

# Trinity Health

Consolidated Financial Statements as of and for the  
Years Ended June 30, 2016 and 2015,  
Supplemental Consolidating Schedules as of and for  
the Year Ended June 30, 2016,  
and Independent Auditors' Reports

# TRINITY HEALTH

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## **INDEPENDENT AUDITORS' REPORT**

To the Board of Directors of  
Trinity Health Corporation  
Livonia, Michigan

We have audited the accompanying consolidated financial statements of Trinity Health Corporation and its subsidiaries (the "Corporation"), which comprise the consolidated balance sheets as of June 30, 2016 and 2015, and the related consolidated statements of operations and changes in net assets and cash flows for the years then ended, and the related notes to consolidated financial statements.

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

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

### **Auditors' Responsibility**

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We did not audit the consolidated financial statements of Baycare Health System, the Corporation's investment which is accounted for by the use of the equity method. The accompanying consolidated financial statements of the Corporation include its investment in the net assets of Baycare Health System of \$2.1 billion and \$1.9 billion as of June 30, 2016, and 2015, respectively, and its equity-method income from Baycare Health System of \$145.0 million and \$168.1 million for the years ended June 30, 2016 and 2015, respectively. The consolidated financial statements of Baycare Health System for the years ended December 31, 2015 and 2014, were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for Baycare Health System, is based on the reports of the other auditors and the procedures that we considered necessary in the circumstances with respect to the inclusion of the Corporation's equity investment and equity-method income in the accompanying consolidated financial statements taking into consideration the differences in fiscal years. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Corporation'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 Corporation'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, based on our audits and the reports of the other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Corporation as of June 30, 2016 and 2015, and the results of its operations and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

*Deloitte & Touche LLP*

September 21, 2016

# TRINITY HEALTH

## CONSOLIDATED BALANCE SHEETS

JUNE 30, 2016 AND 2015

(In thousands)

ASSETS	2016	2015
CURRENT ASSETS:		
Cash and cash equivalents	\$ 1,044,683	\$ 843,210
Investments	3,617,501	3,728,883
Security lending collateral	262,035	266,572
Assets limited or restricted as to use - current portion	314,706	271,567
Patient accounts receivable, net of allowance for doubtful accounts		
of \$385.2 million and \$349.6 million at June 30, 2016 and 2015, respectively	1,849,736	1,631,417
Estimated receivables from third-party payors	248,179	192,894
Other receivables	336,705	299,667
Inventories	248,092	222,976
Assets held for sale	64,272	189,660
Prepaid expenses and other current assets	212,008	179,966
Total current assets	8,197,917	7,826,812
ASSETS LIMITED OR RESTRICTED AS TO USE - noncurrent portion:		
Held by trustees under bond indenture agreements	4,881	1,622
Self-insurance, benefit plans and other	780,102	738,846
By Board	2,959,641	3,098,445
By donors	409,493	298,332
Total assets limited or restricted as to use - noncurrent portion	4,154,117	4,137,245
PROPERTY AND EQUIPMENT - Net	7,676,734	6,773,283
INVESTMENTS IN UNCONSOLIDATED AFFILIATES	2,681,778	2,370,799
GOODWILL	304,845	293,696
OTHER ASSETS	363,480	373,484
TOTAL ASSETS	\$ 23,378,871	\$ 21,775,319

<b>LIABILITIES AND NET ASSETS</b>	<b>2016</b>	<b>2015</b>
<b>CURRENT LIABILITIES:</b>		
Commercial paper	\$ 145,958	\$ 99,990
Short-term borrowings	1,067,730	1,098,710
Current portion of long-term debt	106,345	106,226
Accounts payable	987,225	759,187
Accrued expenses	374,213	249,718
Salaries, wages and related liabilities	861,757	714,599
Current portion of self-insurance reserves	255,552	215,011
Payable under security lending agreements	262,035	266,572
Liabilities held for sale	67,453	256,088
Estimated payables to third-party payors	374,014	372,076
Total current liabilities	4,502,282	4,138,177
LONG-TERM DEBT - Net of current portion	5,132,377	4,382,456
SELF-INSURANCE RESERVES - Net of current portion	933,362	878,588
ACCRUED PENSION AND RETIREE HEALTH COSTS	1,857,639	971,153
OTHER LONG-TERM LIABILITIES	705,998	609,039
Total liabilities	13,131,658	10,979,413
<b>NET ASSETS:</b>		
Unrestricted net assets	9,576,379	10,274,277
Noncontrolling ownership interest in subsidiaries	186,595	150,994
Total unrestricted net assets	9,762,974	10,425,271
Temporarily restricted net assets	326,651	275,666
Permanently restricted net assets	157,588	94,969
Total net assets	10,247,213	10,795,906
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 23,378,871</b>	<b>\$ 21,775,319</b>

The accompanying notes are an integral part of the consolidated financial statements.

# TRINITY HEALTH

## CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS YEARS ENDED JUNE 30, 2016 AND 2015 (In thousands)

	2016	2015
UNRESTRICTED REVENUE:		
Patient service revenue, net of contractual and other allowances	\$ 14,718,528	\$ 12,843,346
Provision for bad debts	(489,558)	(358,820)
Net patient service revenue less provision for bad debts	14,228,970	12,484,526
Premium and capitation revenue	869,030	790,948
Net assets released from restrictions	36,352	24,476
Other revenue	1,204,695	1,038,200
Total unrestricted revenue	16,339,047	14,338,150
EXPENSES:		
Salaries and wages	7,056,453	6,093,539
Employee benefits	1,457,253	1,211,902
Contract labor	205,916	117,471
Total labor expenses	8,719,622	7,422,912
Supplies	2,676,637	2,293,317
Purchased services	1,889,460	1,601,894
Depreciation and amortization	835,213	740,321
Occupancy	698,198	592,182
Medical claims	414,648	362,848
Interest	195,829	163,060
Other	758,103	691,576
Total expenses	16,187,710	13,868,110
OPERATING INCOME BEFORE OTHER ITEMS	151,337	470,040
Premium revenue adjustment	(65,335)	-
Asset impairment charges	(39,623)	(23,402)
Pension curtailment gain	-	11,054
OPERATING INCOME	46,379	457,692
NONOPERATING ITEMS:		
Investment (losses) earnings	(199,326)	106,553
Equity in earnings of unconsolidated affiliates	162,075	182,907
Change in market value and cash payments of interest rate swaps	(94,783)	(10,223)
Loss from early extinguishment of debt	(43,056)	(96,924)
Gain on controlling interest related to acquisition of Siouxland Surgery Center, LLP ("Siouxland")	-	40,317
Inherent contributions related to acquisitions	133,355	-
Inherent contributions related to acquisitions - unconsolidated organizations	87,170	-
Other, including income taxes	(2,011)	(8,692)
Total nonoperating items	43,424	213,938
EXCESS OF REVENUE OVER EXPENSES	89,803	671,630
EXCESS OF REVENUE OVER EXPENSES ATTRIBUTABLE TO NONCONTROLLING INTEREST	(48,460)	(34,836)
EXCESS OF REVENUE OVER EXPENSES, net of noncontrolling interest	\$ 41,343	\$ 636,794

	<u>2016</u>	<u>2015</u>
<b>UNRESTRICTED NET ASSETS:</b>		
Unrestricted net asset attributable to Trinity Health:		
Excess of revenue over expenses	\$ 41,343	\$ 636,794
Net assets released from restrictions for capital acquisitions	28,031	49,080
Net change in retirement plan related items - consolidated organizations	(838,812)	(440,493)
Net change in retirement plan related items - unconsolidated organizations	8,544	(40,463)
Other	12,396	(256)
(Decrease) increase in unrestricted net assets before discontinued operations	(748,498)	204,662
Discontinued operations:		
Loss from operations	(56,165)	(47,638)
Gain (loss) on disposals and settlement of debt	106,765	(7,750)
(Decrease) increase in unrestricted net assets attributable to Trinity Health	(697,898)	149,274
Unrestricted net asset attributable to noncontrolling interests:		
Excess of revenue over expenses attributable to noncontrolling interests	48,460	34,836
Noncontrolling interest related to acquisitions	29,272	99,008
Dividends	(42,133)	(21,048)
Other	(45)	(135)
Increase in unrestricted net assets attributable to noncontrolling interest before discontinued operations	35,554	112,661
Discontinued operations attributable to noncontrolling interests:		
Income from operations	47	243
Increase in unrestricted net assets attributable to noncontrolling interest	35,601	112,904
<b>TEMPORARILY RESTRICTED NET ASSETS:</b>		
Contributions	84,422	60,249
Net investment (loss) gain	(9,165)	2,072
Net assets released from restrictions	(64,383)	(73,556)
Acquisitions	38,669	-
Other	1,442	(6,405)
Increase (decrease) in temporarily restricted net assets	50,985	(17,640)
<b>PERMANENTLY RESTRICTED NET ASSETS:</b>		
Contributions for endowment funds	3,763	3,215
Net investment gain	1,361	1,665
Acquisitions	56,411	-
Other	1,084	3,026
Increase in permanently restricted net assets	62,619	7,906
(DECREASE) INCREASE IN NET ASSETS	(548,693)	252,444
NET ASSETS - BEGINNING OF YEAR	10,795,906	10,543,462
NET ASSETS - END OF YEAR	<u>\$ 10,247,213</u>	<u>\$ 10,795,906</u>

The accompanying notes are an integral part of the consolidated financial statements.

# TRINITY HEALTH

## CONSOLIDATED STATEMENTS OF CASH FLOWS YEARS ENDED JUNE 30, 2016 AND 2015

(In thousands)

	2016	2015
OPERATING ACTIVITIES:		
(Decrease) increase in net assets	\$ (548,693)	\$ 252,444
Adjustments to reconcile (decrease) increase in net assets to net cash provided by operating activities:		
Depreciation and amortization	835,213	740,321
Provision for bad debts	489,558	358,820
Asset impairment charges	39,623	23,402
Inherent contributions in acquisitions	(133,355)	-
Inherent contributions in acquisitions - unconsolidated organizations	(87,170)	-
Gain on acquisition of a controlling interest in Siouxland	-	(40,317)
Loss on extinguishment of debt	43,056	96,924
Change in net unrealized and realized gains on investments	267,459	(65,367)
Change in market values of interest rate swaps	72,950	(6,838)
Undistributed equity in earnings of unconsolidated affiliates	(184,225)	(154,177)
Deferred retirement items - consolidated organizations	838,812	440,493
Deferred retirement items - unconsolidated organizations	(8,544)	40,463
Noncash items including net (gains) losses on disposal - discontinued operations	(88,595)	50,546
Increase in noncontrolling interest related to acquisitions	(29,272)	(99,008)
Restricted contributions and investment income received	(22,148)	(29,372)
Restricted net assets acquired	(95,080)	-
Other adjustments	(3,282)	3,371
Changes in:		
Patient accounts receivable	(525,800)	(510,294)
Other assets	2,430	(116,596)
Accounts payable and accrued expenses	199,364	83,043
Estimated receivables from third-party payors	(46,375)	(37,367)
Estimated payables to third-party payors	10,809	48,530
Self-insurance reserves and other liabilities	(5,107)	14,894
Accrued pension and retiree health costs	(159,797)	(189,317)
Net cash provided by (used) in operating activities of discontinued operations	15,142	(21,121)
Total adjustments	1,425,666	631,033
Net cash provided by operating activities	876,973	883,477

	<b>2016</b>	<b>2015</b>
<b>INVESTING ACTIVITIES:</b>		
Purchases of investments	(3,373,316)	(15,035,339)
Proceeds from sales of investments	3,471,276	14,397,910
Purchases of property and equipment	(977,362)	(920,597)
Proceeds from disposal of property and equipment	19,784	4,607
Net cash acquired from (used in) acquisitions	100,807	(17,583)
Proceeds from the sale of divestitures	37,487	51,692
Change in investments in unconsolidated affiliates	(9,659)	5,261
Loans made to affiliates, net of repayments	(34,100)	-
Decrease in assets limited as to use	6,766	9,109
Net cash provided by (used in) investing activities of discontinued operations	1,311	(537)
Net cash used in investing activities	<u>(757,006)</u>	<u>(1,505,477)</u>
<b>FINANCING ACTIVITIES:</b>		
Proceeds from issuance of debt	982,400	1,504,384
Repayments of debt	(924,445)	(819,672)
Net change in commercial paper	45,968	(139,971)
Increase in financing costs and other	(45,136)	(5,085)
Proceeds from restricted contributions and restricted investment income	22,148	29,372
Net cash provided by (used in) financing activities of discontinued operations	571	(4,097)
Net cash provided by financing activities	<u>81,506</u>	<u>564,931</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	201,473	(57,069)
<b>CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR</b>	<u>843,210</u>	<u>900,279</u>
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	<u><u>\$ 1,044,683</u></u>	<u><u>\$ 843,210</u></u>
<b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:</b>		
Cash paid for interest (net of amounts capitalized)	\$ 198,809	\$ 165,386
New capital lease obligations for buildings and equipment	4,459	6,098
Accruals for purchases of property and equipment and other long-term assets	157,984	112,598
Unsettled investment trades, purchases	135,619	71,745
Unsettled investment trades, sales	74,631	76,676
(Increase) in security lending collateral	(4,537)	(78,689)
Increase in payable under security lending agreements	4,537	78,689

The accompanying notes are an integral part of the consolidated financial statements.

# TRINITY HEALTH

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

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### 1. ORGANIZATION AND MISSION

Trinity Health Corporation and its subsidiaries (“Trinity Health” or the “Corporation”), an Indiana nonprofit corporation headquartered in Livonia, Michigan, controls one of the largest health care systems in the United States. It is the result of the consolidation of Catholic health systems over the last 16 years.

The Corporation is sponsored by Catholic Health Ministries, a Public Juridic Person of the Holy Roman Catholic Church. The Corporation operates a comprehensive integrated network of health services, including inpatient and outpatient services, physician services, managed care coverage, home health care, long-term care, assisted living care, and rehabilitation services located in 21 states. The operations are organized into Regional Health Ministries, National Health Ministries, and Mission Health Ministries (“Health Ministries”). The mission statement for the Corporation is as follows:

*We, Trinity Health, serve together in the spirit of the Gospel as a compassionate and transforming healing presence within our communities.*

**Community Benefit Ministry** – Consistent with its mission, the Corporation provides medical care to all patients regardless of their ability to pay. In addition, the Corporation provides services intended to benefit the poor and underserved, including those persons who cannot afford health insurance or other payments such as co-pays and deductibles because of inadequate resources and/or are uninsured or underinsured, and to improve the health status of the communities in which it operates. The following summary has been prepared in accordance with the Catholic Health Association of the United States’, *A Guide for Planning and Reporting Community Benefit*, 2015 Edition.

The quantifiable costs of the Corporation's community benefit ministry for the years ended June 30 are as follows (in thousands):

	2016	2015
<b>Ministry for the poor and underserved:</b>		
Charity care at cost	\$ 187,310	\$ 190,723
Unpaid cost of Medicaid and other public programs	446,393	380,673
Programs for the poor and the underserved:		
Community health services	30,200	27,596
Subsidized health services	47,948	48,767
Financial contributions	16,493	12,409
Community building activities	1,480	1,886
Community benefit operations	4,380	2,827
Total programs for the poor and underserved	100,501	93,485
Ministry for the poor and underserved	734,204	664,881
<b>Ministry for the broader community:</b>		
Community health services	15,396	12,928
Health professions education	132,845	101,048
Subsidized health services	46,398	42,040
Research	3,321	3,672
Financial contributions	29,404	29,403
Community building activities	1,764	1,615
Community benefit operations	3,983	3,199
Ministry for the broader community	233,111	193,905
Community benefit ministry	\$ 967,315	\$ 858,786

The Corporation provides a significant amount of uncompensated care to its uninsured and underinsured patients, which is reported as bad debt at cost and not included in the amounts reported above. During the years ended June 30, 2016 and 2015, the Corporation reported bad debt at cost (determined using a cost-to-charge ratio applied to the provision for bad debts) of \$157.2 million and \$116.4 million, respectively.

**Ministry for the poor and underserved** represents the financial commitment to seek out and serve those who need help the most, especially the poor, the uninsured and the indigent. This is done with the conviction that health care is a basic human right.

**Ministry for the broader community** represents the cost of services provided for the general benefit of the communities in which the Corporation operates. Many programs are targeted toward populations that may be poor, but also include those areas that may need special health services and support. These programs are not intended to be financially self-supporting.

**Charity care at cost** represents the cost of services provided to patients who cannot afford health care services due to inadequate resources and/or are uninsured or underinsured. A patient is classified as a charity patient in accordance with the Corporation's established policies as further described in Note 4. The cost of charity care is calculated using a cost-to-charge ratio methodology.

**Unpaid cost of Medicaid and other public programs** represents the cost (determined using a cost-to-charge ratio) of providing services to beneficiaries of public programs, including state Medicaid and indigent care programs, in excess of governmental and managed care contract payments.

**Community health services** are activities and services carried out to improve community health and well-being, for which no patient bill exists. These services are not expected to be financially self-supporting. Some examples include community health education, free immunization services, free or low-cost

prescription medications, and rural and urban outreach programs. The Corporation actively collaborates with community groups and agencies to assist those in need in providing such services.

**Health professions education** includes the unreimbursed cost of training health professionals, such as medical residents, nursing students, technicians, and students in allied health professions.

**Subsidized health services** are net costs for billed services that are subsidized by the Corporation. These include services offered despite a financial loss because they are needed in the community and either other providers are unwilling to provide the services or the services would otherwise not be available in sufficient amount. Examples of services include free-standing community clinics, hospice care, mobile units and behavioral health services.

**Research** includes unreimbursed clinical and community health research and studies on health care delivery, which is generalizable and shared with the public.

**Financial contributions** are made by the Corporation on behalf of the poor and underserved to community agencies and restricted to support community benefit activities. These amounts include special system-wide funds used to improve community health and well-being as well as resources contributed directly to programs, organizations, and foundations for efforts on behalf of the poor and underserved. Amounts included here also represent certain in-kind donations.

**Community building activities** include programs that address the root causes of health problems and focus on policy, systems and environmental changes. Examples include the costs of programs that improve the physical environment, promote economic development, enhance other community support systems, advocacy for community health improvement, develop leadership skills training, and build community coalitions.

**Community benefit operations** include costs associated with dedicated staff, community health needs and/or asset assessments, and other costs associated with community benefit strategy and operations.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Principles of Consolidation** – The consolidated financial statements include the accounts of the Corporation, and all wholly owned, majority-owned, and controlled organizations. Investments where the Corporation holds less than 20% of the ownership interest are accounted for using the cost method. All other investments that are not controlled by the Corporation are accounted for using the equity method of accounting. The equity share of income or losses from investments in unconsolidated affiliates is recorded in other revenue if the unconsolidated affiliate is operational and projected to make routine and regular cash distributions; otherwise, the equity share of income or losses from investments in unconsolidated affiliates is recorded in nonoperating items in the consolidated statements of operations and changes in net assets. All material intercompany transactions and account balances have been eliminated in consolidation.

The consolidated financial statements for the years ended June 30, 2016 and 2015, present the operations of Mercy Suburban Hospital and East Norriton Physician Services (“Mercy Suburban”), St. Joseph Mercy Port Huron (“Port Huron”), and Saint Michael’s Medical Center (“St. Michael’s”) as discontinued operations. Saint James Mercy Hospital (“SMJH”), Hornell, New York, and Mercy Health Partners, North (“North”), located in Cadillac, Michigan, and Grayling, Michigan were divested in fiscal year 2015 and the operations of these entities are reflected as discontinued operations for the fiscal year ended June 30, 2015. The consolidated statements of cash flows include impacts of cash flows related to these entities. Notes to these consolidated financial statements exclude these entities.

**Use of Estimates** – The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America (“GAAP”) requires management of the Corporation to make assumptions, estimates, and judgments that affect the amounts reported in the consolidated financial statements, including the notes thereto, and related disclosures of commitments and contingencies, if any. The Corporation considers critical accounting policies to be those that require more

significant judgments and estimates in the preparation of its consolidated financial statements, including the following: recognition of net patient service revenue, which includes contractual allowances, provisions for bad debts and charity care; premium revenue; recorded values of investments, derivatives, and goodwill; reserves for losses and expenses related to health care professional and general liabilities; and risks and assumptions for measurement of pension and retiree medical liabilities. Management relies on historical experience and other assumptions believed to be reasonable in making its judgments and estimates. Actual results could differ materially from those estimates.

***Cash and Cash Equivalents*** – For purposes of the consolidated statements of cash flows, cash and cash equivalents include certain investments in highly liquid debt instruments with original maturities of three months or less.

***Investments*** – Investments, inclusive of assets limited or restricted as to use, include marketable debt and equity securities. Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value and are classified as trading securities. Investments also include investments in commingled funds, hedge funds and other investments structured as limited liability corporations or partnerships. Commingled funds and hedge funds that hold securities directly are stated at the fair value of the underlying securities, as determined by the administrator, based on readily determinable market values or based on net asset value, which is calculated using the most recent fund financial statements. Limited liability corporations and partnerships are accounted for under the equity method.

***Investment Earnings*** – Investment earnings include interest, dividends, realized gains and losses, unrealized gains and losses, and equity earnings. Investment earnings on assets held by trustees under bond indenture agreements, assets designated by the Corporation's board of directors (the "Board") for debt redemption, assets held for borrowings under the intercompany loan program, assets held by grant-making foundations, and assets deposited in trust funds by a captive insurance company for self-insurance purposes in accordance with industry practices are included in other revenue in the consolidated statements of operations and changes in net assets. Investment earnings from all other investments and Board-designated funds are included in nonoperating investment income, unless the income or loss is restricted by donor or law.

***Derivative Financial Instruments*** – The Corporation periodically utilizes various financial instruments (e.g., options and swaps) to hedge interest rates, equity downside risk and other exposures. The Corporation's policies prohibit trading in derivative financial instruments on a speculative basis. The Corporation recognizes all derivative instruments in the consolidated balance sheets at fair value.

***Securities Lending*** – The Corporation participates in securities lending transactions whereby a portion of its investments are loaned, through its agent, to various parties in return for cash and securities from the parties as collateral for the securities loaned. Each business day, the Corporation, through its agent, and the borrower determine the market value of the collateral and the borrowed securities. If on any business day the market value of the collateral is less than the required value, additional collateral is obtained as appropriate. The amount of cash collateral received under securities lending is reported as an asset and a corresponding payable in the consolidated balance sheets and is up to 105% of the market value of securities loaned. As of June 30, 2016 and 2015, the Corporation had securities loaned of \$272.6 million and \$280.1 million, respectively, and received collateral (cash and noncash) totaling \$277.7 million and \$286.4 million, respectively, relating to the securities loaned. The fees received for these transactions are recorded in investment income in the consolidated statements of operations and changes in net assets. In addition, certain pension plans participate in securities lending programs with the Northern Trust Company, the plans' agent.

***Assets Limited as to Use*** – Assets set aside by the Board for future capital improvements, future funding of retirement programs and insurance claims, retirement of debt, held for borrowings under the intercompany loan program, and other purposes over which the Board retains control and may at its discretion subsequently use for other purposes, assets held by trustees under bond indenture and certain other agreements, and self-insurance trust and benefit plan arrangements are included in assets limited as to use.

***Donor-Restricted Gifts*** – Unconditional promises to give cash and other assets to the Corporation are reported at fair value at the date the promise is received. Conditional promises to give and indications of intentions to give are reported at 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 restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statements of operations and changes in net assets 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 consolidated statements of operations and changes in net assets.

***Inventories*** – Inventories are stated at the lower of cost or market. The cost of inventories is determined principally by the weighted-average cost method.

***Assets and Liabilities Held for Sale*** – The Corporation has classified certain assets as assets held for sale in the consolidated balance sheets when the assets have met applicable criteria for this classification. The Corporation has also classified as held for sale those liabilities related to assets held for sale.

***Property and Equipment*** – Property and equipment, including internal-use software, are recorded at cost, if purchased, or at fair value at the date of donation, if donated. Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed using either the straight-line or an accelerated method and includes capital lease and internal-use software amortization. The useful lives of these assets range from two to 50 years. Interest costs incurred during the period of construction of capital assets are capitalized as a component of the cost of acquiring those assets.

Gifts of long-lived assets, such as land, buildings, or equipment, are reported as unrestricted support and are excluded from the excess of revenue over expenses, unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support.

***Goodwill*** – Goodwill represents the future economic benefits arising from assets acquired in a business combination that are not individually identified and separately recognized.

***Asset Impairments*** –

***Property and Equipment*** – The Corporation evaluates long-lived assets for possible impairment whenever events or changes in circumstances indicate that the carrying amount of the asset, or related group of assets, may not be recoverable from estimated future undiscounted cash flows. If the estimated future undiscounted cash flows are less than the carrying value of the assets, the impairment recognized is calculated as the carrying value of the long-lived assets in excess of the fair value of the assets. The fair value of the assets is estimated based on appraisals, established market values of comparable assets or internal estimates of future net cash flows expected to result from the use and ultimate disposition of the assets.

***Goodwill*** – Goodwill is tested for impairment on an annual basis or when an event or change in circumstance indicates the value of a reporting unit may have changed. Testing is conducted at the reporting unit level. If the carrying amount of the reporting unit goodwill exceeds the implied fair value of that goodwill, an impairment loss is recognized in an amount equal to that excess. Estimates of fair value are based on appraisals, established market prices for comparable assets or internal estimates of future net cash flows.

The following table provides information on changes in the carrying amount of goodwill, which is included in the accompanying consolidated financial statements of the Corporation as of June 30 (in thousands):

	<u>2016</u>	<u>2015</u>
As of July 1:		
Goodwill	\$ 303,921	\$ 161,651
Accumulated impairment loss	<u>(10,225)</u>	<u>(7,878)</u>
Total	293,696	153,773
Goodwill acquired during the year	11,149	142,270
Impairment loss	<u>-</u>	<u>(2,347)</u>
Total	<u><u>\$ 304,845</u></u>	<u><u>\$ 293,696</u></u>
As of June 30:		
Goodwill	\$ 315,070	\$ 303,921
Accumulated impairment loss	<u>(10,225)</u>	<u>(10,225)</u>
Total	<u><u>\$ 304,845</u></u>	<u><u>\$ 293,696</u></u>

**Other Assets** – Other assets includes long-term notes receivable, reinsurance recovery receivables, definite and indefinite-lived intangible assets other than goodwill, prepaid pension and retiree health costs. The net balances of definite-lived intangible assets include noncompete agreements, physician guarantees and other definite-lived intangible assets with finite lives amortized using the straight-line method over their estimated useful lives, which generally range from two to 10 years. Indefinite-lived intangible assets primarily include trade names.

**Short-Term Borrowings** – Short-term borrowings include puttable variable rate demand bonds supported by self-liquidity or liquidity facilities considered short-term in nature.

**Other Long-Term Liabilities** – Other long-term liabilities include deferred compensation, asset retirement obligations, interest rate swaps and deferred revenue from entrance fees. Deferred revenue from entrance fees are fees paid by residents of facilities for the elderly upon entering into continuing care contracts (net of the portion that is refundable to the resident), which are recorded as deferred revenue and amortized to income using the straight-line method over the estimated remaining life expectancy of the resident.

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

**Patient Accounts Receivable, Estimated Receivables from and Payables to Third-Party Payors and Net Patient Service Revenue** – The Corporation has agreements with third-party payors that provide for payments to the Corporation's Health Ministries at amounts different from established rates. Patient accounts receivable and net patient service revenue are reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered. Estimated retroactive adjustments under reimbursement agreements with third-party payors and other changes in estimates are included in net patient service revenue and estimated receivables from and payables to third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods, as final settlements are determined. Estimated receivables from third-party payors include amounts receivable from Medicare and state Medicaid meaningful use programs.

**Self-Insured Employee Health Benefits** – The Corporation administers self-insured employee health benefit plans for employees. The majority of the Corporation's employees participate in the programs. The provisions of the plans permit employees and their dependents to elect to receive medical care at either the Corporation's Health Ministries or other health care providers. Gross patient service revenue has been reduced by an allowance for self-insured employee health benefits, which represents revenue attributable to medical services provided by the Corporation to its employees and dependents in such years.

***Allowance for Doubtful Accounts*** – The Corporation recognizes a significant amount of patient service revenue at the time the services are rendered even though the Corporation does not assess the patient's ability to pay at that time. As a result, the provision for bad debts is presented as a deduction from patient service revenue (net of contractual provisions and discounts). For uninsured and underinsured patients that do not qualify for charity care, the Corporation establishes an allowance to reduce the carrying value of such receivables to their estimated net realizable value. This allowance is established based on the aging of accounts receivable and the historical collection experience by the Health Ministries and for each type of payor. A significant portion of the Corporation's provision for doubtful accounts relates to self-pay patients, as well as co-payments and deductibles owed to the Corporation by patients with insurance.

***Premium and Capitation Revenue*** – The Corporation has certain Health Ministries that arrange for the delivery of health care services to enrollees through various contracts with providers and common provider entities. Enrollee contracts are negotiated on a yearly basis. Premiums are due monthly and are recognized as revenue during the period in which the Corporation is obligated to provide services to enrollees. Premiums received prior to the period of coverage are recorded as deferred revenue and included in accrued expenses in the consolidated balance sheets.

Certain of the Corporation's Health Ministries have entered into capitation arrangements whereby they accept the risk for the provision of certain health care services to health plan members. Under these agreements, the Corporation's Health Ministries are financially responsible for services provided to the health plan members by other institutional health care providers. Capitation revenue is recognized during the period for which the Health Ministry is obligated to provide services to health plan enrollees under capitation contracts. Capitation receivables are included in other receivables in the consolidated balance sheets.

Reserves for incurred but not reported claims have been established to cover the unpaid costs of health care services covered under the premium and capitation arrangements. The premium and capitation arrangement reserves are classified with accrued expenses in the consolidated balance sheets. The liability is estimated based on actuarial studies, historical reporting, and payment trends. Subsequent actual claim experience will differ from the estimated liability due to variances in estimated and actual utilization of health care services, the amount of charges, and other factors. As settlements are made and estimates are revised, the differences are reflected in current operations.

***Income Taxes*** – The Corporation and substantially all of its subsidiaries have been recognized as tax-exempt pursuant to Section 501(a) of the Internal Revenue Code. The Corporation also has taxable subsidiaries, which are included in the consolidated financial statements. Certain of the taxable subsidiaries have entered into tax sharing agreements and file consolidated federal income tax returns with other corporate taxable subsidiaries. The Corporation includes penalties and interest, if any, with its provision for income taxes in other nonoperating items in the consolidated statements of operations and changes in net assets.

***Excess of Revenue Over Expenses*** – The consolidated statements of operations and changes in net assets includes excess of revenue over expenses. Changes in unrestricted net assets, which are excluded from excess of revenue over expenses, consistent with industry practice, include the effective portion of the change in market value of derivatives that meet hedge accounting requirements, permanent transfers of assets to and from affiliates for other than goods and services, contributions of long-lived assets received or gifted (including assets acquired using contributions, which by donor restriction were to be used for the purposes of acquiring such assets), net change in retirement plan related items, discontinued operations, extraordinary items and cumulative effects of changes in accounting principles.

### ***Adopted Accounting Pronouncements –***

On June 30, 2016, the Corporation adopted Accounting Standards Update ("ASU") No. 2015-03, "*Simplifying the Presentation of Debt Issuance Costs.*" This guidance requires debt issuance costs to be presented as a direct deduction from the related debt rather than as an asset. The adoption of this guidance resulted in a \$32.6 million reduction to total assets and total liabilities as previously reported in the June 30, 2015 consolidated balance sheet as retrospective application is required. As of June 30, 2016, \$34.8 million of debt issuance costs are included in long-term debt.

On July 1, 2015, the Corporation adopted ASU No. 2014-08, "*Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity.*" This guidance amends the definition of a discontinued operation and requires additional disclosures about discontinued operations as well as disposal transactions that do not meet the discontinued operations criteria on a prospective basis. The adoption of this guidance had no impact on the Corporation's consolidated financial statements.

### ***Forthcoming Accounting Pronouncements –***

In August 2016, the Financial Accounting Standards Board ("FASB") issued ASU No. 2016-15, "*Classification of Certain Cash Receipts and Cash Payments.*" This guidance adds or clarifies guidance on the classification of certain cash receipts and payments in the consolidated statements of cash flows. This guidance is effective for the Corporation beginning July 1, 2019. The Corporation is still evaluating the impact this guidance may have on its consolidated financial statements.

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

In May 2016, the FASB issued ASU No. 2016-12, "*Revenue From Contracts with Customers: Narrow-Scope Improvements and Practical Expedients,*" which amends certain aspects of the FASB's revenue standard ASU 2014-09, "*Revenue From Contracts with Customers*". In March 2016, the FASB issued ASU No. 2016-08, "*Revenue From Contracts With Customers: Principal Versus Agent Considerations (Reporting Revenue Gross Versus Net).*" This guidance amends the principal versus agent implementation guidance and illustrations in the FASB's revenue standard, ASU No. 2014-09. In July 2015, the FASB issued ASU No. 2015-14, "*Revenue From Contracts With Customers (Topic 606): Deferral of the Effective Date,*" which defers the effective date of the FASB's revenue standard, ASU 2014-09, by one year for all entities and permits early adoption on a limited basis. In May 2014, the FASB issued ASU No. 2014-09. This guidance outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. After the deferral of the effective date, this guidance is effective for the Corporation beginning July 1, 2018. The Corporation is still evaluating the impact this guidance may have on its consolidated financial statements.

In March 2016, the FASB issued ASU No. 2016-07, "*Investments – Equity Method and Joint Ventures: Simplifying the Transition to the Equity Method of Accounting.*" This guidance eliminates the requirement to retrospectively apply the equity method to an investment that subsequently qualifies for such accounting as a result of an increase in the level of ownership interest or degree of influence. This guidance is effective for the Corporation beginning July 1, 2016. The Corporation does not expect this guidance to have a material impact on its consolidated financial statements.

In March 2016, the FASB issued ASU No. 2016-06, *“Derivatives & Hedging: Contingent Put & Call Options in Debt Instruments.”* This guidance clarifies that in assessing whether an embedded contingent put or call option is clearly and closely related to the debt host, an entity is required to perform only the four-step sequence in Accounting Standards Codification 815-15-25-42. This guidance is effective for the Corporation beginning July 1, 2018. The Corporation is still evaluating the impact this guidance may have on its consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02, *“Leases.”* This guidance introduces a lessee model that brings substantially all leases on the consolidated balance sheet. This guidance is effective for the Corporation beginning July 1, 2019. Retrospective application is required. The Corporation is still evaluating the impact this guidance may have on its consolidated financial statements.

In January 2016, the FASB issued ASU No. 2016-01, *“Recognition and Measurement of Financial Assets and Financial Liabilities.”* This guidance revises accounting related to (1) the classification and measurement of investments in equity securities and (2) the presentation of certain fair value changes for financial liabilities measured at fair value. It also amends certain disclosure requirements associated with the fair value of financial instruments. This guidance is effective for the Corporation beginning July 1, 2019. The Corporation is still evaluating the impact this guidance may have on its consolidated financial statements.

In September 2015, the FASB issued ASU No. 2015-16, *“Simplifying the Accounting for Measurement-Period Adjustments.”* This guidance requires an acquirer in a business combination to recognize adjustments to provisional amounts that are identified during the measurement period in the reporting period in which the adjustment amounts are determined. The effect on earnings of changes in depreciation or amortization, or other income effects (if any) as a result of change to the provisional amounts, calculated as if the accounting had been completed as of the acquisition date, must be recorded in the reporting period in which the adjustment amounts are determined rather than retrospectively. Also, the acquirer must present separately on the face of the income statement, or disclose in the notes, the portion of the amount recorded in current-period earnings by line item that would have been recorded in previous reporting periods if the adjustment to the provisional amounts had been recognized as of the acquisition date. This guidance is effective for the Corporation beginning July 1, 2017. The Corporation does not expect this guidance to have a material impact on its consolidated financial statements.

In July 2015, the FASB issued ASU No. 2015-11, *“Simplifying the Measurement of Inventory.”* This guidance requires entities to measure most inventories at the lower of cost or net realizable value. This guidance is effective for the Corporation beginning July 1, 2017. The Corporation does not expect this guidance to have a material impact on its consolidated financial statements.

In May 2015, the FASB issued ASU No. 2015-09, *“Disclosures About Short-Duration Contracts.”* This guidance expands the disclosures that an insurance entity must provide about its short-duration insurance contracts. This guidance is effective for the Corporation beginning July 1, 2017. The Corporation does not expect this guidance to have a material impact on its consolidated financial statements.

In February 2015, the FASB issued ASU No. 2015-02, *“Amendments to the Consolidation Analysis.”* This guidance significantly changes the consolidation analysis required under GAAP. This guidance is effective for the Corporation beginning July 1, 2017. The Corporation does not expect this guidance to have a material impact on its consolidated financial statements.

In August 2014, the FASB issued ASU No. 2014-15, *“Disclosure of Uncertainties About an Entity’s Ability to Continue as a Going Concern,”* which provides guidance on determining when and how reporting entities must disclose going-concern uncertainties in their financial statements. This guidance is effective for the Corporation beginning July 1, 2017. The Corporation does not expect this guidance to have an impact on its consolidated financial statements.

### 3. INVESTMENTS IN UNCONSOLIDATED AFFILIATES, BUSINESS ACQUISITIONS, DIVESTITURES, AND DISCONTINUED OPERATIONS

**Investments in Unconsolidated Affiliates** – The Corporation and certain of its Health Ministries have investments in entities that are recorded under the cost and equity methods of accounting. As of June 30, 2016 and 2015, the Corporation maintained investments in unconsolidated affiliates with ownership interests ranging from 0.4% to 51% and 3% to 51%, respectively. The Corporation's share of equity earnings from entities accounted for under the equity method was \$213.9 million and \$179.8 million for the years ended June 30, 2016 and 2015, respectively, of which \$51.8 million and \$(3.1) million, respectively, is included in other revenue and \$162.1 million and \$182.9 million, respectively, is included in nonoperating items in the consolidated statements of operations and changes in net assets. The most significant of these investments include the following:

**BayCare Health System** – The Corporation has a 50.4% interest in BayCare Health System Inc. and Affiliates ("BayCare"), a Florida not-for-profit corporation exempt from state and federal income taxes. BayCare was formed in 1997 pursuant to a Joint Operating Agreement ("JOA") among the not-for-profit and tax-exempt members of the CHE BayCare Participants, Morton Plant Mease Health Care, Inc., and South Florida Baptist Hospital, Inc. (collectively, the "Members"). BayCare consists of three community health alliances located in the Tampa Bay area of Florida, including St. Joseph's-Baptist Healthcare Hospital, St. Anthony's Health Care, and Morton Plant Mease Health Care. The Corporation has the right to appoint nine of the 21 voting members of the board of directors of BayCare; therefore, the Corporation accounts for BayCare under the equity method of accounting. As of June 30, 2016 and 2015, the Corporation's investment in BayCare totaled \$2,079 million and \$1,934.2 million, respectively.

**Gateway Health Plan** – The Corporation has a 50% interest in Gateway Health Plan, L.P. and subsidiaries ("GHP"), a Pennsylvania limited partnership. GHP has two general partners, Highmark Ventures Inc., formerly known as Alliance Ventures, Inc., and Mercy Health Plan (a wholly owned subsidiary of the Corporation), each owning 1%. In addition to the general partners, there are two limited partners, Highmark Inc. and Mercy Health Plan, each owning 49%. As of June 30, 2016 and 2015, the Corporation's investment in GHP totaled \$147.6 million and \$135.7 million, respectively.

**Catholic Health System, Inc.** – The Corporation has a one-third interest in Catholic Health System, Inc. and subsidiaries ("CHS"). CHS, formed in 1998, is a not-for-profit integrated delivery health care system in western New York jointly sponsored by the Sisters of Mercy, Ascension Health System, the Franciscan Sisters of St. Joseph, and the Diocese of Buffalo. The Corporation, Ascension Health System, and the Diocese of Buffalo are the corporate members of CHS. CHS operates several organizations, the largest of which are four acute care hospitals located in Buffalo, New York: Mercy Hospital of Buffalo; Kenmore Mercy Hospital; Sisters of Charity Hospital; and St. Joseph Hospital. As of June 30, 2016 and 2015, the Corporation's investment in CHS totaled \$73.3 million and \$51.7 million, respectively.

**Emory Healthcare/St. Joseph's Health System** – The Corporation has a 49% interest in Emory Healthcare/St. Joseph's Health System ("EH/SJHS"). EH/SJHS operates several organizations, including two acute care hospitals, St. Joseph's Hospital of Atlanta and John's Creek Hospital. As of June 30, 2016 and 2015, the Corporation's investment in EH/SJHS totaled \$82.3 million and \$72.5 million, respectively.

**Mercy Health Network** – The Corporation has a 50% interest in Mercy Health Network ("MHN"), a nonstock basis membership corporation with Catholic Health Initiatives ("CHI") holding the remaining 50% interest. Effective March 1, 2016, the Corporation and CHI amended and restated their existing MHN joint operating agreement ("JOA") that governs certain of their legacy operations in Iowa to strengthen MHN's management responsibilities over the Iowa Operations, to jointly acquire health care operations in Iowa and contiguous markets, and to provide for greater financial, governance, and clinical integration. The JOA provides for the Corporation and CHI to maintain ownership of their respective assets in Iowa while agreeing to operate the Corporations Iowa hospitals in collaboration with CHI's Mercy Hospital Medical Center, Des Moines, Iowa, as one organization with common governance and

management. MHN has developed a regional health care network that provides for a collaborative effort in the areas of community health care development, enhanced access to health services for the poor and sharing of other common goals. Under the JOA, the Corporation and CHI equally share adjusted operating cash flow from Iowa operations commencing in July 2016.

On May 1, 2016, MHN became the sole member of Wheaton Franciscan Services, Inc. (“WFSI”). WFSI operates three hospitals in Iowa located in Waterloo (Covenant Medical Center), Cedar Falls (Sartori Memorial Hospital) and Oelwein (Mercy Hospital of Franciscan Sisters). WFSI will be consolidated into MHN’s financial statements. As a result of this transaction, MHN recognized an inherent contribution in their consolidated statements of operations and changes in net assets, of which, the Corporation’s share is \$87.2 million. As of June 30, 2016, the Corporation’s investment in MHN totaled \$91.0 million.

Condensed consolidated balance sheets of BayCare, GHP, CHS, EH/SJHS and MHN as of June 30 are as follows (in thousands):

	<b>2016</b>				
	<b>Baycare</b>	<b>GHP</b>	<b>CHS</b>	<b>EH/SJHS</b>	<b>MHN</b>
Total assets	\$ 6,378,411	\$ 984,457	\$ 1,105,078	\$ 452,892	\$ 240,151
Total liabilities	\$ 2,068,541	\$ 689,217	\$ 884,839	\$ 283,450	\$ 53,768

  

	<b>2015</b>				
	<b>Baycare</b>	<b>GHP</b>	<b>CHS</b>	<b>EH/SJHS</b>	<b>MHN</b>
Total assets	\$ 5,810,907	\$ 832,004	\$ 1,084,263	\$ 448,082	\$ 14,502
Total liabilities	\$ 1,781,550	\$ 560,609	\$ 923,740	\$ 292,955	\$ 4,115

Condensed consolidated statements of operations of BayCare, GHP, CHS, EH/SJHS and MHN for the years ended June 30 are as follows (in thousands):

	<b>2016</b>				
	<b>Baycare</b>	<b>GHP</b>	<b>CHS</b>	<b>EH/SJHS</b>	<b>MHN</b>
Revenue, net	\$ 3,236,962	\$ 2,347,557	\$ 1,076,954	\$ 506,107	\$ 71,664
Excess of revenue over expenses	\$ 287,766	\$ 32,497	\$ 29,131	\$ 18,846	\$ 176,908

  

	<b>2015</b>				
	<b>Baycare</b>	<b>GHP</b>	<b>CHS</b>	<b>EH/SJHS</b>	<b>MHN</b>
Revenue, net	\$ 2,898,550	\$ 2,005,540	\$ 977,555	\$ 478,177	\$ 14,726
Excess (deficiency) of revenue over expenses	\$ 336,011	\$ (76,960)	\$ 30,833	\$ 1,165	\$ 28

The following amounts have been recognized in the accompanying consolidated statements of operations and changes in net assets related to the investments in BayCare, GHP, CHS, EH/SJHS and MHN for the years ended June 30 (in thousands):

<b>2016</b>					
	<b>Baycare</b>	<b>GHP</b>	<b>CHS</b>	<b>EH/SJHS</b>	<b>MHN</b>
Other revenue	\$ -	\$ 16,695	\$ -	\$ -	\$ 1,200
Equity in earnings of unconsolidated organizations	145,034	-	9,701	9,511	-
Inherent contribution	-	-	-	-	87,170
Other changes in unrestricted net assets	(391)	7,505	11,558	51	2,649
Total	<u>\$ 144,643</u>	<u>\$ 24,200</u>	<u>\$ 21,259</u>	<u>\$ 9,562</u>	<u>\$ 91,019</u>

  

<b>2015</b>					
	<b>Baycare</b>	<b>GHP</b>	<b>CHS</b>	<b>EH/SJHS</b>	<b>MHN</b>
Other revenue	\$ -	\$ (38,480)	\$ -	\$ -	\$ -
Equity in earnings of unconsolidated organizations	172,361	-	9,635	377	-
Other changes in unrestricted net assets	(9,654)	(8,492)	(25,982)	36,130	-
Total	<u>\$ 162,707</u>	<u>\$ (46,972)</u>	<u>\$ (16,347)</u>	<u>\$ 36,507</u>	<u>\$ -</u>

The unaudited summarized financial position and results of operations for the entities accounted for under the equity method excluding BayCare, GHP, CHS, EH/SJHS and MHN as of and for the years ended June 30 are as follows (in thousands):

<b>2016</b>						
	<b>Medical Office Buildings</b>	<b>Outpatient and Diagnostic Services</b>	<b>Ambulatory Surgery Centers</b>	<b>Physician Hospital Organizations</b>	<b>Other Investees</b>	<b>Total</b>
Total assets	\$ 87,351	\$ 174,519	\$ 60,695	\$ 14,454	\$ 521,628	\$ 858,647
Total liabilities	\$ 63,605	\$ 78,936	\$ 22,640	\$ 12,482	\$ 228,791	\$ 406,454
Net assets	\$ 23,746	\$ 95,583	\$ 38,055	\$ 1,972	\$ 292,838	\$ 452,194
Revenue, net	\$ 17,943	\$ 246,410	\$ 91,053	\$ 20,938	\$ 1,288,857	\$ 1,665,201
Excess (deficiency) of revenue over expenses	\$ 7,036	\$ 24,449	\$ 25,702	\$ (1,987)	\$ 7,015	\$ 62,215

  

<b>2015</b>						
	<b>Medical Office Buildings</b>	<b>Outpatient and Diagnostic Services</b>	<b>Ambulatory Surgery Centers</b>	<b>Physician Hospital Organizations</b>	<b>Other Investees</b>	<b>Total</b>
Total assets	\$ 88,670	\$ 145,832	\$ 41,681	\$ 33,589	\$ 492,431	\$ 802,203
Total liabilities	\$ 68,634	\$ 56,137	\$ 22,633	\$ 27,053	\$ 234,938	\$ 409,395
Net assets	\$ 20,036	\$ 89,694	\$ 19,047	\$ 6,537	\$ 257,493	\$ 392,807
Revenue, net	\$ 17,956	\$ 179,947	\$ 77,285	\$ 39,119	\$ 1,149,781	\$ 1,464,088
Excess (deficiency) of revenue over expenses	\$ 4,120	\$ 23,850	\$ 21,480	\$ (455)	\$ 39,008	\$ 88,003

### **Acquisitions:**

**Saint Francis Care (“SFC”)** – On October 1, 2015, the Corporation became the sole corporate member of SFC, a Connecticut non-stock corporation. On November 17, 2015, Saint Francis Care, Inc. changed its name to Trinity Health-New England, Inc. SFC is the sole member of Saint Francis Hospital and Medical Center (“SFHMC”), a Connecticut nonstock corporation that operates a hospital in Hartford, Connecticut, and is also the sole member of Mount Sinai Rehabilitation Hospital, a Connecticut nonstock corporation, that operates a rehabilitation facility. As a result, the Corporation recognized an inherent contribution of \$70.9 million in the consolidated statements of operations and changes in net assets. The Corporation is still in the process of assessing the economic characteristics of certain assets acquired and liabilities assumed. The Corporation expects to substantially complete this assessment during the period ended September 30, 2016, and may adjust the amounts recorded as of October 1, 2015, to reflect revised evaluations. Summarized consolidated balance sheet information for SFC at October 1, 2015, is shown below (in thousands):

Cash, cash equivalents, and investments	\$ 135,568	Current portion of long-term debt	\$ 7,298
Patient accounts receivable, net	75,415	Accounts payable and accrued expenses	98,922
Other receivables	10,159	Other current liabilities	17,381
Inventories	9,701	Long-term debt	244,154
Other current assets	16,418	Accrued pension and retiree health costs	197,562
Property and equipment	411,067	Other long-term liabilities	106,717
Assets limited or restricted as to use -		Total liabilities acquired	<u>672,034</u>
noncurrent portion	145,992		
Other assets	<u>18,069</u>	Unrestricted net assets	70,996
Total assets acquired	<u>\$ 822,389</u>	Temporarily restricted net assets	26,180
		Permanently restricted net assets	<u>53,179</u>
		Total net assets	<u>\$ 150,355</u>

As part of the transaction, an investment of \$275 million in capital has been committed over a five-year period by the Corporation. As disclosed in Note 6, the transaction included the extinguishment of bonds. In addition, as disclosed in Note 11, on October 1, 2015, the Corporation novated an interest rate swap from SFC that increased other long-term liabilities in the consolidated balance sheets by \$44.0 million.

For the year ended June 30, 2016, SFC reported revenue of \$727.9 million and excess of revenue over expenses of \$2.4 million in the consolidated statements of operations. These amounts represent nine months of SFC activity since being acquired by the Corporation and are inclusive of six months of Johnson Memorial Medical Center, Inc. activity as noted below.

**Johnson Memorial Medical Center, Inc. (“Johnson”)** – On January 1, 2016, SFC acquired the assets of Johnson, a non-profit, non-stock holding company located in Stafford Springs, Connecticut. Johnson, through its subsidiaries, provides health care services throughout the Hartford and Tolland Connecticut counties. For the six-month period ended June 30, 2016, Johnson reported revenue of \$32.2 million and deficiency of revenue over expenses of \$3.3 million in the consolidated statements of operations. As a result of the acquisition, the Corporation recognized an inherent contribution of \$4.0 million in the consolidated statements of operations and changes in net assets. The Corporation is still in the process of assessing the economic characteristics of certain assets acquired and liabilities assumed. The Corporation expects to substantially complete this assessment during the period ending December 31, 2016, and may adjust the amounts recorded as of January 1, 2016, to reflect revised evaluations.

Summarized consolidated balance sheet information for Johnson at January 1, 2016, is shown below (in thousands):

Patient accounts receivable, net	\$ 9,330	Current portion of long-term debt	\$ 801
Other receivables	777	Accounts payable and accrued expenses	11,765
Inventories	1,577	Other current liabilities	2,682
Other current assets	1,585	Long-term debt	22,749
Property and equipment	25,908	Other long-term liabilities	141
Other assets	3,472	Total liabilities acquired	<u>38,138</u>
Total assets acquired	<u>\$ 42,649</u>		
		Unrestricted net assets	3,971
		Temporarily restricted net assets	540
		Total net assets	<u>\$ 4,511</u>

***Saint Joseph's Hospital Health Center ("SJHHC")*** – On July 1, 2015, the Corporation became the sole corporate member of SJHHC, a regional health care system located in Syracuse, New York, as part of a member substitution. As a result, the Corporation recognized an inherent contribution of \$58.3 million in the consolidated statement of operations and changes in net assets. Summarized consolidated balance sheet information for SJHHC at July 1, 2015, is shown below (in thousands):

Cash, cash equivalents, and investments	\$ 104,827	Current portion of long-term debt	\$ 20,723
Patient accounts receivable, net	98,584	Accounts payable and accrued expenses	113,513
Assets limited or restricted as to use, current portion	16,057	Long-term debt	321,459
Other current assets	25,684	Accrued pension and retiree health costs	19,176
Property and equipment	316,294	Other long-term liabilities	40,074
Assets limited or restricted as to use, noncurrent portion	34,759	Total liabilities acquired	<u>514,945</u>
Other assets	23,003		
Total assets acquired	<u>\$ 619,208</u>	Unrestricted net assets	60,460
		Unrestricted noncontrolling interest	28,623
		Total unrestricted net assets	89,083
		Temporarily restricted net assets	11,948
		Permanently restricted net assets	3,232
		Total net assets	<u>\$ 104,263</u>

As part of the transaction, an investment of \$60 million in capital has been committed over a four-year period by the Corporation. This amount may be increased to \$90 million if certain operating thresholds are met. As disclosed in Note 6, the transaction included the extinguishment of bonds. For the year ended June 30, 2016, SJHHC reported revenue of \$663.8 million and deficiency of revenue over expenses of \$13.1 million in the consolidated statements of operations.

**Consolidation of Siouxland Surgery Center, LLP (“Siouxland”)** – Effective July 1, 2014, a venture was created between Mercy Health Services – Iowa, Corp. (“Mercy”) and USP Health Ventures, LLC (“USP”) (collectively, “Mercy/USP”). Mercy owns a controlling interest of 55.71% and USP owns the remaining 44.29% interest of the venture. Mercy/USP then entered into a securities purchase agreement with SSC Physician Investors, LLC (“Physician Investors”), whereby Mercy contributed 30.9% of their preexisting ownership of Siouxland and USP contributed their newly acquired 24.6% ownership of Siouxland, resulting in Mercy/USP owning a controlling interest of 55.54% of Siouxland with the remaining 44.46% interest owned by Physician Investors. As a result of the transaction, Mercy reported a gain of \$40.3 million on its preexisting ownership interest in nonoperating items in the consolidated statements of operations and changes in net assets in July 2014 and recognized goodwill of \$136.3 million in the consolidated balance sheets. Siouxland operates a surgical specialty hospital and medical facility in Dakota Dunes, South Dakota.

Summarized consolidated opening balance sheet information for Mercy/USP is shown below and includes the acquisition of \$13.2 million of long-term debt, including the current portion (in thousands):

Cash	\$ 1,778	Current portion of long-term debt	\$ 1,031
Patient accounts receivable	9,949	Accounts payable and accrued expenses	7,180
Other current assets	3,301	Salary, wages, and related liabilities	2,154
Property and equipment	24,313	Long-term debt, net of current portion	12,154
Goodwill	136,251	Total liabilities acquired	<u>\$ 22,519</u>
Other assets	318		
Total assets acquired	<u>\$ 175,910</u>	Unrestricted net assets	\$ 54,383
		Unrestricted noncontrolling interest	<u>99,008</u>
		Total net assets	<u>\$ 153,391</u>

The operating results for Siouxland for the years ended June 30, 2016 and 2015, include revenue of \$82.0 million and \$74.0 million and excess of revenue over expenses, prior to the adjustment for noncontrolling interest, of \$36.8 million and \$29.2 million, respectively.

#### ***Divestitures:***

The consolidated financial statements for all periods present the operations of the following entities as discontinued operations as the transactions were in process prior to the adoption of ASU No. 2014-8 “Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity”.

**Saint Michael’s Medical Center (“St. Michael’s”)** – On August 10, 2015, St. Michael’s and certain of its affiliates voluntarily filed for reorganization under Chapter 11 of the Bankruptcy Code. Pursuant to the provisions of the Bankruptcy Code, the transaction with Prime Healthcare Services (“Prime”) was subject to an “auction sale” process. By order of November 12, 2015, the Bankruptcy Court approved Prime as the successful bidder for the hospital resulting in a first amended and restated asset purchase agreement between the parties. Effective May 1, 2016, the Corporation sold substantially all of the health care operations and assets of St. Michael’s to Prime, a hospital system based in Ontario, California, and recorded a loss on disposal of \$35.7 million in discontinued operations in the consolidated statements of operations and changes in net assets. The Corporation has provided a debtor-in-possession revolving loan facility to St. Michael’s of up to \$15 million with availability restricted to achievement of certain milestones in the bankruptcy process. St. Michael’s continues to operate their remaining businesses as debtor in possession under the jurisdiction of the Court and in accordance with the applicable provisions of the Bankruptcy Code and orders of the Court. St. Michael’s prepetition liabilities retained by the Corporation remain subject to settlement under the Bankruptcy Code.

As part of a court order to settle St. Michael’s outstanding debt and accrued interest, the Corporation paid \$55.8 million in July 2016 to settle \$233.4 million of St. Michael’s debt, resulting in a \$177.6 million gain in discontinued operations in the consolidated statement of operations and changes in net assets.

***Mercy Suburban Hospital and East Norriton Physician Services (“Mercy Suburban”)*** – Effective February 1, 2016, the Corporation sold substantially all of the health care operations and assets of Mercy Suburban to Prime. The impact of the disposal recorded in discontinued operations in the consolidated statements of operations and changes in net assets at the effective date was immaterial to the Corporation. As disclosed in Note 6, the transaction resulted in the defeasance of bonds.

***St. Joseph Mercy Port Huron (“Port Huron”)*** – Effective September 1, 2015, the Corporation sold substantially all of the Corporation’s health care operations located in Port Huron, Michigan, to Prime. As a result of the sale, a loss on disposal of \$10.2 million was recorded in the consolidated statement of operations and changes in net assets. As disclosed in Note 6, the transaction resulted in the defeasance of bonds.

***Saint James Mercy Hospital, Hornell, NY (“SJMh”)*** – Effective May 1, 2015, the Corporation spun-off substantially all of the operations of SJMH to form an independent entity. As a result of the spin-off, a loss on disposal of \$4.9 million and an asset impairment charge of \$12.7 million was recorded in unrestricted net assets.

***Mercy Health Partners, North (“North”)*** – Effective February 1, 2015, the Corporation sold substantially all of the Corporation’s health care operations located in Cadillac, Michigan; and Grayling, Michigan, to Munson Healthcare. As a result of the sale, a loss on disposal of \$5.1 million was recorded in unrestricted net assets.

Condensed consolidated statements of operations and changes in net assets of St. Michael’s, Mercy Suburban, Port Huron, SJMH, and North for the years ended June 30 are as follows (in thousands):

		<b>2016</b>				
		<b>St. Michael's</b>	<b>Mercy Suburban</b>	<b>Port Huron</b>	<b>SJMh</b>	<b>North</b>
Revenue, net		\$ 148,420	\$ 52,652	\$ 26,864	\$ -	\$ -
Deficiency of revenue over expenses		\$ (38,087)	\$ (10,404)	\$ (1,427)	\$ -	\$ -
		<b>2015</b>				
		<b>St. Michael's</b>	<b>Mercy Suburban</b>	<b>Port Huron</b>	<b>SJMh</b>	<b>North</b>
Revenue, net		\$ 195,677	\$ 104,224	\$ 76,094	\$ 40,108	\$ 112,760
Deficiency of revenue over expenses		\$ (19,614)	\$ (2,598)	\$ (2,468)	\$ (13,136)	\$ (3,916)

#### **4. NET PATIENT SERVICE REVENUE**

A summary of the payment arrangements with major third-party payors is as follows:

***Medicare*** – Acute inpatient and outpatient services rendered to Medicare program beneficiaries are paid primarily at prospectively determined rates. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Certain items are reimbursed at a tentative rate with final settlement determined after submission of annual cost reports and audits thereof by the Medicare fiscal intermediaries.

***Medicaid*** – Reimbursement for services rendered to Medicaid program beneficiaries includes prospectively determined rates per discharge, per diem payments, discounts from established charges, fee schedules, and cost reimbursement methodologies with certain limitations. Cost reimbursable items are reimbursed at a tentative rate with final settlement determined after submission of annual cost reports and audits thereof by the Medicaid fiscal intermediaries.

**Other** – Reimbursement for services to certain patients is received from commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for reimbursement includes prospectively determined rates per discharge, per diem payments, and discounts from established charges.

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. Compliance with such laws and regulations can be subject to future government review and interpretation as well as significant regulatory action, including fines, penalties, and exclusion from the Medicare and Medicaid programs.

**Charity Care** – The Corporation provides services to all patients regardless of ability to pay. In accordance with the Corporation's policy, a patient is classified as a charity patient based on income eligibility criteria as established by the Federal Poverty Guidelines. Charges for services to patients who meet the Corporation's guidelines for charity care are not reflected in the accompanying consolidated financial statements.

Patient service revenues, net of contractual and other allowances (but before the provision for bad debts), recognized during the years ended June 30 are as follows (in thousands):

	<u>2016</u>	<u>2015</u>
Medicare	\$ 5,674,206	\$ 4,924,529
Blue Cross	3,068,119	2,623,777
Medicaid	2,279,151	1,859,985
Uninsured	422,365	366,871
Commercial and Other	<u>3,274,687</u>	<u>3,068,184</u>
Total	<u>\$ 14,718,528</u>	<u>\$ 12,843,346</u>

A summary of net patient service revenue before provision for bad debts for the years ended June 30 is as follows (in thousands):

	<u>2016</u>	<u>2015</u>
<b>Gross charges:</b>		
Acute inpatient	\$ 20,274,353	\$ 17,563,491
Outpatient, nonacute inpatient, and other	<u>23,195,830</u>	<u>20,183,959</u>
Gross patient service revenue	43,470,183	37,747,450
<b>Less:</b>		
Contractual and other allowances	(28,097,663)	(24,180,845)
Charity care charges	<u>(653,992)</u>	<u>(723,259)</u>
Net patient service revenue before provision for bad debts	<u>\$ 14,718,528</u>	<u>\$ 12,843,346</u>

The Affordable Care Act resulted in a reduction in charity care charges during the year ended June 30, 2016, as well as an increase in contractual and other allowances as a result of self-pay patients obtaining insurance coverage under state insurance exchanges or Medicaid programs.

## 5. PROPERTY AND EQUIPMENT

A summary of property and equipment as of June 30 is as follows (in thousands):

	<b>2016</b>	<b>2015</b>
Land	\$ 348,265	\$ 325,846
Buildings and improvements	8,867,512	8,057,499
Equipment	5,899,324	5,486,909
Capital leased assets	179,315	177,290
Total	15,294,416	14,047,544
Accumulated depreciation and amortization	(8,213,922)	(7,764,610)
Construction in progress	596,240	490,349
Property and equipment, net	<u>\$ 7,676,734</u>	<u>\$ 6,773,283</u>

As of June 30, 2016, commitments to purchase property and equipment of approximately \$659 million were outstanding. Significant commitments are primarily for facility expansion at existing campuses and related infrastructures at the following Health Ministries: Mount Carmel Health System in Columbus, Ohio – \$352.0 million; St. Peter’s Health Partners (“St. Peter’s”) in Albany, New York – \$59.6 million; Saint Alphonsus Health System of Oregon, Idaho – \$58.5 million; Saint Joseph Mercy Health System of Southeast Michigan – \$44.3 million; and Mercy Health System of Chicago in Chicago, Illinois – \$31.9 million with the remaining amount due to several smaller projects across the Corporation.

The following table details the Corporation’s committed capital spending in conjunction with recent acquisitions of affiliates:

<b>RHM</b>	<b>Capital Commitment</b>	<b>Commitment Period Ending</b>	<b>Capital Spending through June 30, 2016</b>
Mercy Health System of Chicago	\$140 million over 5 years, \$150 million if performance metrics are achieved	June 30, 2017	\$94 million
Loyola University Health System	\$300 million over 7 years, \$400 million if performance metrics are achieved	June 30, 2018	\$290 million
SJHHC	\$60 million over 4 years, \$90 million if performance metrics are achieved	June 30, 2019	\$18 million
SFC	\$275 million over 5 years if performance metrics are achieved	June 30, 2020	\$27 million

During the year ended June 30, 2016, the Corporation recorded impairment charges of \$39.6 million in the consolidated statements of operations and changes in net assets related to St. Peter’s, Albany, New York. Material adverse trends in the most recent estimates of future undiscounted cash flows of certain St. Peter’s hospitals indicated that the carrying value of the long-lived assets were not recoverable from estimate future cash flows. Fair value was determined using a third-party valuation.

During the year ended June 30, 2015, the Corporation recorded total impairment charges of \$36.1 million, of which \$12.7 million is included in discontinued operations, loss from operations, in the consolidated statements of operations and changes in net assets. These impairments relate primarily to facilities that the Corporation significantly underutilized. Impairments were recorded at the following locations as fair value estimates were lower than carrying value: St. Francis, Trenton, New Jersey – \$19.1 million; SJMH, Hornell, New York – \$12.7 million; and Saint Joseph Mercy Health System, in Southeast Michigan – \$4.3 million.

## 6. LONG-TERM DEBT AND OTHER FINANCING ARRANGEMENTS

A summary of short-term borrowings and long-term debt as of June 30 is as follows (in thousands):

	<u>2016</u>	<u>2015</u>
<b>Short-term borrowings:</b>		
Variable rate demand bonds with contractual maturities through 2048. Interest payable monthly at rates ranging from 0.01% to 0.6% during 2016 and 0.01% to 0.67% during 2015	\$ 1,067,730	\$ 1,098,710
<b>Long-term debt:</b>		
Tax-exempt revenue bonds and refunding bonds:		
Fixed rate term and serial bonds, payable at various dates through 2048. Interest rate ranges from 2.0% to 7.62% during 2016 and 2015	\$ 3,540,345	\$ 3,163,765
Variable rate term bonds, payable at various dates through 2051. Interest rate ranges from 0.4% to 1.25% during 2016 and 0.22% to 1.01% during 2015	815,950	560,466
Taxable revenue bonds:		
Fixed rate term, payable in 2046. Interest rate of 4.13% during 2016 and 2015	350,000	350,000
Variable rate term bonds, payable at various dates through 2048. Interest rate ranges from 0.88% to 0.91% during 2016	54,680	-
Notes payable to banks. Interest payable at rates ranging from 1.4% to 3.4%, fixed and variable, payable in varying monthly installments through 2035	36,606	39,976
Capital lease obligations (excluding imputed interest of \$47.1 million at June 30, 2016 and \$44.6 million at June 30, 2015)	129,157	126,975
Mortgage obligations. Interest payable at rates ranging from 4.0% to 6.25% during 2016 and 4.1% to 11.0% during 2015	91,363	97,427
Other	40,540	32,680
Total long-term debt	5,058,641	4,371,289
Less current portion, net of current discounts	(106,345)	(106,226)
Unamortized debt issuance costs	(34,776)	(32,599)
Unamortized premiums, net	214,857	149,992
Long-term debt, net of current portion	\$ 5,132,377	\$ 4,382,456

Contractually obligated principal repayments on short-term borrowings and long-term debt are as follows (in thousands):

	<u>Short-Term Borrowings</u>	<u>Long-Term Debt</u>
Years ending June 30:		
2017	\$ 27,890	\$ 108,825
2018	29,300	103,481
2019	28,200	102,126
2020	36,000	99,527
2021	33,425	101,825
Thereafter	912,915	4,542,857
Total	\$ 1,067,730	\$ 5,058,641

A summary of interest costs on borrowed funds primarily under the revenue bond indentures during the year ended June 30 is as follows (in thousands):

	<u>2016</u>	<u>2015</u>
Interest costs incurred	\$ 200,625	\$ 171,222
Less capitalized interest	<u>(4,796)</u>	<u>(8,162)</u>
Interest expense included in operations	<u>\$ 195,829</u>	<u>\$ 163,060</u>

***Obligated Group and Other Requirements*** – The Corporation has debt outstanding under a master trust indenture dated October 3, 2013, as amended and supplemented, the amended and restated master indenture ("ARMI"). The ARMI permits the Corporation to issue obligations to finance certain activities. Obligations issued under the ARMI are joint and several obligations of the obligated group established thereunder (the "Obligated Group", which currently consists of the Corporation). Proceeds from tax-exempt bonds and refunding bonds are to be used to finance the construction, acquisition and equipping of capital improvements. Proceeds from taxable bonds are to be used to finance corporate purposes. Certain Ministries of the Corporation constitute designated affiliates and the Corporation covenants to cause each designated affiliate to pay, loan or otherwise transfer to the Obligated Group such amounts necessary to pay the amounts due on all obligations issued under the ARMI. The Obligated Group and the designated affiliates are referred to as the Credit Group.

The Credit Group does not include certain affiliates that borrow on their own or are (or may become) members of a separate New York obligated group, but which are included in the Corporation's consolidated financial statements. St. Peter's Hospital of the City of Albany currently is the Obligated Group agent of an obligated group created under that certain master trust indenture dated as of January 1, 2008, among St. Peter's Hospital of the City of Albany; St Peter's Health Partners; Memorial Hospital, Albany, New York.; Samaritan Hospital of Troy, New York; Seton Health System, Inc.; Sunnyview Hospital and Rehabilitation Center; the Capital Region Geriatric Center, Inc.; and Manufacturers and Traders Trust Company, as the master trustee. In addition, St. Joseph's Hospital Health Center, acquired on July 1, 2015, is not a designated affiliate and is not part of the Credit Group.

Pursuant to the ARMI, the Obligated Group agent has caused the designated affiliates representing, when combined with the Obligated Group members, at least 85% of the consolidated net revenues of the Credit Group to grant to the master trustee security interests in their pledged property which security interests secure all obligations issued under the master trust indenture. There are several conditions and covenants required by the ARMI with which the Corporation must comply, including covenants that require the Corporation to maintain a minimum historical debt-service coverage and limitations on liens or security interests in property, except for certain permitted encumbrances, affecting the property of the Corporation or any material designated affiliate (a designated affiliate whose total revenues for the most recent fiscal year exceed 5% of the combined total revenues of the Corporation for the most recent fiscal year). Long-term debt outstanding as of June 30, 2016 and 2015 that has not been secured under the ARMI is generally collateralized by certain property and equipment.

Mercy Health System of Chicago ("MHSC") has a \$60.4 million mortgage loan outstanding at June 30, 2016, that is insured by the US Department of Housing and Urban Development ("HUD"). MHSC's payment obligations under the two mortgage notes evidencing this loan are guaranteed by the Corporation. The mortgage loan agreements with HUD contain various covenants, including those relating to limitations on incurring additional debt, transactions with affiliates, transferring or disposing of designated property, use of funds and other assets of the mortgaged property, financial performance, required reserves, insurance coverage, timely submission of specified financial reports, and restrictions on prepayment of the mortgage loan. MHSC and the Corporation provided covenants to HUD not to interfere in the performance of MHSC's obligations under the HUD-insured loan documents. MHSC is not a Designated Affiliate and is not part of the Credit Group.

**Commercial Paper** – The Corporation’s commercial paper program is authorized for borrowings up to \$600 million. As of June 30, 2016 and 2015, the total amount of commercial paper outstanding was \$146 million and \$100 million, respectively. Proceeds from this program are to be used for general purposes of the Corporation. The notes are payable from the proceeds of subsequently issued notes and from other funds available to the Corporation, including funds derived from the liquidation of securities held by the Corporation in its investment portfolio. The interest rate charged on borrowings outstanding during the years ended June 30, 2016 and 2015, ranged from 0.09% to 0.50% and 0.07% to 0.16%, respectively.

**Liquidity Facilities** – In July 2015, the Corporation amended and restated the Trinity Health credit agreements (collectively, the “Credit Agreements”) previously entered into between the Corporation and US Bank National Association, which acts as an administrative agent for a group of lenders thereunder. The Credit Agreements establish a revolving credit facility for the Corporation, under which that group of lenders agree to lend to the Corporation amounts that may fluctuate from time to time and totaled \$931 million as of June 30, 2016. Amounts drawn under the Credit Agreements can only be used to support the Corporation’s obligation to pay the purchase price of bonds that are subject to tender and that have not been successfully remarketed and the maturing principal of and interest on commercial paper notes. Of the \$931 million available balance, \$325 million expires in July 2017, \$321 million expires in July 2018, and \$285 million expires in July 2019. The Credit Agreements are secured by obligations under the master trust indenture. As of June 30, 2016 and 2015, there were no amounts outstanding on these credit agreements. In addition, in July 2015, the Corporation renewed a three-year general purpose credit facility of \$200 million. As of June 30, 2016 and 2015, there were no amounts outstanding under this credit facility.

**Standby Letters of Credit** – The Corporation entered into various standby letters of credit totaling approximately \$9.9 million and \$8.2 million as of June 30, 2016 and 2015, respectively. These standby letters of credit are renewed annually and are available to the Corporation as necessary under its insurance programs and for unemployment liabilities. The Corporation also maintained a general purpose facility of \$45 million, of which \$42 million is related to letters of credit. In July 2015, this general purpose facility was terminated and all letters of credit were merged into the same program. There were no draws on the general purpose facility or letters of credit during the years ended June 30, 2016 and 2015.

**Transactions** – The acquisitions of SJHHC and SFC, as described in Note 3, resulted in the assumption of debt of \$342.2 million and \$251.5 million, respectively. The majority of this debt was retired or defeased using proceeds from the issuance of \$372 million of commercial paper and a \$190 million draw on a general purpose credit facility, both of which were later replenished with proceeds from the issuance of long-term debt in January and February 2016 as described below. In addition, the acquisition of Johnson, as described in Note 3, resulted in the assumption of debt of \$23.3 million, the majority of which was subsequently redeemed.

As the result of the divestiture of Port Huron on September 1, 2015, described in Note 3, the Corporation defeased approximately \$31.9 million of bonds through the funding of various escrow accounts on November 5, 2015. In addition, the Corporation redeemed approximately \$12.2 million of bonds on November 25, 2015.

On November 24, 2015, the Corporation issued \$55.0 million of commercial paper that was used to redeem \$53.3 million in outstanding revenue bonds. On January 15, 2016, the Corporation issued \$63 million of commercial paper to finance the construction, acquisition and equipping of capital improvements.

During January 2016, the Credit Group issued \$555.6 million par value in tax-exempt fixed-rate hospital revenue bonds at a premium of \$76.7 million under the ARMI. During February 2016, the Credit Group issued \$263.8 million par value in tax-exempt variable-rate private placement bonds and \$54.7 million par value in taxable variable-rate private placement bonds. Proceeds from these issuances were used to retire \$600 million of then-outstanding taxable commercial paper obligations, paydown \$152.1 million of the then-outstanding line of credit draw, extinguish the remaining \$43.9 million of debt assumed with the acquisition of SJHHC and pay related transaction costs and to defease \$25.5 million of tax-exempt bonds. The remaining

proceeds will be used to finance, refinance and reimburse a portion of the costs of acquisition, construction, renovation and equipping of health facilities, and to pay related costs of issuance.

In February 2016, the Corporation issued \$100 million of commercial paper for general corporate purposes and \$21 million to pay down the remaining outstanding line of credit draw.

As the result of the divestiture of Mercy Suburban described in Note 3, the Corporation defeased approximately \$25 million of bonds through the funding of various escrow accounts on April 27, 2016.

## **7. PROFESSIONAL AND GENERAL LIABILITY PROGRAMS**

The Corporation operates a wholly owned insurance company, Trinity Assurance, Ltd. ("TAL"). Effective July 1, 2015, TAL's name was changed from Venzke Insurance Company, Ltd. TAL qualifies as a captive insurance company and provides certain insurance coverage to the Corporation's Ministries under a centralized program. The Corporation is self-insured for certain levels of general and professional liability, workers' compensation and certain other claims. The Corporation has limited its liability by purchasing reinsurance and commercial coverage from unrelated third-party commercial insurers.

Effective October 1, 2015, TAL policies include the facilities and individuals that were previously insured with Saint Francis Indemnity Company, LLC ("SFICL"), a captive insurance company domiciled in the State of Vermont, whose sole member is SFHMC. Policies issued and reinsurance purchased by SFICL prior to October 1, 2015 will remain in effect. SFICL did not, nor does it intend to, write or renew any insurance business after September 30, 2015. SFICL was merged into TAL on May 1, 2016 at which time all losses previous to October 1, 2015 for SFICL were assumed by TAL.

The Corporation's current self-insurance program includes \$20 million per occurrence for the primary layers of professional and general liability, as well as \$10 million per occurrence for hospital government liability, \$5 million per occurrence for miscellaneous errors and omission liability, and \$1 million per occurrence for management liability (directors' and officers' and employment practices), network security and privacy liability and certain other coverages. In addition, through TAL and its various commercial reinsurers, the Corporation maintains integrated excess liability coverage of \$100 million in aggregate for the period July 1, 2014, through July 1, 2016. The Corporation self-insures \$750,000 per occurrence for workers' compensation in most states, with commercial insurance providing coverage up to the statutory limits, and self-insures up to \$500,000 in property values per occurrence with commercial insurance providing coverage up to \$1 billion.

The liability for self-insurance reserves represents estimates of the ultimate net cost of all losses and loss adjustment expenses, which are incurred but unpaid at the consolidated balance sheet date. The reserves are based on the loss and loss adjustment expense factors inherent in the Corporation's premium structure. Independent consulting actuaries determined these factors from estimates of the Corporation's expenses and available industry-wide data. The Corporation discounts the reserves to their present value using a discount rate of 3%. The reserves include estimates of future trends in claim severity and frequency. Although considerable variability is inherent in such estimates, management believes that the liability for unpaid claims and related adjustment expenses is adequate based on the loss experience of the Corporation. The estimates are continually reviewed and adjusted as necessary. The changes to the estimated self-insurance reserves were determined based upon the annual independent actuarial analyses.

Claims in excess of certain insurance coverage and the recorded self-insurance liability have been asserted against the Corporation by various claimants. The claims are in various stages of processing and some may ultimately be brought to trial. There are known incidents occurring through June 30, 2016, that may result in the assertion of additional claims and other claims may be asserted arising from services provided in the past. While it is possible that settlement of asserted claims and claims that may be asserted in the future could result in liabilities in excess of amounts for which the Corporation has provided, management, based upon the advice of the legal counsel, believes that the excess liability, if any, should not materially affect the consolidated financial position, operations, or cash flows of the Corporation.

## 8. PENSION AND OTHER BENEFIT PLANS

***Deferred Compensation*** – The Corporation has nonqualified deferred compensation plans at certain Ministries that permit eligible employees to defer a portion of their compensation. The deferred amounts are distributable in cash after retirement or termination of employment. As of June 30, 2016 and 2015, the assets under these plans totaled \$171.3 million and \$160.5 million and liabilities totaled \$183.7 million and \$170.0 million, respectively, which are included in self-insurance, benefit plans and other assets and other long-term liabilities in the consolidated balance sheets.

***Defined Contribution Benefits*** – The Corporation sponsors defined contribution pension plans covering substantially all of its employees. These programs are funded by employee voluntary contributions, subject to legal limitations. Effective January 1, 2015, employer contributions to these plans include nonelective contributions of 3% of eligible compensation, and varying levels of matching contributions based on employee service. The employees direct their voluntary contributions and employer contributions among a variety of investment options. The Corporation suspended the majority of employer-matching contributions for the Trinity Health 403(b) Retirement Savings Plan for the six months ended December 2014. Contribution expense under the plans totaled \$296.0 million and \$172.3 million for the years ended June 30, 2016 and 2015, respectively.

***Noncontributory Defined Benefit Pension Plans (“Pension Plans”)*** – The Corporation maintains qualified, noncontributory defined benefit pension plans under which benefit accruals are frozen for the majority of employees. Certain nonqualified, supplemental plan arrangements also provide retirement benefits to specified groups of participants.

Certain plans are subject to the provisions of the Employee Retirement Security Act of 1974 (“ERISA”). The remaining plans have church plan status as determined by the Internal Revenue Service (“IRS”) and are not governed by ERISA. Effective June 2014, the Trinity Health Pension Plan was amended to freeze all future benefit accruals as of December 31, 2014. The Corporation’s adopted funding policy for the majority of its qualified church plans, which is reviewed annually, is to fund the current normal cost or service cost based on the accumulated benefit obligations and amortization of any under or over funding. The remaining church plan has historically funded amounts equal to annual pension expense.

***Postretirement Health Care and Life Insurance Benefits (“Postretirement Plans”)*** – The Corporation sponsors both funded and unfunded contributory plans to provide health care benefits to certain of its retirees. All of the Postretirement Plans are closed to new participants. The Postretirement Plans cover certain hourly and salaried employees who retire from certain Ministries. Medical benefits for these retirees are subject to deductibles and copayment provisions. Effective January 1, 2011, the funded plans provide benefits to certain retirees at fixed dollar amounts in health reimbursement account arrangements for Medicare eligible participants.

***Plan Acquisitions*** – As discussed in Note 3, the Corporation acquired SJHHC on July 1, 2015, and SFC on October 1, 2015, including all related benefit plans. SJHHC maintains one qualified, noncontributory defined benefit pension plan that provides retirement benefits for substantially all full-time employees. Benefit accruals were frozen and the plan was closed to new participants in April 2014. The plan is subject to the provisions of ERISA. In addition, SJHHC provides other postretirement benefits (primarily health benefits) to an eligible group of employees. The postretirement plan was closed to new participants in 2000, and is unfunded. SFC maintains two qualified, noncontributory defined benefit plans that provide benefits for substantially all full-time employees. One of the plans is subject to ERISA, and one of the plans has Church Plan status. Both plans were frozen and closed to new participants in September 2006. SFC also provides other postretirement benefits, primarily health benefits, to an eligible group of employees. The postretirement plan is closed to new participants.

The following table sets forth the changes in projected benefit obligations, accumulated postretirement obligations, and changes in plan assets and funded status of the plans for both the Pension Plans and Postretirement Plans for the years ended June 30 (in thousands):

	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
	<u>Pension Plans</u>		<u>Postretirement Plans</u>	
<b>Change in Benefit Obligation:</b>				
Benefit obligation, beginning of year	\$ 6,553,044	\$ 6,228,019	\$ 110,004	\$ 108,518
Service cost	2,058	71,182	420	478
Interest cost	335,564	297,711	6,121	4,879
Amendments / plan change	(112,790)	1,327	-	-
Actuarial loss	746,309	238,729	5,924	1,099
Benefits paid	(328,328)	(277,849)	(6,571)	(5,073)
Medicare Part D reimbursement	-	-	63	103
Curtailments	(783)	(6,075)	-	-
Plan acquisitions	520,270	-	26,294	-
Benefit obligation, end of year	7,715,344	6,553,044	142,255	110,004
<b>Change in Plan Assets:</b>				
Fair value of plan assets, beginning of year	5,599,192	5,524,841	97,092	96,109
Actual return on plan assets	168,312	166,464	4,184	4,916
Employer contributions	137,098	185,736	2,735	1,140
Benefits paid	(328,328)	(277,849)	(6,571)	(5,073)
Plan acquisitions	329,910	-	-	-
Fair value of plan assets, end of year	5,906,184	5,599,192	97,440	97,092
Unfunded amount recognized June 30	<u>\$(1,809,160)</u>	<u>\$ (953,852)</u>	<u>\$ (44,815)</u>	<u>\$ (12,912)</u>
Recognized in other long-term assets	\$ -	\$ -	\$ 3,664	\$ 4,389
Recognized in accrued pension and retiree health costs	\$(1,809,160)	\$ (953,852)	\$ (48,479)	\$ (17,301)

Certain plans were amended during 2016 to allow for participants active on or after January 1, 2016, to take their benefit as a lump sum when they terminate employment or retire. These amendments resulted in a decrease in accumulated plan benefits of \$113 million. Actuarial losses during 2016 are primarily related to changes in discount rates used to measure plan liabilities.

Mortality assumptions for participants in the Corporation's pension and postretirement plans incorporate future mortality improvements from tables published by the Society of Actuaries ("SOA"). During 2014, the SOA issued new mortality and mortality improvement tables that raise life expectancies and thereby indicate the amount of estimated aggregate benefit payments to participants of the plans is increasing. The Corporation incorporated a modified version of the SOA mortality and mortality improvement tables into the measurement of the plans' benefit obligations. This change resulted in an increase in the pension plan's benefit obligations of \$257.1 million and an increase in the postretirement plans' benefit obligations of \$7.5 million as of June 30, 2015. These losses were partially offset by actuarial gains related to changes in the discount rates used to measure the plans' liabilities as of June 30, 2015.

The accumulated benefit obligation and fair value of plan assets for the qualified defined benefit pension plans for the years ended June 30 are as follows (in thousands):

	<u>2016</u>	<u>2015</u>
	<u>Pension Plans</u>	
Accumulated benefit obligation	\$ 7,704,254	\$ 6,537,321
Fair value of plan assets	5,906,184	5,599,192
Funded status	<u>\$ (1,798,070)</u>	<u>\$ (938,129)</u>

Components of net periodic benefit cost for the years ended June 30 consisted of the following (in thousands):

	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
	<u>Pension Plans</u>		<u>Postretirement Plans</u>	
Service cost	\$ 2,058	\$ 71,182	\$ 420	\$ 478
Interest cost	335,564	297,711	6,121	4,879
Expected return on assets	(403,283)	(382,930)	(7,052)	(6,984)
Amortization of prior service credit	(4,568)	(5,877)	(564)	(564)
Recognized net actuarial loss (gain)	42,791	31,319	(159)	(261)
Net periodic benefit cost (income) before curtailments	\$ (27,438)	\$ 11,405	\$ (1,234)	\$ (2,452)
Curtailment/settlement loss (gain)	390	(11,054)	-	-
Net periodic benefit cost (income)	<u>\$ (27,048)</u>	<u>\$ 351</u>	<u>\$ (1,234)</u>	<u>\$ (2,452)</u>

The amounts in unrestricted net assets, including amounts arising during the year and amounts reclassified into net periodic benefit cost, are as follows (in thousands):

	<u>Pension Plans</u>		
	<u>Net Loss (Gain)</u>	<u>Prior Service Credit</u>	<u>Total</u>
Balance at July 1, 2014	\$ 1,761,070	\$ (194,499)	\$ 1,566,571
Curtailments	(155,811)	160,788	4,977
Reclassified into net periodic benefit cost	(31,319)	5,877	(25,442)
Arising during the year	455,643	1,328	456,971
Balance at June 30, 2015	<u>\$ 2,029,583</u>	<u>\$ (26,506)</u>	<u>\$ 2,003,077</u>
Curtailments/settlements	(1,173)	-	(1,173)
Reclassified into net periodic benefit cost	(42,791)	4,568	(38,223)
Arising during the year	981,482	(112,789)	868,693
Balance at June 30, 2016	<u>\$ 2,967,101</u>	<u>\$ (134,727)</u>	<u>\$ 2,832,374</u>

  

	<u>Postretirement Plans</u>			<u>All Plans</u>
	<u>Net Loss (Gain)</u>	<u>Prior Service Credit</u>	<u>Total</u>	<u>Grand Total</u>
Balance at July 1, 2014	\$ (6,075)	\$ (4,396)	\$ (10,471)	\$ 1,556,100
Curtailments	-	-	-	4,977
Reclassified into net periodic benefit cost	261	564	825	(24,617)
Arising during the year	3,162	-	3,162	460,133
Balance at June 30, 2015	<u>\$ (2,652)</u>	<u>\$ (3,832)</u>	<u>\$ (6,484)</u>	<u>\$ 1,996,593</u>
Curtailments	-	-	-	(1,173)
Reclassified into net periodic benefit cost	159	564	723	(37,500)
Arising during the year	8,792	-	8,792	877,485
Balance at June 30, 2016	<u>\$ 6,299</u>	<u>\$ (3,268)</u>	<u>\$ 3,031</u>	<u>\$ 2,835,405</u>

The following are estimated amounts to be amortized from unrestricted net assets into net periodic benefit cost during the year ended June 30, 2017 (in thousands):

	<b>Pension Plans</b>	<b>Postretirement Plans</b>
Amortization of prior service credit	\$ (9,057)	\$ (562)
Recognized net actuarial loss	87,217	(11)
Total	<u>\$ 78,160</u>	<u>\$ (573)</u>

Assumptions used to determine benefit obligations and net periodic benefit cost as of and for the years ended June 30 were as follows:

	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
	<b>Pension Plans</b>		<b>Postretirement Plans</b>	
<b>Benefit Obligations:</b>				
Discount rate	3.75% - 4.35%	4.50% - 5.15%	3.40% - 4.10%	4.10% - 4.80%
Rate of compensation increase graduated to 4% by 2017	2.50%	3.00%	N/A	N/A
<b>Net Periodic Benefit Cost:</b>				
Discount rate	4.50% - 5.15%	4.60% - 5.20%	4.10% - 4.80%	4.00% - 4.75%
Expected long-term return on plan assets	7.00%	7.00%	7.50%	7.50%
Rate of compensation increase	2.50%	3.00%	N/A	N/A

Approximately 73% and 93% of the Corporation's pension plan liabilities were measured using a 4.10% and 4.95% discount rate as of June 30, 2016 and 2015, respectively.

The Corporation utilizes a pension-liability-driven investment strategy in determining its asset allocation and long-term rate of return for plan assets. This risk management strategy uses a glide path methodology based on funded status to initiate asset allocation changes across the efficient frontier. Efficient frontier analysis models the risk and return trade-offs among asset classes while taking into consideration the correlation among the asset classes. Historical market returns and risks are examined as part of this process, but risk-based adjustments are made to correspond with modern portfolio theory. Long-term historical correlations between asset classes are used, consistent with widely accepted capital markets principles. Current market factors, such as inflation and interest rates, are evaluated before long-term capital market assumptions are determined. The long-term rate of return is established using the efficient frontier analysis approach with proper consideration of asset class diversification and rebalancing. Peer data and historical returns are reviewed to check for reasonableness and appropriateness.

**Health Care Cost Trend Rates** – Assumed health care cost trend rates have a significant effect on the amounts reported for the postretirement plans. The postretirement benefit obligation includes assumed health care cost trend rates as of June 30 as follows:

	<b>2016</b>	<b>2015</b>
Medical and drugs, pre-age 65	6.9%	7.2%
Medical and drugs, post-age 65	6.9%	7.2%
Ultimate trend rate	5.0%	5.0%
Year rate reaches the ultimate rate	2023	2023

A one-percentage point change in assumed health care cost trend rates would have the following effects as of June 30 (in thousands):

	<b>One-Percentage- Point Increase</b>	<b>One-Percentage- Point Decrease</b>
Effect on postretirement benefit obligation	\$ 4,050	\$ (3,424)
Effect on total of service cost and interest cost components	\$ 203	\$ (171)

The Corporation's investment allocations as of June 30 by investment category are as follows:

	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
	<b>Pension Plans</b>		<b>Postretirement Plans</b>	
<b>Investment Category:</b>				
Cash and cash equivalents	2%	3%	1%	1%
Marketable securities:				
U.S. and non-U.S equity securities	6%	7%	-	-
Equity mutual funds	5%	7%	-	-
Debt securities	35%	34%	25%	29%
Other investments:				
Commingled funds	27%	19%	74%	70%
Hedge funds	20%	24%	-	-
Private equity funds	5%	6%	-	-
Total	100%	100%	100%	100%

The Corporation employs a total return investment approach whereby a mix of equities and fixed-income investments are used to maximize the long-term return of plan assets for a prudent level of risk. Risk tolerance is established through careful consideration of plan liabilities, plan funded status, and corporate financial condition. The investment portfolio contains a diversified blend of equity and fixed-income investments. Furthermore, equity investments are diversified across US and non-US stocks, as well as growth, value, and small and large capitalizations. Other investments, such as hedge funds, interest rate swaps, and private equity are used judiciously to enhance long-term returns while improving portfolio diversification. Derivatives may be used to gain market exposure in an efficient and timely manner; however, derivatives may not be used to leverage the portfolio beyond the market value of the underlying investments. Investment risk is measured and monitored on an ongoing basis through quarterly investment portfolio reviews, annual liability measurements, and periodic asset/liability studies. For the majority of the Corporation's pension plan investments, the combined target investment allocation as of June 30, 2016, was global and traditional equity securities 42%; long/short equity 10%; fixed-income obligations 30%; hedge funds 11%; alternative debt 5%; and cash 2%.

The following tables summarize the Pension Plans' and Postretirement Plans' assets measured at fair value as of June 30 (in thousands). See Note 10 for definitions of Level 1, Level 2, and Level 3 of the fair value hierarchy.

2016				
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
<b>Pension Plans:</b>				
Cash and cash equivalents	\$ 138,056	\$ 1,522	\$ -	\$ 139,578
Equity securities	369,431	309	-	369,740
Debt securities				
Government and government agency obligations	-	687,292	-	687,292
Corporate bonds	-	1,253,192	-	1,253,192
Asset backed securities	-	75,871	-	75,871
Exchange traded/mutual funds				
Equity funds	294,113	-	-	294,113
Fixed income funds	74,315	-	-	74,315
Private equity	-	-	5,405	5,405
Other	(28,410)	-	-	(28,410)
Subtotal	847,505	2,018,186	5,405	2,871,096
<b>Investments measured at net asset value:</b>				
Commingled funds				
Equity funds				1,530,706
Fixed income funds				61,906
Hedge funds				1,134,007
Private equity				308,469
Total assets				<u>\$ 5,906,184</u>
<b>Postretirement Plans:</b>				
Exchange traded/mutual funds				
Short term investment funds	\$ 1,178	\$ -	\$ -	\$ 1,178
Fixed income funds	24,724	-	-	24,724
Other	145	-	-	145
Subtotal	26,047	-	-	26,047
<b>Investment measured at net asset value:</b>				
Equity commingled fund				71,393
Total assets				<u>\$ 97,440</u>

	2015			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
<b>Pension Plans:</b>				
Cash and cash equivalents	\$ 183,877	\$ 1,774	\$ -	\$ 185,651
Equity securities	395,812	245	-	396,057
Debt securities				
Government and government agency obligations	-	592,587	-	592,587
Corporate bonds	-	1,215,556	-	1,215,556
Asset backed securities	-	81,561	-	81,561
Exchange traded/mutual funds				
Equity funds	404,082	338	-	404,420
Fixed income funds	15,625	-	-	15,625
Private equity	-	-	7,568	7,568
Other	(42,400)	-	-	(42,400)
Subtotal	956,996	1,892,061	7,568	2,856,625
<b>Investments measured at net asset value:</b>				
Commingled funds				
Equity funds				970,386
Fixed income funds				56,508
Hedge funds				1,410,511
Private equity				305,142
Other				20
Total assets				\$ 5,599,192
<b>Postretirement Plans:</b>				
Exchange traded/mutual funds				
Short term investment funds	\$ 915	\$ -	\$ -	\$ 915
Fixed income funds	27,560	-	-	27,560
Other	1,968	-	-	1,968
Subtotal	30,443	-	-	30,443
<b>Investment measured at net asset value:</b>				
Equity commingled fund				66,649
Total assets				\$ 97,092

Unfunded capital commitments related to private equity investments totaled \$70.2 million and \$95.5 million as of June 30, 2016 and 2015, respectively.

The Corporation's policy is to recognize transfers between all levels as of the beginning of the reporting period. There were no significant transfers to or from Level 1 and Level 2 during the years ended June 30, 2016 and 2015.

See Note 10 for the Corporation's methods and assumptions to estimate the fair value of equity and debt securities, mutual funds, commingled funds, and hedge funds.

**Private Equity** – These assets include two private equity funds that invest primarily in Europe, both directly and on the secondary market. These funds are valued based on competitive bid evaluation.

**Other** – Represents unsettled transactions relating primarily to purchases and sales of plan assets, accrued income, and derivatives. Due to the short maturity of these assets and liabilities, the fair value approximates the carrying amounts. The fair value of the derivatives is estimated utilizing the terms of the derivative instruments and publicly available market yield curves. The Pension Plans’ investment policies specifically prohibit the use of derivatives for speculative purposes.

The following table summarizes the changes in Level 3 Pension Plans’ assets for the years ended June 30 (in thousands):

	<b>Asset Backed Securities</b>	<b>Private Equity</b>	<b>Total</b>
Balance at July 1, 2014	\$ 2,467	\$ 9,683	\$ 12,150
Realized gain	-	751	751
Unrealized loss	-	(870)	(870)
Settlements	-	(1,996)	(1,996)
Transfers out to Level 2	(2,467)	-	(2,467)
Balance at June 30, 2015	\$ -	\$ 7,568	\$ 7,568
Realized gain	-	610	610
Unrealized loss	-	(780)	(780)
Settlements	-	(1,993)	(1,993)
Balance at June 30, 2016	\$ -	\$ 5,405	\$ 5,405

Transfers out of Level 3 into Level 2 in 2015 for asset-backed securities were made as a result of the availability of observable market pricing data for those securities as of June 30, 2015.

The preceding methods may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Corporation believes the valuation methodologies are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

**Expected Contributions** – The Corporation expects to contribute \$211.6 million to its Pension Plans and \$3.3 million to its Postretirement Plans during the year ended June 30, 2017, under the Corporation’s stated funding policies.

**Expected Benefit Payments** – The Corporation expects to pay the following for pension benefits for the year ending June 30, which reflect expected future service as appropriate, and expected postretirement benefits before deducting the Medicare Part D subsidy (in thousands):

	<b>Pension Plans</b>	<b>Postretirement Plans</b>	<b>Postretirement Medicare Part D Subsidy</b>
<b>Years ending June 30:</b>			
2017	\$ 455,542	\$ 9,389	\$ 76
2018	440,561	9,531	73
2019	449,222	9,630	69
2020	454,669	9,706	65
2021	457,055	9,768	61
Years 2022 - 2026	2,288,853	46,663	232

## 9. COMMITMENTS AND CONTINGENCIES

**Operating Leases** – The Corporation leases various land, equipment and facilities under operating leases. Total rental expense, which includes provisions for maintenance in some cases, was \$227 million and \$207 million for the years ended June 30, 2016 and 2015, respectively.

The following is a schedule of future minimum lease payments under operating leases as of June 30, 2016, that have initial or remaining lease terms in excess of one year (in thousands):

Years ending June 30:		
2017	\$	171,287
2018		142,171
2019		121,168
2020		101,447
2021		87,161
Thereafter		219,516
Total	\$	<u>842,750</u>

**Litigation and Settlements** – The Corporation, as successor to Catholic Health East (“CHE”), is the defendant in a purported class action lawsuit in New York state court brought by Emmet & Co, Inc. and First Manhattan Co., with respect to one series of certificates (the “Bonds”) issued for the benefit of a hospital acquired by CHE. The Bonds were defeased in 1998 at the time of CHE’s acquisition of the hospital. The Corporation does not currently control the hospital. Plaintiffs alleged that CHE breached the indenture relating to the Bonds and violated the covenant of good faith and fair dealing in the exercise of its optional redemption rights for the Bonds in connection with the CHE’s tender offer for the Bonds. The Corporation has reached an agreement of settlement with the named plaintiffs. The matter will be dismissed upon completion of documentation of the settlement. The Corporation does not believe that the settlement will have a material adverse effect on the financial condition of the Corporation.

In June 2013, the Corporation received notices from the IRS that each of the three series initially at issue in the Emmet & Co., Inc. case was under separate examination and requested certain information. Closing agreements with respect to all of the bond issues have been fully executed and implemented and the IRS examination of each of those bond issues is closed. The resolution of these matters will not have a material adverse effect on the financial condition of the Corporation.

On March 29, 2013, CHE was notified that it is a defendant in a lawsuit filed in the US District Court for the Eastern District of Pennsylvania that challenges the church plan status of the CHE Employee Pension Plan. This is similar to other purported class action cases that have been brought against religiously affiliated health care systems or providers. On July 17, 2014, Trinity Health Corporation was notified that it is a defendant in a lawsuit filed in the US District Court for the District of Maryland that challenges the church plan status of the Trinity Health Pension Plan. In response thereto, the Corporation filed a partial motion to dismiss the complaint, which was granted on February 23, 2015. In August 2015, the parties commenced a mediation process to explore opportunities for the settlement of both cases. A final settlement agreement covering both litigations was executed on April 26, 2016. A hearing on a motion for preliminary approval of the settlement is scheduled for October 7, 2016. Final approval remains subject to class notification and further judicial approval. The terms of the final settlement, if approved, will not have a material adverse effect on the financial condition of the Corporation.

On July 21, 2015, Saint Francis Hospital and Medical Center in Hartford, Connecticut, was notified that it was a defendant in a similar class action lawsuit filed in the US Court for the District of Connecticut challenging the church plan status of its employee pension plan. Saint Francis Hospital and Medical Center became a subsidiary of the Corporation on October 1, 2015. Although a motion to dismiss the complaint was filed, a mediation process has resulted in a settlement term sheet being executed on February 18, 2016. A final settlement agreement has been executed and has received preliminary judicial approval. Final approval of the settlement remains subject to class notification and further judicial approval. The terms of the final settlement, if approved, will not have a material adverse effect on the financial condition of the Corporation.

The Corporation is involved in other litigation and regulatory investigations arising in the ordinary course of doing business. After consultation with legal counsel, management expects that these matters will be resolved without material adverse effect on the Corporation's future consolidated financial position or results of operations.

***Premium Revenue Adjustment*** – For the year ended June 30, 2016, the Corporation recorded a \$65.3 million liability for the estimated impact of identified data submission errors, ranging over a six-year period, related to Medigold, the Corporation's Medicare Advantage plans in Ohio. The impact of these errors has been determined to not be material to any of the prior-period consolidated financial statements. The Corporation currently is working to resolve this matter.

***Health Care Regulatory Environment*** – The health care industry is subject to numerous and complex laws and regulations of federal, state, and local governments. These laws and regulations include, but are not limited to, matters, such as licensure, accreditation, privacy, government health care program participation requirements and government reimbursement for patient services, fraud and abuse, and requirements for tax exemption for tax-exempt organizations. Compliance with such laws and regulations is complex and can be subject to future government interpretation as well as regulatory enforcement actions, including fines, penalties, and exclusion from government health care programs, such as Medicare and Medicaid. The Corporation and its Ministries periodically receive notices from governmental agencies requesting information regarding billing, payment, or other reimbursement matters or notices of the initiation of government investigations. The health care industry in general is experiencing an increase in these activities as federal and state governments increase their enforcement activities and institute new programs designed to identify potential irregularities in reimbursement or quality of patient care. Based on the information received to date, management does not believe the ultimate resolution of these matters will have a material adverse effect on the Corporation's future consolidated financial position or results of operations.

## **10. FAIR VALUE MEASUREMENTS**

The Corporation's consolidated financial statements reflect certain assets and liabilities recorded at fair value. Assets and liabilities measured at fair value on a recurring basis in the Corporation's consolidated balance sheets include cash, cash equivalents, security-lending collateral, equity securities, debt securities, mutual funds, commingled funds, hedge funds, and derivatives. Defined benefit retirement plan assets are measured at fair value on an annual basis (see Note 8 for further details). Liabilities measured at fair value on a recurring basis for disclosure only include debt.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value should be based on assumptions that the market participants would use, including a consideration of nonperformance risk.

To determine fair value, the Corporation uses various valuation methodologies based on market inputs. For many instruments, pricing inputs are readily observable in the market; the valuation methodology is widely accepted by market participants and involves little to no judgment. For other instruments, pricing inputs are less observable in the marketplace. These inputs can be subjective in nature and involve uncertainties and matters of considerable judgment. The use of different assumptions, judgments and/or estimation methodologies may have a material effect on the estimated fair value amounts.

The Corporation assesses the inputs used to measure fair value using a three-level hierarchy based on the extent to which inputs used in measuring fair value are observable in the market. The fair value hierarchy is as follows:

Level 1 – Quoted (unadjusted) prices for identical instruments in active markets

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

- Quoted prices for similar instruments in active markets
- Quoted prices for identical or similar instruments in nonactive markets (few transactions, limited information, noncurrent prices, high variability over time, etc.)
- Inputs other than quoted prices that are observable for the instrument (interest rates, yield curves, volatilities, default rates, etc.)
- Inputs that are derived principally from or corroborated by other observable market data

Level 3 – Unobservable inputs that cannot be corroborated by observable market data

**Valuation Methodologies** – Exchange-traded securities whose fair value is derived using quoted prices in active markets are classified as Level 1. In instances where quoted market prices are not readily available, fair value is estimated using quoted market prices and/or other market data for the same or comparable instruments and transactions in establishing the prices, discounted cash flow models and other pricing models. These models are primarily industry standard models that consider various assumptions, including time value and yield curve as well as other relevant economic measures. The inputs to these models depend on the type of security being priced, but are typically benchmark yields, credit spreads, prepayment speeds, reported trades, and broker-dealer quotes, all with reasonable levels of transparency. Generally, significant changes in any of those inputs in isolation would result in a significantly different fair value measurement. The Corporation classifies these securities as Level 2 within the fair value hierarchy. The Corporation also has certain investments that are classified as Level 3. These investments are primarily valued using competitive bid evaluations or cost if it approximates fair value.

The Corporation maintains policies and procedures to value instruments using the best and most relevant data available. The Corporation has not adjusted the prices obtained. Third-party administrators do not provide access to their proprietary valuation models, inputs, and assumptions. Accordingly, the Corporation reviews the independent reports of internal controls for these service providers. In addition, on a quarterly basis, the Corporation performs reviews of investment consultant industry peer group benchmarking and supporting relevant market data. Finally, all of the fund managers have an annual independent audit performed by an accredited accounting firm. The Corporation reviews these audited financials for ongoing validation of pricing used. Based on the information available, the Corporation believes that the fair values provided by the third-party administrators and investment fund managers are representative of prices that would be received to sell the assets.

In instances where the inputs used to measure fair value fall into different levels of the fair value hierarchy, the fair value measurement has been determined based on the lowest-level input that is significant to the fair value measurement in its entirety. The Corporation's assessment of the significance of a particular item to the fair value measurement in its entirety requires judgment, including the consideration of inputs specific to the asset.

Following is a description of the valuation methodologies the Corporation used for instruments recorded at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy:

**Cash and Cash Equivalents** – The carrying amounts reported in the consolidated balance sheets approximate their fair value. Certain cash and cash equivalents are included in investments and assets limited or restricted as to use in the consolidated balance sheets. Included in this category is commercial paper. The fair value of commercial paper is based on amortized cost. Commercial paper is designated as Level 2 investments with significant observable inputs, including security cost, maturity, and credit rating.

**Security Lending Collateral** – The security lending collateral is invested in a Northern Trust sponsored commingled collateral fund, which is composed primarily of short-term securities. The fair value amounts of the commingled collateral fund are determined using the calculated net asset value per share (or its equivalent) for the fund with the underlying investments valued using techniques similar to those used for instruments noted below.

**Equity Securities** – Equity securities are valued at the closing price reported on the applicable exchange on which the security is traded or are estimated using quoted market prices for similar securities.

**Debt Securities** – Debt securities are valued using quoted market prices and/or other market data for the same or comparable instruments and transactions in establishing the prices, discounted cash flow models, and other pricing models. These models are primarily industry standard models that consider various assumptions, including time value and yield curve as well as other relevant economic measures.

**Exchange-Traded/Mutual Funds** – Exchange-traded funds are valued at the closing price reported on the applicable exchange on which the fund is traded or estimated using quoted market prices for similar securities. Mutual funds are valued using the net asset value based on the value of the underlying assets owned by the fund, minus liabilities, divided by the number of shares outstanding, and multiplied by the number of shares owned.

**Commingled Funds** – Commingled funds are developed for investment by institutional investors only and, therefore, do not require registration with the Securities and Exchange Commission. Commingled funds are recorded at fair value based on either the underlying investments that have a readily determinable market value or based on net asset value, which is calculated using the most recent fund financial statements.

**Hedge Funds** – Hedge funds utilize either a direct or a “fund-of-funds” approach resulting in diversified multistrategy, multimanager investments. Underlying investments in these funds may include equity securities, debt securities, commodities, currencies and derivatives. These funds are valued at net asset value, which is calculated using the most recent fund financial statements.

The Corporation classifies its equity and debt securities, mutual funds, commingled funds, and hedge funds as trading securities. The amount of holding (losses) gains included in the excess of revenue over expenses related to securities still held as of June 30, 2016 and 2015, were \$(170.5) million and \$222.0 million, respectively.

**Equity-Method Investments** – Certain other investments are accounted for using the equity method. These investments are structured as limited liability corporations and partnerships and are designed to produce stable investment returns regardless of market activity. These investments utilize a combination of “fund-of-funds” and direct fund investment strategies resulting in a diversified multistrategy, multimanager investments approach. Some of these funds are developed by investment managers specifically for the Corporation’s use and are similar to mutual funds, but are not traded on a public exchange. Underlying investments in these funds may include other funds, equity securities, debt securities, commodities, currencies and derivatives. Audited information is only available annually based on the limited liability corporations, partnerships or funds’ year-end. Management’s estimates of the fair values of these investments are based on information provided by the third-party administrators and fund managers or the general partners. Management obtains and considers the audited financial statements of these investments when evaluating the overall

reasonableness of the recorded value. In addition to a review of external information provided, management's internal procedures include such things as review of returns against benchmarks and discussions with fund managers on performance, changes in personnel or process, along with evaluations of current market conditions for these investments. Because of the inherent uncertainty of valuations, values may differ materially from the values that would have been used had a ready market existed. Unfunded capital commitments related to equity-method investments totaled \$249.3 million and \$232.1 million as of June 30, 2016 and 2015, respectively.

**Interest Rate Swaps** – The fair value of the Corporation's derivatives, which are mainly interest rate swaps, are estimated utilizing the terms of the swaps and publicly available market yield curves along with the Corporation's nonperformance risk as observed through the credit default swap market and bond market and based on prices for recent trades. These swap agreements are classified as Level 2 within the fair value hierarchy.

The following tables present information about the fair value of the Corporation's financial instruments measured at fair value on a recurring basis and recorded as of June 30 (in thousands):

	2016			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
<b>Assets:</b>				
Cash and cash equivalents	\$ 1,600,092	\$ 48,603	\$ -	\$ 1,648,695
Security lending collateral	-	262,035	-	262,035
Equity securities	1,484,897	1,814	5,468	1,492,179
Debt securities:				
Government and government agency obligations	-	674,012	1,433	675,445
Corporate bonds	-	654,335	617	654,952
Asset backed securities	-	249,606	-	249,606
Bank loans	-	76,087	-	76,087
Other	-	13,143	-	13,143
Exchange traded/mutual funds:				-
Equity funds	545,077	-	-	545,077
Fixed income funds	151,113	-	-	151,113
Real estate investment funds	42,816	-	-	42,816
Other	66,389	-	-	66,389
Interest rate swaps	-	15,832	-	15,832
Subtotal	\$ 3,890,384	\$ 1,995,467	\$ 7,518	\$ 5,893,369
<b>Investments measured at net asset value:</b>				
Commingled funds				1,407,636
Hedge funds				844,464
Equity method investments				1,176,699
Total assets				\$ 9,322,168
<b>Liabilities:</b>				
Interest rate swaps	\$ -	\$ 250,965	\$ -	\$ 250,965

2015				
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
<b>Assets:</b>				
Cash and cash equivalents	\$ 1,373,372	\$ 52,477	\$ -	\$ 1,425,849
Security lending collateral		266,571		266,571
Equity securities	1,320,679	1,700	5,997	1,328,376
Debt securities:				
Government and government agency obligations	-	557,472	2,555	560,027
Corporate bonds	-	573,002	1,318	574,320
Asset backed securities	-	210,534	-	210,534
Bank loans	-	64,370	-	64,370
Other	-	14,091	-	14,091
Exchange traded/mutual funds:				-
Equity funds	623,628	-	-	623,628
Fixed income funds	442,865	-	-	442,865
Real estate investment funds	27,235	-	-	27,235
Other	57,319	-	-	57,319
Interest rate swaps	-	52,977	-	52,977
Subtotal	\$ 3,845,098	\$ 1,793,194	\$ 9,870	\$ 5,648,162
<b>Investments measured at net asset value:</b>				
Commingled funds				994,584
Hedge funds				1,243,483
Equity method investments				1,323,988
Total assets				\$ 9,210,217
<b>Liabilities:</b>				
Interest rate swaps	\$ -	\$ 163,553	\$ -	\$ 163,553

The following table reconciles the information about the fair value of the Corporation's financial instruments measured at fair value on a recurring basis presented in the table above to amounts presented in the consolidated balance sheets as of June 30 (in thousands):

	<u>2016</u>	<u>2015</u>
<b>Assets:</b>		
Cash and cash equivalents	\$ 1,044,683	\$ 843,210
Investments	3,617,501	3,728,883
Security lending collateral	262,035	266,572
Assets limited or restricted as to use - current portion	314,706	271,567
Assets limited or restricted as to use - noncurrent portion:		
Held by trustees under bond indenture agreements	4,881	1,622
Self-insurance, benefit plans and other	780,102	738,846
By Board	2,959,641	3,098,445
By donor	409,493	298,332
Interest rate swaps in other long-term assets	15,832	47,870
<b>Less items not recorded at fair value:</b>		
Total unconditional promises to give, net	(57,765)	(48,287)
Reinsurance recovery receivable	(28,941)	(36,843)
Total assets	<u>\$ 9,322,168</u>	<u>\$ 9,210,217</u>

The Corporation's policy is to recognize transfers between all levels as of the beginning of the reporting period. There were no significant transfers to or from Level 1 and Level 2 during the years ended June 30, 2016 and 2015.

The following table summarizes the changes in Level 3 assets for the years ended June 30 (in thousands):

	<u>Equity Securities</u>	<u>Government and Government Agency Obligations</u>	<u>Corporate Bonds</u>	<u>Asset Backed Securities</u>	<u>Total</u>
Balance at July 1, 2014	\$ 972	\$ 1,529	\$ 583	\$ 100	\$ 3,184
Realized gain	-	-	5	-	5
Unrealized loss	(9)	(128)	(56)	-	(193)
Purchases	5,034	1,732	1,085	-	7,851
Settlements	-	-	(299)	-	(299)
Transfers to Level 2	-	(578)	-	(100)	(678)
Balance at June 30, 2015	\$ 5,997	\$ 2,555	\$ 1,318	\$ -	\$ 9,870
Realized (loss) gain	(14)	(56)	24	-	(46)
Unrealized loss	(495)	(81)	(57)	-	(633)
Purchases	-	-	-	-	-
Settlements	(20)	(985)	(915)	-	(1,920)
Transfers from Level 2	-	-	247	-	247
Balance at June 30, 2016	<u>\$ 5,468</u>	<u>\$ 1,433</u>	<u>\$ 617</u>	<u>\$ -</u>	<u>\$ 7,518</u>

**Investments in Entities that Calculate Net Asset Value per Share** – The Corporation holds shares or interests in investment companies at year-end, included in commingled funds and hedge funds, where the fair value of the investment held is estimated based on the net asset value per share (or its equivalent) of the investment company. There were no unfunded commitments as of June 30, 2016 and 2015. The fair value and redemption rules of these investments are as follows as of June 30 (in thousands):

<b>2016</b>			
	<b>Fair Value</b>	<b>Redemption Frequency</b>	<b>Redemption Notice Period</b>
Commingled funds	\$ 1,407,636	Daily and semi-monthly	0 - 2 days
Hedge funds	844,464	Monthly, quarterly, semi-annually, bi-annually	15 - 95 days
Total	<u>\$ 2,252,100</u>		

  

<b>2015</b>			
	<b>Fair Value</b>	<b>Redemption Frequency</b>	<b>Redemption Notice Period</b>
Commingled funds	\$ 994,584	Daily, semi-monthly, monthly	0 - 60 days
Hedge funds	1,243,483	Monthly, quarterly, semi-annually	15 - 95 days
Total	<u>\$ 2,238,067</u>		

The hedge fund category includes equity long/short hedge funds, multistrategy hedge funds, and relative value hedge funds. Equity long/short hedge funds invest both long and short, primarily in US common stocks. Management of the fund has the ability to shift investments from value to growth strategies, from small to large capitalization stocks, and from a net long position to a net short position. Multistrategy hedge funds pursue multiple strategies to diversify risks and reduce volatility. Relative value hedge fund's strategy is to exploit structural and technical inefficiencies in the market by investing in financial instruments that are perceived to be inefficiently priced as a result of business, financial, or legal uncertainties. Investments representing approximately 3.2% and 3.4% of the value of the investments in this category as of June 30, 2016 and 2015, respectively, can only be redeemed biannually subsequent to the initial investment date. Investments representing 42.3% and 17.0% of the investments in this category as of June 30, 2016 and 2015, respectively, can only be redeemed at the rate of 25% per quarter.

The commingled fund category primarily includes investments in funds that invest in financial instruments of US and non-US entities, primarily bonds, notes, bills, debentures, currencies, and interest rate and derivative products.

The composition of investment returns included in the consolidated statements of operations and changes in net assets for the years ended June 30 is as follows (in thousands):

	<b>2016</b>	<b>2015</b>
Dividend, interest income and other	\$ 108,255	\$ 111,691
Realized (loss) gain, net	(76,215)	226,065
Realized equity earnings, other investments	26,072	60,178
Change in net unrealized loss on investments	(217,316)	(238,451)
Total investment return	<u>\$ (159,204)</u>	<u>\$ 159,483</u>

  

<b>Included in:</b>		
Operating income	\$ 47,926	\$ 49,193
Nonoperating items	(199,326)	106,553
Changes in restricted net assets	(7,804)	3,737
Total investment return	<u>\$ (159,204)</u>	<u>\$ 159,483</u>

In addition to investments, assets restricted as to use include receivables for unconditional promises to give cash and other assets net of allowances for uncollectible promises to give. Unconditional promises to give consist of the following as of June 30 (in thousands):

	2016	2015
<b>Amounts expected to be collected in:</b>		
Less than one year	\$ 24,343	\$ 25,452
One to five years	35,471	24,454
More than five years	4,644	4,694
	<u>64,458</u>	<u>54,600</u>
Discount to present value of future cash flows	(2,927)	(2,517)
Allowance for uncollectible amounts	<u>(3,766)</u>	<u>(3,796)</u>
Total unconditional promises to give, net	<u>\$ 57,765</u>	<u>\$ 48,287</u>

***Patient Accounts Receivable, Estimated Receivables from Third-Party Payors, and Current Liabilities*** – The carrying amounts reported in the consolidated balance sheets approximate their fair value.

***Long-Term Debt*** – The carrying amounts of the Corporation’s variable-rate debt approximate their fair values. The fair value of the Corporation’s fixed-rate long-term debt is estimated using discounted cash flow analyses, based on current incremental borrowing rates for similar types of borrowing arrangements. Under the fair value hierarchy, these financial instruments are valued primarily using Level 2 inputs. The fair value of the tax-exempt fixed-rate long-term revenue and refunding bonds was \$4,107 million and \$3,467 million as of June 30, 2016 and 2015, respectively. The related carrying value of the tax-exempt fixed-rate long-term revenue and refunding bonds was \$3,540 million and \$3,164 million as of June 30, 2016 and 2015, respectively. The fair value of the taxable fixed-rate long-term revenue bonds was \$382 million and \$320 million as of June 30, 2016 and 2015, respectively. The related carrying value of the taxable fixed-rate long-term revenue bonds was \$350 million as of June 30, 2016 and 2015, respectively. The fair values of the remaining fixed-rate capital leases, notes payable to banks, and mortgage loans are not materially different from their carrying values.

## 11. DERIVATIVE FINANCIAL INSTRUMENTS

***Derivative Financial Instruments*** – In the normal course of business, the Corporation is exposed to market risks, including the effect of changes in interest rates and equity market volatility. To manage these risks, the Corporation enters into various derivative contracts, primarily interest rate swaps. Interest rate swaps are used to manage the effect of interest rate fluctuations.

Management reviews the Corporation’s hedging program, derivative position, and overall risk management on a regular basis. The Corporation only enters into transactions it believes will be highly effective at offsetting the underlying risk.

***Interest Rate Swaps*** – The Corporation utilizes interest rate swaps to manage interest rate risk related to the Corporation’s variable interest rate debt and a fixed-income investment portfolio. Cash payments on interest rate swaps totaled \$21.3 million and \$17.4 million for the years ended June 30, 2016 and 2015, respectively, and are included in nonoperating income.

Certain of the Corporation’s interest rate swaps contain provisions that give certain counterparties the right to terminate the interest rate swap if a rating is downgraded below specified thresholds. If a ratings downgrade threshold is breached, the counterparties to the derivative instruments could demand immediate termination of the swaps. Such termination could result in a payment from the Corporation or a payment to the Corporation depending on the market value of the interest rate swap.

**Effect of Derivative Instruments on Excess of Revenue over Expenses** – The following table represents the effect derivative instruments had on the Corporation’s financial performance for the years ended June 30 (in thousands):

Derivatives Not Designated as Hedging Instruments	Location of Net Loss Recognized in Excess of Revenue over Expenses or Unrestricted Net Assets	Amount of Net Loss Recognized in Excess of Revenue over Expenses	
		2016	2015
Excess of Revenue over Expenses:			
Interest rate swaps	Change in market value and cash payment on interest rate swaps	\$ (94,783)	\$ (10,223)
Interest rate swaps	Investment (losses) earnings	(5,107)	(749)
		\$ (99,890)	\$ (10,972)

**Balance Sheet Effect of Derivative Instruments** – The following table summarizes the estimated fair value of the Corporation’s derivative financial instruments as of June 30 (in thousands):

Derivatives Not Designated as Hedging Instruments	Consolidated Balance Sheet Location	Fair Value	
		2016	2015
Asset Derivatives:			
Interest rate swaps	Investments	\$ -	\$ 5,107
Interest rate swaps	Other long-term assets	15,832	47,870
	Total asset derivatives	<u>\$ 15,832</u>	<u>\$ 52,977</u>
Liability Derivatives:			
Interest rate swaps	Other long-term liabilities	\$ 250,965	\$ 163,553

As disclosed in Note 3, as part of the acquisition of SFC, on October 1, 2015, the Corporation novated an interest rate swap from SFC that increased other long-term liabilities in the consolidated balance sheets by \$44.0 million.

The counterparties to the interest rate swaps expose the Corporation to credit loss in the event of nonperformance. As of June 30, 2016 and 2015, an adjustment for nonperformance risk reduced derivative assets by \$1.2 million and \$1.6 million and derivative liabilities by \$13.2 million and \$5.3 million, respectively.

## 12. TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS

Temporarily restricted net assets are those whose use by the Corporation has been limited by donors to a specific time period or purpose. Permanently restricted net assets have been restricted by donors to be maintained in perpetuity. Temporarily restricted net assets and permanently restricted net assets as of June 30 are available for the following purposes (in thousands):

	<b>2016</b>	<b>2015</b>
<b>Temporarily Restricted Net Assets:</b>		
Education and research	\$ 27,197	\$ 19,495
Building and equipment	122,738	91,266
Patient care	48,070	48,390
Cancer center/research	16,956	15,351
Services for elderly care	29,944	32,234
Other	81,746	68,930
Total	<u>\$ 326,651</u>	<u>\$ 275,666</u>
<b>Permanently Restricted Net Assets:</b>		
Hospital operations	\$ 81,850	\$ 27,030
Medical programs	10,316	10,302
Scholarship funds	5,765	4,574
Research funds	11,857	9,916
Community service funds	16,413	14,924
Other	31,387	28,223
Total	<u>\$ 157,588</u>	<u>\$ 94,969</u>

The Corporation's endowments consist of funds established for a variety of purposes. Endowments include both donor-restricted endowment funds and funds designated by the Board to function as endowments. Net assets associated with endowment funds, including funds designated by the Board to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions. The Corporation considers various factors in making a determination to appropriate or accumulate donor-restricted endowment funds.

The Corporation employs a total return investment approach whereby a mix of equities and fixed-income investments are used to maximize the long-term return of endowment funds for a prudent level of risk. The Corporation targets a diversified asset allocation to achieve its long-term return objectives within prudent risk constraints. The Corporation can appropriate each year all available earnings in accordance with donor restrictions. The endowment corpus is to be maintained in perpetuity. Certain donor-restricted endowments require a portion of annual earnings to be maintained in perpetuity along with the corpus. Only amounts exceeding the amounts required to be maintained in perpetuity are expended.

The following table summarizes net asset composition by type of fund as of June 30 (in thousands):

<b>2016</b>				
	<b>Unrestricted Net Assets</b>	<b>Temporarily Restricted Net Assets</b>	<b>Permanently Restricted Net Assets</b>	<b>Total</b>
Donor-restricted endowment funds	\$ -	\$ 44,728	\$ 157,588	\$ 202,316
Board-designated endowment funds	76,384	-	-	76,384
Total endowment funds	<u>\$ 76,384</u>	<u>\$ 44,728</u>	<u>\$ 157,588</u>	<u>\$ 278,700</u>

  

<b>2015</b>				
	<b>Unrestricted Net Assets</b>	<b>Temporarily Restricted Net Assets</b>	<b>Permanently Restricted Net Assets</b>	<b>Total</b>
Donor-restricted endowment funds	\$ -	\$ 35,313	\$ 94,969	\$ 130,282
Board-designated endowment funds	81,674	-	-	81,674
Total endowment funds	<u>\$ 81,674</u>	<u>\$ 35,313</u>	<u>\$ 94,969</u>	<u>\$ 211,956</u>

Changes in endowment net assets for the years ended June 30 include (in thousands):

	<b>Unrestricted Net Assets</b>	<b>Temporarily Restricted Net Assets</b>	<b>Permanently Restricted Net Assets</b>	<b>Total</b>
Endowment net assets, July 1, 2014	\$ 90,942	\$ 36,340	\$ 87,063	\$ 214,345
<b>Investment return:</b>				
Investment income	4,697	954	2,353	8,004
Change in net realized and unrealized losses	(3,638)	(1,025)	(688)	(5,351)
Total investment return	1,059	(71)	1,665	2,653
Contributions	1,242	3,849	3,215	8,306
Appropriation of endowment assets for expenditures	(407)	(4,897)	-	(5,304)
Termination of board designated endowments	(11,361)	-	-	(11,361)
Transfer to create board designated endowment	500	-	-	500
Other	(301)	92	3,026	2,817
Endowment net assets, June 30, 2015	81,674	35,313	94,969	211,956
<b>Investment return:</b>				
Investment income	590	990	1,509	3,089
Change in net realized and unrealized losses	(6,770)	(2,719)	(148)	(9,637)
Total investment return	(6,180)	(1,729)	1,361	(6,548)
Contributions	1,157	-	3,763	4,920
Appropriation of endowment assets for expenditures	(1,217)	(1,706)	-	(2,923)
Transfer to create board designated endowment	950	-	-	950
Acquisition of SJHHC	-	-	3,232	3,232
Acquisition of SFC	-	12,623	53,179	65,802
Other	-	227	1,084	1,311
Endowment net assets, June 30, 2016	<u>\$ 76,384</u>	<u>\$ 44,728</u>	<u>\$ 157,588</u>	<u>\$ 278,700</u>

The table below describes the restrictions for endowment amounts classified as temporarily restricted net assets and permanently restricted net assets as of June 30 (in thousands):

	<u>2016</u>	<u>2015</u>
<b>Temporarily Restricted Net Assets:</b>		
Term endowment funds	\$ 3,668	\$ 4,313
The portion of perpetual endowment funds subject to a purpose restriction	41,060	31,000
Total endowment funds classified as temporarily restricted net assets	<u>\$ 44,728</u>	<u>\$ 35,313</u>
<b>Permanently Restricted Net Assets:</b>		
Investments for which income is unrestricted	\$ 137,262	\$ 84,868
Investments for which income is temporarily restricted	14,658	4,261
Endowments requiring income to be added to the original gift	5,668	5,840
Total	<u>\$ 157,588</u>	<u>\$ 94,969</u>

**Funds with Deficiencies** – Periodically the fair value of assets associated with the individual donor-restricted endowment funds may fall below the level that the donor requires the Corporation to retain as a fund of perpetual duration. Deficiencies of this nature are reported in unrestricted net assets. These deficiencies result from unfavorable market fluctuations and/or continued appropriation for certain programs that was deemed prudent by the Corporation.

### 13. SUBSEQUENT EVENTS

Management has evaluated subsequent events through September 21, 2016, the date the consolidated financial statements were issued. The following subsequent events were noted:

The Corporation acquired the following entities effective July 1, 2016: Riverbend Medical Group Inc., a physician practice in Springfield, Massachusetts; Glacier Hills, Inc., a continuing care retirement community in Ann Arbor, Michigan; and Mount St. Joseph, a senior living community in Waterville, Maine. The impact of these acquisitions was not material to the consolidated financial statements.

Effective August 1, 2016 the Corporation became, through its Trinity Health-New England subsidiary, the sole corporate member of St. Mary's Health System ("SMHS"), a regional health care system located in Waterbury, Connecticut, as part of a member substitution. The fair value of identifiable assets acquired and liabilities assumed have not yet been determined as the Corporation is still assessing the economic characteristics of certain assets acquired and liabilities assumed. Thus the opening balance sheet of SMHS at the date of the acquisition is not yet available. The Corporation expects to substantially complete this assessment within 12 months following the acquisition date. SMHS reported \$295.5 million of unrestricted revenue for their fiscal year ended September 30, 2015. Pro forma financial data is not disclosed as SMHS financial data is not readily available.

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## **INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTAL CONSOLIDATING SCHEDULES**

To the Board of Directors of  
Trinity Health Corporation  
Livonia, Michigan

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplemental consolidating schedules (the "Schedules") listed in the table of contents are presented for the purpose of additional analysis and are not a required part of the consolidated financial statements. These Schedules are the responsibility of Trinity Health's management and were derived from and relate directly to the underlying accounting and other records used to prepare the consolidated financial statements. Such Schedules have been subjected to the auditing procedures applied in our audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such Schedules directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion such Schedules are fairly stated in all material respects in relation to the consolidated financial statements as a whole.

*Deloitte & Touche LLP*

September 21, 2016

**TRINITY HEALTH**
**Supplemental Condensed Consolidating Balance Sheets -  
Information**
**June 30, 2016**
**(In thousands)**
**ASSETS**
**CURRENT ASSETS:**

	Saint Agnes Medical Center, Fresno	Saint Alphonsus Health System, Oregon-Idaho	Mercy Health Services, Iowa-Nebraska	Loyola University Health System, Chicago	Mercy Hospital and Medical Center, Chicago	Saint Joseph Regional Medical Center, South Bend	Mercy Health, West Michigan	Saint Joseph Mercy Health System, Southeast Michigan	Mount Carmel Health System, Columbus
Cash, cash equivalents and investments	\$ 81,917	\$ 319,186	\$ 184,421	\$ 268,136	\$ 38,931	\$ 96,998	\$ 225,461	\$ 731,364	\$ 825,100
Assets limited as to use - current portion	231	494	705	461	5,276	361	978	3,559	648
Patient and other receivables, net	158,955	127,830	136,616	221,881	63,610	59,208	163,277	295,989	213,114
Other current assets	<u>8,792</u>	<u>15,196</u>	<u>26,370</u>	<u>32,124</u>	<u>3,589</u>	<u>8,627</u>	<u>28,724</u>	<u>32,786</u>	<u>32,520</u>
Total current assets	249,895	462,706	348,112	522,602	111,406	165,194	418,440	1,063,698	1,071,382

**ASSETS LIMITED OR RESTRICTED AS TO USE -**
**Noncurrent portion:**

Held in trust	-	6,340	15,962	21,848	3,090	5,141	12,150	18,870	19,984
By Board	252,765	73,898	184,900	8,556	-	-	307,488	121,174	381,579
By donors	<u>6,178</u>	<u>6,426</u>	<u>9,111</u>	<u>34,618</u>	<u>-</u>	<u>10,027</u>	<u>15,351</u>	<u>40,435</u>	<u>8,371</u>
Total assets limited or restricted as to use - noncurrent portion	258,943	86,664	209,973	65,022	3,090	15,168	334,989	180,479	409,934

PROPERTY AND EQUIPMENT, Net	199,441	473,618	296,098	557,509	203,288	355,844	399,858	955,920	655,999
OTHER ASSETS	<u>27,078</u>	<u>67,769</u>	<u>296,557</u>	<u>76,580</u>	<u>12,709</u>	<u>23,569</u>	<u>71,507</u>	<u>211,229</u>	<u>149,375</u>
TOTAL ASSETS	<u>\$ 735,357</u>	<u>\$ 1,090,757</u>	<u>\$ 1,150,740</u>	<u>\$ 1,221,713</u>	<u>\$ 330,493</u>	<u>\$ 559,775</u>	<u>\$ 1,224,794</u>	<u>\$ 2,411,326</u>	<u>\$ 2,286,690</u>

**LIABILITIES AND NET ASSETS**

CURRENT LIABILITIES	\$ 84,591	\$ 149,057	\$ 102,893	\$ 255,755	\$ 59,824	\$ 50,081	\$ 136,167	\$ 248,703	\$ 318,931
LONG-TERM DEBT, Noncurrent portion	98,401	269,709	217,148	524,632	87,826	310,152	292,526	655,231	657,587
OTHER LIABILITIES	2,133	8,024	25,129	187,040	7,756	5,716	19,121	33,341	19,612

**NET ASSETS:**

Unrestricted	543,823	657,047	795,857	219,572	170,128	183,435	760,652	1,431,316	1,281,537
Restricted	<u>6,409</u>	<u>6,920</u>	<u>9,713</u>	<u>34,714</u>	<u>4,959</u>	<u>10,391</u>	<u>16,328</u>	<u>42,735</u>	<u>9,023</u>

TOTAL LIABILITIES AND NET ASSETS	<u>\$ 735,357</u>	<u>\$ 1,090,757</u>	<u>\$ 1,150,740</u>	<u>\$ 1,221,713</u>	<u>\$ 330,493</u>	<u>\$ 559,775</u>	<u>\$ 1,224,794</u>	<u>\$ 2,411,326</u>	<u>\$ 2,286,690</u>
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# **TRINITY HEALTH**

## **Supplemental Condensed Consolidating Balance Sheets - Information**

**June 30, 2016**

**(In thousands)**

	Holy Cross Hospital, Silver Spring	St. Peter's Health Partners, Albany	Saint Joseph Health, Inc., Syracuse	Trinity Health – New England, Inc., Connecticut	Mercy Health System of SEPA, Philadelphia	St. Mary Medical Center, Langhorne	Lourdes Health System, Camden	St. Francis Medical Center, Trenton	Saint Francis Healthcare, Wilmington
<b>ASSETS</b>									
<b>CURRENT ASSETS:</b>									
Cash, cash equivalents and investments	\$ 214,777	\$ 302,094	\$ 116,461	\$ 147,477	\$ 105,221	\$ 285,122	\$ 42,314	\$ 5,077	\$ 22,456
Assets limited as to use - current portion	1,690	20,815	7,499	2,827	-	429	25	-	-
Patient and other receivables, net	84,402	162,488	98,749	163,017	80,996	71,116	78,990	18,309	17,924
Other current assets	<u>10,866</u>	<u>19,302</u>	<u>13,148</u>	<u>26,023</u>	<u>12,280</u>	<u>13,179</u>	<u>14,370</u>	<u>4,126</u>	<u>4,020</u>
Total current assets	311,735	504,699	235,857	339,344	198,497	369,846	135,699	27,512	44,400
<b>ASSETS LIMITED OR RESTRICTED AS TO USE -</b>									
Noncurrent portion:									
Held in trust	286	18,173	17	5,772	-	1,706	3,563	131	-
By Board	-	145,379	5,901	26,494	10,000	-	-	1,687	-
By donors	<u>3,069</u>	<u>71,719</u>	<u>4,472</u>	<u>86,417</u>	<u>3,948</u>	<u>20,202</u>	<u>1,379</u>	<u>1,725</u>	<u>1,244</u>
Total assets limited or restricted as to use - noncurrent portion	3,355	235,271	10,390	118,683	13,948	21,908	4,942	3,543	1,244
PROPERTY AND EQUIPMENT, Net	492,595	600,062	294,489	537,347	93,361	230,889	134,400	36,995	28,922
OTHER ASSETS	<u>54,596</u>	<u>41,502</u>	<u>26,407</u>	<u>36,138</u>	<u>194,493</u>	<u>10,369</u>	<u>50,180</u>	<u>3,135</u>	<u>3,535</u>
<b>TOTAL ASSETS</b>	<u>\$ 862,281</u>	<u>\$ 1,381,534</u>	<u>\$ 567,143</u>	<u>\$ 1,031,512</u>	<u>\$ 500,299</u>	<u>\$ 633,012</u>	<u>\$ 325,221</u>	<u>\$ 71,185</u>	<u>\$ 78,101</u>
<b>LIABILITIES AND NET ASSETS</b>									
CURRENT LIABILITIES	\$ 89,230	\$ 185,562	\$ 140,624	\$ 190,473	\$ 114,035	\$ 52,036	\$ 70,449	\$ 27,910	\$ 27,334
LONG-TERM DEBT, Noncurrent portion	408,579	291,125	297,235	357,907	115,191	127,823	211,339	79,964	115,428
OTHER LIABILITIES	7,789	104,328	52,659	259,262	18,399	5,594	4,229	1,987	42
<b>NET ASSETS:</b>									
Unrestricted	351,922	714,336	64,630	132,615	247,060	426,830	37,825	(40,402)	(65,947)
Restricted	<u>4,761</u>	<u>86,183</u>	<u>11,995</u>	<u>91,255</u>	<u>5,614</u>	<u>20,729</u>	<u>1,379</u>	<u>1,726</u>	<u>1,244</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u>\$ 862,281</u>	<u>\$ 1,381,534</u>	<u>\$ 567,143</u>	<u>\$ 1,031,512</u>	<u>\$ 500,299</u>	<u>\$ 633,012</u>	<u>\$ 325,221</u>	<u>\$ 71,185</u>	<u>\$ 78,101</u>

**TRINITY HEALTH**
**Supplemental Condensed Consolidating Balance Sheets -  
Information**
**June 30, 2016**
**(In thousands)**

	St. Mary's Health Care System, Inc., Athens	Holy Cross Hospital, Inc., Ft. Lauderdale	Trinity Continuing Care Services	Trinity Home Health Services	Trinity Health PACE	Mercy Medical Corporation, Daphne	Pittsburgh Mercy Health System Inc., Pittsburgh	Mercy Primary Care Center, Detroit	Trinity Health Consolidated Labs
<b>ASSETS</b>									
<b>CURRENT ASSETS:</b>									
Cash, cash equivalents and investments	\$ 51,336	\$ 59,392	\$ 66,653	\$ 14,081	\$ 8,101	\$ 650	\$ 19,009	\$ 6,301	\$ 1,834
Assets limited as to use - current portion	(162)	838	1,046	59	373	-	-	-	-
Patient and other receivables, net	34,985	76,298	46,334	21,589	2,837	10	18,673	133	5,818
Other current assets	<u>6,221</u>	<u>12,584</u>	<u>2,341</u>	<u>475</u>	<u>200</u>	<u>7</u>	<u>974</u>	<u>-</u>	<u>2,698</u>
Total current assets	92,380	149,112	116,374	36,204	11,511	667	38,656	6,434	10,350
<b>ASSETS LIMITED OR RESTRICTED AS TO USE -</b>									
Noncurrent portion:									
Held in trust	1,048	13,251	13,223	-	-	-	-	-	-
By Board	14,977	37,561	-	-	-	846	98,992	-	-
By donors	<u>3,607</u>	<u>20,310</u>	<u>1,195</u>	<u>292</u>	<u>-</u>	<u>-</u>	<u>8,390</u>	<u>453</u>	<u>-</u>
Total assets limited or restricted as to use - noncurrent portion	19,632	71,122	14,418	292	-	846	107,382	453	-
PROPERTY AND EQUIPMENT, Net	122,882	234,092	224,105	2,349	7,365	200	9,212	486	2,024
OTHER ASSETS	<u>6,017</u>	<u>43,506</u>	<u>13,054</u>	<u>4,944</u>	<u>15,155</u>	<u>192</u>	<u>(1)</u>	<u>-</u>	<u>1,402</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 240,911</u></b>	<b><u>\$ 497,832</u></b>	<b><u>\$ 367,951</u></b>	<b><u>\$ 43,789</u></b>	<b><u>\$ 34,031</u></b>	<b><u>\$ 1,905</u></b>	<b><u>\$ 155,249</u></b>	<b><u>\$ 7,373</u></b>	<b><u>\$ 13,776</u></b>
<b>LIABILITIES AND NET ASSETS</b>									
<b>CURRENT LIABILITIES</b>	\$ 32,240	\$ 66,519	\$ 38,383	\$ 16,148	\$ 9,399	\$ 443	\$ 21,302	\$ 3,313	\$ 6,024
LONG-TERM DEBT, Noncurrent portion	66,857	158,442	223,331	542	22,864	-	2,015	-	2,282
OTHER LIABILITIES	1,049	55,478	55,721	-	91	541	1,095	-	211
<b>NET ASSETS:</b>									
Unrestricted	136,779	197,405	49,085	26,745	1,304	921	122,447	3,607	5,259
Restricted	<u>3,986</u>	<u>19,988</u>	<u>1,431</u>	<u>354</u>	<u>373</u>	<u>-</u>	<u>8,390</u>	<u>453</u>	<u>-</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b><u>\$ 240,911</u></b>	<b><u>\$ 497,832</u></b>	<b><u>\$ 367,951</u></b>	<b><u>\$ 43,789</u></b>	<b><u>\$ 34,031</u></b>	<b><u>\$ 1,905</u></b>	<b><u>\$ 155,249</u></b>	<b><u>\$ 7,373</u></b>	<b><u>\$ 13,776</u></b>

# **TRINITY HEALTH**

## **Supplemental Condensed Consolidating Balance Sheets - Information**

**June 30, 2016**

**(In thousands)**

### **ASSETS**

#### **CURRENT ASSETS:**

Cash, cash equivalents and investments  
Assets limited as to use - current portion  
Patient and other receivables, net  
Other current assets  
Total current assets

Trinity Health Warde Lab LLC	Global Health Ministry	St. Joseph's Health System, Inc., Atlanta	Trinity Health Partners	Trinity Health ACO, Inc.	Allegany Franciscan Ministries	SJSA Foundation	Cadillac Foundation	Intracoastal
\$ 928	\$ 3,625	\$ 157,227	\$ 26,258	\$ 11,359	\$ 113,998	\$ 9,606	\$ -	\$ -
-	17	174	-	-	1,510	855	-	-
-	3	896	222	439	-	-	-	-
<u>15</u>	<u>1</u>	<u>220</u>	<u>(1)</u>	<u>(1)</u>	<u>8</u>	<u>43</u>	<u>-</u>	<u>-</u>
943	3,646	158,517	26,479	11,797	115,516	10,504	-	-

#### **ASSETS LIMITED OR RESTRICTED AS TO USE -**

##### **Noncurrent portion:**

Held in trust  
By Board  
By donors  
Total assets limited or restricted as to use - noncurrent portion

-	-	19	-	-	-	-	-	-
-	-	20,823	-	-	-	879	13,344	-
<u>-</u>	<u>-</u>	<u>29,257</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>20,755</u>	<u>-</u>	<u>-</u>
-	-	50,099	-	-	-	21,634	13,344	-

PROPERTY AND EQUIPMENT, Net  
OTHER ASSETS

7,576	-	18,097	-	-	20	25	-	-
<u>-</u>	<u>-</u>	<u>82,311</u>	<u>-</u>	<u>-</u>	<u>6</u>	<u>-</u>	<u>-</u>	<u>-</u>

#### **TOTAL ASSETS**

<u>\$ 8,519</u>	<u>\$ 3,646</u>	<u>\$ 309,024</u>	<u>\$ 26,479</u>	<u>\$ 11,797</u>	<u>\$ 115,542</u>	<u>\$ 32,163</u>	<u>\$ 13,344</u>	<u>\$ -</u>
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### **LIABILITIES AND NET ASSETS**

CURRENT LIABILITIES  
LONG-TERM DEBT, Noncurrent portion  
OTHER LIABILITIES

\$ -	\$ 1,582	\$ 2,719	\$ 159	\$ 6,330	\$ 5,815	\$ -	\$ 116	\$ -
-	-	2,222	-	-	-	-	-	-
-	-	958	-	-	-	1,649	-	-

#### **NET ASSETS:**

Unrestricted  
Restricted

8,519	2,075	273,068	26,320	5,467	109,727	8,904	13,228	-
<u>-</u>	<u>(11)</u>	<u>30,057</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>21,610</u>	<u>-</u>	<u>-</u>

#### **TOTAL LIABILITIES AND NET ASSETS**

<u>\$ 8,519</u>	<u>\$ 3,646</u>	<u>\$ 309,024</u>	<u>\$ 26,479</u>	<u>\$ 11,797</u>	<u>\$ 115,542</u>	<u>\$ 32,163</u>	<u>\$ 13,344</u>	<u>\$ -</u>
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**TRINITY HEALTH**
**Supplemental Condensed Consolidating Balance Sheets -  
Information**
**June 30, 2016**
**(In thousands)**
**ASSETS**
**CURRENT ASSETS:**

	Trinity Assurance Insurance Company	Investment in Baycare Health System	Investment in Catholic Health System, Inc.	Mercy Health Services, North	St. Joseph Mercy, Port Huron	Mercy Health System of Maine, Portland	Saint Michael's Medical Center and Related Entities, Newark	St. James Mercy Health System, Inc., Hornell	Mercy Hospital, Inc., Miami
Cash, cash equivalents and investments	\$ 82	\$ -	\$ -	\$ 10,819	\$ 22,280	\$ -	\$ 11	\$ 5,182	\$ 327
Assets limited as to use - current portion	117,419	-	-	-	-	-	4,013	-	-
Patient and other receivables, net	2,807	-	-	4,864	(911)	-	-	(1)	-
Other current assets	<u>26</u>	<u>-</u>	<u>-</u>	<u>13</u>	<u>(1)</u>	<u>-</u>	<u>61,536</u>	<u>123</u>	<u>-</u>
Total current assets	120,334	-	-	15,696	21,368	-	65,560	5,304	327

**ASSETS LIMITED OR RESTRICTED AS TO USE -**
**Noncurrent portion:**

Held in trust	521,095	-	-	-	238	-	8,248	-	4,086
By Board	-	-	-	-	-	-	-	-	-
By donors	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total assets limited or restricted as to use - noncurrent portion	521,095	-	-	-	238	-	8,248	-	4,086

**PROPERTY AND EQUIPMENT, Net**

PROPERTY AND EQUIPMENT, Net	-	-	-	-	-	-	-	630	-
OTHER ASSETS	<u>-</u>	<u>2,079,047</u>	<u>73,341</u>	<u>-</u>	<u>2,115</u>	<u>-</u>	<u>1,410</u>	<u>345</u>	<u>4,030</u>
TOTAL ASSETS	<u>\$ 641,429</u>	<u>\$ 2,079,047</u>	<u>\$ 73,341</u>	<u>\$ 15,696</u>	<u>\$ 23,721</u>	<u>\$ -</u>	<u>\$ 75,218</u>	<u>\$ 6,279</u>	<u>\$ 8,443</u>

**LIABILITIES AND NET ASSETS**

CURRENT LIABILITIES	\$ 183,126	\$ -	\$ -	\$ 8,044	\$ 7,731	\$ 3,353	\$ 209,779	\$ 11,975	\$ 26,561
LONG-TERM DEBT, Noncurrent portion	-	-	-	-	-	-	8,335	159	-
OTHER LIABILITIES	429,104	-	-	-	239	-	8,201	1,133	19
NET ASSETS:									
Unrestricted	29,199	2,054,411	70,767	7,652	15,751	(3,353)	(155,158)	(6,988)	(18,137)
Restricted	<u>-</u>	<u>24,636</u>	<u>2,574</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,061</u>	<u>-</u>	<u>-</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 641,429</u>	<u>\$ 2,079,047</u>	<u>\$ 73,341</u>	<u>\$ 15,696</u>	<u>\$ 23,721</u>	<u>\$ -</u>	<u>\$ 75,218</u>	<u>\$ 6,279</u>	<u>\$ 8,443</u>

**TRINITY HEALTH**
**Supplemental Condensed Consolidating Balance Sheets -  
Information**
**June 30, 2016**
**(In thousands)**

	Maxis Health System	Mercy Uihlein Health Corp.	System Office	Eliminations and Other	<b>TRINITY HEALTH</b>
<b>ASSETS</b>					
<b>CURRENT ASSETS:</b>					
Cash, cash equivalents and investments	\$ 571	\$ -	\$ 540,946	\$ (218,870)	<b>\$ 4,924,219</b>
Assets limited as to use - current portion	-	-	142,566	-	<b>314,706</b>
Patient and other receivables, net	-	-	352,792	(349,637)	<b>2,434,622</b>
Other current assets	-	-	129,968	878	<b>524,370</b>
Total current assets	571	-	1,166,272	(567,629)	<b>8,197,917</b>
<b>ASSETS LIMITED OR RESTRICTED AS TO USE -</b>					
Noncurrent portion:					
Held in trust	-	-	90,742	-	<b>784,983</b>
By Board	4,335	-	1,248,063	-	<b>2,959,641</b>
By donors	-	-	542	-	<b>409,493</b>
Total assets limited or restricted as to use - noncurrent portion	4,335	-	1,339,347	-	<b>4,154,117</b>
PROPERTY AND EQUIPMENT, Net	-	-	501,036	-	<b>7,676,734</b>
OTHER ASSETS	-	-	5,706,995	(6,040,493)	<b>3,350,103</b>
<b>TOTAL ASSETS</b>	<b>\$ 4,906</b>	<b>\$ -</b>	<b>\$ 8,713,649</b>	<b>\$ (6,608,122)</b>	<b>\$ 23,378,871</b>
<b>LIABILITIES AND NET ASSETS</b>					
CURRENT LIABILITIES	\$ 42,060	\$ 1,403	\$ 2,056,628	\$ (562,525)	<b>\$ 4,502,282</b>
LONG-TERM DEBT, Noncurrent portion	6,104	-	4,880,091	(5,358,670)	<b>5,132,377</b>
OTHER LIABILITIES	59	1,733	2,857,699	(680,142)	<b>3,496,999</b>
<b>NET ASSETS:</b>					
Unrestricted	(43,317)	(3,136)	(1,081,319)	(6,494)	<b>9,762,974</b>
Restricted	-	-	550	(291)	<b>484,239</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 4,906</b>	<b>\$ -</b>	<b>\$ 8,713,649</b>	<b>\$ (6,608,122)</b>	<b>\$ 23,378,871</b>

**TRINITY HEALTH**
**Supplemental Condensed Consolidating Statements of Operations  
and Changes in Net Assets - Information**
**June 30, 2016**
**(In thousands)**

	Saint Agnes Medical Center, Fresno	Saint Alphonsus Health System, Oregon-Idaho	Mercy Health Services, Iowa-Nebraska	Loyola University Health System, Chicago	Mercy Hospital and Medical Center, Chicago	Saint Joseph Regional Medical Center, South Bend	Mercy Health, West Michigan	Saint Joseph Mercy Health System, Southeast Michigan	Mount Carmel Health System, Columbus
<b>Unrestricted revenue:</b>									
Net patient service revenue less provision for bad debts	\$ 486,018	\$ 801,057	\$ 827,293	\$ 1,209,591	\$ 242,945	\$ 399,211	\$ 1,061,811	\$ 1,874,110	\$ 1,159,006
Other	12,277	41,509	113,974	132,423	10,554	18,512	171,666	126,873	640,675
Total unrestricted revenue	498,295	842,566	941,267	1,342,014	253,499	417,723	1,233,477	2,000,983	1,799,681
<b>Expenses:</b>									
Labor costs	220,355	409,719	440,734	767,209	133,384	186,633	589,597	998,331	702,017
Purchased services	60,771	137,290	150,482	103,258	52,772	72,716	186,144	249,564	226,938
Depreciation, amortization and interest	31,797	54,466	58,702	70,535	17,850	38,423	68,434	134,316	112,745
Other	161,560	195,889	243,620	400,006	71,628	107,158	328,700	486,830	761,275
Total expenses	474,483	797,364	893,538	1,341,008	275,634	404,930	1,172,875	1,869,041	1,802,975
OPERATING INCOME (LOSS) BEFORE OTHER ITEMS	23,812	45,202	47,729	1,006	(22,135)	12,793	60,602	131,942	(3,294)
Other	-	-	-	(72,351)	-	-	-	-	(65,335)
OPERATING INCOME (LOSS)	23,812	45,202	47,729	(71,345)	(22,135)	12,793	60,602	131,942	(68,629)
<b>NONOPERATING ITEMS:</b>									
Investment income and interest rate swaps	(9,944)	(11,266)	(11,473)	(10,013)	487	(3,595)	(15,233)	(23,395)	(19,985)
Loss from early extinguishment of debt	-	-	-	-	-	-	-	-	-
Other	(61)	573	86,944	19	1	(319)	25	(440)	(1,257)
Total nonoperating items	(10,005)	(10,693)	75,471	(9,994)	488	(3,914)	(15,208)	(23,835)	(21,242)
EXCESS OF REVENUE OVER EXPENSES	13,807	34,509	123,200	(81,339)	(21,647)	8,879	45,394	108,107	(89,871)
LESS EXCESS OF REVENUE OVER EXPENSES ATTRIBUTABLE TO NONCONTROLLING INTEREST	-	(137)	(30,934)	-	(558)	-	(566)	(1,834)	(3,960)
EXCESS OF REVENUE OVER EXPENSES - Net of noncontrolling interest	<u>\$ 13,807</u>	<u>\$ 34,372</u>	<u>\$ 92,266</u>	<u>\$ (81,339)</u>	<u>\$ (22,205)</u>	<u>\$ 8,879</u>	<u>\$ 44,828</u>	<u>\$ 106,273</u>	<u>\$ (93,831)</u>
<b>CHANGES IN NET ASSETS</b>									
INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS	\$ 5,165	\$ 22,101	\$ 75,257	\$ (135,514)	\$ (23,297)	\$ (76)	\$ 27,317	\$ 64,823	\$ (124,281)
INCREASE (DECREASE) IN RESTRICTED NET ASSETS	163	1,261	589	8,229	(865)	(1,438)	3,167	4,512	65
INCREASE (DECREASE) IN NET ASSETS	5,328	23,362	75,846	(127,285)	(24,162)	(1,514)	30,484	69,335	(124,216)
NET ASSETS, Beginning of year	544,904	640,605	729,724	381,571	199,249	195,340	746,496	1,404,716	1,414,776
NET ASSETS, End of year	<u>\$ 550,232</u>	<u>\$ 663,967</u>	<u>\$ 805,570</u>	<u>\$ 254,286</u>	<u>\$ 175,087</u>	<u>\$ 193,826</u>	<u>\$ 776,980</u>	<u>\$ 1,474,051</u>	<u>\$ 1,290,560</u>

**TRINITY HEALTH**
**Supplemental Condensed Consolidating Statements of Operations  
and Changes in Net Assets - Information**
**June 30, 2016**
**(In thousands)**

	Holy Cross Hospital, Silver Spring	St. Peter's Health Partners, Albany	Saint Joseph Health, Inc., Syracuse	Trinity Health – New England, Inc., Connecticut	Mercy Health System of SEPA, Philadelphia	St. Mary Medical Center, Langhorne	Lourdes Health System, Camden	St. Francis Medical Center, Trenton	Saint Francis Healthcare, Wilmington
<b>Unrestricted revenue:</b>									
Net patient service revenue less provision for bad debts	\$ 500,388	\$ 1,201,198	\$ 632,866	\$ 1,030,244	\$ 562,288	\$ 498,059	\$ 492,518	\$ 129,749	\$ 134,344
Other	<u>14,783</u>	<u>93,835</u>	<u>30,957</u>	<u>87,103</u>	<u>113,790</u>	<u>45,004</u>	<u>57,852</u>	<u>34,256</u>	<u>23,595</u>
Total unrestricted revenue	515,171	1,295,033	663,823	1,117,347	676,078	543,063	550,370	164,005	157,939
<b>Expenses:</b>									
Labor costs	265,397	738,506	363,301	643,788	378,889	251,920	294,658	70,615	82,419
Purchased services	76,425	142,221	61,940	145,396	112,445	97,306	111,026	47,764	31,479
Depreciation, amortization and interest	48,652	81,045	49,349	58,182	25,365	31,392	26,343	8,383	9,294
Other	<u>109,591</u>	<u>314,762</u>	<u>202,461</u>	<u>285,188</u>	<u>134,967</u>	<u>136,397</u>	<u>122,898</u>	<u>37,831</u>	<u>36,138</u>
Total expenses	<u>500,065</u>	<u>1,276,534</u>	<u>677,051</u>	<u>1,132,554</u>	<u>651,666</u>	<u>517,015</u>	<u>554,925</u>	<u>164,593</u>	<u>159,330</u>
OPERATING INCOME (LOSS) BEFORE OTHER ITEMS	15,106	18,499	(13,228)	(15,207)	24,412	26,048	(4,555)	(588)	(1,391)
Other	<u>-</u>	<u>(39,624)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
OPERATING INCOME (LOSS)	15,106	(21,125)	(13,228)	(15,207)	24,412	26,048	(4,555)	(588)	(1,391)
<b>NONOPERATING ITEMS:</b>									
Investment income and interest rate swaps	(6,782)	(10,882)	3,651	(2,214)	(5,582)	(22,005)	(1,783)	(809)	(1,004)
Loss from early extinguishment of debt	-	-	(177)	(4,034)	-	-	-	-	-
Other	<u>-</u>	<u>(123)</u>	<u>281</u>	<u>3,751</u>	<u>(1)</u>	<u>(31)</u>	<u>(51)</u>	<u>81</u>	<u>-</u>
Total nonoperating items	(6,782)	(11,005)	3,755	(2,497)	(5,583)	(22,036)	(1,834)	(728)	(1,004)
EXCESS OF REVENUE OVER EXPENSES	8,324	(32,130)	(9,473)	(17,704)	18,829	4,012	(6,389)	(1,316)	(2,395)
LESS EXCESS OF REVENUE OVER EXPENSES ATTRIBUTABLE TO NONCONTROLLING INTEREST	<u>-</u>	<u>-</u>	<u>(3,626)</u>	<u>-</u>	<u>-</u>	<u>(4,240)</u>	<u>(939)</u>	<u>(1,573)</u>	<u>-</u>
EXCESS OF REVENUE OVER EXPENSES - Net of noncontrolling interest	<u>\$ 8,324</u>	<u>\$ (32,130)</u>	<u>\$ (13,099)</u>	<u>\$ (17,704)</u>	<u>\$ 18,829</u>	<u>\$ (228)</u>	<u>\$ (7,328)</u>	<u>\$ (2,889)</u>	<u>\$ (2,395)</u>
<b>CHANGES IN NET ASSETS</b>									
INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS	\$ (330)	\$ (49,207)	\$ 33,561	\$ 35,897	\$ (10,396)	\$ (1,735)	\$ (11,327)	\$ (4,220)	\$ (3,451)
INCREASE (DECREASE) IN RESTRICTED NET ASSETS	<u>(1,874)</u>	<u>(1,953)</u>	<u>(3,185)</u>	<u>108,028</u>	<u>(701)</u>	<u>2,614</u>	<u>(574)</u>	<u>(10)</u>	<u>983</u>
INCREASE (DECREASE) IN NET ASSETS	(2,204)	(51,160)	30,376	143,925	(11,097)	879	(11,901)	(4,230)	(2,468)
NET ASSETS, Beginning of year	<u>358,887</u>	<u>851,679</u>	<u>46,249</u>	<u>79,945</u>	<u>263,771</u>	<u>446,680</u>	<u>51,105</u>	<u>(34,446)</u>	<u>(62,235)</u>
NET ASSETS, End of year	<u>\$ 356,683</u>	<u>\$ 800,519</u>	<u>\$ 76,625</u>	<u>\$ 223,870</u>	<u>\$ 252,674</u>	<u>\$ 447,559</u>	<u>\$ 39,204</u>	<u>\$ (38,676)</u>	<u>\$ (64,703)</u>

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	St. Mary's Health Care System, Inc., Athens	Holy Cross Hospital, Inc., Ft. Lauderdale	Trinity Continuing Care Services	Trinity Home Health Services	Trinity Health PACE	Mercy Medical Corporation, Daphne	Pittsburgh Mercy Health System Inc., Pittsburgh	Mercy Primary Care Center, Detroit	Trinity Health Consolidated Labs
<b>Unrestricted revenue:</b>									
Net patient service revenue less provision for bad debts	\$ 254,164	\$ 447,095	\$ 194,732	\$ 129,055	\$ (603)	\$ 2,223	\$ 37,146	\$ 183	\$ (50)
Other	<u>6,673</u>	<u>22,231</u>	<u>105,291</u>	<u>1,846</u>	<u>26,351</u>	<u>3,048</u>	<u>56,714</u>	<u>676</u>	<u>48,083</u>
Total unrestricted revenue	260,837	469,326	300,023	130,901	25,748	5,271	93,860	859	48,033
<b>Expenses:</b>									
Labor costs	128,846	248,060	162,149	107,297	8,775	2,318	68,514	1,327	11,119
Purchased services	45,067	65,991	50,593	13,097	11,842	(5)	4,772	172	17,281
Depreciation, amortization and interest	18,287	29,586	27,338	1,338	606	238	2,155	11	1,106
Other	<u>67,312</u>	<u>132,690</u>	<u>60,991</u>	<u>14,886</u>	<u>5,568</u>	<u>452</u>	<u>20,594</u>	<u>849</u>	<u>18,345</u>
Total expenses	<u>259,512</u>	<u>476,327</u>	<u>301,071</u>	<u>136,618</u>	<u>26,791</u>	<u>3,003</u>	<u>96,035</u>	<u>2,359</u>	<u>47,851</u>
OPERATING INCOME (LOSS) BEFORE OTHER ITEMS	1,325	(7,001)	(1,048)	(5,717)	(1,043)	2,268	(2,175)	(1,500)	182
Other	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
OPERATING INCOME (LOSS)	1,325	(7,001)	(1,048)	(5,717)	(1,043)	2,268	(2,175)	(1,500)	182
<b>NONOPERATING ITEMS:</b>									
Investment income and interest rate swaps	(2,679)	(2,653)	(3,594)	(683)	180	(442)	(6,899)	(119)	(141)
Loss from early extinguishment of debt	-	-	-	-	-	-	-	-	-
Other	<u>-</u>	<u>(161)</u>	<u>720</u>	<u>-</u>	<u>1</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total nonoperating items	(2,679)	(2,814)	(2,874)	(683)	181	(442)	(6,899)	(119)	(141)
EXCESS OF REVENUE OVER EXPENSES	(1,354)	(9,815)	(3,922)	(6,400)	(862)	1,826	(9,074)	(1,619)	41
LESS EXCESS OF REVENUE OVER EXPENSES ATTRIBUTABLE TO NONCONTROLLING INTEREST	<u>-</u>	<u>(785)</u>	<u>-</u>	<u>(91)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
EXCESS OF REVENUE OVER EXPENSES - Net of noncontrolling interest	<u>\$ (1,354)</u>	<u>\$ (10,600)</u>	<u>\$ (3,922)</u>	<u>\$ (6,491)</u>	<u>\$ (862)</u>	<u>\$ 1,826</u>	<u>\$ (9,074)</u>	<u>\$ (1,619)</u>	<u>\$ 41</u>
<b>CHANGES IN NET ASSETS</b>									
INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS	\$ (3,382)	\$ (18,001)	\$ (8,147)	\$ (9,401)	\$ (702)	\$ 3,110	\$ (10,541)	\$ (1,102)	\$ (173)
INCREASE (DECREASE) IN RESTRICTED NET ASSETS	<u>18</u>	<u>1,825</u>	<u>334</u>	<u>(67)</u>	<u>140</u>	<u>(72)</u>	<u>(2,109)</u>	<u>(12)</u>	<u>-</u>
INCREASE (DECREASE) IN NET ASSETS	(3,364)	(16,176)	(7,813)	(9,468)	(562)	3,038	(12,650)	(1,114)	(173)
NET ASSETS, Beginning of year	<u>144,129</u>	<u>233,569</u>	<u>58,329</u>	<u>36,567</u>	<u>2,239</u>	<u>(2,117)</u>	<u>143,487</u>	<u>5,174</u>	<u>5,432</u>
NET ASSETS, End of year	<u>\$ 140,765</u>	<u>\$ 217,393</u>	<u>\$ 50,516</u>	<u>\$ 27,099</u>	<u>\$ 1,677</u>	<u>\$ 921</u>	<u>\$ 130,837</u>	<u>\$ 4,060</u>	<u>\$ 5,259</u>

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	Trinity Health Warde Lab LLC	Global Health Ministry	St. Joseph's Health System, Inc., Atlanta	Trinity Health Partners	Trinity Health ACO, Inc.	Allegany Franciscan Ministries	SJSA Foundation	Cadillac Foundation	Intracoastal
<b>Unrestricted revenue:</b>									
Net patient service revenue less provision for bad debts	\$ -	\$ -	\$ 862	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Other	1,048	4,163	14,131	(4)	(5,339)	7,996	2,329	(84)	-
Total unrestricted revenue	1,048	4,163	14,993	(4)	(5,339)	7,996	2,329	(84)	-
<b>Expenses:</b>									
Labor costs	(1)	940	14,795	1,752	-	935	1,319	-	-
Purchased services	30	113	2,492	236	169	188	646	-	-
Depreciation, amortization and interest	590	-	640	-	-	7	10	-	-
Other	202	2,667	2,196	551	34	6,866	442	591	135
Total expenses	821	3,720	20,123	2,539	203	7,996	2,417	591	135
OPERATING INCOME (LOSS) BEFORE OTHER ITEMS	227	443	(5,130)	(2,543)	(5,542)	-	(88)	(675)	(135)
Other	-	-	-	-	-	-	-	-	-
OPERATING INCOME (LOSS)	227	443	(5,130)	(2,543)	(5,542)	-	(88)	(675)	(135)
<b>NONOPERATING ITEMS:</b>									
Investment income and interest rate swaps	(19)	(30)	2,290	(952)	510	(11,583)	(1,371)	-	-
Loss from early extinguishment of debt	-	-	-	-	-	-	-	-	-
Other	-	-	(2)	-	-	-	-	-	-
Total nonoperating items	(19)	(30)	2,288	(952)	510	(11,583)	(1,371)	-	-
EXCESS OF REVENUE OVER EXPENSES	208	413	(2,842)	(3,495)	(5,032)	(11,583)	(1,459)	(675)	(135)
LESS EXCESS OF REVENUE OVER EXPENSES ATTRIBUTABLE TO NONCONTROLLING INTEREST	-	-	-	-	-	-	-	-	-
EXCESS OF REVENUE OVER EXPENSES - Net of noncontrolling interest	<u>\$ 208</u>	<u>\$ 413</u>	<u>\$ (2,842)</u>	<u>\$ (3,495)</u>	<u>\$ (5,032)</u>	<u>\$ (11,583)</u>	<u>\$ (1,459)</u>	<u>\$ (675)</u>	<u>\$ (135)</u>
<b>CHANGES IN NET ASSETS</b>									
INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS	\$ 7,139	\$ 454	\$ (1,044)	\$ (3,493)	\$ 5,468	\$ (11,583)	\$ (1,458)	\$ (1,162)	\$ -
INCREASE (DECREASE) IN RESTRICTED NET ASSETS	-	(73)	4,121	-	(1)	-	187	(200)	-
INCREASE (DECREASE) IN NET ASSETS	7,139	381	3,077	(3,493)	5,467	(11,583)	(1,271)	(1,362)	-
NET ASSETS, Beginning of year	1,380	1,683	300,048	29,813	-	121,310	31,785	14,590	-
NET ASSETS, End of year	<u>\$ 8,519</u>	<u>\$ 2,064</u>	<u>\$ 303,125</u>	<u>\$ 26,320</u>	<u>\$ 5,467</u>	<u>\$ 109,727</u>	<u>\$ 30,514</u>	<u>\$ 13,228</u>	<u>\$ -</u>

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	Trinity Assurance Insurance Company	Investment in Baycare Health System	Investment in Catholic Health System, Inc.	Mercy Health Services, North	St. Joseph Mercy, Port Huron	Mercy Health System of Maine, Portland	Saint Michael's Medical Center and Related Entities, Newark	St. James System, Inc., Hornell	Mercy Hospital, Inc., Miami
<b>Unrestricted revenue:</b>									
Net patient service revenue less provision for bad debts	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Other	101,468	-	-	-	-	-	-	365	-
Total unrestricted revenue	101,468	-	-	-	-	-	-	365	-
<b>Expenses:</b>									
Labor costs	-	-	-	-	-	-	-	50	-
Purchased services	1,088	-	-	-	-	-	-	19	-
Depreciation, amortization and interest	-	-	-	-	-	-	-	95	-
Other	100,380	-	-	-	-	-	-	200	-
Total expenses	101,468	-	-	-	-	-	-	364	-
OPERATING INCOME (LOSS) BEFORE OTHER ITEMS	-	-	-	-	-	-	-	1	-
Other	-	-	-	-	-	-	-	-	-
OPERATING INCOME (LOSS)	-	-	-	-	-	-	-	1	-
<b>NONOPERATING ITEMS:</b>									
Investment income and interest rate swaps	-	145,034	9,701	-	-	-	-	-	486
Loss from early extinguishment of debt	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-
Total nonoperating items	-	145,034	9,701	-	-	-	-	-	486
EXCESS OF REVENUE OVER EXPENSES	-	145,034	9,701	-	-	-	-	1	486
LESS EXCESS OF REVENUE OVER EXPENSES ATTRIBUTABLE TO NONCONTROLLING INTEREST	-	-	-	-	-	-	-	-	-
EXCESS OF REVENUE OVER EXPENSES - Net of noncontrolling interest	<u>\$ -</u>	<u>\$ 145,034</u>	<u>\$ 9,701</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1</u>	<u>\$ 486</u>
<b>CHANGES IN NET ASSETS</b>									
INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS	\$ 11,359	\$ 144,643	\$ 21,259	\$ (35,886)	\$ (12,754)	\$ -	\$ 104,258	\$ 1,188	\$ 217
INCREASE (DECREASE) IN RESTRICTED NET ASSETS	-	192	420	2	(1,334)	-	648	1	1
INCREASE (DECREASE) IN NET ASSETS	11,359	144,835	21,679	(35,884)	(14,088)	-	104,906	1,189	218
NET ASSETS, Beginning of year	17,840	1,934,212	51,662	43,536	29,839	(3,353)	(256,003)	(8,177)	(18,355)
NET ASSETS, End of year	<u>\$ 29,199</u>	<u>\$ 2,079,047</u>	<u>\$ 73,341</u>	<u>\$ 7,652</u>	<u>\$ 15,751</u>	<u>\$ (3,353)</u>	<u>\$ (151,097)</u>	<u>\$ (6,988)</u>	<u>\$ (18,137)</u>

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	Maxis Health System	Mercy Uihlein Health Corp.	System Office	Eliminations and Other	TRINITY HEALTH
<b>Unrestricted revenue:</b>					
Net patient service revenue less provision for bad debts	\$ -	\$ -	\$ (41)	\$ (78,492)	\$ 14,228,970
Other	-	-	1,426,748	(1,483,295)	2,110,077
Total unrestricted revenue	-	-	1,426,707	(1,561,787)	16,339,047
<b>Expenses:</b>					
Labor costs	205	82	567,971	(144,303)	8,719,622
Purchased services	-	-	331,677	(721,945)	1,889,460
Depreciation, amortization and interest	-	-	280,343	(256,581)	1,031,042
Other	-	-	333,759	(359,023)	4,547,586
Total expenses	205	82	1,513,750	(1,481,852)	16,187,710
OPERATING INCOME (LOSS) BEFORE OTHER ITEMS	(205)	(82)	(87,043)	(79,935)	151,337
Other	-	-	-	72,352	(104,958)
OPERATING INCOME (LOSS)	(205)	(82)	(87,043)	(7,583)	46,379
<b>NONOPERATING ITEMS:</b>					
Investment income and interest rate swaps	909	24	(116,255)	8,079	(132,034)
Loss from early extinguishment of debt	-	-	(38,845)	-	(43,056)
Other	-	-	128,564	-	218,514
Total nonoperating items	909	24	(26,536)	8,079	43,424
EXCESS OF REVENUE OVER EXPENSES	704	(58)	(113,579)	496	89,803
LESS EXCESS OF REVENUE OVER EXPENSES ATTRIBUTABLE TO NONCONTROLLING INTEREST	-	-	-	783	(48,460)
EXCESS OF REVENUE OVER EXPENSES - Net of noncontrolling interest	<u>\$ 704</u>	<u>\$ (58)</u>	<u>\$ (113,579)</u>	<u>\$ 1,279</u>	<u>\$ 41,343</u>
<b>CHANGES IN NET ASSETS</b>					
INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS	\$ -	\$ (520)	\$ (773,738)	\$ 308	\$ (693,397)
INCREASE (DECREASE) IN RESTRICTED NET ASSETS	(666)	-	(12)	22,350	144,704
INCREASE (DECREASE) IN NET ASSETS	(666)	(520)	(773,750)	22,658	(548,693)
NET ASSETS, Beginning of year	(42,651)	(2,616)	(307,019)	(29,443)	10,795,906
NET ASSETS, End of year	<u>\$ (43,317)</u>	<u>\$ (3,136)</u>	<u>\$ (1,080,769)</u>	<u>\$ (6,785)</u>	<u>\$ 10,247,213</u>