

*In the opinion of Bond Counsel, under existing law and assuming continuing compliance by the Pennsylvania Economic Development Financing Authority (the "Authority") and UPMC (the "Corporation") with certain covenants related to the Internal Revenue Code of 1986, as amended (the "Code"), interest on the 2017A Bonds (including any original issue discount properly allocable to an owner thereof) is excludable from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax; however, interest with respect to the 2017A Bonds may be taken into account in determining "adjusted current earnings" for purposes of computing the alternative minimum tax on certain corporations. Bond Counsel's opinion assumes compliance by the Authority and the Corporation with all requirements of the Code that must be satisfied subsequent to the issuance of the 2017A Bonds in order that the interest thereon be, and continue to be, excludable from gross income for federal income tax purposes. **Interest on the 2017B Bonds is not excluded from gross income for federal tax purposes.** Furthermore, in the opinion of Bond Counsel, the 2017 Bonds are exempt from personal property taxes in Pennsylvania and the interest on the 2017 Bonds is exempt from Pennsylvania corporate net income tax and personal income tax. See "TAX EXEMPTION AND OTHER TAX MATTERS".*

\$536,745,000**PENNSYLVANIA ECONOMIC DEVELOPMENT FINANCING AUTHORITY****UPMC REVENUE BONDS, SERIES 2017**

consisting of

\$436,745,000 Series 2017A**\$100,000,000 Series 2017B (Federally Taxable)****DATED: Date of Delivery****MATURITY: November 15, as shown herein**

The UPMC Revenue Bonds, Series 2017 (the "**2017 Bonds**"), being issued by the Pennsylvania Economic Development Financing Authority (the "**Authority**"), will be issued as fully registered bonds and initially registered in the name of Cede & Co., as nominee for The Depository Trust Company ("**DTC**"), New York, New York, which will act as securities depository therefor. Purchasers will not receive certificates representing their ownership interest in the 2017 Bonds. So long as Cede & Co. is the registered owner, as nominee of DTC, references herein to "Owners", "registered owners" or "Bondholders" shall mean Cede & Co., as aforesaid, and shall not mean the beneficial owners of the 2017 Bonds. Beneficial ownership of the 2017 Bonds may be acquired in denominations of \$5,000 and any multiple thereof.

Principal of and interest on the 2017 Bonds will be paid by The Bank of New York Mellon Trust Company, N.A., Pittsburgh, Pennsylvania, as trustee and paying agent (the "**Bond Trustee**"). So long as DTC or its nominee, Cede & Co., is the registered owner, such payments will be made directly to Cede & Co. Disbursements of such payments to the DTC Participants are the responsibility of DTC and disbursements of such payments to the beneficial owners are the responsibility of the DTC Participants and the Indirect Participants, as more fully described herein. Interest will be payable semiannually on each May 15 and November 15, commencing May 15, 2018, by check mailed to the registered owners as of the close of business on the applicable record date preceding each Interest Payment Date. The 2017 Bonds are subject to redemption prior to maturity as set forth herein.

The 2017 Bonds will be issued pursuant to a Trust Indenture, dated as of October 1, 2017 (the "**Bond Indenture**"), between the Authority and the Bond Trustee. The principal of, premium, if any, and interest on the 2017 Bonds will be payable solely from, and secured by, the Authority's pledge and assignment to the Bond Trustee of the Trust Estate, which includes payments to be made under a Loan Agreement, dated as of October 1, 2017 (the "**Loan Agreement**"), between the Authority and UPMC (the "**Corporation**"), a Pennsylvania nonprofit corporation. The payment obligations of the Corporation under the Loan Agreement will be evidenced and secured by, among other things, a promissory note (the "**2017 MTI Note**") issued by the Corporation to the Authority and assigned to the Bond Trustee, pursuant to the terms of a Master Trust Indenture, dated as of May 1, 2007, as supplemented (the "**Master Indenture**"), between the Corporation and The Bank of New York Mellon Trust Company, N.A., as master trustee. The Corporation, UPMC Presbyterian Shadyside, Magee-Womens Hospital of UPMC, UPMC Passavant and UPMC St. Margaret are all of the members of the obligated group under the Master Indenture (the "**Obligated Group**"). Under the Master Indenture, the 2017 MTI Note will be an obligation secured by a pledge of the Obligated Group's gross revenues.

THE 2017 BONDS ARE LIMITED OBLIGATIONS OF THE AUTHORITY, PAYABLE SOLELY FROM THE TRUST ESTATE. NEITHER THE COMMONWEALTH OF PENNSYLVANIA NOR ANY POLITICAL SUBDIVISION THEREOF IS OBLIGATED TO PAY THE PRINCIPAL OR REDEMPTION PRICE OF OR THE INTEREST ON THE 2017 BONDS, AND NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE COMMONWEALTH OF PENNSYLVANIA OR ANY POLITICAL SUBDIVISION THEREOF IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OR REDEMPTION PRICE OF OR INTEREST ON THE 2017 BONDS. THE AUTHORITY HAS NO TAXING POWER.

The 2017 Bonds are offered when, as and if issued by the Authority and accepted by the Underwriters, subject to prior sale, withdrawal or modification of the offer without notice, and simultaneous delivery of the approving legal opinion of Campbell & Levine, LLC, Pittsburgh, Pennsylvania, Bond Counsel. Certain legal matters will be passed upon for the Authority by the Office of Chief Counsel, Pennsylvania Department of Community and Economic Development; for the Corporation by its special counsel, Eckert Seamans Cherin & Mellott, LLC, Pittsburgh, Pennsylvania; and for the Underwriters by their counsel, Kutak Rock LLP, Philadelphia, Pennsylvania. It is expected that the 2017 Bonds will be available for delivery on or about October 11, 2017.

This cover page is for quick reference only and does not summarize the issue. Investors must read the entire Official Statement to obtain information essential to making an informed investment decision. Capitalized terms used above and not otherwise defined have the meanings ascribed to them herein.

RBC Capital Markets[†]**Wells Fargo Securities[‡]****PNC Capital Markets LLC****BNY Mellon Capital Markets, LLC****Huntington Capital Markets**

Dated: September 27, 2017

[†] Series 2017A Bonds Senior Manager[‡] Series 2017B Bonds Senior Manager

\$536,745,000
PENNSYLVANIA ECONOMIC DEVELOPMENT FINANCING AUTHORITY
UPMC REVENUE BONDS, SERIES 2017
consisting of
\$436,745,000 UPMC REVENUE BONDS, SERIES 2017A
MATURITIES, PRINCIPAL AMOUNTS, COUPONS, PRICES, YIELDS AND CUSIPS
\$268,755,000 2017A Serial Bonds

<u>Maturity</u> <u>(November 15)</u>	<u>Principal</u> <u>Amount</u>	<u>Coupon</u>	<u>Yield</u>	<u>Price</u>	<u>CUSIP*</u>
2018	\$ 8,530,000	4.000%	0.980%	103.278	70870JAA6
2019	8,880,000	4.000%	1.120%	105.944	70870JAB4
2020	9,240,000	4.000%	1.250%	108.320	70870JAC2
2021	9,620,000	4.000%	1.410%	110.268	70870JAD0
2022	10,010,000	4.000%	1.600%	111.695	70870JAE8
2023	10,475,000	5.000%	1.780%	118.517	70870JAF5
2024	11,010,000	5.000%	1.970%	119.968	70870JAG3
2025	9,145,000	5.000%	2.170%	120.902	70870JAH1
2025	2,395,000	2.125%	2.170%	99.666	70870JAJ7
2026	12,095,000	5.000%	2.340%	121.674	70870JAK4
2027	12,715,000	5.000%	2.490%	122.279	70870JAL2
2028	13,370,000	5.000%	2.650%**	120.692	70870JAM0
2029	14,055,000	5.000%	2.760%**	119.615	70870JAN8
2030	14,775,000	5.000%	2.830%**	118.935	70870JAP3
2031	7,960,000	5.000%	2.890%**	118.357	70870JAQ1
2031	7,500,000	3.125%	3.330%	97.706	70870JAR9
2032	11,140,000	5.000%	2.960%**	117.686	70870JAS7
2032	5,000,000	3.375%	3.430%	99.353	70870JAT5
2033	16,785,000	3.375%	3.520%	98.227	70870JAU2
2034	17,415,000	4.000%	3.440%**	104.739	70870JAV0
2035	18,130,000	4.000%	3.500%**	104.218	70870JAW8
2036	18,870,000	4.000%	3.560%**	103.701	70870JAX6
2037	19,640,000	4.000%	3.600%**	103.357	70870JAY4

\$110,890,000 4.00% Term Bond Due November 15, 2042 – Priced at 102.251 to Yield 3.730%** CUSIP* 70870JAZ1

\$57,100,000 4.00% Term Bond Due November 15, 2047 – Priced at 101.660 to Yield 3.800%** CUSIP* 70870JBA5

\$100,000,000* UPMC REVENUE BONDS, SERIES 2017B (FEDERALLY TAXABLE)
MATURITIES, PRINCIPAL AMOUNTS, COUPONS, PRICES, YIELDS AND CUSIPS
\$100,000,000 2017B Serial Bonds

<u>Maturity</u> <u>(November 15)</u>	<u>Principal</u> <u>Amount</u>	<u>Coupon</u>	<u>Yield</u>	<u>Price</u>	<u>CUSIP*</u>
2018	\$ 1,905,000	1.680%	1.680%	100.000	70870JBB3
2019	2,220,000	1.917%	1.917%	100.000	70870JBC1
2020	2,260,000	2.153%	2.153%	100.000	70870JBD9
2021	2,310,000	2.352%	2.352%	100.000	70870JBE7
2022	2,360,000	2.552%	2.552%	100.000	70870JBF4
2023	2,420,000	2.731%	2.731%	100.000	70870JBG2
2024	2,485,000	2.981%	2.981%	100.000	70870JBH0
2025	2,555,000	3.051%	3.051%	100.000	70870JBJ6
2026	2,630,000	3.151%	3.151%	100.000	70870JBK3
2027	78,855,000	3.201%	3.201%	100.000	70870JBL1

*The CUSIP (Committee on Uniform Securities Identification Procedures) numbers have been assigned by an organization not affiliated with the Authority, the Corporation or the Underwriters, and such parties are not responsible for the selection or use of the CUSIP numbers. The CUSIP numbers are included solely for the convenience of bondholders and no representation is made as to the correctness of such CUSIP numbers. CUSIP numbers assigned to securities may be changed during the term of such securities based on a number of factors including, but not limited to, the refunding or defeasance of such issue or the use of secondary market financial products. Neither the Authority, the Corporation nor the Underwriters have agreed to, and there is no duty or obligation, to update this Official Statement to reflect any change or correction in the CUSIP numbers set forth above.

**Yield to first call date.

REGARDING USE OF THIS OFFICIAL STATEMENT

The information set forth herein under the caption “PENNSYLVANIA ECONOMIC DEVELOPMENT FINANCING AUTHORITY” and “LITIGATION – The Authority” has been provided by the Authority. The information set forth herein under the caption “BOOK-ENTRY ONLY SYSTEM” has been furnished by The Depository Trust Company. All other information set forth herein has been provided by the Corporation or obtained from other sources identified herein that are believed to be reliable. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances create any implication that there has been no change in the affairs of the Authority, The Depository Trust Company, the Corporation, the Subsidiary Hospitals (as defined herein) or any other entity referred to or described herein since the date hereof or the date as of which particular information is given, if earlier. No dealer, broker, salesperson or other person has been authorized to give any information or to make any representation other than those contained herein and, if given or made, such other information or representations should not be relied upon and in any case must not be relied upon as having been authorized by the Authority, the Underwriters, the Corporation or any other person. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the 2017 Bonds by any person in any jurisdiction in which it is unlawful for such person to make such an offer, solicitation or sale. This Official Statement is not to be construed as a contract or agreement between the Authority, the Corporation or the Underwriters and the purchasers or owners of any 2017 Bonds.

Upon issuance the 2017 Bonds will not be registered under the Securities Act of 1933, as amended, nor will the Bond Indenture and the Master Indenture be qualified under the Trust Indenture Act of 1939, as amended, in reliance upon exemptions contained in such acts. The registration or qualification of the 2017 Bonds in accordance with applicable provisions of securities laws of the states in which the 2017 Bonds have been registered or qualified and the exemption from registration or qualification in other states cannot be regarded as a recommendation thereof. Neither these states nor any of their agencies nor the Securities and Exchange Commission have passed upon the merits of the 2017 Bonds or the accuracy or completeness of this Official Statement. Any representation to the contrary may be a criminal offense.

The Underwriters (who have provided this sentence for inclusion herein) have reviewed the information in this Official Statement in accordance with, and as a part of, their responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information.

In connection with the offering of the 2017 Bonds, the Underwriters may over allot or effect transactions which stabilize or maintain the market price of the 2017 Bonds at a level above that which might otherwise prevail in the open market. Such stabilizing, if commenced, may be discontinued at any time, without prior notice.

The 2017 Bonds may be offered and sold to certain dealers (including dealers depositing the 2017 Bonds into investment accounts) and to others at prices lower than the public offering prices and said public offering prices may be changed from time to time by the Underwriters without prior notice to the public, but with prior notice to the Authority and the Corporation.

The order and placement of materials in this Official Statement, including the appendices, are not to be deemed to be a determination of relevance, materiality or importance, and this Official Statement, including the appendices, must be considered in its entirety. The offering of the 2017 Bonds is made only by means of this Official Statement.

This Official Statement speaks only as of the date printed on the cover page hereof. The information contained herein is subject to change. The Official Statement will be made available through the Electronic Municipal Market Access System (EMMA), a service of the Municipal Securities Rulemaking Board (MSRB), now the only nationally recognized municipal securities information repository.

Cautionary Statements Regarding Forward-Looking Statements in this Official Statement. Certain statements included or incorporated by reference in this Official Statement constitute “forward-looking statements” within the meaning of certain federal securities statutes including the Private Securities Litigation Reform Act of 1995, Section 21E of the Securities Exchange Act of 1934, as amended, and Section 27A of the Securities Act of 1933. Such statements are generally identifiable by the terminology used such as “plan,” “expect,” “estimate,” “budget” or other similar words. **THE ACHIEVEMENT OF CERTAIN RESULTS OR OTHER EXPECTATIONS CONTAINED IN SUCH FORWARD-LOOKING STATEMENTS DEPENDS, AMONG OTHER THINGS, ON KNOWN AND UNKNOWN RISKS, UNCERTAINTIES AND OTHER FACTORS WHICH MAY CAUSE ACTUAL RESULTS, PERFORMANCE OR ACHIEVEMENTS TO BE MATERIALLY DIFFERENT FROM ANY ANTICIPATED FUTURE RESULTS, PERFORMANCE OR ACHIEVEMENTS EXPRESSED OR IMPLIED BY SUCH FORWARD-LOOKING STATEMENTS. THE CORPORATION DOES NOT PLAN TO ISSUE ANY UPDATES OR REVISIONS TO THOSE FORWARD-LOOKING STATEMENTS IF OR WHEN CHANGES IN ITS EXPECTATIONS, OR EVENTS, CONDITIONS OR CIRCUMSTANCES ON WHICH SUCH STATEMENTS ARE BASED, OCCUR.**

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OFFICIAL STATEMENT

\$536,745,000

PENNSYLVANIA ECONOMIC DEVELOPMENT FINANCING AUTHORITY

UPMC REVENUE BONDS, SERIES 2017

consisting of

\$436,745,000 UPMC REVENUE BONDS, SERIES 2017A AND

\$100,000,000 UPMC REVENUE BONDS, SERIES 2017B (FEDERALLY TAXABLE)

INTRODUCTION

This Introduction is qualified in all respects by reference to the more detailed information set forth in this Official Statement. The descriptions and summaries of various documents hereinafter set forth do not purport to be comprehensive or definitive, and reference is made to each such document for the complete details of all terms and conditions. All statements herein regarding any such document are qualified by reference to each such document in its entirety. See APPENDIX C for the definitions of certain capitalized terms used herein. Each of the Appendices hereto is an integral part of this Official Statement and should be read in its entirety.

Purpose of the Official Statement

The purpose of this Official Statement, including the cover page hereof and Appendices hereto (the “**Official Statement**”), is to provide certain information with respect to the issuance, sale and delivery by the Pennsylvania Economic Development Financing Authority (the “**Authority**”) of its \$536,745,000 aggregate principal amount, UPMC Revenue Bonds, Series 2017 consisting of \$436,745,000, aggregate principal amount, UPMC Revenue Bonds, Series 2017A (the “**2017A Bonds**”), and \$100,000,000, aggregate principal amount, Series 2017B (Federally Taxable) (the “**2017B Bonds**”; together with the 2017A Bonds, sometimes hereinafter referred to, collectively, as the “**2017 Bonds**”).

Authority for Issuance

The Authority is a public instrumentality and body corporate and politic of the Commonwealth of Pennsylvania (the “**Commonwealth**”), created pursuant to the Pennsylvania Economic Development Financing Law, Act No. 102, approved August 23, 1967, P.L. 251, as amended, including the amendments effected by Act No. 48, approved July 10, 1987, P.L. 273, Act No. 74, December 17, 1993, P.L. 490 and Act No. 44, July 2, 2013 (the “**PEDFA Law**”) to provide financing for qualifying projects in the Commonwealth.

The 2017 Bonds are authorized to be issued pursuant to the PEDFA Law and a resolution adopted by the Board of the Authority on July 19, 2017 (the “**Authorizing Resolution**”).

Purpose of the Issue

General. The 2017 Bonds will be issued under and secured by a Trust Indenture, dated as of October 1, 2017 (the “**Bond Indenture**”), by and between the Authority and The Bank of New York Mellon Trust Company, N.A., as trustee (the “**Bond Trustee**”). Proceeds of the 2017 Bonds will be loaned by the Authority to UPMC, a Pennsylvania nonprofit corporation (the “**Corporation**” or “**UPMC**”), pursuant to a Loan Agreement, dated as of October 1, 2017 (the “**Loan Agreement**”), by and between the Authority and the Corporation.

Series 2017A Bonds. The proceeds of the 2017A Bonds, together with other available funds, will be applied to: (a) pay the costs of the construction, acquisition and installation of various capital improvements to be located at the healthcare and related facilities or portions thereof owned and/or operated by UPMC and its Subsidiary Hospitals (hereinafter defined), at locations in the Commonwealth of Pennsylvania (the “**2017A Capital Project**”); (b) refund certain outstanding federally tax-exempt and federally taxable indebtedness including all or portions of (i) the outstanding Erie County Hospital Authority Revenue Bonds, Series 2007 (Hamot Health Foundation), (ii) the outstanding Chartiers Valley Industrial Commercial Development Authority First Mortgage Revenue Bonds, Series 2006 (Asbury Health Center Project), and (iii) the outstanding Allegheny County Industrial Development Authority Tax Exempt Revenue Note, Series 2012A (Asbury Health Center), Tax Exempt Revenue Note, Series 2012B (Asbury Place), Tax Exempt Revenue Note, Series 2012C (Asbury Villas), and Tax Exempt Revenue Note, Series 2012D (Wesley Hills) (the “**2017A Refunding**”), and (c) payment of the costs associated with the issuance of the 2017A Bonds (together with (a) and (b), collectively the “**2017A Project**”). See “PLAN OF FINANCING” and “ESTIMATED SOURCES AND USES OF FUNDS”, herein.

Series 2017B Bonds. The proceeds of the 2017B Bonds will be applied to: (a) refund other tax-exempt and taxable indebtedness of UPMC and/or its affiliates, including indebtedness incurred by UPMC Pinnacle, formerly known as Pinnacle Health System (“**Pinnacle**”), in the form of a loan from Wells Fargo Bank, National Association, the senior managing underwriter for the Series 2017B Bonds, to acquire four central Pennsylvania hospitals (the “**2017B Refunding**”), and (b) payment of the costs associated with the issuance of the 2017B Bonds (together with 2017B Refunding, the “**2017B Project**”). On September 1, 2017, the Corporation and Pinnacle closed on a binding integration and affiliation agreement pursuant to which UPMC has acquired Pinnacle Health System. See “APPENDIX A – About UPMC – Business Affiliation Agreements – PinnacleHealth” and “APPENDIX E – Certain Financial and Operating Information of Pinnacle Health System”.

The Corporation and the System

The Corporation is a Pennsylvania nonprofit corporation which was established in 1982 exclusively for charitable, educational and scientific purposes and is exempt from federal income taxation under Section 501(a) of the Internal Revenue Code of 1986, as amended (the “**Code**”), as an organization described in Section 501(c)(3) of the Code. The Corporation is a supporting organization pursuant to Section 509(a)(3) of the Code with respect to its affiliated exempt hospitals and with respect to the University of Pittsburgh, of the Commonwealth System of Higher Education (the “**University**”). The Corporation is the parent corporation of its Subsidiary Hospitals (as defined below) and numerous other owned and controlled entities (collectively, the “**System**”). The System is the largest health care system in Pennsylvania and operates primarily in western Pennsylvania, while providing specialized services to patients from throughout the United States and the world.

In addition to the acquisition of Pinnacle Health System, on September 1, 2017, the Corporation completed its acquisition of Asbury Heights, a Pittsburgh area long-term care provider.

The System includes: UPMC; twenty-two hospitals in western Pennsylvania, *i.e.*, Children’s Hospital of Pittsburgh of UPMC (“**Children’s**”), Kane Community Hospital, Magee-Womens Hospital of UPMC, UPMC Altoona, UPMC Bedford Memorial, UPMC East, UPMC Hamot, UPMC Horizon (two hospitals), UPMC Jameson, UPMC McKeesport, UPMC Mercy, UPMC Northwest (two hospitals), UPMC Passavant (two hospitals), UPMC Presbyterian Shadyside (five hospitals), UPMC St. Margaret, fifteen hospitals in central Pennsylvania, *i.e.*, UPMC Pinnacle (nine hospitals) and UPMC Susquehanna (six hospitals) and two hospitals outside Pennsylvania (each a “**Subsidiary Hospital**” and collectively, the “**Subsidiary Hospitals**”); and a number of other corporations more fully described in APPENDIX A.

The Corporation, UPMC Presbyterian Shadyside, Magee-Womens Hospital of UPMC, UPMC Passavant and UPMC St. Margaret are the current members of an obligated group under the Master Indenture (defined below).

The Authority

The Authority was created pursuant to the PEDFA Law and is a body politic and corporate, constituting a public instrumentality of the Commonwealth. See “PENNSYLVANIA ECONOMIC DEVELOPMENT FINANCING AUTHORITY” herein for certain information concerning the Authority.

Sources of Payment and Security for the 2017 Bonds

The 2017 Bonds are limited obligations of the Authority, payable solely from the Trust Estate created under the Bond Indenture which consists principally of payments to be made by the Corporation under the Loan Agreement. Under the Loan Agreement, the Corporation is obligated to make loan payments which have been scheduled to be sufficient to pay, *inter alia*, the principal of and interest on the 2017 Bonds, when due, and certain other obligations. The payment obligations of the Corporation under the Loan Agreement with respect to the 2017 Bonds will be secured by the issuance of a promissory note in an amount equal to the aggregate principal amount of the 2017 Bonds (the “**2017 MTI Note**”).

The 2017 MTI Note shall be issued pursuant to a Master Trust Indenture, dated as of May 1, 2007, as previously supplemented and as supplemented by a Supplemental Master Trust Indenture No. 30, dated as of October 1, 2017 (collectively, the “**Master Indenture**”), between the Corporation, on behalf of itself and as Obligated Group Agent, as defined therein, and The Bank of New York Mellon Trust Company, N.A., as master trustee thereunder. The Corporation, UPMC Presbyterian Shadyside, Magee-Womens Hospital of UPMC, UPMC Passavant and UPMC St. Margaret constitute the current Members of the obligated group under the Master Indenture (such obligated group of Members, together with any future Members of such obligated group, is hereafter generally referred to herein as the “**Obligated Group**” and occasionally individually as “**Member**”, and collectively as “**Members**”). The 2017 MTI Note shall be an obligation of the Obligated Group, issued in favor of the Authority, assigned to the Bond Trustee and secured by a lien upon the gross revenues of the Obligated Group (“**Gross Revenues**”). See “SOURCES OF PAYMENT AND SECURITY FOR THE 2017 BONDS” herein.

See APPENDIX C hereto for summaries of certain provisions of the Master Indenture, including the definition of Gross Revenues.

The 2017 MTI Note is being issued on a parity basis with certain other outstanding indebtedness of the Corporation (and other Members of the Obligated Group). See “SOURCES OF PAYMENT AND SECURITY FOR THE 2017 BONDS” herein.

Limited Nature of Obligations

THE 2017 BONDS ARE LIMITED OBLIGATIONS OF THE AUTHORITY, PAYABLE SOLELY FROM THE TRUST ESTATE. NEITHER THE COMMONWEALTH OF PENNSYLVANIA NOR ANY POLITICAL SUBDIVISION THEREOF IS OBLIGATED TO PAY THE PRINCIPAL OR REDEMPTION PRICE OF OR THE INTEREST ON THE 2017 BONDS, AND NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE COMMONWEALTH OF PENNSYLVANIA OR ANY POLITICAL SUBDIVISION THEREOF IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OR REDEMPTION PRICE OF OR INTEREST ON THE 2017 BONDS. THE AUTHORITY HAS NO TAXING POWER.

THE 2017 BONDS

General Description

The 2017 Bonds are scheduled to mature on the dates and in the principal amounts set forth on the inside front cover page of this Official Statement. The 2017 Bonds are issuable only as fully registered bonds without coupons in denominations of \$5,000 and any integral multiple thereof. The 2017 Bonds will bear interest (computed on the basis of a 360-day year with twelve 30-day months) at the rates set forth on the inside front cover page of this Official Statement. Interest on the 2017 Bonds will be payable on May 15 and November 15 of each year, commencing May 15, 2018 (each an “**Interest Payment Date**”). Interest on each 2017 Bond shall accrue from the Interest Payment Date which immediately precedes the date of authentication unless (1) such 2017 Bond is authenticated as of an Interest Payment Date, in which event it will bear interest from such Interest Payment Date, (2) such 2017 Bond is authenticated on or prior to May 15, 2018, in which event it will bear interest from the date of issuance and delivery of the 2017 Bonds, or (3) interest on the 2017 Bonds shall be in default, in which event such 2017 Bond will bear interest thereon from the date on which interest thereon was last paid or provided for.

Subject to the provisions described under “BOOK-ENTRY ONLY SYSTEM” below, the principal or redemption price of the 2017 Bonds is payable upon presentation and surrender thereof at the designated corporate trust office of the Bond Trustee as the same shall become due and payable. Interest will be paid by check mailed on each Interest Payment Date to the persons appearing as registered owners on the registration books (the “**Bond Register**”) kept by the Bond Trustee on each Regular Record Date, which is the first (1st) day of each month (whether or not such day is a Business Day) containing an Interest Payment Date; provided, however, that if funds on an Interest Payment Date are insufficient to pay the interest then due, any defaulted interest will cease to be payable to the registered owner as of the relevant Regular Record Date but will instead be payable on a special interest payment date established by the Bond Trustee for payment of such defaulted interest when sufficient funds are available to the registered owners as of a Special Record Date established by the Bond Trustee in accordance with the provisions of the Bond Indenture. Upon written request to the Bond Trustee on file at least one Business Day prior to a Regular Record Date, registered owners of one million dollars (\$1,000,000) or more in aggregate principal amount of 2017 Bonds may elect to receive payments of interest by wire transfer to a designated account of a member bank of the Federal Reserve System commencing on the first Interest Payment Date following such Regular Record Date or in such other manner as is agreed upon between the registered owner and the Bond Trustee.

So long as The Depository Trust Company (“**DTC**”), New York, New York, or its nominee, Cede & Co., is the registered owner of the 2017 Bonds, payments of the principal or redemption price of and interest on the 2017 Bonds will be made by the Bond Trustee directly to Cede & Co. Disbursements of such payments to the DTC Participants (as hereinafter defined) is the responsibility of DTC. Disbursement of such payments to the owners of beneficial interests in the 2017 Bonds is the responsibility of the DTC Participants and the Indirect Participants (as hereinafter defined). See “BOOK-ENTRY ONLY SYSTEM” below.

Delivery of Certificates; Registered Owners

Subject to the provisions described under “BOOK-ENTRY ONLY SYSTEM” below, bond certificates in fully registered form may be delivered to, and registered in the names of the Bondholders, in authorized denominations. The ownership of the 2017 Bonds so delivered (and any 2017 Bonds thereafter delivered upon a transfer or exchange described below) shall be registered in the Bond Register to be kept by the Bond Trustee at its designated corporate trust office, and the Authority, the Corporation, and the Bond Trustee shall be entitled to treat the registered owners of such 2017 Bonds, as their names appear in

such Bond Register as of the appropriate dates, as the owners thereof for all purposes described herein and in the Bond Indenture.

Transfers and Exchanges

Subject to the provisions described under “BOOK-ENTRY ONLY SYSTEM” below, a 2017 Bond may be transferred only upon surrender thereof to the Bond Trustee. Such 2017 Bond must be accompanied by a satisfactory written instrument of transfer duly executed by the registered owner or a duly appointed attorney. Upon surrender of any 2017 Bonds to be transferred or exchanged, the Bond Trustee shall record the transfer or exchange in its Bond Register and shall authenticate and deliver new 2017 Bonds of the same maturity appropriately registered and in appropriate authorized denominations. The Bond Trustee shall not be required to effect or register any transfer or exchange of any 2017 Bond between the Record Date and the related Interest Payment Date or during a period beginning at the opening of business 15 days before the date of mailing of notice of redemption of 2017 Bonds selected for redemption and ending at the close of business on the day of such mailing or for any 2017 Bonds so selected for redemption in whole or in part, except that 2017 Bonds properly surrendered for partial redemption may be exchanged for new 2017 Bonds in authorized denominations equal in the aggregate to the unredeemed portion. No transfer or exchange made other than as described above and in the Bond Indenture shall be valid or effective for any purpose under the Bond Indenture. No charge will be imposed in connection with any transfer or exchange, except for taxes or governmental charges related thereto.

Redemption of the 2017 Bonds

Mandatory Sinking Fund Redemption. The 2017A Bonds include term bonds, maturing November 15 of the years 2042 and 2047 (as set forth on the inside cover hereof) (“***2017A Term Bonds***”). The 2017A Term Bonds are subject to mandatory sinking fund redemption prior to maturity, on November 15 of the years and in the principal amounts set forth below, at a redemption price equal to 100% of the principal amount thereof, plus accrued interest to the redemption date.

\$110,890,000 4.00% 2017A Term Bond due November 15, 2042

<u>Year</u>	<u>Amount</u>
2038	\$20,440,000
2039	\$21,275,000
2040	\$22,145,000
2041	\$23,045,000
2042*	\$23,985,000

*By Maturity

\$57,100,000 4.00% 2017A Term Bond due November 15, 2047

<u>Year</u>	<u>Amount</u>
2043	\$10,525,000
2044	\$10,955,000
2045	\$11,400,000
2046	\$11,870,000
2047*	\$12,350,000

*By Maturity

Optional Redemption.

2017A Bonds Par Call. The 2017A Bonds maturing November 15, 2028, and thereafter, are subject to optional redemption prior to maturity, in whole at any time or in part from time to time at the written request of the Corporation, on and after November 15, 2027, at a redemption price equal to 100% of the principal amount thereof, plus accrued interest to the redemption date.

2017B Bonds Make-Whole Call. The 2017B Bonds are subject to optional redemption prior to maturity from any source, in whole or in part, on any business day (each, a “*Redemption Date*”), at the Redemption Price plus accrued interest to, but excluding, the Redemption Date.

“*Redemption Price*” means with respect to (A) an optional redemption of the 2017B Bonds maturing on November 15 of the years 2018 through 2026, the price equal to the Make-Whole Redemption Price and (B) an optional redemption of the 2017B Bonds maturing November 15, 2027, the price equal to (i) prior to May 15, 2027, the Make-Whole Redemption Price, and (ii) on or after May 15, 2027, 100% of the aggregate principal amount of the 2017B Bonds being redeemed, in each case including interest accrued to, but excluding, the Redemption Date.

“*Make-Whole Redemption Price*” means an amount equal to the greater of:

- (1) 100% of the principal amount of the 2017B Bonds, or portion thereof, being redeemed; and
- (2) the sum of the present values of the remaining scheduled payments of principal of and interest on the 2017B Bonds, or portion thereof, being redeemed (exclusive of interest accrued and unpaid as of the Redemption Date), discounted to the Redemption Date on a semiannual basis (assuming a 360-day year consisting of twelve 30-day months) at the Treasury Rate plus fifteen (15) basis points.

“*Comparable Treasury Issue*” means the United States Treasury security or securities selected by a Designated Investment Banker as having an actual or interpolated maturity comparable to the remaining term of the 2017B Bonds to be redeemed that would be utilized, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities of comparable maturity to the remaining term of such 2017B Bonds.

“*Comparable Treasury Price*” means, with respect to any Redemption Date, the average of the Reference Treasury Dealer Quotations for such Redemption Date or, if the Designated Investment Banker obtains only one Reference Treasury Dealer Quotation, such Reference Treasury Dealer Quotation.

“Designated Investment Banker” means one of the Reference Treasury Dealers appointed by the Corporation.

“Reference Treasury Dealer” means Wells Fargo Bank, N.A., or its affiliates which are primary U.S. government securities dealers, and their respective successors; provided that if Wells Fargo Bank, N.A. or its affiliates shall cease to be a primary U.S. government securities dealer (a “Primary Treasury Dealer”), the Corporation shall substitute therefor another Primary Treasury Dealer; provided, further, that the Corporation may, at its option, substitute another Primary Treasury Dealer for Wells Fargo Bank, N.A. or its affiliates.

“Reference Treasury Dealer Quotations” means, with respect to each Reference Treasury Dealer and any Redemption Date, the average, as determined by the Designated Investment Banker, of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) quoted in writing to the Designated Investment Banker by such Reference Treasury Dealer at 3:30 P.M., New York City time, on the third Business Day preceding such Redemption Date.

“Treasury Rate” means, with respect to any Redemption Date, the rate per annum equal to the semiannual equivalent yield to maturity or interpolated (on a day count basis) of the Comparable Treasury Issue, assuming a price for the Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the Comparable Treasury Price for such Redemption Date.

At the request of the Bond Trustee to the Corporation, the Redemption Price of the 2017B Bonds to be redeemed will be determined by an independent accounting firm, investment banking firm or financial advisor retained by the Corporation at the Corporation’s expense to calculate such Redemption Price. The Trust Agreement provides that the Bond Trustee and UPMC may conclusively rely on the determination of such Redemption Price by such independent accounting firm, investment banking firm or financial advisor and shall not be liable for such reliance.

Notice of Redemption. Notice of any redemption shall be given at least 30 days and not more than 60 days prior to the redemption date by mailing by first class mail a notice to the registered owners of the 2017 Bonds to be redeemed as provided in the Bond Indenture, but failure to mail any such notice and any defect in any such notice or the mailing thereof, as it affects any particular 2017 Bond, shall not affect the validity of the proceedings for such redemption of any other 2017 Bond. If the Authority deposits funds (as more fully described in the Bond Indenture) with the Bond Trustee sufficient to pay the redemption price of any 2017 Bonds, together with interest accrued to the redemption date, as provided in and limited by the terms of the Bond Indenture, interest on such 2017 Bonds will cease to accrue on the redemption date and thereafter such 2017 Bonds will be payable as to principal and interest only from funds so deposited and shall not be deemed to be outstanding under the provisions of the Bond Indenture.

If at the time of mailing of any notice of optional redemption, the Authority shall not have deposited with the Bond Trustee monies sufficient to redeem all the 2017 Bonds called for redemption, such notice shall state that it is subject to the deposit of such monies with the Bond Trustee not later than the opening of business on the redemption date and shall be of no effect unless such monies are so deposited.

So long as DTC or its nominee is the registered owner of the 2017 Bonds, any failure on the part of DTC or failure on the part of a nominee of a beneficial owner (having received notice from a DTC Participant or otherwise) to notify the beneficial owner affected by any redemption of such redemption shall not affect the validity of the redemption. So long as DTC or its nominee is the registered owner of the 2017 Bonds, if less than all of the 2017 Bonds of any one maturity shall be called for redemption, the particular 2017 Bonds or portions of 2017 Bonds of such maturity to be redeemed shall be selected by lot by DTC, the DTC Participants and Indirect Participants in such manner as they may determine.

Selection of 2017 Bonds for Partial Redemption. In the event of a redemption of less than all of the 2017 Bonds or less than all of the 2017 Bonds of any maturity, the 2017 Bonds to be redeemed shall be selected by the Trustee by lot in a manner which the Trustee, in its sole discretion, deems appropriate and fair. Notwithstanding the foregoing, in the case of the optional redemption of less than all of the 2017 Bonds at the request of the Corporation, the Corporation shall select the order of maturity and principal amount within a maturity in which the 2017 Bonds are to be redeemed and the particular 2017 Bonds to be redeemed within such maturity shall be selected by the Trustee by lot in a manner determined by the Trustee.

Effect of Redemption. On the redemption date, provided the Bond Trustee is holding funds sufficient to pay the redemption price (including interest accrued to the redemption date) of the 2017 Bonds to be redeemed on such redemption date, interest on the 2017 Bonds (or portions thereof) duly called for redemption shall cease to accrue, such 2017 Bonds (or portions thereof) shall cease to be entitled to any benefit or security under the Bond Indenture, and the Owners of 2017 Bonds shall have no rights in respect thereof except to receive payment of such redemption price and interest accrued to the redemption date; provided, that, if the Bond Trustee shall not have the funds in its possession on the redemption date sufficient to pay the redemption price of all of the 2017 Bonds to be so redeemed (including accrued interest), for any reason (including, but not limited to, failure to issue any refunding obligations intended for such purpose on or prior to the redemption date), then, in any such case, the purported redemption shall be void and any notice thereof shall be void and such occurrence shall not constitute a default or Event of Default.

Cancellation of Redemption. If the Corporation shall have delivered to the Bond Trustee no later than the fifth Business Day prior to the redemption date for any 2017A Bonds scheduled for optional redemption, written notice of its decision to cancel its prior request for redemption, then the purported redemption shall be canceled and any prior notice thereof shall be void. Within one Business Day after receipt of such cancellation notice with respect to any 2017A Bonds, the Bond Trustee is required to give or cause to be given written notice of such cancellation to the Authority and to each Rating Agency, and if the Book-Entry Only System is still in effect, to DTC as the Owner of the 2017A Bonds to be redeemed, for the benefit of the Beneficial Owners thereof, and from and after discontinuance of the use of the Book-Entry Only System, to the Authority and to each Rating Agency and the respective Owners of any 2017A Bonds which were to have been redeemed. Such notice shall be given by the Bond Trustee, at the expense of the Corporation, by first-class mail, postage prepaid; provided, however, that such notice of cancellation shall be effective to cancel such redemption whether or not it is received by DTC, any Rating Agency or such Owners, as applicable, and such occurrence shall not constitute a default or Event of Default. See “BOOK-ENTRY ONLY SYSTEM” herein.

Optional Purchase in Lieu of Redemption. In lieu of redemption, the Corporation has the option to purchase, at any time and from time to time, any 2017A Bond which is subject to optional redemption at a purchase price equal to the redemption price therefor. To exercise such option, the Corporation shall give the Bond Trustee a written request exercising such option and the Bond Trustee shall thereupon give the Authority and the holders of the 2017A Bonds to be purchased a notice of such purchase as though such purchase were a redemption and the purchase of such 2017A Bonds shall be mandatory and enforceable against the holders. On the date fixed for purchase pursuant to any exercise of such option, the Corporation shall pay the purchase price of the 2017A Bonds then being purchased to the Bond Trustee in immediately available funds, and the Bond Trustee shall pay the same to the sellers of such 2017A Bonds against delivery thereof. In the case of the purchase of less than all of the 2017A Bonds, the particular 2017A Bonds to be purchased shall be selected in accordance with the Bond Indenture.

BOOK-ENTRY ONLY SYSTEM

THE INFORMATION PROVIDED UNDER THIS CAPTION CONCERNING DTC AND DTC's BOOK-ENTRY SYSTEM HAS BEEN PROVIDED BY DTC. NO REPRESENTATION IS MADE BY THE AUTHORITY, THE CORPORATION OR THE UNDERWRITERS AS TO THE ACCURACY OR ADEQUACY OF SUCH INFORMATION PROVIDED BY DTC OR AS TO THE ABSENCE OF MATERIAL ADVERSE CHANGES IN SUCH INFORMATION SUBSEQUENT TO THE DATE HEREOF.

The Depository Trust Company ("**DTC**"), New York, New York, will act as securities depository for the 2017 Bonds. The 2017 Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered 2017 Bond certificate will be issued for each maturity of the 2017 Bonds set forth on the inside front cover page of this Official Statement, each in the aggregate principal amount of such maturity and will be deposited with DTC.

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC participants ("**Direct Participants**") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("**DTCC**"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("**Indirect Participants**"). DTC has a Standard & Poor's rating of AA+. The DTC rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchases of the 2017 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the 2017 Bonds on DTC's records. The ownership interest of each actual purchaser of each 2017 Bond ("**Beneficial Owner**") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the 2017 Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the 2017 Bonds, except in the event that use of the book-entry only system for the 2017 Bonds is discontinued.

To facilitate subsequent transfers, all 2017 Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested

by an authorized representative of DTC. The deposit of 2017 Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the 2017 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such 2017 Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of 2017 Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the 2017 Bonds, such as redemptions, tenders, defaults, and proposed amendments to the 2017 Bond documents. For example, Beneficial Owners of 2017 Bonds may wish to ascertain that the nominee holding the 2017 Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of the notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the 2017 Bonds within a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to 2017 Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Authority as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the 2017 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Payments of principal of and interest on the 2017 Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts, upon DTC's receipt of funds and corresponding detail information from the Bond Trustee on the payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Bond Trustee, the Authority or the Corporation, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Bond Trustee; disbursement of such payments to Direct Participants will be the responsibility of DTC and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the 2017 Bonds at any time by giving reasonable notice to the Authority or the Bond Trustee. Under such circumstances, in the event that a successor securities depository is not appointed, 2017 Bond certificates are required to be printed and delivered in accordance with the Bond Indenture.

The Authority may, at the written request of the Corporation, decide to discontinue use of the system of book-entry-only transfers through DTC (or successor securities depository). In that event 2017 Bond certificates will be printed and delivered to DTC.

The information set forth hereinabove in this section concerning DTC and DTC's book-entry system has been obtained from DTC, and the Authority and Corporation take no responsibility for the accuracy thereof.

NEITHER THE AUTHORITY NOR THE BOND TRUSTEE NOR THE CORPORATION WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO PARTICIPANTS, BENEFICIAL OWNERS OR OTHER NOMINEES OF SUCH BENEFICIAL OWNERS FOR (1) SENDING TRANSACTION STATEMENTS; (2) MAINTAINING, SUPERVISING OR REVIEWING, OR THE ACCURACY OF, ANY RECORDS MAINTAINED BY DTC OR ANY PARTICIPANT OR OTHER NOMINEES OF SUCH BENEFICIAL OWNERS; (3) PAYMENT OR THE TIMELINESS OF PAYMENT BY DTC TO ANY PARTICIPANT, OR BY ANY PARTICIPANT OR OTHER NOMINEES OF BENEFICIAL OWNERS TO ANY BENEFICIAL OWNER, OF ANY AMOUNT DUE IN RESPECT OF THE PRINCIPAL OF OR REDEMPTION PREMIUM, IF ANY, OR INTEREST ON BOOK-ENTRY BONDS; (4) DELIVERY OR TIMELY DELIVERY BY DTC TO ANY PARTICIPANT, OR BY ANY PARTICIPANT OR OTHER NOMINEES OF BENEFICIAL OWNERS TO ANY BENEFICIAL OWNERS, OF ANY NOTICE (INCLUDING NOTICE OF REDEMPTION) OR OTHER COMMUNICATION WHICH IS REQUIRED OR PERMITTED UNDER THE TERMS OF THE BOND INDENTURE TO BE GIVEN HOLDERS OR OWNERS OF BOOK-ENTRY BONDS; (5) THE SELECTION OF THE BENEFICIAL OWNERS TO RECEIVE PAYMENT IN THE EVENT OF ANY PARTIAL REDEMPTION OF BOOK-ENTRY BONDS; OR (6) ANY ACTION TAKEN BY DTC OR ITS NOMINEE AS THE REGISTERED OWNER OF BOOK-ENTRY BONDS.

SOURCES OF PAYMENT AND SECURITY FOR THE 2017 BONDS

The 2017 Bonds are limited obligations of the Authority, equally and ratably secured under the Bond Indenture, and payable solely from the Trust Estate created and pledged under the Bond Indenture. For a more detailed description of the Trust Estate, see APPENDIX C "DEFINITIONS OF TERMS AND SUMMARIES OF CERTAIN PROVISIONS OF THE PRINCIPAL DOCUMENTS" hereto. The Authority has pledged and assigned to the Bond Trustee its interest in the Trust Estate as security for the payment of the 2017 Bonds and the performance and observance of the covenants in the Bond Indenture.

In connection with the issuance of the 2017 Bonds, the Authority and the Corporation will enter into the Loan Agreement under which the Corporation will agree to make installment payments sufficient to pay, *inter alia*, the principal of, interest on, and redemption price of the 2017 Bonds as and when due.

The payment obligations of the Corporation under the Loan Agreement with respect to the 2017 Bonds will be secured by the 2017 MTI Note issued pursuant to the Master Indenture. The 2017 MTI Note shall be issued in favor of the Authority and assigned to the Bond Trustee. The 2017 MTI Note is an obligation of the Obligated Group secured by a lien upon the Gross Revenues of the Obligated Group. The Corporation, UPMC Presbyterian Shadyside, Magee-Womens Hospital of UPMC, UPMC Passavant and UPMC St. Margaret constitute the current Members of the Obligated Group under the Master Indenture.

The Loan Agreement is an obligation of the Corporation and is not an obligation of the Subsidiary Hospitals or other affiliates. The 2017 MTI Note is an obligation of the Obligated Group and is not an obligation of any Subsidiary Hospital or other affiliate that is not a Member of the Obligated Group and no such Subsidiary Hospital or other affiliate is contractually obligated to make payments on the 2017 MTI Note, the Loan Agreement or the 2017 Bonds. See APPENDIX C for a description of the Master Indenture.

The 2017 MTI Note is being issued on a parity basis with certain other indebtedness of the Obligated Group including, without limitation, notes that have been issued under the Master Indenture prior

to the date of issuance of the 2017 Bonds and notes to be issued in the future under the Master Indenture, if any.

The Corporation, its Subsidiary Hospitals and other owned and controlled entities had approximately \$3,365,735,000 in outstanding long-term debt as of June 30, 2017, on a consolidated basis.

Certain financial and operating information about Pinnacle is contained in Appendix E hereto. Appendix E includes Pinnacle's audited financial statements for the fiscal year ended June 30, 2017, and additional information regarding Pinnacle.

If moneys or obligations of the type described in the Bond Indenture sufficient to pay the principal or redemption price of any particular 2017 Bonds becoming due, either at maturity or by call for redemption or otherwise, together with all interest accruing thereon to the due date, shall have been deposited with the Bond Trustee, interest on such 2017 Bonds shall cease to accrue on the due date and all liability of the Authority and the Corporation with respect to such 2017 Bonds shall likewise cease. Thereafter such 2017 Bonds shall be deemed not to be Outstanding under the Bond Indenture and the holder or holders shall be restricted exclusively to the funds so deposited for any claim of whatsoever nature with respect to such 2017 Bonds, and the Bond Trustee shall hold such funds in trust for such holder or holders.

THE 2017 BONDS ARE LIMITED OBLIGATIONS OF THE AUTHORITY, PAYABLE SOLELY FROM THE TRUST ESTATE. NEITHER THE COMMONWEALTH OF PENNSYLVANIA NOR ANY POLITICAL SUBDIVISION THEREOF IS OBLIGATED TO PAY THE PRINCIPAL OR REDEMPTION PRICE OF OR THE INTEREST ON THE 2017 BONDS, AND NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE COMMONWEALTH OF PENNSYLVANIA OR ANY POLITICAL SUBDIVISION THEREOF IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OR REDEMPTION PRICE OF OR INTEREST ON THE 2017 BONDS. THE AUTHORITY HAS NO TAXING POWER.

THE PLAN OF FINANCING

The proceeds from the sale of the 2017A Bonds, together with other available funds, will be applied to: (i) finance the 2017A Capital Project, (ii) effect the 2017A Refunding; and (iii) pay the costs of issuance of the 2017A Bonds. The 2017A Refunding is being effected through the refunding of certain outstanding federally tax-exempt indebtedness including all or portions of (i) the outstanding Erie County Hospital Authority Revenue Bonds, Series 2007 (Hamot Health Foundation), (ii) the outstanding Chartiers Valley Industrial Commercial Development Authority First Mortgage Revenue Bonds, Series 2006 (Asbury Health Center Project), and (iii) the outstanding Allegheny County Industrial Development Authority Tax Exempt Revenue Note, Series 2012A (Asbury Health Center), Tax Exempt Revenue Note, Series 2012B (Asbury Place), Tax Exempt Revenue Note, Series 2012C (Asbury Villas), and Tax Exempt Revenue Note, Series 2012D (Wesley Hills).

The proceeds of the 2017B Bonds will be applied to: (a) effect the 2017B Refunding, and (b) pay the costs of issuance of the 2017B Bonds.

A portion of the amount deposited in the 2017 Capital Project Fund established under the Bond Indenture will be paid to the Corporation at closing, as reimbursement for costs previously paid by the Corporation.

ESTIMATED USES OF BOND PROCEEDS

	<u>2017A BONDS</u>	<u>2017B BONDS</u>
Bond Proceeds:		
Par Amount of 2017 Bonds	\$436,745,000	\$100,000,000
Plus Net Original Issue Premium	<u>32,872,728</u>	
Total Proceeds:	<u>\$469,617,728</u>	<u>\$100,000,000</u>
Uses of Bond Proceeds:		
Deposit to 2017 Capital Project Fund	\$400,000,000	\$
Deposits to Effect 2017A Refunding	65,567,981	
Deposits to Effect 2017B Refunding		99,076,416
Financing Fees and Expenses ⁽¹⁾	<u>4,049,747</u>	<u>923,584</u>
Total Uses of Proceeds:	<u>\$469,617,728</u>	<u>\$100,000,000</u>

⁽¹⁾ Includes Underwriters' discount, estimated legal and accounting fees and expenses, estimated fees and expenses of the Authority, the Bond Trustee and the Master Trustee, rating agencies' fees, printing costs and miscellaneous expenses.

ANNUAL DEBT SERVICE REQUIREMENTS FOR THE 2017 BONDS

The following table sets forth the amount required to be made available for the payment of principal of and interest on the 2017 Bonds during each fiscal year of the Corporation.*

Year Ending June 30	2017A Bonds Principal	2017A Bonds Interest	2017B Bonds Principal	2017B Bonds Interest	Total 2017 Bonds Debt Service
2018		\$10,932,138		\$1,820,735	\$12,752,873
2019	\$8,530,000	18,219,912	\$1,905,000	3,046,916	31,701,828
2020	8,880,000	17,871,712	2,220,000	3,009,636	31,981,348
2021	9,240,000	17,509,313	2,260,000	2,964,029	31,973,342
2022	9,620,000	17,132,112	2,310,000	2,912,534	31,974,646
2023	10,010,000	16,739,512	2,360,000	2,855,254	31,964,766
2024	10,475,000	16,277,437	2,420,000	2,792,096	31,964,533
2025	11,010,000	15,740,312	2,485,000	2,722,012	31,957,324
2026	11,540,000	15,210,991	2,555,000	2,645,996	31,951,987
2027	12,095,000	14,654,544	2,630,000	2,565,584	31,945,128
2028	12,715,000	14,034,294	78,855,000	1,262,074	106,866,368
2029	13,370,000	13,382,169			26,752,169
2030	14,055,000	12,696,544			26,751,544
2031	14,775,000	11,975,794			26,750,794
2032	15,460,000	11,290,231			26,750,231
2033	16,140,000	10,611,169			26,751,169
2034	16,785,000	9,965,047			26,750,047
2035	17,415,000	9,333,500			26,748,500
2036	18,130,000	8,622,600			26,752,600
2037	18,870,000	7,882,600			26,752,600
2038	19,640,000	7,112,400			26,752,400
2039	20,440,000	6,310,800			26,750,800
2040	21,275,000	5,476,500			26,751,500
2041	22,145,000	4,608,100			26,753,100
2042	23,045,000	3,704,300			26,749,300
2043	23,985,000	2,763,700			26,748,700
2044	10,525,000	2,073,500			12,598,500
2045	10,955,000	1,643,900			12,598,900
2046	11,400,000	1,196,800			12,596,800
2047	11,870,000	731,400			12,601,400
2048	12,350,000	247,000			12,597,000
Total	<u>\$436,745,000</u>	<u>\$305,950,331</u>	<u>\$100,000,000</u>	<u>\$28,596,866</u>	<u>\$871,292,197</u>

*May not total due to rounding.

THE CORPORATION

The Corporation is the parent corporation of the largest health care system in Pennsylvania and operates primarily in western Pennsylvania, while providing specialized services to patients from throughout the United States and the world. With the acquisition of Pinnacle Health System, the Corporation's operations expand to central Pennsylvania.

The Corporation is an organization described in Section 501(c)(3) of the Code, is exempt from federal income taxation under Section 501(a) of the Code, except for unrelated trade or business income, and is not a private foundation within the meaning of Section 509(a) of the Code. See APPENDICES A and B hereto for further information regarding the Corporation.

Except as disclosed herein, the Corporation believes, as of the date hereof, that there has been no material adverse change in its financial condition since June 30, 2017, which is the most recent fiscal year for which audited financial statements are available except to the extent, if any, resulting from the acquisition of Pinnacle. See "APPENDIX E – Certain Financial and Operating Information of Pinnacle Health System" annexed hereto. There can be no assurance that the financial results achieved in the future will be similar to historical results. Such future results will vary from historical results, and actual variations may be material. The historical operating results of the Corporation contained in this Official Statement cannot be taken as a representation that the Corporation will be able to generate sufficient revenues in the future to make principal and interest payments.

PENNSYLVANIA ECONOMIC DEVELOPMENT FINANCING AUTHORITY

The Authority is a public instrumentality and body corporate and politic of the Commonwealth created pursuant to the PEDFA Law, to provide financing for qualifying projects (including, without limitation, industrial facilities, commercial facilities, pollution control facilities and public facilities) in the Commonwealth. The Authority provides such financing by issuing its limited obligation revenue bonds to make loans to finance qualified projects authorized and approved by local industrial development agencies and other governmental entities. The Authority has approved the financing of the 2017 Project and authorized the issuance of the 2017 Bonds. The Authority has full power and authority to issue the 2017 Bonds and to perform its obligations under the Bond Indenture and the Loan Agreement. The PEDFA Law provides that the Commonwealth will not limit or alter the rights vested in the Authority by the PEDFA Law until the 2017 Bonds, together with the interest thereon, are fully discharged.

The Authority is governed by a Board of Directors composed of the Secretary of Community and Economic Development (who serves as Chairman), the Secretaries of Labor and Industry, Agriculture and Banking and eight members appointed by the Governor, subject to the advice and consent of the Senate of the Commonwealth, and four members appointed by the Majority Leader and the Minority Leader of both the Senate and the House of Representatives of the Commonwealth. The current Board members and their terms of office, if applicable, are as follows:*

Honorable Dennis M. Davin, Chairman
Secretary of Community and Economic Development

Nicholas S. Haden
Designated Term of Office
expires June 3, 2018

Honorable Robin L. Wiessmann
Secretary of Banking and Securities

Elizabeth Preate Havey, Esquire
Designated Term of Office expires
April 7, 2018

Honorable W. Gerard Oleskiak
Acting Secretary of Labor and Industry

Dr. Howard B. Slaughter, Jr.
Designated Term of Office
expires October 14, 2018

Honorable Russell C. Redding
Secretary of Agriculture

Franklin K. Schoeneman**
Designated Term of Office
expires December 5, 2016

Mary Soderberg

Steven S. Bradley
Designated Term of Office
expires June 3, 2018

Honorable Kim L. Ward
Senate of Pennsylvania

Fred Rinaldi, Esquire
Designated Term of Office
expires September 24, 2017

Richard E. Harper

Ronald J. Brown, Esquire

* There are currently two vacancies on the Board of Directors.

** Board members whose terms have expired continue to serve until reappointed or new members are appointed.

The staff of the Authority includes:

Stephen M. Drizos, Executive Director. Stephen M. Drizos is a veteran of the United States military. He was an officer in the Army and the Pennsylvania Army Reserve National Guard. He joined the Commonwealth on February 9, 2004 as Director of the Center for Private Financing and was appointed Executive Director of the Authority on March 10, 2004. Mr. Drizos has also been appointed to the Pennsylvania Sustainable Energy Board, the Global Competitiveness Analysis, Strategy, and Marketing Work Plan Committee for the Commonwealth. He is a member of the Pennsylvania Sustainable Infrastructure Committee for the Commonwealth as well as the Pennsylvania Energy Development Authority. He is also a past member of the Authority Advisory Group of the Municipal Securities Rulemaking Board (MSRB), which develops rules regulating securities firms and banks involved in underwriting, trading, and selling municipal securities — bonds and notes issued by states, cities and counties.

Prior to his position with the Commonwealth, Mr. Drizos gained more than 30 years of diversified business experience in various financial and operational positions, with a concentration in public finance. Some of his roles in investment banking included senior investment banker and manager of fixed income and public finance. He provided services such as investment management, cash management trading and sales of fixed income products, public finance, underwriting of tax-exempt securities and consulting. Mr. Drizos was successful in structuring and underwriting more than \$20 billion in corporate and public finance activities.

Craig Petrasic, Assistant Director, Center for Private Financing. Craig Petrasic has been with the Department of Community and Economic Development (“**DCED**”) since 1995. He currently serves as Assistant Director of the Center for Private Financing, in which capacity he assists with the day-to-day management, operations, policy analysis and development for the Authority and several other programs. Prior to serving as Assistant Director, Mr. Petrasic was a Program Manager for the Authority, an Economic

Development Analyst with the Pennsylvania Industrial Development Authority and a Legal Assistant in the Office of Chief Counsel for DCED. Mr. Petrasic received his Bachelor of Arts degree from Bloomsburg University and his Master of Arts degree in History from Indiana University of Pennsylvania.

Brian Deamer, Program Manager. Brian Deamer has been with the DCED since December 1998. He currently serves as a Program Manager for the Center for Private Financing, in which capacity he assists with the day-to-day management, operations and policy analysis and development for office programs. He previously served as a Program Analyst in the Small Business Financing Office of DCED. Mr. Deamer received his Bachelor's degree from Millersville University.

Gail Boppe, Program Manager. Gail Boppe has been with DCED since 2000. She currently serves as a Program Manager for the Center for Private Financing, in which capacity she assists with the day-to-day management, operations, policy analysis and development for the Industrial Development Authority program. Prior to serving as a Program Manager, Ms. Boppe was an Economic Development Analyst in the Small Business Financing Office and interned in the Office of International Business Development Office. Ms. Boppe received her Bachelor of Science degree from Lock Haven University.

The Authority has previously issued bonds for projects other than the 2017 Project and expects to issue additional series of bonds after the issuance of the 2017 Bonds described herein. Such prior bonds are, and such additional bonds, if issued, will be, secured under pledges of security separate from and unrelated to the pledges described herein with respect to the 2017 Bonds. The 2017 Bonds are limited obligations of the Authority as described herein. (See "SOURCES OF PAYMENT AND SECURITY FOR THE 2017 BONDS" herein.)

The Authority has not prepared or assisted in the preparation of this Official Statement except for the statements under this section captioned "PENNSYLVANIA ECONOMIC DEVELOPMENT FINANCING AUTHORITY" and the statements under the section captioned "LITIGATION – The Authority" and, except as aforesaid, the Authority is not responsible for any statements made herein, and will not participate in or otherwise be responsible for the offer, sale or distribution of the 2017 Bonds. Accordingly, except as aforesaid, the Authority disclaims responsibility for the disclosure set forth herein in connection with the offer, sale and distribution of the 2017 Bonds.

THE 2017 BONDS ARE LIMITED OBLIGATIONS OF THE AUTHORITY, PAYABLE SOLELY FROM THE TRUST ESTATE. NEITHER THE COMMONWEALTH OF PENNSYLVANIA NOR ANY POLITICAL SUBDIVISION THEREOF IS OBLIGATED TO PAY THE PRINCIPAL OR REDEMPTION PRICE OF OR THE INTEREST ON THE 2017 BONDS, AND NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE COMMONWEALTH OF PENNSYLVANIA OR ANY POLITICAL SUBDIVISION THEREOF IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OR REDEMPTION PRICE OF OR INTEREST ON THE 2017 BONDS. THE AUTHORITY HAS NO TAXING POWER.

BONDHOLDERS' RISKS

Introduction

The purchase of the 2017 Bonds involves numerous investment risks, some of which are referred to herein. No representation is made that the risks described or referred to in this Official Statement constitute all of the risks associated with investing in the 2017 Bonds. Accordingly, prior to making a decision to invest in the 2017 Bonds, each prospective purchaser thereof should make an independent evaluation of all of the information presented in this Official Statement, including the Appendices, and should review other pertinent information.

To varying degrees, all of the risk factors described below, and others, may apply to the System, which is comprised of the Corporation and its operating divisions, including the Subsidiary Hospitals. However, not all of the Subsidiary Hospitals and other affiliates of the Corporation have a direct obligation with respect to the 2017 Bonds. The Authority has made no independent investigation of the extent to which any such factors may have an adverse effect on the revenues of the System.

Risks Directly Related to the 2017 Bonds

Payment. Payment of the principal of and interest on the 2017 Bonds to the registered owners thereof depends entirely upon the ability of the Corporation to make the payments required under the Loan Agreement and of the Obligated Group to make payments under the 2017 MTI Note. The 2017 Bonds are limited obligations of the Authority and are secured by and payable solely from the Trust Estate created pursuant to the Bond Indenture, which includes payments made by the Corporation pursuant to the Loan Agreement and the 2017 MTI Note, and from certain funds held by the Bond Trustee pursuant to the Bond Indenture. No representation or assurance can be given that the Corporation will meet its payment obligations under the Loan Agreement. No representation or assurance can be given that the Corporation or any other Member of the Obligated Group will generate sufficient revenues to meet its payment obligations under the 2017 MTI Note.

Numerous factors could adversely affect the Corporation's ability to pay the obligations under the Loan Agreement or the 2017 MTI Note. Moreover, such factors could also adversely affect the ability of any other Member of the Obligated Group to pay its obligations under the 2017 MTI Note. The future financial condition of the System could be adversely affected by, among other things, economic conditions in the service areas, levels and methods of federal reimbursement under Medicare, federal and state reimbursement under Medicaid, reimbursement from third-party payors, legislation, regulatory actions, increased competition from other health care providers or payors, changes in the demand for health care services, demographic changes, malpractice claims, litigation and changes in the Corporation's relationship with the University. Some of such risk factors are described in greater detail below.

Enforceability and Limitation on Enforcement of Certain Covenants. The 2017 MTI Note is an obligation of the Obligated Group issued under the Master Indenture, secured by a pledge of the Gross Revenues of the Obligated Group. No facilities or other assets of the Obligated Group are pledged as security for the 2017 Bonds. The practical realization of value upon any default will depend upon the exercise of various remedies specified in the Master Indenture, the Bond Indenture and the Loan Agreement. These and other remedies may depend upon formal judicial actions which are often subject to uncertainty, expense, discretion and delay. The respective legal opinions to be delivered concurrently with the delivery of the 2017 Bonds by counsel representing transaction participants will contain customary qualifications as to the enforceability of the provisions of legal documents by limitations imposed by state and federal laws, rulings and decisions affecting remedies and by bankruptcy, reorganization, fraudulent transfer, or other laws affecting the enforcement of creditors' rights.

Additional Debt. The Master Indenture permits additional indebtedness to be incurred by the Corporation and the other Members of the Obligated Group, and permits additional indebtedness to be secured by additional obligations issued under the Master Indenture that will be payable and secured on a parity with the 2017 MTI Note securing the 2017 Bonds, potentially diluting the sources of payment and security for the 2017 Bonds. See "INTRODUCTION – Sources of Payment and Security for the 2017 Bonds" herein and "MASTER INDENTURE – Additional MTI Debt" in APPENDIX C hereto.

Limitations on Security Interests in Obligated Group Members' Revenues. The effectiveness of the security interest in the Gross Revenues of the Members of the Obligated Group created by the Master

Indenture may be limited by a number of factors, including: (1) provisions of the Social Security Act that may limit the ability of the Bond Trustee to enforce directly the security interest in any of the Gross Revenues in the form of reimbursement due under the Medicare and Medicaid programs and any other statutory or contractual provisions, grant award conditions, regulations or judicial decisions which may have a comparable effect with respect to any of the Gross Revenues in the form of governmental appropriations, or governmental or private research services; (2) commingling of some or all of the Gross Revenues and other moneys of the Members of the Obligated Group not so pledged; (3) present and future statutory liens; (4) rights arising in favor of the United States of America or any agency thereof; (5) rights of third parties in revenues not yet expended; (6) constructive trusts, and equitable or other rights impressed or conferred by federal or state courts in the exercise of equitable jurisdiction; (7) the factors described below under “Potential Effects of Bankruptcy or Other Laws Affecting Creditors’ Rights”; and (8) rights of third parties in Gross Revenues not in possession of the Bond Trustee.

Limitation on Use of Facilities. The facilities of the System are not general-purpose buildings and generally would not be suitable for industrial or commercial use. It could be difficult to find a buyer or lessee for such facilities, and any such sale or lease may not realize an amount equal to the aggregate liabilities of the Obligated Group (including liabilities in respect of the defaulted bonds then outstanding) whether pursuant to a judgment against any Subsidiary Hospital, any other System entity or otherwise. Such facilities are not pledged as security for the 2017 MTI Note or the 2017 Bonds.

Adverse Effects of Amendments and Supplements to Master Indenture, Bond Indenture and Loan Agreement. Certain amendments to the Bond Indenture and the Loan Agreement may be made with the consent of less than all of the holders of the 2017 Bonds and, in some cases, without the consent of any of the holders of the 2017 Bonds. Certain amendments to the Master Indenture may be made with the consent of less than all of the holders of the obligations issued thereunder and, in some cases, without the consent of any of the holders of such obligations. Such amendments may adversely affect the interests of owners of the 2017 Bonds. See “MASTER INDENTURE – Supplemental Master Indentures without Consent of Holders” and “—Modification of Master Indenture with Consent of Holders” and “THE BOND INDENTURE – Amendments and Supplements Without Bondholders’ Consent” and “—Amendments With Bondholders’ Consent” in APPENDIX C hereto.

Potential Effects of Bankruptcy or Other Laws Affecting Creditors’ Rights. If any System entity were to file a petition for relief under the federal Bankruptcy Code, the filing would act as an automatic stay against the commencement or continuation of judicial or other proceedings against the petitioner and its property.

Any petitioner for relief may file a plan for the adjustment of its debts in a proceeding under the federal Bankruptcy Code which could include provisions modifying or altering the rights of creditors generally, or any class of them, secured or unsecured. The plan, when confirmed by the court, would bind all creditors who had notice or knowledge of the plan and discharge all claims against the petitioner provided for in the plan. No plan may be confirmed unless certain conditions are met, including that the plan is in the best interests of creditors, is feasible and has been accepted by each class of claims impaired thereunder. Each class of claims will be deemed to have accepted the plan if at least two-thirds in dollar amount and more than one-half in number of the allowed claims of the class that are voted with respect to the plan are cast in its favor. Even if the plan is not so accepted, it may be confirmed if the court finds that the plan is fair and equitable with respect to each class of non-accepting creditors impaired thereunder and does not discriminate unfairly.

In addition, any obligation of a Member of the Obligated Group may be voided under the federal Bankruptcy Code or under the Pennsylvania fraudulent conveyance statute, if (i) the obligation was incurred without receipt by the obligor of “fair consideration” or “reasonably equivalent value,” and (ii) the obligor

is insolvent or the obligation renders the obligor “insolvent” as such terms are defined under the applicable statute.

Interpretation by the courts of the tests of “insolvency”, “reasonably equivalent value” and “fair consideration” has resulted in a conflicting body of case law. For example, a Member’s joint and several obligation under the Master Indenture to make all payments thereunder, including payments in respect of funds used for the benefit of the other Members, may be held to be a “transfer” which makes such Member “insolvent” in the sense that the total amount due under the Master Indenture could be considered as causing its liabilities to exceed its assets. Also, one of the Members may be deemed to have received less than “fair consideration” for such obligation because none or only a portion of the proceeds of the 2017 Bonds are to be used to finance facilities occupied or used by such Member. While the Members may benefit generally from the facilities financed from the proceeds of the 2017 Bonds, the actual cash value of this benefit may be less than the joint and several obligation. The rights under the Pennsylvania fraudulent conveyance statutes may be asserted for a period of up to four years from the incurring of the obligations or granting of security under the Loan Agreement.

In the event of bankruptcy of a Member of the Obligated Group and absent court authorization, the bankruptcy trustee would have no lien on receivables of such Member created after commencement of the bankruptcy case. In addition, transfers of property by the bankrupt entity, including the payment of debt or the transfer of any collateral, including receivables and Gross Revenues on or after the date that is 90 days (or, in some circumstances, one year) prior to the commencement of the case in bankruptcy court may be subject to avoidance and recovery as preferential transfers. Under certain circumstances, a court may have the power to direct the use of Gross Revenues to meet expenses of the bankrupt Member of the Obligated Group before paying debt service on the 2017 Bonds.

Loss or Reduction of Benefit of Tax-Exempt Status of Interest on the 2017A Bonds. The Code imposes a number of requirements that must be satisfied for interest on state and local obligations, such as the 2017A Bonds, to be excludable from gross income for federal income tax purposes. These requirements include limitations on the use of proceeds of the 2017A Bonds and use of the facilities financed or refinanced with the proceeds of the 2017A Bonds, limitations on the investment earnings of proceeds of the 2017A Bonds prior to expenditure, a requirement that certain investment earnings on proceeds of the 2017A Bonds be paid periodically to the United States, and a requirement that the Authority file an information report with the Internal Revenue Service (the “**IRS**”). The Authority, to the extent so required, and the Corporation have covenanted in the documents relating to the 2017A Bonds, that they will comply with such requirements. Future failure by the Corporation to comply with the requirements stated in the Code and related regulations, rulings and policies may result in the treatment of interest on the 2017A Bonds as taxable, retroactively to the date of issuance. In such event, the Bond Indenture does not contain any specific provision for mandatory acceleration of the 2017A Bonds nor does it provide that any additional interest will be paid to the holders of the 2017A Bonds.

From time to time, there are legislative proposals in the Congress and in the states that, if enacted, could alter or amend the federal and state tax matters referred to above or adversely affect the market price or marketability of the 2017A Bonds. Future legislation, if enacted into law, may cause interest on the 2017A Bonds to be subject, directly or indirectly, to federal income taxation, or otherwise prevent Beneficial Owners from realizing the full current benefit of the tax status of such interest. The introduction or enactment of any such future legislation may also affect the market price for, or marketability of, the 2017A Bonds. Prospective purchasers of the 2017A Bonds should consult their own tax advisers regarding any pending or proposed federal tax legislation.

Officials of the IRS frequently assert that more resources will be invested in audits of tax-exempt bonds in the charitable organization sector with specific review of private use. In addition, the IRS has sent

several hundred post-issuance compliance questionnaires to nonprofit corporations that have borrowed on a tax-exempt basis regarding their post-issuance compliance with various requirements for maintaining the federal tax exemption of interest on their bonds. The questionnaire includes questions relating to the borrower's (i) record retention, which the IRS has particularly emphasized, (ii) qualified use of bond-financed property, (iii) arbitrage yield restriction and rebate requirements, (iv) debt management policies and (v) voluntary compliance and education.

The opinion of Bond Counsel with respect to the 2017A Bonds represents Bond Counsel's judgment, as of the date of issuance of the 2017 Bonds, as to the proper treatment of interest on the 2017A Bonds for federal income tax purposes as of the date of issuance of the 2017 Bonds. It is not binding on the IRS or the courts. Furthermore, Bond Counsel cannot give and has not given any opinion or assurance about the future activities of the Corporation or about the effect of future changes in the Code, the applicable regulations, the interpretation thereof, or the enforcement thereof by the IRS. See "TAX EXEMPTION AND OTHER TAX MATTERS" herein.

Risks Related to UPMC's Business

Adequacy of Revenues. The System includes health care providers that derive significant portions of their revenues from the federal Medicare program ("***Medicare***"), the Pennsylvania Medical Assistance Program ("***Medicaid***"), and third-party payors, including those affiliated with the System, as well as Highmark Blue Cross Blue Shield ("***Highmark***") and other traditional health maintenance organizations ("***HMOs***"), all of which are likely to continue to seek to reduce what they pay to such providers. The System is subject to governmental regulation applicable to health care providers and the receipt of future revenues by the System is subject to, among other factors, federal and state policies affecting the health care industry and other conditions which are impossible to predict. Such conditions may include limits on increasing charges and fees charged by the System, changes in federal and state laws and regulations affecting payments for health services, the continued increase in managed care or development of new payment policies which reduce provider revenues, competition from other health care providers or payors, and changes in demand for health services. The receipt of future revenues by the System is also subject to demand for System services, the ability to provide the services required by patients, physicians' relationships with the System, management capabilities of the System, economic developments in the service area, the System's ability to control expenses, reimbursement, the continued funding by the Commonwealth for medically indigent patient care, future economic conditions, and other conditions which are impossible to predict.

No assurances can be given that patient utilization or revenues available to the System from its operations will remain stable or increase. The Corporation expects that it will experience increases in operating costs due to inflation and other factors. There is no assurance that cost increases will be matched by increased revenue in amounts sufficient to generate an excess of revenues over expenses.

Discussed below are certain of these factors which could have a significant impact on the future operations and financial condition of the System.

General Economic Factors. As were many segments of the economy, the health care sector was materially adversely affected by global recession now thought to have begun in 2008. The consequences of the recession and related developments generally included realized and unrealized investment portfolio losses, reduced investment income, limitations on access to the credit markets, difficulties in extending existing or obtaining new liquidity facilities, difficulties in rolling maturing commercial paper and remarketing revenue bonds subject to tender, requiring the expenditure of internal liquidity to fund principal payments on commercial paper or tenders of revenue bonds, and increased borrowing costs.

Future results of operations of the System may be adversely affected by, among other factors, increases in the number of uninsured patients or deferral of elective medical procedures. Economic conditions are adversely affecting revenue available to the Commonwealth and increasing expenses under various Commonwealth programs, including Medicaid. Stresses on the Commonwealth's budget may result in delays of payments due under Medicaid and other state programs and reductions in payments or changes in eligibility for Medicaid or other Commonwealth programs.

Reimbursement and Third-Party Payments.

Medicare and Medicaid Programs. Medicare and Medicaid are the commonly used names for health care reimbursement or payment programs governed by certain provisions of the federal Social Security Act Amendments of 1965. The federal government uses reimbursement as a key tool to implement health care policies, to allocate health care resources and to control utilization, facility and provider development and expansion, and technology use and development. Medicare provides certain health care benefits to beneficiaries who are 65 years of age or older, disabled or qualify for the End Stage Renal Disease Program. Medicare Part A covers inpatient hospital, home health, nursing home care and certain other services, and Medicare Part B covers certain physicians services, medical supplies and durable medical equipment. Medicare Part C, the Medicare Advantage program (formerly known as the Medicare+Choice Program) enables Medicare beneficiaries who are entitled to Part A and are enrolled in Part B to choose to obtain their benefits through a variety of private, managed care, risk-based plans.

Medicare is administered by the Centers for Medicare and Medicaid Services (“*CMS*”) of the U.S. Department of Health and Human Services (“*DHHS*”), which delegates to the states the process for certifying those organizations to which CMS will make payment. The DHHS's rule-making authority is substantial and the rules are extensive and complex. Substantial deference is given by courts to rules promulgated by DHHS.

Medicaid is designed to pay providers for care given to the medically indigent and others who receive federal aid. Medicaid is funded by federal and state appropriations and is administered by an agency of the applicable state.

Medicare. In fiscal year 2017, approximately 46% of gross patient service revenues of the Subsidiary Hospitals were derived from the Medicare program, and approximately 18% of gross patient service revenues of the Subsidiary Hospitals were derived from the Medicaid program (compared with 45% and 18% respectively, in 2016). See APPENDIX A hereto.

As a result, the System is affected by changes in these programs. Congress has taken action regarding spending for these programs, limiting payments to hospitals under the programs, and encouraging competition. Further payment and similar limitations may be enacted. These and future changes could negatively affect the System.

As hereinafter described in greater detail, the Affordable Care Act (hereinafter defined) institutes multiple mechanisms for reducing the costs of the Medicare program. See “Legal and Regulatory Environment – Affordable Care Act and Health Care Reform Initiatives” herein.

Medicaid. Medicaid is a jointly funded federal and state health insurance program for certain low-income and medically needy people. Under federal guidelines, each state establishes eligibility standards, scope of services, payment rates for services, and an administrative framework for management of the program. The Pennsylvania Department of Public Welfare (“*DPW*”) administers the Medicaid program in the Commonwealth.

Under Medicaid, the federal government provides funds to states that have medical assistance programs that are consistent with (or have secured waivers from) federal standards. Within broad national guidelines established by federal statutes, regulations, and policies, each state: (1) establishes its own eligibility standards; (2) determines the type, amount, duration, and scope of services; (3) sets the rate of payment for services; and (4) administers its own program. Thus, Medicaid policies for eligibility, services, and payment are complex and vary considerably, even among states of similar size or geographic proximity. In addition, state legislatures may change Medicaid eligibility, services, and/or reimbursement during the year. Historically, reimbursement for services to Pennsylvania Medicaid beneficiaries has been less than the cost of the services.

The Affordable Care Act makes changes to Medicaid funding and substantially increases the potential number of Medicaid beneficiaries. While management cannot predict the effect of these changes to the Medicaid program on the operations, results from operations or financial condition of the Members of the Obligated Group, historically Medicaid has reimbursed at rates below the cost of care. Therefore, increases in the overall proportion of Medicaid patients poses a risk; however, it is uncertain to what extent this risk may be mitigated if increased Medicaid utilization replaces previously uncompensated patient care for previously uninsured and other patients. See “Legal and Regulatory Environment – Affordable Care Act and Health Care Reform Initiatives” herein.

Third-Party Payments. In fiscal year 2017, approximately 36% of gross patient service revenues of the Subsidiary Hospitals were derived from non-governmental payors (compared with 37% in fiscal year 2016), which provide payments for patient care on the basis of various formulae and charges under various contracts. Renegotiation of such contracts may reduce payments to the Subsidiary Hospitals and there can be no assurance that such payments will be adequate to cover the cost of care. The Affordable Care Act resulted in substantial changes to the manner in which health care is paid for from what is described in this section. See “SOURCE OF REVENUES” in APPENDIX A hereto.

The indemnity and managed care hospital contracts with Highmark for the Subsidiary Hospitals terminated on December 31, 2014 (except for UPMC Mercy which terminated on June 30, 2015 and Children’s which will expire June 30, 2022) See “Material Contracts” in APPENDIX A hereto.

The Corporation holds various interests in insurance subsidiaries which have contracts with the Subsidiary Hospitals as more fully described in APPENDIX A. Utilization by members of the insurance subsidiaries represented approximately thirteen percent (13%) of the Subsidiary Hospitals’ gross patient service revenue for the fiscal year ended June 30, 2017.

Certain private insurance companies contract with hospitals on an exclusive or preferred-provider basis, and some insurers have introduced plans known as preferred provider organizations (“PPOs”). Under these plans, there may be financial incentives for subscribers to use only those hospitals and physicians which contract with the plans. Under a narrow network plan, which includes most HMOs, payors limit coverage to those services provided by network hospitals and physicians. With this contracting authority, payors may direct patients away from hospitals not in the network by denying coverage for services provided by them.

Most PPOs and HMOs currently pay hospitals on a discounted fee-for-service basis or on a discounted fixed rate per day of care. The discounts offered to HMOs and PPOs may result in payment at less than actual cost, and the volume of patients directed to a hospital under an HMO or PPO contract may vary significantly from projections. Therefore, the financial consequences of such arrangements cannot be predicted with certainty and may be different from current or prior experience. Some HMOs offer or mandate a “capitation” payment method under which hospitals are paid a predetermined periodic rate for each enrollee in the HMO who is “assigned” to, or otherwise directed to receive care at, a particular hospital.

In a capitation payment system, the hospital assumes an insurance risk for the cost and scope of care given to such HMO's enrollees. If payment under an HMO or PPO contract is insufficient to meet the hospital's costs of care, or if use by enrollees materially exceeds projections, the financial condition of the hospital may be adversely affected.

There is no assurance that contracts of the System entities or its physicians with third-party payors will be maintained or that other similar contracts will be obtained in the future, or that payments from such payors will be sufficient to cover all of the costs of the System or its physicians in providing services to its or their patients. Failure to execute and maintain such contracts could have the effect of reducing the patient base and revenues of the System. Conversely, participation may maintain or increase the patient base, but may result in reduced payments.

The System also may be affected by the financial instability of HMOs and other third-party payors with which System entities contract and/or from which it receives reimbursement for furnished health care services. For example, if regulators place a financially-troubled HMO into rehabilitation under state law, or if a third-party payor files for protection under the federal bankruptcy laws, it is unlikely that health care providers will be reimbursed in full for services furnished to enrollees of the HMO or third-party payor. Also, health care providers may be required by law or court order to continue furnishing health care services to the enrollees of an insolvent HMO or third-party payor, even though the providers may not be reimbursed in full for such services.

Private employers have begun to revise the way in which health care benefits are provided to their employees in order to create incentives for cost containment and to reduce their costs of providing health care benefits. Traditional health insurance programs, which pay for services on a fee-for-service basis and allow employees to elect which hospitals they utilize, are being supplemented or replaced by a wide range of health insurance programs being offered with economic incentives for employees to choose those plans which promise to be most cost efficient. These types of insurance programs are expected to cover an increasing share of health care services being provided in the future.

HMOs and other third-party payors that contract on a discounted fee-for-service or discounted fixed rate-per-day basis also exert strong controls over the utilization of health care resources. Strong utilization management by managed care plans has led to a reduction in the number of hospitalizations and lengths of hospital stays, both of which may reduce patient service revenue to providers. Furthermore, shortened hospital lengths of stay have not necessarily been accompanied with a reduced demand for services while a patient is hospitalized and in fact may lead to more intensive hospital visits and correspondingly increased costs to hospital providers.

Retroactive Adjustments of Payments. Funds received from Medicare, Medicaid and some third-party payors relating to certain types of services and years may be subject to audit. These audits can result in retroactive adjustments of payments received. If an audit determines that an overpayment was made, the excess amount must be repaid. If, on the other hand, it is determined that an underpayment was made, payors will make additional payments to the provider. Provisions for adjustments related to these programs are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined. Final settlements may differ materially from amounts currently recorded.

Tax-Exempt Status of the Corporation and Subsidiary Hospitals. The Corporation is a nonprofit corporation, exempt from federal income taxation as an organization described in Section 501(c)(3) of the Code. As a nonprofit tax-exempt organization, the Corporation is subject to federal, state and local laws, regulations, rulings and court decisions relating to its organization and operation, including its operation for charitable purposes. At the same time, the Corporation conducts large-scale complex business

transactions. Often, there can be a tension between the rules designed to regulate a wide range of charitable organizations and the day-to-day operations of a complex health care organization.

Loss of tax-exempt status by the Corporation and/or Subsidiary Hospitals utilizing the proceeds of the 2017 Bonds could result in loss of tax exemption of the 2017 Bonds, and defaults in covenants regarding the 2017 Bonds and other related tax-exempt debt would likely be triggered. Such an event would have material adverse consequences on the financial condition of the Obligated Group.

The maintenance by the Corporation and the Subsidiary Hospitals of their respective tax-exempt statuses depends, in part, upon maintenance of their status as organizations described in Section 501(c)(3) of the Code. The maintenance of such status is contingent upon compliance with general rules promulgated in the Code and related regulations regarding the organization and operation of tax-exempt entities, including their operation for charitable and educational purposes and their avoidance of transactions that may cause their assets to inure to the benefit of private individuals. The IRS has announced that it intends to closely scrutinize transactions between nonprofit corporations and for profit entities, and in particular has issued audit guidelines for tax-exempt hospitals. Although specific activities of hospitals, such as medical office building leases and compensation arrangements and other contracts with physicians have been the subject of interpretations by the IRS in the form of Private Letter Rulings, many activities have not been addressed in any official opinion, interpretation or policy of the IRS. Because the System conducts large scale and diverse operations involving private parties, there can be no assurances that certain of these transactions would not be challenged by the IRS.

The IRS has taken the position that hospitals which are in violation of the Anti-Kickback Law may also be subject to revocation of their tax-exempt status. See “BONDHOLDERS’ RISKS—Legislative and Regulatory Environment.” As a result, tax-exempt hospitals which have, and will continue to have, extensive transactions with physicians are subject to an increased degree of scrutiny and perhaps enforcement by the IRS.

With increasing frequency, the IRS has imposed substantial monetary penalties and future charity care or public benefit obligations on tax-exempt hospitals in lieu of revoking tax-exempt status, as well as requiring that certain transactions be altered, terminated or avoided in the future and/or requiring governance or management changes. These penalties and obligations typically are imposed on the tax-exempt organization pursuant to a “closing agreement,” a contractual agreement pursuant to which a taxpayer and the IRS agree to settle a disputed matter.

There is no assurance that the Corporation or Subsidiary Hospitals will not be the subject of an IRS audit in the future. Because of the complexity of the tax laws and the presence of issues about which reasonable persons can differ, tax audits could result in additional taxes, interest and penalties. Such an audit could result in a material adverse effect on the tax-exempt status of the Members of the System, the exclusion from gross income for federal tax income purposes of the interest payable on the 2017 Bonds, the market value of the 2017 Bonds, and could result in defaults under various documents relating to the 2017 Bonds.

It is not possible to predict the scope or effect of future legislative or regulatory actions with respect to taxation of nonprofit corporations. There can be no assurance that future changes in the laws and regulations of federal, state or local governments will not materially adversely affect the operations and financial condition of the System by requiring certain of the Members of the System to pay income or local property taxes.

Any failure by the tax-exempt Members of the Obligated Group or Subsidiary Hospitals to remain qualified as tax-exempt under Section 501(c)(3) of the Code could affect the amount of funds that would

be available to pay debt service on the 2017 Bonds. If Members of the Obligated Group or Subsidiary Hospitals fail to comply continuously with certain covenants after delivery of the 2017 Bonds, interest on the 2017 Bonds could become taxable from the date of their delivery, regardless of the date on which the event causing such taxability occurs.

Effective for tax years commencing on and after its enactment, the Affordable Care Act established additional requirements for hospitals in order to maintain exempt status under Section 501(c)(3) of the Code. These obligations including requirements: to adopt and publicize a financial assistance policy; to limit charges to patients who qualify for financial assistance to the lowest amount charged to insured patients; and to control aggressive billing and collection practices. Additionally, effective for tax years commencing on or after January 1, 2013, tax-exempt hospitals must conduct a community needs assessment at least once every three years and adopt an implementation strategy to meet those identified needs. Failure to satisfy these conditions may result in the imposition of fines and the loss of tax-exempt status. Community needs assessments have been duly conducted for all of the Subsidiary Hospitals. See “Legal and Regulatory Environment – Affordable Care Act and Health Care Reform Initiatives” herein.

Fluctuations in Market Value of Investments. Investments provide the System an important source of funds to support its programs and services. The value of the System’s investment securities has fluctuated and, in some instances, the fluctuations have been significant. No assurances can be given that the market value of the System’s investments will not decline in the future. Any such decline could adversely affect the financial condition of the System.

Changes in market interest rates and fluctuations in the value of investment securities also potentially could have an impact on the System’s pension fund liabilities and its requirements for funding its related pension expenses. Like any other entity with pension fund liabilities, the System finds that increases or decreases in interest rates have an impact on the valuation of pension fund liabilities, which accordingly affects the levels of investment assets required to meet future pension liabilities. Consequently, any decline in long-term interest rates or the value of investment securities could have the effect of increasing the System’s pension funding requirements. No assurance can be given that the System will not be required to make increased pension funding contributions. See “UPMC Audited Consolidated Financial Statements, June 30, 2017 – Note 8, Pension Plans” in APPENDIX B.

Risks Associated with Derivative Products. The Corporation uses various derivative contracts to manage exposures on its debt and investments. Although minimum credit ratings are required for counterparties, this does not eliminate the risk that a counterparty may fail to honor its obligations.

Derivative contracts are subject to periodic “mark-to-market” valuations. A derivative contract may, at any time, have a positive or negative value to the Corporation. If the negative value were to reach certain thresholds established under certain derivative contracts, the Corporation would be required to post collateral, which could adversely affect its liquidity. In addition, if the Corporation were to choose to terminate a derivative contract or if a derivative contract were terminated pursuant to an event of default or a termination event as described in the derivative contract, the Corporation could be required to pay a termination payment to the counterparty, and such payment could adversely affect the Corporation’s financial condition. See “Indebtedness – Use of Derivatives” in APPENDIX A and “UPMC Audited Consolidated Financial Statements, June 30, 2017 – Note 6, Long-Term Obligations and Derivative Instruments” in APPENDIX B for additional information.

Factors Affecting Real Estate Tax Exemption

From time to time various State and local governmental (including Allegheny County), legislative, regulatory and judicial bodies have reviewed or announced an intention to review the exemption of

nonprofit corporations from real estate taxes. Various state and local government bodies have challenged with increasing frequency and success the tax-exempt status of such institutions and have sought to remove the exemption of property from real estate taxes of part or all of the property of various nonprofit institutions on the grounds that a portion of such property was not being used to further the charitable purposes of the institution. Several of these disputes have been determined in favor of the taxing authorities or have resulted in settlements. No assurance can be given that the System entities will retain their real estate tax exemptions without challenge throughout the term of the 2017 Bonds.

Legal and Regulatory Environment

Legislative and Regulatory Environment. The health care industry is heavily regulated by federal and state governments, with a substantial portion of revenues coming from governmental payer programs. The health care industry is subject to frequent and significant changes in the manner by which the state and federal governments reimburse for hospital services and continued and significant additional changes are likely to occur in the future. Legislation is periodically introduced in Congress and in the Pennsylvania General Assembly that could result in significant changes to hospital third-party reimbursement and permissible costs or charges. In addition, additional requirements with respect to the provision of free care are likely to be required of tax-exempt hospitals by the federal government. Moreover, it is possible that the federal government could decide to modify or eliminate tax-exempt status for health care providers altogether. Future actions by the federal and state government are expected to continue the trend toward reductions in Medicare and Medicaid reimbursement for hospital and physician services. It is impossible to predict with certainty the substantive impact this or any future legislation, regulations or government policies may have on the System.

Government reimbursement for health care costs is subject to statutory and regulatory changes, administrative rulings, interpretations of policy, determinations by fiscal intermediaries and government funding restrictions, all of which may materially decrease the rates of payment and cash flow to hospitals. There is no assurance that payments made under such programs will remain at levels comparable to the present levels or be sufficient to cover all operating and fixed costs.

The Corporation and Subsidiary Hospitals are subject to numerous legal, regulatory, professional and private licensing, certification and accreditation requirements. These include, but are not limited to, requirements of state licensing agencies and The Joint Commission. Renewal and continuation of certain of these licenses, certifications and accreditations are based on inspections or other reviews generally conducted in the normal course of business of hospitals. Loss of, or limitations imposed on, hospital licenses or accreditations could reduce hospital utilization or revenues, or a hospital's ability to operate all or a portion of its facilities.

Affordable Care Act and Health Care Reform Initiatives. On March 23, 2010, President Obama signed the Patient Protection and Affordable Care Act and on March 30, 2010, the President signed the Health Care and Education Reconciliation Act of 2010, which included amendments to the earlier law (collectively, the "***Affordable Care Act***"). The Affordable Care Act was intended to address disparities in access, cost, quality and delivery of health care to United States residents.

The changes to various aspects of the health care system in the Affordable Care Act are far-reaching and include substantial adjustments to Medicare reimbursement, establishment of individual and employer mandates for health insurance coverage, extension of Medicaid coverage to certain populations, provision of incentives for employer-provided health care insurance, restrictions on physician-owned hospitals, and increased efficiency and oversight provisions. The implementation of the various provisions of the Affordable Care Act continues to be subject to legislative or administrative changes or threats thereof.

The provisions of the Affordable Care Act take effect over time, ranging from immediately upon passage to ten years from passage. Most of the significant health insurance coverage reforms began in 2014. The Affordable Care Act also requires the promulgation of substantial regulations with significant effects on the health care industry.

The Affordable Care Act changes the sources and methods by which consumers will pay for health care for themselves and their families. The Affordable Care Act also imposes new requirements for employers' provision of health insurance to their employees and dependents. These reforms are expected to expand the base of consumers of health care services. One of the primary goals of the Affordable Care Act is to provide or make available, or subsidize the premium costs of, health care insurance for consumers who are currently uninsured (or underinsured) and who fall below certain income levels. The Affordable Care Act is intended to accomplish that objective by a number of means, including:

- Creating state organized insurance markets (referred to as exchanges) in which individuals and small employers can purchase health care insurance for themselves and their families or their employees and dependents;
- Providing subsidies for premium costs to individuals and families based upon their income relative to federal poverty levels;
- Mandating that individual consumers obtain and certain employers provide a minimum level of health care insurance, and providing for penalties or taxes on consumers and employers that do not comply with these mandates;
- Establishing insurance reforms that expand coverage generally through such provisions as prohibitions on denials of coverage for pre-existing conditions and elimination of lifetime or annual cost caps; and
- Expanding existing public programs, including Medicaid for individuals and families.

To the extent the intended results are achieved, an increase in utilization of health care services by those who formerly could not afford to purchase health care services was expected with the possibility that bad debt expenses might be reduced. Conversely, if the number of individuals covered by Medicaid increases, the Corporation and Subsidiary Hospitals may not receive adequate reimbursement to cover their costs relating to the provision of services. Moreover, any delays in implementation of these provisions, such as decisions by the executive branch to delay certain employer mandate obligations, could adversely affect the number of people who obtain insurance, and the rate at which they do so.

Some of the specific provisions of the Affordable Care Act that may affect hospital operations, financial performance or financial conditions are described below. This listing is not exhaustive. The Affordable Care Act is complex and comprehensive, and includes a myriad of new programs and initiatives and changes to existing programs, policies, practices and laws.

- Annual inflation adjustments to Medicare payments have been reduced, and are expected to be lower than historic averages.
- As of federal fiscal year 2014, hospitals receiving supplemental "disproportionate share hospital" ("**DSH**") payments from Medicare (i.e., those hospitals that care for a disproportionate share of Medicare Beneficiaries) have their DSH payments reduced by 75%. A portion of this reduction is potentially offset by new, additional payments based on the volume of uninsured and uncompensated care provided by each such hospital. Separately, beginning in fiscal 2014, Medicaid DSH allotments to each state will also be reduced, based on state-wide reduction in uninsured and uncompensated care.
- Many state Medicaid programs have expanded to a broader population resulting in more Medicaid-eligible patients.

- Beginning with hospital discharges after October 1, 2012, Medicare began reducing payments to hospitals found to have an excess readmissions ratio for certain conditions and this information will be made available to the public.
- Commencing in federal fiscal year 2015, Medicare payments to certain hospitals to cover conditions acquired during hospitalization will be reduced by 1%. As of federal fiscal year 2011, federal payments to states for Medicaid services related to hospital-acquired conditions were prohibited.
- Beginning in 2013, a value-based purchasing program was established under the Medicare program. Under this program, hospital payments will increase or decrease depending on a hospital's performance vis-à-vis established quality measures.
- To reduce waste, fraud, and abuse in public programs, the Affordable Care Act provides for provider enrollment screening, enhanced oversight periods for new providers and suppliers, and enrollment moratoria in areas identified as being at elevated risk of fraud in all public programs. It also requires Medicare and Medicaid program providers and suppliers to establish compliance programs. The Affordable Care Act requires the development of a database to capture and share health care provider data across federal health care programs and provides for increased penalties for fraud and abuse violations, and increased funding for anti-fraud activities.
- The Affordable Care Act imposes substantial new data reporting obligations on hospital initiatives to improve the quality of care, reduce errors and improve health outcomes.

In general, the provisions of the Affordable Care Act that encourage or mandate health care coverage for individuals can be expected to increase demand for health care and reduce the amount of uncompensated care that the System provides. On the other hand, the reimbursement paid by the payors of the newly insured may be inadequate to cover the costs of the System. Revisions to the Medicare reimbursement program will also likely reduce Medicare reimbursement. Accordingly, the effect of the Affordable Care Act on the operations of the System cannot be currently ascertained, but the Affordable Care Act may have a material impact on operations and revenues.

The Affordable Care Act has been subject to opposition in the political and judicial arenas. Multiple challenges to the constitutionality of the Affordable Care Act were filed by private and state parties in federal courts, culminating in a hearing by the Supreme Court in March 2012 and a decision on June 28, 2012, which largely upheld the Affordable Care Act as constitutional. The Supreme Court limited the scope of the Affordable Care Act in one important respect, restricting the federal government's ability to condition Medicaid funding on states' participation in the Medicaid expansion. As a result, states effectively have the option but not the obligation to extend Medicaid coverage to the indigent adult population specified in the Affordable Care Act. Certain amendments to the Affordable Care Act were contained in the American Taxpayer Relief Act of 2012 (the "**ATRA**") signed into law by President Obama on January 3, 2013.

On February 19, 2014, then-Governor Corbett submitted an application to the DHHS for a waiver to restructure Pennsylvania's Medicaid program to permit a plan that includes offering Medicaid to more Pennsylvanians by using private insurance plans and instituting new requirements for all Medicaid enrollees, such as paying monthly premiums and demonstrating they are looking for jobs. On March 5, 2014, the Commonwealth submitted an amendment to the waiver application which changes the "encourage employment" feature from mandatory to optional. On August 28, 2014, CMS released a statement announcing that Pennsylvania had received approval from DHHS of its plan to expand Medicaid coverage. Medicaid coverage for Pennsylvania adults earning below 133 percent of the federal poverty line, or about \$15,500, began in January 2015. Beginning in 2016, adults earning above the federal poverty line had to pay premiums worth no more than 2 percent of household income. On June 25, 2015, the United States Supreme Court issued its opinion in *King v. Burwell*, the case challenging whether the IRS can offer tax credit subsidies to individuals enrolled in health insurance through a federally operated exchange. The

Court ruled 6-3 that this action is within the IRS's power. The decision means that low- and middle-income individuals who purchase coverage through a federal exchange will remain eligible for tax credit subsidies. As a result of the decision, Governor Tom Wolf, who took office in January 2015, withdrew his plan to establish a state-run exchange in the Commonwealth, for which he had received permission from DHHS. Medicaid expansion in Pennsylvania began in April 2015. According to the Pennsylvania Department of Human Services, as of September 2017, since Medicaid expansion more than 700,000 Pennsylvanians had enrolled in HealthChoices, Pennsylvania's mandatory managed care program.

The Affordable Care Act and its implementation have been, and remain, politically controversial. Accordingly, the Affordable Care Act has continually faced legal and legislative challenges, including repeated repeal efforts, since its enactment. Although, the Supreme Court's ruling in 2012 ended much of the uncertainty surrounding the implementation of federal health care reform, legislative repeal is even more of a possibility than before, since the 2016 presidential election. In addition, many of the reductions in reimbursement to health care providers included in the Affordable Care Act have yet to take full effect, and the increased health care coverage anticipated to derive from the Affordable Care Act has not yet been realized. The practical consequences of the Affordable Care Act, as well as of other future federal and state actions affecting the health care delivery system cannot be foreseen.

Management cannot predict the impact any major modification or repeal of the Affordable Care Act, or any replacement health care reform legislation, might have on the Obligated Group's business or financial condition, though such effects could be material. In particular, any legal, legislative or executive action that reduces federal health care program spending, increases the number of individuals without health insurance, reduces the number of people seeking health care, or otherwise significantly alters the health care delivery system or insurance markets could have a material adverse effect on the Obligated Group's business or financial condition.

In November 2015, the Bipartisan Budget Act of 2015 (the "BBA") repealed a provision of the Affordable Care Act which would require employers that offer one or more health benefit plans and have more than 200 full-time employees to automatically enroll new full-time employees in a health plan.

President Donald J. Trump and Republican leaders of Congress have repeatedly cited health care reform, and particularly, repeal and replacement of the Affordable Care Act, as a key goal. On May 4, 2017, the United States House of Representatives passed a bill known as the American Health Care Act of 2017 ("**AHCA**"), aimed at repealing and replacing certain portions of the Affordable Care Act. A May 24, 2017 Congressional Budget Office ("**CBO**") cost estimate report predicted the bill would result in the uninsured rate increasing by 23 million people by 2026. On June 26, 2017, the United States Senate released its own version of a reform bill known as the Better Care Reconciliation Act of 2017 (the "**Better Care Act**"), aimed at repealing and replacing portions of the Affordable Care Act. If the Senate were to pass its amended version of the AHCA, such revised bill would return to the House for a vote. On July 25, 2017, the Senate voted to begin debate on the repeal of the Affordable Care Act, but a version of the Better Care Act failed to overcome a parliamentary objection that it had not yet been scored by the CBO. On July 26, 2017, the Senate voted against the Obamacare Repeal and Reconciliation Act, which would have repealed major parts of the Affordable Care Act without providing a replacement. It has been suggested that if the Senate is unable to agree upon a more complete bill, it will consider a bill that would be limited to eliminating the individual and employer mandates and medical device tax under the Affordable Care Act (referred to as "skinny repeal."). On September 26, 2017, Senate Majority Leader McConnell cancelled a vote on the latest attempt to repeal the Affordable Care Act, the so-called "Graham-Cassidy Bill", when it became clear there were not enough votes to pass it. Objections to the Graham-Cassidy Bill included that it would permit insurers to charge higher premiums for pre-existing conditions, perhaps making insurance unaffordable, that it would cut Medicaid over time, and allow states to opt out of the Affordable Care Act requirement that insurers cover "essential health benefits". Although CBO did not have time to complete

its analysis of the effect of the Graham-Cassidy Bill, it did state its preliminary findings that “millions” would lose health insurance were it to become law. Despite this latest setback, Senator Graham has stated that efforts to repeal the Affordable Care Act would resume “after tax reform”. Any bill repealing and/or replacing all or a portion of the Affordable Care Act must be approved by both chambers of Congress and be signed by President Trump.

A June 26, 2017 CBO cost estimate report predicted the Better Care Act would result in the uninsured rate increasing by 22 million people by 2026. A June 29, 2017 CBO report predicted Medicaid spending under the Better Care Act would be 26 percent lower in 2026 than it would be under the CBO’s extended baseline, and the gap would widen to about 35 percent in 2036. Under CBO’s extended baseline, overall Medicaid spending would grow 5.1 percent per year during the next two decades, in part because prices for medical services would increase. Under the Better Care Act, such spending would increase at a rate of 1.9 percent per year through 2026 and about 3.5 percent per year in the decade after that. Any legislative action that reduces federal health care program spending, increases the number of individuals without health insurance, reduces the number of people seeking health care, or otherwise significantly alters the health care delivery system or insurance markets could have a material adverse effect on the Obligated Group’s business or financial condition. Management cannot predict whether any version of the AHCA or any subsequent bill aimed at repealing and replacing all or a portion of the Affordable Care Act will become law.

In addition to the legislative changes discussed above, Affordable Care Act implementation and the Affordable Care Act insurance exchange markets can be significantly affected by executive branch actions. On January 20, 2017, President Trump issued an executive order requiring all federal agencies with authorities and responsibilities under the Affordable Care Act to “exercise all authority and discretion available to them to waive, defer, grant exemptions from, or delay” parts of the Affordable Care Act that place “unwarranted economic and regulatory burdens” on states, individuals or health care providers. While it is impossible to predict the effect of this broad executive order, the Department of Health and Human Services (“HHS”) might interpret the executive order to require it to freely grant exemptions from the individual mandate’s “shared responsibility payment”, which has the potential to significantly impact the insurance exchange market by reducing the number of healthy individuals in the Affordable Care Act health insurance exchanges. Additionally, should the executive branch: (1) cease defending a pending lawsuit, now captioned United States House of Representatives v. Price (Secretary of Health & Human Services) challenging the legality of cost-sharing subsidies paid by the federal government to insurance companies that offer coverage on the Affordable Care Act insurance exchanges, or (2) otherwise reduce or stop paying the cost-sharing subsidies (as President Trump has threatened to do), insurers may incur financial losses and stop offering plans through the Affordable Care Act insurance exchanges. Either action has the potential to significantly impact the insurance exchange market by reducing the number of plans available on the Affordable Care Act health insurance exchanges and/or increase insurance premiums. Management cannot predict the likelihood or effect of any such executive actions on the Obligated Group’s business or financial condition, though such effects could be material.

Many states have also enacted or are considering health care reform measures. Both as a part of recent reform efforts and throughout the preceding decades, numerous legislative proposals have been introduced or proposed in state legislatures around the country aimed at effecting major changes in health care policy and systems. The purpose of much of the statutory and regulatory activity has been to control health care costs, particularly costs paid under the Medicaid program.

To the extent the Affordable Care Act remains law, it is difficult to predict the full impact of the Affordable Care Act on the Obligated Group’s future revenues and operations due to uncertainty regarding a number of material factors, including: (1) how many currently uninsured individuals will ultimately obtain and retain insurance coverage as a result of the Affordable Care Act, (2) what percentage of any newly

insured patients will be covered under the Medicaid program vs. a commercial plan, (3) the pace at which insurance coverage expands, (4) future changes in the reimbursement rates and methods, (5) the percentage of individuals in the exchanges who select the high deductible plans, (6) the extent to which the enhanced program integrity and fraud and abuse provisions lead to a greater number of civil or criminal actions, (7) the extent to which the Affordable Care Act puts pressure on the profitability of health insurers, which in turn might cause them to seek to reduce payments to health care providers, and (8) the extent of lost revenues, if any, resulting from Affordable Care Act quality initiatives.

It is not known which additional proposals may be proposed or adopted or, if adopted, what effect such proposals would have on the Obligated Group's operations or revenue. However, the increase in focus and interest on federal and state health care reform may increase the likelihood of further significant changes affecting the health care industry in the near future. There can be no assurance that recently enacted, currently proposed or future health care legislation, regulation or other changes in the administration or interpretation of governmental health care programs will not have an adverse effect on the Obligated Group. Reductions in funding levels of the Medicare program, changes in payment methods under the Medicare and Medicaid programs, reductions in state funding, or other legislative or regulatory changes could adversely affect the Obligated Group's income.

Investors should continuously review legislative, judicial and regulatory developments relating to the Affordable Care Act as they occur to assess their potential effects on health care providers and the health care industry.

Expanded Enforcement Activity. The Medicare Recovery Audit Contractor Program implemented by CMS uses recovery audit contractors to identify improper payments for services provided to Medicare beneficiaries by various providers, including hospitals. Federal and state government agencies have engaged in coordinated civil and criminal enforcement efforts to reduce improper payments. In addition, the Office of Inspector General of DHHS, which is responsible for investigating healthcare fraud and abuse, and the United States Department of Justice, periodically establish enforcement initiatives focusing on specific patient billing practices or other suspected areas of abuse. To the extent that these enforcement activities are part of the overall effort by federal and state governments to control and reduce health care costs, these efforts may increase in volume and intensity. In addition, federal and state statutes impose civil (including substantial monetary penalties and damages) and criminal liability for the presentation of false or fraudulent claims to a government payor.

Medical Care Availability and Reduction of Error Act. The Commonwealth's Medical Care Availability and Reduction of Error Act (the "**Mcare Act**") includes significant patient safety initiatives, professional liability tort reforms, professional liability insurance reforms, and administrative requirements.

Under the Mcare Act, hospitals are required to develop and implement patient safety plans, appoint patient safety officers, form patient safety committees, and engage in mandatory reporting of serious events, incidents, and infrastructure failures in the hospital. Furthermore, hospitals are required to provide written notice to patients affected by serious events. Hospitals, ambulatory surgical centers, and birth centers are subject to administrative fines of \$1,000 per day for failure to comply with the patient safety requirements of the Mcare Act.

The Mcare Act established the Medical Care Availability and Reduction of Error Fund (the "**Mcare Fund**"). The Mcare Fund provides coverage for professional liability claims in excess of a basic limit of insurance, and participation in the Mcare Fund is mandatory for licensed health care providers. The liabilities of the Mcare Fund will be paid through the imposition of annual assessments on health care providers in the Commonwealth until such time as all liabilities are satisfied. The administrative provisions under the Mcare Act require physicians in the Commonwealth to report to the appropriate licensing board

each time they are named in a lawsuit, and provide for additional civil penalties of up to \$10,000 for violations of the Mcare Act by licensees. The administrative and financial burdens imposed on health care providers by the Mcare Act are substantial, and there can be no assurance that compliance with the Mcare Act will not have a material adverse effect upon the future operations and financial condition of the System. The Mcare Fund's Annual Report of Operations is available on the Pennsylvania Department of Insurance website.

Competition and Alternate Forms of Health-Care Delivery. One of the primary effects of health care reform has been an increase in competition among providers and the initiation of alternative forms of health care delivery. The System could face additional competition in the future from other hospitals, providers and managed care organizations and integrated delivery and financing systems offering similar or new services to the population now being served by the System. This could include the initiation of new health care services and the construction or renovation of hospitals, skilled nursing or subacute care facilities; primary care centers staffed by physicians; ambulatory surgical centers; and private laboratories and imaging centers. Alternative and new forms of health care services are being pursued by providers and payors as a way to reduce costs and improve quality and utilization controls. No assurance can be given that activities of other providers or managed care organizations will not adversely affect the operations or financial condition of the System. See “Material Contracts” in APPENDIX A” for additional information concerning Highmark’s current efforts in this area.

Consolidation of Health Care Market. The health care market has become increasingly dynamic and competitive in recent years. The challenges presented by the movement towards managed care and the uncertainties as to the appropriate response have led providers to explore affiliations of various forms and types. Some providers have merged or entered into direct affiliation or similar agreements, leading to predictions by some observers of a significant consolidation in the market to a limited number of networks or systems of health care providers. Other types of relationships are being explored, however, not only with other providers but also with health care insurers. In response to this changing health care market the System continuously conducts discussions with third parties relating to possible additional affiliations and strategic alliances. Any strategic affiliations resulting from such discussions could involve an investment by and/or expense to the System.

Possible Shortage of Physicians. Physicians direct the majority of hospital admissions, and the success of the Subsidiary Hospitals depends, in part on the number and quality of the physicians on their medical staffs, the admitting practices of those physicians and maintaining good relations with those physicians. Those physicians may terminate their affiliation with the Subsidiary Hospitals at any time. If the Corporation is unable to provide adequate support personnel or technologically advanced equipment and hospital facilities that meet the needs of those physicians, the physicians may be discouraged from referring patients to the Subsidiary Hospitals, admission may decrease and the Corporation’s operating performance may decline.

Over the next five to sixteen years, a nationwide shortage of physicians, and specialists in particular, is expected to emerge as a result of several factors, including population increases generally, the additional amount of healthcare needed for an aging population, the possibility of increased demand for healthcare services due to the Healthcare Reform Acts’ expansion of healthcare coverage described above and more physicians reaching retirement age than those entering medical practice. Reductions in government reimbursement could also adversely affect physicians, exacerbating this anticipated shortage. A future shortage of physicians in the Corporation’s service area could reduce use of programs and services at Subsidiary Hospitals and materially adversely affect the Corporation’s financial condition.

Possible Shortage of Nurses. In recent years, the hospital industry has suffered from a scarcity of nurses and some skilled clinicians to staff its facilities. Factors underlying this industry trend include an

increase in the proportion of the population that is elderly, an increase in the tendency to institutionalize senior citizens as opposed to providing nursing in the home, a decrease in the number of persons entering the nursing profession and an increase in the number of nurses specializing in home health care. These factors may intensify in years to come, aggravating the shortage of skilled personnel.

Because of this nationwide shortage of nurses and skilled technicians, the Corporation may be forced to pay higher than anticipated salaries to such personnel or to hire such personnel on a temporary basis through outside agencies at a higher cost. As competition for such employees intensifies, staffing shortages could significantly increase UPMC's personnel costs and could have a material adverse effect on the financial results of UPMC and on its ability to sustain minimum staffing levels necessary to maintain licensure, certification and accreditation.

Other Potentially Adverse Factors

In the future, the following factors, among others, may adversely affect the operations of the System and other providers to an extent that cannot be determined at this time:

1. Employment risks including unionization efforts, strikes and other related work actions, contract disputes, discrimination claims, personal tort actions, work-related injuries, exposure to hazardous materials, and other risks that may flow from the relationships between employer and employee or among physicians, patients and employees.
2. The fact that the System includes teaching hospitals is of considerable importance in attracting patients and highly qualified and skilled physicians. Consequently, any adverse change in the System's relationship with the University or loss of approved status for the residency programs of the System's academic hospitals could have a significant adverse effect on the System's revenues.
3. Occurrences of natural disasters or acts of terrorism which could damage some or all of the facilities interrupt utility service to some or all of the facilities or otherwise impair the operation of some or all of the facilities operated by the System or the generation of revenues from some or all of such facilities.
4. Reduced need for hospitalization or other services arising from increased utilization management by payors, future medical and scientific advances or decreased population.
5. Increased unemployment or other adverse economic conditions in the service area of the System which would increase the proportion of patients who are unable to pay fully for the cost of their care.
6. Any increase in the quantity of indigent care provided which is mandated by law or required due to increased needs of the community in order to maintain the charitable status of the Subsidiary Hospitals.
7. Regulatory actions which might limit the ability of the System to undertake capital improvements to its facilities or to develop new services.
8. Inflation, deflation or other adverse economic conditions including increased cost and/or reduced availability of energy.
9. Potential depletion of the Medicare trust fund.
10. Liabilities and costs arising from litigation. See "Litigation" in APPENDIX A.

THE BOND TRUSTEE AND THE MASTER TRUSTEE

The Bank of New York Mellon Trust Company, N.A. Pittsburgh, Pennsylvania, is serving as Bond Trustee, registrar and authentication, transfer and paying agent for the 2017 Bonds and the Owners thereof. The Bank of New York Mellon Trust Company, N.A., Pittsburgh, Pennsylvania, is serving as Master Trustee under the Master Indenture.

The obligations of the Bond Trustee and the Master Trustee are set forth in the Bond Indenture and the Master Indenture, respectively. The Bond Trustee and the Master Trustee have undertaken only those duties and obligations which are expressly set forth in the Bond Indenture and the Master Indenture, respectively. In carrying out the terms of the Bond Indenture and the Master Indenture, the Bond Trustee and the Master Trustee are not acting in any fiduciary capacity; the Bond Trustee and the Master Trustee act only for their own respective interests, rather than on behalf of the holders or prospective holders of the 2017 Bonds. After issuance of the 2017 Bonds, the Bond Trustee and the Master Trustee act only pursuant to the specific terms of the Bond Indenture and the Master Indenture, respectively. The Bond Trustee and the Master Trustee have not independently passed upon the validity of the 2017 Bonds, the security for the payment thereof, the value or condition of any assets pledged to the payment thereof, the adequacy of the provisions for such payment, the status for federal or state income tax purposes of the interest on the 2017 Bonds, or any other matter with respect to the issuance of the 2017 Bonds.

LITIGATION

The Authority. There is no litigation pending or, to the best of the Authority's knowledge, threatened against the Authority questioning the Authority's sale, issuance, execution, delivery or payment of the 2017 Bonds; the Authority's execution, delivery or performance of the Loan Agreement or the Bond Indenture; the organization, powers or authority of the Authority; or the right of the officers of the Authority to hold their respective offices.

The Corporation. There is no litigation pending or, to the knowledge of management of the Corporation, threatened which in any manner questions the right of the Corporation to use the proceeds of the 2017 Bonds as described herein or to enter into the Loan Agreement, the Supplemental Master Indenture No. 30 or the 2017 MTI Note or which in any manner questions the validity or enforceability of such documents.

The Corporation is involved in litigation and responding to requests for information from governmental agencies occurring in the normal course of business. Certain of these matters are in the preliminary stages and legal counsel is unable to estimate the potential effect, if any, upon operations or financial condition of the Corporation. Management believes that these matters will be resolved without material adverse effect on the Corporation's financial position or results of operations. However, the ultimate outcome and effect on the Corporation's financial statements is unknown. See "Litigation" in APPENDIX A for further information concerning litigation in which the Corporation is involved.

TAX EXEMPTION AND OTHER TAX MATTERS

Federal Tax Exemption – 2017A Bonds

General.

Bond Counsel is expected to issue an opinion on the date of issuance and delivery of the 2017A Bonds to the effect that, under existing law, interest on the 2017A Bonds (including any original issue discount properly allocable to an owner thereof) is excludable from gross income for federal income tax purposes under Section 103 of the Code, and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations; however, interest with respect to the 2017A Bonds may be taken into account in determining “adjusted current earnings” for purposes of computing the alternative minimum tax on certain corporations. For purposes of rendering the opinion described in this paragraph, Bond Counsel will assume, among other things, the accuracy of certain representations made by the Authority and the Corporation and continuing compliance by the Authority and the Corporation with requirements of the Code (including regulations promulgated thereunder) that must be met subsequent to the issuance of the 2017A Bonds in order that interest thereon be and remain excludable from gross income for federal income tax purposes. The Authority and the Corporation have covenanted to comply with such requirements. Inaccuracy of the representations of the Authority or the Corporation, or failure by the Authority or the Corporation to comply with such requirements, could cause the interest on the 2017A Bonds to be included in gross income retroactive to the date of issuance of the 2017A Bonds. Bond Counsel expresses no opinion regarding other federal tax consequences arising with respect to the 2017A Bonds.

Ownership of the 2017A Bonds may result in collateral federal income tax consequences to certain taxpayers, including, without limitation, financial institutions, property and casualty insurance companies, individual recipients of Social Security or Railroad Retirement benefits, certain S corporations with “excess net passive income,” foreign corporations subject to the branch profits tax, life insurance companies, and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry or have paid or incurred certain expenses allocable to the 2017A Bonds. Bond Counsel expresses no opinion as to any collateral tax consequences. Prospective purchasers of the 2017A Bonds should consult their tax advisors as to collateral federal income tax consequences.

Original Issue Discount

In the opinion of Bond Counsel, under existing law, the original issue discount in the selling price of all or a portion of the 2017A Bonds maturing November 15 of the years 2025, 2031, 2032 and 2033 (2017A Bonds sold at an original issue discount are referred to herein as “*OID Bonds*”), to the extent properly allocable to each owner of such 2017 Bond, is excludable from gross income for federal income tax purposes with respect to such owner. The original issue discount of each OID Bond is the excess of the stated redemption price at maturity of such OID Bond over the initial offering price to the public, excluding underwriters and other intermediaries, at which price a substantial amount of the 2017A Bonds of such maturity were sold.

Purchasers of OID Bonds should consult their own tax advisors with respect to the determination and treatment of original issue discount for federal income tax purposes, and with respect to state and local tax consequences of owning such OID Bonds.

Bond Premium

An amount equal to the excess of the purchase price of a 2017A Bond over its stated redemption price at maturity constitutes premium on such 2017A Bond. A purchaser who purchases a 2017A Bond at a premium, whether upon original issuance or in the secondary market (such 2017A Bonds are referred to herein as “**Premium Bonds**”) must amortize any premium over such Premium Bond's term to the first optional redemption date using constant yield principles, based on the purchaser's yield to such optional redemption date. Purchasers of any Premium Bonds, whether at the time of initial issuance or subsequent thereto, should consult with their own tax advisors with respect to the determination and treatment of premium for federal income tax purposes, and with respect to state and local tax consequences of owning such Premium Bonds.

Federal Income Tax Treatment of the 2017B Bonds

General.

In the opinion of Bond Counsel, based upon an analysis of existing laws, regulations, rulings and court decisions and assuming compliance with certain covenants, interest on the 2017B Bonds is not excluded from gross income for federal income tax purposes under Section 103 of the Code. Bond Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of, or accrual or receipt of interest on, the 2017B Bonds.

The following discussion summarizes certain U.S. federal tax considerations generally applicable to beneficial owners of the 2017B Bonds that acquire their 2017B Bonds in the initial offering, and generally does not address the tax consequences to subsequent purchasers of the 2017B Bonds. The discussion below is based upon laws, regulations, rulings, and decisions in effect and available on the date hereof, all of which are subject to change, possibly with retroactive effect. Prospective investors should note that no rulings have been or are expected to be sought from the IRS with respect to any of the U.S. federal income tax consequences discussed below, and no assurance can be given that the IRS will not take contrary positions. Further, the following discussion does not deal with all U.S. federal income tax consequences applicable to any given investor, nor does it address the U.S. federal income tax considerations applicable to categories of investors some of which may be subject to special taxing rules (regardless of whether or not such persons constitute U.S. Holders), such as certain U.S. expatriates, banks, real estate investment trusts, regulated investment companies, insurance companies, tax-exempt organizations, dealers or traders in securities or currencies, partnerships, S corporations, estates and trusts, investors who hold their 2017B Bonds as part of a hedge, straddle or an integrated or conversion transaction, or investors whose “functional currency” is not the U.S. dollar. Furthermore, the following discussion does not address (i) alternative minimum tax consequences or (ii) the indirect effects on persons who hold equity interests in a beneficial owner of 2017B Bonds. In addition, this summary generally is limited to investors who become beneficial owners of 2017B Bonds pursuant to this offering for the issue price that is applicable to such 2017B Bonds (i.e., the price at which a substantial amount of the 2017B Bonds is sold to the public) and who will hold their 2017B Bonds as “capital assets” within the meaning of Section 1221 of the Code.

As used herein, “U.S. Holder” means a beneficial owner of a 2017B Bond who for U.S. federal income tax purposes is an individual citizen or resident of the United States, a corporation or other entity taxable as a corporation created or organized in or under the laws of the United States or any political subdivision thereof (including the District of Columbia), an estate the income of which is subject to U.S. federal income taxation regardless of its source or a trust where a court within the United States is able to exercise primary supervision over the administration of the trust and one or more United States persons (as defined in the Code) have the authority to control all substantial decisions of the trust (or a trust that has made a valid election under U.S. Treasury Regulations to be treated as a domestic trust). As used herein,

“Non-U.S. Holder” generally means a beneficial owner of a 2017B Bond (other than a partnership) who is not a U.S. Holder. If a partnership is a beneficial owner of 2017B Bonds, the tax treatment of such partnership or a partner in such partnership generally will depend upon the status of the partner and upon the activities of the partnership. Partnerships that are beneficial owners of 2017B Bonds, and partners in such partnerships, should consult their own tax advisors regarding the tax consequences of an investment in the 2017B Bonds (including their status as U.S. Holders or Non-U.S. Holders).

U.S. Holders

Interest. Interest on the 2017B Bonds generally will be taxable to a U.S. Holder as ordinary interest income at the time such amounts are accrued or received, in accordance with the U.S. Holder's method of accounting for U.S. federal income tax purposes.

“Original issue discount” will arise for U.S. federal income tax purposes in respect of any 2017B Bond if its stated redemption price at maturity exceeds its issue price by more than a de minimis amount (as determined for tax purposes). For any 2017B Bonds issued with original issue discount, the excess of the stated redemption price at maturity of that 2017B Bond over its issue price will constitute original issue discount for U.S. federal income tax purposes. The stated redemption price at maturity of a 2017B Bond is the sum of all scheduled amounts payable on that 2017B Bond other than qualified stated interest. U.S. Holders of 2017B Bonds generally will be required to include any original issue discount in income for U.S. federal income tax purposes as it accrues, in accordance with a constant yield method based on a compounding of interest (which may be before the receipt of cash payments attributable to such income). Under this method, U.S. Holders of 2017B Bonds issued with original issue discount generally will be required to include in income increasingly greater amounts of original issue discount in successive accrual periods.

“Premium” generally will arise for U.S. federal income tax purposes in respect of any 2017B Bond to the extent its issue price exceeds its stated principal amount. A U.S. Holder of a 2017B Bond issued at a premium may make an election, applicable to all debt securities purchased at a premium by such U.S. Holder, to amortize such premium, using a constant yield method over the term of such 2017B Bond.

Market Discount. A holder who acquires a 2017B Bond in a secondary market transaction may be subject to Federal income tax rules providing that accrued market discount will be subject to taxation as ordinary income on the sale or other disposition of a “market discount bond.” Dispositions subject to this rule include a redemption or retirement of a 2017B Bond. The market discount rules may also limit a holder's deduction for interest expense for debt that is incurred or continued to purchase or carry a 2017B Bond. A market discount bond is defined generally as a debt obligation purchased subsequent to issuance, at a price that is less than the principal amount of the obligation, subject to a de minimis rule. The Code allows a taxpayer to compute the accrual of market discount by using a ratable accrual method or a constant interest rate method. Also, a taxpayer may elect to include the accrued discount in gross income each year while holding the bond, as an alternative to including the total accrued discount in gross income at the time of a disposition, in which case the tax basis of the bond will be increased by the amount of discount included in gross income and the interest expense deduction limitation described above will not apply.

Disposition of the 2017B Bonds. Unless a nonrecognition provision of the Code applies, the sale, exchange, redemption, retirement (including pursuant to an offer by the District), reissuance or other disposition of a 2017B Bond will be a taxable event for U.S. federal income tax purposes. In such event, a U.S. Holder of a 2017B Bond generally will recognize gain or loss equal to the difference between (i) the amount of cash plus the fair market value of property received (except to the extent attributable to accrued but unpaid interest on the 2017B Bond which will be taxed in the manner described above under “Interest”) and (ii) the U.S. Holder's adjusted tax basis in the 2017B Bond (generally, the purchase price paid by the

U.S. Holder for the 2017B Bond, increased by the amount of any original issue discount previously included in income by such U.S. Holder with respect to such 2017B Bond and decreased by any payments previously made on such 2017B Bond (other than payments of qualified stated interest) or decreased by any amortized premium). Any such gain or loss generally will be capital gain or loss. Defeasance of any 2017B Bond may result in a deemed reissuance thereof, in which event a beneficial owner of the defeased 2017B Bond generally will recognize taxable gain or loss equal to the difference between the amount realized from the sale, exchange or retirement (less any accrued qualified stated interest which will be taxable as such) and the beneficial owner's adjusted tax basis in the 2017B Bond.

In the case of a non-corporate U.S. Holder of the 2017B Bonds, the maximum marginal U.S. federal income tax rate applicable to any such gain will be lower than the maximum marginal U.S. federal income tax rate applicable to ordinary income if such U.S. holder's holding period for the 2017B Bonds exceeds one year. The deductibility of capital losses is subject to limitations.

Unearned Income Tax. A U.S. Holder that is an individual or estate, or a trust that does not fall into a special class of trusts that is exempt from such tax, will be subject to a 3.8% tax on the lesser of (1) the U.S. Holder's "net investment income" for the relevant taxable year and (2) the excess of the U.S. Holder's adjusted gross income (increased by certain amounts of excluded foreign income) for the taxable year over a certain threshold (which in the case of individuals will be between \$125,000 and \$250,000, depending on the individual's circumstances) (the "Unearned Income Tax"). A U.S. Holder's net investment income will generally include its interest income and net gain from the disposition of the 2017B Bonds, unless such interest income and net gain is derived in the ordinary course of the conduct of a trade or business (other than a trade or business that consists of certain passive or trading activities). Net investment income may, however, be reduced by properly allocable deductions to such income. U.S. Holders that are individuals, estates or trusts are urged to consult their tax advisors regarding the applicability of the Unearned Income Tax to their income and to gains from the sale of 2017B Bonds.

Non-U.S. Holders

Non-U.S. Holders should consult with their own tax counsel concerning the consequences of purchasing, holding, and disposing of any 2017B Bonds.

Information Reporting and Backup Withholding.

Payments on the 2017B Bonds generally will be subject to U.S. information reporting and "backup withholding." Under Section 3406 of the Code and applicable U.S. Treasury Regulations issued thereunder, a non-corporate U.S. Holder of 2017B Bonds may be subject to backup withholding at the current rate of 28% (subject to future adjustment) with respect to "reportable payments," which include interest paid on the 2017B Bonds and the gross proceeds of a sale, exchange, redemption, retirement or other disposition of the 2017B Bonds. The payor will be required to deduct and withhold the prescribed amounts if (i) the payee fails to furnish a U.S. taxpayer identification number ("TIN") to the payor in the manner required, (ii) the IRS notifies the payor that the TIN furnished by the payee is incorrect, (iii) there has been a "notified payee underreporting" described in Section 3406(c) of the Code or (iv) there has been a failure of the payee to certify under penalty of perjury that the payee is not subject to withholding under Section 3406(a)(1)(C) of the Code. Amounts withheld under the backup withholding rules may be refunded or credited against the U.S. Holder's federal income tax liability, if any provided that the required information is timely furnished to the IRS.

Foreign Account Tax Compliance Act (“FATCA”) – U.S. Holders and Non-U.S. Holders

Sections 1471 through 1474 of the Code impose a 30% withholding tax on certain types of payments made to foreign financial institutions, unless the foreign financial institution enters into an agreement with the U.S. Treasury to, among other things, undertake to identify accounts held by certain U.S. persons or U.S.-owned entities, annually report certain information about such accounts, and withhold 30% on payments to account holders whose actions prevent it from complying with these and other reporting requirements, or unless the foreign financial institution is otherwise exempt from those requirements. In addition, FATCA imposes a 30% withholding tax on the same types of payments to a non-financial foreign entity unless the entity certifies that it does not have any substantial U.S. owners or the entity furnishes identifying information regarding each substantial U.S. owner. Failure to comply with the additional certification, information reporting and other specified requirements imposed under FATCA could result in the 30% withholding tax being imposed on payments of interest and principal under the 2017B Bonds and sales proceeds of 2017B Bonds held by or through a foreign entity. In general, withholding under FATCA currently applies to payments of U.S. source interest (including OID) and will apply to gross proceeds from the sale, exchange or retirement of debt obligations paid after December 31, 2018.

The FATCA provisions are particularly complex, and the scope and timing of their application remains uncertain. Prospective investors should consult their own tax advisors regarding FATCA and its effect on them.

The foregoing summary is included herein for general information only and does not discuss all aspects of U.S. federal income taxation that may be relevant to a particular holder of 2017B Bonds in light of the holder's particular circumstances and income tax situation. Prospective investors are urged to consult their own tax advisors as to any tax consequences to them from the purchase, ownership and disposition of 2017B Bonds, including the application and effect of state, local, foreign and other tax laws.

Pennsylvania Tax Exemption

Bond Counsel also is expected to issue an opinion on the date of issuance and delivery of the 2017 Bonds to the effect that, under the laws of the Commonwealth of Pennsylvania as presently enacted and construed, the 2017 Bonds are exempt from personal property taxes in Pennsylvania and the interest on the 2017 Bonds is exempt from Pennsylvania corporate net income tax and personal income tax.

Concerning Bond Counsel's Opinions

The proposed form of Bond Counsel opinion is attached hereto as APPENDIX D. Bond Counsel's opinions are based on existing law, which is subject to change. Such opinions are further based on factual representations made to Bond Counsel as of the date thereof. Bond Counsel assumes no duty to update or supplement its opinions to reflect any facts or circumstances that may thereafter come to Bond Counsel's attention, or to reflect any changes in law that may thereafter occur or become effective. Moreover, Bond Counsel's opinions are not a guarantee of a particular result, and are not binding on the IRS or the courts; rather, such opinions represent Bond Counsel's professional judgment based on its review of existing law and in reliance on the representations and covenants that it deems relevant to such opinions, as of the date of issuance of the 2017 Bonds.

CONTINUING DISCLOSURE

To comply with the requirements of Rule 15c2-12 promulgated by the Securities and Exchange Commission (the “**Rule**”), as applicable to prior series of bonds issued for the benefit of the Corporation,

the Corporation has entered into a master continuing disclosure agreement (the “**Disclosure Agreement**”) with Digital Assurance Certification, L.L.C., as Dissemination Agent (the “**Dissemination Agent**”). The Corporation and the Dissemination Agent will supplement the Disclosure Agreement so that it will also apply to the 2017 Bonds. Under the Disclosure Agreement, the Corporation has agreed to provide to the Dissemination Agent, within 180 days after the end of each fiscal year of the Corporation, certain financial and operating data (referred to herein as “**Annual Information**”), including its annual financial statements prepared in accordance with generally accepted accounting principles, which may be the combined or consolidated financial statements of the System. The Dissemination Agent will file the Annual Information with the Municipal Securities Rulemaking Board (the “**MSRB**”), which operates the Electronic Municipal Market Access (“**EMMA**”) system for municipal securities disclosures. The Disclosure Agreement will be for the benefit of the owners and Beneficial Owners of the 2017 Bonds and applicable prior bonds and will assist the Participating Underwriters (as defined in the Disclosure Agreement) in complying with the Rule. The Authority has undertaken no responsibility with respect to any reports, notices or information provided or required under the Disclosure Agreement, and has no liability to any person, including any owner or Beneficial Owner of the 2017 Bonds, with respect to any such reports, notices or disclosures.

Annual Information

The Annual Information shall include the audited combined or consolidated financial statements of the System prepared in accordance with generally accepted accounting principles and audited by a certified public accountant (if audited financial statements are available). The Annual Information shall also include updated information related to consolidated utilization statistics and sources of revenue, unless the Corporation is providing such information in quarterly reports as described below. In addition, the Corporation has covenanted to provide notice in a timely manner to the Dissemination Agent, who shall thereafter provide such notice to the MSRB, of any failure by the Corporation to provide the required Annual Information on or before the date specified in the Disclosure Agreement.

Quarterly Information

Although not required by the Rule, the Corporation has agreed in the Disclosure Agreement to provide quarterly financial and operating data of the System to the Dissemination Agent. The quarterly information will be delivered by the Corporation to the Dissemination Agent within 60 days of the end of each quarter of the fiscal year. The quarterly information (which will be unaudited) includes information relating to consolidated utilization statistics, sources of revenues and consolidated financial information (including combining or consolidating divisional income statements).

Material Event Notices

Under the Disclosure Agreement, the Corporation also agrees to provide, in a timely manner, not in excess of ten (10) business days after the occurrence of the event, written notice to the Dissemination Agent of any of the following events with respect to the 2017 Bonds: (1) principal and interest payment delinquencies; (2) non-payment related defaults, if material; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancement reflecting financial difficulties; (5) substitution of a credit enhancer or liquidity provider, or its failure to perform; (6) adverse tax opinions or events affecting the tax-exempt status of the 2017 Bonds; (7) modification to the rights of registered or beneficial owners of the 2017 Bonds, if material; (8) bond redemptions (other than mandatory or sinking fund redemptions), if material, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the 2017 Bonds, if material; (11) rating changes; (12) bankruptcy, insolvency, receivership or similar event of a Member of the Obligated Group; (13) the consummation of a merger, consolidation, or acquisition involving the Obligated Group or the sale of all or substantially all of the assets of the Obligated Group, other than in the ordinary course of business, the entry into a definitive

agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and (14) appointment of a successor or additional bond trustee or the change of name of a bond trustee, if material. The Dissemination Agent is required to file a copy of any such notice with the MSRB within two business days of its receipt of such notice from the Corporation.

Limitations and Amendments

The Corporation has agreed to provide the Annual Information and other information and to provide notices of material events only as described above. The Corporation does not make, and expressly disclaims, any representation or warranty concerning such information or concerning its usefulness to a decision to invest in or sell the 2017 Bonds at any future date.

The Disclosure Agreement may be amended to adapt to changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status or type of operations of the Corporation. The Corporation may also amend or repeal the Disclosure Agreement if the applicable provisions of the Rule are repealed or a final court judgment is entered that the provisions are invalid, or in any other circumstance or manner, if the agreement, as supplemented or amended, would permit a participating underwriter to purchase the 2017 Bonds in the offering made hereby in compliance with the Rule.

The sole and exclusive remedy for a breach or default under the Disclosure Agreement described above is an action to compel specific performance of the undertakings of the Dissemination Agent and the Corporation. A breach or default under the Disclosure Agreement shall not constitute an Event of Default under the Bond Indenture or under the Loan Agreement or under any other document. The obligations of the Corporation under the Disclosure Agreement with respect to the 2017 Bonds shall terminate upon the legal defeasance, prior redemption or payment in full of the 2017 Bonds or the assumption by a successor of all of the obligations of the Corporation under the Disclosure Agreement.

LEGAL MATTERS

The 2017 Bonds are offered when, as and if issued by the Authority and accepted by RBC Capital Markets, LLC, BNY Mellon Capital Markets, LLC, Huntington Capital Markets, PNC Capital Markets LLC and Wells Fargo Securities (collectively, the “*Underwriters*”), subject to prior sale, or withdrawal or modification of the offer without notice, and to the approval of the legality of the 2017 Bonds by Campbell & Levine, LLC, Pittsburgh, Pennsylvania, Bond Counsel, to be furnished upon delivery of the 2017 Bonds, substantially in the form set forth in APPENDIX D. Certain legal matters will be passed upon for the Authority by the Office of Chief Counsel, Pennsylvania Department of Community and Economic Development; for the Corporation by its special counsel, Eckert Seamans Cherin & Mellott, LLC, Pittsburgh, Pennsylvania; and for the Underwriters by their counsel, Kutak Rock LLP, Philadelphia, Pennsylvania.

The various legal opinions to be delivered in connection with the 2017 Bonds express the professional judgment of the law firm rendering the opinion as to the legal issues explicitly addressed therein. In rendering a legal opinion, the law firm does not become an insurer or guarantor of that expression of professional judgment, of the transactions opined upon, or the future performance of the parties to the transaction. In addition, the rendering of an opinion does not guarantee the outcome of any legal dispute that may arise out of the transaction which is the subject of the opinion.

CERTAIN RELATIONSHIPS; OTHER ACTIVITIES OF THE UNDERWRITERS

Affiliates of certain of the Underwriters, of the Bond Trustee and of the Master Trustee have other business relationships with and/or are lenders to the Corporation.

Each of the Underwriters and its respective affiliates together comprise a full service financial institution engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, principal investment, hedging, financing and brokerage activities. Each of the Underwriters and its respective affiliates may have, from time to time, performed and may in the future perform, various investment banking services for the Corporation for which they received or will receive customary fees and expenses. In the ordinary course of their various business activities, each of the Underwriters and its respective affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities and financial instruments which may include bank loans and/or credit default swaps) for their own account and for the accounts of their customers and may at any time hold long and short positions in such securities and instruments. Such investment securities activities may involve instruments and obligations of the Corporation.

All of the Underwriters, either directly or through their affiliated entities (collectively, “**Credit Providers**”), participate in a line of credit to the Corporation. The Credit Providers have certain rights against the Corporation upon the occurrence of certain events. The affiliated entities are separately compensated for serving in that capacity.

RBC Municipal Products, Inc., an affiliate of RBC Capital Markets, currently holds bonds of the Corporation in its tender option bond program and such bonds are on the balance sheet of RBC Capital Markets.

RATINGS

Long-term ratings of “A1”, “A+” and “AA-” for the 2017 Bonds have been assigned by Moody’s Investors Service, by S&P Global Ratings, a division of Standard & Poor’s Financial Services LLC, and by Fitch Ratings, respectively. The ratings and an explanation of their significance may be obtained from the rating agency furnishing such rating. Such ratings reflect only the respective views of the rating agencies.

Generally, rating agencies base their ratings on the information and materials so furnished and on investigations, studies and assumptions by the rating agencies. There is no assurance that a particular rating will be maintained for any given period of time or that it will not be lowered or withdrawn entirely, if, in the judgment of the rating agency originally establishing the rating, circumstances so warrant. Any such change or withdrawal of such rating could have an adverse effect on the market price and/or marketability of the 2017 Bonds.

AUDITED FINANCIAL STATEMENTS

The audited consolidated financial statements of the Corporation for the fiscal year ended June 30, 2017, have been audited by Ernst & Young LLP, independent auditors, as stated in their report appearing in APPENDIX B to this Official Statement.

UNDERWRITING

Series 2017A Bonds. The Underwriters, acting through RBC Capital Markets, LLC (the “**2017A Representative**”), have entered into a Bond Purchase Agreement (the “**2017A Bond Purchase**”).

Agreement”) with the Authority and the Corporation pursuant to which the Underwriters will purchase the 2017A Bonds from the Authority. The 2017A Bonds will be purchased at an aggregate price of \$467,106,639.75 (representing the principal amount of the 2017A Bonds less Underwriters’ discount of \$2,511,088.35 and plus net original issue premium of \$32,872,728.10).

Series 2017B Bonds. The Underwriters, acting through Wells Fargo Bank, National Association (the “**2017B Representative**”), have entered into a Bond Purchase Agreement (the “**2017B Bond Purchase Agreement**”; together with the 2017A Bond Purchase Agreement, sometimes hereinafter referred to collectively, as the “**Bond Purchase Agreements**”) with the Authority and the Corporation pursuant to which the Underwriters will purchase the 2017B Bonds from the Authority. The 2017B Bonds will be purchased at an aggregate price of \$99,427,856.23 (representing the principal amount of the 2017B Bonds less Underwriters’ discount of \$572,143.77).

The obligations of the Underwriters to purchase the 2017 Bonds are subject to certain terms and conditions set forth in the Bond Purchase Agreements, the approval of certain legal matters by Bond Counsel and certain other conditions. The Bond Purchase Agreements provide that the Underwriters will purchase all the 2017 Bonds if any 2017 Bonds are purchased.

Each Bond Purchase Agreement requires each Underwriter to provide to the Corporation, for and within a prescribed time frame, a separate list of all trades with respect to the 2017 Bonds made by such Underwriter, or its affiliated broker-dealers, including details of such trades, and provides, further, that if an Underwriter fails to provide such report, the Corporation shall have the right to direct the Representative to withhold all or any portion of the management fee payable to such Underwriter which shall then be paid to the Corporation. The component of the Underwriters’ discount allocable to the management fee for the 2017A Bonds is approximately \$327,559; for the 2017B Bonds, approximately \$75,000.

The Underwriters may offer and sell the 2017 Bonds to certain dealers (including dealers depositing the 2017 Bonds into investment trusts) and others at prices lower than such initial public offering prices as are stated on the inside cover page hereof. The public offering prices may be changed from time to time by the Underwriters upon prior written notice to the Corporation and the Authority.

Wells Fargo Securities is the trade name for certain securities-related capital markets and investment banking services of Wells Fargo & Company and its subsidiaries, including Wells Fargo Bank, National Association, which conducts its municipal securities sales, trading and underwriting operations through the Wells Fargo Bank, NA Municipal Products Group, a separately identifiable department of Wells Fargo Bank, National Association, registered with the Securities and Exchange Commission as a municipal securities dealer pursuant to Section 15B(a) of the Securities Exchange Act of 1934.

Wells Fargo Bank, National Association, acting through its Municipal Products Group (“WFBNA”), one of the underwriters of the 2017 Bonds, has entered into an agreement (the “WFA Distribution Agreement”) with its affiliate, Wells Fargo Clearing Services, LLC (which uses the trade name “Wells Fargo Advisors”) (“WFA”), for the distribution of certain municipal securities offerings, including the 2017 Bonds. Pursuant to the WFA Distribution Agreement, WFBNA will share a portion of its underwriting or remarketing agent compensation, as applicable, with respect to the 2017 Bonds with WFA. WFBNA has also entered into an agreement (the “WFSLLC Distribution Agreement”) with its affiliate Wells Fargo Securities, LLC (“WFSLLC”), for the distribution of municipal securities offerings, including the 2017 Bonds. Pursuant to the WFSLLC Distribution Agreement, WFBNA pays a portion of WFSLLC’s expenses based on its municipal securities transactions. WFBNA, WFSLLC, and WFA are each wholly-owned subsidiaries of Wells Fargo & Company.

MISCELLANEOUS

All quotations from, and summaries and explanations of, the PEDFA Law, the Bond Indenture, the Loan Agreement, the Master Indenture, the 2017 MTI Note, and other documents referred to herein do not purport to be complete, and are qualified by reference to said documents and matters of law in their entireties, which should be consulted for full and complete statements of their provisions. All projections, forecasts, estimates and other statements in this Official Statement involving matters of opinion, whether or not expressly so stated, are intended as such and not as representations of fact.

It is anticipated that CUSIP identification numbers will be printed on the 2017 Bonds, but neither the failure to print such number on any 2017 Bond nor any error in the printing of such number shall constitute cause for a failure or refusal by the purchaser thereof to accept delivery of and pay for any 2017 Bonds.

This Official Statement is not to be construed as a contract or agreement between the Authority or the Corporation and the purchasers or owners of any of the 2017 Bonds.

The Authority has not assisted in the preparation of this Official Statement, except for the statements under the section captioned “PENNSYLVANIA ECONOMIC DEVELOPMENT FINANCING AUTHORITY” and “LITIGATION” (solely as it relates to the Authority) herein and, except for those sections, the Authority is not responsible for any statements made in this Official Statement. Except for the authorization, execution and delivery of documents required to effect the issuance of the 2017 Bonds, the Authority has not otherwise assisted in the public offer, sale or distribution of the 2017 Bonds. Accordingly, except as aforesaid, the Authority assumes no responsibility for the disclosures set forth in this Official Statement.

The attached Appendices are integral parts of this Official Statement.

The execution and delivery of this Official Statement have been duly authorized by the Authority and duly approved by the Corporation.

**PENNSYLVANIA ECONOMIC DEVELOPMENT
FINANCING AUTHORITY**

By: /s/ Stephen M. Drizos
STEPHEN M. DRIZOS, Executive Director

Approved:

UPMC

By: /s/ C. Talbot Heppenstall, Jr.
C. TALBOT HEPPENSTALL, JR., Treasurer

APPENDIX A

About UPMC

APPENDIX A
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Introduction

UPMC, doing business as University of Pittsburgh Medical Center, is one of the world's leading integrated delivery and financing systems ("IDFS"). UPMC's more than 25 hospitals and more than 600 doctors' offices and outpatient sites comprise one of the largest non-profit health care systems in the United States. UPMC is based in Pittsburgh, Pennsylvania, and primarily serves residents of western Pennsylvania. It also draws patients for highly specialized services from across the nation and around the world. In addition, UPMC exports its expertise to other parts of the world and to the health care industry. As of June 30, 2017, nearly 5,800 physicians were affiliated with UPMC, including more than 3,600 who are employed by UPMC. UPMC also offers a variety of insurance products that cover 3.2 million lives.

UPMC is widely recognized for its innovations in patient care, research, technology and health care management. UPMC is also:

- The largest health care delivery system in Pennsylvania
- The largest nongovernment employer in the Commonwealth, with 80,000 part-time and full-time employees after the addition of UPMC Pinnacle on September 1, 2017.
- Closely affiliated with the University of Pittsburgh of the Commonwealth System of Higher Education (the "University"), which is among the top five recipients of National Institutes of Health ("NIH") research funding with more than \$513 million during the federal fiscal year ended September 30, 2016
- On the prestigious *U.S. News & World Report* annual Honor Roll of America's Best Hospitals
- One of the largest cancer networks in the country with more than 50 locations
- One of the leading transplant programs in the world
- A provider of health care services globally with an international footprint established in twelve countries on four continents.

Total operating revenues of UPMC were \$14.3 billion during the twelve months ended June 30, 2017. These total revenues do not include external research funding which is accounted for separately through the University.

Governance

UPMC is governed by a single parent corporation of the same name (the “Corporation”) which was established in 1982 as a Pennsylvania nonprofit corporation, exempt from federal income taxation under Section 501(a) of the Internal Revenue Code of 1986, as amended (the “Code”), as an organization described in Section 501(c)(3) of the Code. The Corporation was formerly named UPMC Health System, University of Pittsburgh Medical Center System, and Presbyterian University Health System, Inc., respectively. The Corporation is operated exclusively for charitable, educational, and scientific purposes, and in furtherance of such purposes, guides, directs, develops, and supports activities related to the construction, purchase, ownership, maintenance, operation, and financing of hospitals and related educational and service facilities. The Corporation provides governance and supervision for UPMC’s subsidiary corporations, including, among others, various health insurance companies (“the Insurance Subsidiaries”) and various hospitals (the “Subsidiary Hospitals”) for which the Corporation serves as the sole member, holding certain reserved powers and having the power to initiate certain actions and in several cases any action, at the subsidiary level. The Corporation is a supporting organization pursuant to Section 509(a) (3) of the Code with respect to its Subsidiary Hospitals and with respect to the University. UPMC voluntarily complied with all relevant provisions of the Sarbanes-Oxley Act for its fiscal year ended June 30, 2017. This is the twelfth consecutive fiscal year that UPMC has met these provisions.

Board of Directors, Officers & Committees. The Bylaws of the Corporation provide for a Board of Directors (the “Board”) consisting of individuals exercising up to 24 votes. Approximately one-third of the Board’s total votes are held by individuals appointed by the University, approximately one-third of the total votes are held by individuals elected from the community at-large, and approximately one-third of the total votes are held by individuals appointed by the Subsidiary Hospitals or their affiliated organizations. With certain exceptions, directors serve a term of three years and are limited to three consecutive terms, subject to a one-year hiatus before being able to serve again. The Board meets on a near monthly basis.

The officers of the Board include: the Chairperson, Vice Chairpersons, and the Chairperson of the Finance Committee. Corporate officers include the President and Chief Executive Officer, Chief Financial Officer, Treasurer, Chief Legal Officer, Secretary, and such other officers as the Board may elect from time to time. The following individuals currently hold the offices so noted:

Chairperson

G. Nicholas Beckwith III

Chairman and Chief Executive Officer
Arch Street Management, LLC

First Vice Chairperson

Eva Tansky Blum

Retired Executive Vice President
and Director, Community Affairs
PNC Bank, N.A.

Retired Chair and President, The PNC Foundation

Second Vice Chairperson

Mark J. Laskow

Managing Director
Greycourt & Co. Inc.

Chairperson, Finance Committee

Robert M. Hernandez

Former Vice Chairman and Chief Financial Officer
USX Corporation

President and Chief Executive Officer

Jeffrey A. Romoff

President and CEO, UPMC

Chief Financial Officer

Robert A. DeMichiei

Chief Financial Officer, UPMC

Treasurer

C. Talbot Heppenstall, Jr.

Treasurer, UPMC
President, UPMC Enterprises

Chief Legal Officer

W. Thomas McGough, Jr.

Chief Legal Officer, UPMC

Secretary

Michele P. Jegasothy

Corporate Secretary, UPMC

Standing committees of the Board include: Finance, Audit, Quality Patient Care, Ethics and Compliance, Executive Compensation, Inclusion and Diversity, Investment, Governance, and Nominating. The International and Enterprises Committee is an ad-hoc committee of the Board. Current members of the Board are:

G. Nicholas Beckwith III

Chairman and Chief Executive Officer
Arch Street Management, LLC

Elaine M. Bellin

President and Chief Executive Officer
Paragon Foods

Eva Tansky Blum

*Retired Executive Vice President and Director,
Community Affairs*
PNC Bank, N.A.
Retired, Chair and President
The PNC Foundation

Patrick D. Gallagher

Chancellor and Chief Executive Officer
University of Pittsburgh

Richard S. Hamilton

Chairman
AAA East Central

Howard W. Hanna III

Chairman and Chief Executive Officer
Hanna Holdings

Robert M. Hernandez

Former Vice Chairman and Chief Financial Officer
USX Corporation

John C. Hickey
Chief Operating Officer
Lee & Associates of Eastern Pennsylvania, LLC

Margaret P. Joy

Partner
McCarthy, McDonald, Schulberg & Joy

Mark Laskow

Managing Director
Greycourt & Co., Inc

Arthur S. Levine, M.D.

Senior Vice Chancellor for the Health Sciences
John and Gertrude Petersen Dean School
of Medicine
University of Pittsburgh

Robert G. Lovett

Partner
Lovett Bookman Harmon Marks LLP

W. Duff McCrady

President
McCrady Corporation

Robert W. Montler

President and CEO
Lee Industries, Inc.

Mark A. Nordenberg

Chancellor Emeritus
University of Pittsburgh

Ann S. Pepperman

Attorney
McCormick Law Firm

Louis B. Plung

Managing Partner
Louis Plung & Company

Susan Baker Shipley

President
Western Pennsylvania and Ohio Valley
Huntington Bank

Gregory Spencer

Chief Executive Officer
Randall Industries

William E. Strickland, Jr.

President and CEO
Manchester Bidwell Corporation

John P. Surma

Retired Chairman and CEO
United States Steel Corporation

Stephen R. Tritch

Former Chairman
Westinghouse Electric Company

Thomas A. Tupitza

President
Knox McLaughlin Gornall & Sennett, PC

John J. Verbanac

President and Chief Executive Officer
Summa Development, LLC

Executive Management. The following individuals are responsible for policy implementation and management of the programs, services, facilities and support operations of UPMC:

Jeffrey A. Romoff, President and Chief Executive Officer, UPMC. Bachelor's degree, City College of New York, 1967. Master's degree, Political Science, Yale University, 1971. Previous positions include: Executive Vice President, UPMC and Vice Chancellor for Health Sciences, University of Pittsburgh; Administrator and Associate Director for Western Psychiatric Institute and Clinic, 1975-1987; Teaching Associate, Yale University, 1970-1971; and Teaching Fellow, Yale University, 1969-1970.

Charles E. Bogosta, Executive Vice President, UPMC; President, International Services Division; President, UPMC CancerCenter. Bachelor's degree, State University of New York, 1980. Master's degree, Bowling Green University, 1981. Previous positions include: Chief Financial Officer and Executive Vice President for Business Development, Corporate Health Dimensions, Inc., 1991-1998; Chief Financial Officer and Chief Operating Officer, Health Enterprises Management, Inc., 1985-1991.

Leslie C. Davis, Senior Vice President, UPMC; Executive Vice President and Chief Operating Officer, Health Services Division. Bachelor's degree, University of South Florida, 1980. Master's of Education in Administration, Planning and Social Policy, Harvard University, 1981. Previous positions include: Vice President of clinical affiliations and ambulatory programs at Thomas Jefferson University, 1984-1997; Chief Operating Officer of Presbyterian Medical Center of Philadelphia, Chief Marketing and Planning Officer, University of Pennsylvania Health System, 1997-2004; President of Graduate Hospital in Philadelphia and Regional COO, part of Tenet Healthcare Corporation, 2002-2004; President of Magee-Womens Hospital of UPMC, 2004-current.

Robert A. DeMichiei, Executive Vice President, UPMC and Chief Financial Officer. Bachelor's degree, University of Pittsburgh, 1987. Certified Public Accountant. Previous positions include: Manager of Finance, Global Business Development and Integration, GE Power Systems, 2001-2004. Chief Financial Officer, Global Services Operation and Global Controller, GE Transportation Systems, 1997-2001. Senior Manager and Staff Accountant-Manager, Price Waterhouse, LLP, 1987-1997.

David M. Farner, Executive Vice President, UPMC and Chief Strategic and Transformation Officer. Bachelor's degree, Westminster College, 1985. Previous positions include: Associate Executive Vice President, UPMC, 1996-2003; Financial Analyst, Presbyterian University Hospital, 1986-1995; and Staff Auditor, Arthur Andersen & Company, 1985-1986.

C. Talbot Heppenstall, Jr., Executive Vice President, UPMC and Treasurer; President, UPMC Enterprises. Bachelor's degree, University of Virginia, 1982. Master's degree, Industrial Administration, Carnegie Mellon University, 1985. Previous positions include Managing Director, RBC Dain Rauscher, Inc., 1999-2003, President, PriMuni LLC, 2001-2003, Senior Vice President and various other positions, PNC Capital Markets, 1989-1999 and Vice President, Butcher & Singer, 1985-1989.

Diane P. Holder, Executive Vice President, UPMC; President, UPMC Insurance Services Division; President and Chief Executive Officer, UPMC Health Plan. Bachelor's degree, University of Michigan, 1975. Master's of Science degree, Columbia University. Previous positions include: President, Western Psychiatric Institute and Clinic, Senior Vice President, UPMC Presbyterian, Vice President Behavioral Health Services, and President and CEO, Community Care Behavioral Health Organization.

W. Thomas McGough, Jr., Executive Vice President, UPMC and Chief Legal Officer. Juris Doctorate degree, University of Virginia, 1978. Bachelor's degree, Princeton University – magna cum laude, 1975. Previous positions include: Partner, Reed Smith, and member of the executive committee and chairman of litigation department; Associate at Reed Smith 1982-1986, Partner at Reed Smith, 1987-2010; Associate Counsel to the Senate committee investigating the Iran-Contra affair; Assistant United States Attorney for the Western District of Pennsylvania, 1980-1982; Clerk for Justice William H. Rehnquist of the Supreme Court of the United States, 1979-1980; and Clerk for Judge Collins J. Seitz of the United States Court of Appeals for the Third Circuit, 1978-1979.

Gregory K. Peaslee, Executive Vice President, UPMC, and Chief Administrative Officer. Bachelor's degree, Duquesne University, 1982. Certified Public Accountant (currently inactive status). Previous positions include: Executive Director, University of Pittsburgh Physicians, 1996-2000; Executive Director, University Radiologists, 1992-1996; Chief Financial Officer, Montefiore University Hospital/Eye and Ear Hospital, 1987-1992; Chief Financial Officer, Monsour Medical Center, 1985-1987; and Senior Consultant, Ernst & Whinney 1982-1985.

Steven D. Shapiro, M.D., Executive Vice President, UPMC and Chief Medical and Scientific Officer and President, Health Services Division. Professor, Department of Medicine, University of Pittsburgh School of Medicine. Bachelor's degree, University of Chicago, 1978; Graduate of Pritzker School of Medicine, 1983. Internal Medicine internship and residency, Barnes Hospital, 1983-1986; fellowship training in Respiratory and Critical Care, Washington University School of Medicine, 1986-1989; chief residency in Internal Medicine, Barnes Hospital, 1989-1990. Previous positions include: Jack D. Myers Professor and Chairman, Department of Medicine, University of Pittsburgh School of Medicine, 2006-2011; Parker B. Francis Professor of Medicine, Harvard Medical School, and Chief of the Division of Pulmonary and Critical Care, Brigham and Women's Hospital, 2001-2006; Professor of Pediatrics, Cell Biology, and Medicine, Washington University School of Medicine, 2000-2001.

Marshall W. Webster, M.D., Senior Vice President, UPMC. Graduate of the Johns Hopkins University School of Medicine. Residency training in General and Thoracic Surgery, UPMC. On the faculty of the University of Pittsburgh since 1973, having previously held the Mark M. Ravitch Chair in Surgery. Past service as Chief of Vascular Surgery, Executive Vice-Chair, and Interim Chair of the Department of Surgery.

Business Affiliation Agreements

Over its history, UPMC has entered into a number of affiliation agreements (“Business Affiliation Agreements.”) The major Business Affiliation Agreements with provisions still in effect are summarized below. UPMC is in regular discussions with a variety of regional, domestic and international organizations regarding potential new Business Affiliation Agreements.

Altoona Regional Health System (“Altoona Regional”). On July 1, 2013, Altoona Regional officially became UPMC Altoona after the boards of directors of Altoona Regional and its parent company, Central Pennsylvania Health Services Corporation, voted unanimously to join UPMC by executing an Integration and Affiliation Agreement (the “Altoona Agreement”). The Altoona Agreement includes a capital commitment from UPMC of \$250 million over 10 years to enhance health care facilities and services for patients and to bring outstanding technology, science, innovation, and expertise to the Altoona region. As UPMC's regional referral center and tertiary hub, UPMC Altoona will be able to offer more specialized medicine and advanced treatments. The Altoona Agreement also provided for UPMC to make a contribution of \$10

million to UPMC Altoona's supporting foundation, the Foundation for Life, and assume responsibility for all of Altoona Regional's outstanding debt, pension, and other liabilities. As of June 30, 2017, \$146 million of the original commitment remains to be spent.

Hamot Health Foundation. On February 1, 2011, UPMC, Hamot Medical Center ("UPMC Hamot") and the Hamot Health Foundation executed an Integration and Affiliation Agreement (the "Hamot Agreement") making UPMC the sole corporate member of UPMC Hamot. The Hamot Agreement is intended to preserve and enhance UPMC Hamot's ability to provide high-quality health services to the greater Erie community. Pursuant to the Hamot Agreement, UPMC will provide UPMC Hamot with a total investment of \$300 million over a 10-year period that will support expansion and enhancement of medical services for the communities that UPMC Hamot serves. On the date of the acquisition, UPMC established a \$100 million fund (the "Hamot Fund") which is dedicated solely for the support of UPMC Hamot and is controlled solely by UPMC Hamot's board of directors. Over a 10-year period, \$50 million from the Hamot Fund, along with an additional \$200 million committed by UPMC from other sources including UPMC Hamot's cash flows (the "Original Commitment"), is to be spent for the enhancement of facilities and services at Hamot. Such amounts will be expended pursuant to plans and budgets approved by the Hamot board of directors and UPMC. The remaining \$50 million of the Hamot Fund may be expended as directed by UPMC Hamot's board of directors. As of June 30, 2017, \$43 million of the Original Commitment remains to be spent.

Jameson Hospital. On May 1, 2016, UPMC and Jameson Health System ("Jameson") executed an Integration and Affiliation Agreement (the "Agreement") providing for an affiliation between UPMC and Jameson. Jameson is a multi-institutional nonprofit health system servicing the city of New Castle, Pennsylvania and a larger multi-county area in western Pennsylvania. The transaction is intended to preserve and enhance the mission of Jameson and to enhance Jameson's ability to provide high-quality health services to the New Castle community. On the date of the affiliation, the articles of incorporation and bylaws of Jameson were amended such that UPMC became the sole corporate member of Jameson. As part of the affiliation, UPMC committed \$70 million to be spent on the enhancement of facilities and services at Jameson. As of June 30, 2017, \$57 million of the Original Commitment remains to be spent.

WCA Hospital. On December 1, 2016, the Boards of Directors of WCA Hospital ("WCA") and UPMC executed an Integration and Affiliation agreement to merge WCA into the UPMC network and create UPMC Chautauqua WCA. Under the agreement, UPMC will spend \$25 million for the development of facilities and services of UPMC Chautauqua WCA over the next 10 years. UPMC retired WCA's existing debt and assumed its pension obligations. UPMC Chautauqua WCA is a 317-bed hospital based in Southwestern New York and reported \$72.1 million of revenue in seven months ended June 30, 2017. As of June 30, 2017, \$23 million of the Original Commitment remains to be spent.

Susquehanna Health. On October 2, 2016, Susquehanna Health and UPMC executed an Integration and Affiliation agreement to expand health care services and advance quality care for the people of northcentral Pennsylvania. As part of the agreement, UPMC has committed \$500 million over seven-years for capital projects and other operational spending and assumed Susquehanna Health's debt and pension obligations. Susquehanna Health is a four-hospital, 342-bed system based in Williamsport, Pennsylvania, and reported \$461.2 million of revenue in the nine months ended June 30, 2017. As of June 30, 2017, \$463 million of the Original Commitment remains to be spent.

PinnacleHealth. On September 1, 2017, PinnacleHealth System, based in Harrisburg, Pennsylvania, and UPMC executed an Integration and Affiliation Agreement (the “Pinnacle Agreement”) to enhance clinical and population health management capabilities to better serve the residents of central Pennsylvania by creating UPMC Pinnacle. On July 1, 2017, Pinnacle completed its acquisition of Memorial Hospital of York, Lancaster Regional Medical Center, Heart of Lancaster Regional Medical Center in Lititz, and Carlisle Regional Medical Center. Also on September 1, 2017, Pinnacle and Hanover HealthCare PLUS, the parent organization of Hanover Hospital in Hanover, Pennsylvania (“Hanover”), executed an agreement that made Hanover a member of the Pinnacle network. As part of its agreement with UPMC Pinnacle, UPMC has committed up to \$145 million per year for seven years for capital projects and other operational spending. UPMC has assumed \$648.8 million of Pinnacle’s existing debt and all of Pinnacle’s pension obligations. As of September 15, 2017, UPMC has not assumed the \$37.7 million of outstanding debt or the pension obligations of Hanover. On the date of the acquisition, UPMC established a \$222 million fund (the “Pinnacle Fund”) which is dedicated solely for the support of UPMC Pinnacle and is controlled solely by UPMC Pinnacle’s board of directors. See Appendix E for a description of Pinnacle as of June 30, 2017.

Asbury Heights. On September 1, 2017, Asbury Heights, a senior living facility located in the South Hills of Pittsburgh became an affiliate of UPMC Community Provider Services under an Integration and Affiliation Agreement (the “Asbury Agreement”). Asbury Heights owns and operates a continuing care retirement community comprised of a skilled nursing facility, assisted living and personal care units, and independent living apartments. Asbury Heights had approximately \$30.5 million in operating revenue for the fiscal year ended December 31, 2016.

Charles Cole Memorial Hospital, Sunbury Hospital and Lock Haven Hospital. UPMC and its Subsidiary Hospitals have also announced plans to affiliate with Charles Cole Memorial Hospital (\$88 million revenue for the fiscal year ended June 30, 2017), Sunbury Hospital (\$20 million revenue for the fiscal year ended December 31, 2016) and Lock Haven Hospital (\$31 million revenue for the fiscal year ended December 31, 2016).

Related Foundations

The Corporation is party to certain affiliation agreements with separate foundations (the “Foundations”) each of which is organized exclusively for the benefit of the respective Subsidiary Hospital it was incorporated to support. The assets of the Foundations are restricted for use by each Foundation’s respective Subsidiary Hospital and require Foundation board approval. Generally, the Foundation boards are not controlled by UPMC or the Subsidiary Hospitals. The assets of these Foundations as of June 30, 2017 are shown on UPMC’s consolidated balance sheet as beneficial interests in Foundations (\$493 million). These Foundations include Children’s (\$285 million), Magee (\$47 million), Presbyterian/Shadyside (\$39 million), Northwest/Northwest VNA (\$35 million), Hamot Health Foundation (\$27 million), St. Margaret (\$24 million), Chautauqua (\$13 million), McKeesport (\$10 million), Canterbury Place (\$5 million), Mercy (\$5 million), Sherwood Oaks (\$1 million), Altoona (\$1 million) and Jameson (\$1 million).

Operating Structure

UPMC has four major operating components: Health Services, Insurance Services, International Services and UPMC Enterprises. Listed below are the major units of Health Services and Insurance Services. Brief descriptions of each of the components follows.

<u>Health Services</u>	<u>Insurance Services</u>
<ul style="list-style-type: none"> • Academic and Community Hospitals • Regional Hospitals • Specialty Services/Service Lines • Physician Services • Community Provider Services 	<ul style="list-style-type: none"> • UPMC Health Plan • UPMC Health Network • UPMC For You • UPMC Health Benefits • Community Care Behavioral Health • UPMC Benefit Management Services, Inc.

To support these operating components, UPMC has an array of integrated enterprise –wide capabilities, including information services, human resources, regulatory/compliance, finance, treasury, risk management, facilities, quality, and government relations. The costs of these supporting services are allocated to the operating components. Below is a brief description of each of the operating components, followed by a description of some of the shared services.

Health Services

The major operating units within Health Services include Academic and Community Hospitals, Specialty Services, Regional Hospitals, Physician Services, and Community Provider Services. Before consolidations, Health Services accounted for approximately \$9.0 billion in operating revenues for the fiscal year ended June 30, 2017. As of June 30, 2017, UPMC's Subsidiary Hospitals include:

<u>Academic and Community Hospitals</u>	<u>Specialty Services</u>	<u>Regional Hospitals</u>
<ul style="list-style-type: none"> • UPMC Presbyterian Shadyside • UPMC St. Margaret • UPMC Passavant • UPMC McKeesport • UPMC Mercy • UPMC Hamot • UPMC East • UPMC Altoona 	<ul style="list-style-type: none"> • Children's Hospital of Pittsburgh of UPMC • Magee-Womens Hospital of UPMC • Western Psychiatric Institute and Clinic of UPMC 	<ul style="list-style-type: none"> • UPMC Horizon • UPMC Northwest • UPMC Bedford Memorial • Kane Community Hospital • UPMC Jameson • UPMC Susquehanna • UPMC Chautauqua WCA

Table 1 provides information about these Subsidiary Hospitals and UPMC's international hospital (which is more fully described under UPMC International Division) as of June 30, 2017.

Table 1 Subsidiary Hospitals (Dollars in Thousands)				
Legal Entity (Number of Hospital Facilities)	Location	Beds in Service (a)	Revenues for Twelve Months Ended June 30, 2017	Year of Affiliation
UPMC Presbyterian Shadyside (5)	Pittsburgh, PA	1,418	\$2,060,984	(b)
Magee-Womens Hospital of UPMC	Pittsburgh, PA	321	859,875	1999
Children's Hospital	Pittsburgh, PA	305	679,844	2001
UPMC Altoona	Altoona, PA	342	430,583	2013
UPMC Mercy	Pittsburgh, PA	458	404,386	2008
UPMC Hamot	Erie, PA	322	405,137	2011
UPMC Passavant (2)	Ross/Cranberry, PA	286	358,103	1997
UPMC St. Margaret	Pittsburgh, PA	207	234,389	1997
UPMC Horizon (2)	Greenville/Farrell, PA	121	149,296	1998
UPMC McKeesport	McKeesport, PA	181	133,840	1998
UPMC East	Monroeville, PA	154	144,031	2012
UPMC Northwest (2)	Seneca/Oil City, PA	128	102,455	2001
UPMC Bedford	Bedford, PA	27	60,493	1998
IsMeTT (c)	Palermo, Italy	114	36,853	1997
Kane Community Hospital	Kane, PA	14	20,942	2011
UPMC Jameson	New Castle, PA	115	105,584	2016
UPMC Susquehanna (4) (d)	Williamsport/Wellsboro/ Muncy, PA	409	461,150	2016
UPMC Chautauqua WCA (e)	Jamestown, NY	108	72,119	2016
Total		5,030	\$6,720,064	
(a) Beds in Service metric represents average available/staffed beds for all patient types for total fiscal year. (b) Eye & Ear Hospital, Presbyterian Hospital and WPIC constitute the original hospitals of UPMC. Montefiore Hospital affiliated with UPMC in 1990 and Shadyside Hospital affiliated with UPMC in 1997. (c) Revenues represent management and professional fees paid by IsMeTT to UPMC. (d) UPMC Susquehanna affiliated with UPMC in 2016. Revenues for the twelve months ended reflect only nine months of activity (October to June). (e) UPMC Chautauqua WCA affiliated with UPMC in 2016. Revenues for the twelve months ended reflect only seven months of activity (December to June).				

All of UPMC's domestic hospitals are licensed by the Commonwealth's Department of Health or the New York Department of Health, as appropriate, and are fully accredited by the Joint Commission on Accreditation of Health Care Organizations.

UPMC Presbyterian Shadyside. UPMC Presbyterian Shadyside was created by the merger of UPMC Presbyterian and UPMC Shadyside, two of the largest acute care medical/surgical and quaternary hospitals in Pittsburgh. The merger of UPMC Presbyterian and UPMC Shadyside was completed on May 30, 2003. UPMC Presbyterian Shadyside is a Pennsylvania nonprofit corporation whose sole member is the Corporation.

UPMC Presbyterian Shadyside operates facilities on two campuses located approximately two miles apart, referred to as the "Oakland Campus" and the "Shadyside Campus."

The Oakland Campus of UPMC Presbyterian Shadyside includes the following structures: Presbyterian Hospital, Montefiore Hospital, Eye and Ear Institute, Falk Clinic and a distinct-part psychiatric unit known as Western Psychiatric Institute and Clinic ("WPIC"). The University leases WPIC's physical plant from the Commonwealth. UPMC Presbyterian Shadyside operates

UPMC under a sublease with the University. Facilities of Magee-Womens Hospital of UPMC (“Magee”) and the main campus of the University are also located in the Oakland area. A number of these facilities are connected by a series of walkways, pedestrian bridges, and underground tunnels.

The Shadyside Campus includes the main UPMC Shadyside facilities, UPMC Hillman Cancer Center, the UPMC Cancer Pavilion, and a UPMC Urgent Care facility. UPMC Hillman Cancer Center is a 355,000 square-foot facility dedicated to research and outpatient services for cancer patients. The UPMC Cancer Pavilion is a five-story, 100,000 square-foot office building that accommodates administrative and physician offices. UPMC Hillman Cancer Center and the UPMC Cancer Pavilion serve as the hub of UPMC’s regional cancer network.

UPMC Presbyterian Shadyside is accredited by the Pennsylvania Trauma Systems Foundation as a Level I Regional Resource Trauma Center, one of only four in southwestern Pennsylvania.

As an academic medical center, in collaboration with the University, UPMC uses research, educational, and clinical programs to translate advances in medical science into enhanced medical capabilities. UPMC Presbyterian Shadyside is a major resource facility for the extensive research programs of its medical staff, the University’s School of Medicine, and the University’s Schools of the Health Sciences. For the 18th time in recent years, UPMC appeared on the 2017-18 *U.S. News & World Report* Best Hospitals Honor Roll. UPMC ranked 14th overall, and was one of only 20 hospitals nationwide named to the 2017-18 Honor Roll. In addition, UPMC was recognized for excellence in 14 of 16 adult specialty areas.

UPMC Presbyterian Shadyside is the primary clinical training site for students of the University’s Schools of Medicine and Nursing. It is also a major clinical practice site for the nursing baccalaureate programs at Duquesne University, Indiana University of Pennsylvania, and Carlow University. UPMC Presbyterian Shadyside offers opportunities to participate in clinical, educational, and administrative programs to undergraduates and graduates enrolled in the University’s School of Health and Rehabilitation Sciences, the School of Pharmacy, the Graduate School of Public Health, and the School of Dental Medicine. In addition, UPMC Presbyterian Shadyside operates Schools of Nursing and Radiologic Technology, and participates in a wide range of training programs with other educational institutions.

Specialty Services

Transplantation Services and the Thomas E. Starzl Transplantation Institute. The Starzl Transplantation Institute at UPMC was the cradle for development of modern organ transplant technology. UPMC’s transplant program is one of the world’s largest and most active. To date, more than 19,000 transplants have been performed at UPMC, a single-center experience that is unmatched by any other program.

UPMC’s transplant programs are internationally renowned for their far-reaching influence on the entire field. UPMC researchers and surgeons have made many of transplantation’s most important advances. From new tailored drug treatment, to devices that extend the viability of organs, to a strong commitment to living donor procedures, UPMC’s team is setting new standards in transplant care. UPMC’s organ transplant expertise extends globally as well. The Mediterranean Institute for Transplantation and Specialized Therapies (“IsMeTT”) is an international center for specialized medicine serving the people of the Mediterranean region, located in Palermo, Sicily, Italy. With the training of UPMC transplant surgeons, transplantation medicine specialists and

other clinical care providers, IsMeTT has become a world-class hospital that offers lifesaving transplants to the people of the region.

Pediatric Services. Children’s Hospital of Pittsburgh of UPMC (“Children’s”) is the region’s only hospital dedicated exclusively to the care of children. It is one of the nation’s leading pediatric facilities. Children’s, a specialty acute care teaching and research hospital, provides a comprehensive range of health care services for infants, children, adolescents, and young adults, and functions as a referral center for secondary, tertiary, and quaternary levels of care.

Children’s opened its new campus in Pittsburgh’s Lawrenceville neighborhood in 2009. The ten-acre, state-of-the-art clinical and pediatric research facilities combine advanced infrastructure and a multitude of family-centered features in 1.5 million square feet of space. Children’s is one of the nation’s first fully digital pediatric hospitals.

To increase the accessibility and availability of pediatric sub-specialty services within the region, Children’s operates four ambulatory and five specialty care centers. The ambulatory care centers, one of which includes ambulatory surgery services, are located east, north, and south of Pittsburgh. The specialty care centers are located in Chippewa, Erie, Johnstown, and Hermitage, Pennsylvania, and Wheeling, West Virginia. Pediatric primary care is provided at two primary care centers, and via the Ronald McDonald Care Mobile, a “doctor’s office on wheels” that visits underserved communities throughout the area. Children’s also owns Children’s Community Pediatrics (“CCP”), which comprises more than 150 physicians practicing at more than 40 sites throughout the region. CCP is the largest pediatric and adolescent primary care medical network in western Pennsylvania. In addition, Children’s Express Care is available for after-hours care for minor injuries and illnesses at seven sites throughout western Pennsylvania including in Erie, Lawrenceville, Monroeville, South Fayette, Washington, West Mifflin and Wexford.

In September 2014, Children’s opened Children’s South, a new pediatric site in South Fayette Township that features expanded outpatient services, including pediatric sub-specialty care, pediatric rehabilitation services, various therapies, primary care, advanced imaging services, and after-hours and weekend care for minor injuries and illnesses in one highly visible, child and family-friendly setting.

Children’s is nationally and internationally recognized for its expertise in areas such as cardiology, cardiothoracic surgery, critical care medicine, diabetes, hematology/oncology and blood and marrow transplantation, neuroscience, ophthalmology, organ transplantation, orthopaedics, otolaryngology, rare disease therapy, minimally invasive pediatric surgery, and general surgery. Children’s Pediatric Intensive Care Unit is one of the nation’s most comprehensive care facilities of its type. The area’s first and only pediatric Cardiac Intensive Care Unit opened at Children’s in 2002. Children’s Benedum Pediatric Trauma Program is the region’s only Level I Regional Resource Pediatric Trauma Center, and one of only two in the Commonwealth. As the nation’s first pediatric transplant program, the Hillman Center for Pediatric Transplantation at Children’s has been at the forefront since 1981, performing more pediatric transplants than any other center.

Children’s also functions as a teaching and research institution affiliated with the University of Pittsburgh’s School of Medicine. For the 2014 federal fiscal year, Children’s ranked among the top 10 in NIH funding among all children’s hospitals and pediatric departments in the U.S. Children’s houses the University’s Department of Pediatrics and serves as the primary teaching site for the clinical training of resident and fellow pediatric physicians. In June 2017,

U.S. News & World Report named Children's to its 2017 Honor Roll of America's "Best Children's Hospitals", ranked number 9, and ranked in 10 of 10 specialties.

In December 2009, Children's became the first pediatric hospital in the United States to achieve a Stage 7 Award from Healthcare Information and Management Systems Society ("HIMSS") Analytics for achieving a virtually paperless patient record environment and the most comprehensive use of electronic medical records ("EMRs"). In 2015, Children's was the recipient of a prestigious Enterprise Davies Award from HIMSS. Since 1994, the award has recognized outstanding achievement by organizations that have used health information technology to substantially improve patient outcomes while achieving return on investment. In 2012, Children's achieved Magnet Recognition® status from the American Nurses Credentialing Center (ANCC) and is among the only seven percent of hospitals in the U.S. to have achieved this prestigious status. Children's earned re-designation status again this year.

Women's Services. As a National Center of Excellence in Women's Health, Magee-Womens Hospital of UPMC ("Magee") leads the development of women's health services across UPMC. Magee is a pioneer in gender-based medicine, with the first interdisciplinary research institute focusing exclusively on the health issues of women and infants and the numerous biological differences that are gender specific. A full service, acute care research and teaching center for women, men, and newborns, Magee delivers nearly 11,000 babies and performs more than 16,000 surgeries annually. Magee's 77-bed neonatology intensive care unit is one of the largest in the country. Magee is located approximately three blocks from the Oakland Campus. In addition to the main hospital facility, Magee operates a network of specialty care services throughout the region -- physician offices, women's imaging centers, and community neighborhood health centers. Nationally renowned core programs include reproductive science, neonatology, women's cancer -- including expansive breast and gynecologic oncology programs, and one of the largest academic bariatric surgery programs in the country. Magee is one of the original six recipients of the U.S. Department of Health and Human Services award as a National Center of Excellence in Women's Health.

Minimally Invasive Neurosurgery. Traditional treatment for serious brain, spine, vascular, and neurological conditions often required extensive, potentially disfiguring surgery and long recovery periods. Due to innovative surgical techniques developed by physicians at UPMC, neurosurgeons can now treat many patients using custom surgical tools and powerful imaging technology to visualize and access hard-to-reach areas with minimal or no incisions. As a result, patients frequently can return to normal activities within hours or days of their treatment.

UPMC is one of the leading minimally invasive neurosurgical facilities in the world. The center serves as a local, national, and international resource for patients seeking the most current approaches to structural neurologic disorders.

Cancer Services. In an effort to address the needs for cancer care throughout western Pennsylvania, UPMC has coordinated cancer services under one operating unit with the University. UPMC Hillman Cancer Center, in partnership with the University of Pittsburgh Cancer Institute (UPCI), is one of the largest cancer networks in the country. The UPMC Hillman Cancer Center consists of scientists and health care professionals in disciplines ranging from cancer prevention and early detection to novel therapeutic discovery, survivorship, end-of-life care, and more. UPMC Hillman Cancer Center is designated as a Comprehensive Cancer Center by the National Cancer Institute ("NCI") and is the only NCI-designated center in the region, and is ranked as one of the top recipients of funding from NCI.

UPMC Hillman Cancer Center provides a core location for cancer care services, research and clinical trials, practitioner training, prevention and early detection services, and other aspects of cancer care. It also comprises more than 200 medical, radiation, and surgical oncologists and hematology oncology physicians at more than 60 locations throughout western Pennsylvania and Ohio, as well as international locations in Italy, Ireland, and Colombia and collaborations with other hospitals in Europe and Asia. The integrated network allows patients to receive world-class cancer care close to home. As part of the UPMC Hillman Cancer Center network each location offers personnel and technology so patients can have access to the most advanced cancer diagnoses and treatments.

The UPMC Hillman Cancer Center network provides comprehensive cancer treatment services encompassing 15 areas of expertise including medical and radiation oncology, oncology surgical consult services and lab facilities, as well as education and cancer prevention services.

UPMC Hillman Cancer Center is one of the largest networks across the U.S. to be recognized by accredited, independent organizations - including the American College of Radiation Oncology Practice and Quality Oncology Practice Initiative — for quality, consistency, and outcomes in comprehensive cancer care.

UPMC Behavioral Health. Western Psychiatric Institute and Clinic of UPMC (“WPIC”) is an integrated behavioral health system comprising clinical services, education and training, and research. Together with the Department of Psychiatry of the University’s School of Medicine, WPIC provides behavioral health care that is informed by the latest research, for individuals across the life span, who are at all stages in their recovery.

WPIC is one of the leading academic psychiatric facilities in the United States with more than 300 licensed beds (adult, child, and adolescent). Behavioral health service lines include: childhood and adolescent psychiatric services, adult mood and anxiety, adult schizophrenia, geriatrics, dual diagnosis, eating disorders, developmental disabilities, general and interventional psychiatry and addictions.

Through its affiliation with the University’s School of Medicine, WPIC is a top-ranked recipient nationally with total research funding of more than \$73.5 million. A leader in the treatment of mental health and addictive disorders, UPMC is consistently ranked among the nation’s top hospitals for psychiatry by *U.S. News & World Report*, ranking 12th in the nation in 2017. WPIC is involved with community outreach activities and projects intended to advance the understanding of mental illness and the quality of care for patients.

Additional Specialty Services. Additional Specialty Services available at UPMC include:

- Orthopaedic Care and Sports Medicine
- University of Pittsburgh Institute on Aging
- Heart and Vascular Institute
- Comprehensive Lung Center
- The McGowan Institute for Regenerative Medicine
- The Peter M. Winter Institute for Simulation Education and Research
- Lupus Center of Excellence
- Stroke Institute
- Digestive Disorders Center
- UPMC Rehabilitation Institute
- Esophageal and Lung Surgery Institute

Physician Services

UPMC employed more than 3,600 physicians as of June 30, 2017. The majority of these physicians are included in UPMC's faculty practice plan, the University of Pittsburgh Physicians ("UPP") and a network of community physicians called Community Medicine, Inc. ("CMI"). UPP was founded in 1999 through the consolidation of 16 independent clinical faculty practice plans. At that time, UPP became a subsidiary of UPMC. UPP was created to provide the intellectual and financial resources to support UPMC's academic commitment to the University's School of Medicine, and to foster a collegial environment.

CMI was created on January 1, 2001, through the consolidation of over 100 community-based physician practice corporations into one legal, tax-exempt entity. The CMI physician practices are comprised primarily of primary care physicians (representing family medicine and internal medicine), as well as specialists in orthopedic surgery and neurosurgery.

The management staff and practice management functions of UPP and CMI were combined to form UPMC Physician Services which provides centralized management oversight and services to the physicians/practices of UPP, CMI and Emergency Resource Management, Inc. Other employed physicians of UPMC focus on pediatrics, cancer care, and women care.

UPMC and the University's School of Medicine have a cooperative program for the recruitment of physicians and faculty. UPMC's medical staff includes nationally and internationally recognized leaders in their respective fields.

In the 2017 "Best Doctors" list published by *Pittsburgh Magazine*, more than 500 UPMC physicians were named in 77 areas of expertise, from anesthesiology to vascular surgery. The list was compiled by Best Doctors® and derived from the Best Doctors in America® database, which includes the names and profiles of more than 50,000 of the best doctors in the United States based on peer review.

Table 2 below lists the total number of physicians on the medical staff of all Subsidiary Hospitals by specialty and the percent board-certified as of June 30, 2017.

Table 2 Medical Staff - UPMC Subsidiary Hospitals			
Specialty	Number of Physicians	Number Board Certified	Percent Certified
CRITICAL CARE MEDICINE	61	52	85%
DERMATOLOGY	55	49	89%
EMERGENCY MEDICINE	325	225	69%
FAMILY MEDICINE	570	509	89%
HOSPITAL BASED PHYSICIANS	690	613	89%
MEDICINE			
Cardiology	224	201	90%
Endocrinology	47	42	89%
Gastroenterology	111	100	90%
General Medicine	727	638	88%
Geriatric Medicine	34	31	91%
Hematology/Oncology	181	161	89%
Infectious Disease	45	43	96%
Nephrology	107	100	93%
Pulmonology	153	143	93%
Rheumatology	40	39	98%
NEUROLOGY	109	100	92%
NEUROSURGERY	61	41	67%
OBSTETRICS/GYNECOLOGY	279	230	82%
OPHTHALMOLOGY	167	148	89%
ORAL SURGERY/DENTAL MEDICINE	76	52	68%
ORTHOPAEDICS	326	254	78%
OTOLARYNGOLOGY	74	63	85%
PEDIATRICS	668	580	87%
PHYSICAL MEDICINE/REHABILITATION	80	67	84%
PSYCHIATRY	162	142	88%
SURGERY			
Cardiovascular & Thoracic Surgery	53	37	70%
General Surgery	229	169	74%
Plastic Surgery	58	50	86%
UROLOGY	79	64	81%
TOTAL	<u>5,791</u>	<u>4,943</u>	<u>85%</u>
Source: UPMC Records, Credentials Verification Office			

Community Provider Services

Community Provider Services includes senior living, skilled nursing, home care services, and ambulatory rehabilitation. As of June 30, 2017, The 20 facilities listed below, certain of which are joint ventures, provide comprehensive long-term care services to support and assist over 2,500 mostly senior residents each day in maintaining their health and quality of life. The levels of care offered include independent living, assisted living, personal care, skilled nursing, and dementia care. Community Provider Services is also responsible for a continuum of home care services, a network of more than 70 ambulatory rehabilitation centers that provide physical and occupational therapy, and the University of Pittsburgh Institute on Aging which offers information, services, and programs available for older adults through its toll-free information and referral number. See Business Affiliation Agreements for information on the addition of Asbury Heights to Community Provider Services effective September 1, 2017.

Table 3 Comprehensive Long Term Care Facilities		
<u>Facility</u>	<u>Location</u>	<u>County</u>
Avalon Place	New Castle	Lawrence
Avalon Springs Place	Mercer	Mercer
Beatty Pointe Village	Monroeville	Allegheny
Canterbury Place	Lawrenceville (Pittsburgh)	Allegheny
Cranberry Place	Cranberry Township	Butler
Cumberland Woods Village	McCandless Township	Allegheny
Cumberland Crossing	McCandless Township	Allegheny
Hampton Fields Village	Hampton Township	Allegheny
Heritage Place	Shadyside/Squirrel Hill (Pittsburgh)	Allegheny
Jameson Care Center	New Castle	Lawrence
Lighthouse Pointe Village at Chapel Harbor	O'Hara Township	Allegheny
Seneca Hills Village	Penn Hills	Allegheny
Seneca Manor	Penn Hills	Allegheny
Seneca Place	Penn Hills	Allegheny
Sherwood Oaks	Cranberry Township	Butler
Strabane Trails Village ⁽¹⁾	South Strabane Township	Washington
Strabane Woods of Washington ⁽¹⁾	South Strabane Township	Washington
Sugar Creek Station	Franklin	Venango
Vanadium Woods Village	Scott Township	Allegheny
Weatherwood Manor	Greensburg	Westmoreland
⁽¹⁾ Joint ventures with The Washington Hospital.		

Insurance Services

UPMC owns the Insurance Subsidiaries that provide health care financing products and network care delivery operations through its Insurance Services division. These investments were undertaken in the late 1990s in response to the evolving influence of the managed care marketplace and the need to integrate the full continuum of services necessary to effectively meet customer expectations. The Insurance Subsidiaries together constitute the largest health insurer in western Pennsylvania, offering a full range of commercial and government health insurance programs. Insurance Services accounted for approximately \$7.2 billion in operating revenues for the fiscal year ended June 30, 2017 before consolidations. A significant portion of medical costs of Insurance Services is provided through contracts with the Subsidiary Hospitals and employed physicians in Physician Services. The Insurance Subsidiaries are required to maintain net assets to meet statutory requirements of the Department of Insurance of the Commonwealth as of the end of each calendar year. This requirement was \$684 million as of December 31, 2016.

The major Insurance Subsidiaries, their lines of business and their operating revenues for fiscal year 2017 are shown in the table below. A more detailed description of each company, including the products they offer, follows the table.

Table 4 Insurance Services Division		
Subsidiary	Line of Business	Revenues for the Twelve Months Ended June 30, 2017 (dollars in millions)
UPMC For You, Inc.	Pennsylvania Non-profit Health Maintenance Organization (“HMO”) offering Medicaid products and Medicare Special Needs Plans	\$2,534
UPMC Health Plan, Inc.	Pennsylvania Non-profit HMO offering commercial and government products	1,541
UPMC Health Options, Inc.	Pennsylvania Preferred Provider Organization (“PPO”) Risk Assuming Non-Licensed Insurer (“RANLI”) offering Commercial products	1,857
Community Care Behavioral Health Organization	Nonprofit PPO offering both commercial and governmental behavioral health products	916
UPMC Health Network, Inc.	Pennsylvania PPO RANLI offering Commercial and Medicare PPO products	83
UPMC Health Benefits, Inc.	Pennsylvania licensed Insurance company offering Medicare PPO, Workers’ Compensation, Employer stop loss, Individual, Dental, Vision, and Secondary Coverage products	107
UPMC Benefit Management Services, Inc.	State licensed third party administrator offering a full suite of employer self-funded products	81
UPMC Health Coverage, Inc.	Pennsylvania Non-profit HMO offering commercial products	32
E-Benefit Solutions, LLC.	Subsidiary of UPMC that provides HR and benefits administration and enrollment services through an innovative Web-based system	4
UPMC Work Alliance, Inc.	Pennsylvania licensed Insurance company offering Workers’ Compensation products	2
UPMC Center for High-Value Healthcare	Grant procurement subsidiary of the Insurance Services Division	1
Total Operating Revenue		\$7,158

UPMC for You provides benefits and services to those eligible for Medical Assistance and is the largest Medical Assistance Managed Care Organization in western Pennsylvania.

Additional product offering is UPMC for Life Dual, which provides benefits and services for those eligible for both Medicare and Medicaid and is the largest stand-alone 4 star Dual Eligible Special Needs Plan (“D-SNP”) plan in the country.

UPMC Health Plan includes several innovative HMO products and services in response to and in anticipation of the needs of both employer groups and individuals and their families. These products include: UPMC HealthyU, UPMC Inside Advantage, UPMC Business Advantage, UPMC Small Business Advantage, MyFlex Advantage, UPMC COBRA Advantage and Individual and Small Group ACA Compliant plans currently offered on The Pennsylvania Insurance Exchange. Offerings in UPMC Health Plan also include UPMC for Life, a suite of Medicare HMO plans, including a prescription drug program as well as health and disease management programs, and UPMC for Kids, a Children’s Health Insurance Program (CHIP), which covers uninsured children who do not qualify for Medical Assistance.

UPMC Health Options includes several innovative products and services in response to and in anticipation of the needs of both employer groups and individuals and their families. These products include: UPMC HealthyU, UPMC Inside Advantage, UPMC Business Advantage, UPMC Small Business Advantage, MyFlex Advantage, and UPMC COBRA Advantage.

Community Care Behavioral Health, the largest nonprofit behavioral health managed care company in the country, which supports Pennsylvania’s HealthChoices program by managing behavioral health services for Medical Assistance recipients in 39 counties. Additionally, through integrated services, Community Care Behavioral Health provides behavioral health management for UPMC Health Plan’s commercial and Medicare members as well as offerings for LifeSolutions which provides employers with comprehensive and proactive employee assistance program (EAP).

UPMC Health Network includes several innovative PPO products and services in response to and in anticipation of the needs of both employer groups and individuals and their families. These products include: UPMC HealthyU, UPMC Inside Advantage, UPMC Business Advantage, UPMC Small Business Advantage, MyFlex Advantage, UPMC COBRA Advantage and Individual and Small Group ACA Compliant plans offered on The Pennsylvania Insurance Exchange. Offerings in UPMC Health Network also include UPMC for Life, a suite of Medicare PPO plans, including a prescription drug program as well as health and disease management programs

UPMC Health Benefits includes UPMC for Life offered in Ohio and West Virginia, Individual Advantage, UPMC Dental Advantage, UPMC Vision Advantage, Workers' Compensation, employer stop loss coverage, and a full suite of Medicare supplemental products.

UPMC Benefit Management Services offers a full suite of self-funded employer solutions for health, dental, and vision benefits along with UPMC Work Partners which offers a comprehensive suite of programs and technology to promote health and productivity to the region’s employers, including health management, employee assistance, workers’ compensation, family and medical leave, disability, consulting, data analytics, and return-to-work programs and services.

UPMC Health Coverage includes ACA-compliant HMO products offered to both on and off-marketplace group employers and individuals in Pennsylvania.

Ebenefits Solutions, a subsidiary of UPMC, provides HR and benefits administration and enrollment services through an innovative Web-based system.

UPMC Work Alliance, which includes Workers' Compensation products written in the Commonwealth of Pennsylvania.

UPMC Center for High-value Health Care, a subsidiary of UPMC, is dedicated to establishing UPMC as a leader in national, state, and local efforts to improve health care quality and efficiency as well as the overall health of our population.

Quality Recognition, UPMC Health Plan receives national recognition for the quality of its services. UPMC Health Plan once again received high scores for the 2016-2017 year from the National Committee for Quality Assurance (NCQA) and Centers for Medicare and Medicaid Services. UPMC Health Plan's Medicare HMO, UPMC for Life, maintains a "Commendable" accreditation rating from the NCQA and a 4.5 star quality rating out of a possible 5 star score from the Centers for Medicare and Medicaid Services. UPMC Commercial HMO achieved a level 5 rating from NCQA's rating system, with ratings given on 1 to 5 scale and 503 plans rated. UPMC is one of 11 health plans nationally and the only plan in Pennsylvania to earn a level 5 rating. The Medical Assistance program, UPMC for You, achieved a 4.5 rating and the Medicare plan, UPMC for Life, achieved a level 4 rating from NCQA.

UPMC Health Plan achieved multiple honorable awards this year based on customer satisfaction. UPMC Health Plan ranked highest in Overall Customer Satisfaction 2 years in a row for our Commercial Plans with J.D. Power and Associates' 2017 Member Health Plan Study. UPMC Health Plan Member Services recently became 1 of only 16 Certified Contact Centers with J.D. Power and Associates. UPMC Health Plan Member Services Call Center also won Best in Class Contact Center with ICMI at the 2017 ICMI Global Contact Center Awards. In addition, UPMC Health Plan was also awarded the 2017 Gold Stevie Award for Contact Center of the Year for its Health Care Concierge program at the 11th Annual Stevie Award for Sales and Customer Service Ceremony. UPMC Health Plan Member Services also won a customer Experience Best Practice Award for CSR Advancement, as well as a First Call Resolution Improvement award with the SQM Group.

Enrollment Trends. Total enrollment in products offered by Insurance Services has grown substantially. The table below shows the membership, by plan product, as of December 31 for each of the last sixteen years.

Table 5										
Enrollment in Insurance Service Products										
As of December 31, Except as Noted	Commercial - Fully Insured	Commercial - ASO	Medical Assistance	Medicare	EAP Solutions	Work Partners	Total TPA	Community Care	Dental & Vision and Ancillary	Total Enrollment
6/30/17	502,354	197,538	414,562	165,353	142,175	325,016	98,503	985,531	340,103	3,171,135
2016	459,386	177,960	404,077	157,779	137,595	311,047	190,049	964,570	267,460	3,069,923
2015	394,573	174,691	367,840	146,973	157,768	283,107	201,338	908,866	239,402	2,874,558
2014	336,905	166,926	268,842	125,917	159,142	265,017	118,269	740,781	190,925	2,372,724
2013	336,843	168,063	252,708	126,028	157,089	229,784	46,780	769,086	177,098	2,263,479
2012	287,859	173,597	237,289	113,095	137,137	225,085	-	715,762	149,070	2,038,894
2011	230,770	163,762	156,334	101,977	129,198	171,686	-	669,474	17,323	1,640,524
2010	220,377	149,514	142,635	93,491	123,598	163,507	-	620,765	-	1,513,887
2009	211,634	146,474	123,485	84,857	122,333	159,866	-	578,197	-	1,426,846
2008	192,425	148,368	110,545	82,210	119,548	129,193	-	543,804	-	1,326,093
2007	179,484	141,895	99,020	65,550	105,211	101,924	-	523,899	-	1,216,983
2006	177,660	127,479	90,910	48,569	97,479	68,682	-	352,876	-	963,655
2005	182,665	125,413	99,785	29,620	107,847	66,682	-	267,237	-	879,249
2004	204,402	125,008	94,033	22,131	78,478	65,290	-	243,297	-	832,639
2003	200,509	110,122	80,968	14,994	62,348	64,690	-	201,818	-	735,449
2002	222,210	74,958	72,924	8,717	55,564	59,000	-	189,177	-	682,550
2001	196,051	59,907	73,465	1,439	41,249	58,700	-	146,411	-	577,222
2000	125,975	52,168	71,153	-	-	-	-	118,111	-	367,407
Source: UPMC Records										

UPMC International

The goal of UPMC's International Services Division ("UPMC International") is to leverage UPMC's capabilities to generate new revenue streams. UPMC International's mission is to serve as the enabling platform through which the UPMC global health strategy is pursued. Its mandate is to establish and operate profitable new lines of business by exporting UPMC's medical and operational expertise and transformational medical and information technologies internationally with the goal of improving patient care and maximizing operational efficiencies. These activities support UPMC's Strategic Framework, and benefit the western Pennsylvania economy by creating jobs locally, attracting investment capital to the region and generating returns on investments that fund UPMC's core activities, research and future investments that result in direct benefit to the community UPMC serves. These ventures support UPMC's core mission and help to revitalize the economy of western Pennsylvania. Major initiatives within UPMC International are summarized below.

UPMC's longest international involvement is through IsMeTT, a joint venture of UPMC and the Italian Region of Sicily, including a public hospital in Palermo. IsMeTT, a transplant and specialty surgery hospital has performed more than 1,000 transplants in the past decade. The collaboration has brought world-class transplant and other specialty health care services to southern Italy. UPMC has provided management and professional medical staffing to IsMeTT under a management contract since October 1997. IsMeTT recently celebrated its 20th anniversary and expanded its bed capacity to 113 based on increased demand for services. The ownership structure was also restructured to provide UPMC Italy and its affiliated foundation, RiMED with broader control and integration with related research activities.

In June 2011, UPMC Italy entered into an agreement to manage and operate an advanced radiosurgery Center of Excellence at San Pietro Hospital in Rome, Italy. The facility opened in January 2013. The Center fills a previously unmet need in the region by providing Stereotactic Radiosurgery ("SRS") capabilities to patients who must currently travel to other regions within Italy. SRS is precisely-delivered high dose radiation used to treat inoperable tumors. In addition, UPMC signed an agreement with Chiancano Hospital in the Region of Tuscany to provide liver cancer screening and treatment services.

Pursuant to a management agreement between UPMC and the Ri.Med Foundation, UPMC will operate and manage a to-be-constructed biotechnology research facility in Sicily. The Ri.MED Foundation continued its research fund raising activity. During the last four years, Ri.MED obtained European funding of more than €6 million (\$6.7 million). The executive design for the Biomedical Research and Biotechnology Center (BRBC) has been finalized and the authorization process was completed in December 2016. The public procurement procedure is in progress and will be completed by December 2017.

The UPMC Whitfield Cancer Centre located in Waterford, Ireland recently celebrated its 10th anniversary. In addition, UPMC Ireland has signed a Joint Venture agreement with the Bon Secours Health system to develop a cancer center in Cork, Ireland. The Bon Secours Health System is the largest private healthcare system in Ireland.

Technology upgrades have transitioned the center to electronic medical records. Additionally, Bon Secours Hospital in Cork, Ireland has agreed to a joint venture on a radiation oncology center on the hospital campus, which will expand UPMC's oncology footprint in Ireland. This center is expected to open in 2019.

During fiscal year 2012, UPMC provided Nazarbayev University a feasibility study and implementation plan for the establishment of a National Cancer Program centered within the

capital of Astana, Kazakhstan. Subsequently, UPMC signed an agreement through 2018 to develop and manage a new cancer hospital, Kazakhstan National Oncology Center. The center will include inpatient and outpatient oncology services, oncology professional education and cancer research programs. In fiscal year 2016 this agreement was extended two years to 2020. Construction of the NROC is expected to commence in Calendar Year 2018.

Xiangya Hospital and its associated medical school are highly regarded institutions in China, originally founded in 1906, through cooperation with the “Yale China Association.” UPMC has been engaged to advise on the creation and operation of the Xiangya International Medical Center (XIMC), located on the hospital’s main campus. Xiangya is a highly visible institution within China, and the XIMC relationship with UPMC has resulted in national exposure for UPMC. This is UPMC’s first significant, long-term engagement within China, whereby UPMC personnel are working in continuous collaboration with their Chinese counterparts. By gaining an operational foothold and institutional experience within this country with a population of over 1.3 billion and a growing middle class which is demanding access to high quality healthcare services, UPMC is well positioned for leveraging the success of XIMC into additional ventures within China.

UPMC has been engaged to assess and advise on the facilities and operation of the Macare OB/GYN hospital (owned by Wanshi Holdings Group) in Quanzhou, China. Through this engagement, Macare personnel will receive observational training in Pittsburgh. UPMC experts will provide training, clinical observations and recommendations for clinical and managerial improvements in China, with the objective of attaining international standards of care.

UPMC entered an agreement in 2015 with Fundación Cardiovascular de Colombia (FCV), to co-manage the Oncology Institute at the new Hospital Internacional de Colombia (HIC). This partnership, builds on FCV’s successful seven-year relationship in cardiology with Children’s Hospital of Pittsburgh of UPMC, which includes remote monitoring of pediatric intensive care unit patients by Children’s physicians. UPMC will be overseeing the development of cancer care protocols to physician training to preparing for Joint Commission International accreditation. Financed and operated by FCV, the Oncology Institute includes chemotherapy and highly specialized radiotherapy services, with future plans for a bone marrow transplant unit. Additionally, the institute offers a palliative care program, counseling and nutrition services, and a pain management program.

In July 2016, the International Training Center (ITC) was formally launched, through the offer of the flagship Health Care Management Program. The ITC offers clinical training, in combination with clinical departments, and management training experiences to help improve health care abroad. The ITC also offers nursing observerships, medical student rotations, an administrative fellowship and a one-week, highly customized operations-focused training program, with individual consideration of other customized training programs if strategically appropriate. The ITC was created to meet the training and educational requirements of existing clients and provide a much sought-after service to enhance new or burgeoning partnerships. The ITC offers nursing observerships, medical student rotations, an administrative fellowship and a one-week, highly customized operations-focused training program, with individual consideration of other customized training programs if strategically appropriate. This is a strategic approach to initiating relationships with UPMC – offering a lower-cost option to customers who are hoping to understand UPMC’s value before committing larger portions of their budget to larger engagements. The ITC is therefore not only enabling more structured approaches to fulfilling training deliverables of international agreements, but is important for broadening UPMC’s brand recognition in new markets.

UPMC International is in the process of further refining its overseas strategy to focus on a higher concentration of services in fewer countries. The countries are Ireland, Italy, Kazakhstan, China and Colombia. There are currently 25 projects in the pipeline in those five countries.

UPMC Enterprises

As the commercialization arm of UPMC, the mission of UPMC Enterprises is to shape the future of health care through innovation. It helps bring this mission to life by turning innovative health care technology ideas into successful businesses and creating employment opportunities in its community; commercializing solutions that impact the lives of patients in meaningful, lasting ways; and by generating new, diversified, and sustainable sources of revenues for UPMC.

UPMC Enterprises strives to transform innovative ideas into new jobs and companies by leveraging a 20-year history of investing in and developing businesses that solve complex health care challenges. UPMC Enterprises harnesses the strength of UPMC's clinical, technical, business, and capital resources to develop, test, and deploy health care products and services that improve the lives of patients across the globe and reduce costs. The strategy in this sector is to work closely and actively with these companies in developing products, implementing them at UPMC, and ultimately demonstrating their value proposition to facilitate broader market acceptance. This strategy is executed in the context of UPMC being both an equity owner in the company, as well as a user of the product, technology, or service. Within this framework, UPMC continues to focus on four areas: Translational Science, Consumer, Improving Outcomes, and Infrastructure and Efficiencies. UPMC partners with select companies through commercialization agreements combined with strategic investments. Below is a brief summary of agreements initiated during fiscal year 2017.

Microsoft Research: In February 2017, UPMC Enterprises announced a strategic partnership agreement with Microsoft to create new products built and piloted at UPMC and aimed at transforming care delivery. The products and potential new companies are intended to take advantage of Microsoft's expertise in fields like artificial intelligence and cloud computing.

Cernostics: At the end of August 2016, UPMC Enterprises announced an agreement with Cernostics, an early-stage oncology diagnostics and pathology company, to accelerate the introduction of Cernostics' precision medicine product for Barrett's Esophagus. The product, TissueCypher™, is a platform that uses sophisticated digital imaging, advanced software, and predictive algorithms to create "scores" for patients, leading to customized treatments and prognoses.

Cavulus: In September 2016, UPMC Health Plan vendor Cavulus joined the UPMC Enterprises portfolio. Cavulus, a software and services company for health insurers, primarily in the Medicare Advantage enrollment market, became a strategic partner with UPMC Enterprises in order to accelerate its growth and expand into new marketplaces.

Curavi Health: Also in September 2016, Curavi Health publicly launched after being developed and funded by UPMC Enterprises. Curavi brings a comprehensive telemedicine solution to the post-acute care space, specifically nursing homes, in order to reduce transfers to hospital emergency rooms and fill gaps in after-hours clinical care.

RxAnte: In October 2016, UPMC Enterprises announced it had acquired a majority interest in RxAnte, a strategic medication adherence platform driven by sophisticated analytics. RxAnte provides solutions to improve the prescribing and use of prescription medications, tackling

under-use, over-use, and mis-use of drugs. With the growth capital provided, RxAnte will build new services and capabilities in Pittsburgh.

ALung: In April 2017, UPMC Enterprises announced an expansion of an existing partnership with Pittsburgh-based ALung by investing in its Series C round alongside Philips. This medical device company's primary product is the Hemolong Respiratory Assist System that treats acute respiratory failure, and funding will support a clinical trial needed for FDA approval.

Xealth: In June 2017, UPMC Enterprises shared news of its strategic partnership with Xealth, whose digital prescribing and analytics platform facilitates the use of digital health applications and content in care delivery. Founded in 2016 at Providence Health in Seattle, Xealth is currently being piloted by two service lines at UPMC: orthopaedics and women's health. UPMC's quality team is closely involved in the rollout at UPMC.

Enterprise Wide Services

Information Technology. Over the past decade, UPMC information technology has adapted and expanded to meet the needs of a rapidly growing health system. UPMC has achieved a national reputation for its advances in health care information technology, and is considered to be on the cutting-edge of technological integration. UPMC views information technology as the backbone of a fully integrated, self-regulating health care system, and has invested over \$1.5 billion (capital and operating) in information technology over the past five years to improve the quality, safety, and efficiency of patient care. The following accolades illustrate UPMC's success in this area:

- UPMC's Information Services Division (ISD) provides centralized IT services to support and enable all UPMC departments and facilities with a very diverse customer base (i.e. physicians, UPMC Health Plan Members, patients, employees, etc.). With more than 1,000 applications, 12,500 servers, 14 petabytes of online data storage, 105,000 devices, 85,000 employee identities, and 800 business locations in nine states that require technology configuration, ISD strives to provide the highest degree of service to UPMC.
- UPMC was recognized as an "Elite 100" by *InformationWeek* for the third year in a row—ranking on the publication's list of most innovative companies across all industries. UPMC also was honored with *InformationWeek's* newly created Decade Award, which recognizes businesses that embrace and model innovation over the previous 10 years.
- Children's became the first pediatric hospital in the United States to achieve a Stage 7 Award from HIMSS Analytics, a not-for-profit subsidiary of the Healthcare Information and Management Systems Society (HIMSS). The Stage 7 Award — HIMSS's highest ranking — recognizes a virtually paperless patient record environment, and the most comprehensive use of electronic medical records. In 2017, Children's was successfully revalidated for State 7 certification. Sixteen other UPMC locations – Magee-Womens Hospital, UPMC McKeesport, UPMC East, UPMC Mercy, UPMC Presbyterian, UPMC Shadyside, UPMC St. Margaret, UPMC Hamot, UPMC Altoona, UPMC Susquehanna, UPMC Chautauqua WCA, IsMeTT in Palermo, Italy, UPMC Horizon, UPMC Northwest, UPMC Bedford Memorial, and UPMC Passavant – have been named Stage 6 hospitals. The American Hospital Association's *Hospitals & Health Networks Journal* named UPMC as one of the most wired health systems in the country. UPMC is the only organization that achieved this distinction for 19 consecutive years.

- UPMC's Internal Communications team was recognized at the recent Intra.NET Reloaded in Boston, the international conference for digital workplace and internal communications. The award came in recognition of the successful launch of UPMC's newly improved Infonet, which is the internal website, or intranet, for the health care provider and insurer. For the updated Infonet, UPMC Internal Communications team was awarded Best Intranet Integration and Strategy & Digital Workplace Management and Best User Experience Design & Content Management.
- UPMC was awarded the Client Innovation Award for Innovation in Diagnostic Communities by Sunquest Information Systems. UPMC was recognized for developing an interoperable infrastructure that completely eliminated the use of paper orders and improved turnaround time of lab results to UPMC's patients. Utilizing Sunquest and current technology, the team coupled the hospital laboratories to their diagnostic communities, creating an interoperable infrastructure that empowered them to go from a state of 100 percent paper processing to a fully automated process. With this new solution, the team helped to eliminate many labor-intensive manual processes such as handwriting results on report sheets and manually faxing reports to streamline workflow. By establishing electronic lab orders, automated specimen collection label printing, and interfaced laboratory instruments to the Laboratory Information System (Sunquest) while integrating clinical test results with physician and hospital EMRs, the team was able to significantly improve turnaround time of the results to patients.

Risk Management. UPMC is insured for professional and general liability losses through wholly owned, multi-provider insurance companies (the "Captives"). The Captives provide primary and excess coverage on an occurrence basis to UPMC hospitals, subsidiaries, and employed physicians, and other entities not included in the consolidated UPMC financial statements. The professional insurance agreements have retrospective clauses, which permit additional premiums or refunds to be made based on actual experience. The Medical Care Availability and Reduction of Error ("MCARE") Act, enacted by the Commonwealth, created the PA MCARE Fund which provides coverage for claims exceeding the primary layer of professional liability insurance coverage provided by the Captives.

The MCARE Fund replaced the Pennsylvania Medical CAT Fund as the agency for the Commonwealth to facilitate the payment of professional liability claims exceeding the primary layer of professional liability insurance carried by UPMC hospitals and other health care providers practicing in the Commonwealth. The MCARE Fund is funded on a "pay-as-you-go basis," and assesses health care providers based upon a percentage of the rates established by the Joint Underwriting Association (also a Commonwealth agency) for this basic coverage.

The Captives are comprised of five separate companies that provide different lines of insurance coverage for UPMC, as well as other affiliated companies and physicians. The UPMC insurance program has been in existence for more than 40 years in a variety of different structures, and provides the following lines of insurance coverage: primary, excess and reinsurance coverage for professional liability risks; primary coverage for general liability, directors and officers, and managed care errors and omissions; and a layer of reinsurance coverage for the UPMC Health Plan and CCBH. The professional liability insurance program represents the most significant aspect of the risks and activity, and insures over 4,000 physicians. All five companies provide professional liability insurance and/or reinsurance coverage for UPMC and subsidiaries and other affiliated entities and physicians, as deemed appropriate.

Reserves for professional liability losses and loss adjustment expenses are determined using individual case-based evaluations and statistical analyses, and represent an estimate of reported claims and claims incurred but not reported. Those estimates are subject to the effects of

trends in loss severity and frequency. Although considerable variability is inherent in such estimates, UPMC's management believes that the reserves for professional liability losses and loss adjustment expenses are reasonable. The estimates are continually reviewed and adjusted as necessary as experience develops or new information becomes known. Such adjustments are included in current operations.

Mediation has become an accepted, and in many instances the preferred, method to resolve professional liability claims. UPMC implemented a program over ten years ago that has resolved approximately 89% of the cases that have been mediated. From October 2004 through June 2017, UPMC mediated approximately 457 cases and settled 409 of them.

Quality of Patient Care

UPMC is dedicated to making quality inherent in every aspect of the care provided. The UPMC quality mission is to achieve high reliability in all aspects of its clinical care, striving to ensure that the right patient gets the right care, at the right time, in the right way, every time, and to create an environment that is totally safe and encourages individuals to speak up in a process to continuously improve patient safety.

Among UPMC's array of quality initiatives are major system-wide clinical efforts sponsored by the Wolff Center (formerly referred to as the Donald D. Wolff, Jr, Center for Quality, Safety, and Innovation) at UPMC. The Wolff Center has continued to drive the implementation of innovative models of enhancing cost and quality outcomes, such as new payment models that include seven shared savings programs with regional providers.

UPMC participates in the Society of Thoracic Surgeons (STS) adult cardiac surgery database. There are 11 National Quality Forum Measures which form the basis for the composite star ratings for each participating STS facility. In the most recent reporting period for calendar year 2016, all UPMC adult cardiac surgery facilities achieved an individual rating of 2 stars for Isolated Aortic Valve Replacement and Aortic Valve Replacement + Coronary Artery Bypass Graft. UPMC Hamot received 3 stars for Isolated Coronary Artery Bypass Graft, while all other UPMC hospitals received 2 stars in this category. This is a significant honor bestowed on approximately the top 10% of hospitals in the United States. UPMC's collective outcomes across all facilities achieve a 2-star rating in all three categories listed above.

Key accomplishments supported through the Health Services Division include efforts to improve key quality measures. These measures include continued maintenance of mortality rate success despite growing complexity and acuity, an 83% reduction in colon surgical site infection SIRS in 22 months, and a 24% reduction in hospital acquired condition rate over the last three years. These are all significant and measurable improvements in clinical quality at UPMC.

UPMC continues in the three required Centers for Medicare and Medicaid Services (CMS) programs (Hospital Value-Based Purchasing Program (HVBP), Hospital Readmission Reduction Program (HRRP), and Hospital Acquired Condition Reduction Program (HACRP)). These Medicare programs make incentive payments (only HVBP) or financially penalize hospitals based on quality performance metrics. For the fiscal year 2017 payment, the HVBP program was defined by four domains: Clinical Care (weighted 30%) including three clinical process measures and three mortality outcome measures, Patient and Caregiver Experience of Care/Care Coordination (weighted 25%) including eight dimensions, Efficiency and Cost Reduction (weighted 25%) including one spending measure, and Safety (weighted 20%) including infections and a safety composite measure. For the fiscal year 2017 payment, CMS Hospital Readmission Reduction Program (HRRP) was defined as reducing excess/unnecessary readmissions for certain conditions. The Hospital Acquired Condition Reduction Program (HACRP) was defined as eliminating certain complications such as coded adverse event (15%) and infections (85%). UPMC received over 72% of the eligible Revenue at Risk from CMS for fiscal year 2017.

Community Benefits

With 80,000 employees, UPMC is the largest nongovernmental employer in Pennsylvania. UPMC's operations generated a total economic impact of \$30 billion, as reported by the Hospital Association of Pennsylvania, during the year ended June 30, 2016.

UPMC annually performs an in-depth assessment and review of its community benefits. During the fiscal year ended June 30, 2016, UPMC provided \$912 million in community benefits divided between charity care and unreimbursed amounts from programs for the poor (\$288 million), community health programs and donations (\$217 million) and support for research and education (\$407 million).

UPMC is a leader in establishing a broad-based financial assistance program that enables uninsured and underinsured individuals and families to qualify for free or discounted services. The program extends to households earning up to 400% of the federal poverty level.

An important facet of growth in the region is to develop the highly trained workforce of the future. UPMC continued its role as a major funder of this effort with a \$100 million commitment to The Pittsburgh Promise, which offers grants of up to \$40,000 for four years of postsecondary education to Pittsburgh's public high school graduates. UPMC made its final payment to the program this year, fulfilling a one-of-a-kind commitment to developing the region's youth. UPMC also supports training for health care industry jobs. UPMC's hospital-based nursing schools and a number of "allied health" programs play an important part, training nurses, nursing assistants, clinical therapists, medical technologists, and other clinicians. Through its close relationship with the University, UPMC hospitals train approximately 1,700 medical residents and clinical fellows each year, through one of the largest programs in the United States.

UPMC is also helping to develop inclusive workplaces that benefit from the talents of all. UPMC's award-winning Dignity and Respect Campaign entered its seventh year of offering training to organizations outside of UPMC, encouraging government and business organizations across the country to realize the social and competitive benefits of dignity and respect in their workplaces. UPMC also continued to foster inclusion in its vendors by committing \$124 million in fiscal year 2017 to initiatives that support local minority- and women-owned businesses.

In accordance with IRS regulations, UPMC completed an assessment of the health needs of the communities served by its U.S. hospitals during fiscal year 2013. Associated community health improvement plans were developed at that time in order to direct resources where they are most needed and will make the most impact. In 2014 and 2015 UPMC continued to make measurable progress in all areas identified through the Community Health Needs Assessments (CHNA). This included both improvement and expansion of existing programs, as well as development of new programs and initiatives. In addition, partnerships with other community organizations were established and enhanced in order to better coordinate resources. In conformance with the IRS three-year cycle, in 2016, UPMC once again drew on public health data, community input, and expertise from the University's Graduate School of Public Health in order to update all of the assessments and improvement plans by June 30, 2016. In 2017, progress on these implementation plans continued to be tracked and measured.

Litigation

UPMC is involved in litigation and responding to requests for information from governmental agencies occurring in the normal course of business. Certain of these matters are in the preliminary stages and legal counsel is unable to estimate the potential effect, if any, upon the results of operations or financial position of UPMC. Management believes that these matters will be resolved without material adverse effect on UPMC's results of operations or financial position. However, the ultimate outcome and effect on UPMC's financial condition are unknown.

In April 2009, two related class action lawsuits were filed against UPMC and certain of its affiliates in the Court of Common Pleas for Allegheny County, Pennsylvania. The state court actions allege violations of the Pennsylvania Minimum Wage Act, The Wage Payment and Collection Act and common law. Similar cases have already been dismissed by the federal district court. The lawsuits seek recovery of alleged unpaid wages and benefits and other monetary damages and costs. The outcome and ultimate effect on UPMC's financial condition cannot be determined at this time.

In January 2012, UPMC Hamot was served with a Complaint in federal court naming it as a defendant in a qui tam action, along with a private physician practice. In July 2013, the Court denied UPMC Hamot's motion to dismiss an Amended Complaint. UPMC Hamot answered the Amended Complaint on September 18, 2013. On July 8, 2016, the parties filed competing motions for summary judgment. On March 15, 2017, the Court denied UPMC Hamot's motion for summary judgment and granted in part and denied in part the Relator's motion for summary judgment. Trial has been scheduled for November 7, 2017. The outcome and ultimate effect on UPMC's financial condition cannot be determined at this time.

In July 2012, a class action suit was filed against UPMC and other defendants in the Allegheny County Court of Common Pleas alleging Pennsylvania wage and hour violations. The Complaint alleges that RN staff members with a BSN were not credited the pay differential to which they were entitled and seeks damages for that differential as well as liquidated damages and interest. UPMC filed preliminary objections resulting in the dismissal of all named defendants except UPMC. A Motion to Certify a UPMC-wide class of 405 current and former BSNs from February 2006 to present was granted. After Discovery closed, on August 1, 2016, UPMC filed a motion for summary judgment on all claims and a motion to decertify the class (to the extent that any claims survive summary judgment). Partial summary judgment was granted. As a result, approximately 200 former employees were dismissed from the class. Plaintiff's counsel has requested leave to appeal the decision to narrow the class. The outcome and ultimate effect on UPMC's financial condition cannot be determined at this time.

Beginning in September 2012, multiple suits were filed against UPMC, Maxim Staffing Solutions, Inc. ("Maxim") and Medical Solutions, LLC, in the Allegheny County Court of Common Pleas ("Common Pleas Court") alleging the defendants acted negligently in failing to prevent a Maxim employee, staffed at UPMC between March 2008 and May 2008, from spreading the Hepatitis C virus ("HCV"). UPMC notified the Pennsylvania Attorney General that this employee was terminated from UPMC for violations related to attempts to switch syringes. UPMC filed preliminary objections to all of these actions based on, inter alia, the lack of a common law duty of care. The trial courts granted the preliminary objections, thereby dismissing the actions. In the ensuing appeals, the Pennsylvania Superior Court vacated the trial court's orders sustaining the preliminary objections based on lack of a common law duty of care and remanded for further proceedings. On October 21, 2016, UPMC has petitioned the Pennsylvania Supreme Court for allowance of appeal. On April 18, 2017, the Pennsylvania Supreme Court granted UPMC's

Petition for Appeal. The outcome and ultimate effect on UPMC's financial condition cannot be determined at this time.

On October 9, 2012, UPMC received a Civil Investigative Demand ("CID") from the Department of Justice ("DOJ") that sought records relating to 40 surgical procedures performed between January 25, 2008 and June 24, 2010. UPMC timely responded to that CID. In November 2013, the DOJ advised UPMC that the CID had been served as part of the DOJ's investigation of allegations asserted by Relators in a federal qui tam lawsuit filed under seal. On July 27, 2016, the DOJ announced that it had reached an agreement with UPMC to settle certain allegations that UPMC had violated the False Claims Act for approximately \$2,500. UPMC admitted no liability in settling those claims. The DOJ declined to intervene in the remaining allegations of the Relators' lawsuit, which was also unsealed on July 27, 2016. In their Amended Complaint against UPMC and UPP, Inc., Relators allege that UPMC violated the False Claims Act violations, by overpaying physicians and encouraging physicians to perform medically unnecessary procedures. On June 21, 2017, the Court granted UPMC's motion to dismiss all claims, but provided leave to the Relators to file a Second Amended Complaint, which the Relators filed on July 20, 2017. UPMC has moved to dismiss the Second Amended Complaint. The outcome and ultimate effect on UPMC's financial condition cannot be determined at this time.

In September 2013, a Complaint was filed with the National Labor Relations Board, Region 6 against UPMC Presbyterian Shadyside ("PUH"). The Complaint was amended in January 2014 to add UPMC as another defendant. The Amended Complaint, stemming from multiple unfair labor practice charges filed by the Service Employees International Union ("SEIU") Healthcare Pennsylvania alleges that UPMC PUH engaged in various activities that violate the National Labor Relations Act. In response, the National Labor Relations Board ("NLRB") is seeking relief in the form of: a workplace posting, to be displayed for 120 days, as determined by the proceedings; a public reading of the posting to UPMC employees; an Order granting the SEIU full access to public areas at PUH during non-working hours for the purpose of speaking to employees; an Order granting the SEIU permission to post its notices and distribute literature at PUH; the repayment of various taxes related to the termination of four employees identified in the complaint; and other undefined relief as deemed appropriate. UPMC anticipates that the "undefined relief" will include back pay and reinstatement for the four terminated employees. A five-week hearing was conducted before an administrative law judge. In the opinion, reinstatement was recommended for all of the terminated employees, plus full back pay, 120 day notice posting and a public reading of the posting. The matter is currently on appeal to the NLRB. One of the reinstated individuals has agreed to resolve his claim with no reinstatement. The ultimate outcome and effect on UPMC's financial condition are unknown.

In February 2014, a putative class action against UPMC and UPMC McKeesport was filed in the Court of Common Pleas of Allegheny County, Pennsylvania, asserting claims for negligence, breach of privacy, and breach of implied contract in connection with a data breach at UPMC involving the personally identifiable information of certain UPMC employees. The purported class consists of former, current, and future UPMC employees. On May 28, 2015, the Court sustained UPMC's preliminary objections and dismissed Plaintiff's claims. Plaintiffs have appealed the Court's order. On January 12, 2017, the Pennsylvania Superior Court affirmed the dismissal of plaintiffs' claims. Plaintiff's filed a Petition for Allowance of Appeal to the Pennsylvania Supreme Court, which was granted in September . The ultimate outcome and effect on UPMC's financial condition are unknown.

On September 3, 2014, Highmark Inc. and Keystone Health Plan West, Inc. sued UPMC and various UPMC hospitals and physician practices in the Court of Common Pleas of Allegheny County, Pennsylvania, asserting claims for breach of contract and declaratory judgment related to oncology billing. On March 24, 2015, the Court denied UPMC's preliminary objections to that Complaint. On April 2, 2015, UPMC filed a Notice of Appeal of the Court's March 24, 2015 Order. On December 2, 2016, the Pennsylvania Superior Court denied UPMC's appeal. On March 10, 2017, UPMC filed a Petition for Review with the Pennsylvania Supreme Court. That appeal was denied on July 25, 2017. The ultimate outcome and effect on UPMC's financial condition are unknown.

In April 2015, Premier Comp Solutions ("PCS"), a vendor used by UPMC Health Benefits, UPMC Benefit Management Services and UPMC Work Alliance to provide certain repricing services and/or panel generation and related services for certain employer groups purchasing either third-party administration and/or worker's compensation insurance products from UPMC, filed a lawsuit against UPMC Health Network, UPMC Benefit Management Services, UPMC Health Benefits, and two of PCS' competitors in the Court of Common Pleas of Allegheny County. In its Complaint, which PCS has amended three times, PCS asserts, inter alia, claims for breach of contract, tortious interference with contractual or beneficial business relations, misappropriation of trade secrets, misrepresentation and conspiracy. In PCS's First Amended Complaint in August 2015, it removed UPMC Health Network and added UPMC, a Pennsylvania nonprofit non-stock corporation, as a party. The UPMC defendants filed an Answer, New Matter and Counterclaim to PCS's Third Amended Complaint on February 16, 2016. Discovery is ongoing. The outcome and ultimate effect on UPMC's financial condition cannot be determined at this time.

In May 2015, PCS also sued UPMC Health Network, UPMC Benefit Management Services, UPMC Health Benefits, and a PCS competitor in the United States District Court for the Western District of Pennsylvania, asserting four antitrust related claims. In August 2015, PCS filed an amended complaint, removing UPMC Health Network and adding UPMC, a Pennsylvania nonprofit nonstock corporation as a party. Discovery is ongoing. The outcome and ultimate effect on UPMC's financial condition cannot be determined at this time.

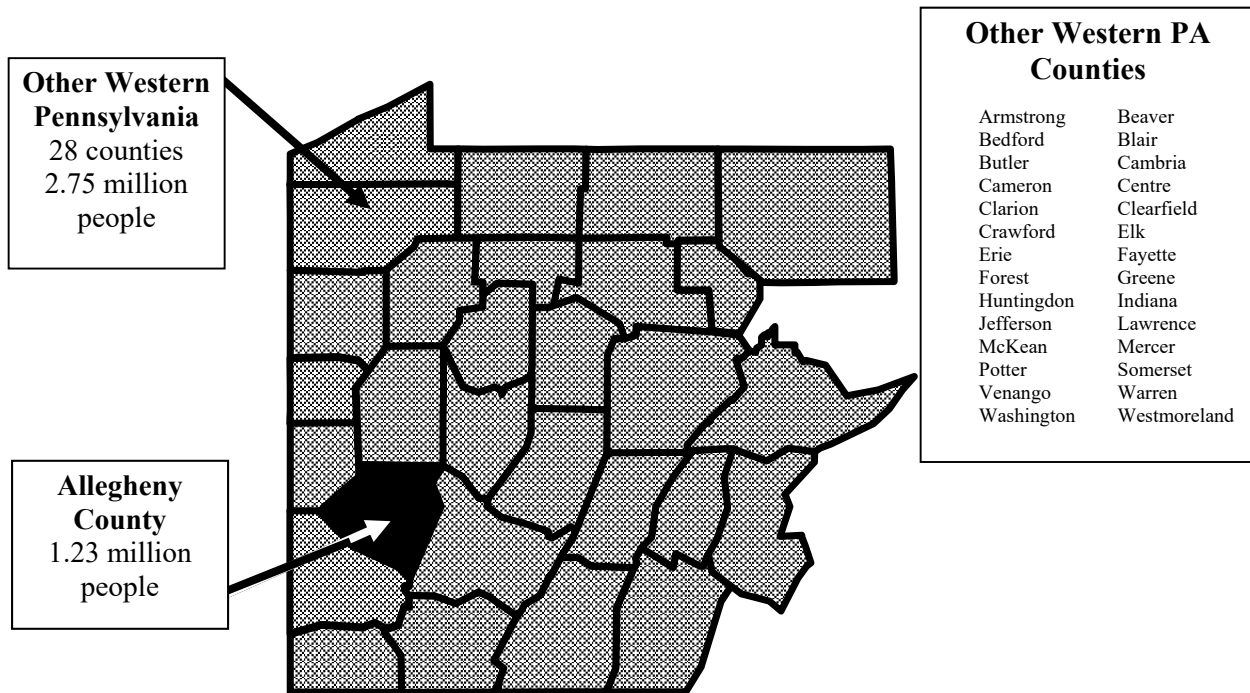
On July 24, 2017, PCS sued Allegheny County, UPMC, Workpartners, Inc UPMC Health Benefits, UPMC Benefit Management Services seeking to enjoin the awarding of a contract from the County to the UPMC Defendants. UPMC intends to respond to the Complaint in September 2017. The outcome and ultimate effect on UPMC's financial condition cannot be determined at this time.

On March 10, 2016, Karen DuVall sued UPMC Presbyterian Shadyside in the Court of Common Pleas of Allegheny County, Pennsylvania, alleging that UPMC negligently caused the death of the plaintiff's decedent, a transplant patient, by failing to prevent a fungal infection. On October 12, 2016, Jesse Krieg sued UPMC Montefiore in the Court of Common Pleas of Allegheny County, Pennsylvania, making similar allegations. After UPMC filed preliminary objections in both cases, DuVall and Krieg filed Second Amended Complaints on January 26, 2017, adding claims against Paris Cleaners, Inc., a linen supplier to UPMC. The plaintiffs alleged that Paris' linens caused the decedents' fungal infections. On February 14, 2017, Joanne Haines sued UPMC Presbyterian Shadyside and Paris Cleaners, Inc. in the Court of Common Pleas of Allegheny County, Pennsylvania, making allegations and claims similar to the Duvall and Krieg Second Amended Complaints. On April 20, 2017, Steven Landman sued UPMC Presbyterian Shadyside and Paris Cleaners, Inc. in the Court of Common Pleas of Allegheny County, Pennsylvania, making allegations and claims similar to the previous Complaints. UPMC is defending all four suits vigorously. The ultimate outcome and effect on UPMC's financial condition are unknown.

Service Area and Market Share

For the period ended December 31, 2016, UPMC's health services market included 29 counties in western Pennsylvania, with a population base of approximately four million people. This population includes a large proportion of people aged 65 and over –19 percent of residents are senior citizens. This age distribution is a significant factor in the mix and scope of health care services delivered.

The following map shows counties that are included in UPMC's two defined service areas: 1) Allegheny County, and 2) the extended twenty-nine county western Pennsylvania region, which includes Allegheny County and 28 additional western Pennsylvania counties. The population figures are 2016 estimates, which are provided by the U.S. Census Bureau.



Source: 2016 Population estimates based on 2016 U.S. Census Data.

The chart below shows the change in UPMC's estimated inpatient market share for the first two quarters of fiscal years 2016 and 2017 (July 1 through December 31st), by service area⁽¹⁾. This is the most recent market share data currently available.

UPMC INPATIENT MEDICAL-SURGICAL MARKET SHARE FY16 Q2 YTD vs. FY17 Q2 YTD

Source: Pennsylvania Health Care Cost Containment Council

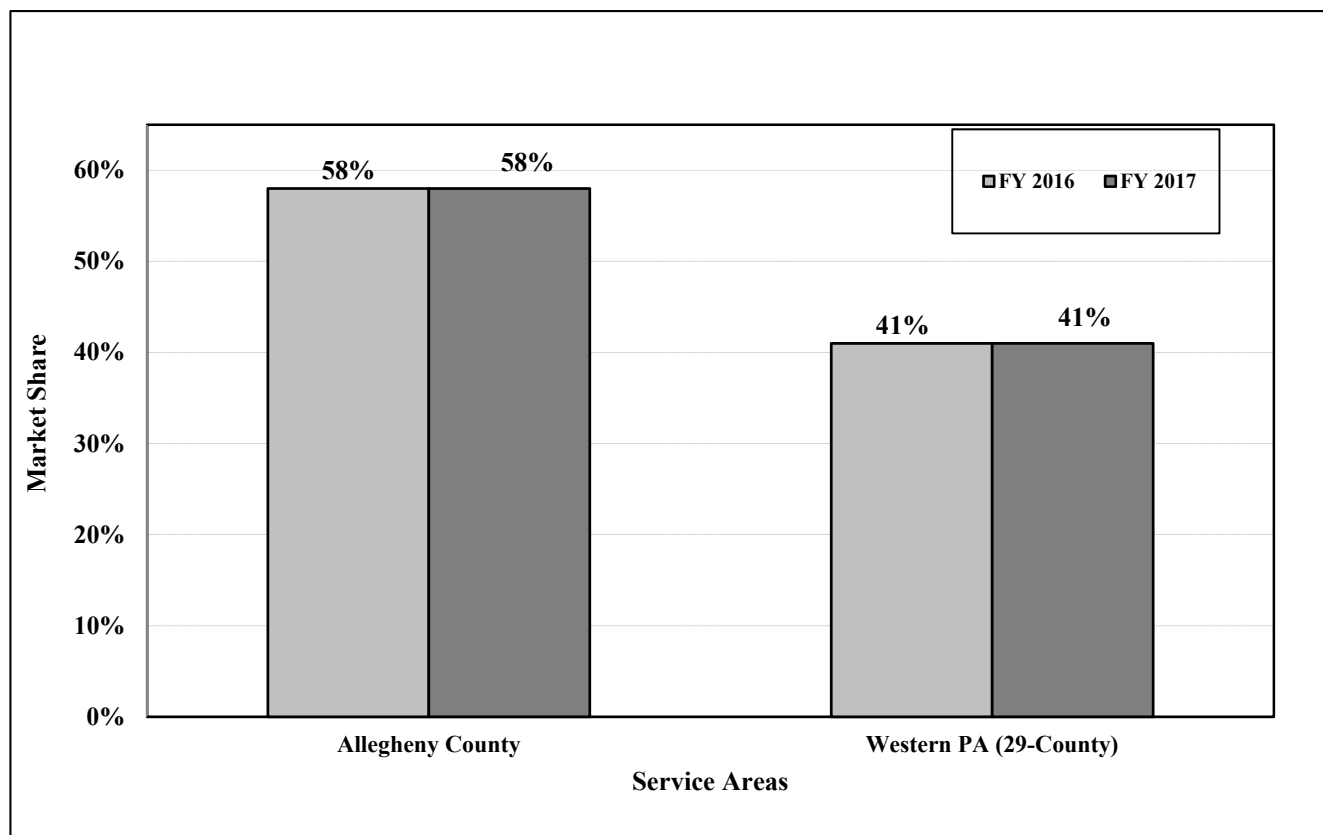


Table 6 shows the change in medical-surgical discharges from all hospitals within each service area for the same period. This is the most recent market share data currently available.

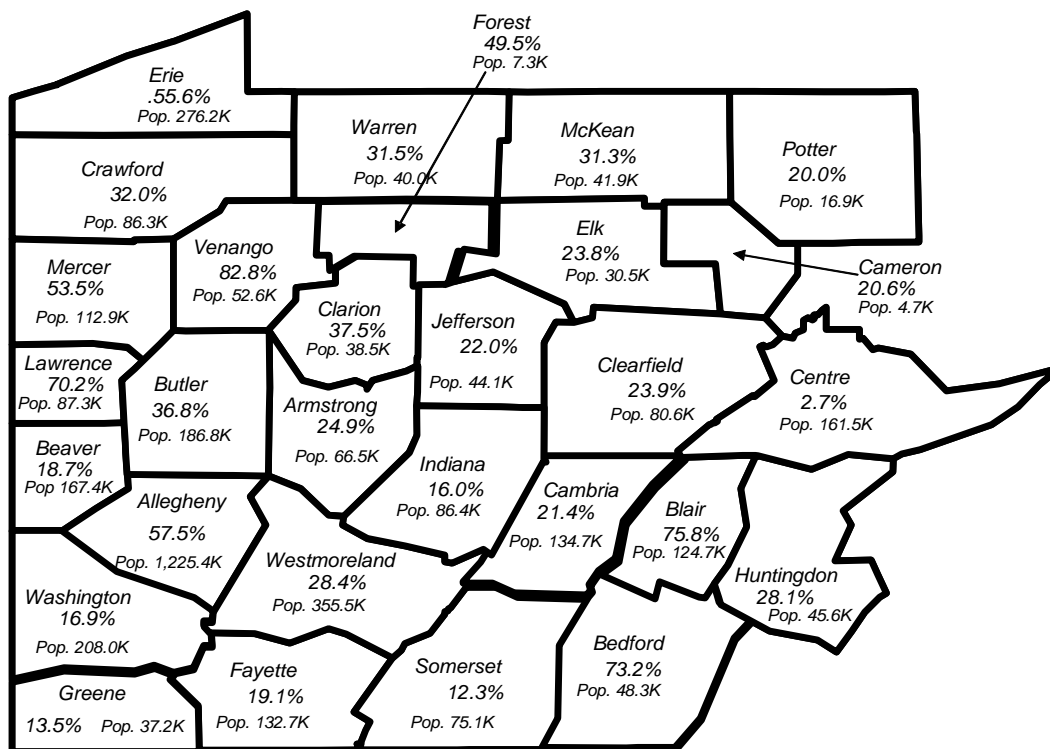
Table 6 Total Inpatient Discharges⁽²⁾ Within the Service Areas (All Hospitals) (July 1 through December 31 of fiscal years 2017 and 2016)			
	FY 17 Q2	FY 16 Q2	Percent Change
Allegheny County	70,362	70,845	(0.68%)
Western Pennsylvania (29-County Region)	230,529	230,106	0.18%

Source: Pennsylvania Health Care Cost Containment Council

¹ UPMC's two service areas are (1) Allegheny County, (2) a 29-county region including Allegheny, Armstrong, Beaver, Bedford, Blair, Butler, Cambria, Cameron, Centre, Clarion, Clearfield, Crawford, Elk, Erie, Fayette, Forest, Greene, Huntingdon, Indiana, Jefferson, Lawrence, McKean, Mercer, Potter, Somerset, Venango, Warren, Washington, and Westmoreland counties.

² Excludes psychiatry and substance abuse discharges

The following map summarizes UPMC's inpatient market share⁽³⁾ within each of the 29 western Pennsylvania counties for the first two quarters of fiscal year 2017 (July 1, 2016 through December 31, 2016), along with the population of each county.



Source: Pennsylvania Health Care Cost Containment Council and U.S. Census Bureau (2016 population estimate).
 3 Excludes psychiatry and substance abuse discharges

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Material Contracts

Academic Affiliation Agreement. The University and UPMC have entered into an Academic Affiliation Agreement, which addresses UPMC's role as the primary clinical and teaching site for the University's School of Medicine and the Schools of Health Related Professions, the role of the University's School of Medicine faculty and supporting financial arrangements, and a Support Services Agreement, addressing contractual and financial terms for numerous services provided by either party to the other, including research grants related to the health sciences. These agreements commenced on July 1, 1998 and currently extend to June 30, 2018. UPMC expects that these agreements will be extended beyond June 30, 2018.

Contracts with National Insurers. As of July 1, 2011, UPMC executed new or amended contracts for both hospital and physician services with national insurers Aetna, Cigna, United Healthcare and HealthAmerica (the "National Insurer Contracts"). The National Insurer Contracts cover all UPMC Subsidiary Hospitals and UPMC-employed physicians in western Pennsylvania. The National Insurer Contracts in aggregate accounted for 15% of gross patient service revenues of the Subsidiary Hospitals during fiscal year 2017, up from 3.3% during fiscal year 2011.

Highmark Contracts. Highmark created an IDFS in western Pennsylvania, consisting of its traditional health insurance business and the newly assembled Allegheny Health Network (AHN). To form AHN, Highmark acquired the former West Penn Allegheny Health System, Jefferson Regional Medical Center in the South Hills area of Pittsburgh, and Saint Vincent Health System in Erie. Highmark also acquired various physician groups and property throughout western Pennsylvania, and opened a medical mall in the North Hills section of greater Pittsburgh in 2014. Highmark's IDFS has radically altered the competitive landscape for health care in western Pennsylvania.

Nine of UPMC's Subsidiary Hospitals in western Pennsylvania had contracts ("Hospital Contracts") with Highmark for indemnity and managed care commercial insurance products. UPMC and Highmark also have separate contracts that cover the services of UPMC's employed physicians ("Physician Contracts") that can be terminated on sixty days' notice. Pursuant to an agreement mediated by the Pennsylvania Governor's office (the "Mediated Agreement"), the Hospital Contracts expired on December 31, 2014. UPMC Mercy and Children's have separate contracts with Highmark that expired on June 30, 2015 and will expire June 30, 2022, respectively.

On June 27, 2014, then-Gov. Tom Corbett and Attorney General Kathleen Kane announced that UPMC and Highmark had entered into parallel consent decrees governing western Pennsylvania's transition into the new health care environment that emerged after the Hospital Contracts expired on December 31, 2014. The consent decrees confirm the expiration of services provided under these contracts on December 31, 2014 with the exception of oncology, emergency, continuity of care services and certain unique treatments. With the exception of these services, Highmark no longer provides in-network access to UPMC's hospitals in Allegheny, Beaver, Butler, Washington, and Westmoreland counties (the "Greater Pittsburgh area") including Magee, UPMC Presbyterian Shadyside, UPMC Passavant, UPMC East, UPMC St. Margaret, UPMC McKeesport and UPMC Mercy. UPMC physician services in the Greater Pittsburgh area also are out of Highmark's network, except for services provided at or for the benefit of independent community hospitals or joint ventures, those provided through WPIC or Children's, and cancer services provided on a referral from a physician. Current patients in treatment are protected across the UPMC system through a continuity of care provision. Emergency and trauma services are available in-network to Highmark subscribers. UPMC services provided outside the Greater

Pittsburgh area and provided to Highmark Medicare Advantage subscribers (except for subscribers with a Community Blue Medicare Advantage product) remain in-network.

Payments from Highmark commercial contracts represented 8% of gross patient service revenues of the Subsidiary Hospitals during fiscal year 2017. This is a reduction from 24.8% in fiscal year 2011, which predates entering into the National Insurer Contracts discussed above.

The Consent Decrees expire on June 30, 2019. UPMC does not expect that the changes to the Highmark contracts described above or the end of the Consent Decrees will have a material adverse effect on UPMC's financial condition.

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Employees

For the twelve months ended June 30, 2017, employee salaries and benefits represented approximately 36.5 percent of UPMC's total operating expenses. UPMC's affiliations with the University's Schools of the Health Sciences and other local universities, colleges, and technical schools contribute to the recruiting of clinicians, allied health care staff, and other employees, as do innovations in scheduling and compensation. As a result of UPMC's association with the above-mentioned schools, UPMC's ability to recruit and retain nursing and other personnel has been enhanced. Below is a summary of UPMC's full time equivalent ("FTE") employees as of June 30, 2017, by operating components.

Health Services	54,502
Insurance Services	3,885
International and Enterprises	<u>1,790</u>
Total full time equivalent employees	<u>60,177</u>

As of June 30, 2017, approximately 4.0% of UPMC's employees were covered by the collective bargaining agreements listed below. The SEIU is continuing organizing efforts at UPMC.

Entity	Bargaining Unit	Union	Number of Employees
WPIC	Clinical Support	1199P SEIU	44
	Inpatient RN	JNESO (SEIU) 1199P	124
UPMC Presbyterian-Shadyside	Skilled Maintenance & Telecommunications Specialist	IUOE Local 95-95A	76
	Security Guards	SPFPA 502	23
Children's	Skilled Maintenance	IUOE Local 95-95A	46
UPMC Altoona	RN's	SEIU Healthcare PA	756
	Ancillary Clinical & Support Staff	AFSCME	844
UPMC McKeesport	RN/LPN	1199P SEIU	180
	Service Worker	Teamsters Local 205	161
	Engineers	IUOE Local 95-95-A	24
	Security Guards	SPFPA Local 502	14
UPMC Mercy	Skilled Maintenance	IUOE Local 95-95-A	45
UPMC Passavant	Skilled Maintenance	IUOE Local 95-95-A	34
UPMC St. Margaret	Skilled Maintenance	IUOE Local 95-95-A	21
	Security Guards	SPFPA Local 502	14
Sherwood Oaks	LPN, Service, Maintenance	1199P SEIU	167
Magee	Skilled Maintenance	IUOE Local 95-95-A	34
	Security Guards	SPFPA Local 502	14
Avalon Springs	Service & Maintenance	United Steelworkers	88
Canterbury Place	Skilled Maintenance	IUOE Local 95-95A	3
WCA Services (Alstar)	Ambulance Service Staff	SEIU Local 200 New York	104
			2,816

Retirement Plans. UPMC and its subsidiaries maintain defined benefit pension plans, defined contribution plans, and nonqualified plans that cover substantially all of UPMC's employees. Benefits under the defined benefit plans vary and are generally based upon the employee's earnings, age and years of service participation. UPMC's defined benefit pension plans are in compliance with all funding requirements under the Employee Retirement Income Security Act of 1974 ("ERISA"). UPMC's policy is to contribute amounts to these plans that are sufficient to avoid additional funding charges from the Pension Benefit Guaranty Corporation. During fiscal year 2017, UPMC contributed \$263.8 million to its defined benefit pension plans. Under the defined contribution plans, employees may elect to contribute a portion of their salary, which is matched in accordance with the provisions of the plans. Benefits under the nonqualified plans are based on eligibility and formulas, as defined under the plans.

Investment Management

In addition to funds held for working capital, UPMC maintains several long-term investment portfolios including unrestricted investments held by the Corporation, the Subsidiary Hospitals, the Insurance Subsidiaries, restricted assets, foundation assets, and pension fund assets. The restricted assets include donor-restricted assets. The Investment Committee meets quarterly to review asset allocation and manager performance for a majority of the portfolios.

During the twelve months ended June 30, 2017, UPMC's investment portfolio returned 11.9%. As of June 30, 2017, UPMC utilized 143 ongoing external investment managers including 47 traditional managers, 16 hedge fund managers and 80 private capital managers. UPMC is also invested with an additional 76 legacy private capital managers. UPMC's investment portfolio has a long-term perspective and has generated annualized returns of 11.9%, 4.9% and 7.8% for the trailing one-, three- and five-year periods. As of June 30, 64% of UPMC's investment portfolio could be liquidated within three days.

The table below compares reported Investing and Financing Activity for the twelve months ended June 30, 2017 and 2016 by component.

Table 9 Investing and Financing Activity by Type for the Twelve Months Ended June 30, (Dollars in Thousands)		
	<u>2017</u>	<u>2016</u>
Realized Gains	\$296,412	\$147,915
Interest, Dividends and Fees	<u>49,568</u>	<u>33,638</u>
Realized Investment Income	\$345,980	\$181,553
Unrealized Gains on Derivative Contracts	2,104	4,558
Unrealized Gain on Evolent Health	21,329	(4,418)
Other Unrealized Gains	226,636	(136,604)
Impairment on Cost Based Investments	<u>(24,399)</u>	<u>(12,679)</u>
Investment Revenue	\$571,650	\$32,410
Loss on Extinguishment of Debt	(53)	(54)
UPMC Enterprises Results	(142,470)	(71,136)
Interest Expense	<u>(127,235)</u>	<u>(114,634)</u>
Gain on Investing and Financing Activities	<u>\$301,892</u>	<u>(\$153,414)</u>

Indebtedness

The Corporation, its Subsidiary Hospitals and other owned and controlled entities had approximately \$3.4 billion in outstanding debt as of June 30, 2017 on a consolidated basis. The annualized weighted average interest cost of the debt for the fiscal year ended June 30, 2017 was approximately 3.72% and the annualized cost of capital during the period was 3.78%. The three and five year annualized costs of capital were 3.71% and 3.79%, respectively. This cost of capital includes the accrual of interest payments, the amortization of financing costs and original issue discount or premium, ongoing costs of variable rate debt and the impact of four derivative contracts used to convert the interest rates on certain portions of the debt. As of June 30, 2017, approximately 18% of UPMC's long-term debt was variable rate and 82% was fixed rate, after giving effect to derivative contracts. The interest cost for the variable and fixed rate debt for the period averaged 1.45% and 4.21% respectively. As of June 30, 2017, UPMC had approximately \$429 million of its \$500 million line of credit available to fund operating and capital needs. On April 7, 2017, credit facilities of \$150 million and \$50 million were created with an expiration date of April 7, 2022. Both of these credit facilities are intended to support the liquidity needs of the Insurance Services Division over the end of the Commonwealth's fiscal year. As of June 30, 2017, draws on the PNC Bank National Association and the Huntington National Bank credit facilities were \$75 million and \$25 million, respectively.

UPMC Susquehanna and UPMC Chautauqua had combined revolving credit facilities with borrowing limits of \$18 million and had approximately \$1 million in letters of credit outstanding leaving \$17 million available to fund operating and capital needs, of which none was drawn as of June 30, 2017. Subsequent to fiscal year end, these lines have been closed and the letters of credit transferred to UPMC's line.

Recently affiliated entities had revolving credit facilities with borrowing limits of \$18 million and had approximately \$1 million in letters of credit outstanding leaving \$17 million available to fund operating and capital needs, of which none was drawn.

Table 10
Outstanding Indebtedness
As of June 30, 2017
(Dollars in Thousands)

Issuer	Original Borrower	Series	Amount Outstanding
Allegheny County Hospital Development Authority	UPMC Health System	1997B	\$ 43,546
	UPMC	2007A	73,764
	UPMC	2007B	64,602
	UPMC	2008A	65,854
	UPMC	2008B	105,453
	UPMC	2008 Notes	83,906
	UPMC	2009A	332,543
	UPMC	2010A	122,666
	UPMC	2010B	97,888
	UPMC	2010C	50,000
	UPMC	2010D	150,000
	UPMC	2010F	95,000
	UPMC	2011A	86,551
Monroeville Finance Authority	UPMC	2012	343,373
	UPMC	2013B	67,336
	UPMC	2014B	49,691
	UPMC	2015A Notes	67,767
Pennsylvania Economic Development Financing Authority	UPMC	2013A	119,429
	UPMC	2014A	314,994
	UPMC	2015B	127,499
	UPMC	2016	269,502
Erie County Hospital Authority	Hamot Health Foundation	2007	29,570
	Hamot Health Foundation	2010A	12,461
	Hamot Health Foundation	2010C	1,420
Pennsylvania Higher Educational Facilities Authority	UPMC	2010E	226,037
Lycoming County Authority	Susquehanna Health System	2009	146,472
	The Williamsport Hospital	2011	17,149
Tioga County Industrial Development Authority	Laurel Health System	2002	449
	Laurel Health System	2010	8,046
	Laurel Health System	2011	6,232
None	UPMC	2011B	99,435
	Susquehanna Health Innovation Center	New Market Tax Credit	16,791
	UPMC / Susquehanna Health System	Swap Liabilities	10,709
	Various - Capital Leases and Loans		59,609
Total			\$3,365,744
Includes original issue discount and premium and other. Source: UPMC Records			

Use of Derivatives. UPMC uses a combination of fixed and variable rate debt to finance capital needs. To manage the amount and type of this debt, UPMC has four derivative agreements related to debt management as described below.

On September 25, 2003, UPMC entered into a \$168,090,000 LIBOR-based forward starting floating-to-fixed interest rate swap with a maturity date of December 1, 2025. This swap converts variable rate bonds equal to the current notional amount of the swap to a fixed interest rate. UPMC has the right to terminate this contract at a market price at any time. The counterparty on this contract is Goldman Sachs Mitsui Marine Derivative Products, L.P. As of June 30, 2017, the notional amount of this swap was \$97,700,000 and the market value of this swap represented a liability of UPMC to the counterparty of approximately \$10,338,000.

On November 21, 2011, The Williamsport Hospital, now affiliated with UPMC, entered into a \$25,000,000 LIBOR-based floating-to-fixed interest rate swap with a maturity date of November 21, 2018. . This swap converts variable rate bonds equal to the current notional amount of the swap to a fixed interest rate. UPMC has the right to terminate this contract at a market price at any time. The Counterparty on this contract is Manufacturers & Traders Trust Co. As of June 30, 2017, the notional amount of this swap was \$17,222,216 and the market value of this swap represented a liability of UPMC to the counterparty of approximately \$68,000.

On May 16, 2007, UPMC entered into two swaps that convert the interest on the Series 2007A1 Bonds from a LIBOR-based to a SIFMA-based variable rate. The notional amount of the swaps are based on the maturity date of the underlying bonds with \$52,155,000 of the bonds due on February 1, 2021 and \$46,095,000 of the bonds due on February 1, 2037. The bonds are subject to mandatory sinking fund redemption, and the notional amount of the swaps decrease by the same amounts on the same dates. The counterparty on this contract is Goldman Sachs Mitsui Marine Derivative Products, L.P. As of June 30, 2017, the notional amount of these swaps was \$74,050,000, and the market value of these swaps represented an asset of UPMC from the counterparty of approximately \$170,000.

Change in Reporting Year. UPMC has elected to change its reporting year from a June 30 year end to a December 31 year end. UPMC intends to issue a stub-period audit covering the period from July 1, 2017 through and including December 31, 2017, after which audit periods will run from January 1 through December 31 of each year. Accordingly, the 12-month period for which an audit will be submitted under UPMC's continuing disclosure agreement will start on January 1 of each year, beginning January 1, 2018. Quarterly reports will continue to be provided on their established schedule. This change amended the definition of "Fiscal Year" under and for purposes of UPMC's Master Trust Indenture to mean the twelve month period commencing on January 1 of each year, commencing January 1, 2018.

Future Financing Plans. As a result of the recently completed affiliations, UPMC expects its total debt to be \$4.2 billion as of December 31, 2018. UPMC's current plan is to maintain total outstanding debt at approximately this level excluding any debt related to future acquisitions. This will require the issuance of between \$150 million and \$190 million of bonds in each fiscal year from 2019 through 2022 to replace debt that is scheduled to mature in each year. UPMC also routinely evaluates the feasibility of refunding existing debt.

Management Discussion and Analysis

The following information is intended to summarize UPMC's financial performance for the twelve months ended June 30, 2017 and 2016. For information on prior periods, interested persons may access UPMC's quarterly bondholder disclosure statements at Digital Assurance Corp's website, www.dacbond.com. For more complete information, please see the audited consolidated financial statements contained in Appendix B.

Financial Results for the Years Ended June 30, 2017 and 2016 (Dollars in Millions)			<ul style="list-style-type: none"> ▪ Operating revenues increased by \$1.5 billion or 12%. ▪ Investment results reflect financial market conditions. ▪ UPMC generated \$732 million of operating earnings before interest, depreciation and amortization ("Operating EBIDA").
	2017	2016	
Operating Revenues	\$14,347	\$12,848	
Operating Income	\$240	\$310	
Operating Margin	1.7%	2.4%	
Operating Margin (including income tax and interest expense)	0.8%	1.3%	
(Loss) Gain from Investing and Financing Activities	\$302	(\$153)	
Excess of Revenues over Expenses	\$991	\$134	
Operating EBIDA	\$732	\$767	
Capital Expenditures and Investments	\$548	\$384	
Reinvestment Ratio	1.11	0.84	
Selected Other Information as of			
	June 30, 2017	June 30, 2016	
Total Cash and Investments	\$5,951	\$5,096	
Unrestricted Cash and Investments	\$5,019	\$4,325	
Unrestricted Cash and Investments Over Long-term Debt	\$1,771	\$1,380	
Days of Cash on Hand	133	130	
Days in Accounts Receivable	43	49	
Average Age of Plant	10.4	10.1	

Operating revenues for the twelve months ended June 30, 2017 increased \$1.5 billion, or 12%, as compared to the twelve months ended June 30, 2016. Operating income for the twelve months ended June 30, 2017 decreased \$70 million over the same period in the prior fiscal year. Operating earnings before interest, depreciation and amortization totaled \$732 million, and excess of revenues over expenses was \$991 million. As of June 30, 2017, UPMC had nearly \$6.0 billion of cash and investments.

UPMC's gain from investing and financing activities for the twelve months ended June 30, 2017 was \$302 million. UPMC made no material changes to its asset allocation policies during the quarter and continues to have a long-term perspective with regard to its investment activities.

Consolidated Utilization Statistics

The following table presents selected consolidated statistical indicators of medical/surgical, psychiatric, sub-acute and rehabilitation patient activity for the years ended June 30, 2017 and 2016.

Table 11		
Consolidated Utilization Statistics		
	Years Ended June 30,	
	2017	2016*
Licensed Beds	6,992	5,864
Beds in Service		
Medical-Surgical	3,986	3,674
Psychiatric	437	410
Rehabilitation	257	201
Skilled Nursing	<u>1,219</u>	<u>877</u>
Total Beds in Service	5,899	5,162
Patient Days		
Medical-Surgical	1,056,810	961,594
Psychiatric	131,253	128,168
Rehabilitation	72,750	63,611
Skilled Nursing	<u>339,868</u>	<u>249,236</u>
Total Patient Days	1,600,681	1,402,609
Observation Days	105,758	100,278
Obs Average Daily Census	290	274
Average Daily Census	4,385	3,832
Admissions and Observation Cases		
Medical-Surgical	208,311	188,481
Observation Cases	<u>82,341</u>	<u>77,981</u>
Subtotal	290,652	266,462
Psychiatric	11,796	10,718
Rehabilitation	4,969	4,410
Skilled Nursing	<u>4,846</u>	<u>4,248</u>
Total Admissions and Observation Cases	312,263	285,838
Overall Occupancy	79%	80%
Average Length of Stay		
Medical/Surgical	5.1	5.1
Psychiatric	11.1	12.0
Rehabilitation	14.6	14.4
Skilled Nursing	<u>70.1</u>	<u>58.7</u>
Overall Average Length of Stay	7.0	6.7
Emergency Room Visits	839,135	723,954
Transplants (Pittsburgh)		
Liver	145	106
Kidney	227	214
All Other	<u>296</u>	<u>343</u>
Total	668	663
Other Post-Acute Metrics		
Home Health Visits	732,982	718,800
Hospice Care Days	190,964	117,561
Outpatient Rehab Visits	626,562	574,219

* Prior year was updated to include certain skilled nursing statistics that were previously excluded to conform to current year presentation.

Source of Revenues

The gross patient service revenues of UPMC are derived from third-party payers, which reimburse or pay UPMC for the services it provides to patients covered by such payers. Third-party payers include the federal Medicare Program, the federal and state Medical Assistance Program (“Medicaid”), Highmark and other third-party insurers, such as health maintenance organizations and preferred provider organizations. Table 12 is a summary of the percentage of the Subsidiary Hospitals’ gross patient service revenue by payer. (See “Material Contracts – Highmark Contracts” herein”).

Table 12 UPMC Payer Mix		
	Years Ended June 30,	
	2017	2016
Medicare	46%	45%
Medicaid	18%	18%
Highmark	8%	10%
UPMC Insurance Services	13%	12%
National Insurers and Other	<u>15%</u>	<u>15%</u>
Total	<u>100%</u>	<u>100%</u>

Source: UPMC Records

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Consolidating Condensed Statements of Operations

Each of the divisions of UPMC records revenues associated with its activities. These activities include transactions with the other divisions. Table 13 shows the Consolidating Statement of Operations by Division for the twelve months ended June 30, 2017. Table 14 shows the same information for the twelve months ended June 30, 2016.

Table 13 Consolidating Statement of Operations for the Twelve Months Ended June 30, 2017 (Dollars in Millions)				
	Division		Eliminations	Consolidated
	Health Services	Insurance Services		
Revenues:				
Net patient service revenue	\$8,435	\$0	(\$1,783)	\$6,652
Provision for bad debts	(306)	0	0	(306)
Insurance enrollment revenue	0	6,811	0	6,811
Other revenue	<u>916</u>	<u>373</u>	<u>(99)</u>	<u>1,190</u>
Total operating revenues	\$9,045	\$7,184	(\$1,882)	\$14,347
Expenses:				
Salaries, professional fees and benefits	\$4,885	\$299	(\$29)	\$5,155
Insurance claims expense	0	6,200	(1,783)	4,417
Supplies, purchased services and general	3,571	542	(70)	4,043
Depreciation and amortization	<u>484</u>	<u>8</u>	<u>0</u>	<u>492</u>
Total operating expenses	<u>8,940</u>	<u>7,049</u>	<u>(\$1,882)</u>	<u>14,107</u>
Operating income	<u>\$105</u>	<u>\$135</u>	<u>\$0</u>	<u>\$240</u>
Operating Margin%	<u>1.2%</u>	<u>1.9%</u>		<u>1.7%</u>
Rating Agency Operating Margin%	0.0%	1.5%		0.8%
Operating EBIDA	\$589	\$143	\$0	\$732
Operating EBIDA%	6.5%	2.0%		5.1%

Table 14
Consolidating Statement of Operations for the
Twelve Months Ended June 30, 2016

(Dollars in Millions)

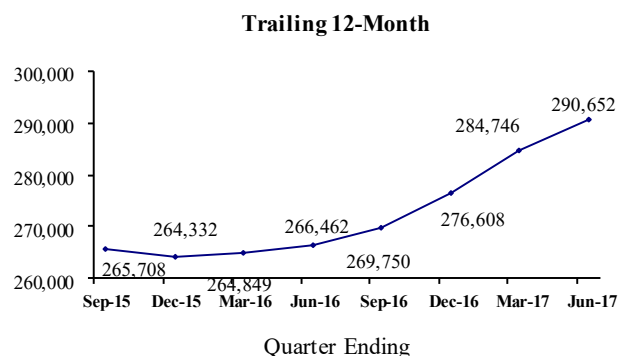
	Division		Eliminations	Consolidated
	Health Services	Insurance Services		
Revenues:				
Net patient service revenue	\$7,461	\$0	(\$1,564)	\$5,897
Provision for bad debts	(228)	0	0	(228)
Insurance enrollment revenue	0	6,141	0	6,141
Other revenue	<u>838</u>	<u>312</u>	<u>(112)</u>	<u>1,038</u>
Total operating revenues	\$8,071	\$6,453	(\$1,676)	\$12,848
Expenses:				
Salaries, professional fees and benefits	\$4,319	\$261	(\$27)	\$4,553
Insurance claims expense	0	5,560	(1,564)	3,996
Supplies, purchased services and general	3,109	508	(85)	3,532
Depreciation and amortization	<u>449</u>	<u>8</u>	<u>0</u>	<u>457</u>
Total operating expenses	<u>7,877</u>	<u>6,337</u>	<u>(\$1,676)</u>	<u>12,538</u>
Operating income	<u>\$194</u>	<u>\$116</u>	<u>\$0</u>	<u>\$310</u>
Operating Margin%	<u>2.4%</u>	<u>1.8%</u>		<u>2.4%</u>
Rating Agency Operating Margin%	1.0%	1.4%		1.3%
Operating EBIDA	\$643	\$124	\$0	\$767
Operating EBIDA%	8.0%	1.9%		6.0%

Revenue Metrics – Health Services

Medical-Surgical Admissions and Observation Visits

Inpatient activity as measured by medical-surgical admissions and observation visits at UPMC's hospitals for the twelve months ended June 30, 2017 increased 9% compared to the same period in 2016.

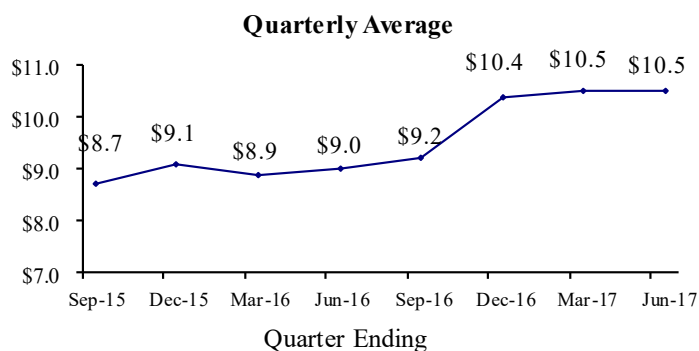
For the Twelve Months Ended June 30: (in Thousands)			
	<u>2017</u>	<u>Variance</u>	<u>2016</u>
Academic	132.5	(0%)	132.5
Community	89.9	1%	88.6
Regional	68.3	51%	45.3
Total	290.7	9%	266.4



Outpatient Revenue per Workday

UPMC's outpatient activity for the twelve months ended June 30, 2017 as measured by average revenue per workday increased 15% compared to the same period in 2016. Hospital outpatient activity is measured on an equivalent workday (EWD) basis to adjust for weekend and holiday hours.

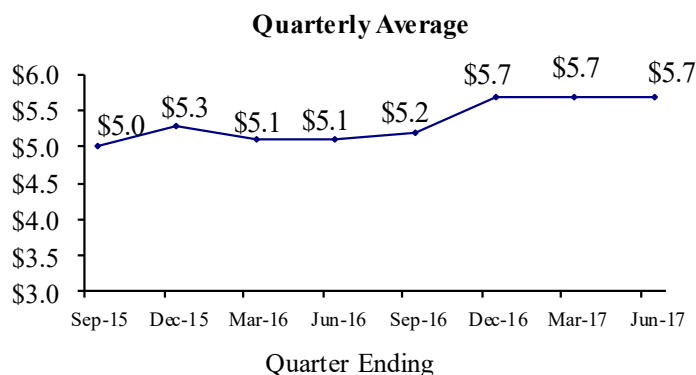
For the Twelve Months Ended June 30: (in Thousands)			
	<u>2017</u>	<u>Variance</u>	<u>2016</u>
Academic	\$5,211	(0%)	\$5,236
Community	2,213	5%	2,109
Regional	<u>2,972</u>	75%	<u>1,703</u>
Total	\$10,396	15%	\$9,048



Physician Service Revenue per Weekday

UPMC's physician activity for the twelve months ended June 30, 2017 as measured by average revenue per weekday increased 10% from the comparable period in 2016. Physician services activity is measured on a weekday basis.

Average for the Twelve Months Ended June 30 (in thousands)			
	<u>2017</u>	<u>Change</u>	<u>2016</u>
Academic	\$2,992	2%	\$2,937
Community	<u>2,702</u>	<u>21%</u>	<u>2,242</u>
Total	\$5,694	10%	\$5,179



Operating Earnings Before Interest, Depreciation and Amortization

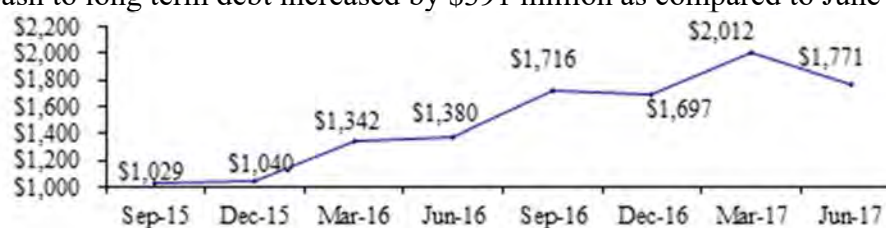
Operating EBIDA for the twelve months ended June 30, 2017 decreased as compared to the twelve months ended June 30, 2016.



For the Twelve Months Ended June 30 In Millions		
	<u>2017</u>	<u>2016</u>
Operating Income	\$240	\$310
Depreciation and Amortization	<u>492</u>	<u>457</u>
Operating EBIDA	\$732	\$767

Unrestricted Cash to Long-Term Debt

Unrestricted cash to long term debt increased by \$391 million as compared to June 2016.



Days in Accounts Receivable

Consolidated Days in Accounts Receivable continue to be lower than industry averages due to UPMC's rigorous procedures in this area.



By Division as of June 30			
	<u>2017 Balance</u>	<u>Days:</u>	
		<u>2017</u>	<u>2016</u>
Health Services	\$1,009	44	49
Insurance Services	<u>867</u>	41	48
Consolidated	\$1,876	43	49

APPENDIX B

**AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF UPMC
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

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UPMC Audited Consolidated Financial Statements

For the Period Ended June 30, 2017



REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors

UPMC

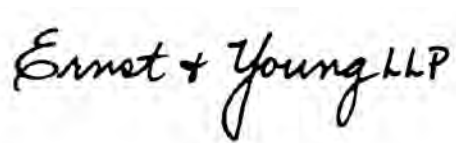
Pittsburgh, Pennsylvania

We have audited the accompanying consolidated balance sheets of UPMC and subsidiaries as of June 30, 2017 and 2016, and the related consolidated statements of operations and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the auditing standards of the Public Company Accounting Oversight Board (United States) and in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of UPMC and subsidiaries at June 30, 2017 and 2016, and the consolidated results of their operations and their cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the auditing standards of the Public Company Accounting Oversight Board (United States) and in accordance with auditing standards generally accepted in the United States of America, UPMC's internal control over financial reporting as of June 30, 2017, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated August 29, 2017 expressed an unqualified opinion thereon.

The image shows a handwritten signature in black ink that reads "Ernst & Young LLP". The signature is written in a cursive, flowing style.

August 29, 2017

CONSOLIDATED BALANCE SHEETS

(IN THOUSANDS)

	June 30	
	2017	2016
CURRENT ASSETS		
Cash and cash equivalents	\$ 673,447	\$ 431,471
Patient accounts receivable, net of allowance for uncollectable accounts of \$153,227 at June 30, 2017 and \$119,943 at June 30, 2016	830,817	699,024
Other receivables	1,050,394	1,079,175
Other current assets	201,016	165,587
Total current assets	2,755,674	2,375,257
Board-designated, restricted, trustee and other investments	5,277,208	4,664,932
Beneficial interests in foundations and trusts	493,322	442,552
Property, buildings and equipment:		
Land and land improvements	401,445	361,679
Buildings and fixed equipment	5,539,368	5,029,854
Movable equipment	2,972,704	2,477,082
Capital leases	104,338	104,515
Construction in progress	208,155	183,000
	9,226,010	8,156,130
Less allowance for depreciation	(5,129,958)	(4,542,356)
	4,096,052	3,613,774
Other assets	366,276	365,897
Total assets	\$ 12,988,532	\$ 11,462,412
CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 505,443	\$ 473,885
Accrued salaries and related benefits	651,226	627,802
Current portion of insurance reserves	488,138	522,941
Current portion of long-term obligations	367,235	158,718
Other current liabilities	714,287	452,841
Total current liabilities	2,726,329	2,236,187
Long-term obligations	2,998,500	2,904,158
Pension liability	89,482	397,691
Long-term insurance reserves	306,957	284,938
Other noncurrent liabilities	212,239	214,676
Total liabilities	6,333,507	6,037,650
Unrestricted net assets	5,935,672	4,801,607
Restricted net assets	719,353	623,155
Total net assets	6,655,025	5,424,762
Total liabilities and net assets	\$ 12,988,532	\$ 11,462,412

See accompanying notes

CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS

(IN THOUSANDS)

	Twelve Months Ended June 30	
	2017	2016
UNRESTRICTED NET ASSETS		
Net patient service revenue:		
Patient service revenue (net of contractual allowances and discounts)	\$ 6,652,610	\$ 5,896,940
Provision for bad debts	(306,357)	(228,043)
Net patient service revenue less provision for bad debts	6,346,253	5,668,897
Insurance enrollment revenue	6,811,082	6,141,444
Other revenue	1,189,494	1,037,762
Total operating revenues	14,346,829	12,848,103
Expenses:		
Salaries, professional fees and employee benefits	5,155,147	4,553,472
Insurance claims expense	4,416,959	3,995,892
Supplies, purchased services and general	4,042,452	3,531,250
Depreciation and amortization	491,907	457,435
Total operating expenses	14,106,465	12,538,049
Operating income	240,364	310,054
Inherent contribution	453,755	2,660
Other non-operating expense	(522)	-
Income tax expense	(4,951)	(24,914)
After-tax income	\$ 688,646	\$ 287,800
Investing and financing activities:		
Investment revenue	571,650	32,410
Interest expense	(127,235)	(114,634)
Loss on extinguishment of debt	(53)	(54)
UPMC Enterprises activity:		
Portfolio company revenue	25,066	8,252
Portfolio company and development expense	(167,536)	(79,388)
Gain (loss) from investing and financing activities	301,892	(153,414)
Excess of revenues over expenses	990,538	134,386
Other changes in unrestricted net assets	143,527	(122,067)
Change in unrestricted net assets	1,134,065	12,319
RESTRICTED NET ASSETS		
Contributions and other changes	3,914	3,441
Net realized and unrealized gains on restricted investments	11,983	204
Restricted net assets acquired	52,114	-
Assets released from restriction for operations and capital purchases	(9,885)	(18,446)
Change in beneficial interest	38,072	(13,852)
Change in restricted net assets	96,198	(28,653)
Change in net assets	1,230,263	(16,334)
Net assets, beginning of period	5,424,762	5,441,096
Net assets, end of period	\$ 6,655,025	\$ 5,424,762

See accompanying notes

CONSOLIDATED STATEMENTS OF CASH FLOWS

(IN THOUSANDS)

	Twelve Months Ended June 30	
	2017	2016
OPERATING ACTIVITIES		
Change in net assets	\$ 1,230,263	\$ (16,334)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	491,907	457,435
Provision for bad debts	306,357	228,043
Change in beneficial interest in foundations	(38,072)	13,852
Change in pension liability	(349,819)	158,841
Restricted contributions and investment revenue	(15,897)	(3,645)
Restricted net assets acquired through affiliations	(52,114)	-
Unrealized losses on investments	(223,566)	141,022
Realized gains on investments	(345,980)	(181,553)
Sales of non-alternative investments	4,213,287	2,700,676
Purchases of non-alternative investments	(4,019,299)	(2,793,163)
Inherent contribution	(453,755)	-
Intangible impairment charge	59,081	-
Changes in operating assets and liabilities:		
Accounts receivable	(324,072)	(313,998)
Other current assets	(15,035)	(9,254)
Accounts payable and accrued liabilities	(36,274)	39,526
Insurance reserves	(12,784)	45,899
Other current liabilities	176,967	83,765
Other noncurrent assets	(21,782)	51,674
Other operating changes	(32,172)	(50,988)
Net cash provided by operating activities	537,241	551,798
INVESTING ACTIVITIES		
Purchase of property and equipment, net of disposals	(537,352)	(381,350)
Investments in joint ventures	(41,000)	(67,000)
Cash acquired as part of affiliations	67,507	(16,616)
Change in investments designated as nontrading	7,675	9,134
Sales of alternative investments	235,691	305,748
Purchases of alternative investments	(184,797)	(203,799)
Change in other assets	9,549	7,583
Net cash used in investing activities	(442,727)	(346,300)
FINANCING ACTIVITIES		
Repayments of long-term obligations	(240,920)	(214,899)
Borrowings of long-term obligations	372,485	146,936
Restricted contributions and investment income	15,897	3,645
Net cash provided by (used in) financing activities	147,462	(64,318)
Net change in cash and cash equivalents	241,976	141,180
Cash and cash equivalents, beginning of period	431,471	290,291
Cash and cash equivalents, end of period	\$ 673,447	\$ 431,471
SUPPLEMENTAL INFORMATION		
Capital lease obligations incurred to acquire assets	\$ 10,691	\$ 2,989

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(IN THOUSANDS)

1. ORGANIZATIONAL OVERVIEW AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

UPMC is a Pennsylvania nonprofit corporation and is exempt from federal income tax pursuant to Section 501(a) of the Internal Revenue Code ("Code") as an organization described in Section 501(c)(3) of the Code. Headquartered in Pittsburgh, Pennsylvania, UPMC is one of the leading integrated delivery and financing systems in the United States. UPMC is an integrated global health enterprise leveraging medical expertise, geographic reach, and financial stability in a model of care excellence that can transform health care nationally and internationally. UPMC comprises nonprofit and for-profit entities offering medical and health care related services, including health insurance products. Closely affiliated with the University of Pittsburgh ("University") and with shared academic and research objectives, UPMC partners with the University's Schools of the Health Sciences to deliver outstanding patient care, train tomorrow's health care specialists and biomedical scientists, and conduct groundbreaking research on the causes and course of disease.

The accompanying consolidated financial statements include the accounts of UPMC and its subsidiaries. The consolidated financial statements are comprised of domestic and foreign nonprofit and for-profit entities that maintain separate books and records as part of their legal incorporation. Intercompany accounts and transactions are eliminated in consolidation.

Cash and Cash Equivalents

Cash and cash equivalents consist primarily of cash and investments, which are so near to maturity (maturity of three months or less when purchased) that they present insignificant risk of changes in value.

Net Patient Service Revenue and Accounts Receivable

Net patient service revenue is reported at estimated net realizable amounts in the period in which services are provided. The majority of UPMC's services are rendered to patients under Medicare, Highmark Blue Cross Blue Shield ("Highmark"), Medical Assistance programs, national payers and UPMC Insurance Services. Reimbursement under these programs is based on a combination of prospectively determined rates, discounted charges and historical costs. Amounts received under Medicare and Medical Assistance programs are subject to review and final determination by program intermediaries or their agents. Reimbursement by UPMC Insurance Services to UPMC providers is eliminated in consolidation and therefore excluded from the tables below.

For the years ended June 30, 2017 and 2016, the percentage of patient service revenue, net of contractual allowances and discounts, derived from third-party payers and self-pay patients is as follows:

Year Ended	June 30	
	2017	2016
Third party	93%	94%
Self-pay	7%	6%
	100%	100%

In 2017 and 2016, the percentage of net patient service revenue derived from Medicare, Highmark, Medical Assistance, and national payers, is as follows:

Year Ended	June 30	
	2017	2016
Medicare	35%	34%
Highmark	16%	18%
National payers	15%	16%
Medical Assistance	12%	13%

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(IN THOUSANDS)

Laws and regulations governing the Medicare and Medical Assistance programs are extremely complex and subject to interpretation. Compliance with such laws and regulations is subject to government review and interpretation as well as significant regulatory action, including fines, penalties, and exclusion from the Medicare and Medical Assistance programs. As a result, there is at least a reasonable possibility that the recorded estimates may change.

Provisions for adjustments to net patient service revenue are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined. Net patient service revenue for 2017 and 2016 was increased by approximately \$31,588 and \$19,837, respectively, resulting from prior-year settlements.

The provision for bad debts is based upon management's assessment of historical and expected net collections considering historical business and economic conditions, trends in health care coverage, and other collection indicators. UPMC records a provision for bad debts in the period services are provided related to self-pay patients, including both uninsured patients and patients with deductible and copayment balances due for which third-party coverage exists for a portion of their balance. Periodically throughout the year, management assesses the adequacy of the allowance for uncollectible accounts based upon historical write-off experience and expected net collections. The results of this review are then used to make any modifications to the provision for bad debts to establish an appropriate allowance for uncollectible accounts. Provisions for bad debts increased to \$153,227 as of June 30, 2017, from \$119,943 as of June 30, 2016, primarily as a result of affiliations noted in Note 2. Concentrations of net patient accounts receivable at June 30, 2017 and 2016, primarily resulting from patients centered in the western Pennsylvania region include:

Year Ended	June 30	
	2017	2016
Medicare	23%	20%
Highmark	21%	23%
National payers	17%	20%
Medical Assistance	11%	8%

Other Receivables

Other receivables are primarily comprised of payments due to the Insurance Services division and include the uncollected amounts from fully-insured groups, individuals and government programs and are reported net of an allowance for estimated terminations and uncollectible accounts.

Board-Designated, Restricted, Trusteed, and Other Investments

Substantially all of UPMC's investments in debt and equity securities are classified as trading. This classification requires UPMC to recognize unrealized gains and losses on substantially all of its investments in debt and equity securities as investment revenue in the consolidated statements of operations and changes in net assets. UPMC's investments in debt and equity securities that are donor-restricted assets are designated as nontrading. This classification also includes UPMC Enterprises' cost basis investments in early stage entities, which are categorized as alternative investments. Unrealized gains and losses on donor-restricted assets are recorded as changes in restricted net assets in the consolidated statements of operations and changes in net assets. Gains and losses on the sales of securities are determined by the average cost method. Realized gains and losses are included in investment revenue in the consolidated statements of operations and changes in net assets.

Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value using quoted market prices or model-driven valuations. These investments predominantly include those maintained in Master Trust Funds ("MTF") and are summarized as nonalternative investments in Note 4.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(IN THOUSANDS)

Investments in limited partnerships that invest in marketable securities (hedge funds) are reported using the equity method of accounting based on information provided by the respective partnership. The values provided by the respective partnerships are based on historical cost, appraisals, or other estimates that require varying degrees of judgment. Generally, UPMC's holdings reflect net contributions to the partnership and an allocated share of realized and unrealized investment income and expenses. The investments may individually expose UPMC to securities lending, short sales, and trading in futures and forward contract options and other derivative products. UPMC's risk is limited to its carrying value for these lending and derivatives transactions. Amounts can be divested only at specified times. The financial statements of the limited partnerships are audited annually, generally as of December 31. These investments are summarized as alternative investments in Note 4.

Investments in limited partnerships that invest in nonmarketable securities (private equity) are primarily recorded at cost if the ownership percentage is less than 5% and are reported using the equity method of accounting if the ownership percentage is greater than 5%. These investments are periodically evaluated for impairment. These investments are summarized as alternative investments in Note 4.

Fair Value Elections

Pursuant to accounting guidance provided by Accounting Standards Codification ("ASC") 825-10, *Financial Instruments*, UPMC makes elections, on an investment-by-investment basis, as to whether it measures certain equity method investments that are traded in active markets at fair value. Fair value elections are generally irrevocable. The initial unrealized gains recognized upon election of the fair value option are recorded as operating revenue in the consolidated statements of operations and changes in net assets consistent with accounting for other equity method investments where UPMC has the ability to exercise significant influence but not control. Any subsequent changes in the fair value of the investment are recorded as investment revenue in the consolidated statements of operations and changes in net assets consistent with UPMC's reporting of gains and losses on other marketable securities included in board-designated, restricted, trustee, and other investments. Management believes this reporting increases the transparency of UPMC's financial condition.

Financial Instruments

Cash and cash equivalents and investments recorded at fair value aggregate \$4,357,535 and \$3,520,135 at June 30, 2017 and 2016, respectively. The fair value of these instruments is based on market prices as estimated by financial institutions. The fair value of long-term debt at June 30, 2017 and 2016, is \$3,471,318 and \$3,275,982, respectively, based on market prices as estimated by financial institutions which would be categorized as Level 2 if presented in the fair value table found in footnote 7. The fair value of amounts owed to counterparties under derivative contracts at June 30, 2017 and 2016, is \$10,709 and \$18,120, respectively, and due from counterparties is \$343 and \$5,647, respectively, based on pricing models that take into account the present value of estimated future cash flows.

Beneficial Interests in Foundations and Trusts

Several of UPMC's subsidiary hospitals have foundations that, according to their bylaws, were formed for the exclusive purpose of supporting and furthering the mission of the respective hospital. The foundations are separate corporations and are not liable for the obligations of UPMC, including any claims of creditors of any UPMC entities. The net assets of certain foundations are included in the consolidated balance sheets as beneficial interests in foundations and restricted net assets because the hospitals' use of these assets is at the discretion of the foundations' independent boards of directors.

Beneficial interests in foundations and trusts of \$493,322 and \$442,552 and the net assets of consolidated foundations of \$104,959 and \$62,022 as of June 30, 2017 and 2016, respectively, are not pledged as collateral for UPMC's debt.

Property, Buildings, and Equipment

Property, buildings, and equipment are recorded at cost or, if donated or impaired, at fair market value at the date of receipt or impairment. Interest cost incurred on borrowed funds (net of interest earned on such funds) during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(IN THOUSANDS)

Costs associated with the development and installation of internal-use software are expensed or capitalized depending on whether they are incurred in the preliminary project stage, application development stage, or post-implementation stage.

Depreciation is computed using the straight-line method at rates designed to depreciate the assets over their estimated useful lives (predominantly ranging from 3 to 40 years) and includes depreciation related to capitalized leases. Certain newly constructed buildings have estimated useful lives up to 60 years. Depreciation expense on property, buildings, and equipment for years ended June 30, 2017 and 2016 was \$490,985 and \$456,906, respectively.

Asset Impairment

UPMC evaluates the recoverability of the carrying value of long-lived assets by reviewing long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable and adjusts the asset cost to fair value if undiscounted cash flows are less than the carrying amount of the asset. There have been no significant impairments in the years ended June 30, 2017 and 2016.

Other Assets

Investments in individual entities in which UPMC has the ability to exercise significant influence but does not control, generally 20% to 50% ownership, are reported using the equity method of accounting unless the fair value option is elected. All other noncontrolled investments, generally less than 20% ownership, are carried at cost. Other assets include approximately \$105,204 and \$100,781 at June 30, 2017 and 2016, respectively, relating to investments in partnerships/joint ventures that provide health care, management, and other goods and services to UPMC, its affiliates, and the community at large.

Goodwill

Goodwill represents the excess of the cost of an acquired entity over the net of the amounts assigned to the fair value of assets acquired and liabilities assumed. As of June 30, 2017 and 2016, goodwill of \$155,448 and \$120,839, respectively, is recorded in UPMC's consolidated balance sheets as other assets. Changes in goodwill since the prior year include the addition of \$16,862 related to the acquisition of RxAnte, an early stage company within the UPMC Enterprises division. Additionally, \$12,649 of additional goodwill related to the prior year affiliation with Jameson Health System was recorded as purchase accounting was finalized. Other immaterial additions of goodwill totaling \$5,098 were recorded during the course of the year.

Goodwill is reviewed annually for impairment, or more frequently if events or circumstances indicate that the carrying value of an asset may not be recoverable. In connection with changes in accounting standards, which were adopted by UPMC in 2012, UPMC has the option to qualitatively assess goodwill for impairment before completing a quantitative assessment. Under the qualitative approach, if, after assessing the totality of events or circumstances, including both macroeconomic, industry and market factors, and entity-specific factors, UPMC determines it is likely (more likely than not) that the fair value is greater than its carrying amount, then the quantitative impairment analysis is not required. As of June 30, 2017, after application of the qualitative approach, there were no indicators of impairment.

Derivatives

UPMC uses derivative financial instruments ("derivatives") to modify the interest rates and manage risks associated with its asset allocation and outstanding debt. UPMC records derivatives as assets or liabilities in the consolidated balance sheets at fair value. The accounting for changes in the fair value (i.e., gains or losses) of a derivative depends on whether it has been designated and qualifies as part of a hedging relationship and, further, on the type of hedging relationship. UPMC has entered into interest rate swap agreements that convert a portion of its variable rate debt to a fixed interest rate. UPMC has also entered into equity-related derivatives to manage the asset allocation in its investment portfolio. Under the equity index swap agreements, UPMC pays a fixed income-like return in order to receive an equity-like return. The notional amount of these swaps is based upon UPMC's target asset allocation. None of UPMC's swaps outstanding as of June 30, 2017 and 2016, are designated as hedging instruments and, as such, changes in fair value are recognized in investing and financing activities as investment revenue in the consolidated statements of operations and changes in net assets.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(IN THOUSANDS)

By using derivatives to manage these risks, UPMC exposes itself to credit risk and market risk. Credit risk is the failure of the counterparty to perform under the terms of the derivatives. When the fair value of a derivative is positive, the counterparty owes UPMC, which creates credit risk for UPMC. When the fair value of a derivative is negative, UPMC owes the counterparty, and therefore, it does not incur credit risk. UPMC minimizes the credit risk in derivatives by entering into transactions that require the counterparty to post collateral for the benefit of UPMC based on the credit rating of the counterparty and the fair value of the derivative. If UPMC has a derivative in a liability position, UPMC's credit is a risk and fair market values could be adjusted downward. Market risk is the effect on the value of a financial instrument that results from a change in interest rates. The market risk associated with interest rate changes is managed by establishing and monitoring parameters that limit the types and degree of market risk that may be undertaken. Management also mitigates risk through periodic reviews of derivative positions in the context of UPMC's total blended cost of capital.

Net Assets

Resources are classified for reporting purposes as unrestricted, temporarily restricted, or permanently restricted, according to the absence or existence of donor-imposed restrictions. Board-designated net assets are unrestricted net assets that have been set aside by the Board for specific purposes. Temporarily restricted assets are those assets, including contributions and accumulated investment returns, whose use has been limited by donors for a specific purpose or time period. Permanently restricted net assets are those for which donors require the principal of the gifts to be maintained in perpetuity to provide a permanent source of income.

Restricted net assets include \$274,217 and \$250,814 of permanently restricted net assets held in perpetuity at June 30, 2017 and 2016, respectively. The remainder of restricted net assets is temporarily restricted and primarily represents beneficial interests in foundations that support research and other health care programs. Temporarily restricted net assets are limited by donors and the foundations to a specific time period or purpose. Temporarily restricted net assets are reclassified to unrestricted net assets and included in the consolidated statements of operations and changes in net assets as other revenue or assets released from restriction for capital purchases when the restriction is met.

Excess of Revenues Over Expenses

The consolidated statements of operations and changes in net assets include excess of revenues over expenses as a performance indicator. Excess of revenues over expenses includes all changes in unrestricted net assets except for contributions and distributions from foundations for the purchase of property and equipment, adjustments for pension liability, other than net periodic pension cost, discontinued operations if any, and the cumulative effect of changes in accounting principles if any.

Use of Estimates

The preparation of financial statements, in conformity with accounting principles generally accepted in the United States, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

New Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-09, *Revenue from Contracts with Customers*, which will replace most existing revenue recognition guidance in U.S. GAAP and is intended to improve and converge with international standards the financial reporting requirements for revenue from contracts with customers. The core principle of ASU 2014-09 is that an entity should recognize revenue for the transfer of goods or services equal to the amount that it expects to be entitled to receive for those goods or services. ASU 2014-09 also requires additional disclosures about the nature, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments. ASU 2014-09 allows for either retrospective or modified retrospective methods of adoption and is effective for periods beginning after December 15, 2017, upon the FASB's decision to delay the effective date by one year. In preparation for the adoption

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(IN THOUSANDS)

of the new standard, UPMC continues to evaluate and refine its estimates of the anticipated impacts it will have on policies, procedures, financial position, results of operations, cash flows, financial disclosures and control framework. UPMC has elected the modified retrospective application for the adoption of the guidance. Additionally, UPMC does anticipate that the majority of its provision for bad debts related to its self-pay patient population will be recognized as a direct reduction to revenues as a pricing concession, instead of separately as a deduction to arrive at net patient service revenue. UPMC expects to adopt the new standard using the modified retrospective application, and does not currently believe the adoption will have a significant impact on our recognition of net revenues or related disclosures for any period.

In April 2015, the FASB issued ASU 2015-03, *Simplifying the Presentation of Debt Issuance Costs*. ASU 2015-03 requires that all costs incurred to issue debt be presented as a direct deduction from the carrying value of debt. Previous standards required these costs to be shown as a deferred charge (i.e., an asset). There is no change as to the presentation or method of amortizing these costs to the consolidated statements of operations and changes in net assets. The adoption of ASU 2015-03 resulted in a decrease in both Other assets and Long-term obligations of \$25,745 and \$22,128 as of June 30, 2017 and 2016, respectively.

In May 2015, the FASB issued ASU 2015-09, *Disclosures about Short-Duration Contracts*, that require entities to make additional disclosures about short-duration contracts for health insurance. The disclosures focus on the liability for unpaid claims and claim adjustment expenses. The guidance is effective for annual periods beginning after December 15, 2016 and interim periods within annual periods beginning after December 15, 2017. The adoption of this update is not expected to have a material effect on the financial statements, results of operations or liquidity of UPMC.

In September 2015, the FASB issued ASU 2015-16, *Business Combinations (Topic 805): Simplifying the Accounting for Measurement-Period Adjustments*. This standard requires that adjustments made to provisional amounts recognized in a business combination be recorded in the period such adjustments are determined, rather than retrospectively adjusting previously reported amounts. ASU 2015-16 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2015, and early adoption is permitted. UPMC adopted ASU 2015-16 during the first quarter of fiscal year 2016, and there was no impact to the consolidated financial statements. UPMC will apply the new guidance to future adjustments to provisional amounts.

In January 2016, the FASB issued ASU 2016-01, *Financial Instruments*, that will require entities to measure equity investments that do not result in consolidation and are not accounted for under the equity method at fair value and recognize any changes in fair value in excess of revenues over expenses unless the investments qualify for the new practicability exception. The guidance is effective for periods beginning in 2018. UPMC is assessing the overall impact this update will have on its financial statements, results of operations and liquidity.

In February 2016, the FASB issued ASU 2016-02, *Leases*, which requires lessees to recognize assets and liabilities arising from operating leases on the statement of financial position and to disclose key information about leasing arrangements. ASU 2016-02 is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. In transition, lessees and lessors are required to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach. Early adoption is permitted. UPMC anticipates that the adoption of ASU 2016-02 will result in an increase in both assets and liabilities reflected on the balance sheet. UPMC will continue evaluating the impact the adoption of ASU 2016-02 will have on its consolidated financial statements and will update disclosures accordingly.

In August 2016, the FASB issued ASU 2016-14, *Presentation of Financial Statements for Not-For-Profit Entities*, which will require not-for-profit entities to revise financial presentation to include: net asset classifications, provide quantitative and qualitative information as to available resources and management of liquidity and liquidity risk, information on investment expenses and returns, and the presentation of operating cash flows. The standard aims to help the reader of the financial statements to better understand the financial position of the organization and enhance consistency among similar organizations. ASU 2016-02 is effective for annual periods beginning after December 15, 2017. Early adoption is permitted. UPMC is currently evaluating the impact that the adoption of ASU 2016-14 will have on its consolidated financial statements.

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(IN THOUSANDS)

In March 2017, the FASB issued ASU 2017-07, *Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*. This new guidance requires the disaggregation of the service cost component from the other components of net benefit cost. The service cost component of net benefit cost is to be reported in the same line item on the consolidated statement of operations as other compensation costs arising from services rendered by the pertinent employees, while the other components of net benefit cost are to be presented in the consolidated statement of operations separately, outside a subtotal of operating income. The amendments also provide explicit guidance to allow only the service cost component of net benefit cost to be eligible for capitalization. This new guidance is effective for annual periods beginning after December 15, 2018, and interim periods within annual periods beginning after December 15, 2019, with the adoption of the change in presentation of net benefit cost in the consolidated statement of operations to be applied retrospectively, and the change in capitalization for only service cost applied prospectively. The guidance allows a practical expedient that permits the use of the amounts disclosed in the retirement benefits footnote for the prior comparative periods as the estimation basis for applying the retrospective presentation requirements. UPMC is assessing the overall impact this guidance will have on its consolidated financial statements.

2. SIGNIFICANT TRANSACTIONS

On October 1, 2016, UPMC and Susquehanna Health System ("Susquehanna"), executed an Integration and Affiliation Agreement (the "Agreement") providing for an affiliation between UPMC and Susquehanna. Susquehanna is a multi-institutional nonprofit health system that includes hospitals and a network of other health care providers servicing Lycoming County and a larger multicounty area in central Pennsylvania. The transaction is intended to preserve and enhance the mission of Susquehanna and to enhance Susquehanna's ability to provide high-quality health services to its service area. On the date of the affiliation, the articles of incorporation and bylaws of Susquehanna were amended such that UPMC became the sole corporate member of Susquehanna.

As a result of the affiliation, UPMC acquired approximately \$823,000 of total assets, consisting of \$381,000 of property, plant and equipment, \$328,000 of cash and investments, \$44,000 of current and long-term assets and \$70,000 of accounts receivable, assumed approximately \$332,000 of Susquehanna's liabilities, including \$222,000 of long-term debt obligations and current and long-term liabilities of \$110,000, and acquired approximately \$38,000 of restricted net assets. Pursuant to the Agreement, UPMC will provide Susquehanna with a total investment of \$500,000 to expand healthcare services, maintain its patient-focused mission, invest in information technology, and introduce to the region more choice for health insurance.

On December 1, 2016, UPMC and WCA Health System ("WCA"), executed an Integration and Affiliation Agreement (the "Agreement") providing for an affiliation between UPMC and WCA. WCA is a multi-institutional nonprofit health system servicing the Jamestown region of western New York. The transaction is intended to preserve and enhance the mission of WCA and to enhance WCA's ability to provide high-quality health services to its service area. On the date of the affiliation, the articles of incorporation and bylaws of WCA were amended such that UPMC became the sole corporate member of WCA.

As a result of the affiliation, UPMC acquired approximately \$85,000 of total assets, consisting of \$38,000 of property, plant and equipment, \$26,000 of cash and investments, \$9,000 of current and long-term assets and \$12,000 of accounts receivable, and assumed approximately \$75,000 of WCA's liabilities including \$27,000 of long-term debt obligations and current and long-term liabilities of \$48,000. Pursuant to the Agreement, UPMC will provide WCA with a total investment of \$25,000 to continue supporting improved care coordination and delivery of services, assisting with recruitment and retention of outstanding physicians, and upgrading facilities, programs, and infrastructure, including information technology.

The purchase accounting is preliminary and subject to the completion of the fair value assessment of the acquired fixed assets, current and long term assets and liabilities, and any identified intangible assets. In valuing these assets and liabilities, fair values are based on, but not limited to, independent appraisals, discounted cash flows, replacement costs and actuarially determined values. Material adjustments, if any, to provisional amounts in subsequent periods, will be reflected as required.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(IN THOUSANDS)

For these affiliations, UPMC applied the not-for-profit business combination accounting guidance. The guidance primarily characterizes business combinations between not-for-profit entities as nonreciprocal transfers of assets resulting in the contribution of the acquiree's net assets to the acquirer. The guidance prescribes that the acquirer recognize an excess of the acquisition date fair value of unrestricted net assets acquired over the fair value of the consideration transferred as a separate credit in its statement of operations as of the acquisition date or conversely, recognize the excess of the fair value of the consideration transferred over the fair value of the unrestricted net assets acquired as goodwill. Accordingly, UPMC recognized an inherent contribution related to the unrestricted net assets acquired in the Susquehanna transaction of \$453,755 in its statements of operations and changes in net assets for the year ended June 30, 2017. The inherent contribution income recorded for the period is based on the preliminary fair market values of the unrestricted net assets acquired.

If Susquehanna and WCA had been consolidated for the entire year, an additional \$188,330 of net patient service revenue would have been recognized for the year ended June 30, 2017, as well as an additional \$2,926 of excess of revenues over expenses for the year ended June 30, 2017. For the portion of the year in which these entities were consolidated, UPMC recognized net patient service revenues of \$501,999 and excess of revenues over expenses of \$24,965. If Susquehanna and WCA had been consolidated in the comparable year ended June 30, 2016, UPMC would have recognized additional net patient service revenues of approximately \$658,000 and an increase in excess of revenues over expenses of approximately \$16,000.

Intangible assets are tested for recoverability whenever events or changes in circumstances indicate that the carrying value of the asset may not be recoverable. UPMC determined circumstances that included technology and financial performance relating to MedCPU, a consolidated but less than wholly-owned subsidiary, had changed in such a manner as to indicate impairment. For the year ended June 30, 2017, UPMC recorded a full non-cash impairment charge of \$59,081 on intangible assets resulting from UPMC's acquisition of MedCPU, \$40,879 of which is classified in the UPMC Enterprises activity line in the Consolidated Statements of Operations and Changes in Net Assets, and \$18,202 that is attributable to noncontrolling interests.

3. CHARITY CARE

UPMC's patient acceptance policy is based on its mission and its community service responsibilities. Accordingly, UPMC accepts patients in immediate need of care, regardless of their ability to pay. UPMC does not pursue collection of amounts determined to qualify as charity care based on established policies of UPMC. These policies define charity care as those services for which no payment is due for all or a portion of the patient's bill. For financial reporting purposes, charity care is excluded from net patient service revenue. The amount of charity care provided, determined on the basis of cost, was \$81,108 and \$93,031 for the years ended June 30, 2017 and 2016, respectively. UPMC estimates the cost of providing charity care using the ratio of average patient care cost to gross charges and then applying that ratio to the gross uncompensated charges associated with providing charity care.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(IN THOUSANDS)

4. CASH AND INVESTMENTS

Following is a summary of cash and investments included in the consolidated balance sheets:

	June 30	
	2017	2016
Internally designated:		
Funded depreciation	\$ 5,940	\$ 8,150
Employee benefit and workers' compensation self-insurance programs	96,552	83,390
Professional and general liability insurance program	526,204	454,042
Health insurance programs	898,911	679,463
	1,527,607	1,225,045
Externally designated:		
Trusted assets for capital and debt service payments	40,248	2,445
Donor-restricted assets	223,725	191,047
	263,973	193,492
Other long-term investments	3,485,628	3,246,395
Board-designated, restricted, trustee, and other investments	5,277,208	4,664,932
Cash and cash equivalents	673,447	431,471
	\$ 5,950,655	\$ 5,096,403

Following is a summary of the composition of cash and investments. The table below shows all of UPMC's investments, including nonalternative investments measured at fair value and alternative investments using either the cost or equity method of accounting.

	June 30	
	2017	2016
Cash and cash equivalents	\$ 673,447	\$ 431,471
Nonalternative investments:		
Fixed income	1,447,405	1,129,068
Domestic equity	617,183	625,050
International equity	513,824	335,489
Public real estate	71,809	67,537
Long/short equity	21,289	34,635
Absolute return	29,844	91,081
Commodities	3,723	3,252
Other investments valued at NAV	979,011	802,552
	3,684,088	3,088,664
Alternative investments:		
Long/short equity	177,903	288,245
Absolute return	304,513	223,054
Private equity and other	822,869	772,613
Private real estate	101,615	121,504
Natural resources	186,220	170,852
	1,593,120	1,576,268
	\$ 5,950,655	\$ 5,096,403

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(IN THOUSANDS)

Investments are primarily maintained in MTF and administered using a bank as trustee. As of June 30, 2017, UPMC utilized 245 ongoing external investment managers including 48 traditional managers, 17 hedge fund managers and 180 private capital managers. UPMC is also invested with an additional 9 legacy private capital managers. The largest allocation to any alternative investment fund is \$52,458. Certain managers use various equity and interest rate derivatives. These instruments are subject to various risks similar to nonderivative financial instruments, including market, credit, liquidity, operational, and foreign exchange risk.

As of June 30, 2017 and 2016, respectively, UPMC had total investments recorded at cost of \$896,055 and \$836,247. These investments include private equity limited partnerships recorded at cost, as well as UPMC Enterprises direct investments recorded at cost. Distributions from each private equity fund will be received as the underlying assets of the fund are expected to be liquidated periodically over the lives of the limited partners, which generally run 10 to 12 years.

Investment return from cash and investments is comprised of the following for the years ended June 30, 2017 and 2016:

	Year Ended June 30	
	2017	2016
Interest income	\$ 57,169	\$ 44,291
Dividend income	23,780	24,717
Net realized gains on sales of securities	296,412	147,915
	377,361	216,923
Unrealized investment gains (losses)	247,965	(141,022)
Impairment losses on limited partnerships	(24,399)	(12,679)
Derivative contracts mark to market	2,104	4,558
	225,670	(149,143)
Total investment gain	603,031	67,780
Traditional investment manager and trustee fees	(31,381)	(35,370)
Investment revenue	\$ 571,650	\$ 32,410

In managing the UPMC investment strategy, an important consideration is to ensure sufficient liquidity. While UPMC's relationships with its external investment managers vary in terms of exit provisions, a percentage of the agreements allow ready access to underlying assets which are generally liquid and marketable. Investment liquidity as of June 30, 2017, is shown below:

Liquidity Availability	Cash and Cash Equivalents	Nonalternative Investments	Alternative Investments	Total
Within three days	\$ 673,447	\$ 3,431,078	\$ -	\$ 4,104,525
Within 30 days	-	90,208	46,283	136,491
Within 60 days	-	-	74,812	74,812
Within 90 days	-	-	178,258	178,258
More than 90 days	-	162,802	1,293,767	1,456,569
Total	\$ 673,447	\$ 3,684,088	\$ 1,593,120	\$ 5,950,655

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(IN THOUSANDS)

5. CREDIT ARRANGEMENTS

UPMC has a revolving line and letter of credit facility (the "Revolving Facility") with an available line of \$500,000. The Revolving Facility expires on July 31, 2019. The Revolving Facility is used to manage cash flow during the year and to provide for a consolidated method of issuing various letters of credit for certain business units. A note to secure UPMC's repayment obligation with respect to the Revolving Facility was issued under the 2007 Master Trust Indenture ("2007 UPMC MTI") and is secured by a pledge of and security interest in the gross revenues of UPMC Parent corporation, UPMC Presbyterian Shadyside, Magee-Women's Hospital of UPMC, UPMC Passavant and UPMC St Margaret as members of the obligated group under the 2007 UPMC MTI.

Advances may be variable rate based on the prime rate or the Federal Funds effective rates, or advances may be fixed on the date of the advance based on the LIBOR Rate and the reserve requirement on Eurocurrency liabilities. No amounts were outstanding under the Revolving Facility as of June 30, 2017. As of June 30, 2016, UPMC had \$20,844 drawn under the Revolving Facility to refund the Hamot Series 2006 bonds. The \$20,844 was paid off with the 2016 Series fixed rate bonds.

As of June 30, 2017, UPMC has issued \$70,636 of letters of credit under the Revolving Facility. These letters of credit predominantly support the capital requirements of certain insurance subsidiaries. As of June 30, 2017, there was \$429,364 available to borrow under the Revolving Facility.

As of June 30, 2017, recently affiliated entities have revolving credit facilities with borrowing limits of \$7,500 and had \$945 in letters of credit outstanding leaving \$6,555 available to fund operating and capital needs, of which none was drawn.

In April 2017, two credit facilities totaling \$200,000 were opened with expiration dates in April 2022. Both of these credit facilities support the Insurance Services division. As of June 30, 2017, draws on these credit facilities were \$100,000, included in other current liabilities.

In September 2016, UPMC issued 2016 Series fixed rate bonds in the amount of \$239,390 to fund new capital projects and refund existing bonds.

6. LONG-TERM OBLIGATIONS AND DERIVATIVE INSTRUMENTS

Long-term obligations consist of the following:

	June 30	
	2017	2016
Fixed rate revenue bonds	\$ 2,516,144	\$ 2,232,971
Variable rate revenue bonds	694,316	697,185
Capital leases and other	78,157	74,394
Par value of long-term obligations	3,288,617	3,004,550
Net premium and other	77,118	58,326
	3,365,735	3,062,876
Less current portion	(367,235)	(158,718)
Total long-term obligations	\$ 2,998,500	\$ 2,904,158

Revenue instruments outstanding represent funds borrowed by the UPMC parent corporation and various subsidiaries pursuant to loan agreements and lease and sublease financing arrangements with governmental authorities. The bond proceeds were used for the purchase, construction, and renovation of hospital facilities, certain buildings and equipment, as well as the extinguishment of debt.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(IN THOUSANDS)

The fixed rate revenue instruments bear interest at fixed coupon rates ranging from 1.90% to 6.00% in 2017 and from 1.30% to 6.00% in 2016. The average interest cost for the variable rate instruments was 1.45% and 0.87% during fiscal years 2017 and 2016, respectively. Revenue instruments have varying principal payments and final maturities from 2018 through 2045. Certain revenue bonds are secured by bond insurance (\$73,116 and \$76,094 in 2017 and 2016, respectively). The revenue bonds contain redemption provisions whereby, at the direction of UPMC, the bonds may be redeemed on various dates as presented within the bond agreements.

Revenue instruments in the aggregate amount of debt outstanding of \$3,200,336 and \$2,914,264 as of June 30, 2017 and 2016, respectively, are issued under the UPMC MTI. The instruments are secured by a pledge of and security interest in gross revenues. Certain amounts borrowed under the MTI are loaned to certain subsidiary corporations pursuant to loan and contribution agreements and require the transfer of subsidiary funds to the parent corporation in the event of failure to satisfy the UPMC Parent corporation liquidity covenant.

The various indebtedness agreements contain restrictive covenants, the most significant of which are the maintenance of minimum debt service coverage and liquidity ratios, and restrictions as to the incurrence of additional indebtedness and transfers of assets. UPMC was in compliance with such covenants as of June 30, 2017 and 2016.

Aggregate maturities of long-term obligations for the next five years, assuming remarketing of UPMC's variable rate debt, indicating the maximum potential payment obligations in these years, are as follows:

2018	\$ 367,235
2019	162,048
2020	121,630
2021	117,651
2022	231,040

Interest paid, net of amounts capitalized, on all obligations was \$129,247 and \$122,367 during the years ended June 30, 2017 and 2016, respectively.

UPMC maintains interest rate swap programs on certain of its revenue bonds in order to manage its interest rate risk. To meet this objective and to take advantage of low interest rates, UPMC entered into various interest rate swap agreements to manage interest rate risk. The notional amount under each interest rate swap agreement is reduced over the term of the respective agreement to correspond with reductions in various outstanding bond series.

During the term of these agreements, the floating to fixed rate swaps convert variable rate debt to a fixed rate and the basis swaps convert the interest rate on underlying LIBOR-based bonds to the Securities Industry and Financial Markets Association Municipal Swap Index ("SIFMA Index").

Under the basis swaps, UPMC pays a rate equal to the SIFMA Index, an index of seven-day, high-grade, tax-exempt variable rate demand obligations. The SIFMA Index rates ranged from 0.39% to 0.92% (weighted average rate of 0.68%) in 2017 and from 0.01% to 0.43% (weighted average rate of 0.13%) in 2016.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(IN THOUSANDS)

The following table summarizes UPMC's interest rate swap agreements:

Swap	Maturity Date	UPMC Pays	UPMC Receives	Notional Amount at	
				June 30, 2017	June 30, 2016
Floating to fixed	2025	3.6%	68% one-month LIBOR	\$ 97,700	\$ 105,920
Floating to fixed	2018	1.2925%	70% one-month LIBOR	17,222	-
Basis	2021	SIFMA Index ¹	67% three-month LIBOR plus .2077%	27,955	34,340
Basis	2037	SIFMA Index ¹	67% three-month LIBOR plus .3217%	46,095	46,095
				\$ 188,972	\$ 186,355

¹ The SIFMA Index is a 7-day high-grade market index comprised of tax-exempt variable rate demand obligations.

After giving effect to the above derivative transactions, UPMC's variable rate debt was approximately 18% and 19% of the total debt outstanding as of June 30, 2017 and 2016, respectively.

The following table summarizes UPMC's equity swap agreements:

Maturity Date	UPMC Pays	UPMC Receives	Notional Amount at	
			June 30, 2017	June 30, 2016
2016	Three-month LIBOR plus .1500%	MSCI EAFE Daily Total Return ²	\$ -	\$ 100,000
2017	One-month LIBOR plus .1750%	S&P 500 Total Return Index	-	100,000
2017	One-month LIBOR minus .0200%	MSCI All Country World Daily Total Return ¹	-	100,000
2017	Three-month LIBOR plus .1000%	MSCI EAFE Daily Total Return ²	100,000	-
2018	One-month LIBOR plus .415%	S&P 500 Total Return Index	100,000	-
2018	One-month LIBOR plus .37%	S&P 500 Total Return Index	100,000	-
			\$ 300,000	\$ 300,000

¹ The MSCI All Country World Daily Total Return is a free-float adjusted market capitalization index that is designed to measure the equity market performance of developed and emerging markets.

² The MSCI EAFE Index is a free-float adjusted market capitalization index that is designed to measure the equity market performance of developed markets, excluding the US and Canada.

Pursuant to master netting arrangements, UPMC has the right to offset the fair value of amounts recognized for derivatives, including the right to reclaim or obligation to return cash collateral from/to counterparties. The fair values of the Company's derivative financial instruments are presented below, representing the gross amounts recognized as of June 30, 2017 and June 30, 2016 which are not offset by counterparty or by type of item hedged:

	June 30, 2017	June 30, 2016
Other assets	\$ 343	\$ 5,647
Long-term obligations	(10,709)	(18,117)
	\$ (10,366)	\$ (12,470)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(IN THOUSANDS)

The effects of changes in the fair value of the derivative instruments on the consolidated statements of operations and changes in net assets for the years ended June 30, 2017 and 2016, are as follows:

Type of Derivative	Classification of Unrealized Gain (Loss) in Excess of Revenues Over Expenses		
		2017	2016
Interest rate contracts	Investment revenue	\$ 5,231	\$ (1,679)
Equity index contracts	Investment revenue	(3,127)	6,237
		\$ 2,104	\$ 4,558

UPMC's derivatives contain provisions that require UPMC's debt to maintain an investment grade credit rating from certain major credit rating agencies. If UPMC's debt were to fall below investment grade, it would be in violation of these provisions, and the counterparties to the derivatives could request payment or demand immediate and ongoing full overnight collateralization on derivatives in net liability positions. The aggregate fair value of all derivatives with credit-risk-related contingent features that are in a liability position at June 30, 2017 and 2016, is \$10,115 and \$16,022, respectively, for which UPMC has posted collateral of \$0 in the normal course of business. If the credit-risk-related contingent features underlying these derivatives were triggered to the fullest extent on June 30, 2017, UPMC would be required to post an additional \$10,338 of collateral to its counterparties.

7. FAIR VALUE MEASUREMENTS

As of June 30, 2017, UPMC held certain assets that are required to be measured at fair value on a recurring basis. These include certain board-designated, restricted, trustee, and other investments and derivatives. UPMC's alternative investments are measured using either the cost or equity method of accounting and are therefore excluded from the fair value hierarchy tables presented herein.

The valuation techniques used to measure fair value are based upon observable and unobservable inputs. Observable inputs reflect market data obtained from independent sources, while unobservable inputs are generally unsupported by market activity. The three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value, include:

- *Level 1* – Quoted prices for identical assets or liabilities in active markets.
- *Level 2* – Quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-driven valuations whose inputs are observable or whose significant value drivers are observable.
- *Level 3* – Instruments which have unobservable inputs that are supported by little to no market activity and are significant to the fair value of the assets or liabilities.

Other investments measured at fair value represent funds included on the balance sheet that are reported using the net asset value ("NAV") practical expedient as prescribed by ASU 2015-07, Disclosures for Investments in Certain Entities that Calculate Net Asset Value per Share. These amounts are not required to be categorized in the fair value hierarchy. The fair value of these investments is based on the net asset value information provided by the general partner.

The following tables represent UPMC's fair value hierarchy for its financial assets and liabilities measured at fair value on a recurring basis as of June 30, 2017 and 2016. The interest rate swaps are valued using internal models, which are primarily based on market observable inputs, including interest rate curves. When quoted market prices are unobservable for fixed income securities, quotes from independent pricing vendors based on recent trading activity and other relevant information, including market interest rate curves, referenced credit spreads and estimated prepayment rates where applicable, are used for valuation purposes. These investments are included in Level 2 and include corporate fixed income, government bonds, mortgage- and asset-backed securities and money market securities, which are included within fixed income and equities.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(IN THOUSANDS)

FAIR VALUE MEASUREMENTS AS OF JUNE 30, 2017

	Level 1	Level 2	Level 3	NAV	Total Carrying Amount
ASSETS					
Fixed income	\$ 488,327	\$ 959,078	\$ -	\$ -	\$ 1,447,405
Domestic equity	609,030	8,153	-	-	617,183
International equity	513,220	604	-	-	513,824
Public real estate	71,809	-	-	-	71,809
Long/short equity	16,827	4,462	-	-	21,289
Absolute return	29,844	-	-	-	29,844
Commodities	3,723	-	-	-	3,723
Derivative instruments	-	343	-	-	343
Other investments	-	-	-	979,011	979,011
Total assets measured at fair value on a recurring basis	\$ 1,732,780	\$ 972,640	\$ -	\$ 979,011	\$ 3,684,431

LIABILITIES

Derivative instruments	\$ -	\$ (10,709)	\$ -	\$ -	\$ (10,709)
Total liabilities measured at fair value on a recurring basis	\$ -	\$ (10,709)	\$ -	\$ -	\$ (10,709)

FAIR VALUE MEASUREMENTS AS OF JUNE 30, 2016

	Level 1	Level 2	Level 3	NAV	Total Carrying Amount
ASSETS					
Fixed income	\$ 343,096	\$ 785,972	\$ -	\$ -	\$ 1,129,068
Domestic equity	622,823	2,227	-	-	625,050
International equity	334,869	620	-	-	335,489
Public real estate	67,537	-	-	-	67,537
Long/short equity	20,661	13,974	-	-	34,635
Absolute return	30,942	60,139	-	-	91,081
Commodities	3,252	-	-	-	3,252
Derivative instruments	-	5,647	-	-	5,647
Other investments	-	-	-	802,552	802,552
Total assets measured at fair value on a recurring basis	\$ 1,423,180	\$ 868,579	\$ -	\$ 802,552	\$ 3,094,311

LIABILITIES

Derivative instruments	\$ -	\$ (18,117)	\$ -	\$ -	\$ (18,117)
Total liabilities measured at fair value on a recurring basis	\$ -	\$ (18,117)	\$ -	\$ -	\$ (18,117)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(IN THOUSANDS)

8. PENSION PLANS

UPMC and its subsidiaries maintain defined benefit pension plans (the "Plans"), defined contribution plans, and nonqualified pension plans that cover substantially all of UPMC's employees. Under the defined contribution plans, employees may elect to contribute a percentage of their salary, which is matched in accordance with the provisions of the plans. Contributions to the nonqualified pension plans are based on a percentage of salary or contractual arrangements. Total expense relating to the aforementioned pension plans was \$181,166 and \$156,853 for the years ended June 30, 2017 and 2016, respectively. Total expense related to the defined contribution plans and nonqualified plans was \$91,977 and \$84,323 for the years ended June 30, 2017 and 2016, respectively.

Benefits under the Plans vary and are generally based upon the employee's earnings and years of participation. It is UPMC's policy to meet the requirements of the Employee Retirement Income Security Act of 1974 ("ERISA") and the Pension Protection Act of 2006. UPMC's policy is to contribute amounts sufficient to, among other things, avoid Pension Benefit Guaranty Corporation variable premiums. Contributions made to the Plans were \$262,438 and \$89,835 for the years ended June 30, 2017 and 2016, respectively.

To develop the expected long-term rate of return on plan assets assumption, UPMC considers the current level of expected returns on risk-free investments, the historical level of risk premium associated with the other asset classes in which the portfolio is invested and the expectations for future returns on each asset class. The expected return for each asset class is then weighted based on the target asset allocation to develop the expected long-term rate of return on assets assumption for the portfolio.

The table below sets forth the accumulated benefit obligation, the change in the projected benefit obligation, and the change in the assets of the Plans. The table also reflects the funded status of the Plans as well as recognized and unrecognized amounts in the consolidated balance sheets.

	2017	June 30 2016
Accumulated benefit obligation	\$ 2,119,569	\$ 1,991,897
CHANGE IN PROJECTED BENEFIT OBLIGATION		
Projected benefit obligation at beginning of year	\$ 2,070,717	\$ 1,904,305
Pension plans acquired	92,080	68,806
Service cost	101,747	95,075
Interest cost	69,459	80,060
Actuarial (gain) loss	(26,864)	60,825
Benefits paid	(114,666)	(138,354)
Projected benefit obligation at end of year	2,192,473	2,070,717
CHANGE IN PLAN ASSETS		
Fair value of plan assets at beginning of year	1,673,026	1,687,459
Pension plans acquired	59,961	46,803
Actual return on plan assets	222,232	(12,717)
Employer contributions	262,438	89,835
Benefits paid	(114,666)	(138,354)
Fair value of plan assets at end of year	2,102,991	1,673,026
Accrued pension liability	\$ 89,482	\$ 397,691

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(IN THOUSANDS)

Included in unrestricted net assets at June 30, 2017 and 2016, respectively, are the following amounts that have not yet been recognized in net periodic pension cost:

	2017	June 30 2016
Unrecognized prior service credit	\$ 58,019	\$ 62,786
Unrecognized net actuarial loss	(506,407)	(678,253)
	\$ (448,388)	\$ (615,467)

Changes in plan assets and benefit obligations recognized in unrestricted net assets during 2017 and 2016 include:

	2017	June 30 2016
Current year net actuarial gain (loss)	\$ 117,731	\$ (209,331)
Amortization of actuarial loss	53,321	36,794
Amortization of net prior service credit	(5,036)	(5,027)
Amortization of plan merger	1,063	1,417
	\$ 167,079	\$ (176,147)

No plan assets are expected to be returned to UPMC during the year ending June 30, 2018.

The components of net periodic pension cost for the Plans were as follows:

	Year Ended June 30 2017	2016
Service cost	\$ 101,747	\$ 95,075
Interest cost	69,459	80,060
Expected return on plan assets	(130,302)	(134,372)
Recognized net actuarial loss	53,321	36,794
Amortization of prior service credit	(5,036)	(5,027)
Net periodic pension cost	\$ 89,189	\$ 72,530

The weighted average actuarial assumptions used to determine the benefit obligations and net periodic pension cost for the Plans are as follows:

	2017	June 30 2016
Discount rates:		
Used for benefit obligations	3.78%	3.60%
Used for net periodic pension cost	3.60%	4.36%
Expected rate of compensation increase:		
Used for benefit obligations	Age-graded	Age-graded
Used for net periodic pension cost	Age-graded	Age-graded
Expected long-term rate of return on plan assets	7.50%	7.50%
Interest crediting rate	2.78%	2.60%

The assumptions for long-term rate of return are developed using the expected returns of the various asset classes in which the pension invests and the allocations of each asset class with respect to the investment as a whole.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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The change in discount rate from 3.60% to 3.78%, and the change in interest crediting rate from 2.60% to 2.78% had the effect of decreasing the projected benefit obligation by \$17,269.

The following pension benefit payments, which reflect expected future service, as appropriate, are expected to be paid in the periods ending December 31:

2017	\$ 94,563
2018	176,809
2019	171,341
2020	175,901
2021	178,811
2022-2026	902,331

UPMC employs a total return investment approach whereby a mix of equities and fixed income investments are used to maximize the long-term return on plan assets subject to accepting a prudent level of risk. Risk tolerance is established through consideration of plan liabilities, plan funded status, and corporate financial condition. The pension portfolio contains a diversified blend of equity, fixed-income, and alternative investments. Equity investments are diversified across United States and non-United States corporate stocks, as well as growth, value, and small and large capitalizations. Other assets such as real estate, private equity, and hedge funds are used to enhance long-term returns while improving portfolio diversification. Investment risk is measured and monitored on an ongoing basis through quarterly investment portfolio reviews, annual liability measurements, and periodic asset/liability studies.

As of June 30, 2017, UPMC employed 148 external investment managers to handle the investment of the assets in the pension portfolio. Of these, 25 managers manage equity investments, 8 manage fixed income investments, and 115 managers oversee alternative investment strategies. The largest allocation to any alternative investment manager is \$26,200. UPMC's unfunded commitments to the Plans' investments are \$260,652 and \$251,600 as of June 30, 2017 and 2016, respectively.

The following is a summary of the pension plan asset allocations at June 30, 2017 and 2016:

	2017	2016	2017 Target
Nonalternative investments:			
Fixed income	15.1%	13.5%	13.0%
Domestic equity	23.8%	16.5%	23.0%
International equity	21.1%	23.0%	22.0%
Total nonalternative investments	60.0%	53.0%	58.0%
Real assets:			
Real estate	2.2%	3.2%	4.0%
Income opportunities	1.6%	1.0%	2.0%
Natural resources	3.4%	3.1%	4.0%
Total real assets	7.2%	7.3%	10.0%
Alternative investments:			
Long/short equity	9.7%	12.0%	10.0%
Absolute return	6.1%	9.0%	7.0%
Private equity	17.0%	18.7%	15.0%
Total alternative investments	32.8%	39.7%	32.0%
Total	100.0%	100.0%	100.0%

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All of the Plans' assets are measured at fair value, including its alternative investments. The same levels of the fair value hierarchy as described in Note 7 are used to categorize the Plans' assets. Corporate debt instruments and fixed income/bonds are valued using pricing models, quoted prices of securities with similar characteristics, or discounted cash flows. The fair value of common/collective trust funds is determined by the issuer sponsoring such funds by dividing the fund's net assets at fair value by its units outstanding at the valuation dates. Partnership interests are valued using net asset value ("NAV"), which is based on the unit values of the interests as determined by the issuer sponsoring such interests dividing the fund's net assets at fair value by its units outstanding at the valuation dates.

The fair values of the Plans' assets at June 30, 2017, by asset category and by the level of inputs used to determine fair value, were as follows:

	Level 1	Level 2	Level 3	NAV	Total
ASSETS					
Cash	\$ 1,346	\$ -	\$ -	\$ -	\$ 1,346
Equity securities:					
Domestic equity	74,088	-	-	-	74,088
International equity	248,609	-	-	-	248,609
U.S. REITS	29,249	-	-	-	29,249
Fixed income:					
Government securities	17,524	-	-	-	17,524
Bond fund	13,758	-	-	-	13,758
Corporate debt instruments	-	22,163	-	-	22,163
Asset and mortgage-backed securities	-	78,131	-	-	78,131
Long/short equity	56,112	-	-	-	56,112
Other investments	-	-	-	1,568,685	1,568,685
Net payables	(6,674)	-	-	-	(6,674)
Plans' assets at fair value	\$ 434,012	\$ 100,294	\$ -	\$ 1,568,685	\$ 2,102,991

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(IN THOUSANDS)

The fair values of the Plans' assets at June 30, 2016, by asset category and by the level of inputs used to determine fair value, were as follows:

	Level 1	Level 2	Level 3	NAV	Total
ASSETS					
Cash	\$ 1,480	\$ -	\$ -	\$ -	\$ 1,480
Equity securities:					
Domestic equity	104,031	-	-	-	104,031
International equity	142,279	-	-	-	142,279
U.S. REITS	27,357	-	-	-	27,357
Fixed income:					
Government securities	5,290	3,771	-	-	9,061
Bond fund	17,222	12,754	-	-	29,976
Corporate debt instruments	380	21,732	-	-	22,112
Asset and mortgage-backed securities	-	10,324	-	-	10,324
Absolute return equity	-	63,321	-	-	63,321
Long/short equity	27,870	-	-	-	27,870
Other investments	-	-	-	1,236,640	1,236,640
Net payables	(1,425)	-	-	-	(1,425)
Plans' assets at fair value	\$ 324,484	\$ 111,902	\$ -	\$ 1,236,640	\$ 1,673,026

For the period ended June 30, 2018, UPMC anticipates contributing \$107,000 to the defined benefit pension plan to maintain its funded status and to avoid paying excess premiums to the PBGC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(IN THOUSANDS)

9. HEALTH INSURANCE REVENUE AND COSTS

UPMC's insurance subsidiaries (collectively, "Health Plans") provide health care services on a prepaid basis under various contracts. Insurance enrollment revenues are recognized as income in the period in which enrollees are entitled to receive health care services. Enrollment revenue from Medicare and Medical Assistance approximates 68% and 71% of total enrollment revenue for the years ended June 30, 2017 and 2016, respectively.

Health care costs were \$6,200,427 and \$5,564,153, of which \$1,783,468 and \$1,564,261 were eliminated in consolidation representing medical services performed by other UPMC entities for the years ended June 30, 2017 and 2016, respectively. Such costs are included in insurance claims expense. These costs include estimates of payments to be made on claims reported as of the balance sheet date and estimates of health care services rendered but not reported to the Health Plans. Such estimates include the cost of services that will continue to be rendered after the balance sheet date when the Health Plans are obligated to remit payment for such services in accordance with contract provisions or regulatory requirements.

	2017	2016
Reserve for physical health care costs (beginning balance)	\$ 326,549	\$ 310,548
Add: Provisions for medical costs occurring in:		
Current year	5,423,218	4,760,563
Prior year	(43,536)	(34,551)
Net incurred medical costs	5,379,682	4,726,012
Deduct: Payments for claims occurring in:		
Current year	5,082,776	4,434,015
Prior year	283,013	275,996
Net paid medical costs	5,365,789	4,710,011
Reserve for physical health care costs (ending balance)	\$ 340,442	\$ 326,549

The foregoing rollforward shows favorable development of \$43,536 and \$34,551 for the years ended June 30, 2017 and 2016. The reserve for health care costs and claims adjustment expenses was based on the best data available to UPMC; however, these estimates are subject to a degree of inherent variability. It is possible that UPMC's actual incurred costs and claim adjustment expenses will not conform to the assumptions inherent in the determination of the liability; accordingly, the ultimate settlement of health care costs and the related claims adjustment expenses may vary from the estimates included in the financial statements.

Unrestricted net assets required to meet statutory requirements of the Health Plans were \$683,939 and \$666,010 at June 30, 2017 and 2016, respectively.

10. PROFESSIONAL AND GENERAL LIABILITY INSURANCE

UPMC is insured for professional and general liability losses through wholly owned, multiprovider insurance companies ("Captives"). The Captives provide primary and excess professional liability coverage to UPMC subsidiaries, employed physicians of UPMC, and other entities not included in the consolidated financial statements. For those self-insured risks, UPMC has established irrevocable trust funds to pay claims and related costs.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(IN THOUSANDS)

Certain insurance agreements have retrospective clauses that permit additional premiums or refunds to be made based on actual experience. The reserve for professional and general liability indemnity losses and loss adjustment expenses is determined using individual case-based evaluations and statistical analyses and represents an estimate of reported claims and claims incurred but not reported. Those estimates are subject to the effects of trends in loss severity and frequency. Although considerable variability is inherent in such estimates, management believes that the reserves for professional and general liability losses and loss adjustment expenses are reasonable. The estimates are reviewed and adjusted as necessary as experience develops or new information becomes known. Such adjustments are included in current operations. Reserves for professional and general liability losses and loss adjustment expenses of \$353,285 and \$346,382, both discounted at 1.50%, were recorded as of June 30, 2017 and 2016, respectively. At June 30, 2017 and 2016, respectively, \$78,638 and \$76,406 of the loss reserves are included in current accrued insurance reserves and \$274,646 and \$269,976 are reported as accrued long-term insurance reserves.

The following tables provide a rollforward of the reserve balances for professional and general liability costs (which are included in the current portion and long-term insurance reserve lines in the accompanying balance sheets), for the years ended June 30, 2017 and 2016.

	2017	2016
Reserve for professional and general liability costs (beginning balance)	\$ 346,382	\$ 335,642
Add: Provisions for expenses occurring in:		
Current year	97,375	89,786
Prior year	(4,039)	(12,036)
Net incurred expenses	93,336	77,750
Deduct: Payments for expenses occurring in:		
Current year	(463)	(462)
Prior year	(85,970)	(66,548)
Net paid expenses	(86,433)	(67,010)
Reserve for professional and general liability costs (ending balance)	\$ 353,285	\$ 346,382

The Medical Care Availability and Reduction of Error ("MCARE") Act was enacted by the legislature of the Commonwealth of Pennsylvania ("Commonwealth") in 2002. This Act created the MCARE Fund, which replaced The Pennsylvania Medical Professional Liability Catastrophe Loss Fund (the "Medical CAT Fund"), as the agency for the Commonwealth to facilitate the payment of medical malpractice claims exceeding the primary layer of professional liability insurance carried by UPMC and other health care providers practicing in the Commonwealth.

The MCARE Fund is funded on a "pay as you go basis" and assesses health care providers based on a percentage of the rates established by the Joint Underwriting Association (also a Commonwealth agency) for basic coverage. The MCARE Act of 2002 provides for a further reduction to the current MCARE coverage of \$500 per occurrence to \$250 per occurrence and the eventual phaseout of the MCARE Fund, subject to the approval of the PA Insurance Commissioner. To date, the PA Insurance Commissioner has deferred the change in coverage and eventual phaseout of the MCARE Fund to future years.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(IN THOUSANDS)

11. RELATED-PARTY TRANSACTIONS

UPMC monitors its relationships with related or affiliated entities on an ongoing basis. The most significant of these relationships is with the University of Pittsburgh ("the University") in which UPMC purchases and sells certain services from and to the University. The most significant payment to the University is for physician services in which the University, acting as a common paymaster, invoices UPMC for the clinical services rendered by certain faculty and medical residents. Payments to the University related to physician services amounted to \$137,941 and \$167,480 for the years ended June 30, 2017 and 2016, respectively. UPMC provides direct financial support to the University to sustain the research and academic medical enterprise of the University. Payments to the University related to research and academic support amounted to \$159,538 and \$118,813 for the years ended June 30, 2017 and 2016, respectively.

UPMC has various facility rental agreements with the University. UPMC received rent income of \$21,916 and \$23,350 and incurred rent expense of \$10,089 and \$10,793 related to rental arrangements with the University for the years ended June 30, 2017 and 2016, respectively. These rental agreements are also included in Note 12.

The University subcontracts with UPMC to perform research activity. Payments from the University related to research activity were \$29,768 and \$29,672 for the years ended June 30, 2017 and 2016, respectively.

12. OPERATING LEASES AND OTHER LONG-TERM AGREEMENTS

UPMC has entered into certain long-term agreements with respect to facilities, equipment, and services with affiliated and other entities. The terms of the agreements generally range from 1 to 25 years with renewal options up to 15 years. Total expense under these agreements was approximately \$141,801 and \$121,728 for the years ended June 30, 2017 and 2016, respectively, for all long-term agreements.

Approximately 0.66% of total future payments are subject to adjustment based upon inflation or mutual negotiations. Approximately 3.49% of these payments are due to the University.

2018	\$ 96,450
2019	84,411
2020	68,169
2021	61,083
2022	56,056
Thereafter	304,448

13. INCOME TAXES

UPMC calculates income taxes using the balance sheet method for its taxable subsidiaries. Taxable income differs from pretax book income principally due to certain income and deductions for tax purposes being recorded in the financial statements in different periods. Deferred income tax assets and liabilities are recorded for the tax effect of these differences using enacted tax rates for the years in which the differences are expected to reverse. UPMC assesses the realization of deferred tax assets and the need for a valuation allowance to reduce those assets to their net realizable value based on future operations, reversal of existing temporary differences, carryforward and carryback periods for credits and net operating losses, and potential tax planning strategies that may exist.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(IN THOUSANDS)

As of June 30, 2017, the for-profit entities of UPMC had gross federal net operating loss (“NOL”) carryforwards of \$647,412 (expiring in years 2018 through 2037) and gross state NOL carryforwards of \$414,067 (expiring in years 2019 through 2037) that are available to offset future taxable income. Utilization of the state NOL carryforwards in any one year is limited to the greater of \$5,000 and 30% of taxable income on an annual basis per company. During the year ended June 30, 2017, UPMC realized tax benefits of \$2,422 from the use of NOL carryforwards.

The following is a reconciliation of income taxes computed at the statutory U.S. Federal income tax rate to the actual effective income tax expense:

	2017	2016
Taxes computed at the federal rate	\$ (22,338)	\$ (26,824)
State income taxes, net of federal tax benefit	913	2,255
Valuation allowance	10,147	29,251
Permanent differences	17,236	21,253
Other items, net	(1,007)	(1,021)
Income tax expense	\$ 4,951	\$ 24,914

The following table presents deferred tax assets as of June 30:

	2017	2016
Deferred tax assets:		
Federal NOL	\$ 220,149	\$ 166,267
Accrued benefits	16,792	14,917
Alternative minimum tax credit carryover and other	22,436	15,623
	259,377	196,807
Less valuation allowance	(253,830)	(189,489)
	\$ 5,547	\$ 7,318

During the year ended June 30, 2017 UPMC closed an IRS examination for the tax years ended June 30, 2013 and 2014. As a result of this examination, UPMC’s recorded NOL carry forward was increased by \$153,235 as of June 30, 2017, which has been offset by a full valuation allowance.

Tax benefits are recognized when it is more likely than not that a tax position will be sustained upon examination by the tax authorities based on the technical merits of the position. Such tax positions are measured as the largest amount of tax benefit that is greater than 50% likely to be realized upon ultimate settlement with the tax authorities assuming full knowledge of the position and all relevant facts. As of June 30, 2017 and 2016, UPMC has a reserve for unrecorded tax benefits of \$600. Certain of the Company’s subsidiaries are subject to taxation in the United States, various states and foreign jurisdictions. As of June 30, 2017, the Company’s returns for the fiscal years ended June 30, 2014, 2015, and 2016 are open for examination by the various taxing authorities.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(IN THOUSANDS)

14. FUNCTIONAL EXPENSES

UPMC provides general health care services primarily to residents within its geographic location and supports research and education programs. Reclassifications were made to the prior year presentation to conform to the current year presentation. For the years ended June 30, 2017 and 2016, expenses related to providing these services were as follows:

	2017	2016
Hospital health care services	\$ 5,827,164	\$ 5,002,309
Health insurance costs	6,200,427	5,564,153
Academic and research activities	446,719	407,172
UPMC Enterprises activity	167,536	79,388
Administrative support	2,071,220	1,932,006
	\$ 14,713,066	\$ 12,985,028

15. UPMC ENTERPRISES ACTIVITY

UPMC Enterprises conducts research, development and innovation activities on behalf of UPMC primarily focused on technologies for use in the healthcare industry to lower costs and improve care; such activities are expensed as incurred. From time to time, UPMC invests in companies that are developing technologies that align with its strategic imperatives, including companies that are not yet at the commercialization stage. UPMC's level of investment is dependent on numerous strategic considerations and may provide either a controlling or a non-controlling ownership interest. UPMC Enterprises also seeks partnerships with external companies to accelerate commercial growth of innovation activities, which may include the sale of internally developed technology solutions. Leveraging UPMC's long-standing reputation for academic and research excellence, UPMC Enterprises also sponsors the translation of basic science conducted in a research setting to its commercial use in bedside clinical practice, application in medical laboratories, or use across emerging venues where medicine is delivered; such activities are expensed as incurred.

UPMC Enterprises activity is comprised of the following for the years ended June 30:

	2017	2016
Technology research and development costs	\$ (49,636)	\$ (37,208)
Investments in translational science	(5,979)	-
Revenue from portfolio companies with controlling interest	25,066	8,252
Expenses of portfolio companies with controlling interest	(63,097)	(20,185)
Intangible asset charge	(40,879)	-
Net loss from non-controlling interest in portfolio companies	(14,402)	(29,138)
Net gains from sale of technology-related assets	6,457	7,143
UPMC Enterprises activity	\$ (142,470)	\$ (71,136)

16. CONTINGENCIES

In January 2012, UPMC Hamot was served with a Complaint in federal court naming it as a defendant in a qui tam action, along with a private physician practice. In July 2013, the Court denied UPMC Hamot's motion to dismiss an Amended Complaint. UPMC Hamot answered the Amended Complaint on September 18, 2013. On July 8, 2016, the parties filed competing motions for summary judgment. On March 15, 2017, the Court denied UPMC Hamot's motion for summary judgment and granted in part and denied in part the Relator's motion for summary judgment. On May 19, 2017, UPMC Hamot moved for reconsideration of the Court's order denying summary judgment on materiality. The Court has not yet ruled on this motion. Trial has been scheduled for November 7, 2017. The outcome and ultimate effect on UPMC's financial statements cannot be determined at this time.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(IN THOUSANDS)

On October 9, 2012, UPMC received a Civil Investigative Demand (“CID”) from the Department of Justice (“DOJ”) that sought records relating to 40 surgical procedures performed between January 25, 2008 and June 24, 2010. UPMC timely responded to that CID. In November 2013, the DOJ advised UPMC that the CID had been served as part of the DOJ’s investigation of allegations asserted by Relators in a federal qui tam lawsuit filed under seal. On July 27, 2016, the DOJ announced that it had reached an agreement with UPMC to settle certain allegations that UPMC had violated the False Claims Act for approximately \$2,500. UPMC admitted no liability in settling those claims. The DOJ declined to intervene in the remaining allegations of the Relators’ lawsuit, which was also unsealed on July 27, 2016. In their Amended Complaint against UPMC and UPP, Inc., Relators allege that UPMC violated the False Claims Act violations, by overpaying physicians and encouraging physicians to perform medically unnecessary procedures. On June 21, 2017, the Court granted UPMC’s motion to dismiss all claims, but provided leave to the Relators to file a Second Amended Complaint, which the Relators filed on July 20, 2017. UPMC’s motion to dismiss the Second Amended Complaint is August 15, 2017. The outcome and ultimate effect on UPMC’s financial statements cannot be determined at this time.

On September 3, 2014, Highmark Inc. and Keystone Health Plan West, Inc. sued UPMC and various UPMC hospitals and physician practices in the Court of Common Pleas of Allegheny County, Pennsylvania, asserting claims for breach of contract and declaratory judgment related to oncology billing. On March 24, 2015, the Court denied UPMC’s preliminary objections to that Complaint. On April 2, 2015, UPMC filed a Notice of Appeal of the Court’s March 24, 2015 Order. On December 2, 2016, the Pennsylvania Superior Court denied UPMC’s appeal. On March 10, 2017, UPMC filed a Petition for Review with the Pennsylvania Supreme Court. That appeal was denied on July 25, 2017. The ultimate outcome and effect on UPMC’s financial statements are unknown.

On July 24, 2017, PCS sued Allegheny County, UPMC, Workpartners, Inc UPMC Health Benefits, UPMC Benefit Management Services seeking to enjoin the awarding of a contract from the County to the UPMC Defendants UPMC’s deadline to respond to the Complaint is August 15, 2017. The outcome and ultimate effect on UPMC’s financial statements cannot be determined at this time.

On March 10, 2016, Karen DuVall sued UPMC Presbyterian Shadyside in the Court of Common Pleas of Allegheny County, Pennsylvania, alleging that UPMC negligently caused the death of the plaintiff’s decedent, a transplant patient, by failing to prevent a fungal infection. On October 12, 2016, Jesse Krieg sued UPMC Montefiore in the Court of Common Pleas of Allegheny County, Pennsylvania, making similar allegations. After UPMC filed preliminary objections in both cases, DuVall and Krieg filed Second Amended Complaints on January 26, 2017, adding claims against Paris Cleaners, Inc., a linen supplier to UPMC. The plaintiffs alleged that Paris’ linens caused the decedents’ fungal infections. On February 14, 2017, Joanne Haines sued UPMC Presbyterian Shadyside and Paris Cleaners, Inc. in the Court of Common Pleas of Allegheny County, Pennsylvania, making allegations and claims similar to the Duvall and Krieg Second Amended Complaints. On April 20, 2017, Steven Landman sued UPMC Presbyterian Shadyside and Paris Cleaners, Inc. in the Court of Common Pleas of Allegheny County, Pennsylvania, making allegations and claims similar to the previous Complaints. UPMC is defending all four suits vigorously. The ultimate outcome and effect on UPMC’s financial statements are unknown.

17. SUBSEQUENT EVENTS

Management evaluated events occurring subsequent to June 30, 2017 through August 29, 2017, the date the audited consolidated financial statements of UPMC were issued. During this period, there were no subsequent events requiring recognition in the consolidated financial statements that have not been recorded.

On July 28, 2017, UPMC and Pinnacle entered into an integration and affiliation agreement in which, among other things, UPMC would become the parent and sole member of Pinnacle, and Pinnacle would be renamed UPMC Pinnacle. Both parties expect an effective date on or around Sept. 1, 2017, subject to regulatory review and the satisfaction of customary closing conditions.

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APPENDIX C

DEFINITIONS OF TERMS AND SUMMARIES OF CERTAIN PROVISIONS OF THE PRINCIPAL DOCUMENTS

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DEFINITIONS OF TERMS AND SUMMARIES OF CERTAIN PROVISIONS OF THE PRINCIPAL DOCUMENTS

THE FOLLOWING SUMMARIES ARE OF CERTAIN PROVISIONS OF THE MASTER INDENTURE, THE BOND INDENTURE AND THE LOAN AGREEMENT. THEY ARE NOT FULL STATEMENTS OF ANY OF THE DOCUMENTS AND REFERENCE SHOULD BE MADE TO THE DOCUMENTS THEMSELVES FOR ALL OF THEIR TERMS AND PROVISIONS.

DEFINITIONS OF CERTAIN TERMS

The following are certain terms used in the Master Indenture, the Bond Indenture, the Loan Agreement and/or the Official Statement.

"2017 Bonds" means the 2017A Bonds and the 2017B Bonds.

"2017A Bonds" means one or more of the Pennsylvania Economic Development Financing Authority, UPMC Revenue Bonds, Series 2017A.

"2017A Project" means the financing of (a) the costs of the Capital Projects, (b) the refunding of the Refunded Bonds, and (c) the payment of all or a portion of the costs of issuing the 2017A Bonds.

"2017B Bonds" means one or more of the Pennsylvania Economic Development Financing Authority, UPMC Revenue Bonds, Series 2017B (Federally Taxable).

"2017B Project" means the financing of (a) the refunding of certain taxable indebtedness of the Corporation, and (b) the payment of all or a portion of the costs of issuing the 2017B Bonds.

"2017 MTI Notes" means the Series 2017A Bond Note and 2017B Bond Note issued by the Corporation under the Master Indenture, delivered to the Authority and assigned to the Bond Trustee to evidence its payment obligation under the Loan Agreement with respect to the 2017 Bonds in an aggregate principal amount equal to the aggregate principal amount of the 2017 Bonds.

"Administrative Fees and Expenses" means all reasonable and necessary costs and expenses (including reasonable attorneys' fees and expenses) of the Authority or the Trustee, as applicable, incurred in connection with the 2017 Bonds or otherwise pursuant to the Bond Indenture or the Loan Agreement in the preparation of any responses, reproduction of any documentation or participation in any inquiries, investigations or audits from any Person, including but not limited to the Internal Revenue Service, the SEC or other official body or governmental agency, or in connection with any amendment, supplement or modification to this Indenture or the Loan Agreement and any discussions relating to or negotiation, preparation, approval, execution and delivery of any and all documents necessary or desirable in order to effect such amendment, supplement or modification.

"Affiliate", for purposes of the Master Indenture, means a Person which is controlled directly or indirectly by a Member. For the purposes of this definition, control means with respect to: (a) a corporation having stock, the ownership of more than 50% of the securities the holders of which are entitled to elect a majority of the members of the Governing Body of such corporation; (b) a not for profit corporation not having stock, having the power to elect or appoint a majority of the members of the Governing Body of such corporation; or (c) any other entity, the power to direct the management of such entity through the ownership of at least a majority of its voting securities or the right to designate or elect at least a majority of the members of its Governing Body, by contract or otherwise.

"Affiliated Group" means the combined group of all Members and all Affiliates.

"Audited Financial Statements" means the consolidated audited financial statements of the Corporation, prepared in accordance with generally accepted accounting principles, which have been examined by an independent firm of certified public accountants appointed by the Corporation. Upon written notice from the Obligated Group Agent to the Master Trustee, "Audited Financial Statements" shall include the separate audited financial statements of a Member whose financial statements are not included within the consolidated audited financial statements of the Corporation.

"Authorized Officer" means (a) with respect to the Corporation, a representative of the Corporation duly authorized and empowered to execute any document, certificate or agreement and legally bind the Corporation, and (b) with respect to the Authority, the Chairman or Executive Director of the Authority or such other individual duly authorized by the bylaws of the Authority to legally bind the Authority, or any individual so designated by a duly adopted resolution of the Authority validly in effect.

"Balloon Debt" means Long Term Debt twenty-five percent (25%) or more of the original principal amount of which matures within a period of twelve (12) consecutive months, as designated by the Obligated Group Agent.

"Bond Counsel" means any attorney or firm of attorneys nationally recognized in rendering opinions for the benefit of bondholders on matters pertaining to the tax exempt nature of interest on obligations issued by states or their political subdivisions and duly admitted to practice law before the highest court of any state of the United States of America.

"Bond Fund" means the fund of that name created pursuant to the Bond Indenture.

"Bond Indenture" means the Loan Agreement dated as of October 1, 2017 between the Authority and the Bond Trustee entered into in connection with the 2017 Bonds.

"Bond Register" means the registration books of the Authority kept by the Bond Trustee to evidence the registration and transfer of 2017 Bonds.

"Bond Registrar" means the Bond Trustee, as keeper of the Bond Register.

"Bond Trustee" means The Bank of New York Mellon Trust Company, N.A., a national banking association having a corporate trust office located in Pittsburgh, Pennsylvania, as the Bond Trustee under the Bond Indenture, or any successor trustee.

"Bond Year" means that period commencing on the Closing Date and ending on October 10, 2018 and, thereafter, the consecutive period of twelve months commencing on each anniversary of the Closing Date and ending on October 11 of the following calendar year, or as otherwise selected by the Corporation.

"Bondholder" means the Person in whose name a 2017 Bond is registered on the Bond Register.

"Business Day" means a day which is not a Saturday or Sunday or other day on which commercial banks in (1) Pittsburgh, Pennsylvania, (2) New York, New York, or (3) the city or cities in which the corporate trust office of the Bond Trustee responsible for the administration of the Bond Indenture are authorized or required by law or executive order to be closed.

"Capital Projects" means the capital expenditures for the Corporation and certain of the Subsidiary Hospitals being financed with proceeds of the 2017 Bonds.

"Capitalized Interest" means amounts irrevocably deposited in escrow to pay interest on Long Term Debt.

"Clearing Fund" means the fund of that name created pursuant to the Bond Indenture.

"Closing Date" means the date of delivery of the 2017 Bonds, which is expected to be October 11, 2017.

"Code" means the Internal Revenue Code of 1986, as amended from time to time. Each reference to a section of the Code shall be deemed to include the United States Treasury Regulations, including temporary regulations, relating to such section that are applicable to the 2017 Bonds or the use of the proceeds thereof.

"Commonwealth" means the Commonwealth of Pennsylvania.

"Consultant" means a consulting, financial advisory, accounting, insurance, investment banking or commercial banking firm selected by the Obligated Group Agent and not unacceptable to the Master Trustee, having the skill and experience necessary to render the particular report required and having a favorable reputation for such skill and

experience, which firm does not control any Member or Affiliate and is not controlled by or under common control with any Member or an Affiliate.

"Continuing Disclosure Agreement" means the Master Continuing Disclosure Agreement dated March 27, 2008 between the Corporation and Digital Assurance Certification, L.L.C., as dissemination agent, as amended and supplemented from time to time, including by a supplement dated the Closing Date with respect to the 2017 Bonds, pursuant to which the Corporation undertakes to provide the information and notices with respect to the 2017 Bonds required by subsection (b)(5) of Rule 15c2-12.

"Corporation" means UPMC, a Pennsylvania nonprofit corporation, its successors or assigns.

"Counsel" means an attorney duly admitted to practice law before the highest court of any state and, without limitation, may include in-house legal counsel for any Member or the Master Trustee.

"Days' Cash on Hand" means the number determined as of any date by dividing (a) Unrestricted Cash by (b) the quotient of (i) operating expenses less bad debts, depreciation and amortization, divided by (ii) the number of days in the period under consideration.

"Debt Service Coverage Ratio" means, for each Fiscal Year, the ratio of Income Available for Debt Service to the Debt Service Requirements on Long Term Debt for such Fiscal Year.

"Debt Service Requirements" means, with respect to the period of time for which calculated, the aggregate of the payments required to be made during such period in respect of principal (whether at maturity or as a result of mandatory sinking fund redemption) and interest on Long Term Debt; less (a) any Capitalized Interest and (b) any payments to be made from an escrow account established for the purpose of paying such Long Term Debt.

"Defaulted Interest" means interest on any 2017 Bond which is payable but not duly paid on the date due.

"Defeasance Obligations" means the securities used to defease any MTI Debt under the Related Documents.

"Derivative Contract" means an interest rate swap, exchange, cap or other agreement between a Member and any other party for the purpose of managing interest rate, spread or similar exposure on Long Term Debt.

"Electronic Means" means telegram, telex, telecopier, electronic mail or other telecommunications or electronic telecommunications device capable of creating a written notice that is operative as between the parties and acceptable for use by them.

"Event of Default" means any event of default under the Master Indenture, as defined in the Master Indenture, and any event of default under the Bond Indenture, as defined in the Bond Indenture, as applicable.

"Favorable Opinion" means an opinion of Bond Counsel addressed to the Authority and the Bond Trustee substantially to the effect that: (i) the action proposed to be taken is authorized or permitted by the Municipality Authorities Act, as amended, and the Bond Indenture and complies with their respective terms; and (ii) such action will not adversely affect (A) the exclusion from gross income of interest on the 2017 Bonds for purposes of federal income taxation, and (B) any applicable tax exemption with respect to the 2017 Bonds provided under Commonwealth law.

"Fiscal Year" means any twelve-month period beginning on July 1 of any calendar year and ending on June 30 of the next calendar year or such other consecutive twelve month period designated from time to time in writing by the Obligated Group Agent to the Master Trustee.

"Fitch" means Fitch Ratings, its successors and assigns, or, if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating organization, any other nationally recognized securities rating organization designated in writing by the Corporation.

"Government Obligations" means the following:

- (a) United States Treasury Obligations;

(b) Obligations fully and unconditionally guaranteed as to timely payment of principal and interest by the United States of America;

(c) Obligations fully and unconditionally guaranteed as to timely payment of principal and interest by any agency or instrumentality of the United States of America when such obligations are backed by the full faith and credit of the United States of America; or

(d) Evidences of ownership of proportionate interests in future interest and principal payments on obligations described above held by a bank or trust company as custodian, under which the owner of the investment is the real party in interest and has the right to proceed directly and individually against the obligor and the underlying government obligations are not available to any person claiming through the custodian or to whom the custodian may be obligated.

"Governing Body" means the board of directors, board of trustees or similar group in which the right to exercise the powers of corporate directors or trustees is vested or an executive committee of such board or any duly authorized committee of that board to which the relevant powers of that board have been lawfully delegated.

"Gross Revenues" means all revenues of the Obligated Group whether in the form of accounts receivables, contract rights or general intangibles, including income therefrom and all proceeds thereof, but excluding specifically restricted gifts, grants, pledges, bequests, donations, legacies and contributions (including income therefrom or proceeds from the sale thereof) made to a Member, to the extent that such property may not be pledged or applied to the payment of any Debt Service Requirements as a result of restrictions or designation imposed by the donor or maker of the gift, grant, pledge, bequest, donation, contribution or other sums in question.

"Guaranty" means any Obligation guaranteeing any debt of any other Person in any manner, whether directly or indirectly, including but not limited to obligations incurred through an agreement (i) to purchase such debt; (ii) to advance funds for the purchase or payment of such debt; or (iii) otherwise to assure the owner of such debt against loss in respect thereof.

"Income Available for Debt Service" means the excess of revenues over expenses as shown on the Audited Financial Statements, adjusted by the Obligated Group Agent in its reasonable judgment to exclude the effect of (i) depreciation and amortization, (ii) interest expense on Long Term Debt, (iii) any gain or loss resulting from either the extinguishment of indebtedness or the sale, exchange or other disposition of capital assets not in the ordinary course of business, (iv) the net proceeds of insurance (other than business interruption insurance) and condemnation awards; (v) any gains or losses resulting from changes in the fair value of Derivative Contracts; (vi) non-cash investment gains and losses, including any other than temporary impairment of or changes in fair value of investments; and (vii) non-cash items other than in the ordinary course of business. To the extent not included in the excess of revenues over expenses, Income Available for Debt Service shall include any realized investment gains and losses, including any adjustments required to reduce realized gains on previously impaired investments.

"Independent" means, with respect to any Person, one which is not and does not have a partner, director, officer, member or substantial stockholder who is a member of the Corporation or an Affiliate, or an officer or employee of the Corporation or an Affiliate; provided that the fact that a Person is retained regularly by or transacts business with the Corporation or Affiliate shall not, in and of itself, cause such Person to be deemed an employee of the Corporation or Affiliate for the purposes of this definition.

"Independent Public Accountant" means an Independent accounting firm which is appointed by the Corporation for the purpose of examining and reporting on or passing on questions relating to the financial statements of the Corporation, has all certifications necessary for the performance of such services and has a favorable reputation for skill and experience in performing similar services in respect of entities of a comparable size and nature.

"Interest Payment Date" means May 15 and November 15 of each year, commencing May 15, 2018.

"Investment Securities" means those investments selected by the Corporation, including but not limited to Government Obligations, Federal Housing Administration debentures, certificates of deposits and other deposits, commercial paper, money market funds, State Obligations, repurchase agreements, investment contracts and such other investments as are determined by the Corporation in accordance with its investment policy.

"Lien" means any mortgage, pledge of, security interest in or lien, charge, restriction or encumbrance on any Property to secure MTI Debt or Non-MTI Debt (other than from one Member or Affiliate to another Member or Affiliate).

"Liquidity Ratio" means, as of any date, the ratio of Unrestricted Cash to the Principal Balance of all Long Term Debt on such date.

"Long Term Debt" means all MTI Debt which is not Short Term Debt. Long Term Debt may be incurred in the form of Derivative Contracts, Balloon Debt, Put Debt, Subordinated Debt or Variable Rate Debt.

"Loan" means the loan to the Corporation by the Authority, concurrently with the issuance of the 2017 Bonds, of the gross proceeds from the sale of the 2017 Bonds for the purpose of financing the Project.

"Loan Agreement" means the Loan Agreement dated as of October 1, 2017 between the Authority and the Corporation entered into in connection with the 2017 Bonds.

"Magee" means Magee Womens Hospital of UPMC, a Pennsylvania nonprofit corporation.

"Master Indenture" means the Master Trust Indenture dated as of May 1, 2007 among the Corporation, UPS, Magee, Passavant, USM and the Master Trustee, as it may from time to time be further amended or supplemented in accordance with the terms thereof.

"Master Trustee" means The Bank of New York Mellon Trust Company, N.A., as master trustee, or any successor master trustee.

"Maturity" when used with respect to any 2017 Bond means the date on which the principal of such 2017 Bond becomes due and payable, whether at Stated Maturity or by acceleration or redemption or otherwise.

"Member" or "Member of the Obligated Group" means, individually, the Corporation, UPS, Magee, Passavant, USM and any Person who is hereafter designated in writing by the Obligated Group Agent to the Master Trustee as a Member of the Obligated Group and which has not terminated such status.

"Moody's" means Moody's Investors Service, its successors and assigns, and, if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, for the purpose of the definition of "State Obligations" only, Moody's shall be deemed to refer to any other nationally recognized securities rating organization designated by the Corporation, with written notice to the Authority and the Bond Trustee.

"MTI Debt" means all indebtedness for the repayment of borrowed money incurred or assumed pursuant to the provisions of the Master Indenture that is evidenced by an Obligation. MTI Debt may be issued in the form of Long Term Debt or Short Term Debt. MTI Debt shall not include indebtedness of one Member or Affiliate to another Member or Affiliate.

"Non-MTI Debt" means all indebtedness for the repayment of borrowed money other than MTI Debt as shown on the Audited Financial Statements.

"Note" means any Note issued under the Master Indenture by a Member to evidence Indebtedness incurred pursuant to the terms of the Master Indenture.

"Obligated Group" means, collectively, the Corporation, UPS, Magee, Passavant, USM and any other Person which has fulfilled the requirements for entry into the Obligated Group and which has not terminated such status.

"Obligated Group Agent" means the Corporation or such other Member as may be designated from time to time pursuant to an Officer's Certificate of the then current Obligated Group Agent filed with the Master Trustee.

"Obligation" means any evidence of MTI Debt authorized to be issued by the Obligated Group Agent pursuant to the Master Indenture which has been authenticated by the Master Trustee.

"Obligation holder," "holder" or "owner of the Obligation" means the registered owner of any Obligation, as shown on the Obligation Register.

"Obligation Register" means the registry that sets forth, among other things, the ownership of each Obligation issued under the Master Indenture and the Principal Balance of each such Obligation, maintained by the Master Trustee.

"Officer's Certificate" means a certificate signed, in the case of a certificate delivered by the Corporation, by an Authorized Officer of the Corporation or, in the case of a certificate delivered by any other Person, the chief executive officer, chief financial officer or any vice president of such other Person, in either case whose authority to execute such certificate shall be evidenced to the satisfaction of the Bond Trustee.

"Outstanding" means, with respect to the 2017 Bonds, all 2017 Bonds authenticated and delivered under the Bond Indenture as of the time in question, except:

(a) All 2017 Bonds theretofore canceled or required to be canceled under the Bond Indenture;

(b) 2017 Bonds for the payment or redemption of which provision has been made in accordance with the Bond Indenture; provided that, if such 2017 Bonds are being redeemed, the required notice of redemption shall have been given or provision satisfactory to the Bond Trustee and the Master Trustee shall have been made for the giving of such notice of redemption, and that if such 2017 Bonds are being purchased, there shall be a firm commitment for the purchase and sale thereof; and

(c) 2017 Bonds in substitution for which other 2017 Bonds have been authenticated and delivered pursuant to the Bond Indenture.

"Outstanding Obligations" or "Obligations Outstanding" means all Obligations which have been duly authenticated and delivered by the Master Trustee under the Master Indenture, except:

(a) Obligations canceled because of payment at or prepayment or redemption prior to maturity;

(b) Obligations securing Related Bonds for the payment or redemption of which cash or Defeasance Obligations shall have been theretofore deposited with the Related Bond Trustee; provided that if such Related Bonds are to be redeemed prior to the maturity thereof, notice of such redemption shall have been given or arrangements satisfactory to the Related Bond Trustee shall have been made therefor, or waiver of notice satisfactory in form to the Related Bond Trustee shall have been filed with the Related Bond Trustee;

(c) Obligations in lieu of which others have been authenticated; and

(d) For the purpose of all consents, approvals, waivers and notices required to be obtained or given under the Master Indenture, Obligations held or owned by a Member or by an Affiliate.

The Principal Balance of Obligations Outstanding at any time shall be determined by reference to the Obligation Register, which, absent manifest error, shall be conclusive.

"Outstanding Related Bonds" means all Related Bonds which are deemed outstanding under the terms of the Related Bond Indenture.

"Passavant" means UPMC Passavant, a Pennsylvania nonprofit corporation.

"Paying Agent" means the commercial bank, national banking association or trust company, if any, designated pursuant to the Bond Indenture to receive and disburse the principal of and interest on the 2017 Bonds.

"Permitted Encumbrances" means, as of any particular time, the Lien on Gross Revenues granted pursuant to the Master Indenture to secure Obligations; and:

(a) Any Lien on Property acquired subject to an existing Lien, if at the time of such acquisition, the aggregate amount remaining unpaid on the debt secured thereby does not exceed the lesser of the acquisition price or the fair market value of the Property subject to such Lien, as determined by the Obligated Group Agent;

(b) Any Lien on any Property of any Member or any Affiliate granted in favor of or securing debt to any other Member or any Affiliate;

(c) Liens on Property given, granted or bequeathed by the owner thereof existing at the time of such gift, grant or bequest, provided that such Liens attach solely to the Property (including the income therefrom) which is the subject of such gift, grant or bequest;

(d) Liens on proceeds of MTI Debt (or on income from the investment of such proceeds) that secure payment of such MTI Debt and any security interest in any rebate fund established pursuant to the Code, any depreciation reserve, debt service or interest reserve, debt service fund or any similar fund established pursuant to the terms of any Supplemental Master Indenture, Related Bond Indenture or Related Document in favor of the Master Trustee, a Related Bond Trustee, a Related Issuer, or the holder of the Obligation issued pursuant to such Supplemental Master Indenture, Related Bond Indenture or Related Document or the provider of any liquidity or credit support for such Related Bond or MTI Debt;

(e) Liens on Defeasance Obligations;

(f) Liens on accounts receivable arising as a result of the sale of such accounts receivable with or without recourse, provided that the principal amount of debt secured by such Lien does not exceed twenty percent (20%) of total accounts receivable as shown on the Audited Financial Statements;

(g) Liens on any Property of a Member in effect on the effective date of the Master Indenture, or existing at the time any Person becomes a Member;

(h) Any Lien if, after giving effect to such Lien and all other Liens classified as Permitted Encumbrances pursuant to this paragraph (h), the total aggregate value of the Property secured by such Liens does not exceed ten percent (10%) of Total Assets; and

(i) Any Lien on Property if such Lien equally and ratably secures all of the Obligations.

"Person" means any natural person, firm, joint venture, joint operating agreement, association, partnership, limited liability company, business trust, corporation, public body, agency or political subdivision thereof or any other similar entity.

"Principal Balance" means, as of any particular date, the principal amount of the MTI Debt or Non-MTI Debt under consideration that would be due and payable if such debt were accelerated or matured on such date.

"Project" means, together, the 2017A Project and the 2017B Project.

"Project Fund" means the fund of that name created pursuant to the Bond Indenture.

"Property" means any and all rights, titles and interests in and to any and all property, whether real or personal, tangible or intangible, wherever situated and whether now owned or hereafter acquired.

"Property, Plant and Equipment" means all assets of the Obligated Group that are classified as property, plant and equipment on the Audited Financial Statements.

"Put Debt" means Long Term Debt which is payable or required to be purchased or redeemed from the owner by or on behalf of the underlying obligor (other than at the option of the owner) prior to its stated maturity date, other than pursuant to any mandatory sinking fund or other similar fund or other than by reason of acceleration upon the occurrence of an Event of Default under the Master Indenture.

"Quarterly Disclosure Report" means the report required to be delivered by the Obligated Group Agent to the Master Trustee.

"Rating Agency" means each nationally recognized securities rating agency, which at the time of issue of the 2017 Bonds includes Fitch, Moody's and S&P, and each such entity's successors and assigns.

"Ratings Event" means the release by each Rating Agency of a long term credit rating with respect to the Corporation that is lower than "A-" or "A3."

"Rebate Fund" means the fund of that name created pursuant to the Bond Indenture.

"Record Date" means any Regular Record Date or any Special Record Date.

"Refunded Bonds" means the outstanding bonds issued on behalf of the Corporation which are being refunded with proceeds of the 2017 Bonds.

"Registered Owner" means, with respect to any 2017 Bond, the person in whose name such 2017 Bond is registered on the Bond Register.

"Regular Record Date" means the first (1st) day of each month (whether or not a Business Day) containing an Interest Payment Date.

"Related Bonds" means (i) any revenue bonds or similar obligations issued by any state, commonwealth or territory of the United States or any agency or instrumentality of any of the foregoing, the proceeds of which are loaned or otherwise made available to any Member or Affiliate in consideration of the delivery of an Obligation to or upon the order of such governmental Authority, and (ii) any bonds or other debt instruments issued by a Member, an Affiliate or any other Person in consideration of the delivery of an Obligation to the holder of such bonds.

"Related Bond Indenture" means any indenture or similar instrument pursuant to which any Related Bonds are issued.

"Related Bond Trustee" means any trustee under any Related Bond Indenture.

"Related Document" means any agreement pursuant to which any proceeds of any Related Bonds are made available to or for the benefit of any Member or Affiliate or any other loan agreement or Derivative Contract entered into by a Member with respect to MTI Debt.

"Related Issuer" means any issuer of a series of Related Bonds.

"Short Term Debt" means MTI Debt having an original maturity that is less than or equal to one year.

"Special Record Date" means the date fixed by the Bond Trustee pursuant to the Bond Indenture for the payment of Defaulted Interest.

"S&P" means S&P Global Ratings, a business unit of Standard & Poor's Financial Services LLC, its successors and its assigns, and, if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, for the purpose of the definition of "State Obligations" only, S&P shall be deemed to refer to any other nationally recognized securities rating organization designated by the Corporation, with written notice to the Authority and the Bond Trustee.

"State Obligations" means:

- (a) Direct general obligations of any state of the United States of America or any subdivision or agency thereof to which is pledged the full faith and credit of a state the unsecured general obligation debt of which is rated "A3" by Moody's and "A" by S&P, or better, or any obligation fully and unconditionally guaranteed by any state, subdivision or agency whose unsecured general obligation debt is so rated.

(b) Direct general short-term obligations of any state agency or subdivision or agency thereof described in clause (a) above and rated "A-1" by S&P and "MIG-1" by Moody's.

(c) Special Revenue Bonds (as defined in the United States Bankruptcy Code) of any state, state agency or subdivision described in clause (a) above and rated "AA" or better by S&P and "Aa" or better by Moody's; or

(d) Pre-refunded municipal obligations rated "AAA" by S&P and "Aaa" by Moody's meeting the following requirements:

(i) The municipal obligations are (A) not subject to redemption prior to maturity or (B) the trustee for the municipal obligations has been given irrevocable instructions concerning their call and redemption and the issuer of the municipal obligations has covenanted not to redeem such municipal obligations other than as set forth in such instructions;

(ii) The municipal obligations are secured by cash or United States Treasury Obligations which may be applied only to payment of the principal of, interest and premium on such municipal obligations;

(iii) The Bond Trustee has received a Verification Report stating that the principal of and interest on the United States Treasury Obligations (plus any cash in the escrow) is sufficient to pay in full all principal of, interest, and premium, if any, due and to become due on the municipal obligations;

(iv) The cash or United States Treasury Obligations serving as security for the municipal obligations are held by an escrow agent or trustee in trust for owners of the municipal obligations;

(v) No substitution of a United States Treasury Obligation shall be permitted except with another United States Treasury Obligation and upon delivery of a new Verification Report; and

(vi) The cash or United States Treasury Obligations are not available to satisfy any other claims, including those by or against the trustee or escrow agent.

"Stated Maturity" when used with respect to any 2017 Bond means the date specified in such 2017 Bond as the fixed date on which the principal of such 2017 Bond is due and payable (unless pursuant to redemption or declaration of acceleration).

"Subordinated Debt" means any Long Term Debt incurred or assumed pursuant to the Master Indenture, the payment of which is by its terms specifically subordinated to payments on or with respect to other Long Term Debt.

"Subsidiary Hospital" as defined in and used in the Official Statement means each of the following hospitals affiliated with the Corporation: UPMC Presbyterian Shadyside (five hospitals), Children's Hospital of Pittsburgh of the UPMC Health System; UPMC Bedford Memorial; UPMC Hamot; UPMC Horizon (two hospitals); UPMC McKeesport; UPMC Mercy; UPMC Northwest (two hospitals); UPMC Passavant (two hospitals); UPMC St. Margaret; Magee-Womens Hospital of UPMC; UPMC East; UPMC Altoona; UPMC Jameson; Kane Community Hospital; UPMC Susquehanna (six hospitals); UPMC Chautauqua WCA; UPMC Pinnacle (nine hospitals); and ISMETT.

"Supplemental Master Indenture" means an indenture amending or supplementing the Master Indenture entered into after the date of the Master Indenture.

"Tax Regulatory Certificate" means the certificate of such designation dated as of the Closing Date executed by the Authority and the Corporation.

"Total Assets" means Total Assets as shown on the Audited Financial Statements for the period in question.

"Transaction Test" means a determination that, after giving effect to the particular action or transaction in question, (i) the Affiliated Group will be able to satisfy the test for incurrence of one dollar of additional Long Term Debt, and (ii) the Debt Service Coverage Ratio for the most recently ended Fiscal Year, recalculated as if the action or transaction had occurred at the beginning of such Fiscal Year, either (A) was at least 2.5 to 1.0, or (B) is not reduced by more than twenty percent (20%).

"Trust Estate" means (i) the Loan Agreement and all payments received or receivable, with respect to the 2017 Bonds, by the Authority from the Corporation pursuant thereto (excluding Unassigned Rights); (ii) the 2017 MTI Notes; (iii) all funds and accounts established and maintained under the Bond Indenture other than the Rebate Fund, and all income and receipts received or receivable by the Bond Trustee with respect to such funds and accounts (except with respect to the Rebate Fund); (iv) any and all other property of every kind and nature from time to time hereafter, by delivery or by writing of any kind, conveyed, pledged, assigned or transferred as and for additional security under the Bond Indenture by the Authority, the Corporation, or by anyone on their behalf to the Bond Trustee, including without limitation moneys of the Corporation held by the Bond Trustee in any of the funds and accounts established under the Bond Indenture as security for the 2017 Bonds; provided, however, that there is expressly excepted and excluded from the lien and operation of the Bond Indenture amounts held by the Bond Trustee in the Rebate Fund.

"Unassigned Rights" means (a) the fees and expenses payable to the Authority under the Loan Agreement, including without limitation the right to receive additional payments for such fees and expenses under Section 4.04 thereof, (b) the Authority's right to indemnification under the Loan Agreement, (c) the Authority's right to receive notices under the Bond Indenture and the Loan Agreement, (d) the Authority's right to give or withhold consents under the Related Documents, and (e) the Authority's right to execute and deliver supplements and amendments to the Loan Agreement.

"United States Treasury Obligations" means direct obligations (other than an obligation subject to variation in principal repayment) of the United States of America.

"Unrestricted Cash" means the sum of cash, securities and investments, including, without limitation, investments in mutual funds and limited partnerships as shown on the Audited Financial Statements, minus (i) trustee-held funds derived from or for the payment of indebtedness, including, without limitation, debt service, reserve and construction funds, and (ii) amounts required to be set aside by donor restriction, contractual agreement or by law or regulation to meet a specific obligation or potential obligation of any Member or Affiliate, including malpractice exposure, self-insurance or "captive" insurer commitments, and pension or retirement fund payments.

"UPS" means UPMC Presbyterian Shadyside, a Pennsylvania nonprofit corporation.

"USM" means UPMC St. Margaret, a Pennsylvania nonprofit corporation.

"Variable Rate Debt" means any Long Term Debt, the rate of interest on which is subject to change prior to maturity.

"Verification Report" means, for purposes of the Bond Indenture, a verification report as to the sufficiency of funds held to discharge 2017 Bonds (or, for purposes of clause (d) of the definition of "State Obligations", the municipal obligations in question), from an Independent Public Accountant or other Independent certified public accounting firm not unacceptable to the Bond Trustee.

"Written Request" with reference to the Authority means a request in writing signed by an Authorized Officer of the Authority and with reference to the Corporation means a request in writing signed by an Authorized Officer of the Corporation.

Any calculations required to be made pursuant to the Master Indenture, shall be made on the basis of the Audited Financial Statements, together with any notes thereto. All accounting terms not specifically defined herein shall be construed in accordance with generally accepted accounting principles consistently applied, except as otherwise stated herein. If any change in accounting principles from those used in the preparation of the Audited Financial Statements for the Fiscal Year ended June 30, 2006 results from the promulgation of rules, regulations, pronouncements and opinions by or required by the Financial Accounting Standards Board, American Institute of Certified Public Accountants or other authoritative bodies that determine generally accepted accounting principles

(or successors thereto or agencies with similar functions) and such change results in a change in the accounting terms used in the Master Indenture, the accounting terms used herein shall be modified to reflect such change in accounting principles so that the criteria for evaluating financial condition shall be the same after such change as if such change had not been made. Any such modification shall be described in an Officer's Certificate of the Obligated Group Agent filed with the Master Trustee, which shall contain a certification to the effect that (i) such modifications are occasioned by such a change in accounting principles and (ii) such modifications will not have a materially adverse effect on the Obligation holders.

THE MASTER INDENTURE

The following summarizes certain provisions of the Master Indenture but is not to be regarded as a full statement thereof, and reference should be made to the Master Indenture itself for all of the terms and provisions thereof.

Issuance of Obligations; Terms Thereof

Subject to the further conditions specified in the Master Indenture, the Corporation and each additional Member, if any, shall be permitted to issue one or more series of Obligations under the Master Indenture on which all Members of the Obligated Group will be jointly and severally liable. The number and aggregate principal amount of Obligations shall not be limited, except as provided in any Supplemental Master Indenture. Subject to the applicable provisions of the Master Indenture, all Obligations shall be issued upon and contain such maturities, payment terms, interest rate provisions, redemption or prepayment features and other provisions as shall be set forth in the Master Indenture or the Supplemental Master Indenture providing for the issuance of such Obligations.

Obligations may be issued under the Master Indenture to evidence any type of MTI Debt, including without limitation any MTI Debt in a form other than a promissory note. Any Derivative Contract may also be authenticated as an Obligation under the Master Indenture. Any Derivative Contract which is authenticated as an Obligation under the Master Indenture shall be equally and ratably secured under the Master Indenture with all other Obligations issued under the Master Indenture provided, however, that any Obligation issued in connection with a Derivative Contract shall be deemed to be an Outstanding Obligation under the Master Indenture solely for the purpose of being secured on a pro rata basis with other Obligations and receiving payment under the Master Indenture and shall not be entitled to exercise any rights under the Master Indenture.

Cross Guaranties; Security Therefor

Each Member, jointly and severally, unconditionally and irrevocably guarantees and promises to pay, any and all payments on any Obligations, according to the terms thereof, when due. If for any reason any payment required pursuant to the terms of any Obligation issued under the Master Indenture has not been timely paid by the Member which incurred such Obligation, all other Members shall be obligated to make such payment.

The Master Indenture Note and all other Obligations issued under the Master Indenture are secured by a grant of a security interest in (i) the Gross Revenues of the Members and (ii) the Revenue Fund and all moneys and investments therein and all income derived from the investment thereof.

Upon the occurrence and continuance of an Event of Default under the Master Indenture, each Member covenants and agrees that it shall cause all of its Gross Revenues to be deposited into a special revenue account held by the Master Trustee separate and apart from all other funds. Gross Revenues so collected, to the extent not needed to pay the Obligations of the Obligated Group then due, shall be released to the Members for any purpose. Such Gross Revenues shall be collected only until such time as the Master Trustee shall have received an Officer's Certificate from the Obligated Group Agent that no Event of Default exists and that all arrearages on Obligations issued under the Master Indenture, if any, have been paid.

If no Event of Default shall have occurred and then be continuing, and so long as the Gross Revenues are not required to be deposited into a special revenue account pursuant to the provisions of the Master Indenture, each Member shall be permitted to commingle, transfer or make expenditures from or deposits of its Gross Revenues and the proceeds thereof.

Supplemental Master Indenture Creating an Obligation

In addition to the Master Indenture Note being issued by the Corporation under the terms of the Master Indenture, any Member and the Master Trustee may from time to time enter into a Supplemental Master Indenture in order to issue an Obligation under the Master Indenture. Such Supplemental Master Indenture shall, (i) with respect to Obligations created thereby, set forth the date thereof, and the date or dates on which principal of and premium, if any, and interest on such obligations shall be payable, and (ii) provide for the form of such Obligations and shall contain such other terms and provisions as shall not be inconsistent with the provisions of the Master Indenture.

Membership In and Withdrawal from the Obligated Group

Any Person may become a Member of the Obligated Group if:

(a) Such Person shall execute and deliver to the Master Trustee a Supplemental Master Indenture acceptable to the Master Trustee which shall also be executed by the Master Trustee and the Obligated Group Agent and contain the agreement of such Person (i) to become a Member of the Obligated Group and thereby to become subject to compliance with all provisions of the Master Indenture and (ii) unconditionally and irrevocably to jointly and severally make payments upon each Obligation at the times and in the amounts provided in each such Obligation; and

(b) The Master Trustee shall have received (i) an Officer's Certificate of the Obligated Group Agent which (A) confirms that no Event of Default has occurred and will be continuing after the addition of the new Member to the Obligated Group, (B) demonstrates that, immediately upon such Person becoming a Member of the Obligated Group, the Members would not, as a result of such transaction, be in default in the performance or observance of any covenant or condition to be performed or observed by them under the Master Indenture, and (C) demonstrates satisfaction of the Transaction Test; (ii) an opinion of Counsel to the effect that the instrument described in paragraph (a) above has been duly authorized, executed and delivered and constitutes a legal, valid and binding agreement of such Person, enforceable in accordance with its terms, subject to customary exceptions for bankruptcy, insolvency and other laws generally affecting enforcement of creditors' rights and application of general principles of equity, and (iii) an opinion of Bond Counsel to the effect that, under then existing law, the consummation of such transaction will not adversely affect the validity of any Related Bond or any exemption from federal or state income taxation of interest payable on such Related Bond to which such Related Bond would otherwise be entitled.

Each successor, assignee, surviving, resulting or transferee of a Member must agree to become, and satisfy the above described conditions to becoming, a Member of the Obligated Group prior to any such succession, assignment or other change in such Member's status.

Each Member covenants that it will not take any action, corporate or otherwise, which would cause it or any successor thereto to cease to be a Member of the Obligated Group unless the Obligated Group Agent delivers an Officer's Certificate to the Master Trustee certifying that immediately after such cessation, (i) no Event of Default exists under the Master Indenture and (ii) the Transaction Test will be satisfied. Notwithstanding the foregoing, the Obligated Group covenants and agrees that neither the Corporation nor UPS shall be permitted to withdraw from, or cease to be a Member of, the Obligated Group while any Obligations are Outstanding.

Financial Covenants

(a) Each Member covenants and agrees to conduct its business, and to cause each Affiliate to conduct business, on a revenue producing basis and to charge fees and rates for its services that will provide funds sufficient to pay (i) all payments on MTI Debt, (ii) all payments on Non-MTI Debt, (iii) all expenses of operation, maintenance and repair of its Property, and (iv) all other payments required to be made by it under the Master Indenture. Each Member further covenants and agrees that it will, from time to time as often as necessary and to the extent permitted by law, revise its rates, fees and charges in such manner as may be necessary or proper to comply with the provisions of this section of the Master Indenture.

(b) The Obligated Group covenants and agrees to maintain a Debt Service Coverage Ratio for each Fiscal Year equal to at least 1.1 to 1.0.

(c) The Obligated Group covenants and agrees to maintain a Liquidity Ratio as of the last day of each Fiscal Year equal to at least 0.5 to 1.0.

(d) The Obligated Group Agent shall calculate the Debt Service Coverage Ratio for each Fiscal Year and the Liquidity Ratio as of the last day of each Fiscal Year. Within 90 days of the end of each Fiscal Year, the Obligated Group Agent shall deliver to the Master Trustee an Officer's Certificate that demonstrates the calculation of the Debt Service Coverage Ratio and the Liquidity Ratio.

(e) (i) If the Debt Service Coverage Ratio is less than 1.10 to 1 for any Fiscal Year, and/or the Liquidity Ratio is less than 0.5 to 1.0 as of the last day of such Fiscal Year, the Obligated Group Agent shall, within 120 days of the end of such Fiscal Year, retain a Consultant to make recommendations with respect to the rates, fees, charges and operations of the Affiliated Group and the other factors affecting its financial condition in order to cause the Debt Service Coverage Ratio to be at least 1.10 to 1 and the Liquidity Ratio to be at least 0.5 to 1.0.

(ii) A copy of the Consultant's report and recommendations, if any, shall be filed with the Obligated Group Agent and the Master Trustee within 60 days of the date such Consultant is retained. The Obligated Group shall, as soon as possible, cause the Affiliated Group to revise such rates, fees, charges and operations in conformity with the recommendations of the Consultant and otherwise follow the recommendations of the Consultant to the extent permitted by law. If the Affiliated Group complies with the recommendations of the Consultant, the financial covenants in paragraphs (b) and (c) above shall be deemed to have been complied with, even if the Debt Service Coverage Ratio remains below 1.10 to 1.0 and the Liquidity Ratio remains below 0.5 to 1.0; provided, however, that failure to maintain a Debt Service Coverage Ratio for any Fiscal Year of at least 1.0 to 1.0 combined with a failure to maintain a Liquidity Ratio for any Fiscal Year of at least 0.5 to 1.0 shall constitute an Event of Default.

(f) Upon the occurrence of a Ratings Event, the Obligated Group shall be required to cause the Affiliated Group to maintain at least sixty (60) Days' Cash on Hand. Upon the occurrence of a Ratings Event, the Obligated Group Agent shall deliver to the Master Trustee a report certifying the number of Days' Cash on Hand as of the last day of the most recently ended Fiscal Year. If the number of Days' Cash on Hand so certified is less than sixty (60), the Obligated Group Agent shall retain a Consultant to make recommendations with respect to the operations of the Obligated Group in order to increase the number of Days' Cash on Hand to sixty (60) or more. If the Obligated Group follows the Consultant's recommendations, failure to maintain sixty (60) Days' Cash on Hand shall not be an Event of Default under the Master Indenture.

Merger, Consolidation, Sale or Conveyance

Each Member agrees that it will not merge into, or consolidate with, one or more Persons which are not Members, or allow one or more of such Persons to merge into it, or sell or convey all or substantially all of its Property to any Person who is not a Member, unless:

(a) Any successor to such Member (including without limitation any purchaser of all or substantially all the Property of such Member) shall execute and deliver to the Master Trustee an appropriate instrument, satisfactory to the Master Trustee, containing the agreement of such successor to assume, jointly and severally, the due and punctual payment of all Obligations according to their tenor and the due and punctual performance and observance of all the covenants and conditions of the Master Indenture to be kept and performed by such Member;

(b) Immediately after such merger or consolidation, or such sale or conveyance, (A) no Member would be in default in the performance or observance of any covenant or condition of any Related Document or the Master Indenture as a result of such merger, and (B) the Affiliated Group would satisfy the Transaction Test; and

(c) There shall be delivered to the Master Trustee an opinion of Bond Counsel to the effect that under then existing law the consummation of such merger, consolidation, sale or conveyance would not adversely affect the validity of any Related Bonds or the exemption otherwise available from federal or state income taxation of interest payable on any Related Bonds.

Financial Statements, Quarterly Disclosure

The Obligated Group Agent covenants to keep or cause to be kept proper books of records and accounts in which full, true and correct entries will be made of all dealings or transactions of or in relation to the business and affairs of the Affiliated Group in accordance with generally accepted accounting principles consistently applied except as may be disclosed in the notes to the Audited Financial Statements. The Obligated Group Agent will furnish to the Master Trustee:

(a) As soon as practicable after they are available, but in no event more than 150 days after the last day of each Fiscal Year, Audited Financial Statements for such Fiscal Year; and

(b) At the time of delivery of the Audited Financial Statements referred to in subsection (a) above, an Officer's Certificate of the Obligated Group Agent, stating that the Obligated Group Agent has made a review of the activities of the Affiliated Group during the preceding Fiscal Year for the purpose of determining whether or not the Members have complied with all of the terms, provisions and conditions of the Master Indenture and that the Obligated Group has kept, observed, performed and fulfilled each and every covenant, provision and condition of the Master Indenture on its part to be performed and is not in default in the performance or observance of any of the terms, covenants, provisions or conditions thereof, or if any such Person shall be in default such certificate shall specify all such defaults and the nature thereof; and

(c) Within sixty (60) days of the end of each fiscal quarter within each Fiscal Year, a Quarterly Disclosure Report which shall include unaudited consolidated internal financial statements of the Corporation for such quarter. The Obligated Group Agent shall calculate the Debt Service Coverage Ratio and the Liquidity Ratio for each fiscal quarter within each Fiscal Year and include such calculations as part of the Quarterly Disclosure Report, together with an Officer's Certificate certifying accuracy and compliance with the covenants contained in the Master Indenture.

Additional MTI Debt

No Member will incur, or permit an Affiliate to incur, any MTI Debt other than MTI Debt consisting of one or more of the following, which the Obligated Group Agent may, from time to time, designate or redesignate to any applicable classification permitted hereby:

(a) Long Term Debt if, prior to incurrence of the Long Term Debt, there is delivered to the Master Trustee an Officer's Certificate certifying that:

(i) the principal amount of Long Term Debt to be incurred at such time, when added to the aggregate Principal Balance of all other Long Term Debt theretofore issued pursuant to this clause (i), will not exceed five percent (5%) of Total Operating Revenues as shown on the Audited Financial Statements, and the Debt Service Coverage Ratio is at least 1.1 to 1.0; or

(ii) based on the most recently ended Fiscal Year for which Audited Financial Statements are available, the Debt Service Coverage Ratio, taking into account the aggregate Principal Balance of all Long Term Debt, and the proposed additional Long Term Debt as if it had been incurred at the beginning of such Fiscal Year, is not less than 1.0 to 1.0; or

(iii) an Officer's Certificate of the Obligated Group Agent certifying that (A) based on the Audited Financial Statements for the most recently ended Fiscal Year, the Debt Service Coverage Ratio is not less than 1.10 to 1.0, and (B) that the projected Debt Service Coverage Ratio for each of the next two full Fiscal Years following the incurrence of such Long Term Debt or, in the case of the incurrence of Long Term Debt for capital improvements, following the completion of the facilities being financed, taking the proposed additional Long Term Debt into account, is not less than 1.25 to 1.0; or

(iv) in the case of Long Term Debt incurred for the purpose of refunding any Long Term Debt, the Obligated Group Agent shall deliver to the Master Trustee an opinion of Counsel stating that (A) the incurrence of the Long Term Debt has been duly authorized, (B) the applicable

requirements for its issuance have been satisfied, and (C) upon the incurrence of such proposed Long Term Debt and application of the proceeds thereof, the Outstanding Long Term Debt to be refunded thereby will no longer be Outstanding.

(b) Short Term Debt, provided that immediately after the incurrence of such MTI Debt the aggregate Principal Balance of all such Short Term Debt does not exceed twenty percent (20%) of Total Operating Revenues as shown on the Audited Financial Statements, and provided further that for a period of at least seven (7) consecutive days in each Fiscal Year, the Principal Balance of all Short Term Debt shall not exceed five percent (5%) of such Total Operating Revenues.

Notwithstanding the foregoing, if an Event of Default has occurred and is continuing, the Obligated Group shall not incur any MTI Debt other than for refunding purposes.

Subordinated Debt and Non-MTI

(a) Subordinated Debt may be incurred by Members and Affiliates without limitation.

(b) Non-MTI Debt may be incurred by Members and Affiliates without limitation, provided however, that the aggregate Principal Balance of Non-MTI Debt at any one time may not exceed the greater of (i) twenty five percent (25%) of the aggregate Principal Balance of all then Outstanding Obligations, or (ii) two hundred fifty million dollars (\$250,000,000).

Computation of Debt Service on Certain Instruments:

(a) Debt Service on Balloon Debt and Put Debt. For purposes of the computation of Debt Service Requirements, whether historic or projected, the following provisions shall apply to Balloon Debt and Put Debt:

(i) The debt service on such Balloon Debt or Put Debt shall be assumed to be substantially level over a term of twenty (20) years from the date of incurrence, at an assumed interest rate based on the last-published "30-year Revenue Bond Index" published by The Bond Buyer immediately preceding the date of calculation; or

(ii) The principal of such Balloon Debt or Put Debt is amortized during the term to the stated maturity thereof by deposits made to a sinking fund with a sinking fund schedule established by resolution of the Governing Body of the Obligated Group Agent adopted at or subsequent to the time of incurrence of such Long Term Debt, as certified in an Officer's Certificate of the Obligated Group Agent, provided, that at the time of such calculation, all deposits required to have been made prior to such date shall have been made; or

(iii) With respect to Balloon Debt or Put Debt for which there exists a credit facility, the principal of such Balloon Debt or Put Debt is due and payable in the amounts and at the times specified in such credit facility.

(b) Debt Service on Guaranties. Debt Service Requirements on Long Term Debt in the form of a Guaranty shall be determined to be an amount equal to 20% of the debt service on the indebtedness being guaranteed; provided, however, that if a Member makes any payment under a Guaranty, the Debt Service Requirements thereon for the Fiscal Year in which the payment is made and each of the next two succeeding Fiscal Years shall be deemed equal to 100% of the Debt Service Requirements on the indebtedness or portion thereof guaranteed.

(c) Debt Service on Variable Rate Debt. Projected (but not historic) Debt Service Requirements on Variable Rate Debt shall be deemed to bear interest at a rate equal to the greater of (i) the average interest rate on such debt for the most recent 24 month period, provided, however, that if the debt has not been outstanding for 24 months, then the interest rate shall be the average rate for the most recent 12 months, or (ii) the average interest rate for the two month period prior to the date of calculation, as determined by an Officer's Certificate of the Obligated Group Agent. Historic Debt Service Requirements on Variable Rate Debt shall be calculated at the actual interest rates for the period under consideration.

(d) Effect of Derivative Contract. For purposes of the computation of Debt Service Requirements, Long Term Debt with respect to which the Obligated Group has entered into a Derivative Contract shall include only the net amount payable by or to the Obligated Group under the Master Indenture.

Sale or Other Disposition of Property

Members may sell or otherwise dispose of their Property (herein referred to as a "**transfer**") as follows:

(a) Members may transfer Property at any time without limitation if the aggregate value of the Property being transferred in any Fiscal Year does not exceed ten percent (10%) of Total Assets in such Fiscal Year.

(b) Members may transfer Property that is valued in excess of ten percent (10%) of Total Assets in any Fiscal Year if the transfer:

(i) Is to another Member or to an Affiliate; or

(ii) Is in the ordinary course of business and made in an arm's length transaction for fair market value as certified in an Officer's Certificate of the Obligated Group Agent, provided however, that if the aggregate value of all Property being transferred in any Fiscal Year exceeds thirty percent (30%) of Total Assets, then the Obligated Group Agent shall also be required to deliver a fairness opinion to the Master Trustee from an independent Consultant that confirms that the transfers are being made for fair market value; or

(iii) Is in return for other Property of equal or greater value; or

(iv) Is of Property, Plant or Equipment that is obsolete and no longer of use to the Member; or

(v) Is to a third party as part of a permitted merger, consolidation, sale or conveyance; or

(vi) Is of Property received by a Member or Affiliate as a restricted gift or grant, if the donor's restrictions on the use of such Property prevent the application thereof to payment of Debt Service Requirements or costs of operation; or

(vii) Satisfies the Transaction Test.

(c) Notwithstanding the foregoing, no transfers or sales shall be permitted in any period during which an Event of Default has occurred and is continuing without the prior written consent of the holders of at least twenty-five percent (25%) of the aggregate principal amount of the Outstanding Obligations.

Liens on Property

No Member may create, incur, or permit to be created, incurred or to exist, any Lien on any Property except for Permitted Encumbrances.

Events of Default

Each of the following events is an "Event of Default" under the Master Indenture:

(a) Failure of the Obligated Group to pay any installment of interest, principal, or any premium, on any Obligation when the same shall become due and payable, whether at maturity, upon any date fixed for prepayment or by acceleration or otherwise; or

(b) Failure of any Member to comply with, observe or perform any other covenants, conditions, agreements or provisions thereof and to remedy such default within 90 days after written notice thereof to such Member and the Obligated Group Agent from the Master Trustee or the holders of at least 25% in aggregate principal amount of the Outstanding Obligations; provided, that if such default cannot with due diligence be wholly cured within 90 days but can be wholly cured, the failure of the Member to remedy such default within such 90-day period shall not constitute a default under the Master Indenture if the Member shall immediately upon receipt of such notice commence with due diligence and dispatch the curing of such default and shall thereafter prosecute and complete the same within 180 days; or

(c) Any representation or warranty made by any Member in the Master Indenture or in any Supplemental Master Indenture or in any statement or certificate furnished to the Master Trustee or the holder of any Obligation in connection with the delivery of any Obligation or furnished by any Member proves untrue in any material respect as of the date of the issuance or making thereof and shall not be corrected or brought into compliance within 90 days after written notice thereof to the Obligated Group Agent by the Master Trustee or the holders of at least 25% in aggregate principal amount of the Outstanding Obligations; or

(d) Any judgment, writ or warrant of attachment or of any similar process shall be entered or filed against any Member or against any Property of any Member and remains unvacated, unpaid, unbonded, unstayed or uncontested in good faith for a period of 90 days; provided, however, that none of the foregoing shall constitute an Event of Default unless the amount of such judgment, writ, warrant of attachment or similar process, together with the amount of all other such judgments, writs, warrants or similar processes so unvacated, unpaid, unbonded, unstayed or uncontested, exceeds 10% of Total Assets; or

(e) Any Member shall default in the payment of any Non-MTI Debt in excess of \$50,000,000, and any grace period with respect to such Non-MTI Debt shall have expired, or an event of default under the agreements under which such Non-MTI Debt in excess of \$50,000,000 was incurred has occurred which results in such Non-MTI Debt becoming or being declared due and payable prior to the date on which it would otherwise become due and payable; provided, however, that such default shall not constitute an Event of Default if within the time allowed for service of a responsive pleading in any proceeding to enforce payment of the indebtedness under the laws governing such proceeding (i) such Member in good faith commences proceedings to contest the existence or payment of such Non-MTI Debt, or (ii) sufficient funds are escrowed with an escrow agent for payment of such Non-MTI Debt; or

(f) Any Member admits insolvency or bankruptcy or its inability to pay its debts as they mature, or makes an assignment for the benefit of creditors or applies for or consents to the appointment of a trustee, custodian or receiver for such Member, or for the major part of its Property; or

(g) A trustee, custodian or receiver is appointed for any Member or for the major part of its Property and is not discharged within 90 days after such appointment; or

(h) Bankruptcy, dissolution, reorganization, arrangement, insolvency or liquidation proceedings, proceedings under Title 11 of the United States Code, as amended, or other proceedings for relief under any bankruptcy law or similar law for the relief of debtors are instituted by or against any Member, and if instituted against any Member, are allowed against such Member or are consented to or are not dismissed, stayed or otherwise nullified within 90 days after such institution.

Acceleration

If an Event of Default has occurred and is continuing, the Master Trustee may, and if requested by the holders of not less than 25% in aggregate principal amount of Outstanding Obligations, shall, by notice in writing delivered to the Obligated Group Agent, declare the entire Principal Balance of all Obligations then outstanding under the Master Indenture and the interest accrued thereon immediately due and payable, and the entire principal and such interest shall thereupon become immediately due and payable. The foregoing notwithstanding, if the Supplemental Master Indenture creating an Obligation includes a requirement that the consent of any credit enhancer, liquidity provider or any other Person be obtained prior to the acceleration of such Obligation, the Master Trustee may not accelerate such Obligation without the consent of such Person.

Remedies; Rights of Obligation Holders

Upon the occurrence of any Event of Default under the Master Indenture, the Master Trustee may pursue any available remedy including a suit, action or proceeding at law or in equity to enforce the payment of the principal of, premium, if any, and interest on the Obligations Outstanding under the Master Indenture and any other sums due under the Master Indenture and may collect such sums in the manner provided by law out of the Property of any Member wherever situated.

If an Event of Default shall have occurred, and if the holders of 25% or more in aggregate principal amount of Obligations Outstanding shall have requested (and upon the provision of indemnity satisfactory to the Master Trustee in its sole discretion), the Master Trustee shall be obligated to exercise such one or more of the rights and powers conferred by the Master Indenture as the Master Trustee shall deem most expedient in the interests of the holders of Obligations; provided, however, that the Master Trustee shall have the right to decline to comply with any such request if the Master Trustee shall be advised by Counsel that the action requested may not lawfully be taken or the Master Trustee shall determine that such action would be unjustly prejudicial to the holders of Obligations not parties to such request.

No remedy conferred upon or reserved to the Master Trustee (or to the holders of Obligations) by the terms of the Master Indenture is intended to be exclusive of any other remedy, but each and every such remedy shall be cumulative and shall be in addition to any other remedy given to the Master Trustee or to the holders of Obligations now or hereafter existing at law or in equity.

No delay or omission to exercise any right or power accruing upon any default or Event of Default shall impair any such right or power or shall be construed to be a waiver of any such default or Event of Default, or acquiescence therein; and every such right and power may be exercised from time to time and as often as may be deemed expedient.

No waiver of any default or Event of Default under the Master Indenture, whether by the Master Trustee or by the holders of Obligations, shall extend to or shall affect any subsequent default or Event of Default or shall impair any rights or remedies consequent thereon.

Direction of Proceedings by Holders

The holders of a majority in aggregate principal amount of the Outstanding Obligations which have become due and payable in accordance with their terms, shall have the right, at any time, by an instrument or instruments in writing executed and delivered to the Master Trustee, to direct the method and place of conducting all proceedings to be taken in connection with the enforcement of the terms and conditions of the Master Indenture or for the appointment of a receiver or any other proceedings under the Master Indenture.

Appointment of Receivers

Upon the occurrence of an Event of Default, and upon the filing of a suit or other commencement of judicial proceedings to enforce the rights of the Master Trustee and the holders of Obligations, the Master Trustee shall be entitled, as a matter of right, to the appointment of a receiver or receivers of the rights and properties pledged under the Master Indenture and of the revenues, payments and profits thereof, pending such proceedings, with such powers as the court making such appointment shall confer.

Application of Moneys

All moneys received by the Master Trustee pursuant to any right given or action taken under the Master Indenture (except moneys held for the payment of Obligations called for prepayment or redemption which have become due and payable) shall, after payment of the related cost and expenses incurred or made by the Master Trustee, be applied as follows:

(a) Unless the principal of all the Obligations shall have become or shall have been declared due and payable, all such moneys shall be applied:

First: To pay the persons entitled thereto all installments of interest then due on the Obligations, in the order of the maturity of the installments of such interest, and, if the amount available shall not be sufficient to pay in full any particular installment, then to the payment ratably, to the persons entitled thereto, without any discrimination or privilege; and

Second: To pay the persons entitled thereto the unpaid principal and premium, if any, on the Obligations which shall have become due (other than Obligations called for redemption or payment for the payment of which moneys are held pursuant to the provisions of the Master Indenture), in the order of the scheduled dates of their payment, and, if the amount available shall not be sufficient to pay in full Obligations due on any particular date, then to the payment ratably, according to the amount of principal and premium due on such date, to the persons entitled thereto, without any discrimination or privilege.

(b) If the principal of all the Obligations shall have become due or shall have been declared due and payable, all such moneys shall be applied to the payment of the principal, premium, if any, and interest then due and unpaid upon the Obligations without preference or priority of principal, premium or interest over the others, or of any installment of interest over any other installment of interest, or of any Obligation over any other Obligation, ratably, according to the amounts due respectively for principal, premium and interest to the persons entitled thereto without any discrimination or privilege.

Rights and Remedies of Obligation Holders

No holder of any Obligation shall have any right to institute any suit, action or proceeding in equity or at law for the enforcement of the Master Indenture or for the execution of any trust thereof or for the appointment of a receiver or any other remedy under the Master Indenture, unless an Event of Default has occurred and the holders of 25% or more in aggregate principal amount of the Obligations which have become due and payable in accordance with their terms or have been declared due and payable and have not been paid in full shall have made written request to the Master Trustee and shall have offered it reasonable opportunity either to proceed to exercise the powers granted or to institute such action, suit or proceeding in its own name, and shall have offered indemnity to the Master Trustee satisfactory to the Master Trustee in its sole discretion, and unless the Master Trustee shall thereafter fail or refuse to exercise the powers, or to institute such action, suit or proceeding in its own name; and such notification, request and offer of indemnity are hereby declared in every case at the option of the Master Trustee to be conditions precedent to the execution of the powers and trusts of the Master Indenture and to any action or cause of action for the enforcement of the Master Indenture, or for the appointment of a receiver or for any other remedy under the Master Indenture; it being understood and intended that no one or more holders of the Obligations shall have any right in any manner whatsoever to affect, disturb or prejudice the lien of the Master Indenture by its, his or their action or to enforce any right under the Master Indenture except in the manner provided in the Master Indenture, and that all proceedings at law or in equity shall be instituted, had and maintained for the equal benefit of the holders of all Obligations Outstanding. Nothing contained in the Master Indenture shall, however, affect or impair the right of any holder to enforce the payment of the principal of, premium, if any, and interest on any Obligation at and after the maturity thereof, or the obligation of the Members to pay the principal, premium, if any, and interest on each of the Obligations issued under the Master Indenture to the respective holders thereof at the time and place, from the source and in the manner in such Obligations expressed.

Termination of Proceedings

In case the Master Trustee shall have proceeded to enforce any right under the Master Indenture by the appointment of a receiver, or otherwise, and such proceedings shall have been discontinued or abandoned for any reason, or shall have been determined adversely to the Master Trustee, then and in every case the Members and the Master Trustee shall, subject to any determination in such proceeding, be restored to their former positions and rights under the Master Indenture with respect to the Property pledged and assigned under the Master Indenture, and all rights, remedies and powers of the Master Trustee shall continue as if no such proceedings had been taken.

Waiver of Events of Default

If, at any time after the principal of all Obligations shall have been declared due and payable, and before any judgment or decree for the payment of the moneys due shall have been obtained or entered, any Member shall pay or shall deposit with the Master Trustee a sum sufficient to pay all matured installments of interest upon all such Obligations and the principal and premium, if any, of all such Obligations that shall have become due otherwise than by acceleration (with interest on overdue installments of interest and on such principal and premium, if any, at the rate borne by such Obligations to the date of such payment or deposit, to the extent permitted by law) and the expenses of the Master Trustee, and any and all Events of Default under the Master Indenture, other than the nonpayment of principal of and accrued interest on such Obligations that shall have become due by acceleration, shall have been remedied, then and in every such case the holders of a majority in aggregate principal amount of all then Outstanding Obligations, by written notice to the Obligated Group Agent and to the Master Trustee, may waive all Events of Default and rescind and annul such declaration and its consequences; but no such waiver or rescission and annulment shall extend to or affect any subsequent Event of Default, or shall impair any right consequent thereon.

Supplemental Master Indentures without Consent of Holders

The Obligated Group Agent and the Master Trustee may, without the consent of or notice to, any of the Obligation holders, amend or supplement the Master Indenture, for any one or more of the following purposes:

- (a) To cure any ambiguity or defective provision in or omission from the Master Indenture in such manner as is not inconsistent with and does not impair the security of the Master Indenture or adversely affect the holder of any Obligation;
- (b) To grant to or confer upon the Master Trustee for the benefit of the Obligation holders any additional rights, remedies, powers or authority that may lawfully be granted to or conferred upon the Obligation holders and the Master Trustee, or either of them, to add to the covenants of the Members for the benefit of the Obligation holders or to surrender any right or power conferred under the Master Indenture upon any Member;
- (c) To assign and pledge under the Master Indenture any additional revenues, properties or collateral;
- (d) To evidence the succession of another entity to the agreements of a Member or the Master Trustee, or the successor of any thereof under the Master Indenture;
- (e) To permit the qualification of the Master Indenture under the Trust Indenture Act of 1939, as then amended, or under any similar federal statute hereafter in effect or to permit the qualification of any Obligation for sale under the securities laws of any state of the United States;
- (f) To provide for the issuance of Obligations;
- (g) To reflect the addition to or withdrawal of a Member from the Obligated Group;
- (h) To modify, eliminate or add to the provisions of the Master Indenture if the Master Bond Trustee shall have received written confirmation from each Rating Agency that such change will not result in a withdrawal or reduction of its credit rating assigned to the Obligated Group Agent, or a report, opinion

or certification of a Consultant to the effect that such change is consistent with then current industry standards; and

(i) To make any other change which does not materially adversely affect the holders of any of the Obligations and does not materially adversely affect the holders of any Related Bonds, including without limitation any modification, amendment or supplement to the Master Indenture or any indenture supplemental thereto in such a manner as to establish or maintain exemption of interest on any Related Bonds from federal income taxation under applicable provisions of the Code.

Modification of Master Indenture with Consent of Holders

In addition to Supplemental Master Indentures without the consent of the holders as described above, the holders of not less than 51% in aggregate principal amount of the Obligations Outstanding at the time of the execution of such Supplemental Master Indenture or, if less than all of the Obligations are affected thereby, the holders of not less than 51% in aggregate principal amount of the Outstanding Obligations affected thereby, shall have the right to consent to and approve the execution by the Obligated Group Agent and the Master Trustee of such Supplemental Master Indentures as shall be deemed necessary and desirable by the Obligated Group Agent for the purpose of amending, adding to or rescinding any of the terms or provisions contained in the Master Indenture or in any Supplemental Master Indenture; provided, however, that nothing shall permit (a) an extension of the stated maturity or reduction in the principal amount of or reduction in the rate or extension of the time of paying of interest on or reduction of any premium payable on the redemption of, any Obligation, without the consent of the holder of such Obligation, (b) a reduction in the aggregate principal amount of Obligations the holders of which are required to consent to any such Supplemental Master Indenture, without the consent of the holders of all the Outstanding Obligations which would be affected by the action to be taken, or (c) modification of the rights, duties or immunities of the Master Trustee, without the written consent of the Master Trustee.

Satisfaction and Discharge of the Master Indenture

If the Members shall pay or provide for the payment of all Outstanding Obligations in any one or more of the following ways:

(a) By paying or causing to be paid the Principal Balance of, redemption premium, if any, and interest on all Outstanding Obligations, as and when the same become due and payable;

(b) By depositing with the Master Trustee, in trust, at or before maturity, moneys in an amount sufficient to pay or redeem (when redeemable) all Outstanding Obligations (including the payment of premium, if any, and interest payable on such Obligations to the maturity or redemption date thereof), provided that such moneys, if invested, shall be invested in such amount as will, together with the income or increment to accrue thereon, without consideration of any reinvestment thereof, be fully sufficient to pay or redeem (when redeemable) and discharge the indebtedness on all Obligations Outstanding at or before their respective maturity dates; or

(c) By delivering to the Master Trustee all Outstanding Obligations for cancellation;

and if the Obligated Group shall also pay or cause to be paid all other sums payable under the Master Indenture by the Obligated Group and, if any such Obligations are to be redeemed prior to the maturity thereof, notice of such redemption shall have been given in accordance with the requirements of the Master Indenture or provisions satisfactory to the Master Trustee shall have been made for the giving of such notice, then and in that case, the Master Indenture and the estate and rights granted under the Master Indenture shall cease, determine, and become null and void. The satisfaction and discharge of the Master Indenture shall be without prejudice to the rights of the Master Trustee to charge and be reimbursed by the Obligated Group for any expenditures which it may thereafter incur in connection herewith. The foregoing notwithstanding, the liability of the Obligated Group in respect of the Obligations shall continue, but the holders thereof shall thereafter be entitled to payment only out of the moneys or Defeasance Obligations deposited with the Master Trustee.

THE BOND INDENTURE

The 2017 Bonds will be issued under the Bond Indenture by and between the Authority and the Bond Trustee. The following summarizes certain provisions of the Bond Indenture but is not to be regarded as a full statement thereof, and reference should be made to the Bond Indenture itself for all of the terms and provisions thereof.

Pledge and Assignment

Under the Bond Indenture the Authority grants a security interest in the Trust Estate to the Bond Trustee for the equal and pro rata benefit and security of each and every owner of the 2017 Bonds.

Disposition of Proceeds

The proceeds derived from the sale of the 2017 Bonds shall, on the Closing Date, be deposited into the Clearing Fund and used to pay the costs of the Project. Proceeds to be used to pay costs of issuance shall be paid directly from the Clearing Fund. Proceeds to be used to pay costs of the Capital Projects shall be transferred to the Project Fund.

Bond Fund; Application Thereof

Pursuant to the Bond Indenture, there is established by the Bond Trustee a fund known as the "**Bond Fund**". The Bond Trustee shall deposit to the credit of the Bond Fund all installment payments payable pursuant to the Loan Agreement and any other amounts required or permitted to be deposited therein pursuant to the provisions of the Bond Indenture. Moneys so deposited to the Bond Fund shall be applied as follows:

- (a) To the payment of interest, when due, on all Outstanding 2017 Bonds, including any accrued interest due in connection with the issuance of, purchases of, or the redemption of 2017 Bonds;
- (b) To the payment, when due, of the principal of 2017 Bonds then payable at Stated Maturity (but only upon surrender of such 2017 Bonds) or earlier redemption date (including, without limitation, a mandatory sinking fund redemption date), subject to reduction by the principal amount of 2017 Bonds of the same maturity purchased by the Corporation and surrendered to the Bond Trustee for cancellation or purchased for cancellation by the Bond Trustee pursuant to the provisions of the Bond Indenture;
- (c) During the 12 month period preceding each Stated Maturity or mandatory redemption date, the Bond Trustee shall, at the Written Request of the Corporation and upon deposit of moneys by the Corporation for such purposes, purchase 2017 Bonds of the maturity becoming due on such Stated Maturity or mandatory redemption date from funds deposited to the Bond Fund for such purpose; provided, however, that such purchase shall not be made unless the purchase price does not exceed 100% of the principal amount of the 2017 Bonds to be purchased, plus accrued interest; and provided that upon the making of any transfer of moneys from the Bond Fund in connection with a proposed purchase or redemption of 2017 Bonds after such transfer, there shall be no deficiency in amounts required to be in the Bond Fund, taking into account the amounts then required to be paid or transferred therefrom for other purposes or reserve therein against such payments and transfers; and
- (d) To the extent that the same has not otherwise been paid or provided for, the Administrative Fee shall be payable from the Bond Fund at the Written Request of the Corporation and the Authority, but only if and to the extent that, on such date that the Written Request is submitted, excess funds not needed for the payment of debt service are on deposit therein.

Project Fund

Pursuant to the Bond Indenture the Bond Trustee is authorized and directed to establish a special Fund designated as the "**Project Fund**". The Project Fund shall be held by the Bond Trustee, separate and apart from all other accounts and funds of the Corporation and the Bond Trustee, and shall be maintained until (1) all funds therein are transferred to the Bond Fund upon the occurrence of a declaration of acceleration, or (2) all Costs of the Capital Projects have been paid and the balance of funds transferred to the Bond Fund. The funds in the Project Fund shall be held in trust

by the Bond Trustee for the benefit of the Beneficial Owners of the 2017 Bonds as described in the Bond Indenture, and shall be applied solely in accordance with the provisions of the Bond Indenture.

Immediately upon giving a declaration of acceleration, the Bond Trustee shall transfer all funds in the Project Fund to a special account in the Bond Fund, to be applied as provided in the Bond Indenture provisions described below under "THE BOND INDENTURE — Remedies, Acceleration and Annulment Thereof"; provided, that if such declaration of acceleration is rescinded prior to the close of the Bond Trustee's business on the acceleration date as provided in the Bond Indenture, the Bond Trustee shall not cause the transfer of such funds to the Bond Fund but shall hold and apply such funds as provided in the provisions of the Bond Indenture described under this caption unless and until the Bond Trustee gives a new declaration of acceleration.

The Bond Trustee shall pay Costs of the Capital Projects (or reimburse the Corporation for Costs of the Capital Projects previously paid by the Corporation) from the funds in the Project Fund (1) within two (2) Business Days following receipt by the Bond Trustee of a Written Request of the Corporation for payment or (2) if later, the payment date specified by the Corporation in such request. If reimbursement is requested, such Written Request of the Corporation shall be accompanied by evidence that such Costs of the Capital Projects have been paid by or on behalf of the Corporation.

The Capital Projects completion date shall be the date when either (1) all funds on deposit in the Project Fund have been disbursed or (2) the Bond Trustee shall have received a certificate of an Authorized Officer of the Corporation certifying that the payment of all Costs of the Capital Projects is complete. As soon as practicable following receipt of such certificate by the Bond Trustee, if applicable, the Bond Trustee shall transfer any money and investments remaining in the Project Fund to the Bond Fund.

Rebate Fund

At the Written Request of the Authority or the Corporation, the Bond Trustee will create a trust fund under the Bond Indenture to be designated as the "**Rebate Fund**". The Bond Trustee will make deposits to and withdrawals from the Rebate Fund in accordance with the Bond Indenture and the Tax Regulatory Certificate so as to facilitate compliance with the rebate provisions of the Code. In the event that any rebatable excess investment earnings are generated, shortly after the end of the fifth (5th) Bond Year, every fifth (5th) year thereafter, and after the final retirement of the 2017A Bonds, the Bond Trustee shall, upon the Written Request of the Corporation, pay to the United States the amount required to be rebated to the United States pursuant to the Code.

Investment or Deposit of Funds

All investments in the funds established under the Bond Indenture shall constitute Investment Securities and shall mature, or be subject to repurchase, withdrawal without penalty or redemption at the option of the holder on or before the dates on which the amounts invested are reasonably expected to be needed for the purposes of the Bond Indenture. All investments shall be made at the Written Request of the Corporation. No investments shall be made which would cause the 2017A Bonds to become "arbitrage bonds" within the meaning of Section 148 of the Code and the applicable regulations promulgated thereunder. Interest, income and gains received in respect of the principal of the Investment Securities shall, with respect to all funds and accounts (other than the Rebate Fund), be deposited to the credit of the Bond Fund. Earnings from Investment Securities held in the Rebate Fund shall remain therein until applied in accordance with the provisions of the Bond Indenture.

Events of Default

Each of the following shall be an Event of Default under the Bond Indenture:

- (i) If payment of any installment of interest on any 2017 Bond is not made when it becomes due and payable; or
- (ii) If payment of the principal or premium, if any, of any 2017 Bond is not made when it becomes due and payable at Maturity; or
- (iii) If there occurs any "Event of Default" as defined in the Loan Agreement or any amendment or supplement thereto; or

- (iv) If there is an event of default under the provisions of the Master Indenture.

Remedies, Acceleration and Annulment Thereof

Upon the occurrence of any Event of Default, the Bond Trustee may pursue any available remedy including a suit at law or in equity to enforce the payment of the principal of, premium, if any, and interest on the 2017 Bonds Outstanding under the Bond Indenture.

If any Event of Default has occurred and is continuing, the Bond Trustee may, and at written request of the holders of 25% in principal amount of the 2017 Bonds then Outstanding, shall, by notice in writing to the Authority, declare the principal of all 2017 Bonds then Outstanding to be immediately due and payable, and upon such declaration such principal, together with interest accrued thereon, shall become due and payable immediately at the place of payment provided therein.

If after the principal of the 2017 Bonds has been so declared to be due and payable, all arrears of interest upon the 2017 Bonds (and interest on overdue installments of interest at the maximum rate permitted by law or one percent (1%) over the interest rate on the respective 2017 Bonds, whichever is lesser) are paid by the Authority, and the Authority also performs all other things in respect to which it may have been in default under the Bond Indenture and pays the reasonable charges of the Bond Trustee and the Bondholders, including reasonable attorney's fees, then, and in every such case, the Trustee shall annul such declaration and its consequences and provide the Authority and the Corporation with written notice of such annulment, the Authority shall provide written direction to the Bond Trustee to, and the Bond Trustee shall, annul such declaration and its consequences, and such annulment shall be binding upon the Bond Trustee and upon all holders of 2017 Bonds issued under the Bond Indenture; but no such annulment shall extend to or affect any subsequent default or impair any right or remedy consequent thereon.

Legal Proceedings by Bond Trustee

If any Event of Default has occurred and is continuing, the Bond Trustee in its discretion may, and upon the written request of the holders of 25% in principal amount of the 2017 Bonds then Outstanding and receipt of indemnity to its satisfaction shall in its own name:

- (a) By mandamus, or other suit, action or proceeding at law or in equity, enforce all rights of the Bondholders, including the right to require the Corporation to charge and collect rates, rentals and other charges adequate to carry out the terms of the Bond Indenture and to require the Authority to carry out any other agreements with, or for the benefit of, the Bondholders and to perform its duties under the Municipality Authorities Act, as amended;
- (b) Bring suit upon the 2017 Bonds;
- (c) By action or suit in equity require the Authority to account as if it were the Bond Trustee of an express trust for the Bondholders;
- (d) By action or suit in equity enjoin any acts or things which may be unlawful or in violation of the rights of the Bondholders; and
- (e) Enforce its rights as holder of the 2017 MTI Notes.

Bondholders May Direct Proceedings

The holders of a majority in principal amount of the 2017 Bonds then Outstanding under the Bond Indenture shall have the right to direct the method and place of conducting all remedial proceedings by the Bond Trustee under the Bond Indenture, provided such written request shall not be otherwise than in accordance with law or the provisions of the Bond Indenture, the Bond Trustee shall have received indemnity to its satisfaction, and that the Bond Trustee shall have the right to decline to follow any such written request which in the opinion of the Bond Trustee would be unjustly prejudicial to Bondholders not a party to such written request.

Limitations on Actions by Bondholders

No Bondholder shall have any right to pursue any remedy under the Bond Indenture unless (a) the Bond Trustee shall have been given written notice of an Event of Default, (b) the holders of at least 25% in principal amount of the 2017 Bonds then Outstanding shall have requested the Bond Trustee, in writing, to exercise the powers granted pursuant to the Bond Indenture or to pursue such remedy in its or their name or names, (c) the Bond Trustee shall have been offered indemnity satisfactory to it against costs, expenses and liabilities, and (d) the Bond Trustee shall have failed to comply with such request within a reasonable time.

Application of Moneys in Event of Default

(a) All moneys received by the Bond Trustee pursuant to any right given or action taken under the Bond Indenture together with all moneys in the funds maintained by the Bond Trustee under the Bond Indenture (except the Rebate Fund), shall, after payment of the cost and expenses of the proceedings resulting in the collection of such moneys and of the expenses, liabilities and advances incurred or made by the Bond Trustee, be deposited in the Bond Fund, and together with all moneys in the funds maintained by the Bond Trustee under the Bond Indenture shall be applied as follows:

(i) Unless the principal of all the 2017 Bonds shall have become or shall have been declared due and payable, all such moneys shall be applied:

First: To the payment to the Persons entitled thereto of all installments of interest then due on the 2017 Bonds, in the order of the maturity of the installments of such interest, and, if the amount available shall not be sufficient to pay in full any particular installment, then to the payment ratably, according to the amounts due on such installment, to the persons entitled thereto, without any discrimination or privilege; and

Second: To the payment to the Persons entitled thereto of the unpaid principal of any of the 2017 Bonds which shall have become due (other than the 2017 Bonds called for redemption for the payment of which moneys are held pursuant to the other provisions of the Bond Indenture), in the order of their due dates, and, if the amount available shall not be sufficient to pay in full the 2017 Bonds due on any particular date, then to the payment ratably, according to the amount of principal due on such date, to the Persons entitled thereto without any discrimination or privilege;

(ii) If the principal of all the 2017 Bonds shall have become due or shall have been declared due and payable, all such moneys shall be applied to the payment of the principal and interest then due and unpaid upon the 2017 Bonds, and then to eliminate any deficiency in the Rebate Fund, without preference or priority of principal over interest or of interest over principal or of any installment of interest over any other installment of interest, or of any Bond over any other Bond, ratably, according to the amounts due respectively for principal and interest, to the persons entitled thereto without any discrimination or privilege; and

(iii) If the principal of all the 2017 Bonds shall have been declared due and payable, and if such declaration shall thereafter have been rescinded and annulled, then, subject to the provisions of paragraph (b) below in the event that the principal of all the 2017 Bonds shall later become due or be declared due and payable, the moneys shall be applied in accordance with the provisions of this paragraph (a).

(b) Whenever moneys are to be applied by the Bond Trustee pursuant to these provisions, such moneys shall be applied by it at such times, and from time to time, as the Bond Trustee shall determine, having due regard for the amount of such moneys available for application and the likelihood of additional moneys becoming available for such application in the future. Whenever the Bond Trustee shall apply such moneys, it shall fix the date (which shall be an Interest Payment Date unless it shall deem another date more suitable) upon which such application is to be made and upon such date interest on the amounts of principal to be paid on such date shall cease to accrue. The Bond Trustee shall give notice of the deposit with it of any such moneys and of the fixing of any such date and of the Special Record Date in accordance with the Bond Indenture ten (10) days prior to the Special Record Date. The Bond Trustee shall

not be required to make payment to the holder of any unpaid 2017 Bond until such 2017 Bond shall be presented to the Bond Trustee for appropriate endorsement or for cancellation if fully paid.

(c) Whenever all 2017 Bonds and interest thereon have been paid, all fees, expenses and charges of the Bond Trustee have been paid and all other obligations of the Authority and the Corporation under the Bond Indenture have been satisfied, any balance remaining shall be paid to the Corporation.

Removal of Bond Trustee

Any Bond Trustee under the Bond Indenture may be removed at any time by an instrument appointing a successor to the Bond Trustee so removed, executed by the holders of a majority in principal amount of the 2017 Bonds then Outstanding and filed with the Bond Trustee, the Corporation and the Authority. If no Event of Default under the Loan Agreement has occurred and is continuing, the Corporation may remove the Bond Trustee and appoint a successor by an instrument filed with the Bond Trustee and the Authority, with the approval of the Authority, which shall not be unreasonably withheld.

Amendments and Supplements without Bondholders' Consent

The Bond Indenture may be amended or supplemented from time to time, without the written consent of the Bondholders, but with the prior written consent of the Corporation, by a supplemental indenture, for one or more of the following purposes:

(a) To add additional covenants of the Authority or to surrender any right or power conferred upon the Authority;

(b) To cure any ambiguity, to cure, correct or supplement any defective (whether because of any inconsistency with any other provision of the Bond Indenture or otherwise) provision of the Bond Indenture (which actions shall supersede any actions taken by the Bond Trustee under the Bond Indenture), or to make any other revision which shall not impair the security of the Bond Indenture or materially adversely affect the Bondholders;

(c) To obtain, maintain or upgrade a rating on the 2017 Bonds;

(d) To modify or supplement the Bond Indenture in such manner as may be necessary or appropriate to qualify the Bond Indenture under the Trust Indenture Act of 1939 as then amended, or under any similar federal statute hereafter enacted;

(e) To provide for the establishment of additional funds and accounts under the Bond Indenture and for the proper administration of and transfers of moneys between any such funds and accounts; and

(f) To modify any of the provisions of the Bond Indenture relating to the mechanics of keeping the 2017 Bonds immobilized in book-entry form;

(g) To make amendments to the provisions of the Indenture relating to arbitrage matters under Section 148 of the Code, if, in the opinion of Bond Counsel, those amendments would not cause the interest on the Outstanding 2017A Bonds to become included in the gross income of the holders thereof for federal income tax purposes, which amendments may, among other things, change the responsibility for making the relevant arbitrage calculations; and

(h) To make any other amendment that is not materially adverse to the interests of the Bondholders and does not involve a change described below under the subheading "Amendments with Bondholders' Consent" requiring consent of specific Bondholders.

Amendments with Bondholders' Consent

The Bond Indenture may be amended from time to time by a supplemental indenture, with the prior written consent of the Authority and the Owners of at least 51% in aggregate principal amount of the 2017 Bonds then Outstanding; provided, that (a) no amendment shall be made which affects the rights of some but less than all the Outstanding Bonds without the consent of the Owners of 51% of the 2017 Bonds so affected, and (b) no amendment which alters the interest rates on any 2017 Bonds, the maturities, interest payment dates (except as summarized in the immediately preceding paragraph) or redemption provisions of any 2017 Bonds, the provisions of the Bond Indenture governing amendments to the Bond Indenture or would deprive the holders of the 2017 Bonds (except as aforesaid) of the lien created by the Indenture, may be made without the consent of the Owners of all Outstanding 2017 Bonds adversely affected thereby.

Amendments of the Loan Agreement Not Requiring Consent of Bondholders

The Authority and the Bond Trustee shall, without the consent or notice to the Bondholders, consent to any amendment, change or modification of the Loan Agreement as may be required or otherwise permitted (a) by the provisions of the Loan Agreement or the Indenture, (b) for the purpose of curing any ambiguity, defect, inconsistent provision or omission in the Loan Agreement, (c) to make changes in the Loan Agreement required in connection with a supplemental indenture authorized under the Indenture provisions describe above, (d) to obtain, maintain or upgrade a rating on the 2017 Bonds, or (e) in connection with any other change therein that is not materially adverse to the interests of the Trustee or the Bondholders.

Amendments of the Loan Agreement Requiring Consent of Bondholders

Except for the amendments, changes or modifications detailed immediately above, neither the Authority nor the Bond Trustee shall consent to any other amendment, change or modification of the Loan Agreement without the written approval or consent of the holders of not less than 51% in aggregate principal amount of the 2017 Bonds then Outstanding. Consent of Bondholders shall be obtained by the Bond Trustee only upon the written direction of the Corporation, and at the expense of the Corporation.

Amendments of the Master Indenture

In the event that the Bond Trustee as the holder of the 2017 MTI Notes is requested by the Master Trustee to consent to any amendment to the Master Indenture requiring the consent of the holders of Obligations under the Master Indenture, as applicable, the Bond Trustee shall obtain the consent of the holders of not less than 51% in aggregate principal amount of the 2017 Bonds of each series then Outstanding. Consent of Bondholders shall be obtained by the Bond Trustee only upon the written direction of the Corporation, and at the expense of the Corporation.

Defeasance

(a) When interest on, and principal or redemption price (as the case may be) of, all 2017 Bonds issued under the Bond Indenture have been paid or there shall have been deposited with the Bond Trustee an amount, evidenced by cash, non-callable Government Obligations, or certain other investments permitted by the Bond Indenture, the principal of and interest on which, when due, will provide sufficient moneys to fully pay the 2017 Bonds at the maturity date or date fixed for redemption thereof, as well as all other sums payable under the Bond Indenture by the Authority and by the Corporation, the right, title and interest of the Bond Trustee shall thereupon cease and the Bond Trustee, on demand of the Authority, shall release the Bond Indenture and shall execute such documents to evidence such release as may be reasonably required by the Authority and shall turn over to the Authority or to such Person as may be entitled to receive the same all balances remaining in any funds under the Bond Indenture.

(b) Notwithstanding the foregoing provisions of paragraph (a) above, the lien of the Bond Indenture shall not be released and discharged until the Bond Trustee has received (i) an Opinion of Counsel to the effect that all conditions precedent to such discharge have been satisfied and (ii) in the event that provision has been made to pay all 2017 Bonds rather than all 2017 Bonds having been paid and the 2017 Bonds shall not be paid within 90 days from the date such provision for payment is made, the Bond Trustee receives a Verification Report.

Deposit of Funds for Payment of 2017 Bonds

If the Authority deposits with the Bond Trustee moneys or Government Obligations sufficient to pay the principal or redemption price of any particular 2017 Bond or 2017 Bonds becoming due, either at maturity or by call for redemption or otherwise, together with all interest accruing thereon to the due date, interest on the 2017 Bond or 2017 Bonds shall cease to accrue on the due date and all liability of the Authority with respect to such 2017 Bond or 2017 Bonds shall likewise cease. Thereafter such 2017 Bond or 2017 Bonds shall be deemed not to be Outstanding under the Bond Indenture and the holder or holders of such 2017 Bond or 2017 Bonds shall be restricted exclusively to the funds so deposited for any claim of whatsoever nature with respect to such 2017 Bond or 2017 Bonds, and the Bond Trustee shall hold such funds in trust for such holder or holders.

Notwithstanding the preceding paragraph, the lien of the Bond Indenture shall not be released and discharged until (i) the Bond Trustee has received an Opinion of Counsel to the effect that all conditions precedent to such discharge have been satisfied and (ii), in the event that provision has been made to pay such Bonds rather than all such Bonds having been paid and such 2017 Bonds shall not be paid within 90 days from the date such provision for payment is made, the Bond Trustee receives a Verification Report.

THE LOAN AGREEMENT

Under the Loan Agreement, the Authority will lend to the Corporation the gross proceeds from the sale of the 2017 Bonds to finance the Project, and the Corporation will agree to make installment payments to the Authority, which shall be assigned to the Bond Trustee, at such times and in such amounts as are necessary to meet the payment obligations under the 2017 Bonds when the same become due. The following summarizes certain provisions of the Loan Agreement, but is not to be regarded as a full statement of its terms, and reference should be made to the Loan Agreement itself for all of the provisions thereof. The Loan Agreement will remain in effect until such time as all Outstanding Bonds and all other expenses payable by the Corporation under the Loan Agreement have been paid or provision for such payment has been made as described under the heading "THE BOND INDENTURE - Defeasance" in this Appendix C.

Time and Manner of Repayment

Under the Loan Agreement, the Corporation agrees to make the following payments in the manner specified hereinafter:

Payments Equal to Interest. On or before each Interest Payment Date, an amount equal to the interest due on the 2017 Bonds on such Interest Payment Date.

Payments Equal to Principal. On or before each date on which payment of principal on the 2017 Bonds is required pursuant to the Bond Indenture, an amount equal to the principal amount of the 2017 Bonds (i) due on such date pursuant to the mandatory sinking fund redemption requirements of the Bond Indenture, or (ii) maturing by their terms on such date.

Rebate to the United States. If there is any amount required to be paid to the United States pursuant to Section 148(f) of the Code, the Bond Indenture and the Loan Agreement, the Corporation shall pay such amount to the Bond Trustee for deposit to the Rebate Fund, which payment will be submitted to the United States upon the Written Request of the Corporation.

Bond Trustee's Fee. While the 2017 Bonds remain Outstanding, the reasonable compensation and expenses of the Bond Trustee under the Bond Indenture shall be paid directly to such Bond Trustee by the Corporation upon the receipt by the Corporation of a bill for such services from the Bond Trustee.

Authority's Administrative Fee. While the 2017 Bonds remain Outstanding, an annual amount equal to the Administrative Fees and Expenses of the Authority in connection with the issuance of the 2017 Bonds shall be payable by the Corporation.

Payment Credits. To the extent that any payment required to be made pursuant to the provisions outlined above would cause the amount in the Bond Fund in the Bond Indenture to exceed the amount required to be transferred by the Bond Trustee from the Bond Fund pursuant to the provisions of the Bond Indenture on or before the next

succeeding payment date, the payment required by such provisions shall be reduced so that such excess will not occur. Payments received under the 2017 MTI Notes shall be credited against payments required above.

The Corporation may make all or any part of any payment required with respect to the redemption of 2017 Bonds by delivering to the Bond Trustee any 2017 Bond maturing, or subject to redemption (assuming notice in accordance with the Bond Indenture has been timely delivered) on the maturity or redemption date immediately following the date of such delivery and having it credited at the face amount to the payment and canceled by the Bond Trustee. In addition, the Corporation shall be entitled to a credit during the last year of maturity to the extent that any payment required to be made pursuant to the Loan Agreement would, together with the amount held by the Bond Trustee in all funds (other than the Rebate Fund) under the Bond Indenture, exceed the principal amount of the 2017 Bonds Outstanding and the amount of the interest due both at the final maturity date and the interest payment date immediately preceding the final maturity date.

Prepayment. The Corporation may prepay all or a portion of the Loan to the same extent and upon the same conditions that the Authority has the right to prepay or defease all or any portion of the 2017 Bonds in accordance with the Bond Indenture.

Insurance

The Corporation will maintain, or cause to be maintained, insurance covering such risks and in such amounts as is required by the Master Indenture, and naming the Authority as an additional insured as its interest may appear.

Indemnification of Authority and Bond Trustee

The Corporation agrees that the Authority and the members, officers, employees, attorneys and agents thereof shall not be liable for and the Corporation covenants and agrees to protect, exonerate, defend, indemnify and save the Authority and the members, officers, employees, attorneys and agents thereof and the Bond Trustee harmless from and against any and all costs, damages or liabilities which may arise out of the issuance of the 2017 Bonds, as set forth in the Loan Agreement.

Events of Default

The occurrence of any of the following shall constitute an Event of Default under the Loan Agreement:

(a) Failure by the Corporation to make any payments described above under the caption "THE LOAN AGREEMENT – Time and Manner of Repayment" when due; or

(b) Failure by the Corporation to make any payment under the Loan Agreement or in the performance of or compliance with any of the material provisions, warranties, covenants, agreements, terms or conditions contained in the Loan Agreement, other than those specified in clause (a) above, which continues for thirty (30) days following written notice thereof to the Corporation from the Authority or the Bond Trustee except in the case of a default which cannot be cured within such thirty (30) days, in which case the period shall be extended for such period as is reasonable to cure the same with due diligence, provided the Corporation commences such performance or compliance within thirty (30) days and proceeds diligently to cure the same; or

(c) The occurrence of an Event of Default under the Bond Indenture, the Master Indenture, or the 2017 MTI Notes; or

(d) An order or decree shall be entered appointing a receiver, receivers, custodian or custodians for any of the revenues of the Corporation, or approving a petition filed against the Corporation seeking reorganization of the Corporation under the federal bankruptcy laws or any other similar law or statute of the United States of America or any state thereof, or if any such order or decree, having been entered without the consent or acquiescence of the Corporation, shall not be vacated or discharged or stayed on appeal within 120 days after the entry thereof; or

(e) Any proceeding shall be instituted, with the consent or acquiescence of the Corporation, or any plan shall be entered into by the Corporation, for the purpose of effecting a composition between the

Corporation and its creditors or for the purpose of adjusting the claims of such creditors pursuant to any federal or Commonwealth statute now or hereafter enacted, if the claims of such creditors are under any circumstances payable from any part or all of the amounts payable by the Corporation under the Loan Agreement; or

(f) The Corporation (i) files a petition in bankruptcy or under Title 11 of the United States Code, as amended, (ii) makes an assignment for the benefit of its creditors or (iii) consents to the appointment of a receiver, custodian or trustee for itself or for the whole or any part of the revenues of the Corporation from which the payments by the Corporation under the Loan Agreement may be made; or

(g) If (i) the Corporation is adjudged insolvent by a court of competent jurisdiction, (ii) on a petition in bankruptcy filed against the Corporation, the Corporation is adjudged as bankrupt or (iii) an order, judgment or decree is entered by any court of competent jurisdiction appointing, without the consent of the Corporation, a receiver, custodian or trustee of the Corporation or of the whole or any part of its property and any of the aforesaid adjudications, orders, judgments or decrees shall not be vacated or set aside or stayed within 120 days from the date of entry thereof; or

(h) The Corporation shall file a petition or answer seeking reorganization or any arrangement under the federal bankruptcy laws or any other applicable law or statute of the United States of America or any state thereof; or

(i) Under the provisions of any other law for the relief or aid of debtors, any court of competent jurisdiction shall assume custody or control of the Corporation or of the whole or any substantial part of its property, and such custody or control shall not be terminated within 30 days from the date of assumption of such custody or control.

Unless and until the Authority or the Bond Trustee shall have exercised any remedies upon an Event of Default, the Corporation (or any other Person on behalf of the Corporation) may at any time (a) pay all accrued unpaid payments then due and owing on the outstanding balance of the Loan and all other sums which the Corporation is obligated to pay under the Loan Agreement; and (b) cure all other existing Events of Default under the Loan Agreement, and in every such case, such payment and cure shall be deemed to constitute a waiver of the Event of Default and its consequences as though the Event of Default had not occurred.

Remedies upon Event of Default

Upon the occurrence of an Event of Default under the Loan Agreement:

(a) The entire outstanding balance of the Loan and any other sums which the Corporation is obligated to pay to the Authority under the Loan Agreement shall immediately be due and payable; provided, however, that the Bond Trustee shall have declared the acceleration of the 2017 Bonds in accordance with the Bond Indenture.

(b) The Bond Trustee, after ten (10) days' notice to the Corporation, may, but shall not be required to, perform for the account of the Corporation any covenant of the Corporation under the Loan Agreement in the performance of which the Corporation is in default or make any payment for which the Corporation is in default. The Corporation shall pay to the Bond Trustee upon demand any amount paid by it in the performance of such covenant and any amounts which the Bond Trustee shall have paid by reason of failure of the Corporation to comply with any covenant or provision of the Loan Agreement, including reasonable counsel fees and expenses incurred in connection with prosecution or defense of any proceedings instituted by reason of default of the Corporation, together with interest at a rate equal to the lesser of the highest rate permitted by applicable law and the cost of the money to the Bond Trustee, from the date of payment until repayment by the Corporation.

(c) The Authority or Bond Trustee may pursue any other right/remedy available at law or in equity.

Remedies of Authority

In addition to the rights of the Bond Trustee following an Event of Default, the Authority shall have the right to proceed against the Corporation for payment of Administrative Fees and Expenses and any additional fees due under the Bond Indenture and for indemnification under the Loan Agreement.

Term of Loan Agreement

The Loan Agreement shall remain in full force and effect for a term commencing on the date of the issuance of the 2017 Bonds and terminating at such time as there are no 2017 Bonds Outstanding under the provisions of the Bond Indenture; provided, however, that the Loan Agreement and the obligation of the Corporation to make payments under the Loan Agreement shall continue following the discharge of the 2017 Bonds until such time as any amounts due to the Internal Revenue Service for rebate required by the Bond Indenture and the Tax Regulatory Certificate and any other amounts due under the Loan Agreement have been satisfied.

Amendment of the Loan Agreement

The Loan Agreement may be amended from time to time in accordance with the provisions of the Bond Indenture described above under the heading "THE BOND INDENTURE" in this Appendix C. The provisions of the Loan Agreement concerning the Corporation's obligation to comply with the rebate requirements of Section 148(f) of the Code, may be amended by an instrument in writing signed by the parties thereto in the event that the Corporation delivers to the Bond Trustee an Officer's Certificate accompanied by a Favorable Opinion addressed to the Bond Trustee to the effect that amendments to the Loan Agreement are necessary or desirable to comply with the provisions of Section 148(f) of the Code.

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APPENDIX D

FORM OF APPROVING OPINION OF BOND COUNSEL

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October 11, 2017

\$436,745,000
Pennsylvania Economic Development Financing Authority
UPMC Revenue Bonds, Series 2017A
and
\$100,000,000
Pennsylvania Economic Development Financing Authority
UPMC Revenue Bonds, Series 2017B (Federally Taxable)

To the Purchasers of the
Above-Described Bonds:

We have acted as Bond Counsel in connection with the issuance and sale by the Pennsylvania Economic Development Financing Authority (the "**Authority**") of \$436,745,000 in aggregate principal amount of its UPMC Revenue Bonds, Series 2017A (the "**2017A Bonds**") and \$100,000,000 in aggregate principal amount of its UPMC Revenue Bonds, Series 2017B (Federally Taxable) (the "**2017B Bonds**") and, together with the 2017A Bonds, the "**Bonds**"), under a Trust Indenture dated as of October 1, 2017 (the "**Indenture**") between the Authority and The Bank of New York Mellon Trust Company, N.A., as trustee (the "**Trustee**"). The proceeds of the Bonds will be loaned to UPMC, a Pennsylvania nonprofit corporation (the "**Corporation**"), pursuant to a Loan Agreement dated as of October 1, 2017 between the Authority and the Corporation (the "**Loan Agreement**").

As Bond Counsel, we have examined the Indenture, the Loan Agreement, certified copies of all of the proceedings relating to the issuance of the Bonds, including certifications of the Authority and the Corporation that neither the Authority nor the Corporation expects that the proceeds of the 2017A Bonds will be used in a manner which would cause the 2017A Bonds to be arbitrage bonds within the meaning of Section 148 of the Internal Revenue Code of 1986, as amended (the "**Code**"), the Pennsylvania Economic Development Financing Law, as amended (the "**Act**"), the constitution of the Commonwealth of Pennsylvania (the "**Commonwealth**") and such other public records and documents and matters of law, and made such other investigations as we deemed appropriate for the purpose of this opinion.

As to questions of fact material to our opinion, we have relied upon the representations of the Authority and the Corporation contained in the proceedings relating to the issuance of the Bonds and other certifications furnished to us without undertaking to verify the same by independent investigation.

Based upon the foregoing, we are of the opinion, as of the date hereof and under existing law, that:

1. The Authority is a public instrumentality and body corporate and politic duly organized pursuant to the Act and is validly existing under the Act.
2. The Authority has full legal right, power and authority to enter into the Indenture and the Loan Agreement, to issue, sell and deliver the Bonds and to carry out and consummate all other transactions to be carried out and consummated by it as contemplated by the Indenture and the Loan Agreement.
3. The Indenture and the Loan Agreement have been duly authorized, executed and delivered by the Authority and constitute legal, valid and binding obligations of the Authority.

4. The Bonds have been duly authorized, executed, authenticated, issued and delivered by the Authority, constitute legal, valid and binding limited obligations of the Authority in accordance with their terms, and are entitled to the benefit and security of the Indenture.

5. Under existing laws, regulations and decisions, interest on the 2017A Bonds (including any original issue discount properly allocable to an owner thereof) (a) is excludable from gross income for federal income tax purposes and (b) is not an item of tax preference within the meaning of Section 57 of the Code for purposes of the federal alternative minimum tax imposed by Section 55 of the Code on individuals and corporations; however, with respect to certain corporations (as defined for federal income tax purposes), such interest may be taken into account in determining "adjusted current earnings" for the purposes of computing the alternative minimum tax imposed by Section 55 of the Code on such corporations. The opinions set forth in this paragraph are subject to the condition that the Authority and the Corporation comply with all requirements of the Code (including regulations promulgated thereunder) that must be satisfied subsequent to the issuance of the 2017A Bonds in order that such interest be (or continue to be) excluded from gross income for federal income tax purposes. Failure to comply with such requirements could cause the interest on the 2017A Bonds to be included in gross income retroactively to the date of issuance of the 2017A Bonds. The Authority and the Corporation have covenanted to comply with all such requirements. We express no opinion regarding other federal tax consequences arising with respect to the 2017A Bonds.

6. Under existing laws, regulations and decisions, interest on the 2017B Bonds is not excludable from gross income for federal income tax purposes.

7. Under the laws of the Commonwealth as presently enacted and construed, the Bonds are exempt from personal property taxes in Pennsylvania and the interest on the Bonds is exempt from Pennsylvania corporate net income tax and from Pennsylvania personal income tax.

It is to be understood that the rights of the owners of the Bonds and the enforceability of the Bonds, the Indenture and the Loan Agreement may be subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights heretofore or hereafter enacted to the extent constitutionally applicable and that their enforcement may also be subject to the exercise of judicial discretion in appropriate cases.

We have relied upon the opinion of Eckert Seamans Cherin & Mellott, LLC, the Corporation's Counsel, dated the date hereof, with respect to (a) the organization and standing of the Corporation as a nonprofit corporation duly organized and existing under the laws of the Commonwealth of Pennsylvania, (b) the status of the Corporation as an organization described in Section 501(c)(3) of the Code, (c) the corporate power of the Corporation to enter into the Loan Agreement, (d) the due authorization, execution and delivery by the Corporation of the Loan Agreement, and (e) the status of the Loan Agreement as the legal, valid and binding obligation of the Corporation, enforceable in accordance with its terms.

This opinion is given as of the date hereof and we assume no obligation to update or supplement this opinion to reflect any facts or circumstances that may hereafter come to our attention or any changes in law that may hereafter occur.

Very truly yours,

CAMPBELL & LEVINE, LLC

APPENDIX E

CERTAIN FINANCIAL AND OPERATING INFORMATION OF PINNACLE HEALTH SYSTEM

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Pinnacle Health System

(And controlled entities and subsidiaries)

Consolidated Financial Statements and Supplemental Data

June 30, 2017 and 2016

Pinnacle Health System
(And controlled entities and subsidiaries)
Consolidated Statements of Financial Position
Years ended June 30, 2017 and 2016

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Report of Independent Auditors

To the Board of Directors of Pinnacle Health System:

We have audited the accompanying consolidated financial statements of Pinnacle Health System and its subsidiaries ("the System"), which comprise the consolidated statements of financial position as of June 30, 2017 and 2016, and the related consolidated statements of operations, statements of changes in net assets, and statements of cash flows for the years then ended.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the System's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Pinnacle Health System and its subsidiaries as of June 30, 2017 and 2016, and the results of their operations, changes in net assets, and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

A handwritten signature in black ink that reads "PricewaterhouseCoopers LLP".

September 12, 2017

Pinnacle Health System
(And controlled entities and subsidiaries)
Consolidated Statements of Financial Position
Years ended June 30, 2017 and 2016

<i>(in thousands of dollars)</i>	2017	2016
Assets		
Current		
Cash and cash equivalents	\$ 366,233	\$ 131,817
Accounts receivable - Patient, less allowance for doubtful accounts of \$46,659 in 2017 and \$42,325 in 2016	110,053	113,753
Accounts receivable - Other	16,196	16,508
Pledges receivable	4,350	6,854
Investments	239,715	189,642
Inventories	20,997	18,258
Prepaid expenses	15,851	17,706
Due from third-party payors	1,937	4,595
Trustee held funds for capital projects	-	69
Total current assets	<u>775,332</u>	<u>499,202</u>
Assets limited as to use		
Board-designated funds	418,171	393,457
Funds held by trustee for debt service reserve fund	<u>6,132</u>	<u>6,104</u>
Total assets limited as to use	424,303	399,561
Investments temporarily restricted as to use	18,391	16,609
Investments permanently restricted as to use	22,316	21,313
Property, plant and equipment, net	527,792	512,775
Goodwill	44,959	44,973
Other assets	<u>37,615</u>	<u>38,298</u>
Total assets	<u>\$ 1,850,708</u>	<u>\$ 1,532,731</u>

The accompanying notes are an integral part of these consolidated financial statements.

Pinnacle Health System
(And controlled entities and subsidiaries)
Consolidated Statements of Financial Position
Years ended June 30, 2017 and 2016

(in thousands of dollars)

	2017	2016
Liabilities and Net Assets		
Current		
Current portion of long-term debt	\$ 12,342	\$ 34,625
Accounts payable and accrued expenses	85,684	88,847
Accrued salaries, wages and vacation	57,045	62,267
Accrued insurance and retirement costs	20,507	22,737
Due to related parties	525	-
Total current liabilities	<u>176,103</u>	<u>208,476</u>
Long-term liabilities		
Accrued insurance and retirement costs, net of current portion	15,390	14,481
Advances from third-party payors	3,809	3,809
Deferred rental income	165,485	168,650
Long-term debt, net of current portion and unamortized bond issue costs	<u>692,605</u>	<u>401,961</u>
Total long-term liabilities	<u>877,289</u>	<u>588,901</u>
Net assets		
Unrestricted net assets		
Unrestricted net assets Pinnacle Health System	737,440	678,265
Noncontrolling interests in consolidated subsidiary company	<u>1,806</u>	<u>2,059</u>
Total unrestricted net assets	739,246	680,324
Temporarily restricted net assets	35,724	33,717
Permanently restricted net assets	<u>22,346</u>	<u>21,313</u>
Total net assets	<u>797,316</u>	<u>735,354</u>
Total liabilities and net assets	<u>\$ 1,850,708</u>	<u>\$ 1,532,731</u>

The accompanying notes are an integral part of these consolidated financial statements.

Pinnacle Health System
(And controlled entities and subsidiaries)
Consolidated Statements of Operations
Years ended June 30, 2017 and 2016

<i>(in thousands of dollars)</i>	2017	2016
Unrestricted revenues		
Net patient service revenues (net of contractual allowances and discounts)	\$ 1,064,404	\$ 1,049,126
Provision for bad debts	(39,394)	(39,179)
Net patient service revenue less provision for bad debts	1,025,010	1,009,947
Other revenues	42,625	32,253
Net assets released from restrictions used for operations	4,260	3,933
Total unrestricted revenues	1,071,895	1,046,133
Expenses		
Salaries and wages	451,222	408,692
Fringe benefits	103,890	96,850
Professional fees	35,277	42,760
Supplies	170,397	163,502
Purchased services	182,338	175,575
Interest	16,215	18,395
Depreciation and amortization	76,388	74,368
Total expenses	1,035,727	980,142
Income from operations before losses on debt refinancing and pension settlement	36,168	65,991
Loss on debt refinancing	-	(21,723)
Pension settlement loss	-	(1,360)
Income from operations after losses on debt refinancing and pension settlement	36,168	42,908
Nonoperating gains (losses)		
Investment income	21,262	9,823
Loss on disposal of assets	(654)	(1,259)
Realized and unrealized losses on interest rate swap	-	(82)
Nonoperating gain, net	20,608	8,482
Revenues and gains over expenses and losses	56,776	51,390
Change in post-retirement liability	-	(244)
Net assets released from restrictions for purchases of property, plant and equipment	3,551	434
Income/(loss) attributable to and other changes in noncontrolling interests	(1,405)	279
Increase in unrestricted net assets	\$ 58,922	\$ 51,859

The accompanying notes are an integral part of these consolidated financial statements.

Pinnacle Health System
(And controlled entities and subsidiaries)
Consolidated Statements of Changes in Net Assets
Years ended June 30, 2017 and 2016

<i>(in thousands of dollars)</i>	2017	2016
Unrestricted net assets		
Revenues and gains over expenses and losses	\$ 56,776	\$ 51,390
Change in post-retirement liability	-	(244)
Net assets released from restrictions for purchases of property, plant and equipment	3,551	434
Income/(loss) attributable to and other changes in noncontrolling interests	(1,405)	279
Increase in unrestricted net assets	<u>58,922</u>	<u>51,859</u>
Temporarily restricted net assets		
Contributions	4,516	5,217
Net realized and unrealized gains (losses) on investments	5,373	(1,033)
Net assets released from restrictions	(7,882)	(4,612)
Increase/(decrease) in temporarily restricted net assets	<u>2,007</u>	<u>(428)</u>
Permanently restricted net assets		
Contributions	23	6
Net realized and unrealized gains on investments and changes in interests in beneficial trusts	1,698	856
Appropriation of endowment assets for spending	(688)	(646)
Increase in permanently restricted net assets	<u>1,033</u>	<u>216</u>
Increase in net assets	61,962	51,647
Net assets		
Beginning of year	<u>735,354</u>	<u>683,707</u>
End of year	<u>\$ 797,316</u>	<u>\$ 735,354</u>

The accompanying notes are an integral part of these consolidated financial statements.

Pinnacle Health System
(And controlled entities and subsidiaries)
Consolidated Statements of Cash Flows
Years ended June 30, 2017 and 2016

	2017	2016
Cash flows from operating activities		
Change in net assets	\$ 61,962	\$ 51,647
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Net realized and unrealized losses (gains) on investments	(27,982)	(77)
Provision for bad debts	39,394	39,179
Depreciation and amortization	76,388	74,368
Loss on disposal of assets	654	1,259
Change in pension liability	-	(244)
Equity in losses of joint ventures and affiliates	1,936	1,363
Changes in noncontrolling interest in consolidated subsidiary company	1,370	(280)
Loss on pension settlement accounting	-	1,360
Loss on Debt Restructuring	-	6,092
Restricted contributions and investment gain income	4,694	2,821
Amortization of Real Estate Monetization income/expense	(3,028)	(3,028)
Change in current assets and liabilities		
Increase in accounts receivable	(35,472)	(33,278)
Decrease in pledges receivable	2,504	1,323
Increase in inventories, goodwill, and other assets	(2,236)	(6,589)
Decrease in prepaid expenses	1,855	1,160
Decrease (increase) in advances from and amounts due to third-party payors	2,657	(1,643)
(Decrease) increase in accounts payable, accrued expenses, and due to related parties	(2,559)	28,548
(Decrease) increase in accrued salaries, wages and fees and accrued vacation	(5,223)	2,807
(Decrease) increase in accrued insurance and retirement costs	(1,321)	1,218
Net cash provided by operating activities	<u>115,593</u>	<u>168,006</u>
Cash flows from investing activities		
Purchase of property, plant and equipment	(68,887)	(81,327)
Contributions to joint ventures and affiliates	(2,750)	(1,929)
Distributions from joint ventures and affiliates	762	825
Purchase of investments, including assets limited to use	(526,171)	(1,011,340)
Sale of investments, including assets limited as to use	476,743	1,040,350
Proceeds from sale of assets	219	312
Net cash used in investing activities	<u>(120,084)</u>	<u>(53,109)</u>
Cash flows from financing activities		
Repayments of long-term debt	(29,989)	(232,852)
Proceeds from long-term debt	275,000	211,790
Cash paid for financing costs	(40)	(922)
Cash paid to terminate swap agreement	-	(5,308)
Distributions to noncontrolling interests in consolidated subsidiary	(1,370)	280
Restricted contributions and investment income	(4,694)	(2,821)
Net cash provided by (used in) financing activities	<u>238,907</u>	<u>(29,833)</u>
Net increase in cash and cash equivalents	234,416	85,064
Cash and cash equivalents		
Beginning of year	131,817	46,753
End of year	<u>\$ 366,233</u>	<u>\$ 131,817</u>

The accompanying notes are an integral part of these financial statements.

Pinnacle Health System

(And controlled entities and subsidiaries)

Notes to Consolidated Financial Statements

Years ended June 30, 2017 and 2016

1. Description of Organization

Pinnacle Health System ("Parent"), located in Harrisburg, Pennsylvania, consists of the following controlled entities and subsidiaries (collectively the "System").

- United Health Risk, Ltd. ("UHR") is a wholly-owned, for profit captive insurance company domiciled in Bermuda.
- United Central Pennsylvania Reciprocal Risk Retention Group ("RRG") is a wholly-owned, for profit, Vermont captive insurance company.

Pinnacle Health Foundation ("Foundation"), is a tax-exempt, nonprofit corporation, engaged in fund raising activities for the benefit of the controlled entities of the System.

Pinnacle Health Hospitals ("Hospital"), is a tax-exempt, nonprofit, multi-facility acute care hospital.

Pinnacle Health Medical Services ("PHMS"), is a tax-exempt, nonprofit entity engaged in the operation of both primary care and specialty physician practices and providing mental health services.

Pinnacle Health System Obligated Group ("Obligated Group"), consists of the Parent, Hospital, and PHMS.

2. Summary of Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements include the accounts of the Parent and its controlled entities and subsidiaries. The accounts of the controlled entities have been included in the consolidated financial statements to reflect the results of operations of entities under common control. All significant intercompany transactions have been eliminated.

Basis of Financial Reporting

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. These significant estimates include the accounts receivable allowance for doubtful accounts, contractual allowances, due to third party payors, accrued retirement costs and accrued insurance costs. Actual results could differ from those estimates as they are prepared based on certain assumptions which are subject to change.

Reclassification of Prior Year Balances

Certain 2016 balances have been reclassified to conform to the 2017 presentation.

Net Patient Service Revenues

The Hospital has agreements with third party payors that provide for payments to the Hospital at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per diem payments. Net patient service revenues are reported at the estimated net realizable amounts from patients, third-party payors and others for services rendered, including estimated retroactive adjustments

Pinnacle Health System
(And controlled entities and subsidiaries)
Notes to Consolidated Financial Statements
Years ended June 30, 2017 and 2016

under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods for tentative and final settlements.

Other revenues

Other revenues within the consolidated statements of operations include rental revenue, equity income from investments, incentive income, meaningful use income, and various other miscellaneous income.

Allowance for Doubtful Accounts

Accounts receivable are recorded at their estimated net realizable value. The allowance for doubtful accounts is estimated based upon historical collection rates.

Revenues and Gains Over Expenses and Losses

The consolidated statements of operations include revenues and gains over expenses and losses. Changes in unrestricted net assets which are excluded from revenues and gains over expenses and losses, consistent with industry practice, include changes in the post-retirement liability, non-controlling interests and net assets released from donor restrictions to be used for purchases of property, plant and equipment.

Cash and Cash Equivalents

Cash and cash equivalents include cash management funds with original maturities of three months or less, excluding amounts whose use is limited by Board-designation or other arrangements under trust agreements.

Investments

The System follows standards issued by the Financial Accounting Standards Board ("FASB") related to fair value accounting. The standards define fair value, establish a framework for measuring fair value and expand disclosures about fair value measurements. The standards also provide an option to report selected financial assets and liabilities at fair value and establish presentation and disclosure requirements. The fair value option permits the System to elect to measure eligible items at fair value on an instrument-by-instrument basis and then report the unrealized gains and losses for those items in the System's revenues and gains over expenses and losses. The System has chosen to record all of its investments under the fair value option permitted under these standards.

Under these fair value standards, the System is required to categorize and disclose certain assets and liabilities, including investments, at fair value, according to three levels of inputs that may be used to measure fair value:

- Level 1 Quoted prices in active markets for identical assets or liabilities.
- Level 2 Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not always active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date.

Pinnacle Health System
(And controlled entities and subsidiaries)
Notes to Consolidated Financial Statements
Years ended June 30, 2017 and 2016

The following is a description of the System's valuation methodologies for investments carried at fair value. These methods may produce a fair value calculation that may not be reflective of future fair values. Furthermore, while the System believes that its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of investments could result in a different estimate of fair value at the reporting date.

Where quoted prices are available in an active market, investments are classified in Level 1 of the valuation hierarchy. Investments in Level 1 include cash management funds, US Treasury Obligations, exchange-traded equity securities and mutual funds with a published daily net asset value or its equivalent ("NAV"). Investments in Level 2 include financial instruments valued based on quoted market prices for identical securities in markets that are not always active, quoted prices for similar securities in markets that are active, broker or dealer quotations or alternative pricing sources with reasonable levels of price transparency. If quoted prices are not available, other accepted valuation methodologies, such as interest rates, observable yield curves and spreads may be used to determine fair value. This level includes investments in marketable corporate debt securities, U.S. agency debt securities, and other debt securities.

Level 2 also includes investments in certain mutual funds that permit daily redemptions but whose NAV is not published and investments in certain private entities that calculate NAV per share, or its equivalent, if the System has the ability to redeem its investment with the investee at the stated NAV at the measurement date or shortly thereafter. Such investments are considered "alternative investments" and are recorded at fair value based on the NAV as a practical expedient, as provided by the respective general partner or fund administrator of the individual alternative investment funds. There are no unfunded commitments for these investments.

The System believes the fair value of alternative investments in the consolidated statements of financial position is a reasonable estimate of its ownership interest in the alternative investment funds. As part of the System's overall valuation process, management evaluates these third-party methodologies to ensure that they are representative of exit prices in the security's principal markets.

These valuation methods may produce a fair value estimate that may not be reflective of future fair values. Furthermore, while the System believes that its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine fair value could result in a materially different estimate of fair value at the reporting date. See Note 5 for additional details related to the System's investments.

Inventories

Inventories are stated at lower of cost (first-in, first-out method) or market.

Assets Limited as to Use

Assets limited as to use include funds designated by the Board of Directors for capital acquisition and replacement and to support System initiatives, and funds held by trustee related to the debt service reserve fund requirements of the 2009A issue.

Property, Plant and Equipment

Property, plant and equipment is stated at cost, net of accumulated depreciation and amortization. Depreciation is computed on the straight-line method over the estimated useful lives of the assets. Gains and losses resulting from the sale or disposal of property, plant and equipment are included in nonoperating gains (losses). Equipment under capital lease obligations is amortized on the

Pinnacle Health System
(And controlled entities and subsidiaries)
Notes to Consolidated Financial Statements
Years ended June 30, 2017 and 2016

straight-line method over the shorter period of the lease term or the estimated useful life of the equipment. Such amortization is included in depreciation and amortization in the consolidated financial statements.

Investments in and Advances to Joint Ventures and Affiliates

The System, through its controlled entities and subsidiaries, maintains an ownership interest in several joint ventures which provide various clinical and nonclinical services. These investments, with the exception of Affilia, are accounted for under the equity method since the ownership interest is between 20.0% and 50.0% and control is not exercised. The System maintains an 11.8% ownership interest in Affilia and accounts for it on the cost method. Under the terms of the agreements, the System may be required from time to time to make additional cash contributions and provide working capital advances to the joint ventures.

Pledges Receivable

The System records its pledges receivable at the estimated net realizable value, discounted at a rate of 4% at June 30, 2017 and 2016. Pledges receivable in the amounts of \$4,632, \$115, \$20, and \$5 are due in fiscal years 2018, 2019, 2020, and 2021, respectively.

Deferred Financing Costs

Deferred financing costs are amortized over the life of the bonds using the effective interest method and are reported within depreciation and amortization on the consolidated statements of operations. Amortization expense was \$128 and \$156 for the years ended June 30, 2017 and 2016.

Accrued Insurance Costs

Accrued insurance costs consist of estimated liabilities for reported and incurred but not reported claims related to professional liability, workers' compensation and employee health care. The System discounts its liabilities for professional liability and workers' compensation claims. As of June 30, 2017 and 2016, the discount rate was 3.50%.

Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are those whose use by the System has been limited by donors to a specific time period or purpose. Permanently restricted net assets, excluding interest and dividend income earned on such assets which is unrestricted, have been restricted by donors to be maintained by the System or outside beneficial trusts in perpetuity.

Donor Restricted Gifts

Unconditional promises to give cash and other assets to the System are reported at estimated fair value at the date the promise is received. Conditional promises to give and indications of intentions to give are reported at estimated fair value at the date the gift is received. The gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose or restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the consolidated statements of operations as net assets released from restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are reported as unrestricted contributions in the accompanying consolidated financial statements.

Pinnacle Health System
(And controlled entities and subsidiaries)
Notes to Consolidated Financial Statements
Years ended June 30, 2017 and 2016

Income Taxes

The majority of the System is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. On such basis, the exempt entities will not incur any liability for federal income taxes, except for possible unrelated business income.

The System evaluates uncertain tax positions using a two-step approach for recognizing and measuring tax benefits taken or expected to be taken in an unrelated business activity tax return and disclosures regarding uncertainties in tax positions. Increases to expenses of \$391 and \$356 were recorded in the consolidated financial statements for the fiscal years ended June 30, 2017 and June 30, 2016, respectively.

The following entities are not exempt from federal income tax: PHCVI, PHVI, RRG, RHACO, and WSSC, and therefore, may incur liabilities for federal and state income taxes.

Fair Value of Financial Instruments

Financial instruments include cash and cash equivalents, accounts receivable, and investments. The carrying amount reported in the consolidated balance sheets for cash and cash equivalents and accounts receivable, approximates fair value. Investments equal fair value as of June 30, 2017 and 2016.

The undiscounted carrying value of the System's 2009A, 2011A, 2012A, 2016A and 2016B revenue bonds was \$392,363 and \$399,473 at June 30, 2017 and 2016, respectively. The undiscounted fair value of the System's 2009A, 2011A, 2012A, 2016A and 2016B revenue bonds was \$398,288 and \$451,070 at June 30, 2017 and 2016, respectively. During fiscal year ended June 30, 2016, the 2011A bonds were refunded into the new Series 2016A. The fair value of the System's revenue bonds was based on quoted market prices. The System considers the inputs in the valuation process of its long-term debt to be Level 2 in the fair value hierarchy.

Supplemental Disclosure of Cash Flow Information

Interest paid for the years ended June 30, 2017 and 2016 was \$16,419 and \$18,765, respectively.

Income taxes paid in fiscal 2017 and 2016 were \$791 and \$675 respectively.

As of June 30, 2017 and 2016, property, plant and equipment of \$7,085 and \$4,656 were included in accounts payable and accrued expenses.

Accounting for Defined Benefit and Other Postretirement Benefits

The System follows FASB standards over employer's accounting for defined benefit pension and other postretirement plans. Included in these standards is a requirement for an entity to recognize in its balance sheet, the overfunded or underfunded status of its defined benefit postretirement plans measured as the difference between the fair value of the plan assets and the benefit obligation. For a pension plan, this would be the projected benefit obligation; for any other postretirement plan, the benefit obligation would be the accumulated postretirement benefit obligation. These standards also require measurement dates for the pension plan obligation to be measured as of the date of the entity's balance sheet. As of June 30, 2016, no projected benefit obligation remained for the System's defined benefit plan leaving only the supplemental employee retirement plan pension obligation.

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Goodwill

In accordance with accounting guidance, the System performs its annual goodwill impairment test as of March 31. The System assessed certain qualitative factors to determine if it was more likely than not that the fair values of certain segments within PHMS, PHH, PHVI, and PHCVI were less than their carrying amount.

Recently Issued Accounting Pronouncements

In May 2014, the FASB issued a standard on Revenue from Contracts with Customers. This standard implements a single framework for recognition of all revenue earned from customers. This framework ensures that entities appropriately reflect the consideration to which they expect to be entitled in exchange for goods and services by allocating transaction price to identified performance obligations and recognizing revenue as performance obligations are satisfied. Qualitative and quantitative disclosures are required to enable users of consolidated financial statements to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The standard is effective for fiscal years beginning after December 15, 2017. The System is evaluating the impact this will have on the consolidated financial statements beginning in Fiscal Year 2019.

In April 2015, the FASB issued a standard on Simplifying the Presentation of Debt Issuance Costs. This standard requires all costs incurred to issue debt to be presented in the balance sheet as a direct deduction from the carrying value of the associated debt liability. The standard is effective for fiscal years beginning after December 15, 2016. The System early adopted this standard as of June 30, 2016.

In May 2015, the FASB issued a standard on Fair Value Measurement. This standard removes the requirement to categorize within the fair value hierarchy all investments for which fair value is measured. The standard also removes the requirement to make certain disclosures for all investments that are eligible to be measured at fair value. The standard is effective for fiscal years beginning after December 15, 2016. The System has adopted this standard as of June 30, 2017.

In February 2016, the FASB issued a standard on accounting for leases. This standard requires lessees to recognize right-of-use (ROU) assets and related lease liabilities on the balance sheet, at the present value of the lease payments, for all arrangements with terms longer than 12 months. All leases are required to be classified as either finance leases or operating leases, determined by five criteria outlined in the standard. In addition, it is required that ROU assets resulting from finance leases be presented separately from ROU assets resulting from operating leases, either on the face of the balance sheet or in the footnotes. This standard is effective for fiscal years beginning after December 15, 2019. The System is evaluating the impact this will have on the consolidated financial statements beginning in fiscal year 2020.

In August 2016, the FASB issued a standard that affects all not-for-profit entities issuing GAAP basis financial statements. The new standard simplifies and improves how a not-for-profit entity classifies its net assets as well as the information it presents in financial statements and notes about liquidity, financial performance, and cash flows. The standard is effective for fiscal years beginning after December 15, 2017. The System is evaluating the impact this will have on the consolidated financial statements beginning in fiscal year 2019.

"Accounting Standards Update ("ASU") No. 2017-04, *Simplifying the Test for Goodwill Impairment*. The guidance removes Step 2 of the goodwill impairment test, which requires a hypothetical purchase price allocation. A goodwill impairment test will now be the amount by which a reporting unit's carrying value exceeds its fair value, not to exceed the carrying amount of goodwill. All other goodwill impairment guidance will remain largely unchanged. Entities will continue to have the

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option to perform a qualitative assessment to determine if a quantitative impairment test is necessary. The amendments in this update are effective for fiscal years beginning after December 15, 2021.

3. Net Patient Service Revenues

The System has arrangements with third-party payors that provide for payments to the System at amounts different from its established rates. A summary of the payment arrangements with major third-party payors follows:

- **Medicare:** Inpatient acute care and rehabilitation services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors. Medical education and transplant costs related to Medicare beneficiaries are paid based on a cost reimbursement methodology. Outpatient services are paid based on the ambulatory payment classification system. The System is paid for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the System and audits thereof by the Medicare fiscal intermediary.
- **Medicaid:** Inpatient services are rendered to Medicaid program beneficiaries based on a patient classification system similar to Medicare. Outpatient services are paid on a predetermined fee schedule.
- **Capital Blue Cross and Highmark Blue Shield:** Inpatient acute care services and certain outpatient procedures rendered to Blue Cross and Blue Shield program beneficiaries are paid at prospectively determined rates per discharge or per procedure. Other outpatient services are paid at a discount from established rates or fee schedules.
- **Other Payors:** The System has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations and preferred provider organizations. The basis for payment to the System under these agreements includes prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates.

The following schedule represents the System's estimated net patient service revenue, before provision for bad debt expense, aggregated between self-pay and all other third-party payors for the fiscal years ended June 30, 2017 and 2016.

	June 30, 2017		
	Third-Party Payors	Self-Pay	Total All Payors
Patient service revenue (net of contractual allowances and discounts)	\$ 1,048,777	\$ 15,627	\$ 1,064,404

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	June 30, 2016		
	Third-Party Payors	Self-Pay	Total All Payors
Patient service revenue (net of contractual allowances and discounts)	\$ 1,014,561	\$ 34,565	\$ 1,049,126

Revenue received under agreements with several third-party payors is subject to audit and retroactive adjustment. Adjustments related to settlements with third-party payors are included in the determination of revenues and gains over expenses and losses in the year in which such adjustments become known. Such adjustments resulted in a decrease in revenue of approximately \$2,185 in 2017 and an increase in revenue of approximately \$2,768 in 2016, due to the receipt of tobacco settlement payment and changes in general reserves and other miscellaneous estimates.

4. Charity Care and Community Service

The System provides services to patients who meet the criteria of its charity care policy without charge or at amounts less than the established rates. Criteria for charity care consider family income levels, household size and ability to pay. Federal poverty guidelines are used as a means to determine the patient's ability to pay. Individuals who qualify for charity care are either uninsured or are indigent and cannot afford their deductibles or coinsurance amounts.

The System maintains records to identify and monitor the level of charity care and community service it provides. These records include the amount of charges foregone based on established rates for services and the estimated cost of those services furnished under its charity care policy. The System also provides community service and health education programs to the community at large.

Foregone charges associated with charity care service to individuals were approximately \$18,833 and \$24,735 for 2017 and 2016, respectively. The charity care amounts have been excluded from net patient service revenues. The cost incurred to provide such care was approximately \$5,730 and \$7,272 for 2017 and 2016, respectively.

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5. Investments

Investments at June 30, 2017 and 2016, consist of:

	2017	2016
Investments		
U.S. Government obligations	\$ 6,809	\$ 8,641
U.S. Treasuries	23,079	25,203
Corporate obligations	108,399	98,376
Fixed income investments	58,692	22,521
Domestic common stock	723	581
Other domestic equity investments and pooled trusts	31,006	27,046
Foreign equity investments	10,022	6,302
Accrued income	985	972
	<u>\$ 239,715</u>	<u>\$ 189,642</u>
Investments designated for capital projects		
Cash management funds	\$ -	\$ 69
	<u>\$ -</u>	<u>\$ 69</u>
Board-designated funds		
Cash management funds	\$ 19,158	\$ 20,605
U.S. Government obligations	11,822	14,775
U.S. Treasuries	32,950	28,641
Corporate obligations	148,279	146,799
Fixed income investments	73,294	70,991
Domestic common stock	2,567	2,080
Other domestic equity investments and pooled trusts	102,675	90,160
Foreign equity investments	26,217	18,092
Accrued income	1,209	1,314
	<u>\$ 418,171</u>	<u>\$ 393,457</u>

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	2017	2016
Funds held by trustee		
Cash management funds	\$ 645	\$ -
U.S. Government obligations	2,203	2,001
U.S. Treasuries	3,281	4,103
Accrued income	3	-
	<u>\$ 6,132</u>	<u>\$ 6,104</u>
Investments temporarily restricted as to use		
Cash management funds	\$ 552	\$ 504
U.S. Government obligations	-	130
U.S. Treasuries	-	51
Corporate obligations	-	708
Fixed income investments	7,944	7,145
Domestic common stock	139	111
Other domestic equity investments and pooled trusts	7,524	6,361
Foreign equity investments	2,231	1,596
Accrued income	1	3
	<u>\$ 18,391</u>	<u>\$ 16,609</u>
Investments permanently restricted as to use		
Cash management funds	\$ 462	\$ 489
Fixed income investments	6,177	6,386
Domestic common stock	80	66
Other domestic equity investments and pooled trusts	6,374	5,833
Foreign equity investments	1,735	1,431
Interests in beneficial trust	7,488	7,107
Accrued income	-	1
	<u>\$ 22,316</u>	<u>\$ 21,313</u>

Alternative investments, which are nonreadily marketable investments, included in cash management funds, fixed income investments, other domestic equity and pooled trusts and foreign equity investments in the above totaled \$ 206,897 and \$150,972, respectively, at June 30, 2017 and 2016.

Investments designated for capital projects represent unspent proceeds from the 2012A Revenue Bonds as of June 30, 2017 and June 30, 2016, respectively, which are required to be expended on capital projects.

At the time of issuance of the 2009A bonds, the System was required to deposit an amount equal to \$14,584 into a Debt Service Reserve Fund. These funds are invested in qualifying investments and are classified as "Funds held by trustee for debt service fund" on the System's consolidated statements of financial position. There was no Debt Service Reserve Fund requirement associated with the issuance of neither the 2012A bonds nor the 2016A bonds. As part of the 2016A Bond issuance the debt service requirement for the 2009A bonds was reduced to the current level of \$6,132.

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Investment income, on the consolidated statements of operations, including interest and dividend income, realized gains or losses on sales of securities, unrealized gains and losses from certain wholly owned insurance captives, investment partnerships, and unrestricted income from temporarily restricted funds and investments permanently restricted as to use, is comprised of the following for the years ended June 30, 2017 and 2016.

	2017	2016
Investment income		
Interest and dividend income	\$ 9,645	\$ 12,702
Realized and unrealized income/(loss), net	<u>11,617</u>	<u>(2,879)</u>
	<u>\$ 21,262</u>	<u>\$ 9,823</u>

The System's investments are managed by investment managers and bank trust departments. Because the System's investments include a variety of financial instruments, the related values as presented in the consolidated financial statements are subject to various market fluctuations which include changes in the equity markets, interest rate environment and general economic conditions.

The following table represents the fair value measurement levels for all assets and liabilities, recorded at fair value:

		Fair Value Measurement Using	
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)
	June 30, 2017		
Assets			
Cash management funds (1)	\$ 20,817	\$ 20,817	\$ -
U.S. Government obligations (2)	20,834	-	20,834
U.S. Treasuries (2)	59,310	59,310	-
Corporate obligations (3)	256,678	-	256,678
Fixed income investments (3)	146,106	99,683	46,423
Domestic common stock (4)	3,508	3,508	-
Other domestic equity investments and pooled trusts (5)	147,578	5,381	142,197
Foreign equity investments (5)	40,208	21,938	18,270
Funds held in trust by others (6)	7,488	-	7,488
Accrued income	2,198	2,198	-
	<u>\$ 704,725</u>	<u>\$ 212,835</u>	<u>\$ 491,890</u>

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		Fair Value Measurement Using	
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)
	June 30, 2016		
Assets			
Cash management funds (1)	\$ 21,667	\$ 21,667	\$ -
U.S. Government obligations (2)	25,546	-	25,546
U.S. Treasuries (2)	57,997	57,997	-
Corporate obligations (3)	245,884	-	245,884
Fixed income investments (3)	107,045	66,874	40,171
Domestic common stock (4)	2,837	2,837	-
Other domestic equity investments and pooled trusts (5)	129,400	33,099	96,301
Foreign equity investments (5)	27,419	12,997	14,422
Funds held in trust by others (6)	7,107	-	7,107
Accrued income	2,292	2,292	-
	\$ 627,194	\$ 197,763	\$ 429,431

- (1) Cash management funds include investments with original maturities of three months or less, including cash, money market funds, overnight investments and commercial paper. Cash management funds are carried at market value.
- (2) U.S. Treasuries, are individually owned and held through the System's investment portfolio are readily marketable securities and traded on an active market, therefore, they are considered Level 1. U.S. Government obligations are not always traded on an active market, therefore they are considered Level 2.
- (3) Corporate obligations and fixed income securities are direct investments in mutual funds and investment partnerships whose underlying investments include corporate bonds, mortgage backed securities, collateralized mortgage obligations and other fixed income securities. The mutual funds investments are considered Level 1. The investment partnership holdings are valued periodically using NAV per unit and are considered Level 2.
- (4) Domestic common stock includes individual exchange traded equities held. All individual equities are considered Level 1.
- (5) Other domestic equity investments and foreign equity investments are investments in mutual funds and investment partnerships whose underlying investments are individual equity securities. Mutual fund investments are considered Level 1. The investment partnership holdings are valued periodically using NAV per unit and are considered Level 2.

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- (6) Funds held in trust are investments held in trust instruments that have been either donated or received as a testamentary trust from the grantors will, where the System is the beneficiary of the trust instrument. The underlying securities in each trust are typically individually owned fixed income or equity securities or mutual funds which are invested in fixed income or equity securities. The trustee of each trust is responsible for managing and investing the assets in accordance with the trust arrangement. The funds held in trust are classified as Level 2.

As of June 30, 2017 and 2016, certain cash management funds, fixed income securities, other domestic equity investments and pooled trusts and foreign equity investments are considered Level 2 due to being included in investment funds whose NAV is not published, or are investment partnerships where the partners determine the fair value of the investment.

The following table presents cost and fair value of investments for June 30, 2017:

	June 30, 2017 Fair Value	June 30, 2017 Cost
Assets		
Cash management funds	\$ 20,817	\$ 20,817
U.S. Government obligations	20,834	21,371
U.S. Treasuries	59,310	59,000
Corporate obligations	256,678	261,937
Other fixed income investments	146,106	134,615
Domestic common stock	3,508	2,764
Other domestic equity investments and pooled trusts	147,578	122,889
Foreign equity investments	40,208	31,438
Funds held in trust by others	7,488	7,488
	<u>\$ 702,527</u>	<u>\$ 662,319</u>

The following table presents cost and fair value of investments for June 30, 2016:

	June 30, 2016 Fair Value	June 30, 2016 Cost
Assets		
Cash management funds	\$ 21,667	\$ 21,667
U.S. Government obligations	25,546	25,896
U.S. Treasuries	57,997	56,828
Corporate obligations	245,884	248,086
Other fixed income investments	107,045	97,632
Domestic common stock	2,837	2,602
Other domestic equity investments and pooled trusts	129,400	121,234
Foreign equity investments	27,419	24,635
Funds held in trust by others	7,107	7,107
	<u>\$ 624,902</u>	<u>\$ 605,687</u>

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The System applies the valuation standard guidance related to investment funds that do not have a readily determinable fair value. The guidance allows the fair value measurements for these funds to be based on reported NAV if certain criteria are met, and establishes additional disclosures related to these investment funds. Accordingly, the fair values of the following investment funds have been estimated using reported NAV:

Category of Investment	Fair Value	2017	
		Redemption Frequency (if Currently Eligible)	Redemption Notice Period
Equity - Global	\$ 18,269	Monthly	5 - 15 days
Equity - Domestic	142,197	Daily	2 days
Fixed income	34,031	Daily	same day
Fixed income	12,392	Daily	3 to 5 days
Cash Management	7	Daily	same day
	<u>\$ 206,896</u>		

Category of Investment	Fair Value	2016	
		Redemption Frequency (if Currently Eligible)	Redemption Notice Period
Equity - Global	\$ 14,422	Monthly	5-15 days
Equity - Domestic	96,301	Daily	2 days
Fixed income	33,181	Daily	same day
Fixed income	6,990	Daily	3 to 5 days
Cash Management	78	Daily	same day
	<u>\$ 150,972</u>		

6. Goodwill

Accounting standards do not allow goodwill to be amortized but requires that it be tested for impairment annually or more frequently when events or circumstances indicates that the carrying value of a reporting unit more likely than not either exceeds or is less than its fair value.

As a result of the annual goodwill impairment testing, no impairment losses were recognized in the years ended June 30, 2017 and 2016. The factors that management considered in determining whether the fair value of the segments containing goodwill was not less than its carrying amount included industry and market conditions, overall financial performance compared to actual and projected results.

Goodwill was adjusted during FY17 for accounts receivable collected relating to the Walnut Bottom Radiology purchase.

Goodwill recorded on the consolidated statements of financial position at June 30, 2017 and 2016 totaled \$44,959 and \$44,973, respectively.

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The changes in the carrying amount of goodwill for the System for the years ended June 30, 2017 and 2016 are as follows:

Balance as of June 30, 2015	\$ 43,248
Goodwill additions during the year	<u>1,725</u>
Balance as of June 30, 2016	44,973
Adjustments to Goodwill during the year	<u>(14)</u>
Balance as of June 30, 2017	<u>\$ 44,959</u>

7. Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are available for the following purposes at June 30, 2017 and 2016:

	2017	2016
Health care services		
Purchase of equipment	\$ 24,170	\$ 22,144
Health education	9,531	9,787
Research and development	425	411
Indigent care	<u>1,598</u>	<u>1,375</u>
	<u>\$ 35,724</u>	<u>\$ 33,717</u>

In August 2008, FASB updated ASC 958-205, which requires enhanced disclosures about an organization's endowment funds. Although the state of Pennsylvania did not enact the Uniform Prudent Management of Institutional Funds "UPMIFA" Act, the System has disclosed its changes in net asset composition in accordance with ASC 958-205.

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Changes to the reported amount of the System's endowments as of June 30th are as follows:

	Permanently Restricted
Net assets, June 30, 2015	\$ 13,402
Investment return	
Investment income	2,976
Net depreciation (realized and unrealized)	(1,533)
Total investment return	1,443
New gifts	6
Appropriation of endowment assets for spending	(645)
Net assets, June 30, 2016	14,206
Investment return	
Investment income	528
Net appreciation (realized and unrealized)	789
Total investment return	1,317
New gifts	23
Appropriation of endowment assets for spending	(688)
Net assets, June 30, 2017	\$ 14,858

Permanently restricted net assets include investments held in perpetuity by others for the benefit of the Hospital of \$7,488 and \$7,107 and investments to be held in perpetuity by the Foundation for the benefit of the Hospital of \$14,858 and \$14,206, respectively, at June 30, 2017 and 2016, respectively. The income from these investments is expendable to support health care services and is reported as either a temporary restricted fund balance or as non-operating income in the consolidated statements of operations depending upon the donor instructions.

8. Property, Plant and Equipment

Property, plant and equipment at June 30, 2017 and 2016 consists of:

	2017	2016
Land	\$ 14,712	\$ 14,712
Land improvements	12,648	12,385
Leasehold Improvements	39,134	34,382
Building and building improvements	658,342	620,536
Equipment	491,440	433,374
	<u>1,216,276</u>	<u>1,115,389</u>
Accumulated depreciation and amortization	(703,883)	(644,803)
Construction in progress	15,399	42,189
	<u>\$ 527,792</u>	<u>\$ 512,775</u>

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Depreciation expense was \$75,841 and \$73,794 for the years ended June 30, 2017 and 2016, respectively. Accumulated amortization for equipment under capital lease obligations was \$28,288 and \$26,944 at June 30, 2017 and 2016, respectively. Construction purchase commitments at June 30, 2017 and 2016 have been disclosed in Note 14.

9. Long-Term Debt

Long-term debt at June 30, 2017 and 2016 consists of:

	June 30, 2017		
	(Unamortized Issue Costs / Discounts) and		
	Principal	Premiums	Total
Dauphin County General Authority, Health System Revenue Bonds, Series 2009A, due at various dates through 2036 with a fixed interest rate that varies at intervals specified in the bond document between 3.00% to 6.00% and an average rate of 5.98% at June 30, 2017.	\$ 53,580	\$ (2,384)	\$ 51,196
Dauphin County General Authority, Health System Revenue Bond, Series 2012A, due at various dates through 2042 with a fixed interest rate that varies at intervals specified in the bond document between 3.75% to 5.00% and an average rate of 4.9% at June 30, 2017.	128,210	5,785	133,995
Dauphin County General Authority, Health System Revenue Bond, Series 2016A, due at various dates through 2036 with a fixed interest rate that varies at intervals specified in the bond document between 3.00% to 5.00% and an average rate of 4.4% June 30, 2017.	100,875	12,657	113,532
Dauphin County General Authority, Health System Revenue Bond, Series 2016B, due at various dates through 2041 with a variable interest rate plus 25 basis points. The rate was 1.29% at June 30, 2017	91,130	(291)	90,839
Wells Fargo Bank, National Association, bank loan due July 2, 2018 with a variable interest rate plus 30 basis points. The rate was 1.53% at June 30, 2017.	275,000	(38)	274,962
Various capital leases and loans at various interest rates	40,423	-	40,423
	689,218	15,729	704,947
Less: Current portion	12,342	-	12,342
	<u>\$ 676,876</u>	<u>\$ 15,729</u>	<u>\$ 692,605</u>

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	June 30, 2016		
	(Unamortized Issue Costs / Discounts) and Premiums		
	Principal		Total
Dauphin County General Authority, Health System Revenue Bonds, Series 2009A, due at various dates through 2036 with a fixed interest rate that varies at intervals specified in the bond document between 3.00% to 6.00% and an average rate of 5.96% and 5.92% at June 30, 2016.	\$ 54,525	\$ (2,435)	\$ 52,090
Dauphin County General Authority, Health System Revenue Bond, Series 2012A, due at various dates through 2042 with a fixed interest rate that varies at intervals specified in the bond document between 3.75% to 5.00% and an average rate of 4.9% at June 30, 2016.	128,210	5,735	133,945
Dauphin County General Authority, Health System Revenue Bond, Series 2016A, due at various dates through 2036 with a fixed interest rate that varies at intervals specified in the bond document between 3.00% to 5.00% and an average rate of 4.2% at June 30, 2016.	105,195	12,709	117,904
Dauphin County General Authority, Health System Revenue Bond, Series 2016B, due at various dates through 2041 with a variable interest rate plus 45 basis points. The rate was 0.76% at June 30, 2016.	92,910	(303)	92,607
Bank Note due June 29, 2017 with interest equal to a variable rate plus 75 basis points. The rate was 1.20% at June 30, 2016.	22,500	-	22,500
Various capital leases and loans at various interest rates	17,540	-	17,540
	420,880	15,706	436,586
Less: Current portion	34,625	-	34,625
	<u>\$386,255</u>	<u>\$ 15,706</u>	<u>\$ 401,961</u>

Lines of Credit

At June 30, 2017, the System had an unused line of credit of \$15,000, which bore interest at variable rates (Daily One Month Libor plus 75 basis points). As of June 30, 2016, there was no line of credit in place.

Bank Note

On June 29, 2015, the System obtained a \$45,000 taxable two year term bank loan through a local bank which was primarily used to fund the pension plan termination. The interest rate reset monthly and equaled the 1 month Libor Index plus a margin of 75 basis points. The interest rate did not exceed the maximum rate permitted by law. The interest rate was 1.20% at June 30, 2016. The loan was paid in full as of June 30, 2017.

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Revenue Bonds

The Series 2009A, 2011A, and 2012A Bonds were issued under Master Trust Indentures, which contained certain covenants of the Obligated Group, including, but not limited to, covenants regarding the payment of debt service on all the Master Notes and Master Guarantees issued thereunder, rates and charges, liquidity, indebtedness, transfers of assets, the incurrence of additional indebtedness, granting of security interests in property and a pledge of gross receipts to collateralize such indebtedness.

In June 2016 Series 2016A Revenue Bonds were issued in the aggregate principal amount of \$105,195. The proceeds of these bonds were used, together with other available funds, to advance refund portions of the Series 2009A Bonds previously issued, and to pay costs of issuance for the series 2016A Bonds and the refunding of such previously issued bonds. As part of the issuance, the 2009 Master Indenture was amended and restated in its entirety, including the termination of mortgages against certain hospital facilities under the 2009 Master Indenture. The 2016A Bonds are secured on a parity basis by the gross revenues of the Obligated Group members pledged under the restated Master Indenture, and a debt service reserve fund was not required.

The Series 2016B Revenue Bonds were issued in June 2016 in the principal amount of \$92,910. Proceeds of these bonds were used to refund the then outstanding Series 2011A Bonds and to pay issuance costs. The bond is also secured by the gross revenues of the Obligated Group on a parity basis. A Continuing Covenants Agreement was also executed as part of the bond issuance committing the Obligated Group to certain covenants including but not limited to payment of debt service on the bond and the maintenance of a debt service coverage ratio.

As a result of both refundings, a loss on debt refinancing of \$21,723 was incurred in fiscal year 2016.

Bank Loan

On June 30, 2017, the System obtained a \$275,000, 367 day bank loan with a maturity date of July 2, 2018. This loan will be used to finance the purchase of four hospitals from Community Health System. The interest rate is equal to the 1 month Libor plus a margin of 30 basis points and was 1.53% as of June 30, 2017.

A summary of scheduled principal repayments on long-term debt is as follows:

Fiscal Year	Debt	Capital Leases and Loans	Total
2018	\$ 7,050	\$ 5,292	\$ 12,342
2019	282,385	4,971	287,356
2020	7,765	1,819	9,584
2021	8,180	1,680	9,860
2022	8,645	1,548	10,193
Thereafter	334,770	25,113	359,883
	<u>\$ 648,795</u>	<u>\$ 40,423</u>	<u>\$ 689,218</u>

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(And controlled entities and subsidiaries)
Notes to Consolidated Financial Statements
Years ended June 30, 2017 and 2016

10. Retirement Plans

Defined benefit plan

The System sponsored a noncontributory defined benefit pension plan (the “Plan”) covering substantially all of its employees and employees of certain wholly owned subsidiaries employed prior to January 1, 2007. Effective December 31, 2006, the System amended the Plan by freezing benefits for all participants. The final IRS determination letter was received in fiscal year 2017 which terminated this plan.

During fiscal year, the System recognized final actuarially determined total benefit payments of \$1,256. As of June 30, 2017 and 2016, the Plan had \$0 assets and \$0 benefit obligations.

Defined contribution plan

The System sponsors defined contribution plans covering substantially all of its employees and employees of certain wholly and partially owned subsidiaries. The plans allow participating employees to contribute a percentage of their annual salary subject to current Internal Revenue Service (“IRS”) limitations. Employee contributions are matched by the System at various percentages. The System’s contributions to the savings plans were \$16,960 and \$15,616 for 2017 and 2016, respectively.

Other retirement plans

The System sponsors a nonqualified deferred compensation plan covering certain employees of PHCVI. The plan allows participating employees to defer a percentage of their compensation during the plan year as well as allowing company contributions subject to plan limitations. The System’s contributions to the plan are \$438 and \$362 for 2017 and 2016, respectively.

Other benefits provided by the System are a defined benefit postretirement health plan and a defined benefit postretirement life plan both covering employees of the former Capital Area Health Foundation who retired by December 31, 1996. The plan is unfunded and the Hospital has recorded a liability of \$5,801 and \$6,268 at June 30, 2017 and 2016, respectively.

The Parent sponsors a supplemental noncontributory defined benefit pension plan covering certain executives of the controlled entities of the System. The supplemental plan is unfunded and the Hospital has recorded a liability of \$3,015 and \$3,286 at June 30, 2017 and 2016, respectively.

Pinnacle Health System
(And controlled entities and subsidiaries)
Notes to Consolidated Financial Statements
Years ended June 30, 2017 and 2016

The following is the status of the various employee benefit plans as of the measurement dates of June 30, 2017 and 2016.

	Supplemental Pension Benefits		Other Postretirement Benefits	
	2017	2016	2017	2016
Change in benefit obligations				
Benefit obligation at beginning of year	\$ 3,286	\$ 4,008	\$ 6,268	\$ 5,438
Service cost	-	-	144	87
Interest cost	98	156	225	231
Participant contributions	-	-	23	23
Benefit payments from assets	-	-	(254)	(254)
Benefit payments from plan	(220)	(1,472)	-	-
Actuarial (gain) loss	(149)	594	(605)	743
Benefit obligation at end of year	<u>3,015</u>	<u>3,286</u>	<u>5,801</u>	<u>6,268</u>
Change in plan assets				
Fair value of plan assets at beginning of year	-	970	-	-
Actual return on plan assets	-	23	-	-
Participant contributions	-	-	23	23
Employer contributions	220	479	231	231
Benefit payments	(220)	(1,472)	(254)	(254)
Fair value of plan assets at end of year	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Funded status	<u>\$(3,015)</u>	<u>\$(3,286)</u>	<u>\$ (5,801)</u>	<u>\$(6,268)</u>
Amounts recognized in the balance sheet consist of				
Current accrued retirement costs	\$ (217)	\$ (216)	\$ (231)	\$ (263)
Long-term accrued retirement costs	(2,798)	(3,070)	(5,570)	(6,005)
	<u>\$(3,015)</u>	<u>\$(3,286)</u>	<u>\$ (5,801)</u>	<u>\$(6,268)</u>
Amounts recognized in net assets consist of				
Unrecognized net actuarial loss	\$ 278	\$ 437	\$ 179	\$ 804
	<u>\$ 278</u>	<u>\$ 437</u>	<u>\$ 179</u>	<u>\$ 804</u>

The accumulated benefit obligation for pension benefits at June 30, 2017 and 2016 is \$3,015 and \$3,286, respectively.

Pinnacle Health System
(And controlled entities and subsidiaries)
Notes to Consolidated Financial Statements
Years ended June 30, 2017 and 2016

The assumptions used in the measurement of the System's net periodic benefit obligations are shown in the following table:

	Supplemental Pension Benefits		Other Postretirement Benefits	
	2017	2016	2017	2016
Weighted-average assumptions at the years ending June 30				
Discount rate	3.44 %	3.09 %	3.91 %	3.66 %
Rate of compensation increase	N/A	N/A	2.50 %	2.50 %

The following table provides the components of net periodic benefit cost for the years ended June 30, 2017 and 2016:

	Supplemental Pension Benefits		Other Postretirement Benefits	
	2017	2016	2017	2016
Net periodic benefit cost				
Service cost	\$ -	\$ -	\$ 144	\$ 87
Interest cost	98	156	225	231
Expected return on plan assets	-	(11)	-	-
Amortization of net actuarial loss	9	49	20	-
Loss on pension settlement	-	806	-	-
Net periodic benefit cost	<u>107</u>	<u>1,000</u>	<u>389</u>	<u>318</u>
Other Changes in Plan Assets and Benefit Obligations recognized in unrestricted net assets				
Net (gain) loss	(149)	582	(605)	742
Amortization of net (gain)	<u>(9)</u>	<u>(49)</u>	<u>(20)</u>	<u>-</u>
Total (gain) loss recognized in unrestricted net assets	<u>(158)</u>	<u>533</u>	<u>(625)</u>	<u>742</u>
Total recognized in net periodic benefit cost and unrestricted net assets	<u>\$ (51)</u>	<u>\$ 1,533</u>	<u>\$ (236)</u>	<u>\$ 1,060</u>

The estimated net loss and prior service cost that will be amortized from unrestricted net assets into net periodic benefit cost over the next fiscal year are \$0 and \$0, respectively, for the Plan and \$0 and \$0, respectively for the Other Postretirement Benefits Plan.

Pinnacle Health System
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Notes to Consolidated Financial Statements
Years ended June 30, 2017 and 2016

The assumptions used in the measurement of the System's benefit cost are shown in the following table:

(net periodic benefit cost)	Supplemental Pension Benefits		Other Postretirement Benefits	
	2017	2016	2017	2016
Weighted-average assumptions at the years ending June 30				
Discount rate*	3.09%	3.18 %	3.66%	4.35%
Expected return on plan assets**	N/A	3.00 %	N/A	N/A
Rate of compensation increase	N/A	N/A	2.50%	2.50%

* The rate was 4.36% for participants assumed to elect a lump sum payment and 3.00% for participants assumed to be paid on annuity in fiscal year 2016. The discount rate used for the Supplemental Post Retirement Plan was 3.09% and 4.00% in fiscal years 2017 and 2016, respectively. The weighted average discount rate for the Pension Plan and Supplemental Post Retirement Plan combined was 3.18% in fiscal year 2016.

** The rate was 3.00% in fiscal year 2016 and remained the same until all Plan assets were distributed.

A 7.20% annual rate of increase in the per capita costs of covered health care benefits was assumed for 2017 gradually decreasing to 4.50% by the year 2023.

Sensitivity Analysis, Postretirement Benefits

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plan. At June 30, 2017, a one-percentage-point change in assumed health care cost trend rates would have the following effects:

	One-Percentage-Point	
	Increase	Decrease
Effect on total of service and interest cost components	\$ 2	\$ (2)
Effect on postretirement benefit obligation	36	(33)

Pinnacle Health System
(And controlled entities and subsidiaries)
Notes to Consolidated Financial Statements
Years ended June 30, 2017 and 2016

Expected benefit payments for the years ended June 30 are as follows:

	Supplemental Pension Benefits *	Other Benefits
2018	\$ 218	\$ 230
2019	218	236
2020	218	242
2021	218	248
2022	217	253
Thereafter	1,049	1,319

* Supplemental pension benefits relate to supplemental executive retirement plan payments only.

As of June 30, 2017 and 2016, cash management funds were \$0.

11. Insurance Coverage

The System uses captives, self-insurance, and commercial insurance to insure system-wide professional and business risks. The System's contributions to captives and self-insured liabilities are based on actuarial assumptions and methodologies. Management believes insurance accruals are adequate as of June 30, 2016. Primary professional and general liability insurance is provided by the System's wholly owned captive insurance company, RRG. Professional liability is underwritten on a claims-made policy meeting statutory limit requirements. The System is required to purchase excess professional liability insurance from the state insurance fund known as Mcare. Total statutory primary limits of \$2.5M are required for licensed health care entities. Coverage for General Liability is written under an occurrence form with \$1M in limits. Statutory limits have not changed since 2003.

The System utilizes an off-shore captive to underwrite underlying deductibles and exposure not insurable in the commercial market at competitive rates.

The System purchases commercial insurance for Excess Professional and Umbrella liability in conjunction with captive and layered commercial participation with limits of \$35M. Other commercial insurance is provided for Directors and Officers with limits of \$20M; All Risk property coverage; Fiduciary Coverage \$10M; Cyber Coverage \$5M; Business Auto; Ambulance Service; and Excess Workers' Compensation.

The System utilizes two national insurance brokers to market coverage, provide actuarial service, to assess adequacy of insurance limits, and to assist in developing risk finance strategy.

12. Significant Concentrations of Credit Risk

The System's operations are located in Harrisburg, Pennsylvania. Its primary service area includes Dauphin, Cumberland, Perry and parts of Lebanon and York counties. Financial instruments which subject the System to concentrations of credit risk consist primarily of cash and cash equivalents, investments, and accounts receivable.

Pinnacle Health System
(And controlled entities and subsidiaries)
Notes to Consolidated Financial Statements
Years ended June 30, 2017 and 2016

The System typically maintains cash and cash equivalents and temporary investments in banks. As of July 21, 2010, cash and cash equivalents and temporary investments are insured by the FDIC up to a limit of \$250.

The System grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of receivables from patients and third-party payors at June 30, 2017 and 2016 was as follows:

	2017	2016
Medicare*	40 %	26 %
Medicaid	15 %	10 %
Capital Blue Cross/Highmark Blue Shield*	16 %	23 %
HMO	13 %	6 %
Other third-party payors	6 %	13 %
Patients	10 %	22 %
	100 %	100 %

* Prior year percentages grouped Capital Blue Cross (CBC) and Highmark Blue Shield (Highmark) medicare plans under the CBC and Highmark category. Fiscal year 2017 includes these plans under Medicare.

13. Commitments and Contingencies

Operating Leases

The System has entered into various lease arrangements for equipment, office space, and storage. Lease expense was \$29,881 and \$27,709 for the years ended June 30, 2017 and 2016, respectively. As of June 30, 2017, the System's lease commitments for the years ended June 30, 2018, 2019, 2020, 2021 and 2022 are \$31,332, \$30,455, \$26,839, \$26,349, and \$24,573, respectively, and \$119,213 in the aggregate for the years thereafter.

Loan Commitment and Debt Guarantees

As of June 30, 2017 and 2016 there was no outstanding debt guaranteed.

Purchase Commitments

The System has outstanding purchase commitments related to various projects of approximately \$8,038 and \$14,671 at June 30, 2017 and 2016, respectively.

Equity Contribution Commitments

The System is committed to provide equity contributions to PPI to fund any losses. During 2017 and 2016, the System provided equity contributions of \$2,750 and \$3,000, respectively.

Regulatory Compliance

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. The System believes that it is in compliance with all applicable laws and regulations through the years ended June 30, 2017 and 2016. Compliance with such laws and regulations can be subject to government review and interpretation as well as significant regulatory action including fines, penalties, and exclusion from the Medicare and Medicaid program.

Pinnacle Health System
(And controlled entities and subsidiaries)
Notes to Consolidated Financial Statements
Years ended June 30, 2017 and 2016

Lease/Leaseback Arrangements

The Hospital entered into two long term lease/leaseback arrangements with a real estate investor counterparty in September and December of 2014 (the Transaction). The Hospital entered into long term Master (55 year term) leases of eight (8) properties owned by the Hospital and has leased back the properties from ARC VII on various terms that qualify the leases as operating leases under generally accepted accounting principles. The transaction resulted in deferred revenue of \$174,060 and settlement costs of \$7,677 which are being amortized over 55 years. Deferred rental income of \$3,165 and \$3,165 was recognized as other income and \$136 and \$136 of deferred settlement expenses are included in purchased services for the years ended June 30, 2017 and 2016, respectively. In addition, rent expense of \$11,453 and \$11,006 related to the lease back of the properties is included in purchased services for the years ended June 30, 2017 and 2016, respectively.

14. Functional Expenses

The System provides general health care services to residents within its geographical area. Expenses related to providing these services for the years ended June 30, 2017 and 2016 are approximately as follows:

	2017	2016
Health care services	\$ 834,730	\$ 790,441
General and administrative	<u>200,997</u>	<u>189,701</u>
	<u>\$ 1,035,727</u>	<u>\$ 980,142</u>

15. Litigation

The System is subject to various legal commitments and contingencies arising in the ordinary course of business. There is no litigation or proceeding to the knowledge of System management that is pending or threatened against any Member of the Obligated Group except litigation or proceedings in which the estimated probable ultimate recoveries and the costs and expenses of defense, in the opinion of System management, (i) will be entirely within applicable commercial insurance policy limits (subject to applicable deductibles) or are not in excess of the total available reserves held under applicable self-insurance programs, or (ii) will not have a material adverse effect on the operations or financial condition of the Obligated Group, taken as a whole. The System operates in a highly litigious industry. As a result, various lawsuits, claims and regulatory proceedings have been instituted or asserted against it from time to time. Pinnacle Health has knowledge of certain pending suits against certain of System entities that have arisen in the ordinary course of business. In the opinion of management, the System maintains adequate insurance and/or other financial reserves to cover the estimated potential liability for damages in these cases, or, to the extent such liability is uninsured, adverse decisions will not have a material adverse effect on the financial position or operations of the System.

Pinnacle Health System
(And controlled entities and subsidiaries)
Notes to Consolidated Financial Statements
Years ended June 30, 2017 and 2016

16. Affiliations

In May 2015, the System entered into a strategic affiliation agreement with The Pennsylvania State University and its wholly-owned subsidiary, Penn State Health to form a comprehensive nonprofit health care system. The parties mutually agreed to terminate the strategic affiliation agreement on October 18, 2016.

In July 2017, the System entered into an integration and affiliation agreement with the University of Pittsburgh Medical Center (UPMC) as noted in footnote 17 below.

17. Subsequent Events

The System evaluated subsequent events through September 12, 2017, which is the date the financial statements are considered widely distributed. Management reviews for and identifies subsequent events through the approval of the financial statements. The following subsequent events were identified:

Community Health System, Inc.

On March 14, 2017, the Parent (PHS) entered into an asset purchase agreement with Community Health Systems, Inc. (CHS), a corporation, to purchase substantially all of the assets which are directly or indirectly related to, necessary for, or used in connection with, the operation of the Hospitals of Memorial Hospital in York, PA; Lancaster Regional Medical Center, Lancaster, PA and Heart of Lancaster Regional Medical Center, Lititz, PA; and Carlisle Regional Medical Center in Carlisle, PA. The transaction was completed on July 1, 2017. Refer to Note 9.

Effective July 1, 2017, the Parent entered into an Information Technology Transition Services agreement with Community Health Systems Professional Services Corporation, LLC (CHSPSC), a Delaware limited liability company to provide for an orderly transition of the management and operation of the facilities. CHSPSC will provide certain Information Services to the entities acquired in the asset purchase agreement dated March 14, 2017.

Also effective July 1, 2017, the Parent entered into a Transition Services Agreement with CHSPSC to purchase billing and accounts receivable services until such time when services become available on the Parent's EPIC platform.

AllBetterCare

On June 30, 2017 PHVI entered into an asset purchase agreement to purchase substantially all of the assets and ongoing operations of ERgency Associates LLC, a Pennsylvania limited liability company, d/b/a AllBetterCare ("ERgency"). The seller is the licensed operator of three facilities that provide urgent care and related health services located at 1175 Walnut Bottom Road, Carlisle, PA 17015 (the "Carlisle Facility"), 2323 Linglestown Road, Harrisburg, PA 17110 (the "Harrisburg Facility"), and 6481 Carlisle Pike, Mechanicsburg, PA 17050 (the "Mechanicsburg Facility". The closing for this transaction occurred on September 1, 2017.

Pinnacle Health ABC, LLC entered into a management services agreement with ERgency Associates, LLC (Service Provider) for physicians to provide day to day clinical, administrative and management services to the three newly acquired urgent care centers effective September 1, 2017. Contemporaneously with the execution of this Agreement, the parties have entered into a Professional Services Agreement pursuant to which Service Provider will provide professional services to patients at the three new facilities.

Pinnacle Health System
(And controlled entities and subsidiaries)
Notes to Consolidated Financial Statements
Years ended June 30, 2017 and 2016

Medcare Equipment Company

On July 26, 2017 PHVI and MedCare Equipment Company, LLC (MEC) signed an operating agreement to form a new joint venture, MedCare Susquehanna Valley, LLC to own, invest in, manage and operate home medical equipment and respiratory therapy services business and related services for patients in and around the central Pennsylvania area. PHVI will hold 75% ownership and MEC will own the remaining 25%.

Hanover HealthCare PLUS

The Parent and Hanover HealthCare PLUS, the parent organization of Hanover Hospital, signed a binding affiliation agreement on July 21, 2017. Pursuant to the Affiliation Agreement, the Parent and Hanover propose a plan of integration and affiliation pursuant to which the Parent would become the parent and sole member of Hanover HealthCare PLUS. The parties completed the affiliation on September 1, 2017.

University of Pittsburgh Medical Center

The Parent entered into Integration and Affiliation Agreement dated July 28, 2017 with UPMC pursuant to which the Parent and its affiliates, including the Obligated Group, will be integrated into the UPMC health care system. The parties completed the affiliation on September 1, 2017.



**Report of Independent Auditors
on Accompanying Consolidating Information**

To the Board of Directors of Pinnacle Health System:

We have audited the consolidated financial statements of Pinnacle Health System and its controlled entities and subsidiaries (collectively, the "System") as of June 30, 2017 and for the year then ended and our report thereon appears on pages 2-6 of this document. That audit was conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The consolidating information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The consolidating information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves and other additional procedures, in accordance with auditing standards generally accepted in the United States of America. In our opinion, the consolidating information is fairly stated, in all material respects, in relation to the consolidated financial statements taken as a whole. The consolidating information is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position, results of operations and changes in net assets of the individual companies and is not a required part of the consolidated financial statements. Accordingly, we do not express an opinion on the financial position, results of operations and changes in net assets of the individual companies.

PricewaterhouseCoopers LLP 22P

September 12, 2017

Pinnacle Health System
(And controlled entities and subsidiaries)
Consolidating Statement of Financial Position
Year Ended June 30, 2017

Schedule I

<i>(in thousands of dollars)</i>	Parent	Hospital	PHMS	Eliminations	Obligated Group	Foundation	Other	Eliminations	Consolidated Balances
Assets									
Current									
Cash and cash equivalents	\$ 39,588	\$ 301,203	\$ 13,115	\$ -	\$ 353,906	\$ 1,786	\$ 10,541	\$ -	\$ 366,233
Accounts receivable, patient	-	104,051	2,763	-	106,814	-	3,239	-	110,053
Accounts receivable, other	496	10,779	948	-	12,223	-	4,085	(112)	16,196
Pledges Receivable	-	4,350	-	-	4,350	4,350	-	(4,350)	4,350
Investments	125,875	83,808	-	-	209,683	-	30,032	-	239,715
Inventories	-	19,922	709	-	20,631	-	366	-	20,997
Prepaid expenses	5,062	9,068	737	-	14,867	-	984	-	15,851
Due from third parties	-	1,937	-	-	1,937	-	-	-	1,937
Due from related parties	115,592	-	-	-	115,592	-	-	(115,592)	-
Total current assets	286,613	535,118	18,272	-	840,003	6,136	49,247	(120,054)	775,332
Assets limited as to use									
Board-designated funds	-	363,916	-	-	363,916	54,255	-	-	418,171
Funds held by trustee for debt service fund	-	6,132	-	-	6,132	-	-	-	6,132
Total assets limited as to us	-	370,048	-	-	370,048	54,255	-	-	424,303
Temporarily restricted funds		15,465		-	15,465	18,391	-	(15,465)	18,391
Investments permanently restricted as to use	-	22,346	-	-	22,346	14,828	-	(14,858)	22,316
Property, plant and equipment, net	3,165	505,503	10,307	-	518,975	-	8,817	-	527,792
Goodwill	-	2,026	6,318	-	8,344	-	36,615	-	44,959
Other assets	(38,985)	29,791	1,040	-	(8,154)	-	1,272	44,497	37,615
Total assets	\$ 250,793	\$ 1,480,297	\$ 35,937	\$ -	\$ 1,767,027	\$ 93,610	\$ 95,951	\$ (105,880)	\$ 1,850,708

The consolidating supplemental schedules have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. This is the same basis of presentation as the Pinnacle Health System Consolidated Financial Statements.

Pinnacle Health System
(And controlled entities and subsidiaries)
Consolidating Statement of Financial Position
Year Ended June 30, 2017

Schedule I

<i>(in thousands of dollars)</i>	Parent	Hospital	PHMS	Eliminations	Obligated Group	Foundation	Other	Eliminations	Consolidated Balances
Liabilities and Net Assets									
Current									
Current portion of long-term debt	\$ -	\$ 11,933	\$ 334	\$ -	\$ 12,267	\$ -	\$ 187	\$ (112)	\$ 12,342
Accounts payable and accrued expenses	7,193	72,056	3,867	-	83,116	617	2,551	(600)	85,684
Accrued salaries, wages and vacation	10,176	29,853	11,582	-	51,611	-	5,434	-	57,045
Accrued insurance and retirement costs	-	6,733	-	-	6,733	-	13,774	-	20,507
Due to related parties	-	-	-	-	-	1,390	114,278	(115,143)	525
Total current liabilities	17,369	120,575	15,783	-	153,727	2,007	136,224	(115,855)	176,103
Long-term									
Accrued insurance and retirement costs, net of current portion	-	15,390	-	-	15,390	-	-	-	15,390
Advances from third-party payors	-	3,809	-	-	3,809	-	-	-	3,809
Deferred Rental Income	-	165,485	-	-	165,485	-	-	-	165,485
Long-term debt, net of current portion and unamortized bond issue costs	-	688,778	3,492	-	692,270	-	335	-	692,605
Total long-term liabilities	-	873,462	3,492	-	876,954	-	335	-	877,289
Net assets									
Unrestricted net assets									
Unrestricted net assets Pinnacle Health System	233,424	444,099	16,662	-	694,185	41,021	(42,414)	44,648	737,440
Noncontrolling interests in consolidated subsidiary company	-	-	-	-	-	-	1,806	-	1,806
Total unrestricted net assets	233,424	444,099	16,662	-	694,185	41,021	(40,608)	44,648	739,246
Temporarily restricted net assets	-	19,815	-	-	19,815	35,724	-	(19,815)	35,724
Permanently restricted net assets	-	22,346	-	-	22,346	14,858	-	(14,858)	22,346
Total net assets	233,424	486,260	16,662	-	736,346	91,603	(40,608)	9,975	797,316
Total liabilities and net assets	\$ 250,793	\$ 1,480,297	\$ 35,937	\$ -	\$ 1,767,027	\$ 93,610	\$ 95,951	\$ (105,880)	\$ 1,850,708

The consolidating supplemental schedules have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. This is the same basis of presentation as the Pinnacle Health System Consolidated Financial Statements

Pinnacle Health System
(And controlled entities and subsidiaries)
Consolidating Statement of Operations
Year Ended June 30, 2017

Schedule II

<i>(in thousands of dollars)</i>	Parent	Hospital	PHMS	Eliminations	Obligated Group	Foundation	Other	Eliminations	Consolidated Balances
Unrestricted revenues									
Net patient service revenues	\$ -	\$ 943,846	\$ 80,135	\$ -	\$ 1,023,981	\$ -	\$ 40,423	\$ -	\$ 1,064,404
Provision for bad debts	-	(33,232)	(2,648)	-	(35,880)	-	(3,514)	-	(39,394)
Net patient service revenue less provision for bad debts	-	910,614	77,487	-	988,101	-	36,909	-	1,025,010
Other revenues	87,521	29,932	15,314	(118,890)	13,877	243	16,719	11,786	42,625
Net assets released from restrictions used for operations	55	2,633	1,365	-	4,053	207	-	-	4,260
Total unrestricted revenues	87,576	943,179	94,166	(118,890)	1,006,031	450	53,628	11,786	1,071,895
Expenses									
Salaries and wages	47,254	283,955	80,771	-	411,980	-	39,237	5	451,222
Fringe benefits	24,742	57,396	14,737	(237)	96,638	-	7,267	(15)	103,890
Management and support	-	98,142	10,703	(101,833)	7,012	-	3,551	(10,563)	-
Professional fees	11,585	30,248	3,060	(10,659)	34,234	22	1,021	-	35,277
Supplies	801	157,623	7,349	-	165,773	86	4,538	-	170,397
Purchased services and other	24,660	134,234	11,717	(6,161)	164,450	300	16,075	1,513	182,338
Interest	45	15,965	181	-	16,191	-	24	-	16,215
Depreciation and amortization	554	71,452	2,069	-	74,075	-	2,313	-	76,388
Total expenses	109,641	849,015	130,587	(118,890)	970,353	408	74,026	(9,060)	1,035,727
Income (loss) from operations	(22,065)	94,164	(36,421)	-	35,678	42	(20,398)	20,846	36,168
Nonoperating gains (losses)									
Investment income (loss)	7,098	11,674	(21)	-	18,751	2,788	1,366	(1,643)	21,262
(Loss)/gain on disposal of assets	81	(602)	(37)	-	(558)	-	(96)	-	(654)
Nonoperating gain (loss), net	7,179	11,072	(58)	-	18,193	2,788	1,270	(1,643)	20,608
Revenues and gains over (under) expenses and losses	\$ (14,886)	\$ 105,236	\$ (36,479)	\$ -	\$ 53,871	\$ 2,830	\$ (19,128)	\$ 19,203	\$ 56,776

The consolidating supplemental schedules have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. This is the same basis of presentation as the Pinnacle Health System Consolidated Financial Statements

Pinnacle Health System
(And controlled entities and subsidiaries)
Consolidating Statement of Changes in Net Assets
Year Ended June 30, 2017

Schedule III

<i>(in thousands of dollars)</i>	Parent	Hospital	PHMS	Eliminations	Obligated Group	Foundation	Other	Eliminations	Consolidated Balances
Unrestricted net assets									
Net patient service revenues									
Revenues and gains over (under) expenses and losses	\$ (14,886)	\$ 105,236	\$ (36,479)	\$ -	\$ 53,871	\$ 2,830	\$ (19,128)	\$ 19,203	\$ 56,776
Capital contributions	4,947	(31,835)	24,995	-	(1,893)	-	1,893	-	-
Net assets released from restrictions for purchases of property, plant and equipment	-	3,219	332	-	3,551	-	-	-	3,551
Income attributable to noncontrolling interests	-	-	-	-	-	-	(2,506)	1,101	(1,405)
Increase (decrease) in unrestricted assets	(9,939)	76,620	(11,152)	-	55,529	2,830	(19,741)	20,304	58,922
Temporarily restricted net assets									
Contributions	-	3,912	-	-	3,912	4,516	-	(3,912)	4,516
Net realized and unrealized gains on investments	-	1,279	-	-	1,279	5,373	-	(1,279)	5,373
Net assets released from restrictions	-	(6,478)	-	-	(6,478)	(7,882)	-	6,478	(7,882)
Increase/(decrease) in temporarily restricted assets	-	(1,287)	-	-	(1,287)	2,007	-	1,287	2,007
Permanently restricted net assets									
Contributions	-	23	-	-	23	23	-	(23)	23
Income distributions	-	(688)	-	-	(688)	(688)	-	688	(688)
Net realized and unrealized gains on investments	-	1,698	-	-	1,698	1,317	-	(1,317)	1,698
Increase in permanently restricted assets	-	1,033	-	-	1,033	652	-	(652)	1,033
Increase (decrease) in net assets	(9,939)	76,366	(11,152)	-	55,275	5,489	(19,741)	20,939	61,962
Net assets									
Beginning of year	243,363	409,894	27,814	-	681,071	86,114	(20,867)	(10,964)	735,354
End of year	\$ 233,424	\$ 486,260	\$ 16,662	\$ -	\$ 736,346	\$ 91,603	\$ (40,608)	\$ 9,975	\$ 797,316

The consolidating supplemental schedules have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. This is the same basis of presentation as the Pinnacle Health System Consolidated Financial Statements

Pinnacle Health System, PA (PA)

- 1 Dauphin County General Authority Health System Revenue Bonds, Series 2016A (Pinnacle Health System Project) \$105,195,000, Dated: June 22, 2016
- 2 Dauphin County General Authority Health System Revenue Bonds, Series A of 2012 (Pinnacle Health System Project) \$128,210,000, Dated: August 7, 2012
- 3 Dauphin County General Authority Health System Revenue Bonds, Series A of 2009 (Pinnacle Health System Project) \$193,880,000, Dated: June 24, 2009

Series 2016A, 2012A, 2009A

List of Obligated Group Members

Fiscal Year Ended June 30, 2017

Obligated Group Members:
Pinnacle Health System
Pinnacle Health Hospitals
Pinnacle Health Medical Services

MEDICAL STAFF

Series 2016A, 2012A, 2009A

Size of the categories of the Medical Staff, including Allied Health Staff (but not including Affiliate Medical Staff Members)

<u>Category</u>	<u>Size</u>
Fiscal Year Ended June 30, 2017	
Active Staff	986
Affiliate	0
Honorary	220
Allied Health Staff	398
	<u>1,604</u>

Series 2016A, 2012A, 2009A

Medical Staff Membership by Specialty

Fiscal Year Ended June 30, 2017

<u>Specialty</u>	<u>Number of Physicians</u>	<u>Percent Board Certified</u>	<u>Average Age</u>	<u>Admissions</u>	<u>Admissions as % of Total Admissions</u>
Medicine Departments:					
Cardiology	43	100.0%	49.7	1,735	4.57%
Gastroenterology	20	100.0%	51.4	8	0.02%
General Medicine	237	87.8%	48.3	15,491	40.82%
Hematology & Oncology	24	100.0%	47.1	45	0.12%
Infectious Disease	4	100.0%	53.3	-	0.00%
Nephrology	17	94.1%	49.8	194	0.51%
Neurology	15	86.7%	46.7	28	0.07%
Pediatrics	103	96.1%	49.9	4,878	12.85%
Physical Medicine & Rehab	11	81.8%	53.7	-	0.00%
Pulmonary Diseases	9	88.9%	45.1	1,944	5.12%
Surgery:					
Anesthesiology	52	98.1%	50.5	2	0.01%
Cardiovascular Surgery	14	85.7%	52.1	1,176	3.10%
General Surgery	29	93.1%	54.4	2,738	7.21%
Neurosurgery	18	83.3%	50.8	44	0.12%
Obstetrics/ Gynecology	51	96.1%	54.0	4,353	11.47%
Ophthalmology	24	95.8%	51.6	1	0.00%
Oral Surgery	14	78.6%	56.3	3	0.01%
Orthopedic Surgery	34	97.1%	55.2	4,445	11.71%
Otolaryngology	9	100.0%	51.7	82	0.22%
Plastic Surgery	12	100.0%	52.2	-	0.00%
Podiatry	27	81.5%	48.1	129	0.34%
Rheumatology	8	100.0%	53.1	1	0.00%
Urology	11	81.8%	51.4	364	0.96%
Other:					
Emergency Medicine	55	87.3%	46.4	272	0.72%
Pathology	8	100.0%	57.0	1	0.00%
Psychiatry	12	100.0%	59.6	2	0.01%
Radiology	65	100.0%	49.1	17	0.05%
Grand Count	<u>926</u>	<u>92.7%</u>	<u>50.1</u>	<u>37,952</u>	<u>100.00%</u>

Series 2016A, 2012A, 2009A

Top Ten Admitting Physicians by Specialty

Fiscal Year Ended June 30, 2017

<u>Specialty</u>	<u>Age</u>	<u>2017 Admissions</u>	<u>Admissions a % of Total</u>
General Medicine	43	1,096	2.89%
Pediatrics	51	719	1.89%
Orthopedic Surgery	58	641	1.69%
General Medicine	36	519	1.37%
General Medicine	33	506	1.33%
Pulmonary Diseases	45	501	1.32%
Pediatrics	43	488	1.28%
Cardiovascular Surgery	47	481	1.27%
General Medicine	44	469	1.24%
Pediatrics	38	457	1.20%
<hr/>			
Total Average:	44	5,878	15.48%

SOURCES OF PATIENT SERVICE REVENUE

Series 2016A, 2012A, 2009A

Gross Patient Service Revenue by Payor Source

Fiscal Year Ended June 30,

	<u>2017</u>
Blue Cross/Blue Shield	22.2%
Medical Assistance	13.8%
Medicare	49.1%
Self Pay	2.5%
Commercial, Other	
Insurance, and Managed Care	12.4%
Total	<u>100.0%</u>

Series 2012A, 2009A

Capitalization table presenting the actual capitalization of the System for the most recent fiscal year

Fiscal Year Ended June 30, 2017

FY 2017

Series 2009A Bonds	\$51,196
Series 2012A Bonds	133,995
Series 2016A Bonds	113,532
Series 2016B Bond	90,839
Bank Note	0
Bank Loan	274,962
Capital leases and loans	<u>40,423</u>
	704,947
Less: Current Portion	<u>12,342</u>
	\$692,605
Net Assets	<u>797,316</u>
Total Capitalization	<u>\$1,489,921</u>
Percent long-term debt to total Capitalization	46.5%
Percent variable rate debt to total Capitalization	51.9%

FINANCIAL INFORMATION

Series 2016A

Obligated Group Summary Historical and Pro Forma Maximum Annual Debt Service Coverage (without proforma adjustments)

Fiscal Years Ended June 30,	<u>2017</u>
Net income	53,871
Add Back:	
Interest expense	16,191
Depreciation & Amortization expense	74,075
(Gain) Loss on disposal of assets	558
Pension settlement loss	0
Swap mark to market	0
Recorded unrealized (gains)/losses	(6,646)
Donation from Foundation	(569)
Loss on Debt refinancing	0
Income available for debt service	<u>137,480</u>
Historical Maximum Annual Debt Service	<u>304,669</u>
Historical Maximum Annual Debt Service Coverage	<u>0.45</u>

Series 2016A

Obligated Group Summary of Historical Days Cash on Hand

Fiscal Years Ended June 30,	<u>2017</u>
Cash and unrestricted investments	927,507
Operating expenses	970,353
Depreciation and amortization	74,075
Total modified operating expenses	<u>896,278</u>
Days Cash on Hand	<u>378</u>

Series 2012A, 2009A

Debt service requirements, with no pro forma adjustments, for the System for the most recent fiscal year

Fiscal Year Ending June 30,	Principal Payments	Interest	Total Debt Service for the Obligated Group
2018	12,343,565	22,000,513	34,344,078
2019	287,356,323	17,342,941	304,699,264
2020	9,584,007	16,887,845	26,471,852
2021	9,857,921	16,451,629	26,309,550
2022	10,192,825	15,988,676	26,181,501
2023	10,801,333	15,508,013	26,309,346
2024	11,399,625	15,001,249	26,400,874
2025	12,036,693	14,465,932	26,502,625
2026	12,708,051	13,900,429	26,608,480
2027	13,407,931	13,305,668	26,713,599
2028	14,135,927	12,687,174	26,823,101
2029	14,919,494	12,030,357	26,949,851
2030	15,691,402	11,389,125	27,080,527
2031	16,401,787	10,806,303	27,208,090
2032	17,143,562	10,197,565	27,341,127
2033	17,938,981	9,548,290	27,487,271
2034	18,703,195	8,931,642	27,634,837
2035	19,681,358	8,115,053	27,796,411
2036	20,917,632	7,257,663	28,175,295
2037	21,085,000	6,452,625	27,537,625
2038	22,175,000	5,531,875	27,706,875
2039	23,320,000	4,564,125	27,884,125
2040	24,525,000	3,547,000	28,072,000
2041	25,790,000	2,478,250	28,268,250
2042	27,100,000	1,355,000	28,455,000
2043			
2044			
2045			
2046			
Total	\$689,216,612	\$275,744,940	\$964,961,552

UTILIZATION INFORMATION

Series 2016A

Hospital Utilization

Fiscal Years Ended June 30,

	<u>2017</u>
Total Discharges	38,256
Observation Cases	11,241
Total	49,497

Series 2016A, 2012A, 2009A

Pinnacle Health Hospitals Utilization Statistics

Fiscal Year Ended June 30, 2016

	<u>2017</u>
Set-Up and Staffed Beds:	
Acute	579
Rehabilitation	
Psychiatric-> 17 yrs.	
Long Term Care	
Obstetrics	51
Newborn Nursery	31
Total	661
Discharges:	
Acute	30,561
Rehabilitation	
Psychiatric-> 17 yrs.	
Long Term Care	
Obstetrics	4,245
Newborn Nursery	3,450
Total	38,256
Patient Days:	
Acute	147,219
Rehabilitation	
Psychiatric > 17 yrs.	
Long Term Care	
Obstetrics	12,633
Newborn Nursery	7,966
Total	167,818
Average Length of Stay:	
Acute	4.82
Rehabilitation	n/a
Psychiatric-> 17 yrs.	n/a
Long Term Care	n/a
Obstetrics	2.98
Newborn Nursery	2.31
Average	4.39
Average without Long-Term Care	4.39
Percent of Occupancy:	
Acute	70.30%
Rehabilitation	0.00%
Psychiatric-> 17 yrs.	0.00%
Long Term Care	0.00%
Obstetrics	67.86%
Newborn Nursery	70.40%
Average	70.12%
Surgeries:	
Inpatient Surgeries	12,334
Open Heart Surgery	627
Transplants	41
Total Inpatient Surgeries	13,002
Outpatient Statistics:	
Emergency Visits	139,284
Clinic Visits*	855,349
Ambulatory Surgery	16,566

* note there were an additional 642,062 non-hospital based outpatient visits in the System

Medicare Case Mix Index: 1.939

Overall Case Mix Index: 1.593

EMPLOYEES

Series 2016A

**The number and type of employees for each Obligated Group Member and
for other System affiliates**

<u>Entity/Type</u>	<u>Number of FTEs (at June 30, 2017)</u>
Hospital:	
Management	306
Nursing	1119
Physicians & Residents	184
Professional	201
Technical & Non-Professional	1807
Total	3617
Pinnacle Health:	
Managers	90
Professional	30
Support Staff	420
Total	540
PHMS:	
Physicians	115
Management	45
Professional	131
Nurses	42
Technical & Non-Professional	573
Total	906
Other System Affiliates:	
Physicians	104
Other	328
Total	432

Series 2016A, 2012A, 2009A

Number and Percentage of Employees Subject to Collective Bargaining Agreements

Fiscal Year Ended June 30, 2017 and 2016

Zero employees subject to collective bargaining

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