

This document is dated as of February 19, 2019

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.

**QUARTERLY REPORT
December 31, 2018**

Concerning

UMASS MEMORIAL HEALTH CARE, INC.

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

**Contact Person:
Sergio Melgar
Executive Vice President and Chief Financial Officer
UMass Memorial Health Care, Inc.**

**P: 508-334-0256
F: 508-334-0495**

Sergio.Melgar@umassmemorial.org

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 733 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 UMass Memorial HealthAlliance-Clinton Hospital, Inc. (“HAC”), which operates a general acute hospital facility in Leominster and Clinton, Massachusetts, with a total of 152 beds. Hospitals, Inc. is the sole corporate member of Marlborough Hospital, a 79 bed community hospital located in Marlborough, Massachusetts.

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 HAC are referred to herein as the “Obligated Group”.

No affiliates other than UMass Memorial, the Medical Center, Ventures and HAC 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, K and L. 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 consolidated 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, 2018 and 2017 are on file, pursuant to the Continuing Disclosure Agreement at www.emma.msrb.org, and the information contained therein is hereby incorporated in this Quarterly Report. Accordingly, footnotes and other disclosures that would substantially duplicate the disclosures contained in UMass Memorial and affiliates most recent audited financial statements have been omitted.

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

Note 2

Effective October 1, 2018, the System adopted the Financial Accounting Standards Board Accounting Standards Update 2014-09, "Revenue from Contracts with Customers (Topic 606)" ("ASU 2014-09") using a modified retrospective method of application. The adoption of ASU 2014-09 resulted in changes to the presentation for and disclosure of revenue primarily related to uninsured or underinsured patients. Prior to the adoption of ASU 2014-09, a significant portion of the provision bad debts related to self-pay patients, as well as co-pays, co-insurance amounts and deductibles owed by patients with insurance. Under ASU 2014-09, the estimated uncollectable amounts due from these patients are generally considered implicit price concessions that are a direct reduction to net patient service revenues, with a corresponding material reduction in the amounts previously considered provision for bad debts. Since implicit price concessions are essentially similar to provision for bad debts, for comparability purposes with the 2017 period implicit price concessions in the 2018 quarter are compared to provision for bad debts in the 2017 quarter.

Implicit price concessions in the first quarter of 2018 were \$17.0 million, representing a ratio of 0.9 percent of gross patient service revenue ("GPSR"), consistent with the first quarter of 2017 or \$15.6 million. The \$1.4 million increase in implicit price concessions or 9.3 percent was mostly due to a 9.8 percent increase in GPSR. Under the new guidance, management will continually reassess and evaluate collectability, revenue models and contracts for changes and consider the impact on the financial statements.

Note 3

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 (deficiency) 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.

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 three months ended December 31, 2018 and 2017.

(in thousands of dollars)

	Total Obligated Group	Non- Obligated Group Entities	Consolidated
Fiscal Year 2019			
Net realized gain (loss)	\$ 361	\$ 62	\$ 423
Net unrealized gain (loss)	(27,012)	(13,261)	(40,273)
Total	<u>\$ (26,651)</u>	<u>\$ (13,199)</u>	<u>\$ (39,850)</u>
Fiscal Year 2018			
Net realized gain (loss)	\$ 13,379	\$ 1,975	\$ 15,354
Net unrealized gain (loss)	(5,139)	958	(4,181)
Total	<u>\$ 8,240</u>	<u>\$ 2,933</u>	<u>\$ 11,173</u>

Note 4

UMass Memorial has recorded Medicaid Supplemental Funds (“MSF”) of \$50.4 million and \$65.0 million for the three months ended December 31, 2018 and 2017, respectively, as net patient service revenue (“NPSR”) in the accompanying consolidating financial statements. MSF revenue of \$58.8 million and \$65.0 million were recorded as a receivable as of December 31, 2018 and 2017, respectively. MSF payments relating to 2018 of \$24.7 million were received during the quarter ended December 31, 2018.

Receipt of the MSF is dependent, among other factors, on federal approval of the Commonwealth of Massachusetts (the “Commonwealth”) Medicaid budget, state appropriation, satisfaction of documentation standards, and actual transfer of funds from the Commonwealth.

Note 5

UMass Memorial and certain of its affiliates have investments in joint ventures accounted for under the equity method reported as other assets in the consolidating balance sheets. Amounts related to these investments were \$83.4 million and \$84.4 million for September 30, 2018 and December 31, 2018, respectively. Joint venture income associated with these investments is reported in other revenue in the consolidating statements of operations amounted to \$5.9 million and \$5.7 million, for the three months ending December 31, 2018 and 2017, respectively.

LIQUIDITY AND CASH FLOW

The following chart sets forth the actual days of cash on hand (“DCOH”) as of September 30, 2018 and December 31, 2018, respectively. There can be no assurance that DCOH for future fiscal periods will be maintained at the historical levels shown.

	Obligated Group Cash and Investments		System Cash and Investments	
	September 30, 2018	December 31, 2018	September 30, 2018	December 31, 2018
<i>(in thousands of dollars)</i>				
Unrestricted cash (1)	\$ 550,228	\$ 498,706	\$ 695,097	\$ 616,068
Amounts on deposit in construction funds	73,805	63,001	73,805	63,001
Total cash	624,033	561,707	768,902	679,069
Operating expenses, as defined (2)	\$ 1,739,873	\$ 455,101	\$ 2,237,669	\$ 576,895
Days cash on hand	130.9	113.6	125.4	108.3

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.

The Obligated Group had approximately \$561.7 million, 113.6 DCOH at December 31, 2018. The total cash of the Obligated Group decreased by \$62.3 million from September 30, 2018 to December 31, 2018.

The System had approximately \$679.1 million, 108.3 DCOH at December 31, 2018. The total cash of the System decreased by \$89.8 million from September 30, 2018 to December 31, 2018.

Significant changes impacting cash, in addition to operations, were as follows:

(in millions of dollars)

	Obligated Group	System
(Decrease) increase in unrestricted cash		
Net payments to the University of Massachusetts Medical School (the “University”) (3)	\$ (40.4)	\$ (73.3)
Decrease in market value of long-term investments	(22.2)	(25.8)
Purchases of property and equipment	(20.9)	(21.9)
Scheduled repayments on debt, notes payable, and capital leases	(4.4)	(4.9)
Receipts of MSF revenue attributable to fiscal year 2018	23.4	24.7
Joint venture dividend distributions received	5.2	5.3

Source: Obligated Group and System records

(3) Net payments includes shared services, prior year purchased payroll and associated fringes, and rental payments

CORPORATE DEBT STRUCTURE, GUARANTY AND OTHER COMMITMENTS

Debt consists of the following at December 31, 2018:

<i>(in thousands of dollars)</i>	Interest Rate	Final Maturity	Amount Outstanding
Massachusetts Health and Educational Facilities Authority Revenue Bonds ("MHEFA")			
UMass Memorial, Variable Rate, Series B	4.99%	2023	\$ 8,500
UMass Memorial, Variable Rate, Series F	2.56%	2035	23,995
UMass Memorial, Series G	4.5-5.0%	2022	22,865
Massachusetts Development Finance Agency ("MDFA") Revenue Bonds			
UMass Memorial, Series H	4.0-5.5%	2031	34,150
UMass Memorial, Series I	4.0-5.0%	2046	165,490
UMass Memorial, Variable Rate, Series J	3.05%	2029	45,833
UMass Memorial, Series K	4.0-5.0%	2038	53,555
UMass Memorial, Series L	3.63-5.0%	2044	109,865
Master leases and subleases, and other notes payable	1.15-2.04%	2019-2026	69,621
Capital lease obligations			130
Total debt			<u>534,004</u>
Add: Net unamortized original issue premium			33,387
Less: Debt issuance costs			(6,644)
Less: Current portion			<u>(30,513)</u>
Debt, net of current portion - Total Obligated Group			<u>\$ 530,234</u>
Debt, net of current portion - Non-Obligated Group Entities			<u>13,995</u>
Debt, net of current portion - Consolidated			<u><u>\$ 544,229</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 percent.

Issuance of Debt

UMass Memorial, Series J – In October 2018, the Obligated Group entered into a revised agreement with MDFA to adjust Series J interest rate calculations and other certain provisions. Effective October 12, 2018, interest is based on 80 percent of the one (1) month LIBOR plus an applicable margin rate and payable monthly. The interest rate on December 31, 2018 was 3.05 percent.

UMass Memorial, Series L – On December 27, 2017, the Obligated Group entered into an agreement with MDFA to issue Revenue Bonds, UMass Memorial, Series L in the amount of \$109.9 million. The proceeds from the sale are being 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 some of the MDFA Variable Rate

Revenue Bonds, UMass Memorial Issue, Series H (2011), and certain debt issuance costs. Principal payments begin in July 2027 and interest accrues monthly at the agreed upon rates of 3.63 percent to 5.0 percent. As a result of this transaction, the Obligated Group reported a loss on refunding of debt of \$2.9 million.

Revolving Loan Agreement

On June 27, 2018, the Obligated Group and a financial institution amended the \$125.0 million unsecured revolving loan agreement by decreasing the commitment to \$75.0 million beginning on June 28, 2018. The amendment extends the agreement to June 26, 2019, maintains the interest rate at the monthly LIBOR plus 0.55 percent, and updates other certain provisions. The amount outstanding under this agreement at December 31, 2018 was \$0.

Guaranty

Ventures has guaranteed a maximum principal balance on the construction loan of \$19.5 million, \$8.5 million equipment finance lease and \$1.5 million on the revolving line of credit. Ventures liability for the payment guarantee is limited to forty nine percent (49 percent), which represents Ventures ownership in the joint venture. As of December 31, 2018, the outstanding balances for the loans were as follows: \$19.5 million for the construction loan, \$4.2 million for the equipment finance lease and \$0.5 million outstanding on the revolving line of credit.

Electronic Medical Record and Billing System

The implementation of the System wide fully integrated EMR and billing system went live on October 1, 2017. Under certain agreements, software license fees and implementation support will be paid over a term of 60 to 108 months based upon the agreed upon payment schedule. Principle and interest expense payments for the three months ended December 31, 2018 were \$1.0 million and \$0.2 million, respectively.

Debt Service Coverage Ratio

	Obligated Group		System	
	September 30, 2018	December 31, 2018	September 30, 2018	December 31, 2018
<i>(in thousands of dollars)</i>				
Excess (deficiency) of revenues over expenses	\$ 41,988	\$ (13,026)	\$ (19,297)	\$ (37,093)
Income from irrevocable deposits	(1,470)	(367)	(1,470)	(367)
Unrealized (gain) loss on investments	10,329	27,012	20,359	40,273
Depreciation and amortization	105,130	28,676	114,943	31,522
Interest expense (1)	17,343	4,972	18,021	5,141
Income available for debt service	<u>\$ 173,320</u>	<u>\$ 47,267</u>	<u>\$ 132,556</u>	<u>\$ 39,476</u>
Actual debt service (2)	\$ 44,612	\$ 12,922	\$ 46,444	\$ 13,442
Historical coverage of actual debt service (3)	3.89	3.66	2.85	2.94

Source: Obligated Group and System records

(1) Interest Expense excludes interest on the EMR commitment and revolving line of credit.

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

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

UMass Memorial Health Care, Inc. and Affiliates
Unaudited Consolidating Statement of Operations
For the Three Months Ended December 31, 2018

(in thousands of dollars)

FOR THE THREE MONTHS ENDED DECEMBER 31, 2018

	Total Obligated Group	Non- Obligated Group Entities	Eliminations and Consolidating Entries	Consolidated
Unrestricted revenues, gains and other support				
Net patient service revenue	\$ 466,542	\$ 133,440	\$ 697	\$ 600,679
Net assets released from restrictions used for operations	1,046	112	-	1,158
Other revenue	60,978	57,360	(73,294)	45,044
Total revenues, gains and other support	<u>528,566</u>	<u>190,912</u>	<u>(72,597)</u>	<u>646,881</u>
Expenses				
Salaries, benefits and contracted labor	240,295	134,481	(115)	374,661
Supplies and other expense	245,967	64,694	(72,399)	238,262
Depreciation and amortization	28,676	2,846	-	31,522
Interest	5,177	252	(83)	5,346
Total expenses	<u>520,115</u>	<u>202,273</u>	<u>(72,597)</u>	<u>649,791</u>
Income (loss) from operations	8,451	(11,361)	-	(2,910)
Nonoperating income (loss)				
Investment and other related income	2,873	493	-	3,366
Net realized and unrealized loss on investments	(26,651)	(13,199)	-	(39,850)
Actuarial change in the present value of annuities	2,301	-	-	2,301
Total nonoperating loss	<u>(21,477)</u>	<u>(12,706)</u>	<u>-</u>	<u>(34,183)</u>
Deficiency of revenues over expenses	(13,026)	(24,067)	-	(37,093)
Other changes in net assets				
Net assets released from restrictions used for purchase of property and equipment	281	-	-	281
Pension-related changes other than net periodic credit	2,511	157	-	2,668
Transfers (to) from related parties	(7,456)	7,456	-	-
Decrease in unrestricted net assets	<u>(17,690)</u>	<u>(16,454)</u>	<u>-</u>	<u>(34,144)</u>
Unrestricted net assets, beginning of period	<u>751,004</u>	<u>168,846</u>	<u>(120)</u>	<u>919,730</u>
Unrestricted net assets, end of period	<u>\$ 733,314</u>	<u>\$ 152,392</u>	<u>\$ (120)</u>	<u>\$ 885,586</u>

UMass Memorial Health Care, Inc. and Affiliates
Unaudited Consolidating Statement of Operations
For the Three Months Ended December 31, 2017

(in thousands of dollars)

FOR THE THREE MONTHS ENDED DECEMBER 31, 2017

	Total Obligated Group	Non- Obligated Group Entities	Eliminations and Consolidating Entries	Consolidated
Unrestricted revenues, gains and other support				
Net patient service revenue	\$ 474,281	\$ 136,075	\$ 787	\$ 611,143
Less: Provision for bad debts	(9,325)	(6,212)	(30)	(15,567)
Net patient service revenue less provision for bad debts	464,956	129,863	757	595,576
Net assets released from restrictions used for operations	949	222	-	1,171
Other revenue	52,411	56,713	(74,297)	34,827
Total revenues, gains and other support	<u>518,316</u>	<u>186,798</u>	<u>(73,540)</u>	<u>631,574</u>
Expenses				
Salaries, benefits and contracted labor	233,697	131,096	(119)	364,674
Supplies and other expense	241,162	64,464	(73,339)	232,287
Depreciation and amortization	27,173	2,738	6	29,917
Interest	4,501	263	(88)	4,676
Total expenses	<u>506,533</u>	<u>198,561</u>	<u>(73,540)</u>	<u>631,554</u>
Income (loss) from operations	11,783	(11,763)	-	20
Nonoperating income (loss)				
Investment and other related income	2,953	467	-	3,420
Net realized and unrealized gain on investments	8,240	2,933	-	11,173
Actuarial change in the present value of annuities	(69)	-	-	(69)
Loss on refunding of debt	(2,875)	-	-	(2,875)
Total nonoperating income	<u>8,249</u>	<u>3,400</u>	<u>-</u>	<u>11,649</u>
Excess (deficiency) of revenues over expenses	20,032	(8,363)	-	11,669
Other changes in net assets				
Net assets released from restrictions used for purchase of property and equipment	201	2	-	203
Pension-related changes other than net periodic credit	3,550	152	-	3,702
Transfers (to) from related parties	(7,268)	7,268	-	-
Increase (decrease) in unrestricted net assets	16,515	(941)	-	15,574
Unrestricted net assets, beginning of period	<u>687,388</u>	<u>207,337</u>	<u>(120)</u>	<u>894,605</u>
Unrestricted net assets, end of period	<u>\$ 703,903</u>	<u>\$ 206,396</u>	<u>\$ (120)</u>	<u>\$ 910,179</u>

UMass Memorial Health Care, Inc. and Affiliates
Unaudited Consolidating Balance Sheet
December 31, 2018

(in thousands of dollars)

	DECEMBER 31, 2018			
	Total Obligated Group	Non- Obligated Group Entities	Eliminations and Consolidating Entries	Consolidated
Assets				
Current assets				
Cash and cash equivalents	\$ 109,731	\$ 48,490	\$ 789	\$ 159,010
Short-term investments	38,043	10,068	-	48,111
Current portion of assets whose use is limited	15,890	-	-	15,890
Patient accounts receivable, net	196,137	58,111	206	254,454
Inventories	39,228	1,792	7	41,027
Prepaid expenses and other current assets	45,536	5,694	-	51,230
Notes receivable from affiliates, current	424	-	(424)	-
Due from related parties	120,885	83,363	(204,248)	-
Estimated settlements receivable from third-party payers	52,832	6,601	-	59,433
Total current assets	<u>618,706</u>	<u>214,119</u>	<u>(203,670)</u>	<u>629,155</u>
Assets whose use is limited				
Funds held in escrow under bond indenture agreements, net of current portion	63,001	1,327	-	64,328
Restricted investments	74,271	5,193	-	79,464
Captive insurance company investments	-	130,707	-	130,707
Total assets whose use is limited	<u>137,272</u>	<u>137,227</u>	<u>-</u>	<u>274,499</u>
Long-term investments	345,895	63,052	-	408,947
Property and equipment, net	853,932	88,831	29	942,792
Beneficial interest in trusts	9,200	-	1	9,201
Note receivable from affiliates, net of current portion	7,250	-	(7,250)	-
Other assets	121,202	23,815	(24,225)	120,792
Total assets	<u>\$ 2,093,457</u>	<u>\$ 527,044</u>	<u>\$ (235,115)</u>	<u>\$ 2,385,386</u>
Liabilities and Net Assets				
Current liabilities				
Accounts payable and accrued expenses	\$ 130,879	\$ 16,597	\$ 84	\$ 147,560
Accrued compensation	82,057	52,237	-	134,294
Estimated settlements payable to third-party payers	912	4,653	-	5,565
Debt, current	30,513	1,372	-	31,885
Notes payable to affiliates, current	-	424	(424)	-
Due to related parties	91,696	112,552	(204,248)	-
Due to the University of Massachusetts	101,162	8,594	-	109,756
Total current liabilities	<u>437,219</u>	<u>196,429</u>	<u>(204,588)</u>	<u>429,060</u>
Estimated settlements payable to third-party payers, net of current portion	21,097	7,510	-	28,607
Other noncurrent liabilities	33,889	9,177	379	43,445
Accrued pension and postretirement benefit obligations	214,286	2,318	-	216,604
Estimated self-insurance costs	38,557	132,695	(23,536)	147,716
Notes payable to affiliates, net of current portion	-	7,250	(7,250)	-
Debt, net of current portion	530,234	13,995	-	544,229
Total liabilities	<u>1,275,282</u>	<u>369,374</u>	<u>(234,995)</u>	<u>1,409,661</u>
Net assets				
Unrestricted	733,314	152,392	(120)	885,586
Temporarily restricted	33,471	3,083	-	36,554
Permanently restricted	51,390	2,195	-	53,585
Total net assets	<u>818,175</u>	<u>157,670</u>	<u>(120)</u>	<u>975,725</u>
Total liabilities and net assets	<u>\$ 2,093,457</u>	<u>\$ 527,044</u>	<u>\$ (235,115)</u>	<u>\$ 2,385,386</u>

UMass Memorial Health Care, Inc. and Affiliates
Unaudited Consolidating Balance Sheet
September 30, 2018

(in thousands of dollars)

	SEPTEMBER 30, 2018			
	Total Obligated Group	Non- Obligated Group Entities	Eliminations and Consolidating Entries	Consolidated
Assets				
Current assets				
Cash and cash equivalents	\$ 145,671	\$ 72,368	\$ 552	\$ 218,591
Short-term investments	31,475	10,319	-	41,794
Current portion of assets whose use is limited	7,981	-	-	7,981
Patient accounts receivable, net	199,278	59,781	231	259,290
Inventories	39,216	1,786	12	41,014
Prepaid expenses and other current assets	40,630	5,384	-	46,014
Notes receivable from affiliates, current	419	-	(419)	-
Due from related parties	108,935	82,863	(191,798)	-
Estimated settlements receivable from third-party payers	34,313	1,677	-	35,990
Total current assets	<u>607,918</u>	<u>234,178</u>	<u>(191,422)</u>	<u>650,674</u>
Assets whose use is limited				
Funds held in escrow under bond indenture agreements, net of current portion	73,805	1,327	-	75,132
Restricted investments	80,057	5,499	-	85,556
Captive insurance company investments	-	147,722	-	147,722
Total assets whose use is limited	<u>153,862</u>	<u>154,548</u>	<u>-</u>	<u>308,410</u>
Long-term investments	368,045	66,667	-	434,712
Property and equipment, net	861,044	90,447	30	951,521
Beneficial interest in trusts	9,270	-	-	9,270
Note receivable from affiliates, net of current portion	7,358	-	(7,358)	-
Other assets	120,785	23,812	(24,071)	120,526
Total assets	<u>\$ 2,128,282</u>	<u>\$ 569,652</u>	<u>\$ (222,821)</u>	<u>\$ 2,475,113</u>
Liabilities and Net Assets				
Current liabilities				
Accounts payable and accrued expenses	\$ 134,978	\$ 18,517	\$ 132	\$ 153,627
Accrued compensation	82,684	67,366	-	150,050
Estimated settlements payable to third-party payers	3,185	11,381	-	14,566
Debt, current	31,675	1,524	-	33,199
Notes payable to affiliates, current	-	419	(419)	-
Due to related parties	97,616	94,182	(191,798)	-
Due to the University of Massachusetts	88,093	29,727	-	117,820
Total current liabilities	<u>438,231</u>	<u>223,116</u>	<u>(192,085)</u>	<u>469,262</u>
Estimated settlements payable to third-party payers, net of current portion	21,383	5,407	-	26,790
Other noncurrent liabilities	37,028	9,008	277	46,313
Accrued pension and postretirement benefit obligations	218,667	2,544	-	221,211
Estimated self-insurance costs	37,861	133,687	(23,535)	148,013
Notes payable to affiliates, net of current portion	-	7,358	(7,358)	-
Debt, net of current portion	533,677	14,104	-	547,781
Total liabilities	<u>1,286,847</u>	<u>395,224</u>	<u>(222,701)</u>	<u>1,459,370</u>
Net assets				
Unrestricted	751,004	168,846	(120)	919,730
Temporarily restricted	38,991	3,387	-	42,378
Permanently restricted	51,440	2,195	-	53,635
Total net assets	<u>841,435</u>	<u>174,428</u>	<u>(120)</u>	<u>1,015,743</u>
Total liabilities and net assets	<u>\$ 2,128,282</u>	<u>\$ 569,652</u>	<u>\$ (222,821)</u>	<u>\$ 2,475,113</u>

System Utilization

A summary of significant utilization data for the System for the five fiscal years ended September 30, 2018 and for the three months ended December 31, 2017 and 2018 is presented in the following table.

	Years Ended September 30					Three Months Ended December 31,	
	2014	2015	2016	2017	2018	2017	2018
Acute Care							
Average Beds Available	928	936	944	963	954	954	954
Discharges (1)	47,639	49,930	49,816	49,703	48,924	12,281	12,381
Patient Days (1)	248,808	259,687	259,608	258,948	256,619	63,992	65,128
Midnight Census Days (2)	286,875	291,225	294,142	294,829	292,571	72,681	73,919
Percent Occupancy (3)	84.7%	85.2%	85.1%	83.9%	84.0%	82.8%	84.2%
Average LOS	5.22	5.20	5.21	5.21	5.25	5.21	5.26
Case Mix Index (4)	1.5102	1.5188	1.5723	1.5632	1.5898	1.5602	1.6231
Observation Cases	15,591	13,669	14,280	15,039	13,270	3,522	3,289
Emergency Room Visits	215,014	215,479	222,846	222,561	223,121	55,960	55,021
Cardiac Cath Procedure	6,379	6,624	6,759	6,776	6,096	1,366	1,587
Lab Tests (5) (6)	9,023,294	6,976,829	7,343,279	7,253,734	7,415,781	1,746,461	1,947,911
Radiology Procedures/Exams (7)	600,720	605,584	601,399	599,530	535,861	128,769	138,523
Life Flight Trips	506	471	492	439	436	114	93
Surgery							
Inpatient Surgery Cases	11,889	11,709	11,632	11,771	10,922	2,733	2,794
Outpatient Surgery Cases	25,134	25,008	24,657	24,866	23,677	5,777	5,711
Endoscopy Cases	28,962	30,240	32,149	31,993	28,026	5,889	7,267
Total Surgery Cases	65,985	66,957	68,438	68,630	62,625	14,399	15,772
Other							
Ambulatory Clinic Visits	738,677	727,451	743,422	733,476	694,801	170,842	180,841
Health Center Visits	106,539	109,387	112,230	110,739	105,544	28,046	26,500
Home Health Visits	66,670	54,758	55,436	54,142	59,054	14,034	15,057

(1) Excludes Newborns

(2) Includes inpatient, observation, extended recovery and labor check cases admitted by midnight

(3) Midnight Census Days are divided into Available Beds to compute the occupancy percentage

(4) Centers for Medicare & Medicaid Services Medicare Severity-Diagnosis Related Groups case mix, excluding Psychiatric

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

(6) Effective October 1, 2017, Lab Tests volume is being accumulated differently due to a new EMR. The FY 2018 and YTD 2019 numbers are not comparable to prior years.

(7) Starting in FY2018 Radiology is based on Exams. Previous years were based on Billed Procedures.

Medical Center Utilization

A summary of significant utilization data for the Medical Center for the five fiscal years ended September 30, 2018 and for the three months ended December 31, 2017, and 2018 is presented in the following table.

	Years Ended September 30					Three Months Ended December 31,	
	2014	2015	2016	2017	2018	2017	2018
Acute Care							
Average Beds Available	726	734	742	761	752	752	752
Discharges (1)	36,690	38,396	38,444	37,701	37,668	9,530	9,600
Patient Days (1)	198,309	206,033	208,679	206,449	204,305	51,301	51,554
Midnight Census Days (2)	227,175	231,166	234,782	234,137	231,910	57,846	58,128
Percent Occupancy (3)	85.7%	86.3%	86.5%	84.3%	84.5%	83.6%	84.0%
Average LOS	5.40	5.37	5.43	5.48	5.42	5.38	5.37
Case Mix Index (4)	1.5934	1.6023	1.6558	1.6561	1.6730	1.6390	1.6949
Observation Cases	10,724	8,941	9,234	10,351	9,278	2,402	2,274
Emergency Room Visits	132,110	131,052	136,097	134,564	135,044	33,856	33,221
Cardiac Cath Procedure	6,379	6,624	6,759	6,776	6,096	1,366	1,587
Lab Tests (5) (6)	7,794,065	5,849,725	6,133,510	6,049,716	5,499,742	1,284,408	1,449,351
Radiology Procedures/Exams (7)	420,865	417,560	420,737	420,575	387,107	92,782	100,715
Life Flight Trips	506	471	492	439	436	114	93
Surgery							
Inpatient Surgery Cases	10,383	10,268	10,191	10,217	9,529	2,365	2,433
Outpatient Surgery Cases	19,164	18,698	18,520	18,823	18,133	4,416	4,247
Endoscopy Cases	22,587	23,993	25,353	25,002	21,759	4,040	5,805
Total Surgery Cases	52,134	52,959	54,064	54,042	49,421	10,821	12,485
Other							
Ambulatory Clinic Visits	738,677	727,451	743,422	733,476	694,801	170,842	180,841
Health Center Visits	106,539	109,387	112,230	110,739	105,544	28,046	26,500

(1) Excludes Newborns

(2) Includes inpatient, observation, extended recovery and labor check cases admitted by midnight

(3) Midnight Census Days are divided into Available Beds to compute the occupancy percentage

(4) Centers for Medicare & Medicaid Services Medicare Severity-Diagnosis Related Groups case mix, excluding Psychiatric

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

(6) Effective October 1, 2017, Lab Tests volume is being accumulated differently due to a new EMR. The FY 2018 and YTD 2019 numbers are not comparable to prior years.

(7) Starting in FY2018 Radiology is based on Exams. Previous years were based on Billed Procedures.

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, 2018 and for the three months ended December 31, 2017 and 2018. This information is based on patient classification at the time of discharge billing.

System

Sources of Gross Patient Service Revenue

	Years Ended September 30					Three Months Ended December 31,	
	2014	2015	2016	2017	2018	2017	2018
Medicare	26.3%	26.5%	27.2%	27.3%	28.4%	28.2%	28.8%
Medicare Managed Care	9.4%	9.4%	9.7%	10.3%	12.1%	11.7%	12.0%
Medicaid	10.6%	10.8%	10.2%	10.4%	14.5%	11.2%	16.9%
Medicaid Managed Care (1)	9.7%	10.6%	11.9%	11.2%	6.8%	9.4%	4.8%
Private Pay (2)	42.1%	41.1%	39.6%	39.4%	36.6%	37.6%	35.9%
Other	1.9%	1.6%	1.4%	1.4%	1.6%	1.9%	1.6%
	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>
Inpatient	41.2%	42.6%	42.4%	42.0%	40.7%	41.4%	40.8%
Outpatient	58.8%	57.4%	57.6%	58.0%	59.3%	58.6%	59.2%
	<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
- (2) Private pay decrease in 2018 is attributable to insurance plan mapping updates in the EMR system to better align activity with the appropriate financial class

Medical Center

Sources of Gross Patient Service Revenue

	Years Ended September 30					Three Months Ended December 31,	
	2014	2015	2016	2017	2018	2017	2018
Medicare	26.2%	26.5%	27.2%	27.3%	29.0%	29.1%	29.5%
Medicare Managed Care	9.4%	9.4%	9.6%	10.3%	11.6%	11.4%	11.2%
Medicaid	11.4%	11.9%	11.3%	11.5%	15.5%	12.1%	17.8%
Medicaid Managed Care (1)	10.3%	11.3%	12.5%	11.4%	6.7%	9.6%	4.5%
Private Pay (2)	40.9%	39.4%	38.1%	38.2%	35.7%	35.8%	35.3%
Other	1.8%	1.5%	1.3%	1.3%	1.5%	2.0%	1.7%
	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>
Inpatient	44.1%	45.2%	45.1%	44.2%	42.9%	43.4%	42.5%
Outpatient	55.9%	54.8%	54.9%	55.8%	57.1%	56.6%	57.5%
	<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
- (2) Private pay decrease in 2018 is attributable to insurance plan mapping updates in the EMR system to better align activity with the appropriate financial class

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

Three Months Ended December 31, 2018, compared to December 31, 2017

The System has reported a deficiency of revenue over expenses of \$37.1 million, compared to revenue in excess of expenses of \$11.7 million for the comparable prior year period. During the three months ended December 31, 2018, the System recorded an decrease in unrestricted net assets of \$34.1 million compared to an increase in unrestricted net assets of \$15.6 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 \$15.3 million (2.4 percent) for the three months ended December 31, 2018, to \$646.9 million. The most significant impact of adopting the new revenue recognition accounting standard is to the presentation of the consolidating statement of operations where, the "Provision for bad debts" is no longer presented as a separate line item and the Net Patient Service Revenue is presented net of an estimated implicit price concession revenue deduction. Estimated implicit price concessions deducted from Net Patient Service Revenue for the three months ended December 31, 2018 was \$17.0 million, compared to \$15.6M for the three months ended December 31, 2017. There is no change to the prior period presentation.

NPSR after implicit price concessions were \$600.7 million, up one percent, for the three months ended December 31, 2018, compared to the prior year period. Management attributes this growth in NPSR to inpatient payer rate increases and additional outpatient business. Volume increased slightly from prior year as discharges were higher by 0.8 percent. Both inpatient and outpatient GPSR increased, with the largest share of the increase coming from Medicare and Medicaid outpatient, mostly due to higher volume. NPSR increased for both inpatient and outpatient, with the majority of the of the increase arising from Medicare inpatient due to inpatient rate increases. For the three months ended December 31, 2018, outpatient visits now represent 59.2 percent of System GPSR, up from 58.6 percent in the prior year period. The positive impact of higher overall volumes and higher inpatient rates to the System's revenue was partially offset by a decrease in MSF of \$14.5 million and Medicaid regulatory changes, including: 1) a shift of Medicaid patients from Managed Care Medicaid to Medicaid, 2) implementation of Medicaid's Accountable Care program in March 2018, and 3) changes in eligibility requirements which was the primary cause of an increase in uncompensated care expense of \$8.3 million or 46.9 percent and an increase implicit price concessions of \$1.4 million or 9.3 percent, over the comparable prior year period. Compared to the three months ended December 31, 2017, the following statistics increased: Percent Occupancy, 1.7 percent, Surgery Cases, 9.5 percent, Home Health Visits, 7.3 percent, and Ambulatory Visits, 5.9 percent. Statistics that decreased were: Observation Cases, -6.6 percent, Emergency Room Visits, -1.7 percent, and Health Center Visits, -5.5 percent. Other revenue increased from \$34.8 million to \$45.0 million, or by \$10.2 million (29.3 percent), primarily due to increases in contract pharmacy revenue of \$7.4 million.

Expenses

Total expenses of the System were \$649.8 million, up 2.9 percent, for the three months ended December 31, 2018. Management attributes this increase in expenses to increases in salaries, fringe benefits, and contracted labor of \$10.0 million, 2.7 percent, supplies and other expenses of \$6.0 million, 2.6 percent, depreciation and amortization expenses of \$1.6 million 5.4 percent, and interest expense of \$0.7 million, 14.3 percent. While overall FTE's remained consistent with the comparable prior year period, average salaries per FTE increased 2.7 percent due to cost of living adjustments. This increase was partially offset by lower average fringe benefits per FTE, which decreased 1.8 percent from prior year, primarily due to lower health insurance costs. The increase in supplies and other expenses is primarily due to increases in pharmaceuticals of \$10.4 million (20.0 percent) and professional fees of \$4.5 million (14.4 percent), partially offset by a \$8.2 million (18.4 percent) decrease in Medical Education Services expense. The increase in interest expense is attributable to a decrease in the capitalized interest cost, fluctuations in existing variable rate debt and additional interest expense on newly acquired debt. Depreciation and

amortization expenses increased due to significant prior year capitalized projects, mostly related to upgrade of the EMR and billing system.

Nonoperating Income (Expense)

Total nonoperating loss for the three months ended December 31, 2018 was \$34.2 million. The System reported net investment income of \$3.4 million, \$0.4 million of net realized gains and \$40.3 million of unrealized losses. In addition, the System recognized a \$2.3 million gain from the change in the actuarial valuation of a charitable annuity. During the three months ended December 31, 2017, the System reported net investment income of \$3.4 million, \$15.4 million of net realized gains and \$4.2 million of unrealized losses. In addition, the System recognized a \$2.9 million loss on refunding of debt.

Other Changes in Net Assets

During the three months ended December 31, 2018, the System recorded an increase in net assets for pension related changes other than net periodic cost of \$2.7 million and recorded \$0.3 million in net assets released from restrictions used for the purchase of property and equipment. During the three months ended December 31, 2017, the System recorded an increase in net assets for pension related changes other than net periodic cost of \$3.7 million and recorded \$0.2 million in net assets released from restrictions used for the purchase of property and equipment.

Other Contingencies

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

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 in which Ventures holds approximately 50% interest: UMass Memorial Shields Pharmacy, LLC and Shields Specialty Pharmacy Holdings, LLC. The case is essentially a wrongful termination action seeking damages for lost wages and equity. The case was dismissed on all counts on March 10, 2017. The Plaintiff appealed and on January 15, 2019, the First Circuit affirmed the dismissal as to one claim and vacated and remanded the case to the district court on a second claim alleging retaliation under the Anti-Kickback Statute. On January 29, 2019 the Defendants filed a Petition for Rehearing in the First Circuit. 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.