

This document is dated as of December 16, 2016

SPECIAL NOTE CONCERNING FORWARD-LOOKING STATEMENTS. Certain of the discussions included in the following document may include certain “forward-looking statements” which involve known and unknown risks and uncertainties inherent in the operation of health care facilities. Actual actions or results may differ materially from those discussed below. Specific factors that might cause such differences include competition from other health care facilities in the service areas of UMass Memorial Health Care facilities, federal and state regulation of health care providers, and reimbursement policies of the federal and state governments and managed care organizations. In particular, statements preceded by, followed by or that include the words “believes,” “estimates,” “expect s,” “anticipates,” “plans,” “intends,” “scheduled” or other similar expressions are or may constitute forward-looking statements.

**QUARTERLY REPORT
September 30, 2016**

Concerning

UMASS MEMORIAL HEALTH CARE, INC.

**The information in this report
has been provided by
UMass Memorial Health Care, Inc.**

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UMASS MEMORIAL HEALTH CARE, INC. AND AFFILIATES

DESCRIPTION OF THE ORGANIZATION

UMass Memorial Health Care, Inc. ("UMass Memorial") is a Massachusetts not-for-profit corporation formed in 1998 to develop and coordinate an integrated health care delivery system.

UMass Memorial is the direct or indirect member, stockholder, owner or partner of a number of corporations, limited liability companies and partnerships that provide a broad range of health care and related services to Worcester and the surrounding central Massachusetts communities. The primary operating businesses are as follows:

Hospitals-UMass Memorial Medical Center, Inc. (the "Medical Center") is licensed to operate a 779 bed acute care hospital located on two principal campuses and provides a full range of services, including all major specialties and subspecialties of inpatient care and ambulatory care.

UMass Memorial Community Hospitals, Inc. ("Hospitals, Inc."), a subsidiary of UMass Memorial, is the sole corporate member of Central New England HealthAlliance, Inc. ("CNEHA"). CNEHA is the parent organization of HealthAlliance Hospitals, Inc. ("HAH"), which operates a general acute hospital facility on two campuses in Leominster, Massachusetts, and Fitchburg, Massachusetts, with a total of 122 beds. Hospitals, Inc. is also the sole corporate member of Clinton Hospital Association ("Clinton Hospital"), a 41-bed community hospital located in Clinton, Massachusetts; and Marlborough Hospital, a 79-bed community hospital located in Marlborough, Massachusetts. HAH and Clinton Hospital have executed an Agreement of Merger pursuant to which Clinton Hospital will be merged into HAH, leaving HAH as the surviving corporation and Clinton Hospital as a satellite campus under HAH's hospital license. This merger will not occur prior to all regulatory approvals and is anticipated to occur on October 1, 2017 by filing Articles of Merger with the Massachusetts Secretary of State.

Physician Practices-UMass Memorial Medical Group, Inc. (the "Medical Group") is a controlled affiliate which resulted from the merger of the Medical Group, UMass Community Physicians, Inc. and UMass Memorial Community Physician Group, Inc. The Medical Group is the principal provider of physician services to the system.

Ventures-UMass Memorial Health Ventures, Inc. and affiliates ("Ventures") is the direct or indirect member or joint venture participant in several entities located in Central Massachusetts. These entities focus on outpatient and non-acute health care services including urgent care and rehabilitation services, specialty pharmacy and pharmacy management services and magnetic imaging.

Other Providers-UMass Memorial and its affiliates also operate a number of related health care businesses and support organizations.

UMass Memorial and the affiliates above are referred to herein as the "System". UMass Memorial, the Medical Center, Ventures and HAH are referred to herein as the "Obligated Group".

No affiliates other than UMass Memorial, the Medical Center, Ventures and HAH are obligated with respect to the Massachusetts Development Finance Agency ("MDFA", formerly Massachusetts Health and Educational Facilities Authority "MHEFA") Revenue Bonds, UMass Memorial Issue, Series B, E, F, G, H and I. Series I refunded Series A and D in February 2016. See Issuance of Debt section.

NOTES TO CONDENSED FINANCIAL INFORMATION

Note 1

The financial information furnished herein is unaudited and thus is subject to change. In the opinion of management, the information reflects all adjustments that are necessary to fairly state the consolidating financial position of UMass Memorial and affiliates, and the consolidating results of their operations and consolidating changes in their unrestricted net assets for the interim periods indicated.

UMass Memorial and affiliates presume that users of this Quarterly Report have read or have access to UMass Memorial and affiliates audited financial statements and that the adequacy of additional disclosure needed for a fair presentation has been determined in that context. The audited consolidated financial statements of UMass Memorial and affiliates for the fiscal years ended September 30, 2016 and 2015 are on file, pursuant to the Continuing Disclosure Agreement at www.emma.msrb.org, and the information contained therein is hereby incorporated in this Quarterly Report. Accordingly, footnotes and other disclosures that would substantially duplicate the disclosures contained in UMass Memorial and affiliates most recent audited financial statements have been omitted.

Patient volumes and net operating revenues are subject to seasonal variations caused by a number of factors, including, but not necessarily limited to, seasonal cycles of illness, climate and weather conditions, vacation patterns of both hospital patients and admitting physicians and other factors relating to the timing of elective hospital procedures. Quarterly operating results are not necessarily representative of operations for a full year for various reasons, including levels of occupancy and other patient volumes, interest rates, unusual or non-recurring items and other seasonal fluctuations. These same considerations apply to all year-to-year comparisons.

Note 2

UMass Memorial records its investments, including alternative investments, at fair value. Period to period changes in unrealized gains and losses on unrestricted investments are recognized as increases and decreases to the excess of revenue over expenses. From Management's perspective, the inclusion of these investment fluctuations within the operating indicator is likely to increase the volatility of this indicator. The Obligated Group's excess of revenues over expenses includes the impact of net unrealized gains on investments of \$16.4 million and net unrealized losses on investments of \$25.9 million for the twelve months ending September 30, 2016 and 2015, respectively. The System's excess of revenues over expenses includes the impact of net unrealized gains on investments of \$23.2 million and net unrealized losses on investments of \$44.6 million for the twelve months ending September 30, 2016 and 2015, respectively.

Investments, in general, are exposed to various risks, such as interest rate, credit, and overall market volatility. As such, it is reasonably possible that changes in the values of investments will occur in the near term and that such changes could materially affect the amounts recorded in the consolidating balance sheets and consolidating statements of operations.

The following data shows the composition of investment gains and losses for the twelve months ended September 30, 2016 and 2015.

(in thousands of dollars)

	Total Obligated Group	Non- Obligated Group Entities	Consolidated
Fiscal Year 2016			
Net realized gain (loss)	\$ 2,554	\$ 354	\$ 2,908
Net unrealized gain (loss)	16,414	6,817	23,231
Total	18,968	7,171	26,139
Fiscal Year 2015			
Net realized gain (loss)	\$ 11,969	\$ 1,869	\$ 13,838
Net unrealized gain (loss)	(25,911)	(18,742)	(44,653)
Total	(13,942)	(16,873)	(30,815)

Note 3

UMass Memorial has recorded Medicaid Supplemental Funds ("MSF") of \$196.0 million in 2016 and \$168.6 million in 2015, respectively, as net patient service revenue in the accompanying consolidated financial statements. The MSF payment of \$168.6 million in 2015 reflects \$210.8 million in services related to 2015 and a change in prior year estimates that decreased net patient service revenue by approximately \$42.1 million. MSF payments of \$196.5 million and \$352.6 million were recorded as a receivable as of September 30, 2016 and 2015, respectively. The outstanding 2015 MSF payment after the change in prior year estimates of \$182.3 million was received in June 2016. The outstanding 2014 MSF payment after the change in prior year estimates of \$182.8 million was received in November 2015. Differences between preliminary estimates and final settlements are included in net patient service revenue in the year the change in estimate occurs. Estimated settlements payable to third-party payers includes \$12.9 million recoupments payable to the Commonwealth as of September, 30, 2016.

Receipt of the MSF revenue is dependent, among other factors, on Federal approval of the State Medicaid budget, state appropriation, satisfaction of documentation standards, and actual transfer of funds from the Commonwealth of Massachusetts. There can be no assurance that any or all MSF funds will be received when anticipated or at all.

Note 4

UMass Memorial accounts for investments in entities that are not under its direct control but has the ability to exercise significant influence over the operating and financial policies of the investee under the equity method. Equity method investments are recorded at original cost and adjusted periodically to recognize the applicable proportionate share of the investees' net income or losses after the date of investment, increases for additional contributions made, decreases for dividends or distributions received, and any impairment losses resulting from adjustments to net realizable value. UMass Memorial and certain affiliates participate in joint ventures with 50% or less ownership, and accounts for the investments in the unconsolidated affiliates as equity investments.

Note 5

On July 20, 2015, management executed a license and support agreement for the development, licensing and implementation of a System wide, fully integrated Electronic Medical Record ("EMR") and billing system. The implementation is expected to be completed during fiscal year 2017 and 2018. The design and implementation costs are expected to be funded through ongoing operations, current financial resources and additional financing. The software license and implementation fees will be paid in sixty

monthly installments of \$0.5 million, which includes interest at the 1-month LIBOR plus 2%. In connection with the implementation, the estimated useful lives of assets expected to be replaced by the EMR, has been adjusted to reflect the new system's implementation date. Expenses related to the EMR for the twelve months ended September 30, 2016 include salaries, benefits and contracted labor of \$3.1 million, supplies and expense of \$9.9 million and accelerated depreciation expense on the legacy software applications of \$13.1 million. Capitalized expenditures to date are \$64.0 million, which includes \$23.3 million of salaries, benefits and contracted labor, \$23.9 million of consulting and professional fees and \$14.2 million of software licensing, implementation and hosting fees.

LIQUIDITY

The following chart sets forth the actual days cash on hand as of September 30, 2015 and September 30, 2016, respectively. There can be no assurance that days cash on hand for future fiscal periods will be maintained at the historical levels shown.

	Obligated Group Cash and Investments		System Cash and Investments	
	September 30, 2015	September 30, 2016	September 30, 2015	September 30, 2016
<i>(in thousands of dollars)</i>				
Unrestricted cash (1)	\$ 495,460	\$ 577,510	\$ 599,193	\$ 704,755
Amounts on deposit in construction funds	-	45,863	-	45,863
Total cash	495,460	623,373	599,193	750,618
Operating expenses, as defined (2)	\$ 1,435,797	\$ 1,562,328	\$ 1,937,221	\$ 2,056,746
Days cash on hand	126.0	146.0	112.9	133.6

Source: Obligated Group and System records

(1) Unrestricted cash includes cash and cash equivalents classified as operating cash, short term and long term investments.

(2) Operating expenses exclude depreciation, interest and unusual items including MES provided by the University.

Obligated Group

The Obligated Group had approximately \$623.4 million (146.0 days) of cash on hand at September 30, 2016. The total unrestricted cash ("cash") of the Obligated Group increased by \$127.9 million from September 30, 2015 to September 30, 2016. The increase in cash was primarily attributed to (1) receipts of MSF payments of \$174.2 million attributable to fiscal year 2014 and receipts of \$171.9 million attributable to fiscal year 2015, (2) receipt of \$61.2 million of construction funds from Series I financing, offset by drawdowns of \$15.7 million received as unrestricted cash, (3) utilization of \$55.0 million under a revolving loan agreement, (4) transfers from Non-Obligated Group participating entities, primarily to fund the fiscal year 2015 and 2014 Medical Education Services ("MES") commitment to the University of Massachusetts Medical School (the "University"), (5) receipts from operations, particularly from Medicare, Medicaid, Fallon Community Health Plan, and the Commonwealth's Health Safety Net Fund, and (6) rebates received from specific vendors. The increase in cash was partially offset by expenditures related to (1) scheduled payments on long-term debt and capital leases, (2) payments on outstanding revolving loan balance and notes payable (including the \$11.8 million note payable to Quest Diagnostics), (3) pension contributions of \$55.0 million, (4) purchases of property and equipment, (5) certain payments to the University consisting of MES payments and a Participation payment of \$177.7 million and \$3.8 million, respectively, as well as shared services and rental payments, and (6) transfers to affiliates for amounts owed on intercompany transactions. Also, the market value of investments increased by \$19.0 million during the twelve months ended September 30, 2016. There were no other activities that materially affected cash between the measurement dates.

System

The System had approximately \$750.6 million (133.6 days) of cash on hand at September 30, 2016. The total cash of the System increased \$151.4 million from September 30, 2015 to September 30, 2016. The

increase in cash was primarily attributed to (1) receipts of MSF payments of \$182.8 million attributable to fiscal year 2014 and receipts of \$182.3 million attributable to fiscal year 2015, (2) receipt of \$61.2 million of construction funds from Series I financing, offset by drawdowns of \$15.7 million received as unrestricted cash, (3) utilization of \$55.0 million under a revolving loan agreement, (4) receipts from operations, particularly from Medicare, Medicaid, Fallon Community Health Plan, and the Commonwealth's Health Safety Net Fund, and (5) rebates received from specific vendors. The increase in cash was partially offset by expenditures related to (1) scheduled payments on long-term debt and capital leases, (2) payments on outstanding revolving loan balance and notes payable (including the \$11.8 million note payable to Quest Diagnostics), (3) pension contributions of \$55.0 million, (4) purchases of property and equipment, (5) certain payments to the University consisting of MES payments and a Participation payment of \$209.9 million and \$3.8 million respectively, as well as shared services and rental payments, and (6) payments related to physician and management compensation incentives earned in fiscal year 2015 for productivity, quality and financial goal achievements. Also, the market value of investments increased by \$26.1 million during the twelve months ended September 30, 2016. There were no other activities that materially affected cash between the measurement dates.

CORPORATE DEBT STRUCTURE

Debt consists of the following at September 30, 2016:

<i>(in thousands of dollars)</i>	Interest Rate	Final Maturity	Amount Outstanding
Massachusetts Health and Educational Facilities Authority Revenue Bonds			
UMass Memorial Variable Rate, Series B	1.75%	2023	\$ 11,200
UMass Memorial Variable Rate, Series E	1.35%	2035	25,725
UMass Memorial Variable Rate, Series F	1.26%	2035	25,725
UMass Memorial, Series G	4.25%-5.0%	2022	32,770
Massachusetts Development Finance Agency Revenue Bonds			
UMass Memorial, Series H	4.0%-5.5%	2031	67,855
UMass Memorial, Series I	4.0%-5.0%	2046	168,785
Revolving loan	1.11%	2017	55,000
Master leases and subleases, and other notes payable	1.15%-1.63%	2017-2019	15,093
Capital lease obligations			<u>346</u>
Total debt			402,499
Add: Net unamortized original issue premium			26,100
Less: Debt issuance costs			(5,296)
Less: Current portion			<u>(78,053)</u>
Debt, net of current portion - Total Obligated Group			<u>\$ 345,250</u>
Debt, net of current portion - Non-Obligated Group Entities			<u>17,408</u>
Debt, net of current portion - Consolidated			<u><u>\$ 362,658</u></u>

Revenue Bonds and Notes Payable

UMass Memorial and certain of its affiliates are obligated under various MDFA revenue bonds and notes payable covered by a Master Trust Indenture ("MTI"). The MTI, dated as of December 1, 1998 and subsequently supplemented, includes UMass Memorial and other Members of the Obligated Group. The Master Trustee defines the terms and conditions upon which obligations will be issued, authenticated, delivered and accepted as well as setting forth certain economic covenants. Under the terms of the loan agreements, the obligations are collateralized by property and equipment and gross receipts, as defined. The terms of the mortgage and trust agreements also require the establishment of certain reserve funds that are held by trustees. The bonds require periodic interest and principal payments to these funds held

in trust that are proportionate to the annual interest and principal payments or sinking fund installments. The revenue bonds are generally redeemable prior to maturity at premiums ranging up to 4%.

Issuance of Debt

UMass Memorial, Series E – These bonds were issued in 2009 directly to a financial institution with an initial tender date of May 2012. In January 2012, the Obligated Group entered into an agreement with the same financial institution to remarket these bonds under a new Index Floating Rate Mode effective through April, 2015. On April 1, 2015, UMass Memorial and the financial institution refinanced with a five year mandatory purchase date of April 1, 2020. The principal amortization schedule remains as it had existed before and the interest rate is variable. UMass Memorial entered into a new Continuing Covenant Agreement (“CCA”) with the financial institution with economic covenants that are similar to the MTI.

UMass Memorial, Series F – These bonds were issued in 2009 directly to a financial institution with an initial tender date of May 2014. UMass Memorial also entered into a CCA with the financial institution at the time the bonds were originally issued. The CCA included covenants related to debt service coverage, days cash on hand and maintaining certain investment credit ratings. In February 2014, the Obligated Group entered into an agreement with the same financial institution to extend the tender date to May 2016. In addition, the CCA was amended to redefine the calculation for debt service coverage and the credit rating covenant.

On May 21, 2015, UMass Memorial and the same financial institution amended the Series F loan agreement to extend the mandatory tender date to May 22, 2018; the amendment also provides for two additional one year extensions of the tender date (effectively to May 22, 2020) absent an event of default. The principal amortization schedule remains as it had existed before and the interest rate is variable. UMass Memorial and the financial institution also amended the CCA with economic covenants that are similar to the MTI and removed the credit rating covenant.

Quest Diagnostics – On July 1, 2015, the Medical Center exercised its option to purchase an 18.9% equity ownership in Quest Diagnostics. Upon exercising this option, and to retain its 18.9% ownership, an additional \$11,849,000 capital contribution was incurred as a note payable to the newly formed joint venture subsidiary. The note payable accrued interest at 0.45% and was paid in full on December 30, 2015.

Marlborough Hospital Series A – In November 2014, Marlborough Hospital entered into an agreement with a commercial bank to amend its Series A bond payable to extend its initial tender date of November 24, 2014 to November 24, 2019.

UMass Memorial, Series I – On February 2, 2016, the Obligated Group entered into an agreement with MDFA to issue MDFA Revenue Bonds, UMass Memorial Series I in the amount of \$168.8 million. The proceeds from the sale will be used to reimburse capital costs of equipment used or to be used in connection with healthcare and related services and for various construction, improvement, renovation, and equipment acquisitions on behalf of the Obligated Group, refunded all of the MHEFA Revenue Bonds, UMass Memorial Issue, Series A (1998), MHEFA Revenue Bonds, UMass Memorial Issue, Series D (2005), and certain debt issuance costs. As a result of this transaction, the Obligated Group reported a loss on refunding of debt of \$2.9 million.

Tax Exempt Finance Debt

Subsequent to September 30, 2016, the Obligated Group entered into two agreements. In both agreements, the acquired equipment collateralizes the borrowings and the economic covenants are consistent to the existing CCA.

Finance Lease – On December 7, 2016, the Obligated Group entered into a tax exempt finance lease agreement with MDFA and a bank. The proceeds received from the lease of \$75.0 million, will be used to provide funding for the purchase and implementation of the EMR (Note 5). Principal payments begin twelve months after closing. Interest accrues at a fixed rate of 2.04% and is payable in 120 monthly

installments. Annual principal payments for the next five years and thereafter are as follows at September 30, 2016:

(in thousands of dollars)

2017	\$	-
2018		5,737
2019		7,787
2020		7,948
2021		8,112
Thereafter		45,416
Total	\$	<u>75,000</u>

Non-Bank Qualified Bonds – In addition to the finance lease, the Obligated Group entered into a variable rate direct purchase agreement with the same bank. Proceeds from the agreement, up to \$50.0 million, are to be used to provide funding for the purchase and implementation of the EMR (Note 5). Principal payments begin twelve months after closing. Interest is based on 70% of the one (1) month LIBOR rate plus an applicable margin rate. Interest payments will be at least 1.63% of the outstanding balance and payable in 156 monthly payments.

Revolving Loan Agreement

On June 30, 2015, the Obligated Group entered into a \$50.0 million unsecured revolving loan agreement with a financial institution. The loan agreement expired June 29, 2016. There was no amount outstanding under this agreement at September 30, 2016.

On June 29, 2016, the Obligated Group and the same financial institution amended the unsecured revolving loan agreement to increase the commitment from \$50.0 million to \$75.0 million, to extend the agreement to June 28, 2017, and to modify certain aspects of the agreement regarding interest rates and certain required provisions. The interest rate is based on LIBOR plus 0.55%. The interest rate at the close of business on September 30, 2016 was 1.11%. The amount outstanding under this agreement at September 30, 2016 was \$55.0 million.

Debt Service Coverage Ratio

	Obligated Group		System	
	September 30, 2015	September 30, 2016	September 30, 2015	September 30, 2016
<i>(in thousands of dollars)</i>				
Excess (deficiency) of revenues over expenses	\$ 80,675	\$ 81,382	\$ 46,647	\$ 68,050
Income from irrevocable deposits	(265)	(255)	(265)	(255)
Unrealized (gain) loss on investments (1)	-	(16,414)	-	(23,231)
Depreciation and amortization	95,826	102,073	104,230	111,008
Interest expense	13,405	11,803	14,146	12,520
Gain on sale of business	(14,168)	-	(14,168)	-
Income available for debt service	<u>175,473</u>	<u>178,589</u>	<u>150,590</u>	<u>168,092</u>
Actual debt service (2)	\$ 39,750	\$ 36,276	\$ 41,619	\$ 38,206
Historical coverage of actual debt service (3)	4.41	4.92	3.62	4.40

Source: Obligated Group and System records

(1) MTI calculation was changed in February 2016 to exclude unrealized gains and losses.

(2) Obligated Group actual debt service includes the sum of interest expense plus current portion of long-term debt and certain debt guarantees for Non-Obligated Group entities.

(3) Income available for debt service divided by actual debt service, as defined in the MTI.

UMass Memorial Health Care, Inc. and Affiliates
Unaudited Consolidating Statement of Operations
For the Three Months Ended September 30, 2016

(in thousands of dollars)

	FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2016			
	Total Obligated Group	Non- Obligated Group Entities	Eliminations and Consolidating Entries	Consolidated
Unrestricted revenues, gains and other support				
Net patient service revenue	\$ 419,791	\$ 145,891	\$ 872	\$ 566,554
Less: Provision for bad debts	(3,961)	(301)	(21)	(4,283)
Net patient service revenue less provision for bad debts	415,830	145,590	851	562,271
Net assets released from restrictions used for operations	(238)	428	-	190
Other revenue	39,620	35,014	(59,872)	14,762
Total revenues, gains and other support	455,212	181,032	(59,021)	577,223
Expenses				
Salaries, benefits and contracted labor	210,233	135,161	(126)	345,268
Supplies and other expense	214,881	48,133	(58,661)	204,353
Depreciation and amortization	25,433	2,132	(12)	27,553
Interest	2,183	405	(222)	2,366
Total expenses	452,730	185,831	(59,021)	579,540
Income (loss) from operations	2,482	(4,799)	-	(2,317)
Nonoperating income (loss)				
Investment and other related income	805	87	-	892
Net realized and unrealized gain on investments	13,793	5,604	-	19,397
Actuarial change in the present value of annuities	(369)	-	-	(369)
Total nonoperating income	14,229	5,691	-	19,920
Excess of revenues over expenses	16,711	892	-	17,603
Other changes in net assets				
Contributions for property and equipment	2,484	-	-	2,484
Net assets released from restrictions used for purchase of property and equipment	27	71	-	98
Pension-related changes other than net periodic cost	(102,037)	(1,121)	-	(103,158)
Transfers (to) from related parties	(5,969)	5,969	-	-
(Decrease) increase in unrestricted net assets	(88,784)	5,811	-	(82,973)
Unrestricted net assets, beginning of period	643,303	188,637	(120)	831,820
Unrestricted net assets, end of period	\$ 554,519	\$ 194,448	\$ (120)	\$ 748,847

UMass Memorial Health Care, Inc. and Affiliates
Unaudited Consolidating Statement of Operations
For the Twelve Months Ended September 30, 2016

(in thousands of dollars)

FOR THE TWELVE MONTHS ENDED SEPTEMBER 30, 2016

	Total Obligated Group	Non- Obligated Group Entities	Eliminations and Consolidating Entries	Consolidated
Unrestricted revenues, gains and other support				
Net patient service revenue	\$ 1,737,852	\$ 565,467	\$ 3,527	\$ 2,306,846
Less: Provision for bad debts	(24,116)	(16,221)	(83)	(40,420)
Net patient service revenue less provision for bad debts	1,713,736	549,246	3,444	2,266,426
Net assets released from restrictions used for operations	2,037	1,059	-	3,096
Other revenue	152,942	185,548	(234,559)	103,931
Total revenues, gains and other support	1,868,715	735,853	(231,115)	2,373,453
Expenses				
Salaries, benefits and contracted labor	844,452	524,503	(506)	1,368,449
Supplies and other expense	848,642	221,883	(229,744)	840,781
Depreciation and amortization	102,073	8,905	30	111,008
Interest	11,803	1,612	(895)	12,520
Total expenses	1,806,970	756,903	(231,115)	2,332,758
Income (loss) from operations	61,745	(21,050)	-	40,695
Nonoperating income (loss)				
Investment and other related income	3,899	547	-	4,446
Net realized and unrealized gain on investments	18,968	7,171	-	26,139
Actuarial change in the present value of annuities	(369)	-	-	(369)
Loss on refunding of debt	(2,861)	-	-	(2,861)
Total nonoperating income	19,637	7,718	-	27,355
Excess (deficiency) of revenues over expenses	81,382	(13,332)	-	68,050
Other changes in net assets				
Contributions for property and equipment	2,784	93	-	2,877
Net assets released from restrictions used for purchase of property and equipment	754	171	-	925
Pension-related changes other than net periodic cost	(93,297)	(512)	-	(93,809)
Transfers (to) from related parties	(27,127)	27,127	-	-
(Decrease) increase in unrestricted net assets	(35,504)	13,547	-	(21,957)
Unrestricted net assets, beginning of period	590,023	180,901	(120)	770,804
Unrestricted net assets, end of period	\$ 554,519	\$ 194,448	\$ (120)	\$ 748,847

UMass Memorial Health Care, Inc. and Affiliates
Unaudited Consolidating Statement of Operations
For the Twelve Months Ended September 30, 2015

(in thousands of dollars)

	FOR THE TWELVE MONTHS ENDED SEPTEMBER 30, 2015			
	Total Obligated Group	Non- Obligated Group Entities	Eliminations and Consolidating Entries	Consolidated
Unrestricted revenues, gains and other support				
Net patient service revenue	\$ 1,632,334	\$ 537,926	\$ 3,585	\$ 2,173,845
Less: Provision for bad debts	(27,181)	(21,622)	(60)	(48,863)
Net patient service revenue less provision for bad debts	1,605,153	516,304	3,525	2,124,982
Net assets released from restrictions used for operations	1,832	786	-	2,618
Other revenue	125,711	191,460	(203,061)	114,110
Total revenues, gains and other support	1,732,696	708,550	(199,536)	2,241,710
Expenses				
Salaries, benefits and contracted labor	797,044	501,796	157	1,298,997
Supplies and other expense	750,493	214,777	(198,971)	766,299
Depreciation and amortization	95,826	8,203	201	104,230
Interest	13,405	1,664	(923)	14,146
Total expenses	1,656,768	726,440	(199,536)	2,183,672
Income (loss) from operations before nonrecurring income and expenses	75,928	(17,890)	-	58,038
Gain on sale of business	13,295	-	-	13,295
Expense reductions associated with sale of business	873	-	-	873
Income (loss) from operations after nonrecurring income and expenses	90,096	(17,890)	-	72,206
Nonoperating income (loss)				
Investment income	4,873	735	-	5,608
Net realized and unrealized loss on investments	(13,942)	(16,873)	-	(30,815)
Actuarial change in the present value of annuities	(352)	-	-	(352)
Total nonoperating loss	(9,421)	(16,138)	-	(25,559)
Excess (deficiency) of revenues over expenses	80,675	(34,028)	-	46,647
Other changes in net assets				
Contributions for property and equipment	983	975	-	1,958
Net assets released from restrictions used for purchase of property and equipment	603	170	-	773
Pension-related changes other than net periodic (cost) credit	(57,350)	32	-	(57,318)
Transfers (to) from related parties	(29,079)	29,079	-	-
Decrease in unrestricted net assets	(4,168)	(3,772)	-	(7,940)
Unrestricted net assets, beginning of period	594,191	184,673	(120)	778,744
Unrestricted net assets, end of period	\$ 590,023	\$ 180,901	\$ (120)	\$ 770,804

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UMass Memorial Health Care, Inc. and Affiliates
Unaudited Consolidating Balance Sheet
September 30, 2016

(in thousands of dollars)

	SEPTEMBER 30, 2016			
	Total Obligated Group	Non- Obligated Group Entities	Eliminations and Consolidating Entries	Consolidated
Assets				
Current assets				
Cash and cash equivalents	\$ 168,032	\$ 62,227	\$ 768	\$ 231,027
Short-term investments	23,764	8,354	-	32,118
Current portion of assets whose use is limited	6,377	3,176	-	9,553
Patient accounts receivable, net	169,264	52,914	346	222,524
Inventories	31,359	2,261	10	33,630
Prepaid expenses and other current assets	24,846	7,906	-	32,752
Notes receivable from affiliates, current	794	-	(794)	-
Due from related parties	36,508	49,178	(85,686)	-
Estimated settlements receivable from third-party payers	166,925	29,957	-	196,882
Total current assets	627,869	215,973	(85,356)	758,486
Assets whose use is limited				
Funds held in escrow under bond indenture agreements, net of current portion	45,863	1,326	-	47,189
Restricted investments	82,280	5,838	-	88,118
Captive insurance company investments	-	157,518	-	157,518
Total assets whose use is limited	128,143	164,682	-	292,825
Long-term investments	380,990	60,620	-	441,610
Property and equipment, net	593,182	95,167	41	688,390
Beneficial interest in trusts	4,863	2,856	-	7,719
Note receivable from affiliates, net of current portion	19,958	-	(19,958)	-
Other assets	86,511	22,921	(22,860)	86,572
Total assets	\$ 1,841,516	\$ 562,219	\$ (128,133)	\$ 2,275,602
Liabilities and Net Assets				
Current liabilities				
Accounts payable and accrued expenses	\$ 132,880	\$ 20,082	\$ 105	\$ 153,067
Accrued compensation	77,614	67,932	-	145,546
Estimated settlements payable to third-party payers	13,464	14,130	-	27,594
Debt, current	78,053	1,327	-	79,380
Notes payable to affiliates, current	-	794	(794)	-
Due to related parties	59,728	25,958	(85,686)	-
Due to the University of Massachusetts	124,318	20,229	-	144,547
Total current liabilities	486,057	150,452	(86,375)	550,134
Estimated settlements payable to third-party payers, net of current portion	33,293	11,153	-	44,446
Other noncurrent liabilities	18,083	5,286	424	23,793
Accrued pension and postretirement benefit obligations	281,753	6,123	-	287,876
Estimated self-insurance costs	33,594	148,449	(22,104)	159,939
Notes payable to affiliates, net of current portion	-	19,958	(19,958)	-
Debt, net of current portion	345,250	17,408	-	362,658
Total liabilities	1,198,030	358,829	(128,013)	1,428,846
Net assets				
Unrestricted	554,519	194,448	(120)	748,847
Temporarily restricted	39,504	3,676	-	43,180
Permanently restricted	49,463	5,266	-	54,729
Total net assets	643,486	203,390	(120)	846,756
Total liabilities and net assets	\$ 1,841,516	\$ 562,219	\$ (128,133)	\$ 2,275,602

UMass Memorial Health Care, Inc. and Affiliates
Unaudited Consolidating Balance Sheet
September 30, 2015

(in thousands of dollars)

	SEPTEMBER 30, 2015			
	Total Obligated Group	Non- Obligated Group Entities	Eliminations and Consolidating Entries	Consolidated
Assets				
Current assets				
Cash and cash equivalents	\$ 115,520	\$ 46,188	\$ 748	\$ 162,456
Short-term investments	24,342	7,450	-	31,792
Current portion of assets whose use is limited	6,148	2,552	-	8,700
Patient accounts receivable, net	185,124	52,187	347	237,658
Inventories	27,337	1,781	17	29,135
Prepaid expenses and other current assets	21,631	8,857	-	30,488
Notes receivable from affiliates, current	920	-	(920)	-
Due from related parties	50,581	65,838	(116,419)	-
Estimated settlements receivable from third-party payers	329,676	24,117	-	353,793
Total current assets	761,279	208,970	(116,227)	854,022
Assets whose use is limited				
Funds held in escrow under bond indenture agreements, net of current portion	10,777	1,326	-	12,103
Restricted investments	82,724	5,471	-	88,195
Captive insurance company investments	-	164,440	-	164,440
Total assets whose use is limited	93,501	171,237	-	264,738
Long-term investments	351,093	53,852	-	404,945
Property and equipment, net	509,205	84,946	71	594,222
Beneficial interest in trusts	5,259	2,732	-	7,991
Note receivable from affiliates, net of current portion	20,417	-	(20,417)	-
Other assets	72,935	23,035	(22,855)	73,115
Total assets	\$ 1,813,689	\$ 544,772	\$ (159,428)	\$ 2,199,033
Liabilities and Net Assets				
Current liabilities				
Accounts payable and accrued expenses	\$ 127,438	\$ 17,719	\$ 131	\$ 145,288
Accrued compensation	78,189	64,146	-	142,335
Estimated settlements payable to third-party payers	2,758	18,835	-	21,593
Debt, current	86,431	1,267	-	87,698
Notes payable to affiliates, current	-	920	(920)	-
Due to related parties	81,112	35,307	(116,419)	-
Due to the University of Massachusetts	162,253	3,967	-	166,220
Total current liabilities	538,181	142,161	(117,208)	563,134
Estimated settlements payable to third-party payers, net of current portion	30,453	9,392	-	39,845
Other noncurrent liabilities	20,090	2,918	421	23,429
Accrued pension and postretirement benefit obligations	199,259	5,868	-	205,127
Estimated self-insurance costs	31,526	155,950	(22,104)	165,372
Notes payable to affiliates, net of current portion	-	20,417	(20,417)	-
Debt, net of current portion	315,845	18,571	-	334,416
Total liabilities	1,135,354	355,277	(159,308)	1,331,323
Net assets				
Unrestricted	590,023	180,901	(120)	770,804
Temporarily restricted	39,085	3,452	-	42,537
Permanently restricted	49,227	5,142	-	54,369
Total net assets	678,335	189,495	(120)	867,710
Total liabilities and net assets	\$ 1,813,689	\$ 544,772	\$ (159,428)	\$ 2,199,033

System Utilization

A summary of significant utilization data for the System for the six fiscal years ended September 30, 2016 is presented in the following table.

	Years Ended September 30					
	2011	2012	2013	2014	2015	2016
Acute Care						
Average Beds Available	932	919	921	904	915	920
Discharges (1)	55,267	53,402	49,979	47,639	49,930	49,816
Patient Days (1)	271,716	259,724	256,497	248,808	259,687	259,608
Percent Occupancy	83.7%	81.3%	82.8%	83.1%	84.0%	83.9%
Average LOS	4.92	4.86	5.13	5.22	5.20	5.21
Case Mix Index (2)	1.40	1.44	1.49	1.51	1.52	1.57
Observation Cases	10,510	12,661	14,533	15,591	13,669	14,250
Emergency Room Visits	223,642	225,019	218,789	215,014	215,479	222,846
Cardiac Cath Procedure	6,565	6,351	6,263	6,379	6,624	6,759
Lab Tests (3)	27,564,559	16,110,904	12,807,676	9,023,294	7,139,251	7,504,419
Radiology Procedure	610,222	593,305	585,495	568,106	582,334	588,653
Life Flight Trips	481	529	472	506	471	492
Surgery						
Inpatient Surgery Cases	14,787	14,503	12,752	11,889	11,709	11,632
Outpatient Surgery Cases	23,524	23,483	24,364	25,134	25,008	24,657
Endoscopy Cases	23,235	24,009	22,844	23,313	24,743	26,201
Total Surgery Cases	61,546	61,995	59,960	60,336	61,460	62,490
Other						
Ambulatory Clinic Visits	683,429	717,490	723,435	738,677	727,451	743,422
Health Center Visits	97,137	100,777	109,486	106,539	109,387	112,230
Home Health Visits (4)	149,849	134,368	72,209	66,670	54,758	55,436

(1) excludes Newborns

(2) Centers for Medicare & Medicaid Services ("CMS") Medicare Severity-Diagnosis Related Groups ("MS DRG") case mix, excluding Psychiatric

(3) Lab Tests include Outreach activity. The Medical Center sold its Outreach Lab business on January 3, 2013 (with a 24 month transition period).

(4) The Medical Center sold its Home Health and Hospice business on September 19, 2012.

System Patient Service Revenue

The following data shows the distribution of gross patient service revenue for the System by payor source and by inpatient and outpatient designation for the six fiscal years ended September 30, 2016. This information is based on patient classification at the time of discharge billing.

Sources of Gross Patient Service Revenue

	Years Ended September 30					
	2011	2012	2013	2014	2015	2016
Medicare	26.6%	27.1%	26.9%	26.3%	26.5%	27.2%
Medicare Managed Care	9.7%	9.2%	9.1%	9.5%	9.6%	9.9%
Medicaid	9.2%	10.8%	10.3%	10.7%	10.9%	10.2%
Medicaid Managed Care (1)	8.3%	9.4%	8.1%	9.8%	10.7%	12.0%
Private Pay	43.0%	40.2%	42.4%	41.8%	40.6%	39.3%
Other	3.2%	3.3%	3.2%	1.9%	1.7%	1.4%
	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>
Inpatient	46.6%	45.0%	42.6%	41.7%	43.0%	42.8%
Outpatient	53.4%	55.0%	57.4%	58.3%	57.0%	57.2%
	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>

Source: System Records

(1) Medicaid Managed Care includes subsidized insurance programs for low-income individuals within the Commonwealth of Massachusetts.

MANAGEMENT'S DISCUSSION OF THE SYSTEM'S RECENT FINANCIAL INFORMATION

Twelve Months Ended September 30, 2016, compared to September 30, 2015

During the twelve months ended September 30, 2016, the System generated revenue in excess of expenses of \$68.1 million, compared to \$46.6 million for the comparable prior year period. During the twelve months ended September 30, 2016, the System recorded a decrease in unrestricted net assets of \$22.0 million compared to a decrease in unrestricted net assets of \$7.9 million for the comparable prior year period. A discussion of the System financial information is set forth below.

Revenues, Gains and Other Support

Total revenues, gains and other support of the System increased from \$2.242 billion for the twelve months ended September 30, 2015, to \$2.373 billion for the twelve months ended September 30, 2016, or by \$131.7 million (5.9%). The combined net patient service revenue less provision for bad debts of the System increased from \$2.125 billion to \$2.266 billion for the twelve months ended September 30, 2016, compared to the prior year period, or by \$141.4 million (6.7%). Management attributes this growth in net patient service revenue to certain volume, payor rate contract increases, and a higher case-mix. The revenue growth also includes an increase in Medicaid Supplemental Funds of \$27.4 million, an increase in the Medical Center's outpatient specialty pharmacy of \$15.1 million, as well as a decrease in the provision for bad debts of \$8.4 million, over the comparable prior year period. The decrease in the provision for bad debts is primarily due to fluctuations in certain payor categories as compared to the prior year period. The System's revenue was adversely impacted by an increase in free care expense of \$19.7 million, over the comparable prior year period. Compared to the twelve months ended September 30, 2015, the following statistics increased: lab tests by 5.1%, observation cases by 4.3%, case mix index by 3.3%, emergency room visits by 3.4%, cardiac cath procedures by 2.0%, and surgeries by 1.7%. Other revenue decreased from \$114.1 million to \$103.9 million, or by \$10.2 million (8.9%) due the System's captive insurance company recognizing retrospective premium credit returns as well as a decrease in its realized investment gains, and a decrease in the Medical Center's Lab Outreach tests provided and related costs following the sale of the clinical outreach and anatomic pathology outreach lab businesses to Quest Diagnostics. These decreases were offset by an increase in income related to the System's investments in certain joint ventures as well as an increase in contract pharmacy arrangements.

Expenses

Total expenses of the System increased from \$2.184 billion for the twelve months ended September 30, 2015, to \$2.333 billion for the twelve months ended September 30, 2016, or by \$149.1 million (6.8%). Management attributes this increase in expenses to increases in supplies and other expenses of \$74.5 million, salaries, fringe benefits, and contracted labor of \$69.4 million, and depreciation and amortization expenses of \$6.8 million, offset by a decrease in interest expense of \$1.6 million. The increase in supplies and other expenses is primarily due to an increase in Medical Education Services expense of \$24.4 million, as well as increases in insurance premiums recognized by the System's captive insurance company, professional fees, pharmaceuticals, medical surgical supplies, software maintenance fees, purchased temporary services, and rentals and leases, offset by decreases in purchased services and participation payment. The increase in salaries, fringe benefits, and contracted labor is attributable to wage inflation, an increase in FTEs, and increases in certain fringe benefits provided to the labor base. Depreciation and amortization expenses increased as a result of adjusting the estimated useful lives of certain property and equipment expected to be replaced by the new EMR and billing system. Interest expense decreased as a result of refinancing certain existing debt to obtain the benefit of lower interest rates. All other expense categories are generally consistent when comparing the twelve month period ended September 30, 2016 to the twelve month period ended September 30, 2015.

Gain (loss) and expense reductions associated with sale of business – On January 3, 2013, certain assets and the operations of the clinical and anatomic laboratory outreach businesses owned by the Medical Center were sold to Quest Diagnostics. The sales agreements included a transitional period of 18-24 months to complete the full transition of service. The consideration received in conjunction with the

sale was a combination of cash and an option to purchase an equity interest in a newly formed Quest Diagnostics subsidiary.

Effective July 1, 2015, the Medical Center exercised its option to purchase an equity interest in the newly formed Quest Diagnostics subsidiary once the aforementioned transitional period ended. This transaction resulted in an 18.9% ownership in the subsidiary and a gain on the option exercise of \$13.6 million, offset by a \$0.3 million adjustment to proceeds from sale related to Ventures. These two transactions combined resulted in a gain on sale of \$13.3 million in 2015. Expenses associated with the sale of this business were reduced by \$0.9 million in 2015.

Nonoperating Income (Expense)

During the twelve months ended September 30, 2016, the System reported investment income of \$4.4 million and net realized and unrealized gains of \$26.1 million. The System recorded a \$2.9 million loss on refunding of debt during the twelve months ended September 30, 2016 and also recorded a \$0.4 million decrease in the present value actuarial valuation of certain annuities. During the twelve months ended September 30, 2015, the System reported investment income of \$5.6 million and net realized and unrealized losses of \$30.8 million. The System also recorded a \$0.4 million decrease in the present value actuarial valuation of certain annuities.

Other Changes in Net Assets

During the twelve months ended September 30, 2016, the System recorded a decrease in net assets for pension related changes other than net periodic benefit cost of \$93.8 million. Offsetting this decrease, the System recorded \$2.9 million of contributions for property and equipment and recorded \$0.9 million of net assets released from restrictions used for the purchase of property and equipment. During the twelve months ended September 30, 2015, the System recorded a decrease in net assets for pension related changes other than net periodic benefit cost of \$57.3 million. Offsetting this decrease, the System recorded \$2.0 million of contributions for property and equipment and recorded \$0.8 million of net assets released from restrictions used for the purchase of property and equipment.

Other Contingencies

UMass Memorial and its affiliates are parties to various legal proceedings and potential claims arising in the ordinary course of business. In addition, the health care industry as a whole is subject to numerous laws and regulations of federal, state and local governments. Compliance with these laws and regulations can be subject to future government review and interpretation, as well as regulatory actions unknown or unasserted at the time. Recently, government activity has increased with respect to investigations and allegations concerning possible violations by health care providers of regulations. These could result in the imposition of significant fines and penalties, as well as significant repayments of previously billed and collected revenues from patient services. Management believes that the System and its affiliates are in compliance with current laws and regulations and does not believe that these matters will have a material adverse effect on its consolidated financial statements.

Centers for Medicare and Medicaid Services ("CMS") Notice of Disallowance/Request for Information

Following a 2009 audit report by the Office of Audit Services of the Office of Inspector General of the United States Health and Human Services (the "OIG"), under which the Commonwealth Medicaid Program returned approximately \$1.5 million in federal financial participation ("FFP") to the CMS regarding supplemental Medicaid payments to the Medical Center from fiscal years 2000 through and including 2005, CMS informed the Commonwealth on February 7, 2011, of its intention to disallow \$25.5 million in FFP for the same supplemental payments made to UMass Memorial for a subset of the same time period (2000 through 2003). The stated reason for the disallowance was that the Commonwealth had not complied with the time limit for claiming payment for Medicaid expenditures. The Commonwealth filed a request for reconsideration of the disallowance. On April 13, 2012, CMS issued a letter to the Commonwealth affirming the disallowance except with respect to \$8.1 million for supplemental payments for fiscal year 2003 which CMS acknowledged were claimed timely. Management worked with the Commonwealth to file an appeal to the Department of Health and Human Services Departmental Appeals Board (the "DAB") on June 12, 2012. After the Commonwealth filed its brief with the DAB, CMS submitted its brief in May 2013 and asked the DAB to increase the disallowance of the federal share from

\$17.0 million to \$21.0 million due to an earlier CMS calculation error. UMass Memorial intervened in the matter and contested the proposed increase in the disallowance. A hearing on the appeal was held on June 18, 2013.

On September 30, 2013, the DAB issued its decision reversing the CMS disallowance of approximately \$21.5 million in FFP based on a finding that the claim for FFP had been timely and sustaining the disallowance of approximately \$4.25 million in FFP based on the OIG's audit report finding that the relevant expenditures were not authorized by the Commonwealth plan. The Commonwealth Medicaid Agency has not recouped any funds from UMass Memorial as a result of the disallowance or, as noted above, for the prior return of funds related to the OIG audit report, although it is expected that such a recoupment will be asserted. The Medical Center has sufficient reserves to reimburse the Commonwealth for the amount sustained by the decision.

Wrongful Termination Suit

A former executive of a pharmacy joint venture between Ventures and Shields Health Solutions, LLC ("Shields") filed suit in Massachusetts Federal District Court on April 1, 2016. The suit was filed against a number of parties, including two limited liability companies: UMass Memorial Shields Pharmacy, LLC and Shields Specialty Pharmacy Holdings, LLC. The case is a wrongful termination action seeking damages for lost wages and equity. The case is in the initial pleadings phase. Although there can be no assurance as to the outcome of this matter, management does not believe it will have a material adverse effect on its consolidated financial statements.