

**CERTIFICATE PURSUANT TO SECTION 904 OF LOAN AND TRUST AGREEMENT, SECTION 6.07 OF  
BOND INDENTURE AND SECTION 5.12(b) and 5.16 OF THE MASTER TRUST INDENTURE**

I, the undersigned Kristine Hanscom, VP of Finance and Interim Chief Financial Officer of Tufts Medical Center, Inc. and Tufts Medical Center Real Estate Company, Inc., hereby certify as follows with respect to the Massachusetts Development Finance Agency Revenue Bonds, Tufts Medical Center Issue, Series I (2011), and the related the Loan and Trust Agreement dated as of April 1, 2011 executed in connection therewith (the "Agreement") and the Tufts Medical Center Issue, Taxable Bonds Series 2013 and the related Bond Indenture dated as of August 1, 2013, along with the Master Trust Indenture and Mortgage and Security Agreement dated as of April 1, 2011 executed in connection therewith (the "MTI"). Capitalized terms used herein and not otherwise defined have the respective meanings assigned thereto in the Agreement or the MTI, as the case may be.

In giving this certificate, I have read the relevant provisions of Section 5.12 of the MTI, Section 904 of the Agreement, and 6.07 of the Bond Indenture and the definitions therein related thereto; (2) I have caused employees on my staff to review the audited financial statements and other operations of the Obligated Group and the Institution that are relevant to this certificate; (3) in my opinion I have caused to be made such examination or investigation as is necessary to enable me to express an informed opinion with respect to the subject matter referred to in this certificate; (4) I have not needed to make any assumptions in order to provide this certificate; and (5) in my opinion, the provisions of the MTI, the Agreement and the Bond Indenture referred to below have been complied with.

1. I have caused the operations of the Institution and the Obligated Group to be reviewed and in the course of that review, no default under any provision in the Agreement, Bond Indenture or the MTI has come to my attention.

Additionally, enclosed are the following supplemental schedules required under the MTI.

- Audited consolidated financial statements of Tufts Medical Center, Inc. and Affiliates for the period ending September 30, 2016.
- An update to the list of Members of the Obligated Group. There have been no changes.
- Number of licensed and staffed beds of the Obligated Group Members. - Exhibit 1.
- A summary table of historical utilization statistics for the preceding fiscal year of the type under the heading "Tufts Medical Center Utilization Statistics." - Exhibit 1.
- A summary of the Obligated Group's sources of gross patient service revenues for the preceding fiscal year. Exhibit 2
- A summary table showing the days cash on hand of the Obligated Group for the preceding fiscal year. Exhibit 3.
- A summary table showing the debt service coverage of the Obligated Group for the preceding fiscal year. Exhibit 4.
- Information for the most recent fiscal year similar to the information in the two tables under the captions "Obligated Group Cash and Investments." - Exhibit 5.

IN WITNESS WHEREOF, I have hereunto set my hand as of the date set forth below.



Kristine Hanscom  
VP of Finance and Interim Chief Financial Officer  
Dated: January 6, 2016

# Tufts Medical Center Parent, Inc. and Affiliates

Consolidated Financial Statements as of and  
for the Years Ended September 30, 2016 and 2015,  
Supplemental Consolidating and Combining Information  
as of and for the Year Ended September 30, 2016,  
Supplemental Schedule of Debt Service Coverage  
for the Year Ended September 30, 2016, and  
Independent Auditors' Report

# **TUFTS MEDICAL CENTER PARENT, INC. AND AFFILIATES**

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## **INDEPENDENT AUDITORS' REPORT**

To the Board of Trustees of  
Tufts Medical Center Parent, Inc.  
Boston, Massachusetts

We have audited the accompanying consolidated financial statements of Tufts Medical Center Parent, Inc. and Affiliates (the "Organization"), which comprise the consolidated balance sheets as of September 30, 2016 and 2015, and the related consolidated statements of operations, changes in net assets, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

### **Management's Responsibility for the Consolidated Financial Statements**

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

### **Auditors' Responsibility**

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Organization's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control.

Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

## **Opinion**

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Tufts Medical Center Parent, Inc. and Affiliates as of September 30, 2016 and 2015, and the results of their operations, their changes in net assets, and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## **Report on Supplemental Consolidating and Combining Information and Supplemental Schedule of Debt Service Coverage**

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplemental consolidating and combining information and supplemental schedule of debt service coverage listed in the table of contents are presented for the purpose of additional analysis of the consolidated financial statements, rather than to present the financial position, results of operations, and cash flows of the individual companies, and are not a required part of the consolidated financial statements. This supplemental consolidating and combining information and supplemental schedule of debt service coverage are the responsibility of the Organization's management and were derived from, and relate directly to, the underlying accounting and other records used to prepare the consolidated financial statements. Such supplemental consolidating and combining information and schedule of debt service coverage have been subjected to the auditing procedures applied in our audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such supplemental consolidating and combining information and schedule of debt service coverage directly to the underlying accounting and other records used to prepare the consolidated financial statements, or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, such supplemental consolidating and combining information and schedule of debt service coverage are fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

## **Restrictions on Use**

This report is intended solely for the information and use of management and the Board of Trustees of Tufts Medical Center Parent, Inc.; the Massachusetts Development Finance Agency (MDFA); and U.S. Bank National Association, the Trustee of the Master Trust Indenture and Mortgage and Security Agreement, dated April 1, 2011, among Tufts Medical Center, Inc., Tufts Medical Center Real Estate Company, Inc., MDFA, and U.S. Bank National Association, and is not intended to be, and should not be, used by anyone other than these specified parties.

*Deloitte & Touche LLP*

December 23, 2016

# TUFTS MEDICAL CENTER PARENT, INC. AND AFFILIATES

## CONSOLIDATED BALANCE SHEETS AS OF SEPTEMBER 30, 2016 AND 2015 (Amounts in thousands)

	2016	2015
<b>ASSETS</b>		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 97,661	\$ 110,592
Short-term investments	12,408	9,974
Patient accounts receivable—less allowance for uncollectible accounts of \$12,014 in 2016 and \$12,704 in 2015	101,053	83,926
Prepaid expenses, other current assets, and other receivables—less allowance for uncollectible accounts of \$2,877 in 2016 and \$908 in 2015	49,416	51,877
Assets limited as to use	9,142	8,993
Supplies	11,224	11,241
Estimated third-party payor settlements	866	683
Total current assets	281,770	277,286
ESTIMATED THIRD-PARTY PAYOR SETTLEMENTS	249	
BOARD-DESIGNATED INVESTMENTS	283,430	263,949
ASSETS LIMITED AS TO USE	112,626	117,229
PROPERTY AND EQUIPMENT—Net	147,035	157,810
OTHER ASSETS—Net	13,796	13,576
TOTAL	<u>\$ 838,906</u>	<u>\$ 829,850</u>
<b>LIABILITIES AND NET ASSETS</b>		
CURRENT LIABILITIES:		
Accounts payable and accrued liabilities	\$ 110,905	\$ 105,251
Accrued employee benefits and compensation	36,221	44,354
Professional liability costs	13,544	10,724
Deferred gain	6,195	6,415
Estimated third-party payor settlements	26,273	20,650
Current portion of long-term debt	5,938	5,631
Total current liabilities	199,076	193,025
OTHER LIABILITIES:		
Long-term debt	280,556	286,321
Estimated third-party payor settlements	16,632	11,981
Professional liability costs	64,062	63,601
Deferred gain		5,840
Accrued pension liability	73,392	53,443
Other long-term liabilities	35,096	33,382
Total liabilities	<u>668,814</u>	<u>647,593</u>
CONTINGENCIES (Note 15)		
NET ASSETS:		
Unrestricted	161,434	171,234
Temporarily restricted	3,195	5,573
Permanently restricted	5,463	5,450
Total net assets	<u>170,092</u>	<u>182,257</u>
TOTAL	<u>\$ 838,906</u>	<u>\$ 829,850</u>

See notes to consolidated financial statements.

# **TUFTS MEDICAL CENTER PARENT, INC. AND AFFILIATES**

## **CONSOLIDATED STATEMENTS OF OPERATIONS FOR THE YEARS ENDED SEPTEMBER 30, 2016 AND 2015 (Amounts in thousands)**

	<b>2016</b>	<b>2015</b>
OPERATING REVENUE:		
Net patient service revenue (net of contractual allowances and discounts)	\$787,365	\$739,376
Provision for uncollectible accounts	<u>(12,291)</u>	<u>(13,192)</u>
Net patient service revenue—net of provision for uncollectible accounts	775,074	726,184
Other operating revenue	140,195	129,726
Direct revenue from research and other sponsored programs	37,312	36,707
Indirect revenue from research and other sponsored programs	12,314	12,703
Gain on sale of property	6,295	6,298
Net assets released from restrictions used for operations	<u>3,352</u>	<u>3,480</u>
Total operating revenue	<u>974,542</u>	<u>915,098</u>
OPERATING EXPENSES:		
Salaries and wages	486,349	453,811
Employee benefits	109,839	103,728
Supplies and other	234,091	222,976
Purchased services	63,473	68,023
Depreciation and amortization	23,614	22,629
Interest	19,152	19,115
Direct expenses—grants and contracts	37,312	36,707
Restricted net assets—expenses	<u>3,352</u>	<u>3,480</u>
Total operating expenses	<u>977,182</u>	<u>930,469</u>
LOSS FROM OPERATIONS	<u>(2,640)</u>	<u>(15,371)</u>
NONOPERATING REVENUE AND EXPENSE:		
Investment income	3,417	3,904
Change in fair value and realized gain (loss) on sale of investments	16,133	(6,373)
Other		2,277
Unrestricted gifts—net of expenses	(386)	(660)
Sundry gifts—net of expenses	<u>(1,673)</u>	<u>(605)</u>
Total nonoperating revenue and expense	<u>17,491</u>	<u>(1,457)</u>
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENSES	14,851	(16,828)
OTHER CHANGES IN UNRESTRICTED NET ASSETS:		
Change in net unrealized gains and losses on investments	82	512
Net assets released from restrictions for purchase of equipment		557
Other		539
Transfer of net assets		(708)
Pension-related adjustments	<u>(24,733)</u>	<u>(20,441)</u>
DECREASE IN UNRESTRICTED NET ASSETS	<u>\$ (9,800)</u>	<u>\$ (36,369)</u>

See notes to consolidated financial statements.

# **TUFTS MEDICAL CENTER PARENT, INC. AND AFFILIATES**

## **CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS FOR THE YEARS ENDED SEPTEMBER 30, 2016 AND 2015 (Amounts in thousands)**

	<b>2016</b>	<b>2015</b>
<b>UNRESTRICTED NET ASSETS:</b>		
Excess (deficiency) of revenue over expenses	\$ 14,851	\$ (16,828)
Other changes in unrestricted net assets:		
Change in net unrealized gains and losses on investments	82	512
Net assets released from restrictions for purchase of equipment		557
Other		539
Transfer of net assets		(708)
Pension-related adjustments	<u>(24,733)</u>	<u>(20,441)</u>
Decrease in unrestricted net assets	<u>(9,800)</u>	<u>(36,369)</u>
<b>TEMPORARILY RESTRICTED NET ASSETS:</b>		
Income from restricted investments	12	18
Gifts and bequests	832	2,118
Net assets released from restrictions	(3,352)	(4,037)
Net realized and unrealized gains and losses on investments	<u>130</u>	<u>(10)</u>
Decrease in temporarily restricted net assets	<u>(2,378)</u>	<u>(1,911)</u>
<b>PERMANENTLY RESTRICTED NET ASSETS:</b>		
Gifts and bequests	<u>13</u>	<u>51</u>
<b>DECREASE IN NET ASSETS</b>	<b>(12,165)</b>	<b>(38,229)</b>
<b>NET ASSETS—Beginning of year</b>	<b><u>182,257</u></b>	<b><u>220,486</u></b>
<b>NET ASSETS—End of year</b>	<b><u>\$170,092</u></b>	<b><u>\$182,257</u></b>

See notes to consolidated financial statements.

# TUFTS MEDICAL CENTER PARENT, INC. AND AFFILIATES

## CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED SEPTEMBER 30, 2016 AND 2015 (Amounts in thousands)

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES:		
Decrease in net assets	\$ (12,165)	\$ (38,229)
Adjustments to reconcile (decrease) increase in net assets to net cash provided by operating activities:		
Depreciation and amortization	23,614	22,629
Non-cash interest expense	174	174
Provision for uncollectible accounts	12,291	13,192
Net realized and unrealized gains and losses on investments	(16,345)	5,871
Net gain on sale of property	(6,295)	(6,298)
Restricted gifts, grants, and bequests	(845)	(2,169)
Pension-related adjustments	24,733	20,441
Equity interest in earnings of joint ventures	(1,411)	(1,546)
(Decrease) increase in cash resulting from change in:		
Patient accounts receivable	(29,418)	(12,517)
Prepaid expenses, other current assets, and other receivables	2,045	(2,216)
Supplies	17	(1,056)
Other assets	(742)	(593)
Accounts payable and accrued liabilities	5,942	(10,343)
Accrued employee benefits and compensation	(8,133)	(609)
Deferred revenue	235	122
Professional liability costs	3,281	4,275
Estimated third-party payor settlements	9,842	11,735
Other long-term liabilities	(3,157)	2,338
Net cash provided by operating activities	<u>3,663</u>	<u>5,201</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(13,020)	(25,320)
Proceeds from distributions of equity interest in joint ventures	1,168	1,372
Purchases of securities available for sale	(82,258)	(191,694)
Proceeds from sales and maturities of securities available for sale	<u>81,142</u>	<u>209,917</u>
Net cash used in investing activities	<u>(12,968)</u>	<u>(5,725)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payments on long-term debt	(5,523)	(5,244)
Restricted gifts, grants, and bequests	2,006	2,589
Payments on notes payable	<u>(109)</u>	<u>(97)</u>
Net cash used in financing activities	<u>(3,626)</u>	<u>(2,752)</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(12,931)	(3,276)
CASH AND CASH EQUIVALENTS—Beginning of year	<u>110,592</u>	<u>113,868</u>
CASH AND CASH EQUIVALENTS—End of year	<u>\$ 97,661</u>	<u>\$ 110,592</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION—Cash paid for interest	<u>\$ 19,198</u>	<u>\$ 19,008</u>

See notes to consolidated financial statements.

## TUFTS MEDICAL CENTER PARENT, INC. AND AFFILIATES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED SEPTEMBER 30, 2016 AND 2015 (Amounts in thousands)

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#### 1. DESCRIPTION OF THE ORGANIZATION

Tufts Medical Center Parent, Inc. (the "Parent") is a Massachusetts nonprofit corporation that oversees and coordinates a series of affiliated corporations that provide a broad range of health care and related services primarily in the greater Boston area.

The Parent is the sole corporate member of the following:

***Tufts Medical Center, Inc. (the "Hospital")***—The Hospital is a nonprofit acute care general hospital located in Boston, Massachusetts established to provide health care services to patients, primarily in the greater Boston area. The Hospital also treats patients from elsewhere in New England and beyond. In addition, the Hospital conducts research and provides education for physicians and other health care professionals through its affiliation with Tufts University School of Medicine. As such, revenue in the accompanying consolidated statements of operations includes revenue derived from direct patient care research and educational activities.

***Tufts Medical Center Indemnity Company, Ltd. ("TMCIC")***—TMCIC is a for-profit Cayman Islands captive insurance company (see Note 15).

***Tufts Medical Center Real Estate Company, Inc. ("Real Estate")***—Real Estate is a nonprofit entity that oversees the acquiring, maintaining and developing of the Parent's real estate properties. The Tufts Medical Center, Inc. Obligated Group (the "Obligated Group") consists of the Hospital and Real Estate.

***The Cameron M. Neely Foundation for Cancer Care, Inc. (the "Neely Foundation")***—The Neely Foundation is a nonprofit entity that helps cancer patients and their families during and after cancer treatments.

***New England Quality Care Alliance, Inc. ("NEQCA")***—NEQCA is a nonprofit network of approximately 1800 community and academic physicians in Massachusetts dedicated to providing comprehensive, high quality, and affordable care.

***New England Quality Care Alliance Accountable Care, Inc. ("NEQCA ACO")***—NEQCA ACO is a nonprofit accountable care organization formed to improve the health of patients, and to enhance the patient's experience of care and the reduction of the per capita cost of care, through integrated care coordination, shared savings, and quality incentives. NEQCA is the sole corporate member of the NEQCA ACO. NEQCA and affiliate consists of NEQCA and NEQCA ACO.

***New England Long-Term Care, Inc. ("NELTC")***—NELTC is a nonprofit entity that operates an 80 bed nursing home specializing in the care of children who are severely mentally and/or physically handicapped.

**Tufts Medical Center Community Care, Inc. ("TMCCC")**—TMCCC is a nonprofit entity that works jointly with the Parent and its affiliates to develop, implement, and operate an integrated health care delivery system and to provide cost-effective and high-quality patient care within such system. TMCCC facilitates the delivery of health care services, including but not limited to contracting with payors and providers of such services, and to operate or otherwise facilitate the operating of community medical practices.

**Tufts Medical Center Physicians Organization, Inc. ("TMCPPO")**—TMCPPO is a nonprofit entity and the sole corporate member of a number of physician practices. These practices provide patient care, teaching, and administrative services to the Hospital.

The consolidated financial statements include the accounts of the Parent and its controlled affiliates (collectively, the "Organization").

Effective October 1, 2014, the Parent finalized an agreement with Circle Health, Inc. to establish a new health care system. Under this agreement, the Parent and Circle Health, Inc. have formed a new organization named Wellforce Inc. ("Wellforce"). Wellforce represents a unique model that will improve coordination of care and enable clinicians to better serve the health needs of communities while enhancing the affordability of care. Wellforce focuses on care integration, population health management, patient access and operational performance. The Parent, Circle Health, Inc., and Wellforce are governed by separate boards of trustees and chief executive officers. Effective October 1, 2014, Wellforce became the sole corporate member of the Parent.

Effective June 30, 2016, the board of trustees of Hallmark Health Corporation ("Hallmark Health"), the parent company of Melrose-Wakefield Hospital and Lawrence Memorial Hospital of Medford, signed a letter of intent to join Wellforce.

Hallmark Health is a coordinated system of hospitals, physician practices, and community-based services providing care for communities throughout north suburban Boston. Since its inception in 1997, Hallmark Health has been committed to its mission of providing quality care for its communities and achieving clinical excellence for the patients it serves. The system includes Melrose-Wakefield Hospital; Lawrence Memorial Hospital of Medford; Hallmark Health Medical Center, Reading; Hallmark Health Medical Associates; Hallmark Health VNA and Hospice; and Lawrence Memorial/Regis College School of Nursing.

Effective August 30, 2016, a Definitive Agreement by and between Wellforce and Hallmark Health was executed. As of the closing, Wellforce will be the sole corporate member of Hallmark Health. Wellforce is amending its articles of incorporation and by-laws to make Hallmark Health a founding member of Wellforce. The Parent and Circle Health, Inc. are also amending their articles of incorporation and by-laws as Hallmark Health will have the same reserved powers. The anticipated effective date of the merger is January 1, 2017.

## **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Reporting Entity**—The consolidated financial statements include the accounts of the Parent and its controlled affiliates. The Parent accounts for its interest in its controlled affiliates using the cost method of accounting. Significant intercompany accounts and transactions among the consolidated organizations have been eliminated in preparing the consolidated financial statements. The assets of any member of the Organization may not be available to meet the obligations of other members in the Organization, except as disclosed in Note 11.

**Basis of Presentation**—The consolidated financial statements have been presented in conformity with accounting principles generally accepted in the United States of America ("generally accepted accounting principles") consistent with the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 954, *Health Care Entities*, and other pronouncements applicable to health care organizations.

**Immaterial Correction**—Subsequent to the issuance of the 2015 consolidated financial statements, the Organization determined that \$10,812 of deferred rent liability that had been reported as a current liability in accounts payable and accrued liabilities should be reported as a long-term liability in other long-term liabilities. Accordingly, we have corrected the classification of this liability in the accompanying balance sheet as of September 30, 2015.

**Use of Estimates**—The preparation of consolidated financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements. Estimates also affect the reported amounts of revenue and expenses during the reporting period. Significant estimates include the allowances for uncollectible accounts and contractual allowances, estimated third-party payor settlements, self-insurance program liabilities, pension costs and the related obligations, contingencies, and the valuation of certain investments. Actual results could differ from those estimates.

**Cash and Cash Equivalents**—Cash and cash equivalents include investments in highly liquid debt instruments with maturities of three months or less when purchased, excluding amounts classified as assets limited as to use.

**Investments and Investment Income**—Investments in equity securities with readily determinable fair values and all investments in debt securities are recorded at fair value. Investments in venture capital, real estate limited partnerships, hedge funds, and absolute return funds (collectively, "alternative investments") that were held by the Organization as of October 1, 2008, are recorded at historical cost and are subject to impairment considerations. During 2016 and 2015, the Organization did not record any impairment on alternative investments. The accounting for the investments held in the Hospital's defined benefit pension plan (the "Benefit Plan") is discussed in Note 9.

The Organization elected the fair value option for all of its investments other than those determined to be alternative investments effective October 1, 2008. Additionally, the Organization elected the fair value option for all alternative investments purchased after October 1, 2008. The Organization made this election to reflect changes in fair value of its investments, including both increases and decreases and whether realized or unrealized, in its excess (deficiency) of revenue over expenses. The Organization recognized unrealized gains (losses) totaling \$14,398 and \$(15,085) in 2016 and 2015, respectively, within the excess (deficiency) of revenue over expenses. Unrealized gains and losses on investments for which the Organization has not elected the fair value option are excluded from the excess (deficiency) of revenue over expenses and reported as a change in net assets, except that declines in fair value that are judged to be other than temporary are reported as realized losses. These investments are periodically reviewed for impairment to determine if such declines are other than temporary.

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 reported in the consolidated balance sheets, statements of operations, and changes in net assets.

The Organization has the ability to liquidate its absolute return and hedge funds only periodically in accordance with the provisions of the respective fund agreements (see Note 18).

**Assets Limited as to Use**—Assets limited as to use include assets held in trusts under debt agreements, funds held for self-insurance liabilities and letter of credit agreements, and assets that are temporarily or permanently restricted by donors. Amounts required to meet current liabilities of the Organization are reported in current assets in the accompanying consolidated balance sheets.

**Contributions and Promises to Give**—Unconditional promises to give that are expected to be collected within one year are recorded at estimated net realizable value and are included in prepaid expenses, other current assets, and other receivables in the accompanying consolidated balance sheets. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows and are included in other assets in the accompanying consolidated balance sheets. The discounts on those amounts are computed using risk-free interest rates applicable to the years in which the promises are received. Amortization of the discounts is included in temporarily restricted gifts and bequests in the accompanying consolidated statements of operations. Conditional promises to give are not included as support until the conditions are substantially met. Unrestricted contributions are reported as unrestricted gifts—net of expenses.

**Property and Equipment**—Property and equipment acquisitions are recorded at cost or, if received by gift or donation, at fair market value at the date of the gift. Depreciation is computed over the estimated useful life of each class of depreciable asset using the straight-line method. The estimated useful lives of buildings and building improvements range from 10 to 50 years. The lives of major movable and fixed equipment range from 3 to 20 years.

**Gifts of Long-Lived Assets**—Gifts of long-lived assets, such as property or equipment, are recorded directly to unrestricted net assets and are excluded from the excess (deficiency) of revenue over expenses, unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as an increase in temporarily restricted net assets. Absent explicit donor stipulations about how long those long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

**Cost of Borrowing**—Interest costs incurred on borrowed funds during the period of construction of capital assets, net of investment income on borrowed assets held by trustees, are capitalized as a component of the cost of acquiring those assets. Approximately \$232 and \$527 was capitalized during 2016 and 2015, respectively. Deferred financing costs are amortized over the periods the related obligations are outstanding. At September 30, 2016 and 2015, net deferred financing costs totaled \$3,623 and \$3,842, respectively, and are classified in long-term debt in the accompanying consolidated financial statements. Accumulated amortization of deferred financing costs totaled \$1,086 and \$867 at September 30, 2016 and 2015, respectively.

**Impairment of Long-Lived Assets**—Long-lived assets to be held and used are reviewed for impairment whenever circumstances indicate that the carrying amount of an asset may not be recoverable. Long-lived assets to be disposed of are reported at the lower of the carrying amount or fair value, less cost to sell.

**Temporarily and Permanently Restricted Net Assets**—Temporarily restricted net assets are those whose use by the Organization has been limited by donors to a specific time period or purpose. Permanently restricted net assets are those which have been restricted by donors to be maintained by the Organization in perpetuity.

**Excess (Deficiency) of Revenue over Expenses**—The consolidated statements of operations include excess (deficiency) of revenue over expenses. Changes in unrestricted net assets which are excluded from excess (deficiency) of revenue over expenses, consistent with industry practice, include changes in unrealized gains and losses on investments other than those on which other-than-temporary losses are recognized or for which the fair value option has been elected, permanent transfers of assets to and from affiliates for other than goods and services, contributions of long-lived assets (including assets acquired using contributions which by donor restriction were to be used for the purposes of acquiring such assets), and pension-related adjustments.

**Consolidated Statements of Operations**—The Organization has elected to report transactions deemed by management to be ongoing, major, or central to the provision of acute care hospital services as revenue and expenses and peripheral or incidental transactions as nonoperating revenue and expense. Accordingly, investment income, the change in fair value of investments for which the Organization has elected the fair value option and realized gains and losses on sale of investments, unrestricted gifts, and development expenses are reported as nonoperating revenue and expense. In addition, sundry revenue and expenses are reported as nonoperating. The Organization is also separately reporting direct and indirect revenue from research and other sponsored programs as part of operating revenue and direct expenses associated with grants and contracts, and expenses funded by restricted net assets as part of operating expenses.

**Revenue Recognition**—The Organization has agreements with third-party payors that provide for payments at amounts different from its established rates. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors.

Under the terms of various agreements, regulations, and statutes, certain elements of third-party reimbursement are subject to negotiation, audit, and/or final determination by the third-party payors. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. Variances between preliminary estimates of net patient service revenue and final third-party settlements are included in net patient service revenue in the year in which the settlement or change in estimate occurs. Changes in contractual allowances related to prior-year receivables are also recorded in the current-year net patient service revenue. Changes in prior-year estimates (decreased) increased net patient service revenue by approximately (\$1,338) and \$2,542 during 2016 and 2015, respectively.

**Other Operating Revenue**—The Hospital has other revenue recorded that consists primarily of retail pharmacy, and electronic health record (EHR) stimulus revenue. TMCPO also has other revenue recorded due to contracts with various medical facilities to provide

services of physicians. In addition, NEQCA has other revenue recorded related to infrastructure payments, delegated programs, and risk-based efficiency payments.

**Meaningful Use**—The Hospital has implemented EHR technology. During 2016 and 2015, the Hospital qualified for meaningful use incentive payments from Medicare related to the implementation of EHR and recognized \$482 and \$1,081, respectively. Additionally, payments from Medicaid were received of \$827 and \$0 in 2016 and 2015, respectively. TMCPO also received payments from Medicaid related to the implementation of EHR of \$26 and \$196 in 2016 and 2015, respectively. Additionally, TMCPO received payments from Medicare of \$875 and \$1,640 in 2016 and 2015, respectively. Such amounts were recorded as other operating revenue in the accompanying consolidated statements of operations.

**Supplies**—Supplies, consisting primarily of medical/surgical supplies and pharmaceuticals, are stated at the lower of cost, based upon the first-in, first-out method, or market.

**Professional Liability Costs**—The Organization is self-insured for certain professional liability claims (see Note 15). Estimated losses and claims are accrued as incurred. The Organization has provided for the cost of claims paid during the current period, as well as estimates of the liability for claims not yet paid, in the accompanying consolidated financial statements.

The liability for malpractice losses and loss-adjustment expenses includes an amount, based on an independent actuarial study discounted at a rate of 4% at September 30, 2016 and 2015, respectively, for losses for incurred but not reported claims determined from loss reports, individual cases, and based on past experience. Such liabilities are necessarily based on estimates, and while management believes that the amount is adequate, the ultimate liability may be in excess of or less than the amounts provided. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. The methods for making such estimates and for establishing the resulting liability are periodically reviewed and any adjustments are reflected in the consolidated statements of operations in the year in which the change occurs.

**Income Taxes**—With the exception of TMCIC, the Parent and its affiliates have been recognized by the Internal Revenue Service (IRS) as tax-exempt organizations under Section 501(c)(3) of the Internal Revenue Code (the "Code"), and, accordingly, are exempt from federal income taxes on related income pursuant to Section 501(a) of the Code. TMCIC is registered under the laws of the Cayman Islands and is exempt from local income, profits, and capital gains taxes until 2023.

An income tax provision has been provided for on the operating results of the taxable corporation. Deferred tax assets and liabilities are determined based on the differences between financial statement carrying amounts and the tax basis of assets and liabilities, using currently enacted tax rates. The income tax provisions and tax assets and liabilities are immaterial.

**Research Grants and Contracts**—Revenue related to research grants and contracts is recognized as the related costs are incurred. Indirect costs relating to certain government grants and contracts are reimbursed at fixed rates negotiated with the government agencies. Research grants and contracts have been accounted for as exchange transactions. Amounts received in advance of incurring the related expenditures are recorded as unexpended research grants and are included with accounts payable and accrued liabilities in the accompanying consolidated balance sheets.

**Asset Retirement Obligations**—The Organization recognizes the liability for conditional asset retirement obligations when the Organization has a legal obligation to perform asset retirement activities. Substantially all of the asset retirement obligations relate to estimated costs to remove asbestos that is contained within the Organization's facilities. The adjustments to the carrying amount of the asset retirement obligation in 2016 and 2015 were primarily attributable to accretion expense and were not significant.

**Accounting for Defined Benefit Pension and Other Postretirement Plans**—The Organization recognizes the overfunded or underfunded status of its Benefit Plan and postretirement plans as an asset or liability in its consolidated balance sheets. Changes in the funded status of the plans are reported as a change in unrestricted net assets presented below the excess (deficiency) of revenues over expenses in the consolidated statements of operations and changes in net assets in the year in which the changes occur.

**Provision for Bad Debts**—Accounts receivable are reduced by an allowance for uncollectible accounts. In evaluating the collectibility of accounts receivable, the Organization analyzes its past history and identifies trends for each of its major payor sources of revenue to estimate the appropriate allowance for uncollectible accounts and provision for bad debts. Management regularly reviews data about these major payor sources of revenue in evaluating the sufficiency of the allowance for uncollectible accounts. For receivables associated with services provided to patients who have third-party coverage, the Organization analyzes contractually due amounts and historic payment trends and records estimated contractual allowances. For receivables associated with self-pay patients, the Organization records a significant provision for bad debts in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The difference between the standard rates and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for uncollectible accounts.

The Organization's allowance for uncollectible accounts for all patients decreased from 16% of accounts receivable at September 30, 2015, to 11% of accounts receivable at September 30, 2016. In addition, the Organization's write-offs, net of recoveries, decreased \$332 from \$13,312 in fiscal year 2015 to \$12,980 in fiscal year 2016. The changes were a result of management's review of historical trends in uncollectible accounts, and determination of reserves, including the impact of the provisions of the Affordable Care Act. The Organization has not changed its charity care or uninsured discount policies during fiscal years 2016 or 2015. The Organization does not maintain a material allowance for uncollectible accounts from third-party payors, nor did it have significant bad debt write-offs from third-party payors.

Net patient service revenue (after contractual allowances and discounts), recognized during the years ended September 30, 2016 and 2015 from the Organization's major payor sources is as follows:

	2016	2015
Medicare	\$243,723	\$226,750
Medicaid	171,564	154,752
Other third-party payors	64,484	69,087
Managed care	292,499	271,204
Self-pay	<u>15,095</u>	<u>17,583</u>
Total of all payors	<u>\$787,365</u>	<u>\$739,376</u>

**New Accounting Pronouncements**—On September 30, 2016, the Organization adopted Accounting Standards Update (ASU) No. 2015-03, *Simplifying the Presentation of Debt Issuance Costs*. This guidance requires debt issuance costs to be presented as a direct deduction from the related debt rather than as an asset. The related amortization of such costs will be recorded as interest expense. The adoption of this guidance resulted in a \$3,842 reduction to total assets and total liabilities as previously reported in the September 30, 2015, consolidated balance sheet as retrospective application is required. As of September 30, 2016 and 2015, \$3,623 and \$3,842, respectively, of debt issuance costs are included in long-term debt.

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. ASU No. 2014-09 affects any entity that either enters into contracts with customers to transfer goods or services, or enters into contracts for the transfer of nonfinancial assets, unless those contracts are within the scope of other standards. The core principle of the guidance in ASU No. 2014-09 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In August 2015, the FASB issued ASU No. 2015-14, *Revenue from Contracts with Customers (Topic 606), Deferral of the Effective Date*. ASU No. 2015-14 defers the effective date of ASU No. 2014-09 for all affected entities. As a result, ASU No. 2014-09 is effective for the annual reporting periods beginning after December 15, 2017, including interim reporting periods within that reporting period. Earlier application is permitted only as of annual reporting periods beginning after December 15, 2016, including interim reporting periods within that reporting period. The Organization has not determined the impact to its consolidated financial statements from the adoption of this standard.

In May 2015, the FASB issued ASU No. 2015-09, *Disclosures about Short-Duration Contracts*. This guidance expands the disclosures that an insurance entity must provide about its short-duration insurance contracts. This guidance is effective for the Organization beginning October 1, 2017. The Organization has not determined the impact to its consolidated financial statements from the adoption of this standard.

In July 2015, the FASB issued ASU No. 2015-11, *Inventory (Topic 330): Simplifying the Measurement of Inventory*. The new guidance requires inventories to be valued at the lower of cost or net realizable value. This guidance does not apply to entities using the last-in, first-out valuation method. The standard will be effective for the first interim period within annual reporting periods beginning after December 15, 2016. Early adoption is permitted. The Organization has not determined the impact to its consolidated financial statements from the adoption of this standard.

In September 2015, the FASB issued ASU No. 2015-16, *Business Combinations (Topic 805), Simplifying the Accounting for Measurement-Period Adjustments*. ASU No. 2015-16 requires that an acquirer recognize adjustments to provisional amounts that are identified during the measurement period in the reporting period in which the adjustment amounts are determined. ASU No. 2015-16 requires that the acquirer record, in the same period's financial statements, the effect on earnings of changes in depreciation, amortization, or other income effects, if any, as a result of the change to the provisional amounts, calculated as if the accounting had been completed at the acquisition date. The standard will be effective for the first interim period within annual reporting periods beginning after December 15, 2015. Early adoption is permitted. The Organization has not determined the impact to its consolidated financial statements from the adoption of this standard.

In January 2016, the FASB issued ASU No. 2016-01, *Recognition and Measurement of Financial Assets and Financial Liabilities*. This guidance revises accounting related to (1) the classification and measurement of investments in equity securities and (2) the presentation of certain fair value changes for financial liabilities measured at fair value. It also amends certain disclosure requirements associated with the fair value of financial instruments. This guidance is effective for the Organization beginning October 1, 2019. The Organization has not determined the impact to its consolidated financial statements from the adoption of this standard.

In February 2016, the FASB issued ASU No. 2016-02, *Leases*. This guidance introduces a lessee model that brings substantially all leases in the consolidated balance sheet. This guidance is effective for the Organization beginning October 1, 2019. Retrospective application is required. The Organization has not determined the impact to its consolidated financial statements from the adoption of this standard.

In May 2016, the FASB issued ASU No. 2016-12, *Revenue from Contracts with Customers: Narrow-Scope Improvements and Practical Expedients*, which amends certain aspects of the FASB's revenue standard ASU No. 2014-09. In March 2016, the FASB issued ASU No. 2016-08, *Revenue from Contracts with Customers: Principal Versus Agent Considerations (Reporting Revenue Gross Versus Net)*. This guidance amends the principal versus agent implementation guidance and illustrations in the FASB's revenue standard, ASU No. 2014-09. In July 2015, the FASB issued ASU No. 2015-14, which defers the effective date of the FASB's revenue standard, ASU No. 2014-09 by one year for all entities and permits early adoption on a limited basis. In May 2014, the FASB issued ASU No. 2014-09. This guidance outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. After the deferral of the effective date, this guidance is effective for the Organization beginning October 1, 2018. The Organization has not determined the impact to its consolidated financial statements from the adoption of this standard.

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

In August 2016, the FASB issued ASU No. 2016-15, *Classification of Certain Cash Receipts and Cash Payments*. This guidance adds or clarifies guidance on the classification of certain cash receipts and payments in the consolidated statements of cash flows. This guidance is effective for the Organization beginning October 1, 2019. The Organization does not expect this guidance to have a material impact on its consolidated financial statements.

### 3. CHARITY CARE

**Charity Care**—The Organization provides care without charge or at amounts less than its established rates to patients who meet certain criteria under its charity care policy. Because the Organization does not pursue collection of amounts determined to qualify as charity care, they are not reported as net patient service revenue.

**Health Safety Net Fund (HSN) (Formerly, Uncompensated Care Pool)**—The Commonwealth of Massachusetts (the "Commonwealth") operates the HSN, which was created by the Commonwealth's Health Care Reform Act to replace the state's Uncompensated Care Pool. The HSN allocates the cost of uncompensated care among the hospitals in the Commonwealth. Hospitals have been assessed a uniform allowance based on estimates of the statewide cost of uncompensated care and have been reimbursed for a portion of the cost of uncompensated care, subject to certain limitations. Reimbursable uncompensated care includes net charity care and certain bad debts related to emergency services. Hospitals' recoveries from the HSN are based on a payment method that is claims based and uses Medicare principles. Reimbursement from the HSN for uncompensated care is recorded in net patient service revenue in the consolidated statements of operations. The Commonwealth has determined final settlements with respect to the HSN for all years prior to 2013.

The Organization provided charity care, based on charges forgone, of approximately \$31,408 in 2016 and \$23,927 in 2015. The estimated cost of the charity care provided amounted to \$11,440 in 2016 and \$8,978 in 2015. The estimated cost of charity care is based on the relationship of patient care service charges to the related costs applied to charity care charges.

### 4. THIRD-PARTY REIMBURSEMENT

**Medicare**—The Organization is subject to a federal prospective payment system for most Medicare inpatient hospital services and outpatient services. Under this prospective payment methodology, Medicare pays a prospectively determined per-discharge or per visit rate for nonphysician services. These rates vary according to the Diagnosis Related Group (DRG) or Ambulatory Payment Classification (APC) of each patient. The Organization also receives Medicare reimbursement for the program's share of direct and indirect cost of medical education. The Organization is reimbursed for certain reimbursable items at an interim rate, with final settlement determined after submission of annual cost reports and audits thereon by the Medicare fiscal intermediary. Limited outpatient services are reimbursed according to fee screens.

**Other Payor Arrangements**—The Organization has entered into other payment arrangements with Medicaid and certain indemnity and managed care payors. The basis for payment under these agreements includes prospectively determined rates per discharge and per day, discounts from established charges, and fee screens. Certain “pay for performance” contracts also provide for payments that are based upon meeting agreed-upon quality and efficiency measures.

## 5. PREPAID EXPENSES, OTHER CURRENT ASSETS, AND OTHER RECEIVABLES

Prepaid expenses, other current assets, and other receivables as of September 30, 2016 and 2015, consisted of the following:

	2016	2015
Grants and other sponsored activities	\$ 8,308	\$ 8,908
Contracted services	32,090	31,879
Current portion of pledges receivable	375	791
Prepaid expenses, other current assets, and other receivables	<u>11,520</u>	<u>11,207</u>
	52,293	52,785
Less allowance for uncollectible accounts	<u>(2,877)</u>	<u>(908)</u>
Total	<u>\$49,416</u>	<u>\$51,877</u>

Included in contracted services in the above table are \$10,439 and \$10,449 at September 30, 2016 and 2015, respectively, related to Blue Cross Blue Shield settlements.

## 6. INVESTMENTS AND ASSETS LIMITED AS TO USE

Investments and assets limited as to use as of September 30, 2016 and 2015, consisted of the following:

	2016	2015
Cash and short-term investments	\$ 39,215	\$ 42,142
US government and agency obligations	22,561	3,712
Corporate debt securities	10,750	
Common collective trusts, mutual funds, and ETFs	210,413	225,962
Limited partnerships	35,938	28,582
Due from broker	246	3,000
Absolute return and hedge funds	<u>90,482</u>	<u>88,629</u>
	<u>409,605</u>	<u>392,027</u>
Alternative investments (at cost):		
Absolute return and hedge funds	5,759	5,759
Venture capital funds	<u>2,242</u>	<u>2,359</u>
	<u>8,001</u>	<u>8,118</u>
Total	<u>\$417,606</u>	<u>\$400,145</u>

The estimated fair value of the Organization's alternative investments, which are carried at cost, approximated \$12,083 and \$12,300 at September 30, 2016 and 2015, respectively.

Investments and assets limited as to use are reported in the accompanying consolidated balance sheets as of September 30, 2016 and 2015, as follows:

	<b>2016</b>	<b>2015</b>
Short-term investments	\$ <u>12,408</u>	\$ <u>9,974</u>
Board-designated investments	<u>283,430</u>	<u>263,949</u>
Assets limited as to use:		
Held in trust under bond indenture agreements—debt service reserve funds	27,292	27,082
Deferred compensation investment	3,676	3,786
Held in trust under bond indenture agreements—project funds		5,002
Funds held for self-insurance liabilities	82,446	80,071
Temporarily restricted	2,891	4,831
Permanently restricted	<u>5,463</u>	<u>5,450</u>
Total assets limited as to use	<u>121,768</u>	<u>126,222</u>
Total	<u>\$417,606</u>	<u>\$400,145</u>

Investment income and gains (losses) for cash and cash equivalents, short-term investments, board-designated investments, and assets limited as to use for the years ended September 30, 2016 and 2015, consisted of the following:

	<b>2016</b>	<b>2015</b>
Nonoperating revenue:		
Investment income	\$ 3,417	\$ 3,904
Change in fair value and realized gain (loss) on sale of investments	<u>16,133</u>	<u>(6,373)</u>
	<u>19,550</u>	<u>(2,469)</u>
Other changes in unrestricted net assets—change in net unrealized gains (losses) on investments	<u>82</u>	<u>512</u>
Changes in temporarily restricted net assets:		
Income from restricted investments	12	18
Net realized and unrealized gains (losses) on investments	<u>130</u>	<u>(10)</u>
	<u>142</u>	<u>8</u>
Total	<u>\$19,774</u>	<u>\$(1,949)</u>

The amortized cost and estimated fair value of investments held at TMCIC in securities classified as available for sale as of September 30, 2016 and 2015, are as follows:

	<b>Amortized Cost</b>	<b>Gross Unrealized Gains</b>	<b>Gross Unrealized Losses</b>	<b>Estimated Fair Value</b>
<b>2016</b>				
Debt securities issued by U.S. government corporations and agencies	\$ 18,556	\$ 86	\$ (53)	\$ 18,589
Corporate debt securities	10,845	8	(103)	10,750
Exchange traded fund	7,606	2,335		9,941
Common collective funds— equity funds	2,752	85		2,837
Common collective funds— debt funds	33,292	1,727		35,019
Alternative investments	<u>4,200</u>	<u>1,110</u>		<u>5,310</u>
	<u>\$ 77,251</u>	<u>\$ 5,351</u>	<u>\$ (156)</u>	<u>\$ 82,446</u>
<b>2015</b>				
Exchange traded fund	\$ 11,909	\$ 1,730	\$ -	\$ 13,639
Common collective funds— equity funds	5,104	413	(240)	5,277
Common collective funds— debt funds	55,182	835		56,017
Alternative investments	<u>4,200</u>	<u>938</u>		<u>5,138</u>
	<u>\$ 76,395</u>	<u>\$ 3,916</u>	<u>\$ (240)</u>	<u>\$ 80,071</u>

Proceeds from sales of available-for-sale securities held by TMCIC were \$43,649 and \$18,625 in 2016 and 2015, respectively. Gross realized gains on those sales were \$2,590 and \$1,033 in 2016 and 2015, respectively, and gross realized losses on those sales were \$55 and \$28 in 2016 and 2015, respectively.

## 7. PROPERTY AND EQUIPMENT

Property and equipment—net as of September 30, 2016 and 2015, consisted of the following:

	2016	2015
Land and land improvements	\$ 7,536	\$ 7,533
Buildings and building improvements	185,225	183,536
Leasehold improvements	17,005	16,665
Major movable and fixed equipment	<u>250,185</u>	<u>235,863</u>
	459,951	443,597
Less accumulated depreciation	<u>(319,645)</u>	<u>(297,977)</u>
	140,306	145,620
Construction and projects in progress	<u>6,729</u>	<u>12,190</u>
Property and equipment—net	<u>\$ 147,035</u>	<u>\$ 157,810</u>

The estimated cost of completion of construction and projects in progress approximated \$10,056 and \$10,234 at September 30, 2016 and 2015, respectively.

At September 30, 2016 and 2015, \$2,023 and \$1,735, respectively, of property and equipment purchases and costs related to construction projects were included in accounts payable.

Depreciation expense for the years ended September 30, 2016 and 2015, was \$23,507 and \$22,468, respectively.

## 8. JOINT VENTURES

The Organization's investments in joint ventures totaled \$4,297 and \$3,989 at September 30, 2016 and 2015, respectively, and are reported as other assets in the accompanying consolidated balance sheets.

Investments in joint ventures at September 30, 2016 and 2015, consist of the following:

Name of Joint Venture	2016				
	Ownership Percentage	Total Assets	Long-Term Debt	Share of Net Assets	Share of Earnings
PROP, LLC	24.5 %	\$ 15,588	\$ 1,057	\$ 3,224	\$ 600
W. Suburban Eye Surgery Center	20.4	4,631	372	499	562
Provider Network Alliance	40.0	<u>2,354</u>	<u>          </u>	<u>574</u>	<u>249</u>
		<u>\$ 22,573</u>	<u>\$ 1,429</u>	<u>\$ 4,297</u>	<u>\$ 1,411</u>

  

Name of Joint Venture	2015				
	Ownership Percentage	Total Assets	Long-Term Debt	Share of Net Assets	Share of Earnings
PROP, LLC	24.50 %	\$ 16,542	\$ 1,566	\$ 3,159	\$ 728
W. Suburban Eye Surgery Center	21.28	4,501	447	505	612
Provider Network Alliance	40.00	<u>889</u>	<u>          </u>	<u>325</u>	<u>206</u>
		<u>\$ 21,932</u>	<u>\$ 2,013</u>	<u>\$ 3,989</u>	<u>\$ 1,546</u>

The Organization's share of earnings in its joint ventures totaled approximately \$1,411 and \$1,546 for the years ended September 30, 2016 and 2015, respectively. The Organization's share of its earnings in its joint ventures is reported as other operating revenue in the accompanying consolidated statements of operations. Distributions from the above joint ventures to the Organization totaled \$1,168 and \$1,372 for the years ended September 30, 2016 and 2015, respectively, included in other receivables in the accompanying consolidated balance sheets.

Effective December 15, 2014, the Hospital has a 30% membership interest in Provider Network Alliance, LLC (PNA) and NEQCA has a 10% interest. PNA was formed to establish a network of contracted hospitals, physicians, ancillary health providers, and other health care practitioners to provide health care services. At September 30, 2015, the Hospital had an \$800 note receivable due from PNA. As of September 30, 2016, the loan was fully repaid. The Hospital also had \$326 and \$309 due from PNA as of September 30, 2016 and 2015, respectively.

## 9. PENSION BENEFITS

**Tufts Medical Center Pension Plan**—The Benefit Plan has been amended to freeze benefits for all employees, and effective August 1, 2005, to eliminate participation of all new employees. The Benefit Plan excludes contracted registered nurses. Benefits for the Benefit Plan are based on years of service and average compensation over the highest five consecutive years of service.

The funded status of the Benefit Plan as of September 30, based on September 30 asset values, as well as the amounts recognized in the accompanying consolidated balance sheets as of September 30, 2016 and 2015, was as follows:

	<b>2016</b>	<b>2015</b>
Change in benefit obligation:		
Benefit obligation—beginning of year	\$183,229	\$164,529
Service cost	6,027	6,039
Transfers in/(out)	1,952	
Administrative expenses paid	(1,652)	
Interest cost	6,585	7,034
Benefits paid	(5,913)	(5,552)
Actuarial loss	<u>34,231</u>	<u>11,179</u>
Benefit obligation—end of year	<u>224,459</u>	<u>183,229</u>
Change in plan assets:		
Fair value of plan assets—beginning of year	130,394	128,194
Actual return on plan assets	14,330	(2,248)
Transfer in/(out)	1,952	
Administrative expenses paid	(1,652)	
Benefits paid	(5,913)	(5,552)
Employer contribution	<u>12,500</u>	<u>10,000</u>
Fair value of plan assets—end of year	<u>151,611</u>	<u>130,394</u>
Accrued pension liability	<u>\$ (72,848)</u>	<u>\$ (52,835)</u>
Accumulated benefit obligation	<u>\$203,573</u>	<u>\$165,259</u>

Unrestricted net assets at September 30, 2016 and 2015, include unrecognized actuarial losses of \$79,716 and \$54,983, respectively. Approximately \$7,333 of the unrecognized loss at September 30, 2016, is expected to be recognized in net periodic pension costs in 2016.

Components of the Benefit Plan's net periodic pension cost for the years ended September 30, 2016 and 2015, are as follows:

	<b>2016</b>	<b>2015</b>
Service cost—benefits earned during the period	\$ 6,027	\$ 6,039
Interest cost on projected benefit obligation	6,585	7,034
Expected return on plan assets	(9,259)	(9,132)
Amortization of net loss	<u>4,428</u>	<u>2,118</u>
Net periodic pension cost	<u>\$ 7,781</u>	<u>\$ 6,059</u>

The assumptions used in the measurement of the projected benefit obligation and net periodic pension for the years ended September 30, 2016 and 2015, were as follows:

	2016	2015
Weighted-average assumptions to determine benefit obligations:		
Discount rate	3.71 %	4.47 %
Rate of compensation increase	3.00	3.00
Assumptions to determine net cost:		
Discount rate	4.47	4.37
Rate of compensation increase	3.00	3.00
Expected return on plan assets	7.00	7.00

The Benefit Plan asset allocations as of September 30, 2016 and 2015, were as follows:

Asset Class	Target Range Allocation	Percentage of Plan Assets	
		2016	2015
Domestic equity	8%-16%	12 %	12 %
International equity	2-14	17	16
Fixed income	31-45	38	40
Absolute return and hedge funds	20-30	26	26
Venture capital	0-5	1	1
Real assets	4-12	4	3
Cash and short-term investments	0-4	<u>2</u>	<u>2</u>
		<u>100 %</u>	<u>100 %</u>

The investment policy and strategy, as established by the Hospital's Investment Committee, is to provide for growth of capital with a moderate level of volatility by investing assets based on the target allocations stated above. The Hospital plans to reallocate its investments periodically to meet the above-target allocations. The Hospital also plans to review its investment policy periodically to determine if the policy should be changed.

The expected long-term rate of return for the Benefit Plan's total assets is based on the expected return of each of the above categories, weighted based on the median of the target allocation for each class. Equity securities are expected to return 10% to 11% over the long term, while cash and fixed income are expected to return between 4% and 6%, and alternative investments are expected to return 7% to 9%.

The expected cash flows of the Benefit Plan as of September 30, 2016, were as follows:

Expected employer contributions for fiscal year ending September 30, 2017	<u>\$10,000</u>
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Estimated future benefit payments reflecting expected future service  
for the fiscal year ending September 30:

2017	\$ 9,223
2018	9,094
2019	9,577
2020	10,130
2021	10,713
2022-2026	63,615

**Hospital Retirement Savings Plan**—The Hospital and NEQCA have a defined contribution plan pursuant to Section 403(b) of the Code, which covers substantially all of their employees. Contributions to the plan are based on a defined percentage of eligible employees' salaries. The Hospital's contributions to the plan approximated \$3,363 and \$2,708 and NEQCA's contributions to the plan were \$142 and \$116 for the years ended September 30, 2016 and 2015, respectively.

**TMCPO Plans**—TMCPO has a defined contribution plan, which covers substantially all of its employees. Contributions to the plan are based on a defined percentage of eligible employees' salaries. Total contributions to this plan approximated \$12,320 and \$12,097 for the years ended September 30, 2016 and 2015, respectively.

TMCPO also maintains a tax-deferred savings plan for its employees, which allows participants to make contributions through salary reductions pursuant to Section 401(k) of the Code. TMCPO makes no contributions to this plan.

#### **10. CONCENTRATION OF CREDIT RISK**

The Organization receives a significant portion of its payments for services rendered from a limited number of government and commercial third-party payors, including Medicare, Medicaid, and various managed care organizations. A significant portion of the accounts receivable from managed care organizations is derived from three Massachusetts companies. Although management expects amounts recorded as net accounts receivable at September 30, 2016 and 2015, to be collectible, this concentration of credit risk is expected to continue in the near term.

The Organization grants credit to patients, most of whom are local residents. The Organization generally does not require collateral or other security in extending credit to patients; however, it routinely obtains assignment of (or is otherwise entitled to receive) patients' benefits payable under their health insurance programs, plans, or policies (e.g., Medicare, Medicaid, managed care organizations, and commercial insurance policies). Net patient accounts receivable as of September 30, 2016 and 2015, consisted of the following:

	2016	2015
Managed care	66 %	70 %
Medicare	14	9
Medicaid	14	17
Workers' compensation, self-pay, commercial, and other	<u>6</u>	<u>4</u>
	<u>100 %</u>	<u>100 %</u>

## 11. LONG-TERM DEBT

Long-term debt as of September 30, 2016 and 2015, consisted of the following:

	2016	2015
Massachusetts Development Finance Agency revenue bonds (MDFA)—fixed-rate serial and term revenue bonds ("Series I")	\$ 197,575	\$ 200,305
Tufts Medical Center Taxable revenue bonds—fixed-rate term revenue bonds ("Series 2013")	91,790	94,583
Non-interest-bearing commercial loan	289	398
Unaccreted premium—Series I	1,219	1,300
Unamortized discount—Series 2013	(756)	(792)
Financing costs	<u>(3,623)</u>	<u>(3,842)</u>
Total long-term debt	286,494	291,952
Less current portion	<u>(5,938)</u>	<u>(5,631)</u>
Long-term debt—net of current portion	<u>\$ 280,556</u>	<u>\$ 286,321</u>

**Series 2013 Taxable Bonds**—On August 7, 2013, the Obligated Group issued a taxable bond offering for \$100 million named the "Tufts Medical Center Taxable Bond, Series 2013." The Series 2013 bonds are payable under a bond indenture dated August 1, 2013, between the Obligated Group and US Bank, N.A. acting as bond trustee. The Series 2013 bonds were secured by Obligation No. 3 issued under the Master Trust Indenture and Mortgage and Security Agreement, dated April 1, 2011, as part of the Series I bonds issued in April 2011 and follow the same annual reporting requirements of the Series I bonds. The Series 2013 bonds were issued as follows: a 10-year note for \$25.6 million at a rate of 5.373%, a 15-year note for \$14.4 million at a rate of 6.323%, and a 25-year note for \$60.0 million at a rate of 7.000% to yield 7.125%. The Series 2013 bonds mature on January 1 of 2023, 2028, and 2038, respectively.

**Series I Tax-Exempt Bonds**—On April 1, 2011, the Obligated Group issued a tax-exempt bond offering for \$210 million named the "Massachusetts Development Finance Agency Revenue Bonds—Tufts Medical Center Issue Series I." The Series I bonds are payable under a bond indenture dated April 1, 2011, between the Obligated Group and US Bank, N.A. acting as bond trustee. The Series I bonds were secured by Obligation No. 1 issued under the Master Trust Indenture and Mortgage and Security Agreement, dated April 1, 2011. The Series I bonds were issued as a fixed rate serial and term revenue bond due from January 1, 2012, through 2041 in annual amounts ranging from \$2,270 to \$13,555 at rates ranging from 4.00% to 7.25%. The Series I bonds mature on January 1 of 2041.

**Collateral**—The Obligated Group has pledged its gross receipts and a mortgage on certain property as collateral under the MDFA bond issues. The Obligated Group is jointly and severally liable for repayment of the MDFA revenue bonds. The loan agreement requires that the Obligated Group maintain certain debt service funds and debt service reserve funds, which amounted to \$27,292 and \$27,082 at September 30, 2016 and 2015, respectively. Such amounts are included in assets limited as to use in the accompanying consolidated balance sheets.

**Principal Payments and Sinking Fund Requirements**—Aggregate principal payments and sinking fund requirements on long-term debt for the next five years and thereafter are as follows:

**Years Ending  
September 30**

2017	\$ 5,938
2018	6,260
2019	6,488
2020	6,795
2021	7,161
Thereafter	<u>257,012</u>
Total	<u>\$289,654</u>

**Debt Covenants**—The Obligated Group's loan agreements contain covenants that require the maintenance of certain financial ratios. The agreements also provide for restrictions on, among other things, transfers, additional indebtedness, and dispositions of property. For the years ended September 30, 2016 and 2015, the Obligated Group was in compliance with its financial debt covenants.

**Line of Credit**—On September 7, 2012, the Hospital entered into a revolving line of credit with a local bank for \$11,000. On September 8, 2016, the Hospital signed an amendment on this facility to extend the maturity date of the line to September 8, 2017. The terms of the line of credit include a borrowing rate of London InterBank Offered Rate (LIBOR), plus 150 basis points and a nonusage fee of 10 basis points annually. The line of credit is secured under the Master Trust Agreement for the Series I bonds for the Obligated Group. There were no amounts outstanding on the line of credit at September 30, 2016 and 2015.

## **12. TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS**

**Temporarily Restricted Net Assets**—Temporarily restricted net assets, including accumulated net gains on permanently restricted net assets that are available for

appropriation by the board of trustees (the "Board") in accordance with state law as of September 30, 2016 and 2015, are available for the following purposes:

	2016	2015
Research and general activities	\$2,324	\$4,651
Purchase of capital	759	767
Charity care	90	143
Accumulated net gains on investments	<u>22</u>	<u>12</u>
	<u>\$3,195</u>	<u>\$5,573</u>

**Permanently Restricted Net Assets**—The earnings on permanently restricted net assets are restricted for research and development and charity care. Permanently restricted net assets amounted to \$5,463 and \$5,450 at September 30, 2016 and 2015, respectively.

In March 2009, the Organization obtained a judgment from a court authorizing that up to \$10,000 of permanently restricted net asset be released from donor restrictions to the extent and for the duration determined by the Organization to be necessary to permit the Organization to satisfy the unrestricted days-cash-on-hand covenant of the Organization's debt agreements. Accordingly, the Organization recorded a transfer of \$10,000 from permanently restricted net assets to unrestricted net assets in 2009. If the Organization determines that the need to report the funds as unrestricted no longer exists, then the Organization is required to notify the Massachusetts Attorney General's office and such amounts will be reclassified to permanently restricted net assets.

**Endowment Funds**—The Organization's endowment consists of approximately 50 funds established for a variety of purposes. For the purposes of this disclosure, endowment funds include donor-restricted endowment funds. As required by generally accepted accounting principles, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

**Interpretation of Relevant Law**—The Organization has interpreted state law as requiring realized and unrealized gains of permanently restricted net assets to be retained in a temporarily restricted net asset classification until appropriated by the Board and expended. State law allows the Board to appropriate so much of the net appreciation of permanently restricted net assets as is prudent considering the Organization's long- and short-term needs, present and anticipated financial requirements, expected total return on its investments, price-level trends, and general economic conditions. In 2016 and 2015, \$17 and \$15, respectively, was appropriated.

As a result of this interpretation, the Organization classifies as permanently restricted net assets (a) the original value of the gifts donated to the permanent endowment when explicit donor stipulations requiring permanent maintenance of the historical fair value are present and (b) the original value of the subsequent gifts to the permanent endowment when explicit donor stipulations requiring permanent maintenance of the historical fair value are present. The remaining portion of the donor-restricted endowment fund composed of accumulated gains not required to be maintained in perpetuity is classified as temporarily restricted net assets until those amounts are appropriated for expenditure in a manner consistent with the donor's stipulations. The Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: duration and preservation of the fund, purposes of the donor-restricted

endowment funds, general economic conditions, the possible effect of inflation and deflation, the expected total return from income and the appreciation of investments, other resources of the Organization, and the investment policies of the Organization.

**Endowment Net Asset Composition and Changes in Endowment Net Assets**—A summary of the endowment net asset composition by type of fund as of September 30, 2016 and 2015, and the changes therein for the years then ended, is as follows:

	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets—October 1, 2014	\$ 19	\$5,399	\$5,418
Investment return—net appreciation	8		8
Appropriations of endowment assets for expenditure	(15)		(15)
Gifts	<u>          </u>	<u>51</u>	<u>51</u>
Endowment net assets—September 30, 2015	12	5,450	5,462
Investment return—net appreciation	27		27
Appropriations of endowment assets for expenditure	(17)		(17)
Gifts	<u>          </u>	<u>13</u>	<u>13</u>
Endowment net assets—September 30, 2016	<u>\$ 22</u>	<u>\$5,463</u>	<u>\$5,485</u>

**Funds with Deficiencies**—From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor requires the Organization to retain as a fund of perpetual duration. There was no deficiency of this nature as of September 30, 2016 and 2015.

**Investment Return Objectives and Spending Policy**—The Organization has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to the programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the organization must hold in perpetuity or for a donor-specified period(s). Under this policy, the endowment assets are invested in a manner to generate returns at least equal to and preferably greater than the consumer price index. To satisfy its long-term rate-of-return objectives, the Organization targets a diversified asset allocation that places a greater emphasis on equity-based investments within prudent risk constraints.

### 13. PLEDGES RECEIVABLE

Pledges receivable include donor contributions that are not expected to be collected within one year. These amounts are reported at their present value, discounted at 4.5% as of September 30, 2016, and 4.7% as of September 30, 2015. Pledges receivable as of September 30, 2016 and 2015, were as follows:

	2016	2015
Due in less than one year	\$ 375	\$ 791
Due thereafter	<u>488</u>	<u>1,233</u>
	863	2,024
Present value discount	<u>(21)</u>	<u>(55)</u>
Total	<u>\$842</u>	<u>\$1,969</u>

Pledges due within one year are reported in other receivables (see Note 5) in the accompanying consolidated balance sheets. Amounts due thereafter are reported in other assets.

### 14. OPERATING LEASES

The Organization leases equipment and buildings under various noncancelable operating lease agreements. Future minimum lease payments required under noncancelable operating leases with terms of one year or more as of September 30, 2016, consist of the following:

#### Years Ending September 30

2017	\$ 17,767
2018	14,707
2019	13,619
2020	12,553
2021	12,263
Thereafter	<u>78,685</u>
	<u>\$149,594</u>

Rental expense for the years ended September 30, 2016 and 2015, was \$23,765 and \$24,290, respectively. The Organization also has equipment leases with rental payments that are based on usage, which amounted to \$3,213 and \$2,837 for the years ended September 30, 2016 and 2015, respectively.

**Sale and Leaseback of Property**—In 2007, Real Estate entered into a sale and leaseback transaction, whereby Real Estate sold buildings and land with a consolidated net book value of \$5,594 for net proceeds of \$114,455, and the Hospital leased a majority of the same buildings back over a period of 10 years. A gain of \$107,281 was realized on the

transaction, net of \$1,580 that was transferred to a trustee and held in escrow for capital repairs. Of the total gain, \$62,955 was deferred and is being recognized ratably over the life of the lease and \$44,326 was recognized in 2007. During 2016 and 2015, \$6,295 and \$6,298, respectively, of the deferred gain was amortized and included as part of the gain on sale of property in the accompanying consolidated statements of operations.

## **15. MALPRACTICE AND OTHER CONTINGENCIES**

**General and Professional Liability Insurance**—Prior to October 1, 2006, the Parent and its affiliates purchased general and professional liability insurance policies from affiliated entities under retrospectively rated policies. Effective October 1, 2006, the Parent and its affiliates address their general and professional liability expense, in part, by depositing funds with TMCIC that utilizes these funds to pay claims, and in part, to purchasing commercial excess liability insurance. The commercial insurance generally provides coverage on a "claims-made" basis. Under the claims-made policies, claims based on occurrences during their term but reported subsequently will be uninsured should the policy not be renewed or replaced with other coverage. Management has the intention of renewing its insurance policies in the future and believes it will have the ability to obtain such policy renewals.

TMCIC reinsures a portion of its risks in order to limit its exposure to losses. Reinsurance contracts do not relieve the Organization from its obligations to policyholders. Failure of reinsurers to honor their obligations could result in losses to the Organization. Consequently, the Organization evaluates the financial condition of its reinsurers to minimize its exposure to significant losses from reinsurer insolvencies.

Reinsurance recoverables were based on actuarial reports prepared by independent consulting actuaries. At September 30, 2016 and 2015, reinsurance recoverables of \$4,669 and \$4,295, respectively, were recorded as other assets. There were no specifically identified claims subject to reinsurance recoverables at September 30, 2016 and 2015, or deducted from losses incurred and paid during the years then ended. Activity in the accrual for professional liability and retrospective premium adjustment costs recorded by TMCIC is summarized in the following table. The table does not include the professional liability costs recorded by entities other than TMCIC:

	<b>2016</b>	<b>2015</b>
Balance—beginning of year	\$ 9,610	\$13,797
Less reinsurance recoverable	<u>4,295</u>	<u>4,834</u>
Net balance—beginning of year	<u>5,315</u>	<u>8,963</u>
(Recovered) incurred related to:		
Current year	(622)	(516)
Prior years	<u>(825)</u>	<u>(242)</u>
Total (recovered) incurred	<u>(1,447)</u>	<u>(758)</u>
Recovery (paid) related to:		
Current year	97	
Prior years	<u>204</u>	<u>(828)</u>
Total (recovery) paid	<u>301</u>	<u>(828)</u>
Retrospective premium—transfer of retrospective premium credit	<u>(2,681)</u>	<u>(2,062)</u>
Net balance—end of year	1,488	5,315
Plus reinsurance recoverables	<u>4,669</u>	<u>4,295</u>
Balance—September 30	<u>\$ 6,157</u>	<u>\$ 9,610</u>

Losses, loss-adjustment expenses, and retrospective premium adjustments as of September 30, 2016 and 2015, consist of the following:

	<b>2016</b>	<b>2015</b>
Losses payable (recoverables receivable)	\$ 97	\$ (107)
Reported losses, loss-adjustment expenses, and margin for adverse development	5,156	5,019
Margin for retrospective premium adjustment due to the Hospital and TMCPO	<u>904</u>	<u>4,698</u>
	<u>\$6,157</u>	<u>\$9,610</u>

**Employee Health Insurance**—Effective January 1, 2007, the Organization established a self-insurance plan to provide medical benefits to its employees and their dependents. The Organization is responsible for the administration of the plan and to pay eligible claims. The Organization maintains a stop-loss insurance policy to limit its exposure on claims to \$350 per person per year; claims in excess of this limit are reimbursed up to an annual maximum of \$2,000 per person. The Organization has recorded a liability of approximately \$4,063 and \$4,090 at September 30, 2016 and 2015, respectively, to provide for claims made and claims incurred but not reported. The liability is included in accrued employee benefits and compensation in the accompanying consolidated balance sheets.

**Workers' Compensation Insurance**—The Organization is self-insured for workers' compensation and, with the assistance of an actuary, has estimated the costs of incidents reported and incurred but not yet reported. The Organization has recorded total liabilities of \$8,161 and \$6,930 at September 30, 2016 and 2015, respectively, which is included in accounts payable and accrued liabilities and other long-term liabilities in the accompanying consolidated balance sheet. The Organization has reinsurance receivables related to these outstanding liabilities of \$4,835 and \$4,130 at September 30, 2016 and 2015, respectively, which are recorded in prepaid expenses, other current assets, and other receivables in the accompanying consolidated balance sheets.

**Collective Bargaining Agreement**—the Organization is subject to a collective bargaining agreement with respect to registered nurses. The current agreement is being extended via written agreement while negotiations are taking place. The current agreement covers approximately 1,200 registered nurses.

**Contingencies**—The Parent and its affiliates are parties in various legal proceedings and potential claims arising in the ordinary course of its business, including a number of pending actions seeking damages for alleged medical malpractice. 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 is subject to government review and interpretation, as well as regulatory actions, which could result in the imposition of significant fines and penalties, as well as significant repayments of previously billed and collected revenue from patient services. Management believes that the Organization individually and collectively is in compliance with laws and regulations and does not believe that these matters will have a material adverse effect on the Organization's consolidated financial statements.

## **16. RELATED-PARTY TRANSACTIONS**

**Tufts Shared Services, Inc.**—Tufts Shared Services, Inc. is a charitable corporation that provides services (primarily utility and other support services) to the Organization and Tufts University ("Tufts"). The governing Board consists of equal representation from the Hospital and Tufts. The Organization reports its share of expenses from shared services provided directly to the Hospital in its consolidated financial statements. Such expenses approximated \$13,235 and \$13,618 for the years ended September 30, 2016 and 2015, respectively.

**Heart Center of MetroWest, Inc.**—Effective July 1, 2011, TMCPO and the Hospital had a Master Affiliation Agreement with Heart Center of MetroWest, Inc. ("Heart Center"). TMCPO is the sole corporate member of Heart Center, which is consolidated under the Pratt Medical Group. This agreement has an initial term of five years as of July 1, 2011, and is automatically renewed thereafter for successive five-year terms.

**Wellforce and Circle Health, Inc.**—As of January 1, 2016, TMCIC provides a claims-made policy, which is subject to annual renewal and retrospective premium adjustments, to Circle Health, Inc. The claims-made policy covers claims actually made during the term of the policy, but not those occurrences for which claims may be made after expiration of the policy. During the fiscal year 2016, the Organization received \$1,255 of premium payments from Circle Health, Inc.

During the year ended September 30, 2016, the Parent recorded \$930 of operating expenses related to Wellforce comprised of a cash investment for \$355 and operating expenses paid by the Parent of \$575. In the prior year ended September 30, 2015, the Parent recorded a \$708 net asset transfer consisting of a \$229 cash investment and \$479 of operating expenses. These expenses paid by the Parent throughout the year ended September 30, 2016, relate to salaries and wages, employee benefits, legal fees, and marketing costs associated with the setup and ongoing governance of Wellforce Inc.

## **17. FAIR VALUE MEASUREMENTS**

Generally accepted accounting principles establish a fair value hierarchy that distinguishes between market participant assumptions based on market data obtained from sources independent of the reporting entity (observable inputs that are classified within Levels 1 and 2 of the hierarchy) and the reporting entity's own assumption about market participant assumptions (unobservable inputs classified within Level 3 of the hierarchy).

As a result of the adoption of ASU No. 2015-07, *Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*, investments for which the fair value is measured using the net asset value (NAV) per share practical expedient are not categorized within the fair value hierarchy.

The Organization's financial assets that are measured at fair value on a recurring basis as of September 30, 2016, are as follows:

	Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)	Total
Cash equivalents—money market funds	<u>\$ 1,557</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,557</u>
Cash and short-term investments	<u>\$ 39,215</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 39,215</u>
US government and agency obligations	<u>          </u>	<u>22,561</u>	<u>          </u>	<u>22,561</u>
Corporate debt securities	<u>          </u>	<u>10,750</u>	<u>          </u>	<u>10,750</u>
Mutual funds and ETFs:				
Fixed-income funds	38,027			38,027
Equity funds	<u>47,987</u>	<u>9,942</u>	<u>          </u>	<u>57,929</u>
Total mutual funds and ETFs	<u>86,014</u>	<u>9,942</u>	<u>-</u>	<u>95,956</u>
Total assets at fair value	<u>\$ 125,229</u>	<u>\$ 43,253</u>	<u>\$ -</u>	<u>168,482</u>
Investments measured at NAV:				
Common collective trusts and mutual funds				114,457
Limited partnerships				35,938
Absolute return and hedge funds				<u>90,482</u>
Total investments measured at NAV				<u>240,877</u>
Absolute return and hedge funds (at cost)				8,001
Due from broker				<u>246</u>
Total				<u>\$ 417,606</u>

The Organization's financial assets that are measured at fair value on a recurring basis as of September 30, 2015, are as follows:

	Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)	Total
Cash equivalents—money market funds	\$ -	\$ -	\$ -	\$ -
Cash and short-term investments	\$ 42,142	\$ -	\$ -	\$ 42,142
Mutual funds and ETFs:				
Fixed-income funds	34,744			34,743
Equity funds	45,229	13,639		58,868
Total mutual funds and ETFs	79,973	13,639	-	93,611
Total assets at fair value	\$ 122,115	\$ 13,639	\$ -	135,753
Investments measured at NAV:				
Common collective trusts and mutual funds				136,063
Limited partnerships				28,582
Absolute return and hedge funds				88,629
Total investments measured at NAV				253,274
Absolute return and hedge funds (at cost)				8,118
Due from broker				3,000
Total				\$ 400,145

Subsequent to the issuance of the 2015 consolidated financial statements, the Organization determined that a \$13.6 million investment in an exchange traded fund (ETF) as of September 30, 2015, that had been reported as an investment measured at NAV, should be classified as a Level 2 investment because ETF's are valued based on last trade price and not the NAV as a practical expedient. Accordingly, we have corrected the classification of this security to Level 2 in the above table of fair value hierarchy as of September 30, 2015.

The Organization's financial assets of the Benefit Plan that are measured at fair value on a recurring basis as of September 30, 2016, are as follows:

	<b>Quoted Prices in Active Markets (Level 1)</b>	<b>Other Observable Inputs (Level 2)</b>	<b>Unobservable Inputs (Level 3)</b>	<b>Fair Value</b>
Cash and short-term investments	<u>\$ 4,340</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,340</u>
Mutual funds:				
International equity	8,651			8,651
Real assets	<u>5,642</u>			<u>5,642</u>
Total mutual funds	<u>14,293</u>	<u>-</u>	<u>-</u>	<u>14,293</u>
Total	<u>\$ 18,633</u>	<u>\$ -</u>	<u>\$ -</u>	<u>18,633</u>
Investments measured at NAV:				
Mutual funds				67,247
Limited partnerships				26,626
Absolute return and hedge funds				38,953
Venture capital funds				<u>583</u>
Total investments measured at NAV				<u>133,409</u>
Due to broker				<u>(430)</u>
Total				<u>\$ 151,612</u>

The Organization's financial assets of the Benefit Plan that are measured at fair value on a recurring basis as of September 30, 2015, are as follows:

	<b>Quoted Prices in Active Markets (Level 1)</b>	<b>Other Observable Inputs (Level 2)</b>	<b>Unobservable Inputs (Level 3)</b>	<b>Fair Value</b>
Cash and short-term investments	\$ 669	\$ -	\$ -	\$ 669
Mutual funds:				
International equity	6,984			6,984
Real assets	<u>2,931</u>			<u>2,931</u>
Total mutual funds	<u>9,915</u>	-	-	<u>9,915</u>
Total	<u>\$ 10,584</u>	<u>\$ -</u>	<u>\$ -</u>	<u>10,584</u>
Investments measured at NAV:				
Mutual funds				62,878
Limited partnerships				19,615
Absolute return and hedge funds				34,554
Venture capital funds				<u>693</u>
Total investments measured at NAV				<u>117,740</u>
Due to broker				<u>2,070</u>
Total				<u>\$ 130,394</u>

The Organization uses the following fair value hierarchy to present its fair value disclosures:

*Level 1*—Quoted (unadjusted) prices for identical assets or liabilities in active markets. Active markets are those in which transactions for the asset or liability occur with sufficient frequency and volume to provide pricing information on an ongoing basis.

*Level 2*—Other observable inputs, either directly or indirectly, including:

- Quoted prices for similar assets in active markets
- Quoted prices for identical or similar assets in nonactive markets (few transactions, limited information, noncurrent prices, high variability over time, etc.)
- Inputs other than quoted prices that are observable for the asset (interest rates, yield curves, volatilities, default rates, etc.)

- Inputs that are derived principally from or corroborated by other observable market data

*Level 3*—Unobservable inputs that cannot be corroborated by observable market data.

**Asset Valuation Techniques**—Valuation technologies maximize the use of relevant observable inputs and minimize the use of unobservable inputs. The following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at September 30, 2016 and 2015.

The valuation of the Organization's investments is reviewed quarterly by the Organization's Investment Committee. The Investment Committee is appointed by the Board and is responsible for the administration and oversight of the investment valuation policies and procedures. The fair value of investments is determined in accordance with the current fair value guidance and as described below. NAV would not be used as a practical expedient for fair value when it is determined to be probable that the investment would sell for an amount different than the reported NAV. In such situations, management would estimate the fair value of the investment in good faith based on the available information and will update the fair value methodology if a significant event occurs that has the potential of affecting the ultimate value of the investment.

*Cash and Short-Term Investments*—The carrying value of cash and short-term investments approximates fair value as maturities are less than three months and/or include money market funds that are based on quoted prices and actively traded. Cash and short-term investments are classified as Level 1.

*Mutual Funds*—The fair values of mutual funds are based on quoted market prices or NAV. Mutual funds that publish a daily NAV, transact at that price, and are actively traded are classified as Level 1. The Organization also holds private mutual funds that do not publish a quoted market price; these funds are valued using NAV as a practical expedient to determine fair value.

*Common Collective Trusts*—The estimated fair values of common collective trusts are determined based upon information provided by the fund managers, using NAV as a practical expedient to determine fair value. Such information is generally based on the pro rata interest in the net assets of the underlying investments, which approximates fair value. The Organization's interest in common collective trusts may be redeemed at NAV at least monthly with no redemption restrictions, and there are no unfunded commitments.

*Exchange Traded Funds (ETFs)* —The fair values of ETFs are based on quoted market prices. ETFs that are actively traded are classified as Level 1, and ETFs that are not actively traded are classified as Level 2.

*U.S. Government and Agency Obligations and Corporate Debt Securities* — The estimated fair values of debt securities are estimated based on observable market prices for similar securities that are traded in less active markets or when observable market prices for identical securities are not available, marketable debt instruments are priced using nonbinding market consensus prices that are corroborated with observable market data; quoted market prices for similar instruments; or pricing models, such as a discounted cash flow model; with all significant inputs derived from or corroborated with observable market data. These securities are classified as Level 2.

*Limited Partnerships and Absolute Return and Hedge Funds*—The estimated fair values of limited partnerships and limited liability corporations, including absolute return, hedge, and venture capital funds (alternative investments) accounted for at fair value, for which no quoted market prices are readily available, are determined based upon information provided by the fund managers. Such information is generally based on the pro rata interest in the net assets of the underlying investments, as a practical expedient to approximate fair value.

The following methods and assumptions were used by the Organization in estimating the fair value of its financial instruments that are not measured at fair value on a recurring basis for disclosures in the consolidated financial statements:

*Receivables and Payables*—The carrying value of the Organization's receivables and payables approximates fair value, as maturities are very short term.

*Long-Term Debt*—The estimated fair value of the Organization's bonds is based on current traded value. Such amounts at September 30, 2016 and 2015, are as follows:

	2016	2015
Carrying amount	\$289,828	\$295,396
Estimated fair value	347,086	337,517

The estimated fair value of the remaining long-term debt approximates its carrying amount. The fair value inputs for long-term debt are Level 2.

## 18. NAV PER SHARE

A summary of the Organization's investments with a reported NAV as of September 30, 2016, is as follows:

	2016		2015		Redemptions		
	Carrying Value	Fair Value	Carrying Value	Fair Value	Frequency	Restrictions	Notice Period
Mutual funds, common collective trusts, ETFs <sup>(1) (2) (3)</sup>	\$ 114,457	\$ 114,457	\$ 136,063	\$ 136,063	Daily/Semi-Mthly/Qtrly	(A)	1-90 days
Limited partnerships <sup>(1)</sup>	35,938	35,938	28,582	28,582	Mthly/Qtrly	(A)	10-60 days
Absolute return and hedge funds <sup>(4)</sup>	90,482	90,482	88,629	88,629			
Absolute return and hedge funds and venture capital funds (at cost) <sup>(4)</sup>	<u>8,001</u>	<u>12,083</u>	<u>8,118</u>	<u>12,300</u>	Mthly/Qtrly/Annu.	(B)	20-95 days
Total	<u>\$ 248,878</u>	<u>\$ 252,960</u>	<u>\$ 261,392</u>	<u>\$ 265,574</u>			

A summary of the financial assets of the Benefit Plan with a reported NAV as of September 30, 2016, is as follows:

	Fair Value (\$000)		Frequency	Redemptions	
	2016	2015		Restrictions	Notice Period
Mutual funds <sup>(1) (2) (3)</sup>	\$ 67,247	\$ 62,878	Daily/Mthly/Qtrly	(A)	1-90 days
Limited partnerships <sup>(1)</sup>	26,626	19,615	Mthly/Qtrly	(A)	10-60 days
Absolute return and hedge funds <sup>(4)</sup>	38,953	34,554	Mthly/Qtrly	(B)	33-95 days
Venture capital funds <sup>(5)</sup>	<u>583</u>	<u>693</u>	(C)	(C)	(C)
Total	<u>\$ 133,409</u>	<u>\$ 117,740</u>			

Tickmark:

\* The fair value of investments has been estimated using the NAV of the investment. Such fair values are determined based on information provided by the fund managers. Because of the inherent uncertainty of valuation, the values for the investments may differ significantly from the values that would have been used had a ready market for these investments existed, and the differences could be material.

<sup>(1)</sup> US and global equity investments—The goal of these funds is to provide returns that are superior to the S&P 500 index and the MSCI Index.

<sup>(2)</sup> Fixed income—The goal of these funds is to provide returns that are superior to the Barclays Aggregate Bond Index. These funds primarily all have daily liquidity with no restrictions or notice periods.

<sup>(3)</sup> Real asset investments—These funds' objectives are to provide a diversified portfolio of traditional investments and maintain a low correlation of both stocks and bonds.

<sup>(4)</sup> Marketable alternative investments—These include absolute return and equity hedge fund managers. The goal of these funds is to provide protection to the respective asset pools for both the corporate and retirement plan assets against extreme market lows and market highs. The funds mainly take long/short positions in publicly traded securities both within and outside the US market.

<sup>(5)</sup> Venture capital investments—The primary purpose of these investments is to make venture capital investments, principally by investing in equity or equity-oriented securities of privately held companies.

(A) Redemption gate of 20%, and one year hard

(B) Absolute return and hedge funds restrictions include any of the following:

- Redemption gate of 25%
- One year–three years hard or soft lock up
- Rolling two- to three-year lockup
- "Redemption quarterly:
  - 33% on 12/31/16
  - 50 % on 3/31/17
  - remaining balance on 6/30/17
- 2%–5% early withdrawal fee

(C) Liquidity data not available; funds are considered to be highly illiquid

## 19. FUNCTIONAL EXPENSES

The Organization provides general health care services to residents within its geographic location. Expenses related to providing these services for the years ended September 30, 2016 and 2015, are as follows:

	2016	2015
Health care services	\$738,785	\$742,354
Research	49,710	49,005
General and administrative	<u>188,687</u>	<u>139,110</u>
Total	<u>\$977,182</u>	<u>\$930,469</u>

Fund-raising expenses of \$2,722 and \$2,681 for the years ended September 30, 2016 and 2015, respectively, have been recorded in unrestricted gifts—net of expenses in the accompanying consolidated statements of operations.

During 2016, the Organization revised their policy for allocating functional expenses, prior year amounts have been reclassified to agree to the current year presentation.

## 20. SUBSEQUENT EVENTS

The Organization has evaluated subsequent events through December 23, 2016, which is the date the consolidated financial statements were issued.

\* \* \* \* \*

**SUPPLEMENTAL CONSOLIDATING AND COMBINING  
INFORMATION AND  
SCHEDULE OF DEBT SERVICE COVERAGE**

# TUFTS MEDICAL CENTER PARENT, INC. AND AFFILIATES

## SUPPLEMENTAL CONSOLIDATING BALANCE SHEET INFORMATION

AS OF SEPTEMBER 30, 2016

(Amounts in thousands)

	Tufts Medical Center, Inc.	Tufts Medical Center Indemnity Company Ltd.	Eliminations	Tufts Medical Center, Inc. and Affiliates	Tufts Medical Center Parent, Inc.	Tufts Medical Center Community Care	Tufts Medical Center Real Estate Company, Inc.	New England Long-Term Care, Inc.	Neely Foundation	New New England Quality Care Alliance, Inc. and Affiliate	Tufts Medical Center Physicians Organization, Inc.	Eliminations	Consolidated Total
<b>ASSETS</b>													
CURRENT ASSETS:													
Cash and cash equivalents	\$ 21,704	\$ 7,183	\$ -	\$ 28,887	\$ -	\$ 183	\$ -	\$ 4,473	\$ 344	\$ 60,534	\$ 3,240	\$ -	\$ 97,661
Short-term investments	12,408			12,408									12,408
Patient accounts receivable—net	84,907			84,907		215		837			15,094		101,053
Prepaid expenses, other current assets, and other receivables—net	33,826	5	(6,501)	27,330		282		71	5	14,687	15,198	(8,157)	49,416
Assets limited as to use	9,142			9,142									9,142
Supplies	11,224			11,224									11,224
Estimated third-party payor settlements Due from affiliates	866			866									866
	<u>9,334</u>		<u>(8,187)</u>	<u>1,147</u>	<u>1,005</u>	<u>465</u>	<u>2,513</u>	<u>602</u>		<u>533</u>	<u>16,430</u>	<u>(22,695)</u>	<u>-</u>
Total current assets	183,411	7,188	(14,688)	175,911	1,005	1,145	2,513	5,983	349	75,754	49,962	(30,852)	281,770
ESTIMATED THIRD-PARTY PAYOR SETTLEMENTS													
	249			249									249
BOARD-DESIGNATED INVESTMENTS	242,228			242,228			13,666		5,870	21,666			283,430
ASSETS LIMITED AS TO USE	30,180	82,446		112,626									112,626
PROPERTY AND EQUIPMENT—Net	139,429			139,429		47	302	2,592	173	730	3,762		147,035
DUE FROM AFFILIATES—Net of current portion	4,363			4,363								(4,363)	-
OTHER ASSETS—Net	<u>38,740</u>	<u>4,812</u>	<u>(34,705)</u>	<u>8,847</u>		<u>122</u>				<u>560</u>	<u>33,744</u>	<u>(29,477)</u>	<u>13,796</u>
TOTAL	<u>\$638,600</u>	<u>\$94,446</u>	<u>\$(49,393)</u>	<u>\$683,653</u>	<u>\$1,005</u>	<u>\$1,314</u>	<u>\$16,481</u>	<u>\$8,575</u>	<u>\$6,392</u>	<u>\$98,710</u>	<u>\$87,468</u>	<u>\$(64,692)</u>	<u>\$838,906</u>

(Continued)

# TUFTS MEDICAL CENTER PARENT, INC. AND AFFILIATES

## SUPPLEMENTAL CONSOLIDATING BALANCE SHEET INFORMATION

AS OF SEPTEMBER 30, 2016

(Amounts in thousands)

	Tufts Medical Center, Inc.	Tufts Medical Center Indemnity Company Ltd.	Eliminations	Tufts Medical Center, Inc. and Affiliate, Inc.	Tufts Medical Center Parent, Inc.	Tufts Medical Center Community Care	Tufts Medical Center Real Estate Company, Inc.	New England Long-Term Care, Inc.	Neely Foundation	New England Quality Care Alliance, Inc. and Affiliate	Tufts Medical Center Physicians Organization, Inc.	Eliminations	Consolidated Total
<b>LIABILITIES AND NET ASSETS</b>													
<b>CURRENT LIABILITIES:</b>													
Accounts payable and accrued liabilities	\$ 50,061	\$ 163	\$ -	\$ 50,224	\$ -	\$ 48	\$ -	\$ 512	\$ -	\$55,543	\$ 5,753	\$ (1,175)	\$110,905
Accrued employee benefits and compensation	23,012			23,012		52		431	7	988	11,731		36,221
Professional liability costs	6,501			6,501							7,043		13,544
Deferred gain	166			166			5,841			188			6,195
Due to affiliates	7,776	16,557	(8,187)	16,146	1,000	1,178			22	108	4,180	(22,634)	-
Estimated third-party payor settlements	26,273			26,273									26,273
Current portion of long-term debt	5,938			5,938									5,938
Total current liabilities	119,727	16,720	(8,187)	128,260	1,000	1,278	5,841	943	29	56,827	28,707	(23,809)	199,076
<b>OTHER LIABILITIES:</b>													
Long-term debt	280,556			280,556									280,556
Estimated third-party payor settlements	16,068			16,068						564			16,632
Due to affiliates											4,363	(4,363)	-
Professional liability costs	34,585	5,317	(2,552)	37,350							29,477	(2,765)	64,062
Deferred gain													-
Accrued pension liability	73,392			73,392									73,392
Other long-term liabilities	29,319	72,289	(38,534)	63,074						4,514	1,263	(33,755)	35,096
Total liabilities	553,647	94,326	(49,273)	598,700	1,000	1,278	5,841	943	29	61,905	63,810	(64,692)	668,814
<b>NET ASSETS:</b>													
Unrestricted	76,599	120	(120)	76,599	5	36	10,640	7,632	6,259	36,731	23,532		161,434
Temporarily restricted	2,891			2,891					104	74	126		3,195
Permanently restricted	5,463			5,463									5,463
Total net assets	84,953	120	(120)	84,953	5	36	10,640	7,632	6,363	36,805	23,658	-	170,092
<b>TOTAL</b>	<b>\$ 638,600</b>	<b>\$ 94,446</b>	<b>\$ (49,393)</b>	<b>\$ 683,653</b>	<b>\$ 1,005</b>	<b>\$ 1,314</b>	<b>\$ 16,481</b>	<b>\$ 8,575</b>	<b>\$ 6,392</b>	<b>\$ 98,710</b>	<b>\$ 87,468</b>	<b>\$ (64,692)</b>	<b>\$ 838,906</b>

(Concluded)

# TUFTS MEDICAL CENTER PARENT, INC. AND AFFILIATES

## SUPPLEMENTAL CONSOLIDATING STATEMENT OF OPERATIONS INFORMATION FOR THE YEAR ENDED SEPTEMBER 30, 2016

(Amounts in thousands)

	Tufts Medical Center, Inc.	Tufts Medical Center Indemnity Company Ltd.	Eliminations	Tufts Medical Center, Inc. and Affiliates	Tufts Medical Center Parent, Inc.	Tufts Medical Center Community Care	Tufts Medical Center Real Estate Company, Inc.	New England Long-Term Care Inc.	Neely Foundation	New England Quality Care Alliance, Inc. and Affiliate	Tufts Medical Center Physicians Organization, Inc.	Eliminations	Consolidated Total
OPERATING REVENUE:													
Net patient service revenue	\$ 628,708	\$ -	\$ -	\$ 628,708	\$ -	\$ 1,200	\$ -	\$ 11,265	\$ -	\$ -	\$ 146,192	\$ -	\$ 787,365
Provision for uncollectible accounts	(8,583)	-	-	(8,583)	-	(116)	-	-	-	-	(3,592)	-	(12,291)
Net patient service revenue—net of provision for uncollectible accounts	620,125	-	-	620,125	-	1,084	-	11,265	-	-	142,600	-	775,074
Other operating revenue	62,514	(1,349)	-	61,165	-	378	98	-	1,057	25,919	100,213	(48,635)	140,195
Direct revenue from research and other sponsored programs	37,312	-	-	37,312	-	-	-	-	-	-	-	-	37,312
Indirect revenue from research and other sponsored programs	12,314	-	-	12,314	-	-	-	-	-	-	-	-	12,314
Gain on sale of property	-	-	-	-	-	-	6,295	-	-	-	-	-	6,295
Net assets released from restrictions used for operations	2,616	-	-	2,616	-	-	-	-	-	-	736	-	3,352
Total operating revenue	734,881	(1,349)	-	733,532	-	1,462	6,393	11,265	1,057	25,919	243,549	(48,635)	974,542
OPERATING EXPENSES:													
Salaries and wages	327,561	-	-	327,561	-	1,406	-	6,724	141	13,059	183,669	(46,211)	486,349
Employee benefits	67,272	-	-	67,272	-	154	-	1,153	42	2,995	38,352	(129)	109,839
Supplies and other	205,440	(1,305)	-	204,135	5,000	387	-	1,826	352	2,759	21,509	(1,877)	234,091
Purchased services	51,905	-	-	51,905	-	215	-	818	3	5,988	4,962	(418)	63,473
Depreciation and amortization	21,908	-	-	21,908	-	6	-	360	84	379	877	-	23,614
Interest	19,152	-	-	19,152	-	-	-	-	-	-	-	-	19,152
Direct expenses—grants and contracts	37,312	-	-	37,312	-	-	-	-	-	-	-	-	37,312
Restricted net assets—expenses	2,616	-	-	2,616	-	-	-	-	-	-	736	-	3,352
Total operating expenses	733,166	(1,305)	-	731,861	5,000	2,168	-	10,881	622	25,180	250,105	(48,635)	977,182
(LOSS) INCOME FROM OPERATIONS	1,715	(44)	-	1,671	(5,000)	(706)	6,393	384	435	739	(6,556)	-	(2,640)
NONOPERATING REVENUE AND EXPENSES:													
Investment income	1,968	-	-	1,968	-	-	85	-	127	152	1,085	-	3,417
Change in fair value and realized gain (loss) on sale of investments	13,362	28	-	13,390	-	-	890	-	271	1,582	-	-	16,133
Other	-	-	-	-	-	-	-	-	-	-	-	-	-
Unrestricted gifts—net of expenses	(386)	-	-	(386)	-	-	-	-	-	-	-	-	(386)
Sundry gifts—net of expenses	(1,894)	-	-	(1,894)	-	-	-	-	221	-	-	-	(1,673)
Total nonoperating revenue and expenses	13,050	28	-	13,078	-	-	975	-	619	1,734	1,085	-	17,491
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENSES	14,765	(16)	-	14,749	(5,000)	(706)	7,368	384	1,054	2,473	(5,471)	-	14,851
OTHER CHANGES IN UNRESTRICTED NET ASSETS:													
Change in net unrealized gains and losses on investments	29	16	-	45	-	-	-	-	-	11	26	-	82
Net assets released from restrictions for purchase of equipment	-	-	-	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-	-	-	-
Transfer of net assets	1,163	-	-	1,163	5,000	742	(6,295)	-	(500)	-	(110)	-	-
Pension-related adjustments	(24,733)	-	-	(24,733)	-	-	-	-	-	-	-	-	(24,733)
(DECREASE) INCREASE IN UNRESTRICTED NET ASSETS	\$ (8,776)	\$ -	\$ -	\$ (8,776)	\$ -	\$ 36	\$ 1,073	\$ 384	\$ 554	\$ 2,484	\$ (5,555)	\$ -	\$ (9,800)

# **TUFTS MEDICAL CENTER, INC. OBLIGATED GROUP**

## **SUPPLEMENTAL COMBINING BALANCE SHEET INFORMATION**

**AS OF SEPTEMBER 30, 2016**

**(Amounts in thousands)**

	Tufts Medical Center, Inc.	Tufts Medical Center Real Estate	Eliminations	Obligated Group Total
<b>ASSETS</b>				
<b>CURRENT ASSETS:</b>				
Cash and cash equivalents	\$ 21,704	\$ -	\$ -	\$ 21,704
Short-term investments	12,408			12,408
Patient accounts receivable—net	84,907			84,907
Prepaid expenses, other current assets, and other receivables—net	33,826			33,826
Assets limited as to use	9,142			9,142
Supplies	11,224			11,224
Estimated third-party payor settlements	866			866
Due from affiliates	9,334	2,513	(2,513)	9,334
Total current assets	183,411	2,513	(2,513)	183,411
ESTIMATED THIRD-PARTY PAYOR SETTLEMENTS	249			249
BOARD-DESIGNATED INVESTMENTS	242,228	13,666		255,894
ASSETS LIMITED AS TO USE	30,180			30,180
PROPERTY AND EQUIPMENT—Net	139,429	302		139,731
DUE FROM AFFILIATES—Net of current portion	4,363			4,363
OTHER ASSETS—Net	38,740			38,740
<b>TOTAL</b>	<b>\$ 638,600</b>	<b>\$ 16,481</b>	<b>\$ (2,513)</b>	<b>\$ 652,568</b>
<b>LIABILITIES AND NET ASSETS</b>				
<b>CURRENT LIABILITIES:</b>				
Accounts payable and accrued liabilities	\$ 50,061	\$ -	\$ -	\$ 50,061
Accrued employee benefits and compensation	23,012			23,012
Professional liability costs	6,501			6,501
Deferred gain	166	5,841		6,007
Due to affiliates	7,776		(2,513)	5,263
Estimated third-party payor settlements	26,273			26,273
Current portion of long-term debt	5,938			5,938
Total current liabilities	119,727	5,841	(2,513)	123,055
<b>OTHER LIABILITIES:</b>				
Long-term debt	280,556			280,556
Estimated third party payor settlements	16,068			16,068
Professional liability costs	34,585			34,585
Accrued pension liability	73,392			73,392
Other long-term liabilities	29,319			29,319
Total liabilities	553,647	5,841	(2,513)	556,975
<b>NET ASSETS:</b>				
Unrestricted	76,599	10,640		87,239
Temporarily restricted	2,891			2,891
Permanently restricted	5,463			5,463
Total net assets	84,953	10,640	-	95,593
<b>TOTAL</b>	<b>\$ 638,600</b>	<b>\$ 16,481</b>	<b>\$ (2,513)</b>	<b>\$ 652,568</b>

# **TUFTS MEDICAL CENTER, INC. OBLIGATED GROUP**

## **SUPPLEMENTAL COMBINING STATEMENT OF OPERATIONS INFORMATION FOR THE YEAR ENDED SEPTEMBER 30, 2016 (Amounts in thousands)**

	<b>Tufts Medical Center, Inc.</b>	<b>Tufts Medical Center Real Estate</b>	<b>Eliminations</b>	<b>Obligated Group Total</b>
<b>OPERATING REVENUE:</b>				
Net patient service revenue	\$ 628,708	\$ -	\$ -	\$ 628,708
Provision for uncollectible accounts	(8,583)			(8,583)
Net patient service revenue—net of provision for uncollectible accounts	620,125	-	-	620,125
Other operating revenue	62,514	98		62,612
Direct revenue from research and other sponsored programs	37,312			37,312
Indirect revenue from research and other sponsored programs	12,314			12,314
Gain on sale of property		6,295		6,295
Net assets released from restrictions used for operations	2,616			2,616
Total operating revenue	<u>734,881</u>	<u>6,393</u>	<u>-</u>	<u>741,274</u>
<b>OPERATING EXPENSES:</b>				
Salaries and wages	327,561			327,561
Employee benefits	67,272			67,272
Supplies and other	205,440			205,440
Purchased services	51,905			51,905
Depreciation and amortization	21,908			21,908
Interest	19,152			19,152
Direct expenses—grants and contracts	37,312			37,312
Restricted net assets—expenses	2,616			2,616
Total operating expenses	<u>733,166</u>	<u>-</u>	<u>-</u>	<u>733,166</u>
<b>INCOME FROM OPERATIONS</b>	<u>1,715</u>	<u>6,393</u>	<u>-</u>	<u>8,108</u>
<b>NONOPERATING REVENUE AND EXPENSE:</b>				
Investment income	1,968	85		2,053
Change in fair value and realized gain on sale of investments	13,362	890		14,252
Unrestricted gifts—net of expenses	(386)			(386)
Sundry gifts—net of expenses	(1,894)			(1,894)
Total nonoperating revenue	<u>13,050</u>	<u>975</u>	<u>-</u>	<u>14,025</u>
<b>EXCESS OF REVENUE OVER EXPENSES</b>	<u>14,765</u>	<u>7,368</u>	<u>-</u>	<u>22,133</u>
<b>OTHER CHANGES IN UNRESTRICTED NET ASSETS:</b>				
Change in net unrealized gains and losses on investments	29			29
Transfer of net assets	1,163	(6,295)		(5,132)
Pension-related adjustments	(24,733)			(24,733)
<b>(DECREASE) INCREASE IN UNRESTRICTED NET ASSETS</b>	<u>\$ (8,776)</u>	<u>\$ 1,073</u>	<u>\$ -</u>	<u>\$ (7,703)</u>

## **TUFTS MEDICAL CENTER, INC. OBLIGATED GROUP**

### **SUPPLEMENTAL SCHEDULE OF DEBT SERVICE COVERAGE FOR THE YEAR ENDED SEPTEMBER 30, 2016 (In thousands)**

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NET REVENUE AVAILABLE FOR DEBT SERVICE—Excess of revenue over expenses	\$22,133
ADD:	
Depreciation and amortization and interest expense	41,060
Net realized gain resulting from the sale of unrestricted investments	1,673
LESS—Changes in fair value and realized gain on sale of investments	<u>14,252</u>
NET INCOME AVAILABLE FOR DEBT SERVICE	<u>\$50,614</u>
MAXIMUM ANNUAL DEBT SERVICE	<u>\$24,780</u>
MAXIMUM ANNUAL DEBT SERVICE COVERAGE	<u>2.04</u>

See note to supplemental schedule of debt service coverage.

## **TUFTS MEDICAL CENTER PARENT, INC. AND AFFILIATES**

### **NOTE TO SUPPLEMENTAL SCHEDULE OF DEBT SERVICE COVERAGE FOR THE YEAR ENDED SEPTEMBER 30, 2016**

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#### **BASIS OF ACCOUNTING**

The accompanying supplemental schedule of debt service coverage has been prepared in accordance with Section 1004 of the Master Trust Indenture and Mortgage and Security Agreement, dated April 1, 2011, among the Massachusetts Development Finance Agency, Tufts Medical Center, Inc., Tufts Medical Center Real Estate Company, Inc., and U.S. Bank National Association and is derived from the consolidated financial statements of Tufts Medical Center Parent, Inc. and Affiliates as of and for the year ended September 30, 2016.

## EXHIBIT 1

**Tufts Medical Center**  
**Utilization Statistics: Year-End**  
**Fiscal Year Ending September 30**

	2016	2015
<b>INPATIENT STATISTICS</b>		
<u>Average Beds In Use <sup>1</sup></u>		
Adult Medical / Surgical	237	237
Adult Psych	20	20
Pediatric	51	51
NICU	40	40
Maternity / Newborn	57	57
<b>Total:</b>	<b>405</b>	<b>405</b>
<u>Admissions (Discharges)</u>		
Adult Medical / Surgical	12,460	12,438
Adult Psych	626	503
Pediatric	1,799	1,665
NICU	475	468
Maternity / Newborn	2,598	2,498
<b>Total:</b>	<b>17,958</b>	<b>17,572</b>
<u>Patient Days</u>		
Adult Medical / Surgical	66,804	62,874
Adult Psych	6,912	6,636
Pediatric	7,060	6,680
NICU	9,457	9,753
Maternity / Newborn	9,625	6,899
<b>Total:</b>	<b>99,858</b>	<b>92,842</b>
<u>Average Length Of Stay</u>		
Adult Medical / Surgical	5.36	5.05
Adult Psych	11.04	13.19
Pediatric	3.92	4.01
NICU	19.91	20.84
Maternity / Newborn	3.70	2.76
<b>Total:</b>	<b>5.56</b>	<b>5.28</b>
<u>Occupancy Rates (%) <sup>2</sup></u>		
Adult Medical / Surgical	77.0%	72.7%
Adult Psych	94.4%	90.9%
Pediatric	37.8%	35.9%
NICU	64.6%	66.8%
Maternity / Newborn	46.1%	33.2%
<b>Total:</b>	<b>67.4%</b>	<b>62.8%</b>
<b>Medicare Care Mix Index:</b>	<b>2.4365</b>	<b>2.2551</b>
<u>Ancillary Statistics</u>		
Operating Room Hours	34,927	30,948
Day Surgery Procedures	8,028	7,329
Laboratory CAP Units	21,220,301	20,458,823
CT Scans	25,341	24,642
MRI Scans	16,757	16,347
Diagnostic Radiology Exams	829,772	815,459
<b>OUTPATIENT STATISTICS</b>		
<u>Outpatient Visits (by specialty clinic)</u>		
Surgery	123,136	117,046
Medicine	136,985	125,141
Pediatric	40,382	39,920
Maternity	20,416	19,691
Psychiatry	23,224	21,204
Other	28,322	28,143
<b>Total:</b>	<b>372,465</b>	<b>351,145</b>
<b>Emergency Room Visits:</b>	<b>45,959</b>	<b>43,612</b>

<sup>1</sup> Average Beds In Use Refers To Available Licensed Beds.

<sup>2</sup> The Occupancy Rate Percentages Exclude Observation Patients.

## EXHIBIT 2

### Tufts Medical Center Obligated Groups Distribution of Gross Patient Service Revenue Year Ending September 30

	2016	2015
Medicare	27.4%	26.7%
Medicare Managed Care	7.0%	7.6%
<b>Total Medicare</b>	<b>34.4%</b>	<b>34.2%</b>
Medicaid	9.6%	10.7%
Medicaid Managed Care	16.3%	14.4%
<b>Total Medicaid</b>	<b>25.9%</b>	<b>25.1%</b>
Blue Cross	13.7%	9.0%
Commercial	1.1%	1.4%
Managed care	21.8%	27.0%
<b>Total Commercial</b>	<b>36.6%</b>	<b>37.5%</b>
Self-Pay	1.0%	1.3%
Other	2.1%	1.9%
<b>Total Payor Mix</b>	<b>100.0%</b>	<b>100.0%</b>

### EXHIBIT 3

**Tufts Medical Center, Inc.**  
**Obligated Group Days Cash On Hand**  
**Year Ending September 30**  
(000's)

	2016	2015
Total Cash and Investments	\$ 329,328	\$ 335,283
Less: Assets Limited as to use	(39,322)	(46,051)
	<u>\$ 290,006</u>	<u>\$ 289,232</u>
<u>Divided by:</u>		
Total Operating Expenses	\$ 733,166	\$ 699,381
Less: Depreciation and Amortization	(21,908)	(21,057)
Less: Direct and indirect research and sponsored programs	(49,626)	(49,410)
Less: Net Assets released from restrictions Expenses	(2,616)	(2,801)
Operating expenses after adjustments	<u>659,016</u>	<u>626,113</u>
Divided by # days	<u>366</u>	<u>365</u>
Average daily expense	<u>\$ 1,801</u>	<u>\$ 1,715</u>
Days cash on hand	<u>161.06</u>	<u>168.61</u>

**EXHIBIT 4**

**Tufts Medical Center**  
**Maximum Annual Debt Service Ratio**  
**Year Ending September 30**  
(000's)

	<b>2016</b>	<b>2015</b>
Net Revenue Available for Debt Service — Excess of Revenue over Expenses	\$ 22,133	\$ (11,677)
ADD:		
Depreciation and Amortization and Interest Expense	41,060	39,998
Net Realized Gain Resulting from the Sale of Unrestricted Investments	1,673	8,773
Less:		
Changes in Fair Value and Realized Gain on Sale of Investments	14,252	(5,726)
Net Income Available for Debt Service	<u>\$ 50,614</u>	<u>\$ 42,820</u>
Maximum Annual Debt Service	<u>\$ 24,780</u>	<u>\$ 24,780</u>
Maximum Annual Debt Service Coverage	<u>2.04</u>	<u>1.73</u>