contracts in which the scope and duration of the services required are not definite but estimable (such as performance-based contracts). Our backlog estimate does not assume any contract renewals or option period exercises.

Increases in backlog result from the award of new contracts, the extension or renewal of existing contracts and the exercise of option periods. Reductions in backlog come from fulfilling contracts or the early termination of contracts. The backlog associated with our performance-based contracts is an estimate based upon management's experience of caseloads and similar transaction volume from which actual results may vary. We may modify our estimates related to performance-based contracts and as a result backlog from these contracts may increase or decrease based upon the information that management has at that time. Additionally, backlog estimates may be affected by foreign currency fluctuations.

Government contracts typically contain provisions permitting government clients to terminate contracts on short notice, with or without cause.

We believe that period-to-period backlog comparisons are difficult and may not necessarily accurately reflect future revenue we may receive. The actual timing of revenue receipts, if any, on projects included in backlog could change for any of the aforementioned reasons. The dollar amount by segment of our backlog as of September 30, 2017 and 2016 was as follows:

	Backlog as of September 30,	
	2017	2016
	(In millions)	
Health Services	$4,246	$2,429
U.S. Federal Services	324	408
Human Services	1,130	1,163
Total	$5,700	$4,000

Our businesses typically involve contracts covering a number of years, including option periods. Contracts may include a period between contract signature and operations beginning for startup and transition activities where we are precluded from recognizing revenue. At September 30, 2017, the average weighted life of these contracts was approximately six years, including option periods. Although the exercise of options is uncertain, in our experience if the incumbent contractor is performing as expected these options are exercised nearly 100% of the time. The longevity of these contracts assists management in predicting revenue, operating income and cash flows. We expect approximately 44% of the backlog balance to be realized as revenue in fiscal year 2018 and, with the inclusion of anticipated option period renewals, to represent approximately 94% of current estimated 2018 revenue. We adjust backlog annually for currency fluctuations and for estimated amounts associated with our performance-based contracts based upon the latest information that management has at that time.

Our growth strategy

Our goal is to enable future growth by remaining a leading provider of business process services (BPS), technology solutions and consulting services to government agencies. We will continue to deliver quality BPS to government clients to improve the cost effectiveness, efficiency and scalability of their programs as they deal with rising demand and increasing caseloads. We also continue to seek efficiencies and optimize operations in order to achieve sustainable, profitable growth.

Our three-pronged approach to long-term growth include the following:

Grow in our existing markets. With more than 40 years of business expertise in the government market, we continue to be a leader in developing innovative solutions to meet the evolving needs of government agencies in our existing markets. For example, innovations such as digital engagement and analytics provide opportunities for us to serve our clients with greater efficiency and to create a more seamless customer journey for participants in government programs. We continue to seek to enter into long-term relationships with clients to meet their ongoing objectives. As a result, long-term contracts (three to five years with additional option years) are often the preferred contracting method and provide us with predictable, recurring revenue streams. We believe an incumbent has a considerable advantage when contracts are rebid and that client relationships can last for decades.

Move into adjacent markets. As we gain expertise in particular services or geographies, we can use our knowledge and experience in other similar areas. We seek to grow our businesses by leveraging our existing core capabilities, consistently delivering the required outcomes for governments to achieve program goals, and pursuing opportunities with new and current clients in adjacent markets. For example, we continue to expand our offerings in long-term services and supports and in fiscal year 2017 commenced a pilot welfare-to-work program in Singapore, based upon our experiences elsewhere.

Incorporate new growth platforms. New growth platforms can be developed organically or through acquisition. We will selectively identify and pursue strategic acquisitions that provide us with a rapid and cost-effective method to enhance our services. This includes obtaining additional skill sets, increasing our access to contract vehicles, expanding our client base, cross-selling additional services, enhancing our technical capabilities, and establishing or expanding our geographic presence. Many of our acquisitions allow us to gain new capabilities to use elsewhere within our business. For example, our acquisition of Health Management has given us significant occupational health capability and our acquisition of Revitalised improved our digital well-being capabilities.

We have centered our core business offerings on delivering BPS to government health and human services agencies in our primary geographies as well as to other civilian agencies within the U.S. Federal Government. Our market focus and established presence positions us to benefit from health care and welfare reform initiatives both in the U.S. and internationally. As such, we continually strive to recruit motivated individuals, including top managers from larger organizations, former government officials, consultants experienced in our service areas and recent college graduates with degrees aligned with our mission, such as degrees in government policy and administration. We believe we can continue to attract and retain experienced and educated personnel by capitalizing on our focused market approach and our reputation as a premier government services provider.

See Exhibit 99.1 of this Annual Report on Form 10-K under the caption "Special Considerations and Risk Factors" for information on risks and uncertainties that could affect our business growth strategy.

Competitive advantages

We offer a private sector alternative for the operation and management of critical government-funded health and human services programs. We believe our reputation and extensive experience give us a competitive advantage as governments value the level of expertise, proven delivery and brand recognition that we bring to our clients. The following are the competitive advantages that allow us to capitalize on various market opportunities:

Proven track record, ability to deliver outcomes and exceptional brand recognition. We assist governments in delivering cost-effective services to beneficiaries of government programs. We run large-scale program management operations on behalf of government agencies, improving the quality of services provided to their beneficiaries and achieving the necessary outcomes to help the government agencies cost-effectively meet their program goals. This has further enhanced our brand recognition as a proven partner with government agencies.

Subject matter expertise. Our workforce includes many individuals who possess substantial subject matter expertise in areas critical to the successful design, implementation, administration and operation of government health and human services programs. Many of our employees have worked for governments in management positions and can offer insights into how we can best provide valuable, practical and effective services to our clients.

Intellectual property that supports the administration of government programs. We have proprietary solutions to address client requirements in our markets that are configurable or provide a platform that can be utilized with other clients. We leverage commercial off-the-shelf platforms across multiple contracts in which we have considerable expertise to ensure we can deploy repeatable proven solutions. We also leverage software development methodology to shorten software development cycles. Extensive use of shared infrastructure and standard solutions provides considerable price and quality advantages. We believe our extensive industry focus and expertise embedded in our systems and processes provide us with a competitive advantage.

Digital engagement, analytics and automation solutions to enhance government programs. Participants in government programs expect the same types of digital engagement they rely upon when interacting with consumer-oriented businesses. We believe our clients value our ability to infuse digital, such as mobile applications and social media, into our BPS solutions to make it easier for beneficiaries to engage with government programs. Analytics enable us to optimize our operations and provide our clients with improved outcomes through greater insight into the populations we serve. Process automation incorporated into our BPS solutions increases the efficiency and quality of the programs we operate.

Flexibility and scalability. We are experienced in launching large-scale operations under compressed time frames. We offer clients the flexibility and scalability to deliver the people, processes and technology to complete short- and long-term contractual assignments in the most efficient and cost-effective manner.

Financial strength. Our business provides us with robust cash flows from operations as a result of our profitability and our management of customer receivables. In the event that we have significant cash outlays at the commencement of projects, to fund acquisitions, or where delays in payments have resulted in short-term cash flow declines, we may borrow up to $400 million through our credit facility. We have the ability to borrow in all of the principal currencies in which we operate. We believe we have strong, constructive relationships with the lenders on our credit facility. We had $399.3 million available to borrow as of September 30, 2017. We believe our financial strength provides reassurance to government agencies that we will be able to establish and maintain the services they need to operate high-profile public health and human services.

Focused portfolio of services. We are one of the largest publicly traded companies that provides a portfolio of BPS almost exclusively to government customers. Our government program expertise and proven ability to deliver defined, measurable outcomes differentiate us from other firms and non-profit organizations, including large consulting firms that serve multiple industries and lack the focus necessary to manage the complexities of serving government agencies efficiently.

Established presence outside the United States. Governments outside the U.S. are seeking to improve government-sponsored health and human services programs, manage increasing caseloads, and contain costs. We have an established presence in the U.K., Australia, Canada, Saudi Arabia and Singapore. Our international efforts are focused on delivering cost-effective welfare-to-work and health benefits services to program participants on behalf of governments.

Expertise in competitive bidding. Government agencies typically award contracts through a comprehensive, complex and competitive request for proposals (RFP) and bidding process. Although the bidding criteria vary from contract to contract, typical contracts are awarded based upon a mix of technical solution and price. In some cases, governments award points for past performance tied to program outcomes. With more than 40 years of experience in responding to RFPs, we believe we have the necessary experience and resources to navigate government procurement processes and to assess and allocate the appropriate resources necessary for successful project completion in accordance with contractual terms.

Competition

The market for providing our services to government agencies is competitive and subject to rapid change. However, given the specialized nature of our services and the programs we serve, market entry can be difficult for new or inexperienced firms. The complex nature of competitive bidding, the required investment in subject-matter expertise, repeatable processes and support infrastructure, and the need to achieve specific program outcomes creates barriers to entry for potential new competitors unfamiliar with the nature of government procurement.

In the U.S., our primary competitors in the Health Services Segment are government in-sourced operations, Conduent, HP, Automated Health Systems, Faneuil and KePro. We consider ourselves to be a significant competitor in the markets in which we operate as we are the largest provider of Medicaid and CHIP administrative programs and operate more state-based health insurance exchanges than any other commercial provider. In the U.S. Federal Services Segment, our primary competitors in the BPS market are Serco, General Dynamics Information Technology, PAE and Conduent. In the U.S. Federal Services Segment, our primary competitors in the technology sector tend to be IBM, Oracle, CSRA, Leidos, Accenture and other federal contractors. Our primary competitors in the Human Services Segment vary according to specific business line, but are primarily specialized consulting service providers and local nonprofit organizations.

Outside of the U.S., our primary competitors in the Health Services Segment include Atos, Capita, Interserve, Virgin Care and Optum. Our primary competitors in the Human Services Segment include Serco, Ingeus, a Providence Service Company, Staffline, Shaw Trust, Sarina Russo, Advanced Personnel Management and other specialized private companies and nonprofit organizations such as The Salvation Army and Goodwill Industries. Although the basis for competition varies from contract to contract, we believe that typical contracts are awarded based upon a mix of comprehensive solution and price. In some cases, clients award points for past performance tied to program outcomes.

Legislative initiatives

We actively monitor legislative initiatives and respond to opportunities as they develop. Much of our work depends upon us reacting quickly to dynamic changes in the legislative landscape to assist with implementation of new legislation. Over the past several years, legislative initiatives created new growth opportunities and potential markets for us. Legislation passed in all the geographies in which we operate has significant public policy implications for all levels of government and presents viable business opportunities in the health and human services arena.

Some legislative initiatives that have created new growth opportunities for MAXIMUS include:

The Affordable Care Act (ACA). Enacted in 2010 and upheld through a Supreme Court decision in 2012, the ACA introduced comprehensive health care reform in the United States. In our Health Services Segment, we have helped states with the operation of their health insurance exchanges and the expansion of their Medicaid programs to include new populations, the integration of state eligibility processing for entitlement programs and new long-term services and supports initiatives that have introduced more flexibility for home- and community-based services. In our U.S.

Federal Services Segment, we have also assisted the federal government with the operations of a customer contact center for the Federal Marketplace and independent eligibility appeals services.

Although the future of the ACA is uncertain, the factors that drove the passage of the ACA, including the large number of Americans without health insurance, remain. We believe we remain well-positioned to assist the federal government and individual states with future modifications to the ACA, including those made through waivers.

Children's Health Insurance Program Reauthorization Act (CHIPRA). CHIPRA was signed into law on February 2, 2009, extending the previous SCHIP program. As part of the ACA, CHIP has been extended through 2019. While the Medicare Access and CHIP Reauthorization Act of 2015 (MACRA) provides new federal funding for CHIP through 2017, legislative initiatives are underway for the next round of funding.

Medicaid and CHIP Managed Care Regulations. In 2016, the Centers for Medicare & Medicaid Services issued managed care regulations and federal standards for the Medicaid and Children’s Health Insurance programs. These include enhancing support for consumers, improving health care delivery and quality of care, providing greater access to health care, and ensuring a modern set of rules that better align with the marketplace and Medicare Advantage plans. They also reinforce ongoing efforts to modernize and streamline the enrollment process and the continued value of independent choice counseling.

Work Innovation and Opportunity Act (WIOA). Signed into law in July 2014, WIOA replaces the Workforce Investment Act of 1998 and took effect on July 1, 2015. The law coordinates several core federal employment, training, education and literacy programs. It also requires states to strategically align their workforce development programs, with the option to include TANF, to help job seekers access the necessary support services and to match employers with skilled workers they need to compete in the global economy. WIOA represents potential new opportunities for us to complement our existing TANF welfare-to-work operations in the U.S.

The Welfare Reform Act of 2007 (United Kingdom). The Welfare Reform Act of 2007 replaced Incapacity Benefit with the Employment and Support Allowance and introduced the Work Capability Assessment (WCA). The WCA was designed to distinguish people who could not work due to health-related problems from people who were "fit for work" or, with additional support, could eventually return to work. In 2010, the U.K. Government decided to reassess the 1.5 million people who had previously been determined to be eligible to receive Incapacity Benefits. The U.K. Government also decided that an independent health assessment provided by a vendor partner is the best method for the government to determine the level of benefits for individuals with long-term sickness or disabilities. MAXIMUS has been providing assessments through the resulting Health Assessment Advisory Service (HAAS) on behalf of the Department for Work and Pensions (DWP) since March 2015.

Employees

As of September 30, 2017, we had approximately 20,400 employees, consisting of 12,600 employees in the Health Services Segment, 2,700 employees in our U.S. Federal Services Segment, 4,600 employees in the Human Services Segment and 500 corporate administrative employees. Our success depends in large part on attracting, retaining and motivating talented, innovative, experienced and educated professionals at all levels.

As of September 30, 2017, 486 of our employees in Canada were covered under three different collective bargaining agreements, each of which has different components and requirements. There are 473 employees covered by two collective bargaining agreements with the British Columbia Government and Services Employees' Union and 13 employees covered by a collective bargaining agreement with the Professional Employees Association. These collective bargaining agreements expire in 2019 and 2020.

As of September 30, 2017, 1,789 of our employees in Australia were covered under a Collective Agreement, which is similar in form to a collective bargaining agreement. The Collective Agreement is renewed annually.

As of September 30, 2017, 543 of our employees in the U.K. were covered under a collective bargaining agreement with GMB Trade Union and Unite Amicus Trade Union. These collective bargaining agreements do not have expiration dates.

None of our other employees are covered under any such agreement. We consider our relations with our employees to be good.

Other information

MAXIMUS, Inc. is a Virginia Corporation.

Our principal executive offices are located at 1891 Metro Center Drive, Reston, Virginia, 20190. Our telephone number is 703-251-8500.

Our website address is http://www.maximus.com. We make our website available for informational purposes only. It should not be relied upon for investment purposes, nor is it incorporated by reference into this Annual Report on Form 10-K.

We make our Annual Report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and the proxy statement for our annual shareholders' meeting, as well as any amendments to those reports, available free of charge through our website as soon as reasonably practical after we file that material with, or furnish it to, the Securities and Exchange Commission (SEC). Our SEC filings may be accessed through the Investor Relations page of our website. These materials, as well as similar materials for other SEC registrants, may be obtained directly from the SEC through their website at http://www.sec.gov. This information may also be read and copied at the SEC's Public Reference Room at 100 F Street NE, Washington, D.C. 20549. Information on the operation of the Public Reference Room may be obtained by calling the SEC at 1-800-SEC-0330.

ITEM 1A. Risk Factors.

Our operations are subject to many risks that could adversely affect our future financial condition, results of operations and cash flows and, therefore, the market value of our securities. See Exhibit 99.1 of this Annual Report on Form 10-K under the caption "Special Considerations and Risk Factors" for information on risks and uncertainties that could affect our future financial condition and performance. The information in Exhibit 99.1 is incorporated by reference into this Item 1A.

ITEM 1B. Unresolved Staff Comments.

None.

ITEM 2. Properties.

We own a 60,000 square-foot office building in Reston, Virginia. We also lease offices for operations, management and administrative functions in connection with the performance of our services. At September 30, 2017, we leased 111 offices in the U.S. totaling approximately 2.5 million square feet. In five countries outside the U.S., we leased 333 offices totaling approximately 1.1 million square feet. The lease terms vary from month-to-month to ten-year leases and are generally at market rates. In the event that a property is used for our services in the U.S., we typically negotiate clauses to allow termination of the lease if the service contract is terminated by our customer. Such clauses are not standard in foreign leases.

We believe that our properties are maintained in good operating condition and are suitable and adequate for our purposes.

ITEM 3. Legal Proceedings.

We are subject to audits, investigations and reviews relating to compliance with the laws and regulations that govern our role as a contractor to agencies and departments of the U.S. Federal Government, state, local, and foreign governments, and otherwise in connection with performing services in countries outside of the U.S. Adverse findings could lead to criminal, civil or administrative proceedings, and we could be faced with penalties, fines, suspension or disbarment. Adverse findings could also have a material adverse effect on us because of our reliance on government contracts. We are subject to periodic audits by federal, state, local and foreign governments for taxes. We are also involved in various claims, arbitrations, and lawsuits arising in the normal conduct of our business. These include but are not limited to, bid protests, employment matters, contractual disputes and charges before administrative agencies. Although we can give no assurance, based upon our evaluation and taking into account the advice of legal counsel, we do not believe that the outcome of any pending matter would likely have a material adverse effect on our consolidated financial position, results of operations or cash flows.

Shareholder Lawsuit

In August 2017, the Company and certain officers were named as defendants in a putative class action lawsuit filed in the U.S. District Court for the Eastern District of Virginia. The plaintiff alleges the defendants made materially false and misleading statements, or failed to disclose material information, concerning the status of the Company’s Health Assessment Advisory Service project for the U.K. Department for Work and Pensions from the period October 20, 2014 through February 3, 2016. The defendants deny the allegations and intend to defend the matter vigorously.

ITEM 4. Mine Safety Disclosures

Not applicable.

PART II

ITEM 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

Our common stock trades on the New York Stock Exchange (NYSE) under the symbol "MMS." The following table sets forth, for the fiscal periods indicated, the range of high and low sales prices for our common stock and the quarterly cash dividends per share declared on the common stock.

	Price Range		
	High	Low	Dividends
Year Ended September 30, 2017:			
First Quarter	$57.66	$43.69	$ 0.045
Second Quarter	62.78	51.74	0.045
Third Quarter	64.97	57.12	0.045
Fourth Quarter	65.37	58.58	0.045
Year Ended September 30, 2016:			
First Quarter	$69.85	$47.95	$ 0.045
Second Quarter	55.67	45.15	0.045
Third Quarter	58.14	46.90	0.045
Fourth Quarter	61.68	54.38	0.045

As of October 1, 2017, there were 43 holders of record of our outstanding common stock. The number of holders of record is not representative of the number of beneficial owners due to the fact that many shares are held by depositories, brokers or nominees. We estimate there are approximately 29,500 beneficial owners of our common stock.

We expect to continue our policy of paying regular cash dividends, although there is no assurance as to future dividends. Future cash dividends, if any, will be paid at the discretion of our Board of Directors and will depend, among other things, upon our future operations and earnings, capital requirements and surplus, general financial condition, contractual restrictions and other factors our Board of Directors may deem relevant.

The following table sets forth information regarding repurchases of common stock that we made during the three months ended September 30, 2017:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans(1)	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plan (in thousands)
July 1, 2017 - July 31, 2017	—	$	——	$ 109,417
August 1, 2017 - August 31, 2017	—	—	—	109,694
September 1, 2017 - September 30, 2017 (2)	135,070	$64.50	—	109,878
Total	135,070		—	

(1) Under a resolution adopted in August 2015, the Board of Directors authorized the repurchase, at management's discretion, of up to an aggregate of $200 million of our common stock. The resolution also authorized the use of option exercise proceeds for the repurchase of our common stock.

(2) The total number of shares purchased in September 2017 comprises restricted stock units which vested in September 2017 but which were utilized by the recipients to net-settle personal income tax obligations.

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Stock Performance Graph

The following graph compares the cumulative total shareholder return on our common stock for the five-year period from September 30, 2012 to September 30, 2017, with the cumulative total return for the NYSE Stock Market (U.S. Companies) Index. In addition, we have compared the results of a peer group to our performance. Our peer group is based upon the companies noted in our annual proxy statement as entities with whom we compete for executive talent. Our peer group is comprised of Booz Allen Holding Corp., CACI International, DST Systems, Gartner, Harris Corp., ICF International, Leidos Holdings, ManTech International, Science International Applications Corp (SAIC) and Unisys Corp.

This graph assumes the investment of $100 on September 30, 2012 in our common stock, the NYSE Stock Market (U.S. Companies) Index and our peer group, weighted by market capitalization and assumes dividends are reinvested.

Notes:

A. The lines represent index levels derived from compounded daily returns that include all dividends.

B. The indexes are reweighted daily, using the market capitalization on the previous trading day.

C. If the monthly interval, based on the fiscal year-end, is not a trading day, the preceding trading day is used.

D. The index level for all series was set to $100.00 on September 30, 2012.

ITEM 6. Selected Financial Data.

We have derived the selected consolidated financial data presented below from our consolidated financial statements and the related notes. The revenue and operating results related to the acquisition of companies are included from the respective acquisition dates. The selected financial data should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" included as Item 7 of this Annual Report on Form 10-K and with the Consolidated Financial Statements and related Notes included as Item 8 of this Annual Report on Form 10-K. The historical results set forth in this Item 6 are not necessarily indicative of the results of operations to be expected in the future.

	Year Ended September 30,				
	2017	2016	2015	2014	2013
	(In thousands, except per share data)				
Consolidated statement of operations data:					
Revenue	$2,450,961	$2,403,360	$2,099,821	$1,700,912	$1,331,279
Operating income	313,512	286,603	259,832	225,308	185,155
Net income attributable to MAXIMUS	209,426	178,362	157,772	145,440	116,731
Basic earnings per share attributable to MAXIMUS	$3.19	$2.71	$2.37	$2.15	$1.71
Diluted earnings per share attributable to MAXIMUS	$3.17	$2.69	$2.35	$2.11	$1.67
Weighted average shares outstanding:					
Basic	65,632	65,822	66,682	67,680	68,165
Diluted	66,065	66,229	67,275	69,087	69,893
Cash dividends per share of common stock	$0.18	$0.18	$0.18	$0.18	$0.18

	At September 30,				
	2017	2016	2015	2014	2013
	(In thousands)				
Consolidated balance sheet data:					
Cash and cash equivalents	$166,252	$ 66,199	$ 74,672	$158,112	$125,617
Total assets	1,350,662	1,348,819	1,271,558	900,996	857,978
Debt	668	165,615	210,974	1,217	1,489
Total MAXIMUS shareholders' equity	940,085	749,081	612,378	555,962	529,508

ITEM 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

The following discussion and analysis of financial condition and results of operations is provided to enhance the understanding of, and should be read in conjunction with, our Consolidated Financial Statements and the related Notes.

For an overview of our business, including our business segments and a discussion of the services we provide, see the Business discussion in Item 1.

Recent acquisitions

We completed five acquisitions during the three years ended September 30, 2017:

- In April 2015, we acquired Acentia, LLC (Acentia), a provider of services to the U.S. Federal Government. This business was integrated into our U.S. Federal Services Segment.
- In April 2015, we acquired a majority ownership of Remploy, a business providing specialized disability employment services for the U.K. government. This business was integrated into our Human Services Segment.
- In December 2015, we acquired Assessments Australia. This business was integrated into our Human Services Segment.
- In February 2016, we acquired Ascend Management Innovations, LLC (Ascend). This business was integrated into our Health Services Segment.
- In July 2017, we acquired Revitalised Limited (Revitalised), a provider of digital solutions for engaging communities in the United Kingdom in the areas of health, fitness and well-being. This business was integrated into our Health Services Segment.

We believe that all five acquisitions will provide us with the ability to complement and expand our existing services in their respective markets.

Financial overview

Our results for the three years ended September 30, 2017 have been significantly influenced by the following:

- Organic growth within our Health Services Segment, primarily through contract expansion in the United States and performance improvement in the Health Advisory and Assessment (HAAS) contract in the U.K.;
- Declines in our U.S. Federal Services Segment due to the wind-down in 2017 of a large subcontract for work performed for the U.S. Department of Veterans Affairs where revenue declined by approximately $63 million compared to 2016; and in 2016 the expected closure of one customer contact center tied to the Federal Marketplace under the Affordable Care Act where revenue declined by approximately $49 million compared to 2015;
- Organic growth in our Human Services Segment from expansion of our international welfare-to-work businesses due mostly to the ramp up of jobactive in Australia which offset expected declines in the U.K. due to the wind-down of the Work Programme;
- The fluctuation in the value of international currencies, principally the British Pound which fell sharply on June 24, 2016 following the European Union referendum;
- The effect of our acquisitions, especially that of Acentia and Remploy in 2015 and Ascend in 2016, which resulted in increases in revenue and operating income, but also cash borrowings, interest expense, amortization of intangible assets and acquisition-related expenses;
- The repayment in full of our U.S. cash borrowings through 2016 and 2017, utilizing our operating cash flows, which reduced interest expense;
- The sale of our K-12 Education business in May 2016, which resulted in a gain of $6.9 million on the date of sale and an additional $0.7 million in May 2017 following the resolution of outstanding contingencies;
- Interest income and tax benefits from research and development credits in the United States and in foreign jurisdictions;

- Tax benefits from the vesting of restricted stock units (RSUs) and the exercise of stock options in fiscal year 2017 which, under new accounting standards, are recorded as a component of tax expense. In prior years, the benefits from the vesting of RSUs were recorded through our Consolidated Statements of Changes in Shareholders' Equity;
- Improved cash flows from operations due to improvements in customer cash collections in fiscal year 2017;
- Increased investment in our capital infrastructure in fiscal year 2014 and 2015 which, along with acquisitions, utilized significant amounts of cash and increased our depreciation expense;
- Approximately $143.0 million of repurchases of our own shares as part of our share repurchase program; and
- Our quarterly cash dividends.

International businesses

We operate in international locations and, accordingly, we also transact business in currencies other than the U.S. Dollar, principally the Australian Dollar, the Canadian Dollar, the Saudi Arabian Riyal, the Singapore Dollar and the British Pound. During the year ended September 30, 2017, we earned approximately 28% and 17% of revenue and operating income, respectively, from our foreign subsidiaries. At September 30, 2017, approximately 25% of our assets are held by foreign subsidiaries. International business exposes us to certain risks, including:

- Tax regulations may penalize us if we transfer funds or debt across international borders. Accordingly, we may not be able to use our cash in the locations where it is needed. We mitigate this risk by maintaining sufficient capital, or having sufficient capital available to us under our credit facility, both within and outside the U.S., to support the short-term and long-term capital requirements of the businesses in each region. We establish our legal entities to make efficient use of tax laws and holding companies to minimize this exposure.
- We are subject to exposure from foreign currency fluctuations. Our foreign subsidiaries typically incur costs in the same currency as they earn revenue, thus limiting our exposure to unexpected currency fluctuations. Further, the operations of the U.S. business do not depend upon cash flows from foreign subsidiaries. However, declines in the relevant strength of foreign currencies against the U.S. Dollar will affect our revenue mix, profit margin and tax rate.

Summary of consolidated results

The following table sets forth, for the fiscal years indicated, information derived from our statements of operations.

	Year ended September 30,		
(dollars in thousands, except per share data)	2017	2016	2015
Revenue	$2,450,961	$2,403,360	$2,099,821
Cost of revenue	1,839,056	1,841,169	1,587,104
Gross profit	611,905	562,191	512,717
Gross profit margin	25.0 %	23.4 %	24.4 %
Selling, general and administrative expense	284,510	268,259	238,792
Selling, general and administrative expense as a percentage of revenue	11.6 %	11.2 %	11.4 %
Amortization of intangible assets	12,208	13,377	9,348
Restructuring costs	2,242	—	—
Acquisition-related expenses	83	832	4,745
Gain on sale of a business	650	6,880	—
Operating income	313,512	286,603	259,832
Operating income margin	12.8 %	11.9 %	12.4 %
Interest expense	2,162	4,134	1,398
Other income, net	2,885	3,499	1,385
Income before income taxes	314,235	285,968	259,819
Provision for income taxes	102,053	105,808	99,770
Effective tax rate	32.5 %	37.0 %	38.4 %
Net income	212,182	180,160	160,049
Income attributable to noncontrolling interests	2,756	1,798	2,277
Net income attributable to MAXIMUS	$209,426	$178,362	$157,772
Basic earnings per share attributable to MAXIMUS	$3.19	$2.71	$2.37
Diluted earnings per share attributable to MAXIMUS	$3.17	$2.69	$2.35

The following tables provide an overview of the significant elements of our consolidated statements of operations. As our business segments have different factors driving revenue growth and profitability, the sections that follow cover these segments in greater detail.

Revenue, cost of revenue and gross profit

Changes in revenue, cost of revenue and gross profit for between fiscal years 2016 and 2017 are summarized below.

	Revenue		Cost of Revenue		Gross Profit	
(dollars in thousands)	Dollars	Percentage change	Dollars	Percentage change	Dollars	Percentage change
Balance for fiscal year 2016	$2,403,360		$1,841,169		$562,191	
Organic growth	72,820	3.0 %	19,190	1.0 %	53,630	9.5 %
Net acquired growth	8,928	0.4 %	7,500	0.4 %	1,428	0.3 %
Currency effect compared to the prior period	(34,147)	(1.4)%	(28,803)	(1.5)%	(5,344)	(1.0)%
Balance for fiscal year 2017	$2,450,961	2.0 %	$1,839,056	(0.1)%	$611,905	8.8 %

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Revenue increased by approximately 2.0% to $2,451.0 million, with our cost of revenue broadly consistent with the prior year. Our gross profit margin increased from 23.4% to 25.0%. We have identified the significant organic, acquisition-related and currency-related effects below.
Organic revenue growth in our Health and Human Services Segments was partially offset by an anticipated decline in our U.S. Federal Services Segment following the wind-down of a significant subcontract.
Cost of revenue consists of direct costs related to labor and related overhead, subcontractor labor, outside vendors, rent and other direct costs. The largest component of cost of revenue, approximately two-thirds, is labor (both our labor and subcontracted labor) for our services contracts. Although our increase in cost of revenue was driven by similar factors as our revenue movements, our costs have also seen the benefits of increased operational efficiencies in certain projects, which should result in higher gross profit margins prospectively.
Our organic growth in revenue, and related cost of revenue, is driven by a number of factors, many of which are addressed in our segment-specific discussions below. As a rule, the longevity of our contracts and business relationships allow us to maintain a strong backlog of work which will sustain our revenues over several years. However, each year we will experience attrition due to: contracts that are lost or end, contracts that are rebid at lower rates or volume reductions or reduced scope, work that is brought in-house, contracts we opt not to rebid, temporary or short term work that is ending such as contract amendments, and innovation. This attrition is anticipated and is typically offset by growth. Based on our internal analysis, we estimate that we have experienced revenue attrition between 5% and 10% over the last five years. We believe that our attrition rate for 2018 will be approximately 9%. We anticipate that we will offset this attrition with new work, particularly within our Health Services Segment.
Acquired growth stems from the acquisition of Revitalised and the full year benefit of Ascend and Assessments Australia, partially offset by the sale, in May 2016, of our K-12 Education business.
During fiscal year 2017, our foreign currency revenues and costs were affected by fluctuations in their value against the U.S. Dollar. The most notable change was the decline in the value of the British Pound which suffered a significant decline in June 2016. On a constant currency basis, our revenue increased 3.4% and our cost of revenue increased 1.4%.
Changes in revenue, cost of revenue and gross profit from fiscal year 2015 to 2016 are summarized below.

	Revenue		Cost of Revenue		Gross Profit	
(dollars in thousands)	Dollars	Percentage change	Dollars	Percentage change	Dollars	Percentage change