



## **Trinity Health improves operating income over prior year by \$124 million in the first nine months of FY17**

### Summary of Trinity Health unaudited results for the first nine months of FY17 ended March 31, 2017

During the first nine months of fiscal year 2017, Trinity Health increased revenue by \$1.1 billion to \$13.1 billion, a 9.0% increase over the prior year. Excluding acquisitions in Connecticut, these increases are attributed mainly to volume growth and improvements in both service mix and revenue realization. These acquisitions accounted for \$526.3 million, or 4.4%, of the increase.

Trinity Health reported operating income before other items of \$201.8 million and an operating margin and operating cash flow margin before other items of 1.5% and 7.7%, respectively. These represent significant improvements over the first nine months of fiscal year 2016, which resulted in operating income before other items of \$77.6 million and operating margin and operating cash flow margin before other items of 0.6% and 7.1%, respectively. The increased strength in operations is largely the result of targeted efficiency initiatives to improve performance and address unfavorable industry trends. These include Trinity Health's "Transforming Operations" initiatives, focused primarily on areas that contribute to better health and lower costs, specifically clinical operational efficiencies and labor and supply costs.

For the first nine months of fiscal year 2017, the system reported nonoperating income of \$1.1 billion – a \$1.2 billion increase over the prior year, driven by strong investment earnings.

Highlights of results for the first nine months of FY17 include:

- Total assets of \$24.6 billion
- Total net assets of \$11.7 billion
- Total unrestricted revenue of \$13.1 billion, a 9.0% increase over FY2016 with roughly half of the increase related to the Connecticut acquisitions
- Operating income before other items of \$201.8 million, a \$124.2 million increase over FY2016
- Nonoperating income of \$1.1 billion, a \$1.2 billion improvement over FY2016
- Unrestricted cash and investments of \$8.3 billion
- Days cash on hand of 185 days

**TRINITY HEALTH**  
**UNAUDITED QUARTERLY REPORT**

For the nine months ended March 31, 2017 and 2016

# TRINITY HEALTH

## TABLE OF CONTENTS

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	<b>Page</b>
UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS AS OF MARCH 31, 2017 AND JUNE 30, 2016 AND FOR THE NINE MONTHS ENDED MARCH 31, 2017 AND 2016:	
Consolidated Balance Sheets (unaudited)	3-4
Consolidated Statements of Operations and Changes in Net Assets (unaudited)	5-6
Summarized Consolidated Statements of Cash Flows (unaudited)	7
Notes to Consolidated Financial Statements (unaudited)	8-25
MANAGEMENT'S DISCUSSION AND ANALYSIS (unaudited)	26-30
LIQUIDITY REPORT (unaudited)	31
FINANCIAL RATIOS AND STATISTICS (unaudited)	32

**TRINITY HEALTH**  
**CONSOLIDATED BALANCE SHEETS (UNAUDITED)**  
(In thousands)

	As of	
	March 31, 2017	June 30, 2016
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 898,083	\$ 1,044,683
Investments	3,557,651	3,617,501
Security lending collateral	319,835	262,035
Assets limited or restricted as to use - current portion	297,931	314,706
Patient accounts receivable - net of allowance for doubtful accounts of \$414.0 million and \$385.2 million at March 31, 2017 and June 30, 2016, respectively	2,032,592	1,849,736
Estimated receivables from third-party payors	202,647	248,179
Other receivables	339,446	336,705
Inventories	261,140	248,092
Assets held for sale	17,534	64,272
Prepaid expenses and other current assets	217,072	212,008
Total current assets	8,143,931	8,197,917
<b>ASSETS LIMITED OR RESTRICTED AS TO USE - noncurrent portion:</b>		
Held by trustees under bond indenture agreements	6,910	4,881
Self-insurance, benefit plans and other	804,517	780,102
By Board	3,677,735	2,959,641
By donors	455,094	409,493
Total assets limited or restricted as to use - noncurrent portion	4,944,256	4,154,117
PROPERTY AND EQUIPMENT - Net	7,861,748	7,676,734
INVESTMENTS IN UNCONSOLIDATED AFFILIATES	3,006,094	2,681,778
GOODWILL	320,796	304,845
OTHER ASSETS	340,178	363,480
<b>TOTAL ASSETS</b>	<b>\$ 24,617,003</b>	<b>\$ 23,378,871</b>

(Continued)

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

**TRINITY HEALTH**  
**CONSOLIDATED BALANCE SHEETS (UNAUDITED)**  
(In thousands)

	As of	
	March 31, 2017	June 30, 2016
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES:</b>		
Commercial paper	\$ 99,920	\$ 145,958
Short-term borrowings	1,039,840	1,067,730
Current portion of long-term debt	116,104	106,345
Accounts payable and accrued expenses	1,321,938	1,361,438
Salaries, wages, and related liabilities	776,723	861,757
Current portion of self-insurance reserves	268,454	255,552
Payable under security lending agreements	319,835	262,035
Liabilities held for sale	-	67,453
Estimated payables to third-party payors	330,187	374,014
Total current liabilities	4,273,001	4,502,282
LONG-TERM DEBT - Net of current portion	5,362,263	5,132,377
SELF-INSURANCE RESERVES - Net of current portion	974,192	933,362
ACCRUED PENSION AND RETIREE HEALTH COSTS	1,674,670	1,857,639
OTHER LONG-TERM LIABILITIES	682,718	705,998
Total liabilities	12,966,844	13,131,658
<b>NET ASSETS:</b>		
Unrestricted net assets	10,922,102	9,576,379
Noncontrolling ownership interest in subsidiaries	195,039	186,595
Total unrestricted net assets	11,117,141	9,762,974
Temporarily restricted net assets	353,568	326,651
Permanently restricted net assets	179,450	157,588
Total net assets	11,650,159	10,247,213
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 24,617,003</b>	<b>\$ 23,378,871</b>

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

(Concluded)

**TRINITY HEALTH**  
**CONSOLIDATED STATEMENTS OF OPERATIONS AND**  
**CHANGES IN NET ASSETS (UNAUDITED)**  
**NINE MONTHS ENDED MARCH 31, 2017 and 2016**  
**(In thousands)**

	<b>2017</b>	<b>2016</b>
UNRESTRICTED REVENUE:		
Patient service revenue - net of contractual and other allowances	\$ 11,768,040	\$ 10,890,141
Provision for bad debts	(399,123)	(356,411)
Net patient service revenue less provision for bad debts	11,368,917	10,533,730
Premium and capitation revenue	746,698	623,179
Net assets released from restrictions	25,176	22,447
Other revenue	992,843	871,244
Total unrestricted revenue	13,133,634	12,050,600
EXPENSES:		
Salaries and wages	5,679,843	5,242,641
Employee benefits	1,114,699	1,096,374
Contract labor	177,917	151,046
Total labor expenses	6,972,459	6,490,061
Supplies	2,151,105	1,987,275
Purchased services	1,523,511	1,388,836
Depreciation and amortization	649,502	625,063
Occupancy	552,223	518,361
Medical claims	312,213	301,462
Interest	154,966	147,554
Other	615,858	514,424
Total expenses	12,931,837	11,973,036
OPERATING INCOME BEFORE OTHER ITEMS	201,797	77,564
Premium revenue adjustment	-	(65,335)
OPERATING INCOME	201,797	12,229
NONOPERATING ITEMS:		
Investment earnings (losses)	660,882	(281,458)
Equity in earnings of unconsolidated affiliates	295,015	79,145
Change in market value and cash payments of interest rate swaps	60,490	(66,323)
Gain (loss) from early extinguishment of debt	792	(40,786)
Inherent contributions	65,305	146,739
Other, including income taxes	(410)	(1,143)
Total nonoperating items	1,082,074	(163,826)
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENSES	1,283,871	(151,597)
EXCESS OF REVENUE OVER EXPENSES ATTRIBUTABLE TO NONCONTROLLING INTEREST	(36,135)	(35,268)
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENSES, net of noncontrolling interest	\$ 1,247,736	\$ (186,865)

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

# TRINITY HEALTH

## CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS (UNAUDITED)

NINE MONTHS ENDED MARCH 31, 2017 and 2016

(In thousands)

	2017	2016
<b>UNRESTRICTED NET ASSETS:</b>		
Unrestricted net asset attributable to Trinity Health:		
Excess (deficiency) of revenue over expenses	\$ 1,247,736	\$ (186,865)
Net assets released from restrictions for capital acquisitions	25,459	12,747
Net change in retirement plan related items - consolidated organizations	73,801	36,708
Net change in retirement plan related items - unconsolidated organizations	4,123	(2,853)
Other	(249)	(10,695)
Increase (decrease) in unrestricted net assets before discontinued operations	1,350,870	(150,958)
Discontinued operations:		
Loss from operations	(2,936)	(48,742)
Loss on disposals	(2,211)	(7,039)
Increase (decrease) in unrestricted net assets attributable to Trinity Health	1,345,723	(206,739)
Unrestricted net asset attributable to noncontrolling interests:		
Excess of revenue over expenses attributable to noncontrolling interests	32,756	35,268
Noncontrolling interest related to acquisitions	2,500	29,272
Dividends and other	(26,812)	(30,857)
Increase in unrestricted net assets attributable to noncontrolling interest before discontinued operations	8,444	33,683
Discontinued operations attributable to noncontrolling interests:		
Income from operations	-	47
Increase in unrestricted net assets attributable to noncontrolling interest	8,444	33,730
<b>TEMPORARILY RESTRICTED NET ASSETS:</b>		
Contributions	67,065	58,748
Net investment gain (loss)	11,479	(12,573)
Net assets released from restrictions	(50,635)	(35,194)
Acquisitions	3,126	38,128
Other	(4,118)	(3,609)
Increase in temporarily restricted net assets	26,917	45,500
<b>PERMANENTLY RESTRICTED NET ASSETS:</b>		
Contributions for endowment funds	616	1,209
Net investment gain (loss)	5,624	(2,285)
Acquisitions	16,708	56,411
Other	(1,086)	1,585
Increase in permanently restricted net assets	21,862	56,920
<b>INCREASE (DECREASE) IN NET ASSETS</b>	<b>1,402,946</b>	<b>(70,589)</b>
<b>NET ASSETS - BEGINNING OF YEAR</b>	<b>10,247,213</b>	<b>10,795,906</b>
<b>NET ASSETS - END OF YEAR</b>	<b>\$ 11,650,159</b>	<b>\$ 10,725,317</b>

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

**TRINITY HEALTH**
**SUMMARIZED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)**
**NINE MONTHS ENDED MARCH 31, 2017 and 2016**
**(In thousands)**

	<b>2017</b>	<b>2016</b>
<b>OPERATING ACTIVITIES:</b>		
Increase (decrease) in net assets	\$ 1,402,946	\$ (70,589)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	649,502	625,063
Provision for bad debts	399,123	356,411
Inherent contributions in acquisitions	(65,305)	(146,739)
Change in net unrealized and realized gains and losses on investments	(622,355)	358,222
Change in market values of interest rate swaps	(73,878)	52,646
Undistributed equity in earnings of unconsolidated affiliates	(319,625)	(88,343)
Deferred retirement items arising during the year	20,034	2,853
Noncash items including net losses on disposal - discontinued operations	2,500	18,663
Increase in noncontrolling interest related to acquisitions	(2,500)	(29,272)
Restricted contributions and investment income received	(7,395)	(7,040)
Restricted net assets acquired related to acquisitions	(19,834)	(94,539)
(Gain) loss from early extinguishment of debt	(792)	40,786
Other adjustments	(13,678)	(6,443)
Changes in:		
Patient accounts receivable	(541,832)	(462,751)
Other assets	10,695	(23,875)
Accounts payable and accrued expenses	(126,515)	82,842
Estimated receivables from third-party payors	45,249	(13,397)
Estimated payables to third-party payors	(49,974)	(13,483)
Self-insurance and other liabilities	26,193	21,001
Accrued pension and retiree health costs	(292,961)	(149,445)
Net cash provided by operating activities of discontinued operations	137	17,247
Total adjustments	(983,211)	540,407
Net cash provided by operating activities	419,735	469,818
<b>INVESTING ACTIVITIES:</b>		
Net sales of investments	(69)	177,468
Purchases of property and equipment	(754,609)	(640,017)
Proceeds from disposal of property and equipment	8,301	16,335
Proceeds from sale of divestitures	3,283	50,443
Net cash acquired from acquisitions	5,610	117,266
Prepayment of acquisition	-	(16,151)
Loans made to affiliates, net of repayments	-	(34,100)
Change in other investing activities	145	12,358
Net cash provided by investing activities of discontinued operations	1,467	1,311
Net cash used in investing activities	(735,872)	(315,087)
<b>FINANCING ACTIVITIES:</b>		
Proceeds from issuance of debt	412,737	985,831
Repayments of debt	(220,803)	(886,867)
Net change in commercial paper and line of credit	(46,038)	20,967
Increase in financing costs and other	(3,754)	(5,348)
Proceeds from grants received	20,000	-
Proceeds from restricted contributions and restricted investment income	7,395	7,040
Net cash provided by financing activities of discontinued operations	-	571
Net cash provided by financing activities	169,537	122,194
<b>NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS</b>	(146,600)	276,925
<b>CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR</b>	1,044,683	843,210
<b>CASH AND CASH EQUIVALENTS - END OF PERIOD</b>	\$ 898,083	\$ 1,120,135

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



# TRINITY HEALTH

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) NINE MONTHS ENDED MARCH 31, 2017 AND 2016

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### 1. ORGANIZATION AND MISSION

Trinity Health Corporation, an Indiana nonprofit corporation headquartered in Livonia, Michigan, and its subsidiaries ("Trinity Health" or the "Corporation"), controls one of the largest health care systems in the United States. 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 22 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.*

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") for interim financial reporting information. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation have been included and are of a normal and recurring nature. Operating results for the nine months ended March 31, 2017 are not necessarily indicative of the results to be expected for the year ending June 30, 2017.

**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. 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") were divested in fiscal year 2016 and the operations of these entities are reflected as discontinued operations for the nine months ended March 31, 2016. 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 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 judgment 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 March 31, 2017 and June 30, 2016, the Corporation had securities loaned of \$382.5 million and \$272.6 million, respectively, and received collateral (cash and noncash) totaling \$392.7 million and \$277.7 million, respectively, relating to the securities loaned. The fees received for these transactions are recorded in non-operating 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 2 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.

***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 2 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.

**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.

**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 (Deficiency) of Revenue Over Expenses** – The consolidated statements of operations and changes in net assets includes excess (deficiency) of revenue over expenses. Changes in unrestricted net assets, which are excluded from excess (deficiency) of revenue over expenses, consistent with industry practice, include 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, and cumulative effects of changes in accounting principles.

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

In May 2014, the FASB issued ASU 2014-09, "*Revenue from Contracts with Customers (Topic 606)*". In August 2015, the FASB amended the guidance to defer the effective date of this standard by one year. ASU 2014-09 affects any entity that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets unless those contracts are within the scope of other standards. The core principle of the guidance in ASU 2014-09 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The Corporation is currently evaluating the requirements of the new standard to insure that we have processes, systems and internal controls in place to collect the necessary information to implement the standard, which will be effective for the Corporation beginning July 1, 2018. While the adoption of ASU 2014-09 will have a material effect on the amounts presented in certain categories on the consolidated statements of operations, the Corporation does not expect it to materially impact the results of operations.

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. The main difference between the guidance in ASU 2016-02 and current GAAP is the recognition of lease assets and lease liabilities by lessees for those leases classified as operating leases under current GAAP. Recognition of these lease assets and liabilities will have a material impact to the Corporation's consolidated balance sheet upon adoption. In transition, lessees and lessors are required to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach, which includes a number of optional practical expedients. 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 March 2017, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2017-07, "*Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*," which amends the requirements related to the presentation of the components of net periodic benefit cost in the statement of operations for an entity's sponsored defined benefit pension and other

postretirement plans. 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. Specifically this guidance reduces the three classifications of net assets on the balance sheet to two classifications. 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 November 2016, the FASB issued ASU No. 2016-18, *"Restricted Cash,"* which adds and clarifies guidance in the presentation of changes in restricted cash on the statement of cash flows and requires restricted cash to be included with cash and cash equivalents in the statement of cash flows. This guidance does not provide a definition of restricted cash. This guidance is effective for the Corporation beginning July 1, 2019. The Corporation is still evaluating the impact this guidance will have on the consolidated statement of cash flows.

In January 2017, the FASB issued ASU 2017-04, *"Simplifying the Test for Goodwill Impairment,"* which simplifies the accounting for goodwill impairment by eliminating step 2 from the goodwill impairment test. This guidance is effective for the Corporation beginning July 1, 2022. The Corporation is still evaluating the impact this guidance may have on the consolidated financial statements.

In January 2017, the FASB issued ASU No. 2017-02, *"Clarifying When a Not-for-Profit Entity That Is a General Partner or a Limited Partner Should Consolidate a For-Profit Limited Partnership or Similar Entity,"* which adds and clarifies consolidation guidance for not-for-profits from ASU 2015-02 *"Amendments to the Consolidation Analysis,"* issued in February 2015. 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 January 2017, the FASB issued ASU No. 2017-01, *"Clarifying the Definition of a Business."* This guidance clarifies the definition of a business prospectively to assist in evaluating whether future transactions should be accounted for as acquisitions (or disposals) of assets or businesses. This guidance is effective for the Corporation beginning July 1, 2019. The Corporation does not expect this guidance to have a material impact on its consolidated financial statements.

In August 2016, the FASB issued ASU No. 2016-15, *"Classification of Certain Cash Receipts and Cash Payments."* This guidance adds and clarifies guidance on the classification of certain cash receipts and payments in the consolidated statement 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 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 does not expect this guidance to have a material impact 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 statement of operations, 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 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 AND DIVESTITURES

***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. The Corporation's share of equity earnings from entities accounted for under the equity method was \$338.8 million and \$108.0 million for the nine months ended March 31, 2017 and 2016, respectively, of which \$43.8 million and \$28.9 million, respectively, is included in other revenue and \$295.0 million and \$79.1 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, tax-exempt members of the Catholic Health East 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 March 31, 2017 and June 30, 2016, the Corporation's investment in BayCare totaled \$2,370 million and \$2,079 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 March 31, 2017 and June 30, 2016, the Corporation's investment in GHP totaled \$162.3 million and \$147.6 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 healthcare 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 March 31, 2017 and June 30, 2016, the Corporation's investment in CHS totaled \$81.0 million and \$73.3 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 March 31, 2017 and June 30, 2016, the Corporation's investment in EH/SJHS totaled \$85.2 million and \$82.3 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 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 Corporation's 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 which commenced in July 2016. The amount recorded under the cash flow sharing agreement was \$1.7 million for the nine months ended March 31, 2017.

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). As a result, WFSI is consolidated into MHN's financial statements. As a result of this transaction, MHN recognized an inherent contribution in their consolidated statement of operations and changes in net assets in subsequent periods of fiscal year 2016, of which, the Corporation's share is \$87.2 million. As of March 31, 2017 and June 30, 2016, the Corporation's investment in MHN totaled \$94.9 million and \$91.0 million, respectively.

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

<b>March 31, 2017</b>					
	<b>Baycare</b>	<b>GHP</b>	<b>CHS</b>	<b>EH/SJHS</b>	<b>MHN</b>
Total assets	\$6,878,982	\$916,644	\$1,112,450	\$461,673	\$245,317
Total liabilities	\$1,985,413	\$590,838	\$874,575	\$284,700	\$50,721

<b>June 30, 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



Condensed consolidated statements of operations of BayCare, GHP, CHS, EH/SJHS and MHN for the nine month periods ended March 31 are as follows (in thousands):

Nine months ended March 31, 2017					
	Baycare	GHP	CHS	EH/SJHS	MHN
Revenue, net	\$ 2,618,395	\$ 1,784,118	\$ 823,690	\$ 410,615	\$ 274,029
Excess (deficiency) of revenue over expenses	\$ 558,885	\$ 26,165	\$ (1,591)	\$ 15,168	\$ 7,227

Nine months ended March 31, 2016					
	Baycare	GHP	CHS	EH/SJHS	MHN
Revenue, net	\$2,412,411	\$1,683,863	\$798,527	\$376,257	\$ 10,436
Excess of revenue over expenses	\$135,816	\$6,257	\$24,446	\$14,374	\$ (78)

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 nine month periods ended March 31 (in thousands):

Nine months ended March 31, 2017					
	Baycare	GHP	CHS	EH/SJHS	MHN
Other revenue	\$ -	\$ 13,030	\$ -	\$ -	\$ 5,607
Equity in earnings of unconsolidated organizations	286,716	-	2,444	5,880	-
Other changes in unrestricted net assets	5,526	(3,165)	5,214	(1,357)	-
	<u>\$ 292,242</u>	<u>\$ 9,865</u>	<u>\$ 7,658</u>	<u>\$ 4,523</u>	<u>\$ 5,607</u>

Nine months ended March 31, 2016					
	Baycare	GHP	CHS	EH/SJHS	MHN
Other revenue	\$ -	\$ 5,971	\$ -	\$ -	\$ (39)
Equity in earnings of unconsolidated organizations	68,451	-	7,124	5,198	-
Other changes in unrestricted net assets	(1,692)	3,008	8,712	(2,834)	-
	<u>\$ 66,759</u>	<u>\$ 8,979</u>	<u>\$ 15,836</u>	<u>\$ 2,364</u>	<u>\$ (39)</u>

**Acquisitions:**

**Saint Mary's Health System ("SMHS")** – On August 1, 2016, the Corporation became, through its Trinity Health Of New England, Inc. subsidiary, the sole corporate member of SMHS, a regional health care system located in Waterbury, Connecticut, as part of a member substitution. As a result of this transaction, the Corporation recognized an inherent contribution of \$56.0 million for the nine months ended March 31, 2017 in the consolidated statement 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 within 12 months following the acquisition date and may adjust the amounts recorded as of August 1, 2016 to reflect revised evaluations.

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

Cash, cash equivalents, and investments	\$ 18,252	Accounts payable and accrued expenses	39,735
Patient accounts receivable, net	31,029	Accrued pension and retiree health costs	89,167
Other current assets	10,662	Other long-term liabilities	26,203
Assets limited or restricted as to use,		Total liabilities acquired	<u>155,105</u>
current portion	3,465		
Property and equipment	100,686	Unrestricted net assets	55,994
Assets limited or restricted as to use,		Unrestricted noncontrolling interest	<u>2,500</u>
noncurrent portion	62,150	Total unrestricted net assets	58,494
Other assets	5,859	Temporarily restricted net assets	1,978
Total assets acquired	<u>\$ 232,103</u>	Permanently restricted net assets	<u>16,526</u>
		Total net assets	<u>\$ 76,998</u>

For the eight month period ended March 31, 2017, SMHS reported revenue of \$210.2 million and excess of revenue over expenses of \$4.2 million in the consolidated statements of operations.

**Saint Francis Care ("SFC")** - On October 1, 2015, the Corporation became the sole corporate member of SFC, a Connecticut nonstock corporation. On November 17, 2015, Saint Francis Care, Inc. changed its name to Trinity Health Of 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 of this transaction, the Corporation recognized an inherent contribution of \$70.2 million for the nine months ended March 31, 2016 in the consolidated statement of operations and changes in net assets. The amount of the inherent contribution related to this transaction was adjusted in subsequent periods of fiscal year 2016 to \$70.9 million for the year ended June 30, 2016. 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	<u>106,717</u>
Assets limited or restricted as to use,		Total liabilities acquired	<u>672,034</u>
noncurrent portion	145,992		
Other assets	18,069	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 5, the transaction included the extinguishment of bonds. In addition, 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 nine month period ended March 31, 2017 and six month period ended March 31, 2016, SFC reported revenue of \$755.0 million and \$449.4 million, respectively, and excess (deficiency) of revenue over expenses of \$66.6 million and (\$19.8) million, respectively, in the consolidated statements of operations.

**Johnson Memorial Medical Center, Inc. ("Johnson")** - On January 1, 2016, SFC acquired the assets of Johnson, a non-profit, nonstock holding company located in Stafford Springs, Connecticut. Johnson, through its subsidiaries, provides health care services throughout the Hartford and Tolland Connecticut counties. As a result of this acquisition, the Corporation recognized an inherent contribution of \$4.0 million in the consolidated statement of operations and changes in net assets in subsequent periods of fiscal year 2016. 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>

For the nine month period ended March 31, 2017 and three month period ended March 31, 2016, Johnson reported revenue of \$52.2 million and \$16.1 million, respectively, and deficiency of revenue over expenses of \$0.8 million and \$1.9 million, respectively, in the consolidated statements of operations.

**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 of this transaction, the Corporation recognized an inherent contribution of \$76.5 million for the nine months ended March 31, 2016 in the consolidated statement of operations and changes in net assets. The amount of the inherent contribution was adjusted in subsequent periods of the fiscal year 2016 to \$58.3 million for the year ended June 30, 2016. 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	113,514
Assets limited or restricted as to use,		Long-term debt	321,459
current portion	16,057	Accrued pension and retiree health costs	19,176
Other current assets	25,684	Other long-term liabilities	40,073
Property and equipment	316,294	Total liabilities acquired	<u>514,945</u>
Assets limited or restricted as to use,			
noncurrent portion	34,759	Unrestricted net assets	60,460
Other assets	23,003	Unrestricted noncontrolling interest	28,623
Total assets acquired	<u>\$ 619,208</u>	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 5, the transaction included the extinguishment of bonds. For the nine month periods ended March 31, 2017 and 2016, SJHHC reported revenue of \$518.7 million and \$495.5 million, respectively, and excess (deficiency) of revenue over expenses of \$8.0 million and (\$19.7) million, respectively, in the consolidated statements of operations.

**Other acquisitions** – On July 1, 2016, the Corporation acquired the following entities: Riverbend Medical Group, Inc., a physician practice in Springfield, Massachusetts; Glacier Hills, a continuing care retirement community in Ann Arbor, Michigan; Mount St. Joseph, a senior living community in Waterville, Maine; and Bethlehem Haven of Pittsburgh, a nonprofit organization that provides shelter, housing and supportive services to women in the Allegheny County of Pennsylvania. The acquisitions of Riverbend Medical Group, Inc. and Glacier Hills resulted in goodwill of \$6.1 million and \$12.7 million, respectively, while the acquisitions of Mount St. Joseph and Bethlehem Haven resulted in inherent contributions of \$7.1 million and \$2.2 million, respectively, for the nine months ended March 31, 2017. The impact of these acquisitions was otherwise not material to the Corporations consolidated financial statements.

***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"), a hospital system based in Ontario, California, 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. The Corporation provided debtor-in-possession financing of \$15 million to St. Michael's which was subsequently forgiven in consideration of releases by the Official Unsecured Creditors Committee and Debtors of any claims against Trinity Health arising out of Trinity's and Debtors' prepetition relationship, transactions or conduct as more fully described in a Global Settlement Agreement approved by the Bankruptcy Court on April 26, 2016.

Effective May 1, 2016, the Corporation sold substantially all of the health care operations and assets of St. Michael's to Prime and recorded a loss on disposal of \$35.7 million in discontinued operations in the consolidated statements of operations and changes in net assets in subsequent periods of fiscal year 2016.

On January 12, 2017 the bankruptcy court issued an order confirming joint Chapter 11 Plan of Orderly Liquidation of St. Michael's and Affiliated Debtors. The Plan became effective as of April 17, 2017. Pursuant to the Plan as of the Effective Date, the remaining assets and liabilities and control of St. Michael's and its affiliated debtors have been transferred to a Liquidating Trustee to implement the Plan. On or after August 1, 2017, the St. Michael's Board of Directors will be dissolved, the current Directors and Officers will be relieved of their positions and corresponding duties and Maxis Health System, a subsidiary of the Corporation, will be removed as the sole corporate member of St. Michael's thereby formally severing the remaining indirect control and relationship between the Corporation and St. Michael's.

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 and subsequently resulted in a \$177.6 million gain in discontinued operations in the consolidated statements of changes in net assets in June of 2016. For the period ended March 31, 2016, St. Michael's reported revenue of \$136.7 million and deficiency of revenue over expenses of \$30.2 million in discontinued operations in the consolidated statements of changes in net assets.

***Mercy Suburban 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 changes in net assets at the effective date was immaterial to the Corporation. For the period ended March 31, 2016, Mercy Suburban reported revenue of \$57.8 million and deficiency of revenue over expenses of \$15.0 million, in discontinued operations in the consolidated statements of changes in net assets. As disclosed in Note 5, 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 healthcare operations located in Port Huron, Michigan to Prime. As a result of the sale, a loss on disposal of \$10.2 million was recorded for the nine months ended March 31, 2016 in the statement of changes in net assets. For the period ended March 31, 2016, Port Huron reported revenue of \$26.8 million and deficiency of revenue over expenses of \$2.0 million in discontinued operations in the consolidated statements of changes in net assets. As disclosed in Note 5, the transaction resulted in the defeasance of bonds.

#### 4. PROPERTY AND EQUIPMENT

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

	March 31, 2017	June 30, 2016
Land	\$ 360,319	\$ 348,265
Buildings and improvements	9,197,250	8,867,512
Equipment	6,033,175	5,899,324
Capital leased assets	171,851	179,315
Total	15,762,595	15,294,416
Accumulated depreciation and amortization	(8,793,743)	(8,213,922)
Construction in progress	892,896	596,240
Property and equipment, net	<u>\$ 7,861,748</u>	<u>\$ 7,676,734</u>

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

Regional Health Ministry	Capital Commitment	Commitment Period Ending	Capital Spending through March 31, 2017*
Mercy Health System of Chicago	\$140 million over 5 years, \$150 million if performance metrics are achieved	June 30, 2017	\$107 million
Loyola University Health System	\$300 million over 7 years, \$400 million if performance metrics are achieved	June 30, 2018	\$309 million
SJHHC	\$60 million over 4 years, \$90 million if performance metrics are achieved	June 30, 2019	\$29 million
TH-NE	\$275 million over 5 years if performance metrics are achieved	June 30, 2020	\$73 million

\*Excludes HUD and philanthropy spending

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

**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 (the "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 Health 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 Trinity Health Credit Group.

The Trinity Health 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, N.Y.; Samaritan Hospital of Troy, New York; Seton Health System, Inc.; Sunnyview Hospital and Rehabilitation Center; the Capital Region Geriatric Center, Inc.; Hawthorne Ridge, Inc.; and Manufacturers and Traders Trust Company, as master trustee. In addition, St. Joseph's Hospital Health Center, acquired on July 1, 2015, is not a designated affiliate and is not a part of the Trinity Health Credit Group.

Pursuant to the ARMI, the Obligated Group agent (which is the Corporation) has caused the designated affiliates representing, when combined with the Obligated Group members, at least 85% of the consolidated net revenues of the Trinity Health Credit Group to grant to the master trustee security interests in their pledged property which security interests secure all obligations issued under the ARMI. 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 March 31, 2017 and June 30, 2016 that has not been secured under the ARMI is generally collateralized by certain property and equipment.

Mercy Health System of Chicago ("MHSC") has a \$59.0 million mortgage loan outstanding at March 31, 2017 that is insured by the U.S. 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 Trinity Health Credit Group.

**Commercial Paper** – The Corporation's commercial paper program is authorized for borrowings up to \$600 million. As of March 31, 2017 and June 30, 2016, the total amount of commercial paper outstanding was \$100 million and \$146 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.

**Liquidity Facilities** – The Corporation has entered into four credit agreements (collectively, the "Credit Agreements") with 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 March 31, 2017. In September 2016, the Corporation amended and restated the credit agreements previously expiring in July 2017 and extended those facilities to July 2020. 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, \$321 million expires in July 2018, \$285 million expires in July 2019 and \$325 expires in July 2020. The Credit Agreements are secured by obligations under the ARMI. As of March 31, 2017 and June 30, 2016, 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 March 31, 2017 and June 30, 2016, there were no amounts outstanding under this credit facility.

### **Transactions**

The acquisitions of SJHHC and SFC during fiscal year 2016, 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 St. Joseph Mercy Port Huron on September 1, 2015, 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 Trinity Health 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 Trinity Health 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, pay down \$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.

In October 2016, the Corporation remarketed \$50 million in tax-exempt, variable rate hospital revenue bonds (the "Series 2011B bonds") under the ARMI, pursuant to a continuing covenant agreement with a private purchaser which provides for a ten year mandatory tender period (subject to mandatory tender on October 1, 2026).

During January 2017, the Trinity Health Credit Group issued \$344.2 million par value in tax-exempt fixed-rate hospital revenue bonds at a premium of \$26.1 million under the ARMI. Proceeds were used partially to refund \$66.5 million of certain tax-exempt bonds and pay down \$55.0 million of then outstanding taxable commercial paper obligations. 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.

## **6. 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 Health 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 commercial coverage from unrelated third-party commercial insurers. TAL has also limited its liability through reinsurance arrangements.

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.

Effective August 1, 2016, TAL policies include the facilities and individuals that were previously insured with Saint Mary's Indemnity Company, LLC ("SMICL"), a captive insurance company domiciled in the State of Vermont, whose sole member is SMHS. Policies issued and reinsurance purchased by SMICL prior to August 1, 2016 will remain in effect. SMICL did not, nor does it intend to, write or renew any insurance business after July 31, 2016 but will effectively run-off its existing business. SMICL was merged into TAL in March 2017 at which time all losses previous to August 1, 2016 for SMICL 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 omissions 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 with separate annual limits for professional/general liability, and management liability, network security and privacy liability. 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 additional coverage.

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 March 31, 2017, 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 which 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.

## **7. PENSION AND OTHER BENEFIT PLANS**

***Deferred Compensation*** – The Corporation has nonqualified deferred compensation plans at certain Health 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 March 31, 2017 and June 30, 2016, the assets under these plans totaled \$197.9 million and \$171.3 million and liabilities totaled \$208.0 million and \$183.7 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. Contribution expense under the plans totaled \$239.2 million and \$220.2 million for the nine month periods ended March 31, 2017 and 2016, 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 majority of the plans sponsored by the Corporation are intended to be "Church Plans", as defined in Code Section 414(e) and Section 3(33) of the Employee Retirement Income Security Act of 1974, as amended ("ERISA"), which have not made an election under Section 410(d) of the Code to be subject to 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 Health 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, SFC on October 1, 2015, and SMHS on August 1, 2016, 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 the other is intended to be a "Church Plan." 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. SMHS maintains one qualified, noncontributory defined benefit pension plan that is intended to be a "Church Plan." The plan was frozen to new entrants in 1997 and curtailed to eliminate future benefit accruals in 2004.

**Plan Merger** – Effective October 31, 2016, four of the Corporation's noncontributory defined benefit pension plans subject to the provisions of ERISA were merged into one defined benefit pension plan, named Trinity Health ERISA Pension Plan (the "Plan"). This merger did not affect participant pension benefits because the benefit provisions of these plans have been incorporated into the merged pension plan. The Plan is a frozen, qualified noncontributory defined benefit pension plan sponsored by Trinity Health and is subject to the provisions of ERISA. The Plan's funding policy complies with the minimum funding requirements of ERISA.

Components of net periodic benefit cost (income) for the nine month periods ended March 31 consisted of the following (in thousands):

	<b>Pension Plans</b>		<b>Postretirement Plans</b>	
	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
Service cost	\$ 1,190	\$ 1,543	\$ 141	\$ 315
Interest cost	234,469	250,231	2,807	4,566
Expected return on assets	(307,039)	(301,404)	(3,540)	(5,290)
Amortization of prior service cost	(6,793)	(3,425)	(281)	(423)
Recognized net actuarial loss	65,408	32,090	(5)	(120)
Net periodic benefit cost (income)	<u>\$ (12,765)</u>	<u>\$ (20,965)</u>	<u>\$ (878)</u>	<u>\$ (952)</u>

## 8. CONTINGENCIES

On March 29, 2013, CHE was notified that it is a defendant in a lawsuit filed in the United States 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 United States 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. Preliminary judicial approval of the settlement was received on February 6, 2017. Class notifications relating to the settlement were distributed on March 17, 2017. A hearing on final judicial approval is scheduled for May 31, 2017. The terms of the final settlement, if approved, will not have a material adverse effect on the financial condition of the Corporation.

During the twelve months 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 was determined to not be material to any of the prior period financial statements. The Corporation has completed the submission of corrected data for all affected years to the Centers for Medicare and Medicaid Services. The final estimated repayment amount was not materially different than the recorded accrual.

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

***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 Health Ministries periodically receive notices from governmental agencies requesting information regarding billing, payment or other reimbursement matters, initiating investigations, or indicating the existence of whistleblower litigation. 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.

## 9. SUBSEQUENT EVENTS

Management has evaluated subsequent events through May 18, 2017, the date the quarterly report was issued. The following subsequent events were noted:

Effective May 1, 2017, Ascension Health System withdrew its sponsorship and corporate membership in CHS, in which the Corporation has an investment recorded under the equity method of accounting as discussed in Note 3. As a result, the Corporation's interest in CHS was increased from one-third to 50%.

# Discussion and Analysis of Financial Condition and Results of Operations for Trinity Health

March 31, 2017



## Introduction to Management's Discussion & Analysis

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management of the Corporation to make assumptions, estimates and judgments that affect the amounts reported in the 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 financial statements, including the following: recognition of net patient service revenue, which includes contractual allowances, provisions for bad debt 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 under the circumstances in making its judgments and estimates. Actual results could differ materially from those estimates.

The Patient Protection and Affordable Care Act ("ACA") was enacted in March 2010. This legislation addresses almost all aspects of hospital and provider operations and health care delivery and is changing how health care services are covered, delivered, and reimbursed. These changes have resulted in new payment models with the risk of lower hospital reimbursement from Medicare, utilization changes, increased government enforcement and the necessity for health care providers to assess, and potentially alter, their business strategy and practices, among other consequences. While many providers have received reduced payments for care, millions of previously uninsured Americans have received coverage.

President Trump has included a repeal of all or a portion of the ACA in early 2017 in statements concerning his legislative agenda. He has issued an executive order urging federal agencies to exercise their authority to waive or delay the implementation of any provision or

requirement of the Act that would impose a fiscal burden or increase regulatory burden on any party impacted by the ACA. Additionally, certain Congressional leaders have introduced legislation aimed at repealing all or a portion of the ACA. The timing of such repeal and whether it would be in whole or in part is unclear. It is also unclear when a replacement plan would be implemented and whether a replacement plan will be included in the repeal efforts.

Management of the Corporation cannot predict with any reasonable degree of certainty or reliability the ultimate effects of the legislation, the potential repeal of all or a portion of the legislation, or any replacement legislation.

Trinity Health Corporation, an Indiana nonprofit corporation headquartered in Livonia, Michigan, and its subsidiaries ("Trinity Health" or the "Corporation"), controls one of the largest health care systems in the United States.

## Recent Developments

### ***Saint Mary's Health System***

On August 1, 2016, the Corporation became, through its Trinity Health Of New England subsidiary, the sole corporate member of Saint Mary's Health System ("SMHS"), a regional health care system located in Waterbury, Connecticut, as part of a member substitution. As a result of this transaction, the Corporation recognized an inherent contribution of \$56.0 million for the nine months ended March 31, 2017 in the consolidated statement 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 within 12 months following the acquisition date and may adjust the amounts recorded as of August 1, 2016 to reflect revised evaluations. For the eight month period ended March 31, 2017, SMHS reported revenue of \$210.2 million and excess of revenue over expenses of \$4.2 million in the consolidated statements of operations.

### ***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 respective 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 Corporation's 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 healthcare 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, which commenced in July 2016. The amount recorded under the cash flow sharing agreement for the nine months ended March 31, 2017 was immaterial to the consolidated financial statements.

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 is consolidated in MHN's financial statements. As a result of this transaction, MHN recognized an inherent contribution in their consolidated statement of operations and changes in net assets in subsequent periods of fiscal year 2016, of which, the Corporation's share was \$87.2 million. As of March 31, 2017, the Corporation's investment in MHN totaled \$94.9 million.

#### ***St. Francis Care***

Effective October 1, 2015, the Corporation became the sole corporate member of Saint Francis Care and subsidiaries ("SFC"), a Connecticut nonstock corporation. On November 17, 2015, Saint Francis Care, Inc. changed its name to Trinity Health Of New England, Inc. SFC is the

sole member of Saint Francis Hospital and Medical Center, 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 of this transaction, the Corporation recognized an inherent contribution of \$70.2 million for the nine months ended March 31, 2016 in the consolidated statement of operations and changes in net assets. For the nine month period ended March 31, 2017 and the six month period ended March 31, 2016, SFC reported revenue of \$755.0 million and \$449.4 million, respectively, and excess (deficiency) of revenue over expenses of \$66.6 million and (\$19.8) million in the consolidated statements of operations, respectively.

Furthermore, on January 1, 2016, SFC acquired the assets of Johnson Memorial Medical Center, Inc. ("Johnson"), a non-profit, nonstock holding company located in Stafford Springs, Connecticut. Johnson, through its subsidiaries, provides health care services throughout the Hartford and Tolland Connecticut counties. As a result of this acquisition, the Corporation recognized an inherent contribution of \$4.0 million in the consolidated statement of operations and changes in net assets in subsequent periods of fiscal year 2016. SFC, inclusive of Johnson, has been consolidated in the fiscal year 2016 financial statements as of the acquisition dates. For the nine month period ended March 31, 2017 and three month period ended March 31, 2016, Johnson reported revenue of \$52.2 million and \$16.1 million, respectively, and deficiency of revenue over expenses of \$0.8 million and \$1.9 million, respectively, in the consolidated statements of operations.

#### ***St. Joseph's Hospital Health Center***

On July 1, 2015, the Corporation became the sole corporate member of Saint Joseph's Hospital Health Center ("SJHHC"), a regional health care system located in Syracuse, New York as part of a member substitution. As a result of this transaction, the Corporation recognized an inherent contribution of \$76.5 million for the nine months ended March 31, 2016 in the consolidated statement of operations and changes in net assets. The amount of the inherent contribution was adjusted in subsequent periods of fiscal year 2016 to

\$58.3 million. For the nine month periods ended March 31, 2017 and 2016, SJHHC reported revenue of \$518.7 million and \$495.5 million, respectively, and excess (deficiency) of revenue over expenses of \$8.0 million and (\$19.7) million, respectively, in the consolidated statements of operations.

## Results from Operations

### Operating Income

Operating income before other items for the first nine months of fiscal year 2017 was \$201.8 million compared to \$77.6 million for the same period in fiscal year 2016. The acquisitions of SFC, Johnson, and SMHS (collectively referred to as "Connecticut") reported combined operating income (loss) of \$6.0 million and (\$18.3) million for fiscal year 2017 and 2016, respectively. Operating margin and operating cash flow margin before other items were 1.5% and 7.7%, respectively, for the first nine months of fiscal year 2017 compared to 0.6% and 7.1% for the same period in fiscal year 2016. Excluding the impact of the Connecticut acquisitions, operating margin and operating cash flow margin before other items were 1.6% and 7.8%, respectively in fiscal 2017 and 0.8% and 7.2% in fiscal 2016, respectively. Excluding the impact of the Connecticut acquisitions, margin growth was driven by increases in volume as measured by case mix adjusted equivalent discharges, improvements in service mix, payment rates, length of stay and productivity. These increases were partially offset by increased costs for labor, purchased services, supplies, and an unfavorable shift in payor mix.

(dollars in millions)	Q3 FY16	Q3 FY17	Q3 FY16*	Q3 FY17*
Operating Income**	\$77.6	\$201.8	\$87.6	\$196.5
Operating Revenue	\$12,051	\$13,134	\$11,611	\$12,167
Operating Margin**	0.6%	1.5%	0.8%	1.6%
Operating Cash Flow Margin**	7.1%	7.7%	7.2%	7.8%

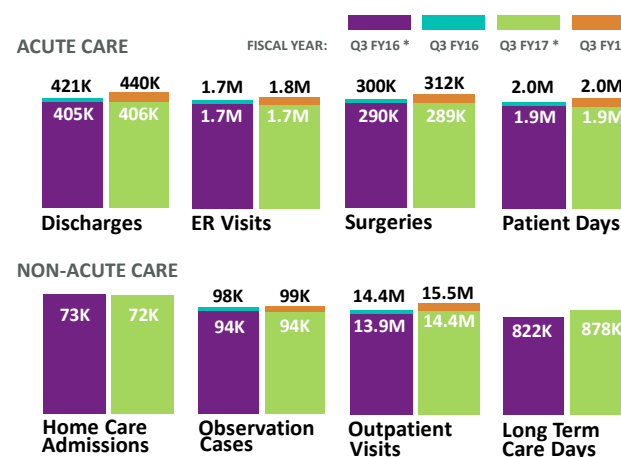
\* Excluding the impact of the Connecticut acquisitions

\*\* Before other items

### Revenue

Total unrestricted revenue of \$13.1 billion increased \$1.1 billion, or 9.0%, for the first nine months of fiscal year 2017 compared to the same period in fiscal year 2016. Revenue from the Connecticut acquisitions accounted for \$526.3 million of the increase or 4.4%. Excluding the impact of the aforementioned acquisitions, the increase was due primarily to the following: (i) \$196.1 million

from volume growth, (ii) an increase of \$130.0 million from improvements in service mix offset by an unfavorable shift in payor mix, (iii) payment rate increases of \$64.1 million, and (iv) an increase of \$152.3 million in other revenue (including \$43.3 million of retail pharmacy revenue, \$34.0 million of premium revenue primarily in the Ohio Medicare Advantage health plans, \$29.1 million related to accountable care organizations and bundled payment improvement initiatives revenue, and \$23.0 million of grant revenue). Same facility volumes were favorable to prior year with 16 of the 20 Regional Health Ministries experiencing increases in case mix adjusted equivalent discharges.



\* Excluding the impact of the Connecticut acquisitions

### Expenses

Total operating expenses of \$12.9 billion increased \$958.8 million, or 8.0% for the first nine months of fiscal year 2017 compared to the same period in fiscal year 2016. Expenses from the Connecticut acquisitions accounted for \$502.0 million of the increase or 4.2%. Excluding the impact of the aforementioned acquisitions, the change was due primarily to the following: (i) labor expense increase of \$226.9 million (salaries and wages increase of \$227.5 million primarily due to a 1.8% increase in rate and a 2.7% increase in FTEs), (ii) purchased services increase of \$103.7 million, and (iii) supplies increase of \$83.6 million driven by higher volumes. Expenses for occupancy, medical claims, interest, depreciation and amortization, and other did not materially change for the first nine months of fiscal year 2017 compared to the same period in fiscal year 2016.

### Nonoperating Items

Gains in nonoperating items of \$1.1 billion for the first nine months of fiscal year 2017 compare to losses of \$163.8 million for the same period in fiscal year 2016. The change was primarily due to a \$942.3 million improvement in nonoperating investment earnings, a \$215.9 million improvement in equity in earnings of unconsolidated affiliates, an improvement in interest rate swaps of \$126.8 million (all primarily driven by overall global investment market conditions), and a favorable change in gain (loss) on extinguishment of debt of \$41.6 million. These were partially offset by a decrease in inherent contributions from acquisitions of \$81.5 million as described above.

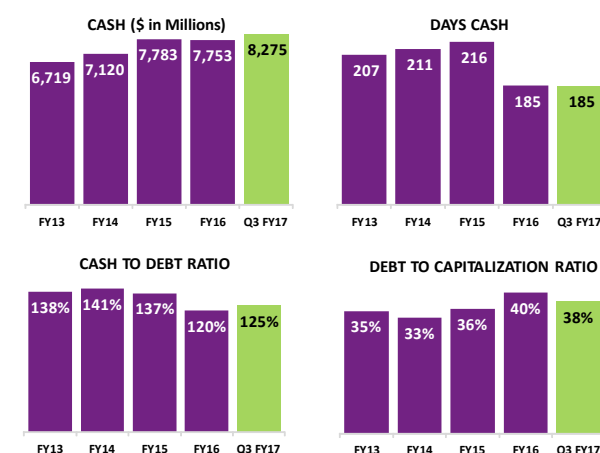
### Excess of Revenue over Expenses

Excess (deficiency) of revenue over expenses for the first nine months of fiscal year 2017 was \$1.2 billion compared to a (deficiency) of revenue over expense of (\$186.9) million for the same period in fiscal year 2016. The change as compared to the same period in fiscal year 2016 was primarily due to a \$1.2 billion increase in nonoperating items and a \$124.2 million increase in operating income before other items. Prior year results also included an other item \$65.3 million charge for the estimated impact of identified data submission errors related to Medigold, the Corporation's Medicare Advantage plans in Ohio.

### Balance Sheet

Total assets of \$24.6 billion increased \$1.2 billion, or 5.3% as of March 31, 2017, compared to June 30, 2016, of which the acquisition of SMHS accounted for \$232.1 million or 1.0% of the increase. Excluding the acquisition of SMHS, asset growth was mainly driven by non-operating investment income of \$660.3 million and income from operations of \$201.8 million. Total assets include unrestricted cash and investments of \$8.3 billion or 185 days of cash on hand. Days cash on hand remained flat during the year primarily due to positive operating cash flow, strong investment returns, and debt issuance, offset by capital expenditures, the impact of the Connecticut acquisitions and increased expenses, pension funding, and balance sheet timing. Net days in accounts receivable increased by 2.0 days to 45.5 days as of March 31, 2017 compared to fiscal year June 30, 2016

due to seasonality. Total liabilities of \$13.0 billion decreased \$164.8 million, or 1.3%, primarily due to reductions in accrued pension and retiree health costs which included cash funding of \$176.7 million, salaries and wage related liabilities, and accounts payable and accrued expenses, partially offset by a \$165 million net increase in debt and \$155 million of liabilities assumed in the SMHS acquisition. Debt to capitalization as of March 31, 2017 decreased to a ratio of 37.8% from 40.3% compared to June 30, 2016 due primarily to an increase in unrestricted net assets of \$1.4 billion driven by strong investment returns, other non-operating gains and income from operations.



### Statement of Cash Flows

Cash and cash equivalents decreased \$146.6 million during the nine months ended March 31, 2017. Operating activities provided \$419.7 million of cash. Investing activities used \$735.9 million of cash primarily due to purchases of property and equipment of \$754.6 million. Financing activities provided \$169.5 million of cash due to proceeds from the issuance of debt of \$412.7 million and proceeds from grants received of \$20.0 million, partially offset by the repayments of debt of \$220.8 million and net change in commercial paper of \$46.0 million.

**TRINITY HEALTH****Liquidity Reporting**

Summary as of March 31, 2017

(\$ in millions)

(unaudited)**ASSETS****Daily Liquidity**

Money Market Funds (Moody's rated Aaa)	\$ 1,024
Checking and Deposit Accounts (at P-1 rated bank)	62
Repurchase Agreements	-
U.S. Treasuries & Aaa-rated Agencies	-
Dedicated Bank Lines	931
<b>Subtotal Daily Liquidity (Cash &amp; Securities)</b>	<b>\$ 2,016</b>

Undrawn Portion of \$600M Taxable Commercial Paper Program	500
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**Subtotal Daily Liquidity Including Taxable Commercial Paper Program** \$ 2,516

**Weekly Liquidity**

Exchange Traded Equity	\$ 1,510
Publicly Traded Fixed Income Securities Rated at least Aa3 and Bond Funds	1,319
Equity Funds	1,265
Other	474
<b>Subtotal Weekly Liquidity</b>	<b>4,568</b>

**TOTAL DAILY AND WEEKLY LIQUIDITY** **\$ 7,085**

**Longer Term Liquidity**

Funds, vehicles, investments that allow withdrawals with less than one month notice	1,487
Funds, vehicles, investments that allow withdrawals with one month notice or longer	1,681
<b>Total Longer Term Liquidity</b>	<b>\$ 3,168</b>

**LIABILITIES (Self-liquidity Variable Rate Demand Bonds & Commercial Paper)****Weekly Put Bonds**

VRDO Bonds (7-day)	\$ 321
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**Long-Mode Put Bonds**

VRDO Bonds (Commercial Paper Mode)	417
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<b><u>Taxable Commercial Paper Outstanding</u></b>	<b>100</b>
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**TOTAL SELF-LIQUIDITY DEBT AND COMMERCIAL PAPER** **\$ 838**



**Trinity Health**  
**Financial Ratios and Statistics (Unaudited)**

	March 31, 2017	March 31, 2016
<b><u>Financial Indicators</u></b>		
<b>Liquidity Ratios (at March 31)</b>		
Days Cash on Hand	185	184
Days in Accounts Receivable, Net	45.5	46.6
<b>Leverage Ratios (at March 31)</b>		
Debt to Capitalization	38%	39%
Cash to Debt	125%	119%
<b>Profitability Ratios (For the Nine Months Ended March 31)</b>		
Operating Margin before other items	1.5%	0.6%
Operating Cash Flow Margin before other items	7.7%	7.1%
<b><u>Statistical Indicators (For the Nine Months Ended March 31)</u></b>		
Rounded to nearest thousand		
Discharges	440,000	421,000
Patient Days	2,034,000	1,969,000
Outpatient Visits	15,468,000	14,418,000
Emergency Room Visits	1,787,000	1,735,000
<b><u>Continuing Care</u></b>		
Home Health Admissions	72,000	73,000
Long-term Care Patient Days	878,000	822,000