

**This document is dated as of August 16, 2017**

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

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**QUARTERLY REPORT  
June 30, 2017**

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**Concerning**

**UMASS MEMORIAL HEALTH CARE, INC.**

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

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## UMASS MEMORIAL HEALTH CARE, INC. AND AFFILIATES

### DESCRIPTION OF THE ORGANIZATION

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

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

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

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

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

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

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

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

**No affiliates other than UMass Memorial, the Medical Center, Ventures and HAH are obligated with respect to the Massachusetts Development Finance Agency (“MDFa”, formerly Massachusetts Health and Educational Facilities Authority “MHEFA”) Revenue Bonds, UMass Memorial Issue, Series B, F, G, H, I, J and K. Series K refunded Series E in February 2017. See Issuance of Debt section.**

## NOTES TO CONDENSED FINANCIAL INFORMATION

### Note 1

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

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

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

### Note 2

UMass Memorial records its investments, including alternative investments, at fair value. Period to period changes in unrealized gains and losses on unrestricted investments are recognized as increases and decreases to the excess of revenue over expenses. From Management's perspective, the inclusion of these investment fluctuations within the operating indicator is likely to increase the volatility of this indicator. The Obligated Group's excess of revenues over expenses includes the impact of net unrealized gains on investments of \$5.7 million and \$5.2 million for the nine months ending June 30, 2017 and 2016, respectively. The System's excess of revenues over expenses includes the impact of net unrealized gains on investments of \$11.7 million and \$6.8 million for the nine months ending June 30, 2017 and 2016, respectively.

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

The following data shows the composition of investment gains and losses for the nine months ended June 30, 2017 and 2016.

(in thousands of dollars)

	<b>Total Obligated Group</b>	<b>Non- Obligated Group Entities</b>	<b>Consolidated</b>
<b>Fiscal Year 2017</b>			
Net realized gain (loss)	\$ 19,828	\$ 2,897	\$ 22,725
Net unrealized gain (loss)	5,650	6,050	11,700
Total	<u>25,478</u>	<u>8,947</u>	<u>34,425</u>
<b>Fiscal Year 2016</b>			
Net realized gain (loss)	\$ (16)	\$ (1)	\$ (17)
Net unrealized gain (loss)	5,191	1,568	6,759
Total	<u>5,175</u>	<u>1,567</u>	<u>6,742</u>

### Note 3

For the nine months ended June 30, 2017, UMass Memorial has recorded \$157.5 million of Medicaid Supplemental Funds ("MSF") on a consolidated basis related to fiscal year 2017. For the year ended September 30, 2016, \$196.9 million of MSF was recorded. Cash receipts of \$134.1 million and \$58.5 million were received for 2016 from the Commonwealth of Massachusetts (the "Commonwealth") for the quarters end December 31, 2016 and March 31, 2017, respectively. Estimated settlements payable to third-party payers as of September 30, 2016 include \$12.9 million of recoupments payable to the Commonwealth related to fiscal year 2016. Recoupments for fiscal year 2015 of \$11.0 million were paid to the Commonwealth in 2017 and \$1.9 million remains in liabilities as of June 30, 2017.

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

### Note 4

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

### Note 5

On July 20, 2015, management executed a license and support agreement for the development, licensing and implementation of a System wide, fully integrated Electronic Medical Record ("EMR") and billing system. The implementation is expected to be completed during fiscal year 2017 and 2018. The design and implementation costs are expected to be funded through ongoing operations, current financial resources and additional financing. The software license and implementation fees will be paid in sixty monthly installments of \$0.5 million, which includes interest at the 1-month LIBOR plus 2%. In connection with the implementation, the estimated useful lives of assets expected to be replaced by the EMR, has been adjusted to reflect the new system's implementation date. Nonrecurring Expenses related to the EMR for the nine months ended June 30, 2017 include salaries, benefits and contracted labor of \$0.8 million, supplies and expense of \$10.7 million and accelerated depreciation expense on the legacy software applications of \$10.1 million. Total capitalized expenditures for the EMR asset YTD is \$78.0M.

Additions include: \$34.2M of consulting and professional fees, \$26.3M of salaries, benefits and contracted labor, \$15.1M of Software and license fees, implementation, hosting fees and other miscellaneous expenses and \$2.4M capitalized interest costs. Total capitalized costs at June 30, 2017 are \$141.4M.

## LIQUIDITY

The following chart sets forth the actual days cash on hand as of September 30, 2016 and June 30, 2017, respectively. There can be no assurance that days cash on hand for future fiscal periods will be maintained at the historical levels shown.

	Obligated Group Cash and Investments		System Cash and Investments	
	September 30, 2016	June 30, 2017	September 30, 2016	June 30, 2017
<i>(in thousands of dollars)</i>				
Unrestricted cash (1)	\$ 577,510	\$ 541,755	\$ 704,755	\$ 664,631
Amounts on deposit in construction funds	45,863	46,770	45,863	46,770
Total cash	623,373	588,525	750,618	711,401
Operating expenses, as defined (2)	\$ 1,562,328	\$ 1,237,546	\$ 2,056,746	\$ 1,620,798
Days cash on hand	146.0	129.8	133.6	119.8

Source: Obligated Group and System records

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

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

### *Obligated Group*

The Obligated Group had approximately \$588.5 million (129.8 days) of cash on hand at June 30, 2017. The total unrestricted cash ("cash") of the Obligated Group decreased by \$34.9 million from September 30, 2016 to June 30, 2017. The decrease in cash was primarily attributed to expenditures related to (1) scheduled payments on debt and capital leases, (2) purchases of property and equipment, and (3) certain payments to the University consisting of MES payments of \$140.0 million, as well as shared services, prior year purchased payroll and associated fringes, and rental payments. The decrease in cash was partially offset by (1) receipts of MSF payments of \$155.3 million attributable to fiscal year 2016, (2) drawdowns from the following project funds: \$74.9 million received from the tax exempt finance lease agreement, \$25.1 million drawdown on Series J debt financing, \$16.1 million drawdown on Series I debt financing, and \$13.6 million from Series K debt financing, (3) receipts from operations, particularly from Medicare and Medicaid, (4) rebates received from specific vendors, and (5) transfers from affiliates for amounts owed from intercompany transactions. There were no other activities that materially affected cash between the measurement dates.

### *System*

The System had approximately \$711.4 million (119.8 days) of cash on hand at June 30, 2017. The total cash of the System decreased \$39.2 million from September 30, 2016 to June 30, 2017. The decrease in cash was primarily attributed to expenditures related to (1) scheduled payments on debt and capital leases, (2) purchases of property and equipment, (3) certain payments to the University consisting of MES payments of \$140.0 million, as well as shared services, prior year purchased payroll and associated fringes, and rental payments, and (4) payments related to physician and management compensation incentives earned in fiscal year 2016 for productivity, quality and financial goal achievements. The decrease in cash was partially offset by (1) receipts of MSF payments of \$192.6 million attributable to fiscal year 2016, (2) drawdowns from the following project funds: \$74.9 million received from the tax exempt finance lease agreement, \$25.1 million drawdown on Series J debt financing, \$16.1 million drawdown on Series I debt financing, and \$13.6 million from Series K debt financing, (3) receipts from operations, particularly from Medicare and Medicaid, and (4) rebates received from specific vendors. There were no other activities that materially affected cash between the measurement dates.

## CORPORATE DEBT STRUCTURE

Debt consists of the following at June 30, 2017:

<i>(in thousands of dollars)</i>	<b>Interest Rate</b>	<b>Final Maturity</b>	<b>Amount Outstanding</b>
Massachusetts Health and Educational Facilities Authority Revenue Bonds			
UMass Memorial Variable Rate, Series B	2.09%	2023	\$ 11,200
UMass Memorial, Series F	2.56%	2035	25,725
UMass Memorial, Series G	4.25%-5.0%	2022	32,770
Massachusetts Development Finance Agency Revenue Bonds			
UMass Memorial, Series H	4.0%-5.5%	2031	67,855
UMass Memorial, Series I	4.0%-5.0%	2046	168,785
UMass Memorial Variable Rate, Series J	1.73%	2029	25,060
UMass Memorial, Series K	4.0%-5.0%	2038	53,555
Revolving loan	1.81%	2018	14,500
Master leases and subleases, and other notes payable	1.15%-2.04%	2018-2026	84,122
Capital lease obligations			179
Total debt			<u>483,751</u>
Add: Net unamortized original issue premium			28,124
Less: Debt issuance costs			(6,093)
Less: Current portion			<u>(39,099)</u>
Debt, net of current portion - Total Obligated Group			<u>\$ 466,683</u>
Debt, net of current portion - Non-Obligated Group Entities			15,847
Debt, net of current portion - Consolidated			<u><u>\$ 482,530</u></u>

### Revenue Bonds and Notes Payable

UMass Memorial and certain of its affiliates are obligated under various MDFA revenue bonds and notes payable covered by a Master Trust Indenture ("MTI"). The MTI, dated as of December 1, 1998 and subsequently supplemented, includes UMass Memorial and other Members of the Obligated Group. The Master Trustee defines the terms and conditions upon which obligations will be issued, authenticated, delivered and accepted as well as setting forth certain economic covenants. Under the terms of the loan agreements, the obligations are collateralized by property and equipment and gross receipts, as defined. The terms of the mortgage and trust agreements also require the establishment of certain reserve funds that are held by trustees. The bonds require periodic interest and principal payments to these funds held in trust that are proportionate to the annual interest and principal payments or sinking fund installments. The revenue bonds are generally redeemable prior to maturity at premiums ranging up to 4%.

### Issuance of Debt

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

On December 7, 2016, the Obligated Group entered into a tax-exempt finance lease agreement with MDFA and a bank. The proceeds received from the lease of \$75.0 million was used to provide funding for the purchase and implementation of the EMR (Note 5). Principal payments begin twelve months after closing. Interest accrues at a fixed rate of 2.04% and is payable in 120 monthly installments. The acquired equipment collateralizes the borrowings and the economic covenants are consistent with the existing Continuing Covenant Agreements ("CCA").

UMass Memorial, Series J – On December 7, 2016, in addition to the tax-exempt finance lease, the Obligated Group entered into variable rate direct purchase agreement with the same bank to issue MDFA Revenue Variable Rate Bonds, UMass Memorial Series J. Proceeds from the agreement, up to \$50.0 million, are to be used to provide funding for the purchase and implementation of the EMR (Note 5). Principal payments begin twelve months after closing. Interest is based on 70% of the one (1) month LIBOR rate plus an applicable margin rate and payable in 156 monthly payments. The acquired equipment collateralizes the borrowings and the economic covenants are consistent with the existing CCA. The interest rate at the close of business on June 30, 2017 was 1.73%. The amount outstanding under this agreement at June 30, 2017 was \$25.1 million.

UMass Memorial, Series K – On February 1, 2017, the Obligated Group entered into an agreement with MDFA to issue Revenue Bonds, UMass Memorial Series K in the amount of \$53.6 million. The proceeds from the sale will be used to reimburse capital costs of equipment used or to be used in connection with healthcare and related services and for various construction, improvement, renovation, and equipment acquisitions on behalf of the Obligated Group, refund all of the MHEFA Variable Rate Revenue Bonds, UMass Memorial Issue, Series E (2009), and certain debt issuance costs. As a result of this transaction, the Obligated Group reported a loss on refunding of debt of \$0.5 million.

UMass Memorial, Series F – These bonds were issued in 2009 directly to a financial institution with an initial tender date of May 2014, and subsequently amended. On March 28, 2017, the Obligated Group and the same financial institution, entered into an agreement to convert these bonds into a new Variable Rate Demand Revenue Bond maturing on July 1, 2035. The CCA originally entered into with the financial institution at the time the bonds were originally issued, included covenants related to debt service coverage, days cash on hand, and maintaining certain investment credit ratings. The CCA has been amended to redefine the calculation for debt service coverage and the economic covenants to be consistent with the MTI, and eliminated the credit rating covenant. While the principal amortization schedule remains as it had existed before, the interest rate is now fixed at 2.56% for the first term rate period of 10 years and shall bear interest at the term rate until it changes to another mode.

### **Revolving Loan Agreement**

On June 22, 2017, the Obligated Group and a financial institution amended the current \$75.0 million unsecured revolving loan agreement by increasing the commitment to \$125.0 million beginning on November 1, 2017, then subsequently decreasing the commitment in \$10.0 million monthly increments beginning on April 1, 2018 through June 27, 2018, at which time the commitment returns to the original \$75.0 million with no additional cash advances available. The amendment extends the agreement to June 27, 2018, maintains the interest rate based on monthly LIBOR plus 0.55%, and updates other certain provisions. The interest rate at the close of business on June 30, 2017 was 1.81%. The amount outstanding under this agreement at June 30, 2017 was \$14.5 million.

## Debt Service Coverage Ratio

	Obligated Group		System	
	September 30, 2016	June 30, 2017	September 30, 2016	June 30, 2017
<i>(in thousands of dollars)</i>				
Excess (deficiency) of revenues over expenses	\$ 81,382	\$ 66,850	\$ 68,050	\$ 58,164
Income from irrevocable deposits	(255)	(693)	(255)	(693)
Unrealized (gain) loss on investments	(16,414)	(5,650)	(23,231)	(11,700)
Depreciation and amortization	102,073	80,077	111,008	86,415
Interest expense	11,803	7,981	12,520	8,505
Income available for debt service	<u>178,589</u>	<u>148,565</u>	<u>168,092</u>	<u>140,691</u>
Actual debt service (1)	\$ 36,276	\$ 24,431	\$ 38,206	\$ 25,928
Historical coverage of actual debt service (2)	4.92	6.08	4.40	5.43

Source: Obligated Group and System records

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

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



**UMass Memorial Health Care, Inc. and Affiliates**  
**Unaudited Consolidating Statement of Operations**  
**For the Three Months Ended June 30, 2017**

(in thousands of dollars)

	<b>FOR THE THREE MONTHS ENDED JUNE 30, 2017</b>			
	<b>Total Obligated Group</b>	<b>Non- Obligated Group Entities</b>	<b>Eliminations and Consolidating Entries</b>	<b>Consolidated</b>
<b>Unrestricted revenues, gains and other support</b>				
Net patient service revenue	\$ 457,179	\$ 147,623	\$ 930	\$ 605,732
Less: Provision for bad debts	(6,922)	(5,132)	(21)	(12,075)
Net patient service revenue less provision for bad debts	450,257	142,491	909	593,657
Net assets released from restrictions used for operations	953	287	-	1,240
Other revenue	43,973	52,655	(62,383)	34,245
Total revenues, gains and other support	495,183	195,433	(61,474)	629,142
<b>Expenses</b>				
Salaries, benefits and contracted labor	222,951	137,035	(149)	359,837
Supplies and other expense	227,838	59,789	(61,114)	226,513
Depreciation and amortization	26,795	2,045	5	28,845
Interest	2,589	394	(216)	2,767
Total expenses	480,173	199,263	(61,474)	617,962
Income (loss) from operations	15,010	(3,830)	-	11,180
<b>Nonoperating income (loss)</b>				
Investment and other related income	995	143	-	1,138
Net realized and unrealized gain on investments	11,131	3,379	-	14,510
Loss on refunding of debt	-	-	-	-
Total nonoperating income	12,126	3,522	-	15,648
Excess (deficiency) of revenues over expenses	27,136	(308)	-	26,828
<b>Other changes in net assets</b>				
Contributions for property and equipment	-	40	-	40
Net assets released from restrictions used for purchase of property and equipment	521	5	-	526
Pension-related changes other than net periodic credit	4,617	216	-	4,833
Transfers (to) from related parties	(6,831)	6,831	-	-
Increase in unrestricted net assets	25,443	6,784	-	32,227
Unrestricted net assets, beginning of period	591,728	198,851	(120)	790,459
Unrestricted net assets, end of period	<u>\$ 617,171</u>	<u>\$ 205,635</u>	<u>\$ (120)</u>	<u>\$ 822,686</u>

**UMass Memorial Health Care, Inc. and Affiliates**  
**Unaudited Consolidating Statement of Operations**  
**For the Nine Months Ended June 30, 2017**

(in thousands of dollars)

**FOR THE NINE MONTHS ENDED JUNE 30, 2017**

	<b>Total Obligated Group</b>	<b>Non- Obligated Group Entities</b>	<b>Eliminations and Consolidating Entries</b>	<b>Consolidated</b>
<b>Unrestricted revenues, gains and other support</b>				
Net patient service revenue	\$ 1,356,759	\$ 428,507	\$ 2,640	\$ 1,787,906
Less: Provision for bad debts	(27,769)	(15,143)	(59)	(42,971)
Net patient service revenue less provision for bad debts	1,328,990	413,364	2,581	1,744,935
Net assets released from restrictions used for operations	2,869	737	-	3,606
Other revenue	125,621	158,503	(189,875)	94,249
Total revenues, gains and other support	<u>1,457,480</u>	<u>572,604</u>	<u>(187,294)</u>	<u>1,842,790</u>
<b>Expenses</b>				
Salaries, benefits and contracted labor	664,245	407,302	(427)	1,071,120
Supplies and other expense	667,437	176,029	(186,226)	657,240
Depreciation and amortization	80,077	6,324	14	86,415
Interest	7,981	1,179	(655)	8,505
Total expenses	<u>1,419,740</u>	<u>590,834</u>	<u>(187,294)</u>	<u>1,823,280</u>
Income (loss) from operations	37,740	(18,230)	-	19,510
<b>Nonoperating income (loss)</b>				
Investment and other related income	4,093	597	-	4,690
Net realized and unrealized gain on investments	25,478	8,947	-	34,425
Loss on refunding of debt	(461)	-	-	(461)
Total nonoperating income	<u>29,110</u>	<u>9,544</u>	<u>-</u>	<u>38,654</u>
Excess (deficiency) of revenues over expenses	66,850	(8,686)	-	58,164
<b>Other changes in net assets</b>				
Contributions for property and equipment	140	40	-	180
Net assets released from restrictions used for purchase of property and equipment	978	17	-	995
Pension-related changes other than net periodic credit	13,851	649	-	14,500
Transfers (to) from related parties	(19,167)	19,167	-	-
Increase in unrestricted net assets	<u>62,652</u>	<u>11,187</u>	<u>-</u>	<u>73,839</u>
Unrestricted net assets, beginning of period	<u>554,519</u>	<u>194,448</u>	<u>(120)</u>	<u>748,847</u>
Unrestricted net assets, end of period	<u>\$ 617,171</u>	<u>\$ 205,635</u>	<u>\$ (120)</u>	<u>\$ 822,686</u>

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

(in thousands of dollars)

	<b>FOR THE NINE MONTHS ENDED JUNE 30, 2016</b>			
	<b>Total Obligated Group</b>	<b>Non- Obligated Group Entities</b>	<b>Eliminations and Consolidating Entries</b>	<b>Consolidated</b>
<b>Unrestricted revenues, gains and other support</b>				
Net patient service revenue	\$ 1,318,061	\$ 419,576	\$ 2,655	\$ 1,740,292
Less: Provision for bad debts	(20,155)	(15,920)	(62)	(36,137)
Net patient service revenue less provision for bad debts	1,297,906	403,656	2,593	1,704,155
Net assets released from restrictions used for operations	2,275	631	-	2,906
Other revenue	113,322	150,534	(174,687)	89,169
Total revenues, gains and other support	<u>1,413,503</u>	<u>554,821</u>	<u>(172,094)</u>	<u>1,796,230</u>
<b>Expenses</b>				
Salaries, benefits and contracted labor	634,219	389,342	(380)	1,023,181
Supplies and other expense	633,761	173,750	(171,083)	636,428
Depreciation and amortization	76,640	6,773	42	83,455
Interest	9,620	1,207	(673)	10,154
Total expenses	<u>1,354,240</u>	<u>571,072</u>	<u>(172,094)</u>	<u>1,753,218</u>
Income (loss) from operations	59,263	(16,251)	-	43,012
<b>Nonoperating income (loss)</b>				
Investment and other related income	3,094	460	-	3,554
Net realized and unrealized gain on investments	5,175	1,567	-	6,742
Loss on refunding of debt	(2,861)	-	-	(2,861)
Total nonoperating income	<u>5,408</u>	<u>2,027</u>	<u>-</u>	<u>7,435</u>
Excess (deficiency) of revenues over expenses	64,671	(14,224)	-	50,447
<b>Other changes in net assets</b>				
Contributions for property and equipment	300	93	-	393
Net assets released from restrictions used for purchase of property and equipment	727	100	-	827
Pension-related changes other than net periodic credit	8,740	609	-	9,349
Transfers (to) from related parties	(21,158)	21,158	-	-
Increase in unrestricted net assets	53,280	7,736	-	61,016
Unrestricted net assets, beginning of period	590,023	180,901	(120)	770,804
Unrestricted net assets, end of period	<u>\$ 643,303</u>	<u>\$ 188,637</u>	<u>\$ (120)</u>	<u>\$ 831,820</u>

**UMass Memorial Health Care, Inc. and Affiliates**  
**Unaudited Consolidating Balance Sheet**  
**June 30, 2017**

(in thousands of dollars)

	JUNE 30, 2017			
	Total Obligated Group	Non- Obligated Group Entities	Eliminations and Consolidating Entries	Consolidated
<b>Assets</b>				
Current assets				
Cash and cash equivalents	\$ 98,339	\$ 53,645	\$ 887	\$ 152,871
Short-term investments	24,400	5,541	-	29,941
Current portion of assets whose use is limited	20,999	3,734	-	24,733
Patient accounts receivable, net	190,984	51,596	378	242,958
Inventories	33,375	2,284	16	35,675
Prepaid expenses and other current assets	26,387	4,915	-	31,302
Notes receivable from affiliates, current	819	-	(819)	-
Due from related parties	28,206	49,716	(77,922)	-
Due from the University of Massachusetts	-	-	-	-
Estimated settlements receivable from third-party payers	146,405	19,581	-	165,986
Total current assets	<u>569,914</u>	<u>191,012</u>	<u>(77,460)</u>	<u>683,466</u>
Assets whose use is limited				
Funds held in escrow under bond indenture agreements, net of current portion	46,770	1,326	-	48,096
Restricted investments	85,840	6,254	-	92,094
Captive insurance company investments	-	156,451	-	156,451
Total assets whose use is limited	<u>132,610</u>	<u>164,031</u>	<u>-</u>	<u>296,641</u>
Long-term investments	414,241	67,578	-	481,819
Property and equipment, net	709,362	94,766	49	804,177
Beneficial interest in trusts	4,947	2,968	-	7,915
Note receivable from affiliates, net of current portion	19,341	-	(19,341)	-
Other assets	94,703	22,607	(23,051)	94,259
Total assets	<u>\$ 1,945,118</u>	<u>\$ 542,962</u>	<u>\$ (119,803)</u>	<u>\$ 2,368,277</u>
<b>Liabilities and Net Assets</b>				
Current liabilities				
Accounts payable and accrued expenses	\$ 125,196	\$ 15,935	\$ (49)	\$ 141,082
Accrued compensation	73,887	59,210	-	133,097
Estimated settlements payable to third-party payers	5,805	14,178	-	19,983
Debt, current	39,099	1,646	-	40,745
Notes payable to affiliates, current	-	819	(819)	-
Due to related parties	53,423	24,499	(77,922)	-
Due to the University of Massachusetts	72,501	12,654	-	85,155
Total current liabilities	<u>369,911</u>	<u>128,941</u>	<u>(78,790)</u>	<u>420,062</u>
Estimated settlements payable to third-party payers, net of current portion	35,868	7,969	-	43,837
Other noncurrent liabilities	18,726	8,998	552	28,276
Accrued pension and postretirement benefit obligations	310,072	5,035	-	315,107
Estimated self-insurance costs	35,161	141,888	(22,104)	154,945
Notes payable to affiliates, net of current portion	-	19,341	(19,341)	-
Debt, net of current portion	466,683	15,847	-	482,530
Total liabilities	<u>1,236,421</u>	<u>328,019</u>	<u>(119,683)</u>	<u>1,444,757</u>
Net assets				
Unrestricted	617,171	205,635	(120)	822,686
Temporarily restricted	41,977	3,929	-	45,906
Permanently restricted	49,549	5,379	-	54,928
Total net assets	<u>708,697</u>	<u>214,943</u>	<u>(120)</u>	<u>923,520</u>
Total liabilities and net assets	<u>\$ 1,945,118</u>	<u>\$ 542,962</u>	<u>\$ (119,803)</u>	<u>\$ 2,368,277</u>

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

(in thousands of dollars)

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

## System Utilization

A summary of significant utilization data for the System for the five fiscal years ended September 30, 2016 and nine months ended June 30, 2016 and 2017 is presented in the following table.

	Years Ended September 30					Nine Months Ended June 30,	
	2012	2013	2014	2015	2016	2016	2017
<b>Acute Care</b>							
Average Beds Available	919	921	904	915	920	920	920
Discharges (1)	53,402	49,979	47,639	49,930	49,816	37,493	37,625
Patient Days (1)	259,724	256,497	248,808	259,687	259,608	195,856	196,024
Percent Occupancy	81.3%	82.8%	83.1%	84.0%	83.9%	85.6%	85.6%
Average LOS	4.86	5.13	5.22	5.20	5.21	5.22	5.21
Case Mix Index (2)	1.4385	1.4895	1.5102	1.5188	1.5723	1.5751	1.5677
Observation Cases	12,661	14,533	15,591	13,669	14,250	10,619	11,280
Emergency Room Visits	225,019	218,789	215,014	215,479	222,846	166,064	166,649
Cardiac Cath Procedure	6,351	6,263	6,379	6,624	6,759	5,115	5,178
Lab Tests (3)	16,110,904	12,807,676	9,023,294	6,976,829	7,343,279	5,548,241	5,408,472
Radiology Procedure	625,226	616,615	600,718	616,554	624,727	459,611	449,064
Life Flight Trips	529	472	506	471	492	335	320
<b>Surgery</b>							
Inpatient Surgery Cases	14,503	12,752	11,889	11,709	11,632	8,605	8,806
Outpatient Surgery Cases	23,483	24,364	25,134	25,008	24,657	18,748	18,977
Endoscopy Cases	29,266	28,276	28,962	30,240	32,149	24,022	24,009
Total Surgery Cases	<u>67,252</u>	<u>65,392</u>	<u>65,985</u>	<u>66,957</u>	<u>68,438</u>	<u>51,375</u>	<u>51,792</u>
<b>Other</b>							
Ambulatory Clinic Visits	717,490	723,435	738,677	727,451	743,422	560,776	556,552
Health Center Visits	100,777	109,486	106,539	109,387	112,230	85,920	84,290
Home Health Visits (4)	134,368	72,209	66,670	54,758	55,436	41,643	40,630

- (1) excludes Newborns
- (2) Centers for Medicare & Medicaid Services ("CMS") Medicare Severity-Diagnosis Related Groups ("MS DRG") case mix, excluding Psychiatric
- (3) Lab Tests include Outreach activity. The Medical Center sold its Outreach Lab business on January 3, 2013 (with a 24 month transition period).
- (4) The Medical Center sold its Home Health and Hospice business on September 19, 2012.

## Medical Center Utilization

A summary of significant utilization data for the Medical Center for the five fiscal years ended September 30, 2016 and nine months ended June 30, 2016 and 2017 is presented in the following table.

	Years Ended September 30					Nine Months Ended June 30,	
	2012	2013	2014	2015	2016	2016	2017
<b>Acute Care</b>							
Average Beds Available	725	724	713	723	728	728	728
Discharges (1)	41,454	38,403	36,690	38,396	38,444	28,969	28,408
Patient Days (1)	205,596	203,606	198,309	206,033	208,679	157,210	155,945
Percent Occupancy	83.6%	86.3%	86.6%	87.6%	87.8%	89.8%	89.6%
Average LOS	4.96	5.30	5.40	5.37	5.43	5.43	5.49
Case Mix Index (2)	1.5193	1.5758	1.5934	1.6023	1.6558	1.6557	1.6610
Observation Cases	8,447	10,028	10,724	8,941	9,204	6,888	7,805
Emergency Room Visits	139,708	134,891	132,110	131,052	136,097	101,422	100,985
Cardiac Cath Procedure	6,351	6,263	6,379	6,624	6,759	5,115	5,178
Lab Tests (3)	14,805,092	11,552,135	7,794,065	5,849,725	6,133,510	4,637,168	4,501,011
Radiology Procedure	437,204	433,461	420,863	428,530	430,633	322,819	313,534
Life Flight Trips	529	472	506	471	492	335	320
<b>Surgery</b>							
Inpatient Surgery Cases	12,917	11,210	10,383	10,268	10,191	7,533	7,636
Outpatient Surgery Cases	17,426	18,438	19,164	18,698	18,520	14,067	14,364
Endoscopy Cases	23,248	22,101	22,587	23,993	25,353	19,060	18,788
Total Surgery Cases	<u>53,591</u>	<u>51,749</u>	<u>52,134</u>	<u>52,959</u>	<u>54,064</u>	<u>40,660</u>	<u>40,788</u>
<b>Other</b>							
Ambulatory Clinic Visits	717,490	723,435	738,677	727,451	743,422	560,776	556,552
Health Center Visits	100,777	109,486	106,539	109,387	112,230	85,920	84,290
Home Health Visits (4)	70,822	-	-	-	-	-	-

(1) excludes Newborns

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

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

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

## Patient Service Revenue

The following data shows the distribution of gross patient service revenue for the System and Medical Center by payer source and by inpatient and outpatient designation for the five fiscal years ended September 30, 2016 and nine months ended June 30, 2016 and 2017. This information is based on patient classification at the time of discharge billing.

### System Sources of Gross Patient Service Revenue

	Years Ended September 30					Nine Months Ended June 30,	
	2012	2013	2014	2015	2016	2016	2017
Medicare	27.1%	26.9%	26.3%	26.5%	27.2%	27.1%	27.2%
Medicare Managed Care	9.1%	9.0%	9.4%	9.4%	9.7%	9.8%	10.2%
Medicaid	10.7%	10.3%	10.6%	10.8%	10.2%	10.2%	10.5%
Medicaid Managed Care (1)	9.3%	8.0%	9.7%	10.6%	11.9%	11.9%	11.2%
Private Pay	40.5%	42.7%	42.1%	41.1%	39.6%	39.4%	39.5%
Other	3.3%	3.1%	1.9%	1.6%	1.4%	1.6%	1.4%
	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>
Inpatient	44.5%	42.2%	41.2%	42.6%	42.4%	42.6%	42.2%
Outpatient	55.5%	57.8%	58.8%	57.4%	57.6%	57.4%	57.8%
	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>

Source: System Records

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

### Medical Center Sources of Gross Patient Service Revenue

	Years Ended September 30					Nine Months Ended June 30,	
	2012	2013	2014	2015	2016	2016	2017
Medicare	26.7%	26.9%	26.2%	26.5%	27.2%	27.2%	27.2%
Medicare Managed Care	8.8%	9.0%	9.4%	9.4%	9.6%	9.6%	10.2%
Medicaid	11.4%	11.0%	11.4%	11.9%	11.3%	11.4%	11.5%
Medicaid Managed Care (1)	10.1%	8.3%	10.3%	11.3%	12.5%	12.5%	11.5%
Private Pay	39.8%	41.5%	40.9%	39.4%	38.1%	37.7%	38.3%
Other	3.2%	3.3%	1.8%	1.5%	1.3%	1.6%	1.3%
	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>
Inpatient	47.8%	45.0%	44.1%	45.2%	45.1%	45.3%	44.4%
Outpatient	52.2%	55.0%	55.9%	54.8%	54.9%	54.7%	55.6%
	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>

Source: Medical Center Records

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



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

### Nine Months Ended June 30, 2017, compared to June 30, 2016

During the nine months ended June 30, 2017, the System generated revenue in excess of expenses of \$58.2 million, compared to \$50.4 million for the comparable prior year period. During the nine months ended June 30, 2017, the System recorded an increase in unrestricted net assets of \$73.8 million compared to an increase in unrestricted net assets of \$61.0 million for the comparable prior year period. A discussion of the System financial information is set forth below.

#### *Revenues, Gains and Other Support*

Total revenues, gains and other support of the System increased from \$1.796 billion for the nine months ended June 30, 2016, to \$1.843 billion for the nine months ended June 30, 2017, or by \$46.6 million (2.6%). The combined net patient service revenue less provision for bad debts of the System increased from \$1.704 billion to \$1.745 billion for the nine months ended June 30, 2017, compared to the prior year period, or by \$40.8 million (2.4%). Management attributes this growth in net patient service revenue to certain volume increases, a positive case-mix, as well as a decrease in free care expense of \$43.1 million, and an increase in the Medical Center's outpatient specialty pharmacy of \$4.8 million, over the comparable prior year period. The System's revenue was adversely impacted by a decrease in payor rate contract and an increase in the provision for bad debts of \$6.8 million, over the comparable prior year period. The decrease in free care expense is due to the reduced Health Safety Net and MassHealth limited payments, offset by a correlating increase in the provision for bad debts due to eligibility changes, co-pays and deductibles, as well as fluctuations in certain payor categories, as compared to the prior year period. Compared to the nine months ended June 30, 2016, the following statistics increased: observation cases by 6.2%, surgeries by 0.8%, emergency room visits by 0.4%, discharges by 0.4%, and patients days by 0.1%; while the following statistics decreased: lab tests by 2.5%, Home Health visits by 2.4%, and Health Center visits by 1.9%. Other revenue increased from \$89.2 million to \$94.2 million, or by \$5.0 million (5.7%), due to an increase in contract pharmacy arrangements, offset by a decrease in meaningful use payments, a decrease in realized gains, investment income, and underwriting income recognized by the System's captive insurance company, and a decrease in income related to the System's investments in certain joint ventures.

#### *Expenses*

Total expenses of the System increased from \$1.753 billion for the nine months ended June 30, 2016, to \$1.823 billion for the nine months ended June 30, 2017, or by \$70.1 million (4.0%). Management attributes this increase in expenses to increases in salaries, fringe benefits, and contracted labor of \$47.9 million, supplies and other expenses of \$20.8 million, and depreciation and amortization expenses of \$3.0 million, offset by a decrease in interest expense of \$1.6 million. The increase in salaries, fringe benefits, and contracted labor is attributable to wage inflation, an increase in FTEs, and increases in certain fringe benefits provided to the labor base. The increase in supplies and other expenses is primarily due to increases in purchased services, pharmaceuticals, medical surgical chargeables, professional fees, software maintenance fees, maintenance service contracts, professional medical fees, shared purchased services, rentals and leases, medical surgical nonchargeables, and membership dues, offset by a decrease in Medical Education Services expense of \$4.0 million, as well as decreases in participation payment, contribution expenses, and travel and lodging. Depreciation and amortization expenses increased as a result of significant prior year capitalized projects. Interest expense decreased as a result of capitalized interest applied to outstanding capital projects including the purchase and implementation of the EMR (Note 5), offset by the overall increase of interest expense relative to existing debt and new debt. All other expense categories are generally consistent when comparing the nine month period ended June 30, 2017 to the nine month period ended June 30, 2016.

#### *Nonoperating Income (Expense)*

During the nine months ended June 30, 2017, the System reported investment income of \$4.7 million and net realized and unrealized gains of \$34.4 million. The System also recorded a \$0.5 million loss on refunding of debt during the nine months ended June 30, 2017. During the nine months ended June 30, 2016, the System reported investment income of \$3.6 million and net realized and unrealized gains of \$6.7 million. The System also recorded a \$2.9 million loss on refunding of debt during the nine months ended June 30, 2016.

#### *Other Changes in Net Assets*

During the nine months ended June 30, 2017, the System recorded an increase in net assets for pension related changes other than net periodic benefit cost of \$14.5 million, recorded \$1.0 million in net assets released from restrictions used for the purchase of property and equipment, and recorded \$0.2 million in contributions for property and equipment. During the nine months ended June 30, 2016, the System recorded an increase in net assets for pension related changes other than net periodic benefit cost of \$9.3 million, recorded \$0.8 million in net assets released from restrictions used for the purchase of property and equipment, and recorded \$0.4 million in contributions for property and equipment.

#### *Other Contingencies*

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

#### *Centers for Medicare and Medicaid Services ("CMS") Disallowance*

Following a 2009 audit report by the Office of Audit Services of the Office of Inspector General of the United States Health and Human Services (the "OIG"), the Commonwealth Medicaid Program returned approximately \$1.5 million in federal financial participation ("FFP") to CMS related to supplemental Medicaid payments to the Medical Center from fiscal years 2000 through and including 2005. In February of 2011, CMS provided notice of disallowance of an additional \$25.5 million in FFP for UMass Memorial supplemental payments. After a series of requests for reconsideration and appeals, on September 30, 2013, the Department of Health and Human Services Departmental Appeals Board (the "DAB") issued a decision reversing all but the disallowance of approximately \$4.25 million in FFP for Medicaid payments made by the Commonwealth Medicaid program to UMass Memorial based on the OIG's audit report finding that the relevant expenditures were not authorized by the Commonwealth Medicaid plan. The Commonwealth Medicaid Agency has not recouped any funds from UMass Memorial as a result of the disallowance or for the prior return of funds by the Commonwealth related to the 2009 OIG audit report, although it is expected that such a recoupment will be asserted. The Medical Center has sufficient reserves to reimburse the Commonwealth for the amount sustained by the decision.

#### *Wrongful Termination Suit*

A former executive of a pharmacy joint venture between Ventures and Shields Health Solutions, LLC ("Shields") filed suit in Massachusetts Federal District Court on April 1, 2016. The suit was filed against a number of parties, including two limited liability companies: UMass Memorial Shields Pharmacy, LLC and Shields Specialty Pharmacy Holdings, LLC. The case is a wrongful termination action seeking damages for lost wages and equity. Defendants filed a motion to dismiss all counts, which was granted and the case was dismissed on all counts on March 10, 2017. Plaintiff filed a motion to vacate the judgment on April 7, 2017. Although there can be no assurance as to the outcome of this matter, management does not believe it will have a material adverse effect on its consolidated financial statements.