

Trinity Health

Consolidated Financial Statements as of and for the
years ended June 30, 2018 and 2017,
Supplemental Consolidating Schedules as of and for
the year ended June 30, 2018
and Independent Auditors' Reports

TRINITY HEALTH

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated financial statements of Trinity Health Corporation and its subsidiaries (the "Corporation"), which comprise the consolidated balance sheets as of June 30, 2018 and 2017, and the related consolidated statements of operations and changes in net assets and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We did not audit the consolidated financial statements of BayCare Health System, the Corporation's investment which is accounted for by the use of the equity method. The accompanying consolidated financial statements of the Corporation include its investment in the net assets of BayCare Health System of \$2.8 billion and \$2.4 billion as of June 30, 2018, and 2017, respectively, and its equity method income from BayCare Health System of \$296.4 million and \$360.1 million for the years ended June 30, 2018 and 2017, respectively. The combined financial statements of BayCare Health System for the years ended December 31, 2017 and 2016, were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for BayCare Health System, is based on the reports of the other auditors and the procedures that we considered necessary in the circumstances with respect to the inclusion of the Corporation's equity investment and equity method income in the accompanying consolidated financial statements taking into consideration the differences in fiscal years. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Corporation's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion

on the effectiveness of the Corporation's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, based on our audits and the reports of the other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Corporation as of June 30, 2018 and 2017, and the results of its operations and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Deloitte & Touche LLP

September 26, 2018

TRINITY HEALTH

CONSOLIDATED BALANCE SHEETS

JUNE 30, 2018 AND 2017

(In thousands)

| ASSETS | 2018 | 2017 |
|---|---------------|---------------|
| CURRENT ASSETS: | | |
| Cash and cash equivalents | \$ 971,726 | \$ 1,008,197 |
| Investments | 3,846,190 | 3,526,204 |
| Security lending collateral | 275,228 | 332,972 |
| Assets limited or restricted as to use - current portion | 352,231 | 328,712 |
| Patient accounts receivable, net of allowance for doubtful accounts of \$480.8 million and \$428.9 million at June 30, 2018 and 2017, respectively | 2,070,567 | 1,877,860 |
| Estimated receivables from third-party payors | 213,563 | 260,856 |
| Other receivables | 360,477 | 360,051 |
| Inventories | 292,945 | 274,830 |
| Assets held for sale | 67,793 | - |
| Prepaid expenses and other current assets | 172,819 | 172,051 |
| Total current assets | 8,623,539 | 8,141,733 |
| ASSETS LIMITED OR RESTRICTED AS TO USE - noncurrent portion: | | |
| Held by trustees under bond indenture agreements | 6,865 | 7,139 |
| Self-insurance, benefit plans and other | 865,949 | 823,948 |
| By Board | 3,881,021 | 3,709,246 |
| By donors | 498,871 | 460,491 |
| Total assets limited or restricted as to use - noncurrent portion | 5,252,706 | 5,000,824 |
| PROPERTY AND EQUIPMENT - Net | 8,025,580 | 7,853,456 |
| INVESTMENTS IN UNCONSOLIDATED AFFILIATES | 3,493,495 | 3,105,173 |
| GOODWILL | 438,460 | 301,043 |
| OTHER ASSETS | 361,920 | 336,854 |
| TOTAL ASSETS | \$ 26,195,700 | \$ 24,739,083 |

| LIABILITIES AND NET ASSETS | 2018 | 2017 |
|---|----------------------|----------------------|
| CURRENT LIABILITIES: | | |
| Commercial paper | \$ 99,904 | \$ 99,861 |
| Short-term borrowings | 711,020 | 1,039,840 |
| Current portion of long-term debt | 276,295 | 192,680 |
| Accounts payable and accrued expenses | 1,548,741 | 1,404,413 |
| Salaries, wages and related liabilities | 863,143 | 820,014 |
| Payable under security lending agreements | 275,228 | 332,972 |
| Liabilities held for sale | 32,440 | - |
| Estimated payables to third-party payors | 395,970 | 331,585 |
| Current portion of self-insurance reserves | 272,842 | 269,874 |
| Total current liabilities | 4,475,583 | 4,491,239 |
| LONG-TERM DEBT - Net of current portion | 5,982,141 | 5,269,862 |
| SELF-INSURANCE RESERVES - Net of current portion | 1,002,274 | 980,624 |
| ACCRUED PENSION AND RETIREE HEALTH COSTS | 688,259 | 1,315,991 |
| OTHER LONG-TERM LIABILITIES | 703,427 | 695,940 |
| Total liabilities | 12,851,684 | 12,753,656 |
| NET ASSETS: | | |
| Unrestricted net assets | 12,581,754 | 11,282,433 |
| Noncontrolling ownership interest in subsidiaries | 176,156 | 173,703 |
| Total unrestricted net assets | 12,757,910 | 11,456,136 |
| Temporarily restricted net assets | 388,624 | 345,974 |
| Permanently restricted net assets | 197,482 | 183,317 |
| Total net assets | 13,344,016 | 11,985,427 |
| TOTAL LIABILITIES AND NET ASSETS | \$ 26,195,700 | \$ 24,739,083 |

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

TRINITY HEALTH

CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS

YEARS ENDED JUNE 30, 2018 AND 2017

(In thousands)

| | 2018 | 2017 |
|--|---------------|---------------|
| UNRESTRICTED REVENUE: | | |
| Patient service revenue, net of contractual and other allowances | \$ 16,406,252 | \$ 15,747,094 |
| Provision for bad debts | (574,954) | (548,965) |
| Net patient service revenue less provision for bad debts | 15,831,298 | 15,198,129 |
| Premium and capitation revenue | 1,067,582 | 1,039,749 |
| Net assets released from restrictions | 50,510 | 39,826 |
| Other revenue | 1,396,015 | 1,350,141 |
| Total unrestricted revenue | 18,345,405 | 17,627,845 |
| EXPENSES: | | |
| Salaries and wages | 7,949,446 | 7,594,863 |
| Employee benefits | 1,525,511 | 1,510,144 |
| Contract labor | 296,611 | 242,018 |
| Total labor expenses | 9,771,568 | 9,347,025 |
| Supplies | 2,983,635 | 2,880,802 |
| Purchased services | 2,083,761 | 2,059,267 |
| Depreciation and amortization | 857,154 | 870,289 |
| Occupancy | 748,346 | 744,444 |
| Medical claims | 406,330 | 417,054 |
| Interest | 224,882 | 207,152 |
| Other | 868,437 | 835,673 |
| Total expenses | 17,944,113 | 17,361,706 |
| OPERATING INCOME BEFORE OTHER ITEMS | 401,292 | 266,139 |
| Asset impairment charges | (264,366) | (248,070) |
| Restructuring costs | - | (36,184) |
| OPERATING INCOME (LOSS) | 136,926 | (18,115) |
| NONOPERATING ITEMS: | | |
| Investment earnings | 488,715 | 859,934 |
| Equity in earnings of unconsolidated affiliates | 328,353 | 376,642 |
| Change in market value and cash payments of interest rate swaps | 25,671 | 52,955 |
| (Loss) gain from early extinguishment of debt | (39,857) | 792 |
| Inherent contributions related to acquisitions | 1,903 | 65,103 |
| Other, including income taxes | 7,419 | (488) |
| Total nonoperating items | 812,204 | 1,354,938 |
| EXCESS OF REVENUE OVER EXPENSES | 949,130 | 1,336,823 |
| EXCESS OF REVENUE OVER EXPENSES ATTRIBUTABLE TO NONCONTROLLING INTEREST | (47,619) | (45,599) |
| EXCESS OF REVENUE OVER EXPENSES, net of noncontrolling interest | \$ 901,511 | \$ 1,291,224 |

| | <u>2018</u> | <u>2017</u> |
|---|-----------------------------|-----------------------------|
| UNRESTRICTED NET ASSETS: | | |
| Unrestricted net asset attributable to Trinity Health: | | |
| Excess of revenue over expenses | \$ 901,511 | \$ 1,291,224 |
| Net assets released from restrictions for capital acquisitions | 31,900 | 37,695 |
| Net change in retirement plan related items - consolidated organizations | 394,751 | 372,579 |
| Net change in retirement plan related items - unconsolidated organizations | (14,501) | 4,123 |
| Other | (14,340) | 8,165 |
| Increase in unrestricted net assets before discontinued operations | <u>1,299,321</u> | <u>1,713,786</u> |
| Discontinued operations: | | |
| Gain from operations | - | 4,919 |
| Loss on disposals and settlement of debt | - | (12,651) |
| Increase in unrestricted net assets attributable to Trinity Health | <u>1,299,321</u> | <u>1,706,054</u> |
| Unrestricted net asset attributable to noncontrolling interests: | | |
| Excess of revenue over expenses attributable to noncontrolling interests | 47,619 | 45,599 |
| Noncontrolling interests related to acquisitions | 9,454 | 2,500 |
| Dividends | (44,142) | (52,190) |
| Other | (10,478) | (8,801) |
| Increase (decrease) in unrestricted net assets attributable to noncontrolling interests | <u>2,453</u> | <u>(12,892)</u> |
| TEMPORARILY RESTRICTED NET ASSETS: | | |
| Contributions | 112,140 | 83,378 |
| Net investment gain | 12,367 | 17,140 |
| Net assets released from restrictions | (82,410) | (77,521) |
| Acquisitions | - | 2,874 |
| Other | 553 | (6,548) |
| Increase in temporarily restricted net assets | <u>42,650</u> | <u>19,323</u> |
| PERMANENTLY RESTRICTED NET ASSETS: | | |
| Contributions for endowment funds | 7,350 | 1,805 |
| Net investment gain | 7,266 | 7,892 |
| Acquisitions | - | 16,960 |
| Other | (451) | (928) |
| Increase in permanently restricted net assets | <u>14,165</u> | <u>25,729</u> |
| INCREASE IN NET ASSETS | 1,358,589 | 1,738,214 |
| NET ASSETS - BEGINNING OF YEAR | 11,985,427 | 10,247,213 |
| NET ASSETS - END OF YEAR | <u>\$ 13,344,016</u> | <u>\$ 11,985,427</u> |

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

TRINITY HEALTH

CONSOLIDATED STATEMENTS OF CASH FLOWS

YEARS ENDED JUNE 30, 2018 AND 2017

(In thousands)

| | <u>2018</u> | <u>2017</u> |
|---|---------------------|-------------------|
| OPERATING ACTIVITIES: | | |
| Increase in net assets | \$ 1,358,589 | \$ 1,738,214 |
| Adjustments to reconcile increase in net assets to net cash provided by operating activities: | | |
| Depreciation and amortization | 857,154 | 870,289 |
| Provision for bad debts | 574,954 | 548,965 |
| Asset impairment charges | 264,366 | 248,070 |
| Restructuring costs, net of payments | - | 23,484 |
| Inherent contributions related to acquisitions | (1,903) | (65,103) |
| Loss (gain) on extinguishment of debt | 39,857 | (792) |
| Change in net unrealized and realized gains on investments | (412,822) | (822,835) |
| Change in market values of interest rate swaps | (42,682) | (71,236) |
| Undistributed equity in earnings of unconsolidated affiliates | (384,534) | (407,057) |
| Deferred retirement items - consolidated organizations | (394,751) | (372,579) |
| Deferred retirement items - unconsolidated organizations | 14,501 | (4,123) |
| Noncash items, including net losses on disposal - discontinued operations | - | 10,280 |
| Increase in noncontrolling interests related to acquisitions | (9,454) | (2,500) |
| Restricted contributions and investment income received | (57,852) | (9,516) |
| Restricted net assets acquired | - | (19,834) |
| Other adjustments | 43,934 | 34,412 |
| Changes in: | | |
| Patient accounts receivable | (711,324) | (536,942) |
| Other assets | (65,283) | (5,346) |
| Accounts payable and accrued expenses | 137,817 | (84,096) |
| Estimated receivables from third-party payors | 47,294 | (12,678) |
| Estimated payables to third-party payors | 26,181 | (48,914) |
| Self-insurance reserves and other liabilities | 5,095 | 55,325 |
| Accrued pension and retiree health costs | (261,678) | (256,668) |
| Total adjustments | <u>(331,130)</u> | <u>(929,394)</u> |
| Net cash provided by operating activities | <u>\$ 1,027,459</u> | <u>\$ 808,820</u> |

| | <u>2018</u> | <u>2017</u> |
|--|--------------------------|----------------------------|
| INVESTING ACTIVITIES: | | |
| Purchases of investments | \$ (4,029,440) | \$ (3,446,670) |
| Proceeds from sales of investments | 3,877,168 | 3,574,923 |
| Purchases of property and equipment | (1,124,533) | (1,113,262) |
| Proceeds from disposal of property and equipment | 7,431 | 8,094 |
| Acquisitions, net of cash acquired | (261,023) | 5,610 |
| Proceeds from the sale of divestitures | 5,009 | 8,989 |
| Change in investments in unconsolidated affiliates | (10,460) | (16,410) |
| Net repayments from affiliates | 6,665 | 6,108 |
| Decrease in assets limited as to use and other | 7,237 | 9,306 |
| Net cash used in investing activities | <u>(1,521,946)</u> | <u>(963,312)</u> |
| FINANCING ACTIVITIES: | | |
| Proceeds from issuance of debt | 1,331,051 | 426,973 |
| Repayments of debt | (865,374) | (235,460) |
| Net change in commercial paper | (1,769) | (47,075) |
| Dividends paid | (44,142) | (52,190) |
| Proceeds from grant received | - | 20,000 |
| Proceeds from restricted contributions and restricted investment income | 47,670 | 9,516 |
| Increase in financing costs and other | (9,420) | (3,758) |
| Net cash provided by financing activities | <u>458,016</u> | <u>118,006</u> |
| NET DECREASE IN CASH AND CASH EQUIVALENTS | (36,471) | (36,486) |
| CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR | 1,008,197 | 1,044,683 |
| CASH AND CASH EQUIVALENTS - END OF YEAR | <u>\$ 971,726</u> | <u>\$ 1,008,197</u> |
| SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION: | | |
| Cash paid for interest (net of amounts capitalized) | \$ 230,784 | \$ 211,260 |
| New capital lease obligations for buildings and equipment | 2,452 | 1,360 |
| Accruals for purchases of property and equipment and other long-term assets | 184,024 | 124,056 |
| Unsettled investment trades and purchases | 75,394 | 28,622 |
| Unsettled investment trades and sales | 22,220 | 18,043 |
| (Decrease) increase in security lending collateral | (57,744) | 70,937 |
| Decrease (increase) in payable under security lending agreements | 57,744 | (70,937) |

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

TRINITY HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

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.

Community Benefit Ministry – Consistent with our mission, Trinity Health provides medical care to all patients regardless of their ability to pay. In addition, Trinity Health provides services intended to benefit those who are poor and vulnerable, including those persons who cannot afford health insurance or other payments, such as co-pays and deductibles because of inadequate resources and/or are uninsured or underinsured; and works to improve the health status of the communities in which it operates. In addition to the 6 million people Trinity Health touches directly with clinical care, our mission extends to reach another 30 million people who live in our communities. Much of our mission is carried out through clinical services serving those who are poor and vulnerable, such as our street outreach programs to meet the needs of our homeless populations. Trinity Health is building on the legacy of our founders by making a transformational shift from being primarily focused on traditional episodic care to emphasizing total population health, which includes contributing to the overall health and well-being of our communities.

The following summary has been prepared in accordance with the Catholic Health Association of the United States’ (“CHA”), *A Guide for Planning and Reporting Community Benefit, 2015 Edition*.

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

| | <u>2018</u> | <u>2017</u> |
|---|---------------------|---------------------|
| Ministry for those who are poor and underserved: | | |
| Financial assistance | \$ 189,662 | \$ 185,880 |
| Unpaid cost of Medicaid and other public programs | 594,136 | 608,318 |
| Programs for those who are poor and the underserved: | | |
| Community health services | 28,951 | 27,321 |
| Subsidized health services | 54,484 | 53,329 |
| Financial contributions | 19,751 | 18,932 |
| Community building activities | 2,693 | 1,488 |
| Community benefit operations | <u>6,103</u> | <u>4,333</u> |
| Total programs for those who are poor and underserved | <u>111,982</u> | <u>105,403</u> |
| Ministry for those who are poor and underserved | <u>895,780</u> | <u>899,601</u> |
| Ministry for the broader community: | | |
| Community health services | 15,297 | 14,307 |
| Health professions education | 148,241 | 138,519 |
| Subsidized health services | 46,381 | 44,532 |
| Research | 3,702 | 5,302 |
| Financial contributions | 28,462 | 29,222 |
| Community building activities | 1,846 | 1,958 |
| Community benefit operations | <u>2,964</u> | <u>4,818</u> |
| Ministry for the broader community | <u>246,893</u> | <u>238,658</u> |
| Community benefit ministry | <u>\$ 1,142,673</u> | <u>\$ 1,138,259</u> |

The Corporation provides a significant amount of uncompensated care to its uninsured and underinsured patients, which is reported as bad debt at cost and not included in the amounts reported above. During the years ended June 30, 2018 and 2017, the Corporation reported bad debt at cost (determined using a cost-to-charge ratio applied to the provision for bad debts) of \$173.8 million and \$161.7 million, respectively.

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

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

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

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

Community health services are activities and services carried out to improve community health and well-being, for which no patient bill exists. These services are not expected to be financially self-supporting, although some may be supported by outside grants or funding. Some examples include community health education, free

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

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

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

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

The Corporation considers critical accounting policies to be those that require more significant judgments and estimates in the preparation of its consolidated financial statements, including the following: recognition of net patient service revenue, which includes contractual allowances, provision for bad debts and financial assistance; premium revenue; recorded values of investments, derivatives and goodwill; evaluation of long-lived assets for impairment; reserves for losses and expenses related to health care professional and general liabilities; and risks and assumptions for measurement of pension and retiree health liabilities. Management relies on historical

experience and other assumptions believed to be reasonable in making its judgments and estimates. Actual results could differ materially from those estimates.

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

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

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

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

Securities Lending – The Corporation participates in securities lending transactions whereby a portion of its investments are loaned, through its agent, to various parties in return for cash and securities from the parties as collateral for the securities loaned. Each business day, the Corporation, through its agent, and the borrower determine the market value of the collateral and the borrowed securities. If on any business day the market value of the collateral is less than the required value, additional collateral is obtained as appropriate. The amount of cash collateral received under securities lending is reported as an asset and a corresponding payable in the consolidated balance sheets and is up to 105% of the market value of securities loaned. As of June 30, 2018 and 2017, the Corporation had securities loaned of \$486.3 million and \$452.0 million, respectively, and received collateral (cash and noncash) totaling \$472.0 million and \$463.1 million, respectively, relating to the securities loaned. The fees received for these transactions are recorded in nonoperating 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 include long-term notes receivable, reinsurance recovery receivables, definite- and indefinite-lived intangible assets other than goodwill and prepaid 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, which are tested annually for impairment.

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, which are amortized to income using the straight-line method over the estimated remaining life expectancy of the resident, net of the portion that is refundable to 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.

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 financial assistance, 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 for each type of payor. A significant portion of the Corporation's provision for doubtful accounts relates to self-pay patients, as well as co-payments and deductibles owed to the Corporation by patients with insurance.

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

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

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

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

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

Forthcoming Accounting Pronouncements –

In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 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 No. 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 No. 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 has completed its evaluation of the requirements of the new standard to ensure that it has 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. The modified retrospective method will be used to adopt ASU No. 2014-09 on July 1, 2018. For health care operations, the Corporation will apply a portfolio approach to apply the new model to classes of payors with similar characteristics and will analyze cash collection trends over an appropriate collection look-back period, depending on the payor. Adoption of ASU No. 2014-09 will result in changes to the presentation for and disclosure of revenue related to uninsured or self-pay patients as under ASU No. 2014-09, the estimated uncollectible amounts due from these patients are generally considered a direct reduction to unrestricted revenue and, correspondingly, result in a material reduction in the amounts presented separately as provision for bad debts. The Corporation has completed the assessment of the impact of the new standard on various reimbursement programs that represent variable consideration and believes that accounting for these programs under the new standard is substantially consistent with historical accounting practices. These include supplemental state Medicaid programs, disproportionate share payments and settlements with third-party payors. While the adoption of ASU No. 2014-09 will have a material effect on the presentation of unrestricted revenue in the consolidated statements of operations and will impact certain disclosures, it will not materially impact the financial position, results of operations or cash flows of the Corporation.

In February 2016, the FASB issued ASU No. 2016-02, “*Leases*.” This guidance introduces a lessee model that brings substantially all leases onto the consolidated balance sheet. The main difference between the guidance in ASU No. 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 leases’ assets and liabilities

will have a material impact on the Corporation's consolidated balance sheet upon adoption. This guidance is effective for the Corporation beginning July 1, 2019. The Corporation is still evaluating the impact this guidance will have on its consolidated financial statements.

In March 2017, the FASB issued ASU No. 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 does not expect this guidance to have a material impact on its consolidated financial statements.

In March 2017, the FASB issued ASU No. 2017-08, "*Premium Amortization on Purchased Callable Debt Securities*," which shortens the amortization period for certain callable debt securities held at a premium to be amortized to the earliest call date. Under current GAAP, the premium is generally amortized to the maturity date. This guidance is effective for the Corporation beginning July 1, 2020. 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 for the annual reporting period ending June 30, 2019 and for interim reporting periods beginning July 1, 2019. The Corporation does not expect this guidance to have a material impact on its consolidated financial statements. While the adoption of ASU No. 2016-14 will have a material effect on the amounts presented as categories in net assets in the consolidated statements of operations and changes in net assets and will impact certain disclosures, it will not materially impact the Corporation's financial position, results of operations or cash flows.

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 may have on the consolidated statements of cash flows.

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 August 2017, the FASB issued ASU No. 2017-12, "*Derivatives and Hedging (Topic 815) Targeted Improvements to Accounting for Hedging Activities*." This guidance changes the financial reporting of hedging relationships to better portray the economic results of an entity's risk management activities; this guidance also simplifies the application of the hedge accounting guidance. 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.

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

Investments in Unconsolidated Affiliates – The Corporation and certain of its Health Ministries have investments in entities that are recorded under the cost and equity methods of accounting. As of June 30, 2018 and 2017, the Corporation maintained investments in unconsolidated affiliates with ownership interests ranging from 1.0% to 50.4% and 2.7% to 51.0%, respectively. The Corporation’s share of equity earnings from entities accounted for under the equity method was \$410.5 million and \$433.8 million for the years ended June 30, 2018 and 2017, respectively, of which \$82.1 million and \$57.1 million, respectively, is included in other revenue and \$328.4 million and \$376.6 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 CHE BayCare Participants, Morton Plant Mease Health Care, Inc., and South Florida Baptist Hospital, Inc. (collectively, the “Members”). BayCare consists of three community health alliances located in the Tampa Bay area of Florida, including St. Joseph’s-Baptist Healthcare Hospital, St. Anthony’s Health Care, and Morton Plant Mease Health Care. The Corporation has the right to appoint nine of the 21 voting members of the Board of Directors of BayCare; therefore, the Corporation accounts for BayCare under the equity method of accounting. As of June 30, 2018 and 2017, the Corporation’s investment in BayCare totaled \$2,759 million and \$2,447 million, respectively.

Gateway Health Plan – The Corporation has a 50% interest in Gateway Health Plan, L.P. and subsidiaries (“GHP”), a Pennsylvania limited partnership. GHP has two general partners, Highmark Ventures Inc., formerly known as Alliance Ventures, Inc., and Mercy Health Plan (a wholly owned subsidiary of the Corporation), each owning 1%. In addition to the general partners, there are two limited partners, Highmark Inc. and Mercy Health Plan, each owning 49%. As of June 30, 2018 and 2017, the Corporation’s investment in GHP totaled \$207.9 million and \$170.3 million, respectively.

Catholic Health System, Inc. – The Corporation has a 50% interest in Catholic Health System, Inc. and subsidiaries (“CHS”) with the Diocese of Buffalo holding the remaining 50%. CHS, formed in 1998, is a not-for-profit integrated delivery health care system in western New York. The Corporation held a one-third interest in CHS until May 1, 2017, when Ascension Health System withdrew its sponsorship and corporate membership in CHS, which increased the Corporation’s interest from one-third to 50%. CHS operates several organizations, the largest of which are four acute care hospitals located in Buffalo, New York: Mercy Hospital of Buffalo, Kenmore Mercy Hospital, Sisters of Charity Hospital, and St. Joseph Hospital. As of June 30, 2018 and 2017, the Corporation’s investment in CHS totaled \$86.6 million and \$85.2 million, respectively.

Emory Healthcare/St. Joseph’s Health System – The Corporation has a 49% interest in Emory Healthcare/St. Joseph’s Health System (“EH/SJHS”). EH/SJHS operates several organizations, including two acute care hospitals, St. Joseph’s Hospital of Atlanta and John’s Creek Hospital. As of June 30, 2018 and 2017, the Corporation’s investment in EH/SJHS totaled \$113.7 million and \$90.6 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. MHN is the sole member of Wheaton Franciscan Services, Inc. (“WFSI”). WFSI operates three hospitals in Iowa: Covenant Medical Center located in Waterloo, Sartori Memorial Hospital located in Cedar Falls and Mercy Hospital of Franciscan Sisters located in Oelwein. 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 Corporations' Iowa hospitals in collaboration with CHI's Mercy Hospital Medical Center, Des Moines, Iowa, as one organization with common governance and management. MHN has developed a regional health care network that provides for a collaborative effort in the areas of community health care development, enhanced access to health services for the poor and sharing of other common goals. Under the JOA, the Corporation and CHI equally share adjusted operating cash flow from Iowa operations, which commenced in July 2016. For the years ended June 30, 2018, and 2017, other expense includes a charge of \$11.9 million and \$4.9 million, respectively, related to the cash flow sharing agreement. As of June 30, 2018 and 2017, the Corporation's investment in MHN totaled \$89.5 million and \$94.2 million, respectively.

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

| | 2018 | | | | |
|-------------------|----------------|--------------|--------------|----------------|------------|
| | BayCare | GHP | CHS | EH/SJHS | MHN |
| Total assets | \$ 7,636,800 | \$ 1,110,648 | \$ 1,167,006 | \$ 514,789 | \$ 277,175 |
| Total liabilities | \$ 1,976,618 | \$ 695,165 | \$ 919,050 | \$ 287,833 | \$ 95,673 |

| | 2017 | | | | |
|-------------------|----------------|--------------|--------------|----------------|------------|
| | BayCare | GHP | CHS | EH/SJHS | MHN |
| Total assets | \$ 7,004,163 | \$ 1,028,120 | \$ 1,127,664 | \$ 467,148 | \$ 267,763 |
| Total liabilities | \$ 1,962,261 | \$ 687,510 | \$ 882,229 | \$ 281,171 | \$ 71,001 |

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

| | 2018 | | | | |
|---------------------------------|----------------|--------------|--------------|----------------|-------------|
| | BayCare | GHP | CHS | EH/SJHS | MHN |
| Revenue, net | \$ 3,714,049 | \$ 2,538,078 | \$ 1,151,008 | \$ 509,373 | \$ 365,764 |
| Excess of revenue over expenses | \$ 587,888 | \$ 82,270 | \$ 25,086 | \$ 37,465 | \$ (16,115) |

| | 2017 | | | | |
|---------------------------------|----------------|--------------|--------------|----------------|------------|
| | BayCare | GHP | CHS | EH/SJHS | MHN |
| Revenue, net | \$ 3,503,224 | \$ 2,491,710 | \$ 1,119,170 | \$ 550,326 | \$ 365,378 |
| Excess of revenue over expenses | \$ 714,418 | \$ 38,771 | \$ 13,794 | \$ 24,194 | \$ 5,790 |

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

| | 2018 | | | | |
|---|-------------------|------------------|-----------------|------------------|-------------------|
| | BayCare | GHP | CHS | EH/SJHS | MHN |
| Other revenue | \$ - | \$ 42,037 | \$ - | \$ - | \$ (6,215) |
| Equity in earnings of unconsolidated organizations | 296,354 | - | 12,543 | 22,495 | - |
| Other changes in unrestricted net assets | 8,125 | (8,936) | (11,151) | - | - |
| Total | <u>\$ 304,479</u> | <u>\$ 33,101</u> | <u>\$ 1,392</u> | <u>\$ 22,495</u> | <u>\$ (6,215)</u> |

| | 2017 | | | | |
|---|-------------------|------------------|------------------|-----------------|-----------------|
| | BayCare | GHP | CHS | EH/SJHS | MHN |
| Other revenue | \$ - | \$ 20,283 | \$ - | \$ - | \$ 3,160 |
| Equity in earnings of unconsolidated organizations | 360,067 | - | 6,363 | 11,287 | - |
| Other changes in unrestricted net assets | 7,780 | (2,192) | 5,460 | (1,365) | - |
| Total | <u>\$ 367,847</u> | <u>\$ 18,091</u> | <u>\$ 11,823</u> | <u>\$ 9,922</u> | <u>\$ 3,160</u> |

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

| | 2018 | | | | | |
|---|---|---|---|---|----------------------------|--------------|
| | Medical Office Buildings | Outpatient and Diagnostic Services | Ambulatory Surgery Centers | Physician Hospital Organizations | Other Investees | Total |
| Total assets | \$ 70,038 | \$ 218,821 | \$ 52,003 | \$ 75,560 | \$ 684,176 | \$ 1,100,598 |
| Total liabilities | \$ 51,116 | \$ 97,123 | \$ 20,815 | \$ 30,830 | \$ 347,034 | \$ 546,918 |
| Revenue, net | \$ 16,391 | \$ 277,352 | \$ 85,617 | \$ 52,892 | \$ 1,522,794 | \$ 1,955,046 |
| Excess (deficiency) of revenue over expenses | \$ 2,604 | \$ 30,738 | \$ 24,470 | \$ (2,762) | \$ 43,516 | \$ 98,566 |

| | 2017 | | | | | |
|---|---|---|---|---|----------------------------|--------------|
| | Medical Office Buildings | Outpatient and Diagnostic Services | Ambulatory Surgery Centers | Physician Hospital Organizations | Other Investees | Total |
| Total assets | \$ 71,410 | \$ 202,953 | \$ 53,811 | \$ 101,596 | \$ 671,569 | \$ 1,101,339 |
| Total liabilities | \$ 53,920 | \$ 95,207 | \$ 21,595 | \$ 58,266 | \$ 328,073 | \$ 557,061 |
| Revenue, net | \$ 22,423 | \$ 222,524 | \$ 88,956 | \$ 47,054 | \$ 1,542,945 | \$ 1,923,902 |
| Excess (deficiency) of revenue over expenses | \$ 8,410 | \$ 24,530 | \$ 23,056 | \$ (11,697) | \$ 48,840 | \$ 93,139 |

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 year ended June 30, 2017, in the consolidated statement of operations and changes in net assets. 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, current portion | 3,465 | Total liabilities acquired | <u>\$ 155,105</u> |
| Property and equipment | 100,686 | Unrestricted net assets | \$ 55,994 |
| Assets limited or restricted as to use, noncurrent portion | 62,150 | Unrestricted noncontrolling interest | <u>2,500</u> |
| Other assets | <u>5,859</u> | Total unrestricted net assets | 58,494 |
| Total assets acquired | <u>\$ 232,103</u> | Temporarily restricted net assets | 1,978 |
| | | Permanently restricted net assets | <u>16,526</u> |
| | | Total net assets | <u>\$ 76,998</u> |

For the year ended June 30, 2018 and the 11-month period ended June 30, 2017, SMHS reported revenue of \$351.9 million and \$291.3 million, respectively. SMHS reported a deficiency of revenue over expenses of \$4.2 million for the year ended June 30, 2018 and an excess of revenue over expenses of \$4.2 million for the 11-month period ended June 30, 2017 in the consolidated statements of operations.

MacNeal Hospital and MacNeal Health Providers ("MacNeal") – On March 1, 2018, the Corporation's Loyola University Health System ("Loyola"), through a wholly controlled subsidiary, purchased the assets of MacNeal Hospital, located in Berwyn, Illinois, and certain other healthcare operations affiliated with the hospital from an affiliate of Tenet Healthcare Corporation. MacNeal is a health care system that includes a 368-bed community hospital, clinical laboratory, physician medical group, real estate management company, accountable care organization and clinically integrated network. The acquisition of MacNeal will expand Loyola's delivery network for people-centered care, which includes population health and community health. As a result of this transaction, the Corporation recognized goodwill of \$142.4 million as cash consideration paid exceeded net assets acquired. The amounts recorded are subject to a post-closing reconciliation adjustment to the purchase price as stipulated in the Asset Purchase Agreement. The transaction costs accrued and paid totaled \$2.0 million, primarily for legal and consulting services, and are included in purchased services 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 through the period ended March 1, 2019, and may adjust the amounts recorded as of March 31, 2018, to reflect revised evaluations.

Summarized consolidated balance sheet information for MacNeal at March 1, 2018, is shown below (in thousands):

| | | | |
|---|-------------------|--|-------------------|
| Cash, cash equivalents, and investments | \$ 226 | Current portion of long-term debt | \$ 926 |
| Patient accounts receivable, net | 51,238 | Accounts payable and accrued expenses | 21,463 |
| Other receivables | 4,670 | Salaries, wages and related liabilities | 14,679 |
| Inventory | 5,073 | Estimated payables to third-party payors | 38,204 |
| Prepaid expenses and other current assets | 889 | Long-term debt | 654 |
| Property and equipment | 121,790 | Other long-term liabilities | 1,238 |
| Investment in unconsolidated affiliates | 500 | Total liabilities acquired | <u>\$ 77,164</u> |
| Excess cost over net asset acquisition | 142,357 | | |
| Other intangible assets | 3,500 | Total unrestricted net assets | <u>\$ 256,364</u> |
| Other assets | <u>3,285</u> | | |
| Total assets acquired | <u>\$ 333,528</u> | | |

For the four-month period ended June 30, 2018, MacNeal reported revenue of \$116.3 million and deficiency of revenue over expenses of \$1.0 million in the consolidated statement of operations.

Divestitures and Pending Transactions:

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. The consolidated financial statements for all periods present the operations of St. Michael’s as discontinued operations as the transaction was in process prior to the adoption of ASU No. 2014-8 “*Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity.*” Pursuant to court approved procedures, effective May 1, 2016, the Corporation sold substantially all of the health care operations and assets of St. Michael’s to Prime Healthcare Services.

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; effective as of April 17, 2017. Pursuant to the Plan the remaining assets and liabilities and control of St. Michael’s and its affiliated debtors were transferred to a Liquidating Trustee to implement the Plan. As a result, St. Michael’s was deconsolidated from the Corporation’s financial statements resulting in a further loss on disposal of \$12.0 million recorded in the consolidated statement of changes in net assets for the year ended June 30, 2017. As of August 1, 2017, the St. Michael’s Board of Directors was dissolved, and the Directors and Officers relieved of their positions. Effective August 11, 2017 the Articles of Incorporation of St. Michael’s were amended to remove Maxis Health System (“Maxis”), a subsidiary of the Corporation, as the sole corporate member of St. Michael’s, thereby formally severing the remaining indirect control relationship between the Corporation and St. Michael’s.

Membership Transfer Agreement Lourdes Health System (“Lourdes”) – On June 4, 2018, Maxis, a wholly-controlled subsidiary of Trinity Health, executed a Membership Transfer agreement with Virtua Health, Inc. (“Virtua”) to transfer the membership interests of Our Lady of Lourdes Health Care Services, Inc. (the Lourdes legal entity) from Maxis to Virtua including substantially all of the health care operations and certain assets and working capital of Lourdes. Lourdes includes Our Lady of Lourdes Medical Center (Camden, NJ) and Lourdes Medical Center of Burlington County (Willingboro, NJ) and their affiliated operations. As a result, certain assets and liabilities met the criteria to be classified as held for sale in accordance with the guidance in the FASB’s Accounting Standards Codification 360, “*Property, Plant and Equipment*.” \$67.8 million of assets were reclassified as “assets held for sale” in current assets and related liabilities of \$32.4 million were reclassified as “liabilities held for sale” in current liabilities in the accompanying consolidated balance sheet as of June 30, 2018. These assets and liabilities were recorded at the lower of their carrying amount or their fair value less estimated costs to sell. As further described in Note 5, an asset impairment charge of \$69.9 million was recorded in the statement of operations to write-down fixed assets held for sale to their estimated fair value, less estimated costs to sell, as a result of the planned divestiture of these assets. For the years ended June 30, 2018 and 2017, the Corporation’s consolidated statements of operations and changes in net assets included revenue of \$564.2 million and \$557.8 million, respectively, and deficiency of revenue over expenses of \$93.6 million and \$52.4 million respectively, related to the operations of Lourdes. After the impairment charge, the Corporation estimates any additional loss on sale will not be material to its results of operations or financial position. The closing of the transaction remains subject to regulatory and canonical approvals, as well as other customary closing conditions, the timing of which is uncertain.

4. NET PATIENT SERVICE REVENUE

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

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

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

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

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

Financial Assistance – 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 financial assistance 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 financial assistance are not reflected in the accompanying consolidated financial statements.

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

| | <u>2018</u> | <u>2017</u> |
|----------------------|----------------------|----------------------|
| Medicare | \$ 6,321,196 | \$ 6,100,637 |
| Blue Cross | 3,427,570 | 3,265,415 |
| Medicaid | 2,603,890 | 2,406,736 |
| Uninsured | 453,003 | 420,400 |
| Commercial and Other | <u>3,600,593</u> | <u>3,553,906</u> |
| Total | <u>\$ 16,406,252</u> | <u>\$ 15,747,094</u> |

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

| | <u>2018</u> | <u>2017</u> |
|--|----------------------|----------------------|
| Gross charges: | | |
| Acute inpatient | \$ 22,207,469 | \$ 21,426,622 |
| Outpatient, nonacute inpatient and other | <u>26,922,391</u> | <u>25,196,819</u> |
| Gross patient service revenue | 49,129,860 | 46,623,441 |
| Less: | | |
| Contractual and other allowances | (32,010,880) | (30,193,661) |
| Financial assistance charges | <u>(712,728)</u> | <u>(682,686)</u> |
| Net patient service revenue before provision for bad debts | <u>\$ 16,406,252</u> | <u>\$ 15,747,094</u> |

5. LONG-LIVED ASSETS

Property and Equipment:

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

| | <u>2018</u> | <u>2017</u> |
|---|---------------------|---------------------|
| Land | \$ 354,787 | \$ 360,356 |
| Buildings and improvements | 9,277,115 | 9,068,510 |
| Equipment | 6,194,869 | 6,160,546 |
| Capital leased assets | <u>160,685</u> | <u>179,814</u> |
| Total | 15,987,456 | 15,769,226 |
| Accumulated depreciation and amortization | (9,068,253) | (8,839,049) |
| Construction in progress | <u>1,106,377</u> | <u>923,279</u> |
| Property and equipment, net | <u>\$ 8,025,580</u> | <u>\$ 7,853,456</u> |

As of June 30, 2018, commitments for capital projects of approximately \$490.4 million were outstanding. Significant commitments are primarily for facility expansion at existing campuses and related infrastructures at the following Health Ministries: Mount Carmel Health System in Columbus, Ohio – \$179.9 million; Mercy Health Campus in Muskegon, Michigan – \$121.7 million; and St. Peter’s Health Partner in Albany, New York – \$44.1 million. The remaining amount is due to several smaller projects across the Corporation.

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

| RHM | Capital Commitment | Commitment Period Ending | Capital Spending through June 30, 2018 |
|---|--|-------------------------------------|---|
| St. Joseph's Hospital Health Center, Syracuse, NY | \$60 million over 4 years, \$110 million if performance metrics are achieved | June 30, 2019 | \$95 million |
| St. Francis Hospital and Medical Center, Hartford, CT | \$275 million over 5 years if performance metrics are achieved | June 30, 2020 | \$139 million |

Goodwill:

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

| | 2018 | 2017 |
|--|-------------------|-------------------|
| As of July 1: | | |
| Goodwill | \$ 331,024 | \$ 315,070 |
| Accumulated impairment loss | (29,981) | (10,225) |
| Total | 301,043 | 304,845 |
| Goodwill acquired during the year | 156,593 | 15,954 |
| Reclassification to assets held for sale | (19,176) | - |
| Impairment loss | - | (19,756) |
| Total | <u>\$ 438,460</u> | <u>\$ 301,043</u> |
| As of June 30: | | |
| Goodwill | \$ 468,441 | \$ 331,024 |
| Accumulated impairment loss | (29,981) | (29,981) |
| Total | <u>\$ 438,460</u> | <u>\$ 301,043</u> |

Impairments:

During the year ended June 30, 2018, the Corporation recorded impairment charges of \$264.4 million in the consolidated statement of operations and changes in net assets. \$107.8 million of impairments were due to the Corporation's decision to move to a single, enterprise-wide electronic health record and revenue cycle management system platform. The integrated system will enable the health system to improve experiences for patients and clinicians. The project is expected to begin in fiscal year 2019. As discussed in Note 3, \$69.9 million of the impairments are due to the planned divestiture of the Corporation's Lourdes subsidiary. \$86.7 million of the impairments were primarily at three Health Ministries across the Corporation where material adverse trends in the most recent estimates of future undiscounted cash flows indicated that the carrying value of the long-lived assets were not recoverable from estimated future cash flows. The Corporation believes the most significant factors contributing to the continuing adverse financial trends in these locations include reduction in volumes and shifts in payor mix. The total impairments were comprised of \$15.7 million of land, \$244.4 million of property and equipment, and \$4.3 million of intangible and other assets.

During the year ended June 30, 2017, the Corporation recorded impairment charges of \$248.1 million in the consolidated statement of operations and changes in net assets. Material adverse trends in the most recent estimates of future discounted and undiscounted cash flows of certain locations indicated that the carrying value of the long-lived assets, at these locations, were not recoverable from estimated future cash flows. The Corporation believes the most significant factors contributing to the continuing adverse financial trends in these locations include reductions in patient volumes and shifts in payor mix. Impairments were recorded primarily at three Health Ministries across the Corporation. The total impairments were comprised of \$216.4 million property and equipment and \$31.7 million of goodwill, intangible and other assets.

6. LONG-TERM DEBT AND OTHER FINANCING ARRANGEMENTS

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

| | <u>2018</u> | <u>2017</u> |
|--|---------------------|---------------------|
| Short-term borrowings: | | |
| Variable rate demand bonds with contractual maturities through 2048. Interest payable monthly at rates ranging from 0.74% to 1.82% during 2018 and 0.37% to 0.95% during 2017 | \$ 711,020 | \$ 1,039,840 |
| Long-term debt: | | |
| Tax-exempt revenue bonds and refunding bonds: | | |
| Fixed-rate term and serial bonds, payable at various dates through 2048. Interest rate ranges from 2.00% to 8.38% during 2017 and 2018 | \$ 4,288,594 | \$ 3,756,426 |
| Variable-rate term bonds, payable at various dates through 2051. Interest rate ranges from 1.15% to 2.95% during 2018 and 0.80% to 1.80% during 2017 | 834,812 | 837,222 |
| Taxable revenue bonds: | | |
| Fixed-rate term, payable in 2045. Interest rate of 4.13% during 2018 and 2017 | 481,515 | 350,000 |
| Variable-rate term bonds, payable at various dates through 2051. Interest rate ranges from 1.68% to 2.43% during 2018 and 1.23% to 1.50% during 2017 | 54,680 | 54,680 |
| Notes payable to banks. Interest payable at rates ranging from 1.44% to 8.00% during 2018 and 0.90% to 5.00% during 2017, fixed and variable, payable in varying monthly installments through 2032 | 30,693 | 30,570 |
| Capital lease obligations (excluding imputed interest of \$28.9 million at June 30, 2018 and \$40.7 million at June 30, 2017) | 81,618 | 104,385 |
| Mortgage obligations. Interest payable at rates ranging from 3.05% to 5.75% during 2018 and 3.35% to 6.25% during 2017 | 78,396 | 86,120 |
| Other | 55,270 | 51,245 |
| Total long-term debt | <u>5,905,578</u> | <u>5,270,648</u> |
| Less current portion, net of current discounts | (276,295) | (192,680) |
| Unamortized debt issuance costs | (37,838) | (35,836) |
| Unamortized premiums, net | 390,696 | 227,730 |
| Long-term debt, net of current portion | <u>\$ 5,982,141</u> | <u>\$ 5,269,862</u> |

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

| | <u>Short-Term Borrowings</u> | <u>Long-Term Debt</u> |
|-----------------------|----------------------------------|---------------------------|
| Years ending June 30: | | |
| 2019 | \$ 24,350 | \$ 276,295 |
| 2020 | 19,395 | 117,374 |
| 2021 | 16,810 | 443,733 |
| 2022 | 17,735 | 117,413 |
| 2023 | 16,395 | 274,134 |
| Thereafter | <u>616,335</u> | <u>4,676,629</u> |
| Total | <u>\$ 711,020</u> | <u>\$ 5,905,578</u> |

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

| | <u>2018</u> | <u>2017</u> |
|---|-------------------|-------------------|
| Interest costs incurred | \$ 240,748 | \$ 217,719 |
| Less capitalized interest | <u>(15,866)</u> | <u>(10,567)</u> |
| Interest expense included in operations | <u>\$ 224,882</u> | <u>\$ 207,152</u> |

Obligated Group and Other Requirements – The Corporation has debt outstanding under a master trust indenture dated October 3, 2013, as amended and supplemented, the amended and restated master indenture (ARMI”). The ARMI permits the Corporation to issue obligations to finance certain activities. Obligations issued under the ARMI are joint and several obligations of the obligated group established thereunder (the “Obligated Group,” which currently consists of the Corporation). Proceeds from tax-exempt bonds and refunding bonds are to be used to finance the construction, acquisition and equipping of capital improvements. Proceeds from taxable bonds are to be used to finance corporate purposes. Certain 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, New York; 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, Syracuse, New York, acquired on July 1, 2015, is not a designated affiliate and is not 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 June 30, 2018 and 2017, that has not been secured under the ARMI is generally collateralized by certain property and equipment.

Further, Mercy Health System of Chicago (“MHSC”) has a \$56.5 million mortgage loan outstanding at June 30, 2018, that is insured by the US Department of Housing and Urban Development (“HUD”). MHSC’s payment obligations under the two mortgage notes evidencing this loan are guaranteed by the Corporation. The mortgage loan agreements with HUD contain various covenants, including those relating to limitations on incurring additional debt, transactions with affiliates, transferring or disposing of designated property, use of funds and other assets of the mortgaged property, financial performance, required reserves, insurance coverage, timely submission of specified financial reports and restrictions on prepayment of the mortgage loan. MHSC and the Corporation provided covenants to HUD not to interfere in the performance of MHSC’s obligations under the HUD-insured loan documents. MHSC is not a designated affiliate and is not part of the Trinity Health Credit Group.

Commercial Paper – The Corporation’s commercial paper program is authorized for borrowings up to \$600 million. As of June 30, 2018 and 2017, the total amount of commercial paper outstanding was \$99.9 million. Proceeds from this program are to be used for general purposes of the Corporation. The notes are payable from the proceeds of subsequently issued notes and from other funds available to the Corporation, including funds derived from the liquidation of securities held by the Corporation in its investment portfolio. The interest rate charged on borrowings outstanding during the years ended June 30, 2018 and 2017, ranged from 1.03% to 2.03% and 0.40% to 1.28%, respectively.

Liquidity Facilities – In September 2016, the Corporation renewed its series 2013B credit agreement, and in September 2017, renewed its series 2013C credit agreement. The series 2013B and the series 2013C credit agreements are in addition to the series 2013D credit agreement (collectively, the “Credit Agreements”), each between the Corporation and U.S. Bank National Association, which acts as an administrative agent for a group of lenders under each of the Credit Agreements. The Credit Agreements establish a revolving credit facility for the Corporation, under which that group of lenders agree to lend to the Corporation amounts that may fluctuate from time to time and totaled \$931 million as of June 30, 2018. 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. As of June 30, 2018, of the \$931 million available balance, \$285 million expires in July 2019, \$325 million expires in July 2020 and \$321 million expires in July 2021. The Credit Agreements are secured by obligations under the ARMI. As of June 30, 2018 and 2017, there were no amounts outstanding on these Credit Agreements. See Note 14 for further discussion of liquidity facilities.

In addition, in September 2017, the Corporation renewed a three-year general purpose credit facility of \$200 million. As of June 30, 2018 and 2017, there were no amounts outstanding under this credit facility.

Standby Letters of Credit – The Corporation has entered into various standby letters of credit totaling \$56.9 million and \$56.7 million as of June 30, 2018 and 2017, respectively. These standby letters of credit are renewed annually and are available to the Corporation as necessary under its insurance programs and for unemployment liabilities. There were no draws on the letters of credit during the years ended June 30, 2018 and 2017.

Transactions – In October 2016, the Corporation remarketed \$50 million in tax-exempt, variable-rate hospital revenue bonds under the ARMI, pursuant to a continuing covenant agreement with a private purchaser which provides for a 10-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 \$54.8 million of then outstanding taxable commercial paper obligations. The remaining proceeds were 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 October 2017, the Corporation remarketed \$50 million in tax-exempt, variable-rate hospital revenue bonds (the “Series 2011A bonds”) under the ARMI, pursuant to a continuing covenant agreement with a private purchaser which provides for a three-year mandatory tender period (subject to mandatory tender on October 2, 2020).

During December 2017, the Trinity Health Credit Group issued \$986.1 million par value in tax-exempt fixed-rate hospital revenue bonds at a premium of \$137.0 million under the ARMI. Proceeds were used to refund \$504.4 million of certain tax-exempt bonds and pay down \$217.5 million of then outstanding taxable commercial paper obligations in December 2017. The remaining proceeds were used to finance, refinance and reimburse a portion of the costs of acquisition, construction, and renovation and equipping of health facilities. The Corporation advance refunded the bonds by depositing funds in trustee-held escrow accounts exclusively for the payment of principal and interest. The trustees/escrow agents are solely responsible for the subsequent extinguishment of the bonds. The trustee-held escrow accounts are invested in U.S. government securities.

Also during December 2017, tax-exempt bonds of \$204 million were converted from variable-rate to fixed-rate bonds. Concurrently during December 2017, the Trinity Health Credit Group issued \$131.5 million of additional bonds under the existing taxable fixed-rate bonds that were originally issued in 2015, at a premium of \$7.2 million. Proceeds were used to refund \$56.0 million of the tax-exempt bonds. Remaining proceeds were used to finance corporate purposes of the Corporation and its affiliates and to pay certain costs of issuance. The Corporation advance refunded the tax-exempt bonds by depositing funds in trustee-held escrow accounts exclusively for the payment of principal and interest. The trustees/escrow agents are solely responsible for the subsequent extinguishment of the bonds. The trustee-held escrow accounts are invested in U.S. government securities. In January 2018, tax-exempt bonds of \$49.2 million were converted from variable-rate to fixed-rate bonds.

7. PROFESSIONAL AND GENERAL LIABILITY PROGRAMS

The Corporation operates a wholly owned insurance company, Trinity Assurance, Ltd. (“TAL”). 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 other coverages from unrelated third-party commercial insurers. TAL has also limited its liability through commercial reinsurance arrangements.

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. SMICL did not, nor does it intend to, write or renew any insurance business after July 31, 2016. SMICL was merged into TAL on March 1, 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 \$15 million per occurrence for the primary layers of professional liability as well as \$10 million per occurrence for general and 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 per occurrence for first-party property damage 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 June 30, 2018, 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 legal counsel, believes that the excess liability, if any, should not materially affect the consolidated financial statements of the Corporation.

8. 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 June 30, 2018 and 2017, the assets under these plans totaled \$230.4 million and \$198.7 million, respectively, and liabilities totaled \$240.3 million and \$212.0 million, respectively, which are included in self-insurance, benefit plans and other assets and other long-term liabilities in the consolidated balance sheets.

Defined Contribution Benefits – The Corporation sponsors defined contribution pension plans covering substantially all of its employees. These programs are funded by employee voluntary contributions, subject to legal limitations. 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 \$336.2 million and \$315.8 million for the years ended June 30, 2018 and 2017, respectively.

Noncontributory Defined Benefit Pension Plans (“Pension Plans”) – The Corporation maintains qualified, Pension Plans under which benefit accruals are frozen for all 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 the Code Section 414(e) and Section 3(33) of the ERISA, as amended, which have not made an election under Section 410(d) of the Code to be subject to ERISA. The Corporation’s adopted funding policy for all 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.

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. 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 SMHS on August 1, 2016, including all related benefit plans. 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.

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

| | <u>2018</u> | <u>2017</u> | <u>2018</u> | <u>2017</u> |
|--|----------------------|-----------------------|-----------------------------|--------------------|
| | <u>Pension Plans</u> | | <u>Postretirement Plans</u> | |
| Change in Benefit Obligations: | | | | |
| Benefit obligation, beginning of year | \$ 7,713,581 | \$ 7,715,344 | \$ 135,753 | \$ 142,255 |
| Service cost | - | 909 | 168 | 283 |
| Interest cost | 313,868 | 312,814 | 5,342 | 5,479 |
| Actuarial gains | (388,277) | (68,664) | (11,326) | (5,713) |
| Benefits paid | (448,425) | (396,143) | (6,243) | (6,635) |
| Medicare Part D reimbursement | - | - | 68 | 84 |
| Curtailments | - | (5,688) | - | - |
| Plan acquisitions | - | 155,009 | - | - |
| Benefit obligation, end of year | <u>7,190,747</u> | <u>7,713,581</u> | <u>123,762</u> | <u>135,753</u> |
| Change in Plan Assets: | | | | |
| Fair value of plan assets, beginning of year | 6,433,395 | 5,906,184 | 106,168 | 97,440 |
| Actual return on plan assets | 363,810 | 620,494 | 10,999 | 11,993 |
| Employer contributions | 184,380 | 236,060 | 2,582 | 3,370 |
| Benefits paid | (448,425) | (396,143) | (6,243) | (6,635) |
| Plan acquisitions | - | 66,800 | - | - |
| Fair value of plan assets, end of year | <u>6,533,160</u> | <u>6,433,395</u> | <u>113,506</u> | <u>106,168</u> |
| Unfunded amount recognized June 30 | <u>\$ (657,587)</u> | <u>\$ (1,280,186)</u> | <u>\$ (10,256)</u> | <u>\$ (29,585)</u> |
| Recognized in other long-term assets | \$ 435 | \$ - | \$ 19,981 | \$ 6,220 |
| Recognized in accrued pension and retiree health costs | \$ (658,022) | \$ (1,280,186) | \$ (30,237) | \$ (35,805) |

Actuarial gains during 2018 are due primarily to increases in discount rates used to measure plan liabilities and changes in mortality assumptions. Actuarial gains during 2017 are due primarily to increases in the discount rates used to measure plan liabilities.

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

| | <u>2018</u> | <u>2017</u> |
|--------------------------------|----------------------|-----------------------|
| | <u>Pension Plans</u> | |
| Accumulated benefit obligation | \$ 7,190,428 | \$ 7,713,045 |
| Fair value of plan assets | <u>6,533,160</u> | <u>6,433,395</u> |
| Funded status | <u>\$ (657,268)</u> | <u>\$ (1,279,650)</u> |

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

| | <u>2018</u> | <u>2017</u> | <u>2018</u> | <u>2017</u> |
|--------------------------------------|----------------------|--------------------|-----------------------------|-------------------|
| | <u>Pension Plans</u> | | <u>Postretirement Plans</u> | |
| Service cost | \$ - | \$ 909 | \$ 168 | \$ 283 |
| Interest cost | 313,868 | 312,814 | 5,342 | 5,479 |
| Expected return on assets | (440,103) | (410,158) | (7,735) | (7,078) |
| Amortization of prior service credit | (9,057) | (9,057) | (501) | (562) |
| Recognized net actuarial loss (gain) | <u>77,869</u> | <u>86,701</u> | <u>(183)</u> | <u>(11)</u> |
| Net periodic benefit income | <u>\$ (57,423)</u> | <u>\$ (18,791)</u> | <u>\$ (2,909)</u> | <u>\$ (1,889)</u> |

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

| | Pension Plans | | | |
|---|----------------------|-----------------------|--------------|--|
| | Net | Prior | Total | |
| | Loss (Gain) | Service Credit | | |
| Balance at July 1, 2016 | \$ 2,967,101 | \$ (134,727) | \$ 2,832,374 | |
| Curtailments | (5,688) | - | (5,688) | |
| Reclassified into net periodic benefit cost | (86,701) | 9,057 | (77,644) | |
| Arising during the year | (279,157) | - | (279,157) | |
| Balance at June 30, 2017 | \$ 2,595,555 | \$ (125,670) | \$ 2,469,885 | |
| Reclassified into net periodic benefit cost | (77,869) | 9,057 | (68,812) | |
| Arising during the year | (311,976) | - | (311,976) | |
| Balance at June 30, 2018 | \$ 2,205,710 | \$ (116,613) | \$ 2,089,097 | |

| | Postretirement Plans | | | All Plans |
|---|-----------------------------|-----------------------|--------------|------------------|
| | Net | Prior | Total | Grand |
| | Loss (Gain) | Service Credit | | Total |
| Balance at July 1, 2016 | \$ 6,299 | \$ (3,268) | \$ 3,031 | \$ 2,835,405 |
| Curtailments | - | - | - | (5,688) |
| Reclassified into net periodic benefit cost | 11 | 562 | 573 | (77,071) |
| Arising during the year | (10,663) | - | (10,663) | (289,820) |
| Balance at June 30, 2017 | \$ (4,353) | \$ (2,706) | \$ (7,059) | \$ 2,462,826 |
| Reclassified into net periodic benefit cost | 183 | 501 | 684 | (68,128) |
| Arising during the year | (14,647) | - | (14,647) | (326,623) |
| Balance at June 30, 2018 | \$ (18,817) | \$ (2,205) | \$ (21,022) | \$ 2,068,075 |

The following are estimated amounts to be amortized from unrestricted net assets into net periodic benefit cost during year ended June 30, 2019 (in thousands):

| | Pension Plans | Postretirement Plans |
|--------------------------------------|--------------------------|---------------------------------|
| Amortization of prior service credit | \$ (5,428) | \$ (421) |
| Recognized net actuarial loss (gain) | 67,716 | (1,187) |
| Total | \$ 62,288 | \$ (1,608) |

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

| | <u>2018</u> | <u>2017</u> | <u>2018</u> | <u>2017</u> |
|--|----------------------|---------------|-----------------------------|---------------|
| | <u>Pension Plans</u> | | <u>Postretirement Plans</u> | |
| Benefit Obligations: | | | | |
| Discount rate | 4.15% - 4.60% | 3.95% - 4.35% | 3.75% - 4.55% | 3.60% - 4.20% |
| Rate of compensation increase | N/A | 2.50% | N/A | N/A |
| Net Periodic Benefit Cost: | | | | |
| Discount rate | 3.95% - 4.35% | 3.75% - 5.20% | 3.60% - 4.20% | 3.40% - 4.40% |
| Expected long-term return on plan assets | 7.00% | 7.00% | 7.50% | 7.50% |
| Rate of compensation increase | N/A | 2.50% | N/A | N/A |

Approximately 72% of the Corporation's pension plan liabilities were measured using a 4.50% and 4.20% discount rate as of June 30, 2018 and 2017, respectively.

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

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

| | <u>2018</u> | <u>2017</u> |
|-------------------------------------|-------------|-------------|
| Medical and drugs, pre-age 65 | 7.2% | 7.5% |
| Medical and drugs, post-age 65 | 7.2% | 7.5% |
| Ultimate trend rate | 5.0% | 5.0% |
| Year rate reaches the ultimate rate | 2026 | 2026 |

A one-percentage point change in assumed health care cost trend rates would have the following effects as of June 30, 2018 (in thousands):

| | <u>One-Percentage- Point Increase</u> | <u>One-Percentage- Point Decrease</u> |
|---|---|---|
| Effect on postretirement benefit obligation | \$ 3,314 | \$ (2,835) |
| Effect on total of service cost and interest cost components | \$ 164 | \$ (138) |

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

| | <u>2018</u> | <u>2017</u> | <u>2018</u> | <u>2017</u> |
|-------------------------------------|----------------------|-------------|-----------------------------|-------------|
| | <u>Pension Plans</u> | | <u>Postretirement Plans</u> | |
| Investment Category: | | | | |
| Cash and cash equivalents | 3% | 3% | 1% | 1% |
| Marketable securities: | | | | |
| U.S. and non-U.S. equity securities | 12% | 7% | - | - |
| Equity mutual funds | 5% | 6% | - | - |
| Debt securities | 34% | 34% | 22% | 25% |
| Other investments: | | | | |
| Commingled funds | 24% | 27% | 77% | 74% |
| Hedge funds | 18% | 18% | - | - |
| Private equity funds | 4% | 5% | - | - |
| Total | <u>100%</u> | <u>100%</u> | <u>100%</u> | <u>100%</u> |

The Corporation employs a total return investment approach whereby a mix of equities and fixed-income investments are used to maximize the long-term return of plan assets for a prudent level of risk. Risk tolerance is established through careful consideration of plan liabilities, plan funded status and corporate financial condition. The investment portfolio contains a diversified blend of equity and fixed-income investments. Furthermore, equity investments are diversified across U.S. and non-U.S. stocks, as well as growth, value and small and large capitalizations. Other investments, such as hedge funds, interest rate swaps and private equity are used judiciously to enhance long-term returns while improving portfolio diversification. Derivatives may be used to gain market exposure in an efficient and timely manner; however, derivatives may not be used to leverage the portfolio beyond the market value of the underlying investments. Investment risk is measured and monitored on an ongoing basis through quarterly investment portfolio reviews, annual liability measurements and periodic asset/liability studies. For the majority of the Corporation's pension plan investments, the combined target investment allocation as of June 30, 2018, was global and traditional equity securities 39%; long/short equity 8%; fixed-income obligations 35%; hedge funds 11%; alternative debt 5%; and cash 2%.

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

| | 2018 | | | |
|---|---|--|--|---------------------------------|
| | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Total Fair Value |
| Pension Plans: | | | | |
| Cash and cash equivalents | \$ 161,162 | \$ 9,176 | \$ - | \$ 170,338 |
| Equity securities | 755,918 | 100 | - | 756,018 |
| Debt securities | | | | |
| Government and government agency obligations | - | 814,823 | - | 814,823 |
| Corporate bonds | - | 1,344,248 | - | 1,344,248 |
| Asset backed securities | - | 68,698 | - | 68,698 |
| Exchange traded/mutual funds | | | | |
| Equity funds | 311,707 | - | - | 311,707 |
| Fixed-income funds | 58,149 | - | - | 58,149 |
| Private equity | - | - | 2,421 | 2,421 |
| Other | (17,895) | - | - | (17,895) |
| Subtotal | <u>\$ 1,269,041</u> | <u>\$ 2,237,045</u> | <u>\$ 2,421</u> | <u>\$ 3,508,507</u> |
| Investments measured at net asset value: | | | | |
| Commingled funds | | | | |
| Equity funds | | | | 1,535,149 |
| Fixed-income funds | | | | 12,479 |
| Hedge funds | | | | 1,204,394 |
| Private equity | | | | 272,631 |
| Total assets | | | | <u>\$ 6,533,160</u> |
| Postretirement Plans: | | | | |
| Exchange traded/mutual funds | | | | |
| Short-term investment funds | \$ 1,254 | \$ - | \$ - | \$ 1,254 |
| Fixed-income funds | 24,310 | - | - | 24,310 |
| Other | 4,174 | - | - | 4,174 |
| Subtotal | <u>\$ 29,738</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 29,738</u> |
| Investment measured at net asset value: | | | | |
| Equity commingled fund | | | | 83,768 |
| Total assets | | | | <u>\$ 113,506</u> |

2017

| | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Total Fair Value |
|---|--|---|--|------------------------|
| Pension Plans: | | | | |
| Cash and cash equivalents | \$ 172,134 | \$ 2,755 | \$ - | \$ 174,889 |
| Equity securities | 447,227 | 100 | - | 447,327 |
| Debt securities | | | | |
| Government and government agency obligations | - | 665,241 | - | 665,241 |
| Corporate bonds | - | 1,425,466 | - | 1,425,466 |
| Asset backed securities | - | 62,106 | - | 62,106 |
| Exchange traded/mutual funds | | | | |
| Equity funds | 384,215 | - | - | 384,215 |
| Fixed-income funds | 58,526 | - | - | 58,526 |
| Private equity | - | - | 4,275 | 4,275 |
| Other | (6,617) | - | - | (6,617) |
| Subtotal | <u>\$ 1,055,485</u> | <u>\$ 2,155,668</u> | <u>\$ 4,275</u> | <u>\$ 3,215,428</u> |

Investments measured at net asset value:

| | | | | |
|--------------------|--|--|--|---------------------|
| Commingled funds | | | | |
| Equity funds | | | | 1,736,705 |
| Fixed-income funds | | | | 6,295 |
| Hedge funds | | | | 1,179,981 |
| Private equity | | | | 294,986 |
| Total assets | | | | <u>\$ 6,433,395</u> |

Postretirement Plans:

| | | | | |
|------------------------------|------------------|-------------|-------------|------------------|
| Exchange traded/mutual funds | | | | |
| Short-term investment funds | \$ 983 | \$ - | \$ - | \$ 983 |
| Fixed-income funds | 26,095 | - | - | 26,095 |
| Other | 210 | - | - | 210 |
| Subtotal | <u>\$ 27,288</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 27,288</u> |

Investment measured at net asset value:

| | | | | |
|------------------------|--|--|--|-------------------|
| Equity commingled fund | | | | 78,880 |
| Total assets | | | | <u>\$ 106,168</u> |

Unfunded capital commitments related to private equity investments totaled \$47.3 million and \$43.7 million as of June 30, 2018 and 2017, respectively.

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

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

Other – Represents unsettled transactions relating primarily to purchases and sales of plan assets, accrued income and derivatives. Due to the short maturity of these assets and liabilities, the fair value approximates the

carrying amounts. The fair value of the derivatives is estimated utilizing the terms of the derivative instruments and publicly available market yield curves. The Pension Plans' investment policies specifically prohibit the use of derivatives for speculative purposes.

The Corporation's policy is to recognize transfers between all levels as of the beginning of the reporting period. There were no significant transfers to or from Levels 1 and 2 during the years ended June 30, 2018 and 2017.

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

| | <u>Private Equity</u> |
|--------------------------|-----------------------|
| Balance at July 1, 2016 | \$ 5,405 |
| Realized gain | 869 |
| Unrealized loss | (344) |
| Settlements | <u>(1,655)</u> |
| Balance at June 30, 2017 | \$ 4,275 |
| Realized gain | 775 |
| Unrealized loss | (645) |
| Settlements | <u>(1,984)</u> |
| Balance at June 30, 2018 | <u>\$ 2,421</u> |

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

Expected Contributions – The Corporation expects to contribute approximately \$130 million to its Pension Plans and \$3 million to its Postretirement Plans during the year ended June 30, 2019, under the Corporation's stated funding policies.

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

| | <u>Pension Plans</u> | <u>Postretirement Plans</u> | <u>Postretirement Medicare Part D Subsidy</u> |
|------------------------------|--------------------------|---------------------------------|---|
| Years ending June 30: | | | |
| 2019 | \$ 502,131 | \$ 9,517 | \$ 62 |
| 2020 | 470,962 | 9,610 | 58 |
| 2021 | 473,330 | 9,598 | 53 |
| 2022 | 475,703 | 9,536 | 49 |
| 2023 | 479,170 | 9,388 | 44 |
| Years 2024 - 2028 | 2,315,403 | 43,832 | 156 |

9. COMMITMENTS AND CONTINGENCIES

Operating Leases – The Corporation leases various land, equipment and facilities under operating leases. Total rental expense, which includes provisions for maintenance in some cases, was \$224.1 million and \$249.1 million for the years ended June 30, 2018 and 2017, respectively.

The following is a schedule of future minimum lease payments under operating leases as of June 30, 2018, that have initial or remaining lease terms in excess of one year (in thousands):

| Years ending June 30: | |
|-----------------------|-------------------|
| 2019 | \$ 174,934 |
| 2020 | 148,095 |
| 2021 | 127,098 |
| 2022 | 111,417 |
| 2023 | 87,248 |
| Thereafter | <u>192,467</u> |
| Total | <u>\$ 841,259</u> |

Litigation and Settlements – The Corporation is involved in 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 requirements, and requirements 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.

10. FAIR VALUE MEASUREMENTS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Commingled Funds – Commingled funds are developed for investment by institutional investors only and, therefore, do not require registration with the Securities and Exchange Commission. Commingled funds are recorded at fair value based on net asset value, which is calculated using the most recent fund financial statements.

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

The Corporation classifies its equity and debt securities, mutual funds, commingled funds and hedge funds as trading securities. The amount of holding gains included in the excess of revenue over expenses related to securities still held as of June 30, 2018 and 2017, were \$928.7 million and \$757.7 million, respectively.

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

things as review of returns against benchmarks and discussions with fund managers on performance, changes in personnel or process, along with evaluations of current market conditions for these investments. Because of the inherent uncertainty of valuations, values may differ materially from the values that would have been used had a ready market existed. Unfunded capital commitments related to equity method investments totaled \$599.0 million and \$439.5 million as of June 30, 2018 and 2017, respectively.

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

The following tables present information about the fair value of the Corporation’s financial instruments measured at fair value on a recurring basis and recorded as of June 30, 2018 (in thousands):

| | 2018 | | | |
|--|---|--|--|---------------------------------|
| | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Total Fair Value |
| Assets: | | | | |
| Cash and cash equivalents | \$ 1,625,102 | \$ 57,831 | \$ - | \$ 1,682,933 |
| Security lending collateral | - | 275,228 | - | 275,228 |
| Equity securities | 2,404,812 | 1,143 | 6,540 | 2,412,495 |
| Debt securities: | | | | |
| Government and government agency obligations | - | 695,980 | 4,180 | 700,160 |
| Corporate bonds | - | 993,772 | 622 | 994,394 |
| Asset backed securities | - | 294,055 | - | 294,055 |
| Bank loans | - | 35,218 | - | 35,218 |
| Other | - | 11,484 | - | 11,484 |
| Exchange traded/mutual funds: | | | | - |
| Equity funds | 688,434 | - | - | 688,434 |
| Fixed income funds | 95,713 | - | - | 95,713 |
| Real estate investment funds | 37,603 | - | - | 37,603 |
| Other | 92,856 | - | - | 92,856 |
| Interest rate swaps | - | 6,139 | - | 6,139 |
| Subtotal | <u>\$ 4,944,520</u> | <u>\$ 2,370,850</u> | <u>\$ 11,342</u> | <u>\$ 7,326,712</u> |
| Equity method investments | | | | 1,317,827 |
| Investments measured at net asset value: | | | | |
| Commingled funds | | | | 1,296,703 |
| Hedge funds | | | | 681,978 |
| Total assets | | | | <u>\$ 10,623,220</u> |
| Liabilities: | | | | |
| Interest rate swaps | \$ - | \$ 127,531 | \$ - | \$ 127,531 |

The following tables present information about the fair value of the Corporation's financial instruments measured at fair value on a recurring basis and recorded as of June 30, 2017 (in thousands):

| | 2017 | | | |
|--|---|--|--|---------------------------------|
| | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Total Fair Value |
| Assets: | | | | |
| Cash and cash equivalents | \$ 1,568,148 | \$ 54,754 | \$ - | \$ 1,622,902 |
| Security lending collateral | - | 332,972 | - | 332,972 |
| Equity securities | 1,829,262 | 2,306 | 5,468 | 1,837,036 |
| Debt securities: | | | | |
| Government and government agency obligations | - | 730,319 | 5,310 | 735,629 |
| Corporate bonds | - | 972,127 | 1,019 | 973,146 |
| Asset backed securities | - | 222,466 | - | 222,466 |
| Bank loans | - | 31,361 | - | 31,361 |
| Other | - | 21,025 | - | 21,025 |
| Exchange traded/mutual funds: | | | | |
| Equity funds | 632,779 | - | - | 632,779 |
| Fixed-income funds | 99,146 | - | - | 99,146 |
| Real estate investment funds | 43,140 | - | - | 43,140 |
| Other | 79,970 | - | - | 79,970 |
| Interest rate swaps | - | 5,124 | - | 5,124 |
| Subtotal | <u>\$ 4,252,445</u> | <u>\$ 2,372,454</u> | <u>\$ 11,797</u> | <u>\$ 6,636,696</u> |
| Equity method investments | | | | 1,164,378 |
| Investments measured at net asset value: | | | | |
| Commingled funds | | | | 1,511,026 |
| Hedge funds | | | | 810,826 |
| Total assets | | | | <u>\$ 10,122,926</u> |
| Liabilities: | | | | |
| Interest rate swaps | \$ - | \$ 169,198 | \$ - | \$ 169,198 |

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

| | <u>2018</u> | <u>2017</u> |
|--|----------------------|----------------------|
| Assets: | | |
| Cash and cash equivalents | \$ 971,726 | \$ 1,008,197 |
| Investments | 3,846,190 | 3,526,204 |
| Security lending collateral | 275,228 | 332,972 |
| Assets limited or restricted as to use - current portion | 352,231 | 328,712 |
| Assets limited or restricted as to use - noncurrent portion: | | |
| Held by trustees under bond indenture agreements | 6,865 | 7,139 |
| Self-insurance, benefit plans and other | 865,949 | 823,948 |
| By Board | 3,881,021 | 3,709,246 |
| By donor | 498,871 | 460,491 |
| Interest rate swaps in other long-term assets | 6,139 | 5,124 |
| Less items not recorded at fair value: | | |
| Total unconditional promises to give, net | (54,427) | (55,857) |
| Reinsurance recovery receivable | (20,731) | (23,250) |
| Other, primarily beneficial interests in trusts | (5,842) | - |
| Total assets | <u>\$ 10,623,220</u> | <u>\$ 10,122,926</u> |

The Corporation's policy is to recognize transfers between all levels as of the beginning of the reporting period. There were no significant transfers to or from Levels 1 and 2 during the years ended June 30, 2018 and 2017.

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

| | <u>Equity Securities</u> | <u>Government and Government Agency Obligations</u> | <u>Corporate Bonds</u> | <u>Total</u> |
|--------------------------|------------------------------|---|----------------------------|------------------|
| Balance at July 1, 2016 | \$ 5,468 | \$ 1,433 | \$ 617 | \$ 7,518 |
| Realized loss | - | (54) | (58) | (112) |
| Unrealized (loss) gain | - | (23) | 141 | 118 |
| Purchases | - | 4,450 | 936 | 5,386 |
| Settlements | - | (496) | (641) | (1,137) |
| Transfers from Level 2 | - | - | 24 | 24 |
| Balance at June 30, 2017 | <u>\$ 5,468</u> | <u>\$ 5,310</u> | <u>\$ 1,019</u> | <u>\$ 11,797</u> |
| Realized (loss) gain | - | (95) | 63 | (32) |
| Unrealized gain | 1,072 | 270 | 26 | 1,368 |
| Purchases | - | 490 | 567 | 1,057 |
| Settlements | - | (1,795) | (1,053) | (2,848) |
| Balance at June 30, 2018 | <u>\$ 6,540</u> | <u>\$ 4,180</u> | <u>\$ 622</u> | <u>\$ 11,342</u> |

Investments in Entities that Calculate Net Asset Value per Share – The Corporation holds shares or interests in investment companies at year-end, included in commingled funds and hedge funds, where the fair value of the investment held is estimated based on the net asset value per share (or its equivalent) of the investment company. There were no unfunded commitments as of June 30, 2018 and 2017. The fair value and redemption rules of these investments are as follows as of June 30 (in thousands):

| 2018 | | | |
|------------------|---------------------|--|---------------------------------|
| | Fair Value | Redemption Frequency | Redemption Notice Period |
| Commingled funds | \$ 1,296,703 | Daily and semi-monthly | 2 - 3 days |
| Hedge funds | 681,978 | Monthly, quarterly, semi-annually, bi-annually | 30 - 95 days |
| Total | <u>\$ 1,978,681</u> | | |

| 2017 | | | |
|------------------|---------------------|--|---------------------------------|
| | Fair Value | Redemption Frequency | Redemption Notice Period |
| Commingled funds | \$ 1,511,026 | Daily and semi-monthly | 2 - 3 days |
| Hedge funds | 810,826 | Monthly, quarterly, semi-annually, bi-annually | 10 - 95 days |
| Total | <u>\$ 2,321,852</u> | | |

The hedge fund category includes equity long/short hedge funds, multistrategy hedge funds and relative value hedge funds. Equity long/short hedge funds invest both long and short, primarily in US common stocks. Management of the fund has the ability to shift investments from value to growth strategies, from small to large capitalization stocks and from a net long position to a net short position. Multistrategy hedge funds pursue multiple strategies to diversify risks and reduce volatility. Relative value hedge fund's strategy is to exploit structural and technical inefficiencies in the market by investing in financial instruments that are perceived to be inefficiently priced as a result of business, financial or legal uncertainties. Investments representing approximately 0.5% and 3.5% of the value of the investments in this category as of June 30, 2018 and 2017, respectively, can only be redeemed bi-annually subsequent to the initial investment date. Investments representing 59.2% and 36.4% of the investments in this category as of June 30, 2018 and 2017, respectively, can only be redeemed at the rate of 25% per quarter.

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

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

| | <u>2018</u> | <u>2017</u> |
|--|-------------------|-------------------|
| Dividend, interest income and other | \$ 163,389 | \$ 135,510 |
| Realized gain, net | 266,841 | 102,794 |
| Realized equity earnings, other investments | 48,414 | 23,437 |
| Change in net unrealized gain on investments | <u>95,867</u> | <u>696,604</u> |
| Total investment return | <u>\$ 574,511</u> | <u>\$ 958,345</u> |
| Included in: | | |
| Operating income | \$ 66,163 | \$ 73,379 |
| Nonoperating items | 488,715 | 859,934 |
| Changes in restricted net assets | <u>19,633</u> | <u>25,032</u> |
| Total investment return | <u>\$ 574,511</u> | <u>\$ 958,345</u> |

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

| | <u>2018</u> | <u>2017</u> |
|--|------------------|------------------|
| Amounts expected to be collected in: | | |
| Less than one year | \$ 25,343 | \$ 24,572 |
| One to five years | 31,978 | 33,635 |
| More than five years | <u>4,491</u> | <u>7,183</u> |
| | 61,812 | 65,390 |
| Discount to present value of future cash flows | (3,789) | (4,471) |
| Allowance for uncollectible amounts | <u>(3,596)</u> | <u>(5,062)</u> |
| Total unconditional promises to give, net | <u>\$ 54,427</u> | <u>\$ 55,857</u> |

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

Long-Term Debt – The carrying amounts of the Corporation’s variable-rate debt approximate their fair values. The fair value of the Corporation’s fixed-rate debt is estimated using discounted cash flow analyses, based on current incremental borrowing rates for similar types of borrowing arrangements. Under the fair value hierarchy, these financial instruments are valued primarily using Level 2 inputs. The fair value of the tax-exempt fixed-rate long-term revenue and refunding bonds was \$4,674 million and \$4,148 million as of June 30, 2018 and 2017, respectively. The related carrying value of the tax-exempt fixed-rate long-term revenue and refunding bonds was \$4,289 million and \$3,756 million as of June 30, 2018 and 2017, respectively. The fair value of the taxable fixed-rate long-term revenue bonds was \$471 million and \$361 million as of June 30, 2018 and 2017, respectively. The related carrying value of the taxable fixed-rate long-term revenue bonds was \$482 million and \$350 million as of June 30, 2018 and 2017, respectively. The fair values of the remaining fixed-rate capital leases, notes payable to banks and mortgage loans are not materially different from their carrying values.

11. DERIVATIVE FINANCIAL INSTRUMENTS

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

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

Interest Rate Swaps – The Corporation utilizes interest rate swaps to manage interest rate risk related to the Corporation’s variable interest rate debt. Cash payments on interest rate swaps totaled \$16.3 million and \$19.6 million for the years ended June 30, 2018 and 2017, respectively, and are included in nonoperating income.

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

Effect of Derivative Instruments on Excess of Revenue over Expenses – The Corporation has interest rate swaps not designated as hedging instruments which are included in the excess of revenue over expenses in the statement of operations. Net gains included in the change in market value and cash payments of interest rate swaps totaled \$25.7 million and \$53.0 million for the years ended June 30, 2018 and 2017, respectively.

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

| Derivatives Not Designated as Hedging Instruments | Consolidated Balance Sheet Location | Fair Value | |
|---|---|------------|------------|
| | | 2018 | 2017 |
| Asset Derivatives: | | | |
| Interest rate swaps | Other long-term assets | \$ 6,139 | \$ 5,124 |
| Liability Derivatives: | | | |
| Interest rate swaps | Other long-term liabilities | \$ 127,531 | \$ 169,198 |

The counterparties to the interest rate swaps expose the Corporation to credit loss in the event of nonperformance. As of June 30, 2018 and 2017, an adjustment for nonperformance risk reduced derivative assets by \$0.2 million and \$0.6 million and derivative liabilities by \$6.4 million and \$8.3 million, respectively.

12. TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS

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

| | <u>2018</u> | <u>2017</u> |
|---|-------------------|-------------------|
| Temporarily Restricted Net Assets: | | |
| Education and research | \$ 28,338 | \$ 27,072 |
| Building and equipment | 129,971 | 108,475 |
| Patient care | 60,786 | 62,829 |
| Cancer center/research | 28,234 | 26,614 |
| Services for elderly care | 36,911 | 34,718 |
| Other | 104,384 | 86,266 |
| Total | <u>\$ 388,624</u> | <u>\$ 345,974</u> |
| Permanently Restricted Net Assets: | | |
| Hospital operations | \$ 108,078 | \$ 102,516 |
| Medical programs | 9,947 | 10,344 |
| Scholarship funds | 7,032 | 6,075 |
| Research funds | 12,579 | 11,800 |
| Community service funds | 17,160 | 17,150 |
| Other | 42,686 | 35,432 |
| Total | <u>\$ 197,482</u> | <u>\$ 183,317</u> |

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

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

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

| | 2018 | | | |
|----------------------------------|---------------------|--------------------|--------------------|-------------------|
| | Unrestricted | Temporarily | Permanently | Total |
| | Net Assets | Restricted | Restricted | |
| Donor-restricted endowment funds | \$ - | \$ 55,679 | \$ 197,482 | \$ 253,161 |
| Board-designated endowment funds | 87,590 | - | - | 87,590 |
| Total endowment funds | \$ 87,590 | \$ 55,679 | \$ 197,482 | \$ 340,751 |

| | 2017 | | | |
|----------------------------------|---------------------|--------------------|--------------------|-------------------|
| | Unrestricted | Temporarily | Permanently | Total |
| | Net Assets | Restricted | Restricted | |
| Donor-restricted endowment funds | \$ - | \$ 64,067 | \$ 183,317 | \$ 247,384 |
| Board-designated endowment funds | 74,100 | - | - | 74,100 |
| Total endowment funds | \$ 74,100 | \$ 64,067 | \$ 183,317 | \$ 321,484 |

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

| | Unrestricted | Temporarily | Permanently | Total |
|--|---------------------|--------------------|--------------------|--------------|
| | Net Assets | Restricted | Restricted | |
| Endowment net assets, July 1, 2016 | \$ 76,384 | \$ 44,728 | \$ 157,588 | \$ 278,700 |
| Investment return: | | | | |
| Investment income | 6,558 | 1,737 | 1,675 | 9,970 |
| Change in net realized and unrealized losses | 1,096 | 6,487 | 6,217 | 13,800 |
| Total investment return | 7,654 | 8,224 | 7,892 | 23,770 |
| Contributions | - | 9,797 | 1,805 | 11,602 |
| Appropriation of endowment assets for expenditures | (12,504) | (1,561) | (928) | (14,993) |
| Acquisitions | - | 2,857 | 16,960 | 19,817 |
| Other | 2,566 | 22 | - | 2,588 |
| Endowment net assets, June 30, 2017 | 74,100 | 64,067 | 183,317 | 321,484 |
| Investment return: | | | | |
| Investment income | 2,056 | 3,040 | 2,309 | 7,405 |
| Change in net realized and unrealized losses | 3,512 | 2,202 | 4,957 | 10,671 |
| Total investment return | 5,568 | 5,242 | 7,266 | 18,076 |
| Contributions | 249 | 149 | 7,350 | 7,748 |
| Appropriation of endowment assets for expenditures | (4,508) | (1,504) | - | (6,012) |
| Other | 12,181 | (12,275) | (451) | (545) |
| Endowment net assets, June 30, 2018 | \$ 87,590 | \$ 55,679 | \$ 197,482 | \$ 340,751 |

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

| | <u>2018</u> | <u>2017</u> |
|---|-------------------|-------------------|
| Temporarily Restricted Net Assets: | | |
| Term endowment funds | \$ 5,245 | \$ 4,183 |
| The portion of perpetual endowment funds without a purpose restriction | 410 | 410 |
| The portion of perpetual endowment funds subject to a purpose restriction | <u>50,024</u> | <u>59,474</u> |
| Total endowment funds classified as temporarily restricted net assets | <u>\$ 55,679</u> | <u>\$ 64,067</u> |
| Permanently Restricted Net Assets: | | |
| Investments for which income is unrestricted | \$ 149,360 | \$ 145,187 |
| Investments for which income is temporarily restricted | 42,103 | 31,773 |
| Endowments requiring income to be added to the original gift | <u>6,019</u> | <u>6,357</u> |
| Total | <u>\$ 197,482</u> | <u>\$ 183,317</u> |

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

13. RESTRUCTURING CHARGES

During the year ended June 30, 2017, management authorized and committed the Corporation to undertake a comprehensive performance improvement plan to realign its cost structure. The Corporation had a workforce reduction as part of the plan. As a result of these actions, restructuring charges of \$36.2 million were recorded in the consolidated statements of operations and changes in net assets. The restructuring charges are primarily for severance and termination benefits. As of June 30, 2018 the majority of these benefits have been paid.

14. SUBSEQUENT EVENTS

Management has evaluated subsequent events through September 26, 2018, the date the consolidated financial statements were issued. The following subsequent events were noted:

St. Joseph Mercy Chelsea Hospital (“Chelsea”) – Effective July 1, 2018, the Corporation, through its subsidiary Trinity Health - Michigan, sold a 49% noncontrolling membership interest to the Regents of the University of Michigan as part of a broader initiative to develop and implement new collaborations on a statewide basis throughout Michigan to improve the health of the communities that they serve and enhance the efficiencies and value of the systems’ delivery of health care. The Corporation maintains control of Chelsea. For the years ended June 30, 2018 and 2017, the Corporation’s consolidated statements of operations and changes in net assets included revenue of \$159.8 million and \$151.6 million, respectively, and excess of revenue over expenses of \$5.0 million and \$8.6 million respectively, related to the operations of Chelsea.

Liquidity Facilities – On August 30, 2018, the Corporation reduced the commitment amount from \$931 million to \$900 million under a single Credit Agreement. The amount is divided equally among three tranches (\$300 million each), with maturity dates of August 2020, August 2021 and August 2022.

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INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTAL CONSOLIDATING SCHEDULES

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

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

Deloitte & Touche LLP

September 26, 2018

TRINITY HEALTH

Supplemental Condensed Consolidating Balance Sheets - Information

June 30, 2018

(In thousands)

| | Saint Agnes Medical Center, Fresno | Saint Alphonsus Health System, Oregon-Idaho | Mercy Health Services, Iowa-Nebraska | Loyola University Health System, Chicago | Mercy Hospital and Medical Center, Chicago | Saint Joseph Regional Medical Center, South Bend | Trinity Health Michigan Region | Mount Carmel Health System, Columbus | Holy Cross Health, Inc. Silver Spring |
|---|---|--|--|---|--|--|--------------------------------------|--|---|
| ASSETS | | | | | | | | | |
| CURRENT ASSETS: | | | | | | | | | |
| Cash, cash equivalents and investments | \$ 75,395 | \$ 208,510 | \$ 183,073 | \$ 249,513 | \$ 14,415 | \$ 79,805 | \$ 1,297,142 | \$ 689,993 | \$ 282,238 |
| Assets limited as to use - current portion | 128 | 342 | 657 | 10,977 | 3,961 | 291 | 4,857 | 783 | 1,048 |
| Patient and other receivables, net | 141,170 | 175,457 | 146,884 | 313,687 | 36,224 | 94,170 | 499,169 | 221,845 | 78,125 |
| Assets held for sale | - | - | - | - | - | - | - | - | - |
| Other current assets | <u>8,185</u> | <u>18,025</u> | <u>28,339</u> | <u>44,390</u> | <u>4,745</u> | <u>9,770</u> | <u>59,864</u> | <u>32,293</u> | <u>11,920</u> |
| Total current assets | 224,878 | 402,334 | 358,953 | 618,567 | 59,345 | 184,036 | 1,861,032 | 944,914 | 373,331 |
| ASSETS LIMITED OR RESTRICTED AS TO USE - | | | | | | | | | |
| Noncurrent portion: | | | | | | | | | |
| Held in trust | - | 8,463 | 19,701 | 33,081 | 5,038 | 6,280 | 48,644 | 20,070 | 593 |
| By Board | 303,290 | 81,480 | 225,665 | 1,624 | - | - | 514,300 | 447,799 | 2,000 |
| By donors | <u>9,175</u> | <u>7,083</u> | <u>9,787</u> | <u>42,456</u> | <u>3,179</u> | <u>10,377</u> | <u>71,322</u> | <u>18,018</u> | <u>3,693</u> |
| Total assets limited or restricted as to use - noncurrent portion | 312,465 | 97,026 | 255,153 | 77,161 | 8,217 | 16,657 | 634,266 | 485,887 | 6,286 |
| PROPERTY AND EQUIPMENT, Net | 199,300 | 547,439 | 272,842 | 634,116 | 35,413 | 328,849 | 1,453,036 | 986,229 | 453,484 |
| OTHER ASSETS | <u>30,138</u> | <u>83,612</u> | <u>315,135</u> | <u>253,968</u> | <u>2,948</u> | <u>35,328</u> | <u>315,864</u> | <u>157,968</u> | <u>72,601</u> |
| TOTAL ASSETS | <u>\$ 766,781</u> | <u>\$ 1,130,411</u> | <u>\$ 1,202,083</u> | <u>\$ 1,583,812</u> | <u>\$ 105,923</u> | <u>\$ 564,870</u> | <u>\$ 4,264,198</u> | <u>\$ 2,574,998</u> | <u>\$ 905,702</u> |
| LIABILITIES AND NET ASSETS | | | | | | | | | |
| CURRENT LIABILITIES, Excluding liabilities held for sale | \$ 80,031 | \$ 117,013 | \$ 131,418 | \$ 334,298 | \$ 84,198 | \$ 54,177 | \$ 477,176 | \$ 354,445 | \$ 89,665 |
| LIABILITIES HELD FOR SALE | - | - | - | - | - | - | - | - | - |
| LONG-TERM DEBT, Noncurrent portion | 92,019 | 262,993 | 229,756 | 847,858 | 82,788 | 298,255 | 960,767 | 676,523 | 394,650 |
| OTHER LIABILITIES | 3,101 | 10,264 | 27,263 | 101,144 | - | 6,700 | 64,116 | 25,856 | 7,016 |
| NET ASSETS: | | | | | | | | | |
| Unrestricted | 582,328 | 732,714 | 803,305 | 247,291 | (67,884) | 195,070 | 2,687,098 | 1,499,373 | 409,630 |
| Restricted | <u>9,302</u> | <u>7,427</u> | <u>10,341</u> | <u>53,221</u> | <u>6,821</u> | <u>10,668</u> | <u>75,041</u> | <u>18,801</u> | <u>4,741</u> |
| TOTAL LIABILITIES AND NET ASSETS | <u>\$ 766,781</u> | <u>\$ 1,130,411</u> | <u>\$ 1,202,083</u> | <u>\$ 1,583,812</u> | <u>\$ 105,923</u> | <u>\$ 564,870</u> | <u>\$ 4,264,198</u> | <u>\$ 2,574,998</u> | <u>\$ 905,702</u> |

TRINITY HEALTH

Supplemental Condensed Consolidating Balance Sheets - Information

June 30, 2018

(In thousands)

| | St. Peter's Health Partners, Albany | St. Joseph Health, Inc., Syracuse | Trinity Health Of New England Corporation, Inc., | Mercy Health System of SEPA, Philadelphia | St. Mary Medical Center, Langhorne | Lourdes Health System, Camden | St. Francis Medical Center, Trenton | Saint Francis Healthcare, Wilmington | St. Mary's Health Care System, Inc., Athens |
|---|--|---|--|--|---|-------------------------------------|--|--|--|
| ASSETS | | | | | | | | | |
| CURRENT ASSETS: | | | | | | | | | |
| Cash, cash equivalents and investments | \$ 273,143 | \$ 72,371 | \$ 187,677 | \$ 115,440 | \$ 401,856 | \$ 32,752 | \$ 1,430 | \$ 16,920 | \$ 40,520 |
| Assets limited as to use - current portion | 8,765 | 9,240 | 2,456 | - | - | - | 35 | - | 1,111 |
| Patient and other receivables, net | 160,971 | 122,086 | 202,583 | 89,286 | 55,615 | 74,836 | 16,626 | 25,577 | 41,603 |
| Assets held for sale | - | - | - | - | - | 68,715 | - | - | - |
| Other current assets | <u>21,406</u> | <u>12,641</u> | <u>53,834</u> | <u>12,936</u> | <u>12,579</u> | <u>51</u> | <u>4,620</u> | <u>4,085</u> | <u>9,429</u> |
| Total current assets | 464,285 | 216,338 | 446,550 | 217,662 | 470,050 | 176,354 | 22,711 | 46,582 | 92,663 |
| ASSETS LIMITED OR RESTRICTED AS TO USE - | | | | | | | | | |
| Noncurrent portion: | | | | | | | | | |
| Held in trust | 22,135 | 4,291 | 7,552 | 236 | 1,457 | 4,720 | - | - | 1,717 |
| By Board | 176,106 | 14 | 30,845 | 10,000 | 12,915 | - | 1,881 | - | 17,958 |
| By donors | <u>86,477</u> | <u>4,300</u> | <u>121,432</u> | <u>4,594</u> | <u>9,815</u> | <u>-</u> | <u>1,684</u> | <u>324</u> | <u>4,777</u> |
| Total assets limited or restricted as to use - noncurrent portion | 284,718 | 8,605 | 159,829 | 14,830 | 24,187 | 4,720 | 3,565 | 324 | 24,452 |
| PROPERTY AND EQUIPMENT, Net | 602,645 | 295,110 | 644,046 | 97,710 | 204,364 | 1,010 | 1,510 | 27,734 | 120,277 |
| OTHER ASSETS | <u>61,625</u> | <u>27,424</u> | <u>127,250</u> | <u>257,268</u> | <u>25,739</u> | <u>27,208</u> | <u>6,610</u> | <u>7,319</u> | <u>14,030</u> |
| TOTAL ASSETS | <u>\$ 1,413,273</u> | <u>\$ 547,477</u> | <u>\$ 1,377,675</u> | <u>\$ 587,470</u> | <u>\$ 724,340</u> | <u>\$ 209,292</u> | <u>\$ 34,396</u> | <u>\$ 81,959</u> | <u>\$ 251,422</u> |
| LIABILITIES AND NET ASSETS | | | | | | | | | |
| CURRENT LIABILITIES, Excluding liabilities held for sale | \$ 200,566 | \$ 130,902 | \$ 295,500 | \$ 124,958 | \$ 60,436 | \$ 67,103 | \$ 46,862 | \$ 35,710 | \$ 36,829 |
| LIABILITIES HELD FOR SALE | - | - | - | - | - | 32,440 | - | - | - |
| LONG-TERM DEBT, Noncurrent portion | 268,652 | 285,172 | 405,317 | 110,923 | 121,970 | 229,026 | 89,700 | 111,202 | 65,036 |
| OTHER LIABILITIES | 81,357 | 31,729 | 311,976 | 4,667 | 3,482 | 5,387 | 1,492 | 26 | 1,717 |
| NET ASSETS: | | | | | | | | | |
| Unrestricted | 765,489 | 86,091 | 241,046 | 340,484 | 528,667 | (124,664) | (105,390) | (65,280) | 142,930 |
| Restricted | <u>97,209</u> | <u>13,583</u> | <u>123,836</u> | <u>6,438</u> | <u>9,785</u> | <u>-</u> | <u>1,732</u> | <u>301</u> | <u>4,910</u> |
| TOTAL LIABILITIES AND NET ASSETS | <u>\$ 1,413,273</u> | <u>\$ 547,477</u> | <u>\$ 1,377,675</u> | <u>\$ 587,470</u> | <u>\$ 724,340</u> | <u>\$ 209,292</u> | <u>\$ 34,396</u> | <u>\$ 81,959</u> | <u>\$ 251,422</u> |

TRINITY HEALTH

Supplemental Condensed Consolidating Balance Sheets - Information

June 30, 2018

(In thousands)

| | Holy Cross Hospital, Inc., Ft. Lauderdale | Trinity Continuing Care Services | Trinity Home Health Services | Trinity Health PACE | Pittsburgh Mercy Health System Inc., Pittsburgh | Mercy Primary Care Center, Detroit | Trinity Health Consolidated Labs | Trinity Health Warde Lab LLC | Global Health Ministry |
|---|---|--|------------------------------------|-------------------------|--|--|--|------------------------------------|---------------------------|
| ASSETS | | | | | | | | | |
| CURRENT ASSETS: | | | | | | | | | |
| Cash, cash equivalents and investments | \$ 29,596 | \$ 78,463 | \$ 14,743 | \$ 16,810 | \$ 14,141 | \$ 7,835 | \$ 5,176 | \$ 2,310 | \$ 3,961 |
| Assets limited as to use - current portion | 8,154 | 2,325 | 22 | - | 300 | - | - | - | 5 |
| Patient and other receivables, net | 82,776 | 52,803 | 19,983 | 5,885 | 30,073 | 59 | 4,510 | 2 | (16) |
| Assets held for sale | - | - | - | - | - | - | - | - | - |
| Other current assets | <u>8,563</u> | <u>2,629</u> | <u>399</u> | <u>245</u> | <u>455</u> | <u>-</u> | <u>2,921</u> | <u>-</u> | <u>4</u> |
| Total current assets | 129,089 | 136,220 | 35,147 | 22,940 | 44,969 | 7,894 | 12,607 | 2,312 | 3,954 |
| ASSETS LIMITED OR RESTRICTED AS TO USE- | | | | | | | | | |
| Noncurrent portion: | | | | | | | | | |
| Held in trust | 14,864 | 13,040 | 60 | - | 67 | - | - | - | - |
| By Board | 45,049 | 4,303 | - | 999 | 90,799 | - | - | - | - |
| By donors | <u>32,573</u> | <u>4,100</u> | <u>509</u> | <u>460</u> | <u>6,402</u> | <u>546</u> | <u>-</u> | <u>-</u> | <u>309</u> |
| Total assets limited or restricted as to use - noncurrent portion | 92,486 | 21,443 | 569 | 1,459 | 97,268 | 546 | - | - | 309 |
| PROPERTY AND EQUIPMENT, Net | 216,534 | 283,347 | 1,643 | 9,385 | 12,706 | 462 | 2,418 | 6,961 | - |
| OTHER ASSETS | <u>44,328</u> | <u>25,274</u> | <u>5,812</u> | <u>14,743</u> | <u>-</u> | <u>-</u> | <u>1,031</u> | <u>-</u> | <u>-</u> |
| TOTAL ASSETS | <u>\$ 482,437</u> | <u>\$ 466,284</u> | <u>\$ 43,171</u> | <u>\$ 48,527</u> | <u>\$ 154,943</u> | <u>\$ 8,902</u> | <u>\$ 16,056</u> | <u>\$ 9,273</u> | <u>\$ 4,263</u> |
| LIABILITIES AND NET ASSETS | | | | | | | | | |
| CURRENT LIABILITIES, Excluding liabilities held for sale | \$ 60,154 | \$ 59,390 | \$ 18,623 | \$ 20,783 | \$ 6,108 | \$ 252 | \$ 7,761 | \$ 1 | \$ 945 |
| LIABILITIES HELD FOR SALE | - | - | - | - | - | - | - | - | - |
| LONG-TERM DEBT, Noncurrent portion | 163,859 | 244,720 | 522 | 21,617 | 854 | - | 2,201 | - | - |
| OTHER LIABILITIES | 42,017 | 105,213 | 61 | 489 | 350 | - | 181 | - | - |
| NET ASSETS: | | | | | | | | | |
| Unrestricted | 182,889 | 52,520 | 23,432 | 5,178 | 140,929 | 8,104 | 5,913 | 9,272 | 3,082 |
| Restricted | <u>33,518</u> | <u>4,441</u> | <u>533</u> | <u>460</u> | <u>6,702</u> | <u>546</u> | <u>-</u> | <u>-</u> | <u>236</u> |
| TOTAL LIABILITIES AND NET ASSETS | <u>\$ 482,437</u> | <u>\$ 466,284</u> | <u>\$ 43,171</u> | <u>\$ 48,527</u> | <u>\$ 154,943</u> | <u>\$ 8,902</u> | <u>\$ 16,056</u> | <u>\$ 9,273</u> | <u>\$ 4,263</u> |

TRINITY HEALTH

Supplemental Condensed Consolidating Balance Sheets - Information

June 30, 2018

(In thousands)

| | St. Joseph's Health System, Inc., Atlanta | Trinity Health Partners | Trinity Health ACO, Inc. | Allegany Franciscan Ministries | SJSA Foundation | Cadillac Foundation | Trinity Assurance Insurance Company | Investment in Baycare Health System | Investment in Catholic Health System, Inc. |
|---|--|----------------------------|-----------------------------|--------------------------------------|--------------------|------------------------|--|---|---|
| ASSETS | | | | | | | | | |
| CURRENT ASSETS: | | | | | | | | | |
| Cash, cash equivalents and investments | \$ 176,390 | \$ 21,639 | \$ 11,420 | \$ 119,584 | \$ 13,389 | \$ - | \$ 8 | \$ - | \$ - |
| Assets limited as to use - current portion | 134 | - | - | 1,019 | 1,233 | - | 114,101 | - | - |
| Patient and other receivables, net | 1,257 | - | 9,263 | 20 | - | - | 3,284 | - | - |
| Assets held for sale | - | - | - | - | - | - | - | - | - |
| Other current assets | 237 | - | (1,641) | 9 | 37 | - | 12 | - | - |
| Total current assets | 178,018 | 21,639 | 19,042 | 120,632 | 14,659 | - | 117,405 | - | - |
| ASSETS LIMITED OR RESTRICTED AS TO USE - | | | | | | | | | |
| Noncurrent portion: | | | | | | | | | |
| Held in trust | 19 | - | - | - | - | - | 557,239 | - | - |
| By Board | 17,100 | - | - | - | 1,109 | 13,748 | - | - | - |
| By donors | 21,642 | - | - | - | 23,215 | - | - | - | - |
| Total assets limited or restricted as to use - noncurrent portion | 38,761 | - | - | - | 24,324 | 13,748 | 557,239 | - | - |
| PROPERTY AND EQUIPMENT, Net | 30,478 | - | - | 31 | 11 | - | - | - | - |
| OTHER ASSETS | 113,748 | - | - | 26 | - | - | 89 | 2,758,785 | 86,556 |
| TOTAL ASSETS | \$ 361,005 | \$ 21,639 | \$ 19,042 | \$ 120,689 | \$ 38,994 | \$ 13,748 | \$ 674,733 | \$ 2,758,785 | \$ 86,556 |
| LIABILITIES AND NET ASSETS | | | | | | | | | |
| CURRENT LIABILITIES, Excluding liabilities held for sale | \$ 3,431 | \$ - | \$ 23,835 | \$ 7,515 | \$ 1,210 | \$ 495 | \$ 176,041 | \$ - | \$ - |
| LIABILITIES HELD FOR SALE | - | - | - | - | - | - | - | - | - |
| LONG-TERM DEBT, Noncurrent portion | - | - | - | - | - | - | - | - | - |
| OTHER LIABILITIES | 824 | - | - | - | 56 | - | 473,044 | - | - |
| NET ASSETS: | | | | | | | | | |
| Unrestricted | 331,875 | 21,639 | (4,793) | 113,174 | 13,372 | 13,253 | 25,648 | 2,726,736 | 83,982 |
| Restricted | 24,875 | - | - | - | 24,356 | - | - | 32,049 | 2,574 |
| TOTAL LIABILITIES AND NET ASSETS | \$ 361,005 | \$ 21,639 | \$ 19,042 | \$ 120,689 | \$ 38,994 | \$ 13,748 | \$ 674,733 | \$ 2,758,785 | \$ 86,556 |

TRINITY HEALTH

Supplemental Condensed Consolidating Balance Sheets - Information

June 30, 2018

(In thousands)

| | Mercy Health Services, North | St. Joseph Mercy, Port Huron | Saint Michael's Medical Center and Related Entities, Newark | St. James Mercy Health System, Inc., Hornell | Mercy Hospital, Inc., Miami | Maxis Health System | System Office | Eliminations and Other | TRINITY HEALTH |
|---|------------------------------------|------------------------------------|---|---|-----------------------------------|------------------------|---------------------|---------------------------|----------------------|
| ASSETS | | | | | | | | | |
| CURRENT ASSETS: | | | | | | | | | |
| Cash, cash equivalents and investments | \$ 10,522 | \$ - | \$ - | \$ 348 | \$ 72 | \$ (820) | \$ 626,650 | \$ (281,286) | \$ 5,093,144 |
| Assets limited as to use - current portion | - | - | - | - | - | - | 180,287 | - | 352,231 |
| Patient and other receivables, net | 14 | - | - | 144 | - | 1 | 385,269 | (446,634) | 2,644,607 |
| Assets held for sale | - | - | - | - | - | - | - | (922) | 67,793 |
| Other current assets | - | - | - | 77 | - | - | 128,980 | (26,275) | 465,764 |
| Total current assets | 10,536 | - | - | 569 | 72 | (819) | 1,321,186 | (755,117) | 8,623,539 |
| ASSETS LIMITED OR RESTRICTED AS TO USE - | | | | | | | | | |
| Noncurrent portion: | | | | | | | | | |
| Held in trust | - | - | - | - | 4,895 | - | 98,652 | - | 872,814 |
| By Board | - | - | - | - | - | 5,194 | 1,876,843 | - | 3,881,021 |
| By donors | - | - | - | - | - | - | 622 | - | 498,871 |
| Total assets limited or restricted as to use - noncurrent portion | - | - | - | - | 4,895 | 5,194 | 1,976,117 | - | 5,252,706 |
| PROPERTY AND EQUIPMENT, Net | - | - | - | 477 | - | - | 556,013 | - | 8,025,580 |
| OTHER ASSETS | - | - | - | 204 | 4,123 | - | 6,045,278 | (6,628,157) | 4,293,875 |
| TOTAL ASSETS | \$ 10,536 | \$ - | \$ - | \$ 1,250 | \$ 9,090 | \$ 4,375 | \$ 9,898,594 | \$ (7,383,274) | \$ 26,195,700 |
| LIABILITIES AND NET ASSETS | | | | | | | | | |
| CURRENT LIABILITIES, Excluding liabilities held for sale | \$ 5,177 | \$ - | \$ 173,434 | \$ 4,479 | \$ 31,358 | \$ 114 | \$ 1,860,426 | \$ (739,676) | \$ 4,443,143 |
| LIABILITIES HELD FOR SALE | - | - | - | - | - | - | - | - | 32,440 |
| LONG-TERM DEBT, Noncurrent portion | - | - | - | 78 | - | 5,877 | 5,760,389 | (5,750,583) | 5,982,141 |
| OTHER LIABILITIES | - | - | - | 1,203 | - | - | 1,973,913 | (890,684) | 2,393,960 |
| NET ASSETS: | | | | | | | | | |
| Unrestricted | 5,359 | - | (173,434) | (4,510) | (22,268) | (1,616) | 303,225 | (3,349) | 12,757,910 |
| Restricted | - | - | - | - | - | - | 641 | 1,018 | 586,106 |
| TOTAL LIABILITIES AND NET ASSETS | \$ 10,536 | \$ - | \$ - | \$ 1,250 | \$ 9,090 | \$ 4,375 | \$ 9,898,594 | \$ (7,383,274) | \$ 26,195,700 |

TRINITY HEALTH

Supplemental Condensed Consolidating Statements of Operations and Changes in Net Assets - Information June 30, 2018

(In thousands)

| | Saint Agnes Medical Center, Fresno | Saint Alphonsus Health System, Oregon-Idaho | Mercy Health Services, Iowa-Nebraska | Loyola University Health System, Chicago | Mercy Hospital and Medical Center, Chicago | Saint Joseph Regional Medical Center, South Bend | Trinity Health Michigan Region | Mount Carmel Health System, Columbus | Holy Cross Health, Inc. Silver Spring |
|---|---|--|--|---|--|--|--------------------------------------|--|---|
| Unrestricted revenue: | | | | | | | | | |
| Net patient service revenue less provision for bad debts | \$ 506,005 | \$ 877,777 | \$ 842,956 | \$ 1,344,281 | \$ 222,850 | \$ 442,622 | \$ 3,186,417 | \$ 1,232,508 | \$ 543,464 |
| Other | 7,913 | 59,668 | 126,495 | 155,412 | 15,517 | 19,719 | 409,437 | 678,939 | 17,749 |
| Total unrestricted revenue | 513,918 | 937,445 | 969,451 | 1,499,693 | 238,367 | 462,341 | 3,595,854 | 1,911,447 | 561,213 |
| Expenses: | | | | | | | | | |
| Labor costs | 236,003 | 454,928 | 454,562 | 818,245 | 132,144 | 200,643 | 1,785,003 | 718,247 | 283,289 |
| Purchased services | 81,432 | 150,844 | 167,922 | 137,952 | 54,619 | 75,061 | 459,378 | 226,937 | 79,727 |
| Depreciation, amortization and interest | 30,492 | 66,004 | 63,115 | 86,332 | 10,488 | 38,929 | 207,720 | 109,983 | 53,779 |
| Other | 153,496 | 225,484 | 263,727 | 455,931 | 67,779 | 126,204 | 941,489 | 756,133 | 115,838 |
| Total expenses | 501,423 | 897,260 | 949,326 | 1,498,460 | 265,030 | 440,837 | 3,393,590 | 1,811,300 | 532,633 |
| OPERATING INCOME (LOSS) BEFORE OTHER ITEMS | 12,495 | 40,185 | 20,125 | 1,233 | (26,663) | 21,504 | 202,264 | 100,147 | 28,580 |
| Other | - | (4,229) | (13,331) | - | (37,993) | (2,135) | - | - | - |
| OPERATING INCOME (LOSS) | 12,495 | 35,956 | 6,794 | 1,233 | (64,656) | 19,369 | 202,264 | 100,147 | 28,580 |
| NONOPERATING ITEMS: | | | | | | | | | |
| Investment income and interest rate swaps | 23,103 | 14,788 | 24,459 | 13,709 | (1,773) | 5,102 | 101,819 | 57,793 | 14,600 |
| Loss from early extinguishment of debt | - | - | - | - | - | - | - | - | - |
| Other | (38) | (72) | 395 | - | - | (114) | (359) | (777) | - |
| Total nonoperating items | 23,065 | 14,716 | 24,854 | 13,709 | (1,773) | 4,988 | 101,460 | 57,016 | 14,600 |
| EXCESS OF REVENUE OVER EXPENSES | 35,560 | 50,672 | 31,648 | 14,942 | (66,429) | 24,357 | 303,724 | 157,163 | 43,180 |
| LESS EXCESS OF REVENUE OVER EXPENSES ATTRIBUTABLE TO NONCONTROLLING INTEREST | - | (95) | (28,824) | - | (351) | - | (1,608) | (4,821) | - |
| EXCESS OF REVENUE OVER EXPENSES - Net of noncontrolling interest | \$ 35,560 | \$ 50,577 | \$ 2,824 | \$ 14,942 | \$ (66,780) | \$ 24,357 | \$ 302,116 | \$ 152,342 | \$ 43,180 |
| CHANGES IN NET ASSETS | | | | | | | | | |
| INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS | \$ 20,424 | \$ 35,055 | \$ (10,952) | \$ 2,765 | \$ (67,067) | \$ 12,258 | \$ 237,608 | \$ 110,124 | \$ 30,234 |
| INCREASE IN RESTRICTED NET ASSETS | 2,105 | 233 | 112 | 15,329 | 2,755 | 799 | 8,651 | 8,311 | 104 |
| INCREASE (DECREASE) IN NET ASSETS | 22,529 | 35,288 | (10,840) | 18,094 | (64,312) | 13,057 | 246,259 | 118,435 | 30,338 |
| NET ASSETS, Beginning of year | 569,101 | 704,853 | 824,486 | 282,418 | 3,249 | 192,681 | 2,515,880 | 1,399,739 | 384,033 |
| NET ASSETS, End of year | \$ 591,630 | \$ 740,141 | \$ 813,646 | \$ 300,512 | \$ (61,063) | \$ 205,738 | \$ 2,762,139 | \$ 1,518,174 | \$ 414,371 |

TRINITY HEALTH

Supplemental Condensed Consolidating Statements of Operations and Changes in Net Assets - Information June 30, 2018

(In thousands)

| | St. Peter's Health Partners, Albany | St. Joseph Health, Inc., Syracuse | Trinity Health Of New England Corporation, Inc., | Mercy Health System of SEPA, Philadelphia | St. Mary Medical Center, Langhorne | Lourdes Health System, Camden | St. Francis Medical Center, Trenton | Saint Francis Healthcare, Wilmington | St. Mary's Health Care System, Inc., Athens |
|---|--|---|--|--|---|-------------------------------------|--|--|--|
| Unrestricted revenue: | | | | | | | | | |
| Net patient service revenue less provision for bad debts | \$ 1,231,672 | \$ 660,433 | \$ 1,795,052 | \$ 594,568 | \$ 477,282 | \$ 497,019 | \$ 120,226 | \$ 156,752 | \$ 273,672 |
| Other | 105,927 | 36,098 | 110,524 | 151,186 | 62,418 | 67,190 | 34,014 | 30,000 | 11,691 |
| Total unrestricted revenue | 1,337,599 | 696,531 | 1,905,576 | 745,754 | 539,700 | 564,209 | 154,240 | 186,752 | 285,363 |
| Expenses: | | | | | | | | | |
| Labor costs | 770,250 | 380,689 | 1,067,377 | 409,677 | 249,505 | 318,457 | 68,994 | 90,266 | 140,388 |
| Purchased services | 168,190 | 94,995 | 231,410 | 127,310 | 87,567 | 119,656 | 47,034 | 35,574 | 52,059 |
| Depreciation, amortization and interest | 76,984 | 41,675 | 90,612 | 22,096 | 32,751 | 27,128 | 4,487 | 9,626 | 16,883 |
| Other | 323,928 | 178,176 | 500,051 | 129,899 | 137,329 | 125,284 | 33,597 | 41,921 | 67,782 |
| Total expenses | 1,339,352 | 695,535 | 1,889,450 | 688,982 | 507,152 | 590,525 | 154,112 | 177,387 | 277,112 |
| OPERATING INCOME (LOSS) BEFORE OTHER ITEMS | (1,753) | 996 | 16,126 | 56,772 | 32,548 | (26,316) | 128 | 9,365 | 8,251 |
| Other | (13,984) | (3,856) | (9,281) | - | - | (69,890) | (1,770) | - | - |
| OPERATING INCOME (LOSS) | (15,737) | (2,860) | 6,845 | 56,772 | 32,548 | (96,206) | (1,642) | 9,365 | 8,251 |
| NONOPERATING ITEMS: | | | | | | | | | |
| Investment income and interest rate swaps | 24,189 | 3,699 | 9,363 | 7,853 | 22,877 | 3,327 | (851) | (518) | 1,267 |
| Loss from early extinguishment of debt | - | - | - | - | - | - | - | - | (33) |
| Other | (341) | (49) | (54) | (58) | (24) | (80) | (91) | - | - |
| Total nonoperating items | 23,848 | 3,650 | 9,309 | 7,795 | 22,853 | 3,247 | (942) | (518) | 1,234 |
| EXCESS OF REVENUE OVER EXPENSES | 8,111 | 790 | 16,154 | 64,567 | 55,401 | (92,959) | (2,584) | 8,847 | 9,485 |
| LESS EXCESS OF REVENUE OVER EXPENSES ATTRIBUTABLE TO NONCONTROLLING INTEREST | - | (3,950) | - | - | (4,758) | (605) | (1,913) | - | - |
| EXCESS OF REVENUE OVER EXPENSES - Net of noncontrolling interest | \$ 8,111 | \$ (3,160) | \$ 16,154 | \$ 64,567 | \$ 50,643 | \$ (93,564) | \$ (4,497) | \$ 8,847 | \$ 9,485 |
| CHANGES IN NET ASSETS | | | | | | | | | |
| INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS | \$ (64) | \$ 9,116 | \$ 37,344 | \$ 51,592 | \$ 44,566 | \$ (105,160) | \$ (4,891) | \$ 6,646 | \$ 8,353 |
| INCREASE (DECREASE) IN RESTRICTED NET ASSETS | 6,120 | (663) | 9,264 | 384 | (10,487) | (2,385) | (41) | 173 | 604 |
| INCREASE (DECREASE) IN NET ASSETS | 6,056 | 8,453 | 46,608 | 51,976 | 34,079 | (107,545) | (4,932) | 6,819 | 8,957 |
| NET ASSETS, Beginning of year | 856,642 | 91,221 | 318,274 | 294,946 | 504,373 | (17,119) | (98,726) | (71,798) | 138,883 |
| NET ASSETS, End of year | \$ 862,698 | \$ 99,674 | \$ 364,882 | \$ 346,922 | \$ 538,452 | \$ (124,664) | \$ (103,658) | \$ (64,979) | \$ 147,840 |

TRINITY HEALTH

Supplemental Condensed Consolidating Statements of Operations and Changes in Net Assets - Information June 30, 2018

(In thousands)

| | Holy Cross Hospital, Inc., Ft. Lauderdale | Trinity Continuing Care Services | Trinity Home Health Services | Trinity Health PACE | Pittsburgh Mercy Health System Inc., Pittsburgh | Mercy Primary Care Center, Detroit | Trinity Health Consolidated Labs | Trinity Health Warde Lab LLC | Global Health Ministry |
|---|---|--|------------------------------------|------------------------|--|--|--|------------------------------------|---------------------------|
| Unrestricted revenue: | | | | | | | | | |
| Net patient service revenue less provision for bad debts | \$ 450,064 | \$ 208,875 | \$ 128,023 | \$ 63 | \$ 68,302 | \$ 230 | \$ - | \$ - | \$ - |
| Other | 20,309 | 149,364 | 5,945 | 81,897 | 38,984 | 629 | 50,430 | 701 | 3,821 |
| Total unrestricted revenue | 470,373 | 358,239 | 133,968 | 81,960 | 107,286 | 859 | 50,430 | 701 | 3,821 |
| Expenses: | | | | | | | | | |
| Labor costs | 249,653 | 202,212 | 104,399 | 29,151 | 74,493 | 1,371 | 9,715 | - | 1,072 |
| Purchased services | 62,430 | 59,866 | 11,883 | 34,060 | 3,645 | 126 | 19,968 | 12 | 88 |
| Depreciation, amortization and interest | 31,586 | 33,439 | 1,490 | 2,906 | 1,805 | 13 | 1,121 | 308 | 3 |
| Other | 124,280 | 69,925 | 15,718 | 15,811 | 23,750 | 914 | 19,539 | (119) | 2,440 |
| Total expenses | 467,949 | 365,442 | 133,490 | 81,928 | 103,693 | 2,424 | 50,343 | 201 | 3,603 |
| OPERATING INCOME (LOSS) BEFORE OTHER ITEMS | 2,424 | (7,203) | 478 | 32 | 3,593 | (1,565) | 87 | 500 | 218 |
| Other | - | (5,000) | - | - | - | - | - | - | - |
| OPERATING INCOME (LOSS) | 2,424 | (12,203) | 478 | 32 | 3,593 | (1,565) | 87 | 500 | 218 |
| NONOPERATING ITEMS: | | | | | | | | | |
| Investment income and interest rate swaps | 5,187 | 4,768 | 917 | 662 | 2,759 | 445 | 384 | 103 | 264 |
| Loss from early extinguishment of debt | - | - | - | - | - | - | - | - | - |
| Other | (111) | - | - | - | - | - | - | - | - |
| Total nonoperating items | 5,076 | 4,768 | 917 | 662 | 2,759 | 445 | 384 | 103 | 264 |
| EXCESS OF REVENUE OVER EXPENSES | 7,500 | (7,435) | 1,395 | 694 | 6,352 | (1,120) | 471 | 603 | 482 |
| LESS EXCESS OF REVENUE OVER EXPENSES ATTRIBUTABLE TO NONCONTROLLING INTEREST | (527) | - | - | - | - | - | - | - | - |
| EXCESS OF REVENUE OVER EXPENSES - Net of noncontrolling interest | <u>\$ 6,973</u> | <u>\$ (7,435)</u> | <u>\$ 1,395</u> | <u>\$ 694</u> | <u>\$ 6,352</u> | <u>\$ (1,120)</u> | <u>\$ 471</u> | <u>\$ 603</u> | <u>\$ 482</u> |
| CHANGES IN NET ASSETS | | | | | | | | | |
| INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS | \$ (2,001) | \$ (9,353) | \$ (2,050) | \$ 1,329 | \$ 6,147 | \$ 1,165 | \$ 106 | \$ 604 | \$ 441 |
| INCREASE (DECREASE) IN RESTRICTED NET ASSETS | 3,881 | 2,044 | (299) | 52 | (390) | 34 | - | - | - |
| INCREASE (DECREASE) IN NET ASSETS | 1,880 | (7,309) | (2,349) | 1,381 | 5,757 | 1,199 | 106 | 604 | 441 |
| NET ASSETS, Beginning of year | 214,527 | 64,270 | 26,314 | 4,257 | 141,874 | 7,451 | 5,807 | 8,668 | 2,877 |
| NET ASSETS, End of year | <u>\$ 216,407</u> | <u>\$ 56,961</u> | <u>\$ 23,965</u> | <u>\$ 5,638</u> | <u>\$ 147,631</u> | <u>\$ 8,650</u> | <u>\$ 5,913</u> | <u>\$ 9,272</u> | <u>\$ 3,318</u> |

TRINITY HEALTH

Supplemental Condensed Consolidating Statements of Operations and Changes in Net Assets - Information

June 30, 2018

(In thousands)

| | St. Joseph's Health System, Inc., Atlanta | Trinity Health Partners | Trinity Health ACO, Inc. | Allegany Franciscan Ministries | SJSA Foundation | Cadillac Foundation | Trinity Assurance Insurance Company | Investment in Baycare Health System | Investment in Catholic Health System, Inc. |
|---|--|----------------------------|-----------------------------|--------------------------------------|--------------------|------------------------|--|---|---|
| Unrestricted revenue: | | | | | | | | | |
| Net patient service revenue less provision for bad debts | \$ 2,435 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| Other | 25,251 | - | 3,234 | 9,915 | 3,064 | 1,000 | 103,121 | - | - |
| Total unrestricted revenue | 27,686 | - | 3,234 | 9,915 | 3,064 | 1,000 | 103,121 | - | - |
| Expenses: | | | | | | | | | |
| Labor costs | 18,507 | - | - | 1,048 | 1,481 | - | - | - | - |
| Purchased services | 3,774 | - | 10,260 | 1,096 | 548 | - | 905 | - | - |
| Depreciation, amortization and interest | 1,100 | - | - | 7 | 5 | - | - | - | - |
| Other | 4,592 | 7 | 2 | 7,764 | 389 | 1,000 | 102,216 | - | - |
| Total expenses | 27,973 | 7 | 10,262 | 9,915 | 2,423 | 1,000 | 103,121 | - | - |
| OPERATING INCOME (LOSS) BEFORE OTHER ITEMS | (287) | (7) | (7,028) | - | 641 | - | - | - | - |
| Other | - | - | - | - | - | - | - | - | - |
| OPERATING INCOME (LOSS) | (287) | (7) | (7,028) | - | 641 | - | - | - | - |
| NONOPERATING ITEMS: | | | | | | | | | |
| Investment income and interest rate swaps | 26,863 | 1,431 | 565 | (1,438) | 1,175 | - | - | 296,354 | 12,543 |
| Loss from early extinguishment of debt | - | - | - | - | - | - | - | - | - |
| Other | (64) | - | - | - | - | - | - | - | - |
| Total nonoperating items | 26,799 | 1,431 | 565 | (1,438) | 1,175 | - | - | 296,354 | 12,543 |
| EXCESS OF REVENUE OVER EXPENSES | 26,512 | 1,424 | (6,463) | (1,438) | 1,816 | - | - | 296,354 | 12,543 |
| LESS EXCESS OF REVENUE OVER EXPENSES ATTRIBUTABLE TO NONCONTROLLING INTEREST | - | - | - | - | - | - | - | - | - |
| EXCESS OF REVENUE OVER EXPENSES - Net of noncontrolling interest | <u>\$ 26,512</u> | <u>\$ 1,424</u> | <u>\$ (6,463)</u> | <u>\$ (1,438)</u> | <u>\$ 1,816</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 296,354</u> | <u>\$ 12,543</u> |
| CHANGES IN NET ASSETS | | | | | | | | | |
| INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS | \$ 26,627 | \$ 1,424 | \$ (6,466) | \$ (1,437) | \$ 1,817 | \$ - | \$ (8,500) | \$ 304,479 | \$ 1,392 |
| INCREASE IN RESTRICTED NET ASSETS | 508 | - | - | - | 2,081 | - | - | 7,011 | - |
| INCREASE (DECREASE) IN NET ASSETS | 27,135 | 1,424 | (6,466) | (1,437) | 3,898 | - | (8,500) | 311,490 | 1,392 |
| NET ASSETS, Beginning of year | 329,615 | 20,215 | 1,673 | 114,611 | 33,830 | 13,253 | 34,148 | 2,447,295 | 85,164 |
| NET ASSETS, End of year | <u>\$ 356,750</u> | <u>\$ 21,639</u> | <u>\$ (4,793)</u> | <u>\$ 113,174</u> | <u>\$ 37,728</u> | <u>\$ 13,253</u> | <u>\$ 25,648</u> | <u>\$ 2,758,785</u> | <u>\$ 86,556</u> |

TRINITY HEALTH

Supplemental Condensed Consolidating Statements of Operations and Changes in Net Assets - Information

June 30, 2018

(In thousands)

| | Mercy Health Services, North | St. Joseph Mercy, Port Huron | Saint Michael's Medical Center and Related Entities, Newark | St. James Mercy Health System, Inc., Hornell | Mercy Hospital, Inc., Miami | Maxis Health System | System Office | Eliminations and Other | TRINITY HEALTH |
|---|------------------------------------|------------------------------------|---|---|-----------------------------------|------------------------|---------------|---------------------------|-------------------|
| Unrestricted revenue: | | | | | | | | | |
| Net patient service revenue less provision for bad debts | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ (32,250) | \$ - | \$ 15,831,298 |
| Other | - | - | - | 293 | - | - | 1,689,179 | (1,772,927) | 2,514,107 |
| Total unrestricted revenue | - | - | - | 293 | - | - | 1,656,929 | (1,772,927) | 18,345,405 |
| Expenses: | | | | | | | | | |
| Labor costs | - | - | - | 12 | - | - | 673,403 | (173,616) | 9,771,568 |
| Purchased services | - | - | - | (29) | - | - | 341,620 | (864,158) | 2,083,761 |
| Depreciation, amortization and interest | - | - | - | 90 | - | - | 350,401 | (331,322) | 1,082,036 |
| Other | - | - | - | 127 | - | - | 356,471 | (382,126) | 5,006,748 |
| Total expenses | - | - | - | 200 | - | - | 1,721,895 | (1,751,222) | 17,944,113 |
| OPERATING INCOME (LOSS) BEFORE OTHER ITEMS | - | - | - | 93 | - | - | (64,966) | (21,705) | 401,292 |
| Other | - | - | - | - | - | - | (115,886) | 12,989 | (264,366) |
| OPERATING INCOME (LOSS) | - | - | - | 93 | - | - | (180,852) | (8,716) | 136,926 |
| NONOPERATING ITEMS: | | | | | | | | | |
| Investment income and interest rate swaps | - | - | - | 1 | (275) | - | 156,624 | 8,601 | 842,739 |
| Loss from early extinguishment of debt | - | - | - | - | - | - | (39,824) | - | (39,857) |
| Other | - | - | - | - | - | - | 11,159 | - | 9,322 |
| Total nonoperating items | - | - | - | 1 | (275) | - | 127,959 | 8,601 | 812,204 |
| EXCESS OF REVENUE OVER EXPENSES | - | - | - | 94 | (275) | - | (52,893) | (115) | 949,130 |
| LESS EXCESS OF REVENUE OVER EXPENSES ATTRIBUTABLE TO NONCONTROLLING INTEREST | - | - | - | - | - | - | - | (167) | (47,619) |
| EXCESS OF REVENUE OVER EXPENSES - Net of noncontrolling interest | \$ - | \$ - | \$ - | \$ 94 | \$ (275) | \$ - | \$ (52,893) | \$ (282) | \$ 901,511 |
| CHANGES IN NET ASSETS | | | | | | | | | |
| INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS | \$ 950 | \$ (19,761) | \$ (6,241) | \$ 988 | \$ (1,695) | \$ 46,831 | \$ 543,267 | \$ 3,760 | \$ 1,301,774 |
| INCREASE (DECREASE) IN RESTRICTED NET ASSETS | - | - | (172) | - | - | - | 35 | 662 | 56,815 |
| INCREASE (DECREASE) IN NET ASSETS | 950 | (19,761) | (6,413) | 988 | (1,695) | 46,831 | 543,302 | 4,422 | 1,358,589 |
| NET ASSETS, Beginning of year | 4,409 | 19,761 | (167,021) | (5,498) | (20,573) | (48,447) | (239,436) | (6,753) | 11,985,427 |
| NET ASSETS, End of year | \$ 5,359 | \$ - | \$ (173,434) | \$ (4,510) | \$ (22,268) | \$ (1,616) | \$ 303,866 | \$ (2,331) | \$ 13,344,016 |