Trinity Health Net Income Improves by $759 million in the Third Quarter of FY19

Summary Highlights for the First Nine Months of FY19 (Nine Months Ended March 31, 2019)

During the first nine months of fiscal year 2019, Trinity Health reported $14.3 billion in operating revenue, and excess of revenue over expenses of $457.9 million. Operating revenue increased $727.5 million or 5.4 percent over the same period in fiscal year 2018. Increases in patient volumes, improvements in payment rates, case mix acuity and the acquisition of MacNeal Hospital in Berwyn, Illinois, and related entities contributed to the growth in revenue. The acquisition of MacNeal Hospital and related entities generated $230.2 million of the increase over the prior year.

Other results for the nine months ending March 31, 2019, include operating income before other items of $190.9 million, operating margin before other items of 1.3 percent and operating cash flow margin before other items of 7.1 percent. Operating income before other items fell $89.7 million as compared to the prior year, with $25 million of the reduction related to health plans accounted for on the equity method, $5.9 million related to the impact of the MacNeal acquisition, and increases in operating expenses that outpaced revenue growth. The acquisition of MacNeal Hospital and related entities added $236.1 million of operating expenses or a 1.8 percent increase over the prior fiscal year. Excluding the acquisition of MacNeal, expenses increased by $581.1 million, or 4.4 percent, primarily due to labor and supply costs, including pharmaceuticals. An increase in claim denials by payers further negatively affected margins. For the nine months ended March 31, 2019, other items included restructuring costs of $35.2 million related to consolidation of revenue cycle billing services and severance benefits to affected colleagues.

During fiscal year 2019, volatile investment markets, predominant in the second quarter, affected bottom-line results. Trinity Health reported nonoperating gains of $336.8 million in the first nine months of fiscal year 2019 (after recognizing $419.6 million of losses through December 31, 2018) compared to nonoperating gains of $668.4 million in the prior fiscal year. Trinity Health's nine months ended March 31, 2019, excess of revenue over expenses of $457.9 million compared to $914.8 million in the same period of fiscal 2018, which was an improvement of $759.4 million over the six months ended December 31, 2018.

Highlights of results for the nine months ended March 31, 2019, include:

- Total assets of $26.6 billion and net assets of $13.9 billion
- Total unrestricted revenue of $14.3 billion, a 5.4 percent increase over fiscal year 2018
- Operating income before other items of $190.9 million, with a 1.3 percent operating margin
- Excess of revenue over expense of $457.9 million
- Unrestricted cash and investments of $8.8 billion
- Days cash on hand of 179 days

TRINITY HEALTH

UNAUDITED QUARTERLY REPORT

As of March 31, 2019 and June 30, 2018, and
For the nine months ended March 31, 2019 and 2018

TRINITY HEALTH

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

	As of	
ASSETS	**March 31, 2019**	**June 30, 2018**
CURRENT ASSETS:		
Cash and cash equivalents	$ 459,538	$ 971,726
Investments	4,168,754	3,846,190
Security lending collateral	241,893	275,228
Assets limited or restricted as to use - current portion	311,111	352,231
Patient accounts receivable - net of allowance for doubtful accounts of $480.8 million at June 30, 2018	2,177,878	2,070,567
Estimated receivables from third-party payers	258,836	213,563
Other receivables	332,018	360,477
Inventories	293,341	292,945
Assets held for sale	64,000	67,793
Prepaid expenses and other current assets	221,070	172,819
Total current assets	8,528,439	8,623,539
ASSETS LIMITED OR RESTRICTED AS TO USE - noncurrent portion:		
Held by trustees under bond indenture agreements	5,629	6,865
Self-insurance, benefit plans, and other	908,750	865,949
By Board	4,003,621	3,881,021
By donors	499,360	498,871
Total assets limited or restricted as to use - noncurrent portion	5,417,360	5,252,706
PROPERTY AND EQUIPMENT - Net	8,130,103	8,025,580
INVESTMENTS IN UNCONSOLIDATED AFFILIATES	3,756,003	3,493,495
GOODWILL	438,460	438,460
OTHER ASSETS	353,871	361,920
TOTAL ASSETS	$ 26,624,236	$ 26,195,700

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

(Continued)

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

LIABILITIES AND NET ASSETS	**As of March 31, 2019**	**As of June 30, 2018**
CURRENT LIABILITIES:		
Commercial paper	$ 99,784	$ 99,904
Short-term borrowings	686,670	711,020
Current portion of long-term debt	131,509	276,295
Accounts payable and accrued expenses	1,361,667	1,548,741
Salaries, wages, and related liabilities	855,680	863,143
Payable under security lending agreements	241,893	275,228
Liabilities held for sale	30,751	32,440
Estimated payables to third-party payers	390,852	395,970
Current portion of self-insurance reserves	272,950	272,842
Total current liabilities	4,071,756	4,475,583
LONG-TERM DEBT - Net of current portion	6,313,958	5,982,141
SELF-INSURANCE RESERVES - Net of current portion	1,066,259	1,002,274
ACCRUED PENSION AND RETIREE HEALTH COSTS	486,062	688,259
OTHER LONG-TERM LIABILITIES	741,661	703,427
Total liabilities	12,679,696	12,851,684
NET ASSETS:		
Unrestricted net assets	13,143,404	12,581,754
Noncontrolling ownership interest in subsidiaries	234,495	176,156
Total unrestricted net assets	13,377,899	12,757,910
Temporarily restricted net assets	373,469	388,624
Permanently restricted net assets	193,172	197,482
Total net assets	13,944,540	13,344,016
TOTAL LIABILITIES AND NET ASSETS	$ 26,624,236	$ 26,195,700

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

TRINITY HEALTH
CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS (UNAUDITED)
NINE MONTHS ENDED MARCH 31, 2019 AND 2018
(In thousands)

	2019	2018
UNRESTRICTED REVENUE:		
Patient service revenue - net of contractual and other allowances		$ 12,170,876
Provision for bad debts		(432,782)
Net patient service revenue	$ 12,334,797	11,738,094
Premium and capitation revenue	834,006	776,342
Net assets released from restrictions	27,359	38,056
Other revenue	1,108,759	1,024,957
Total unrestricted revenue	14,304,921	13,577,449
EXPENSES:		
Salaries and wages	6,212,753	5,896,240
Employee benefits	1,229,131	1,134,680
Contract labor	245,710	205,758
Total labor expenses	7,687,594	7,236,678
Supplies	2,392,052	2,210,429
Purchased services and medical claims	1,925,351	1,839,472
Depreciation and amortization	640,315	634,322
Occupancy	586,684	559,049
Interest	178,328	167,052
Other	703,680	649,830
Total expenses	14,114,004	13,296,832
OPERATING INCOME BEFORE OTHER ITEMS	190,917	280,617
Restructuring costs	(35,237)	-
OPERATING INCOME	155,680	280,617
NONOPERATING ITEMS:		
Investment earnings	153,776	455,481
Equity in earnings of unconsolidated affiliates	216,845	238,001
Change in market value and cash payments of interest rate swaps	(29,954)	16,843
Loss on early extinguishment of debt	(3,408)	(39,841)
Other, including income taxes	(498)	(2,080)
Total nonoperating items	336,761	668,404
EXCESS OF REVENUE OVER EXPENSES	492,441	949,021
EXCESS OF REVENUE OVER EXPENSES ATTRIBUTABLE TO NONCONTROLLING INTEREST	(34,540)	(34,226)
EXCESS OF REVENUE OVER EXPENSES, net of noncontrolling interest	$ 457,901	$ 914,795

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

(Continued)

TRINITY HEALTH
CONSOLIDATED STATEMENT OF OPERATIONS AND CHANGES IN NET ASSETS (UNAUDITED)
NINE MONTHS ENDED MARCH 31, 2019 AND 2018
(In thousands)

	2019	2018
UNRESTRICTED NET ASSETS:		
Unrestricted net asset attributable to Trinity Health:		
Excess of revenue over expenses	$ 457,901	$ 914,795
Net assets released from restrictions for capital acquisitions	43,596	17,810
Net change in retirement plan related items - consolidated organizations	59,788	55,867
Net change in retirement plan related items - unconsolidated organizations	7,762	(13,970)
Other	(7,397)	(1,081)
Increase in unrestricted net assets attributable to Trinity Health	561,650	973,421
Unrestricted net asset attributable to noncontrolling interests:		
Excess of revenue over expenses attributable to noncontrolling interests	34,540	34,226
Change in noncontrolling interest in subsidiaries	53,768	9,454
Dividends paid	(29,747)	(28,645)
Other	(222)	375
Increase in unrestricted net assets attributable to noncontrolling interest	58,339	15,410
TEMPORARILY RESTRICTED NET ASSETS:		
Contributions	76,873	82,473
Net investment gain	1,017	10,331
Net assets released from restrictions	(70,955)	(55,866)
Other	(22,090)	1,168
Increase in temporarily restricted net assets	(15,155)	38,106
PERMANENTLY RESTRICTED NET ASSETS:		
Contributions for endowment funds	3,390	7,012
Net investment gain	(2,152)	7,282
Other	(5,548)	(318)
Increase in permanently restricted net assets	(4,310)	13,976
INCREASE IN NET ASSETS	600,524	1,040,913
NET ASSETS - BEGINNING OF YEAR	13,344,016	11,985,427
NET ASSETS - END OF PERIOD	$ 13,944,540	$ 13,026,340

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

TRINITY HEALTH

SUMMARIZED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

NINE MONTHS ENDED MARCH 31, 2019 AND 2018
(In thousands)

	2019	2018
OPERATING ACTIVITIES:		
Increase in net assets	$ 600,524	$ 1,040,912
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	640,315	634,322
Provision for bad debts	-	432,782
Loss from early extinguishment of debt	3,408	39,841
Gain on sale of subsidiaries	(16,018)	-
Inherent contributions related to acquisitions	-	(1,903)
Change in net unrealized and realized gains and losses on investments	(67,846)	(406,911)
Change in market values of interest rate swaps	19,902	(30,070)
Undistributed equity in earnings of unconsolidated affiliates	(236,464)	(282,390)
Deferred retirement items - consolidated organizations	(14,362)	(4,772)
Deferred retirement items - unconsolidated organizations	(7,762)	13,970
Increase in noncontrolling interest related to acquisitions	-	(9,454)
Sale of noncontrolling interest in subsidiary	(53,768)	-
Restricted contributions and investment income received	(28,692)	(14,431)
Other adjustments	38,831	19,807
Changes in:		
Patient accounts receivable	(107,310)	(641,012)
Other assets	(63,292)	(34,523)
Accounts payable and accrued expenses	(32,132)	58,484
Estimated receivables from third-party payers	(26,074)	23,944
Estimated payables to third-party payers	(5,117)	773
Self-insurance reserves and other liabilities	21,447	41,476
Accrued pension and retiree health costs	(190,963)	(250,866)
Total adjustments	(125,897)	(410,933)
Net cash provided by operating activities	474,627	629,979
INVESTING ACTIVITIES:		
Net purchases of investments	(368,839)	(113,669)
Purchases of property and equipment	(801,286)	(747,846)
Proceeds from disposal of property and equipment	1,421	4,161
Proceeds from sale of divestitures	21,944	5,009
Net cash used for acquisitions	(188)	(263,418)
Change in investments in unconsolidated affiliates	(24,047)	(4,270)
Change in assets limited as to use and other	22,159	(10,776)
Net cash used in investing activities	(1,148,836)	(1,130,809)
FINANCING ACTIVITIES:		
Proceeds from issuance of debt	421,490	1,613,720
Repayments of debt	(233,202)	(1,146,693)
Net change in commercial paper and line of credit	(120)	86,873
Dividends paid	(29,747)	(28,645)
Proceeds from restricted contributions and restricted investment income	7,028	14,431
Increase in financing costs and other	(3,428)	(9,408)
Net cash provided by financing activities	162,021	530,278
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(512,188)	29,448
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	971,726	1,008,197
CASH AND CASH EQUIVALENTS - END OF PERIOD	$ 459,538	$ 1,037,645

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

1. ORGANIZATION AND MISSION

Trinity Health Corporation, an Indiana nonprofit corporation headquartered in Livonia, Michigan, and its subsidiaries ("Trinity Health" or the "Corporation"), controls one of the largest health care systems in the United States. The Corporation is sponsored by Catholic Health Ministries, a Public Juridic Person of the Holy Roman Catholic Church. The Corporation operates a comprehensive integrated network of health services, including inpatient and outpatient services, physician services, managed care coverage, home health care, long-term care, assisted living care and rehabilitation services located in 22 states. The operations are organized into Regional Health Ministries, National Health Ministries and Mission Health Ministries ("Health Ministries"). The mission statement for the Corporation is as follows:

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") for interim financial reporting information. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation have been included and are of a normal and recurring nature. Operating results for the nine months ended March 31, 2019 are not necessarily indicative of the results to be expected for the year ending June 30, 2019.

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 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 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 judgment and estimates. Actual results could differ materially from those estimates.

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

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

Investment Earnings – Investment earnings include interest, dividends, realized gains and losses, 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 March 31, 2019 and June 30, 2018, the Corporation had securities loaned of $514.7 million and $486.3 million, respectively, and received collateral (cash and noncash) totaling $532.7 million and $472.0 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 Payers – The Corporation has agreements with third-party payers that provide for payments to the Corporation's Health Ministries at amounts different from established rates. Estimated retroactive adjustments under reimbursement agreements with third-party payers and other changes in estimates are included in patient service revenue and estimated receivables from and payables to third-party payers. 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.

For patient accounts receivable resulting from revenue recognized prior to July 1, 2018, patient accounts receivable were reported at estimated net realizable amounts from patients, third-party payers, and others for services rendered. Prior to this date, an allowance for doubtful accounts was established to reduce the carrying value of such receivables to their estimated net realizable value. Generally, this allowance was estimated based on the aging of accounts receivable and the historical collection experience by the Health Ministries for each type of payer. Under the provisions of Accounting Standards Update ("ASU") No. 2014-09 "*Revenue from Contracts with Customers (Topic 606),*" which was adopted effective July 1, 2018, an unconditional right to payment, subject only to the passage of time is treated as a receivable. Patient accounts receivable, including billed accounts and unbilled accounts for which there is an unconditional right to payment, and estimated amounts due from third-party payers for retroactive adjustments, are receivables if the right to consideration is unconditional and only the passage of time is required before payment of that consideration is due. For patient accounts receivable subsequent to the adoption of ASU No. 2014-09 on July 1, 2018, the estimated uncollectable amounts are generally considered implicit price concessions that are a direct reduction to patient service revenue and accounts receivable.

Net Patient Service Revenue – Upon the adoption of ASU No. 2014-09, the Corporation reports patient service revenue at the amount that reflects the consideration expected to be entitled to in exchange for providing patient care. These amounts are due from patients, third-party payers (including commercial payers and government programs) and others, and include variable consideration for retroactive revenue adjustments due to settlement of audits, reviews, and investigations. Generally, the Corporation bills patients and third-party payers several days after the services are performed or the patient is discharged from the facility.

The Corporation determines performance obligations based on the nature of the services provided. Revenue for performance obligations satisfied over time is recognized based on actual charges incurred in relation to total expected charges. The Corporation believes that this method provides a faithful depiction of the transfer of services over the term of the performance obligation based on the inputs needed to satisfy the obligation. Generally, performance obligations satisfied over time relate to patients in hospitals receiving inpatient acute care services, or receiving services in outpatient centers, or in their homes (home care). The Corporation measures performance obligations from admission to the hospital, or the commencement of an outpatient service, to the point when it is no longer required to provide services to the patient, which is generally at the time of discharge or the completion of the outpatient services. Revenue for performance obligations satisfied at a point in time is generally recognized when goods are provided to our patients and customers in a retail setting (for example, pharmaceuticals and medical equipment) and the Corporation does not believe that it is required to provide additional goods and services related to that sale.

Because patient service performance obligations relate to contracts with a duration of less than one year, the Corporation has elected to apply the optional exemption provided in Financial Accounting Standards Board ("FASB") Accounting Standards Codification (“ASC”) 606-10-50-14(a) and, therefore, the Corporation is not required to disclose the aggregate amount of the transaction price allocated to performance obligations that are unsatisfied or partially unsatisfied at the end of the reporting period. The unsatisfied or partially unsatisfied performance obligations are primarily related to inpatient acute care services at the end of the reporting period. The performance obligations for these contracts are generally completed when the patients are discharged, which generally occurs within days or weeks of the end of the reporting period.

The Corporation has elected the practical expedient allowed under FASB ASC 606-10-32-18 and does not adjust the promised amount of consideration from patients and third-party payers for the effects of a significant financing component due to the Corporation's expectation that the period between the time the service is provided to a patient and the time that the patient or a third-party payer pays for that service will be one year or less. However, the Corporation does, in certain instances, enter into payment agreements with patients that allow payments in excess of one year. For those cases, the financing component is not deemed to be significant to the contract.

The Corporation determines the transaction price based on standard charges for services provided, reduced by contractual adjustments provided to third-party payers, discounts provided to uninsured and underinsured patients in accordance with the Corporation's policy, and implicit price concessions provided to uninsured and underinsured patients. The Corporation determines its estimates of contractual adjustments and discounts based on contractual agreements, discount policies and historical experience. The estimate of implicit price concessions is based on historical collection experience with the various classes of patients using a portfolio approach as a practical expedient to account for patient contracts with similar characteristics, as collective groups rather than individually. The financial statement effect of using this practical expedient is not materially different from an individual contract approach.

Generally, patients who are covered by third-party payers are responsible for related deductibles and coinsurance, which vary in amount. The Corporation also provides services to uninsured and underinsured patients, and offers those uninsured and underinsured patients a discount, either by policy or law, from standard charges. The Corporation estimates the transaction price for patients with deductibles and coinsurance and for those who are uninsured and underinsured based on historical experience and current market conditions, using the portfolio approach. The initial estimate of the transaction price is determined by reducing the standard charge by any contractual adjustments, discounts, and implicit price concessions. Subsequent changes to the estimate of the transaction price are generally recorded as adjustments to patient service revenue in the period of the change. Subsequent changes that are determined to be the result of an adverse change in the patient's ability to pay are recorded as bad debt expense.

Agreements with third-party payers typically provide for payments at amounts less than established charges. A summary of the payment arrangements with major third-party payers 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.

Cost report settlements under these programs are subject to audit by Medicare and Medicaid auditors and administrative and judicial review, and it can take several years until final settlement of such matters is determined and completely resolved. Because the laws, regulations, instructions and rule interpretations governing Medicare and Medicaid reimbursement are complex and change frequently, the estimates that have been recorded could change by material amounts.

Settlements with third-party payers for retroactive revenue adjustments due to audits, reviews or investigations are considered variable consideration and are included in the determination of the estimated transaction price for providing patient care. These settlements are estimated based on the terms of the payment agreement with the payer, correspondence from the payer and historical settlement activity, including an assessment to ensure that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the retroactive adjustment is subsequently resolved. Estimated settlements are adjusted in future periods as adjustments become known (that is, new information becomes available), or as years are settled or are no longer subject to such audits, reviews and investigations. Adjustments arising from a change in the transaction price were not significant in 2018 or 2017.

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. 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.

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 specific criteria, including income eligibility as established by the *Federal Poverty Guidelines,* as well as other financial resources and obligations.

Charges for services to patients who meet the Corporation's guidelines for financial assistance are not reported as revenue in the accompanying consolidated financial statements. Therefore, the Corporation has determined it has provided implicit price concessions to uninsured and underinsured patients and patients with other uninsured balances (for example, copays and deductibles). The implicit price concessions included in estimating the transaction price represent the difference between amounts billed to patients and the amounts the Corporation expects to collect based on its collection history with those patients.

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

Adopted Accounting Pronouncements –

Effective July 1, 2018, the Corporation adopted the FASB ASU No. 2014-09, *"Revenue from Contracts with Customers (Topic 606)"* using a modified retrospective method of application to all contracts existing on July 1, 2018. 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. For the Corporation's health care operations, the adoption of ASU No. 2014-09 resulted in changes to the presentation for and disclosure of revenue related to uninsured and underinsured patients. Under ASU No. 2014-09, the estimated uncollectible amounts due from these patients are generally considered an implicit price concession and are a direct reduction to patient service revenue and, correspondingly result in a material reduction in the amounts presented separately as provision for bad debts. For the nine months ended March 31, 2019, the Corporation recorded approximately $540.9 million of implicit price concessions as a direct reduction of patient service revenue that would have been recorded as provision for bad debts prior to the adoption of ASU No. 2014-09. At March 31, 2019, the Corporation recorded $555.8 million as a direct reduction of accounts receivable that would have been reflected as allowance for doubtful accounts prior to the adoption of ASU No. 2014-09. Other than these changes in presentation on the consolidated statement of operations, consolidated balance sheet, and the statement of cash flows, the adoption of ASU No. 2014-09 did not have a material impact on the consolidated results of operations for nine months ended March 31, 2019, and the Corporation does not expect it to have a material impact on its consolidated results of operations for the remainder of fiscal year 2019.

Effective July 1, 2018, the Corporation adopted the FASB ASU No. 2018-08, *"Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made (Topic 958)."* The guidance in ASU 2018-08 assists entities in (1) evaluating whether grants and similar transactions should be accounted for as contributions (nonreciprocal) within the scope of Topic 958, or as exchanges (reciprocal) subject to guidance in Topic 606 and (2) determining whether a contribution is conditional. The adoption of the guidance in ASU 2018-08 did not have a material impact on the Corporation's consolidated financial statements.

Forthcoming Accounting Pronouncements –

In February 2016, the FASB issued ASU No. 2016-02, *"Leases."* This guidance and related amendments 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. The Corporation plans to elect the practical expedients upon transition that will retain the lease classification and initial direct costs for any leases that exist prior to adoption of the standard. The Corporation will not reassess whether any contracts entered into prior to adoption are leases. The Corporation is in the process of cataloging existing lease contracts and implementing changes to its systems. This guidance is effective for the Corporation beginning July 1, 2019. The Corporation is still evaluating the overall 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 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 effect 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 will have on the consolidated statement 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 does not expect this guidance to have a material impact on its consolidated financial statements.

In August 2018, the FASB issued ASU No. 2018-13, *"Fair Value Measurement, Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement."* This guidance adds, modifies, and removes certain disclosure requirements on fair value measurements. This guidance is effective for the Corporation beginning July 1, 2020. The adoption of ASU No. 2018-13 will not have a material impact on the consolidated financial statements of the Corporation but will result in changes to footnote disclosures. The Corporation is still assessing these disclosure changes.

In August 2018, the FASB issued ASU No. 2018-14, *"Defined Benefit Plans (Subtopic 715-20) Disclosure Framework – Changes to the Disclosure Requirements for Defined Benefit Plans."* This guidance changes the disclosure requirements of Subtopic 715-20, removing certain disclosure requirements no longer considered cost beneficial and clarifying existing disclosure requirements. This guidance also adds two new disclosure requirements, including disclosure of the weighted average interest crediting rates for cash balance plans, and adding an explanation of the reasons for significant gains and losses related to changes in the benefit obligation for the period. This guidance is effective for the Corporation beginning July 1, 2020. The adoption of ASU No. 2018-14 will not have a material impact on the consolidated financial statements of the Corporation but it will result in additional footnote disclosures. The Corporation is still assessing the additional disclosures.

In August 2018, the FASB issued ASU No. 2018-15, *"Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That is a Service Contract."* This guidance aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software. This guidance is effective for the Corporation beginning July 1, 2021. The Corporation does not expect this guidance to have a material impact on its consolidated financial statements.

In November 2018, the FASB issued ASU No. 2018-18, *"Collaborative Arrangements (Topic 808): Clarifying the Interaction between Topic 808 and Topic 606."* This guidance clarifies whether certain transactions between collaborative arrangement participants should be accounted for with revenue under Topic 606. This guidance is effective for the Corporation beginning July 1, 2021. The Corporation is still evaluating the impact this guidance will have on its consolidated financial statements.

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

Investments in Unconsolidated Affiliates – The Corporation and certain of its Health Ministries have investments in entities that are recorded under the cost and equity methods of accounting. The Corporation's share of equity earnings from entities accounted for under the equity method was $260.9 million and $300.3 million for the nine months ended March 31, 2019 and 2018, respectively, of which $44.0 million and $62.3 million, respectively, is included in other revenue and $216.9 million and $238.0 million, respectively, is included in nonoperating items in the consolidated statements of operations and changes in net assets. The most significant of these investments include the following:

BayCare Health System – The Corporation has a 50.4% interest in BayCare Health System Inc. and Affiliates ("BayCare"), a Florida not-for-profit corporation exempt from state and federal income taxes. BayCare was formed in 1997 pursuant to a Joint Operating Agreement ("JOA") among the not-for-profit, tax-exempt members of the Catholic Health East BayCare Participants, Morton Plant Mease Health Care, Inc., and South Florida Baptist Hospital, Inc. (collectively, the "Members"). BayCare consists of three community health alliances located in the Tampa Bay area of Florida, including St. Joseph's-Baptist Healthcare Hospital, St. Anthony's Health Care, and Morton Plant Mease Health Care. The Corporation has the right to appoint nine of the 21 voting members of the Board of Directors of BayCare, therefore the Corporation accounts for BayCare under the equity method of accounting. As of March 31, 2019 and June 30, 2018, the Corporation's investment in BayCare totaled $2,961.9 million and $2,758.8 million, respectively.

Gateway Health Plan – The Corporation has a 50% interest in Gateway Health Plan, L.P. and subsidiaries ("GHP"), a Pennsylvania limited partnership. GHP has two general partners, Highmark Ventures Inc., formerly known as Alliance Ventures, Inc., and Mercy Health Plan (a wholly owned subsidiary of the Corporation), each owning 1%. In addition to the general partners, there are two limited partners, Highmark Inc. and Mercy Health Plan, each owning 49%. As of March 31, 2019 and June 30, 2018, the Corporation's investment in GHP totaled $210.2 million and $207.9 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. CHS operates several organizations, the largest of which are four acute care hospitals located in Buffalo, New York: Mercy Hospital of Buffalo; Kenmore Mercy Hospital; Sisters of Charity Hospital; and St. Joseph Hospital. As of March 31, 2019 and June 30, 2018, the Corporation's investment in CHS totaled $93.7 million and $86.6 million, respectively.

Emory Healthcare/St. Joseph's Health System – The Corporation has a 49% interest in Emory Healthcare/St. Joseph's Health System ("EH/SJHS"). EH/SJHS operates several organizations, including two acute care hospitals, St. Joseph's Hospital of Atlanta and John's Creek Hospital. As of March 31, 2019 and June 30, 2018, the Corporation's investment in EH/SJHS totaled $130.9 million and $113.7 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") that operates three hospitals in Iowa: Covenant Medical Center in Waterloo, Sartori Memorial Hospital in Cedar Falls, and Mercy Hospital of Franciscan Sisters 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 Corporation's Iowa hospitals in collaboration with CHI's Mercy Hospital Medical Center, Des Moines, Iowa, as one organization with common governance and management. MHN has developed a regional health care network that provides for a collaborative effort in the areas of community health care development, enhanced access to health services for the poor and sharing of other common goals. Under the JOA, the Corporation and CHI equally share adjusted operating cash flow from Iowa operations which commenced in July 2016. For the nine months ended March 31, 2019 and 2018, other expense includes a charge of $6.2 million and $5.7 million, respectively, related to the cash flow sharing agreement. In November 2018, a subsidiary of MHN acquired Central Community Hospital, a critical access hospital located in Elkader, Iowa, and as a result of this transaction, the Corporation recognized an inherent contribution of $3.7 million in the consolidated statement of operations and changes in net assets. As of March 31, 2019 and June 30, 2018, the Corporation's investment in MHN totaled $96.6 million and $89.5 million, respectively.

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

	March 31, 2019				
	Baycare	GHP	CHS	EH/SJHS	MHN
Total assets	$ 8,146,000	$ 867,296	$ 1,215,854	$ 538,237	$ 286,593
Total liabilities	$ 2,103,875	$ 436,979	$ 947,672	$ 286,518	$ 87,039

	June 30, 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

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

	2019				
	Baycare	GHP	CHS	EH/SJHS	MHN
Revenue, net	$ 2,920,416	$ 1,858,322	$ 880,941	$ 517,848	$ 292,540
Excess (deficiency) of revenue over expenses	$ 379,157	$ 23,508	$ (12,277)	$ 18,077	$ 11,240

	2018				
	Baycare	GHP	CHS	EH/SJHS	MHN
Revenue, net	$ 2,771,121	$ 1,893,811	$ 748,238	$ 50,055	$ 271,572
Excess (deficiency) of revenue over expenses	$ 220,226	$ 67,846	$ 14,748	$ 641	$ (12,769)

The following amounts have been recognized in the accompanying consolidated statements of operations and changes in net assets related to the investments in BayCare, GHP, CHS, EH/SJHS, and MHN for the nine month periods ended March 31 (in thousands):

	2019				
	Baycare	GHP	CHS	EH/SJHS	MHN
Other revenue	$ -	$ 8,176	$ -	$ -	$ 3,445
Equity in earnings of unconsolidated organizations	203,950	-	(4,653)	17,679	-
Inherent contributions related to acquisitions	-	-	-	-	3,726
Other changes in unrestricted net assets	1,841	(11,115)	11,804	-	-
	$ 205,791	$ (2,939)	$ 7,151	$ 17,679	$ 7,171

	2018				
	Baycare	GHP	CHS	EH/SJHS	MHN
Other revenue	$ -	$ 31,161	$ -	$ -	$ (6,054)
Equity in earnings of unconsolidated organizations	217,305	-	7,304	15,574	-
Other changes in unrestricted net assets	6,334	(5,708)	(13,075)	-	1,500
	$ 223,639	$ 25,453	$ (5,771)	$ 15,574	$ (4,554)

Acquisitions:

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 clinical 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 for the year ended June 30, 2018. The amounts recorded are subject to a post-closing reconciliation adjustment to the purchase price as stipulated in the Asset Purchase Agreement. The majority of the transaction costs totaling $2.1 million were accrued and paid during the year ended June 30, 2018, primarily for legal and consulting services, and are included in purchased services in the consolidated statement of operations and changes in net assets.

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	$ 77,164
Excess cost over net asset acquisition	142,357		
Other intangible assets	3,500	Unrestricted net assets	$ 256,364
Other assets	3,285		
Total assets acquired	$ 333,528		

For the nine month period ended March 31, 2019 and one month period ended March 31, 2018, MacNeal reported revenue of $259.7 million and $29.6 million, respectively, and (deficiency) excess of revenue over expenses of ($2.4) million and $0.4 million, respectively, in the consolidated statements of operations.

Sales and Pending Divestitures:

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. At the effective date, $53.8 million was recorded as noncontrolling ownership interest in subsidiaries in the consolidated statement of changes in net assets and on the consolidated balance sheet. For the nine months ended March 31, 2019, the Corporation's consolidated statements of operations and changes in net assets included revenue of $121.7 million and excess of revenue over expenses of $0.3 million, related to the operations of Chelsea prior to the provision for noncontrolling ownership interest.

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*.” Assets of $64.0 million and $67.8 million were reclassified as “assets held for sale” in current assets and related liabilities of $30.8 million and $32.4 million were reclassified as “liabilities held for sale” in current liabilities in the accompanying consolidated balance sheets as of March 31, 2019 and June 30, 2018, respectively. These assets and liabilities were recorded at the lower of their carrying amount or their fair value less estimated costs to sell. An asset impairment charge of $69.9 million was recorded in the statement of operations during the fourth quarter of the year ended June 30, 2018 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. After the impairment charge, the Corporation estimates any additional loss on sale will not be material to its results of operations or financial position. For the nine months ended March 31, 2019 and 2018, the Corporation’s consolidated statements of operations and changes in net assets included revenue of $400.5 million and $417.8 million, respectively, and deficiency of revenue over expenses of $27.1 million and $19.5 million respectively, related to the operations of Lourdes. The closing of the transaction remains subject to regulatory approvals, as well as other customary closing conditions, with expected finalization of the transfer during the fourth quarter of fiscal year 2019.

4. PROPERTY AND EQUIPMENT

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

	March 31, 2019	June 30, 2018
Land	$ 359,005	$ 354,787
Buildings and improvements	9,577,657	9,277,115
Equipment	6,214,746	6,194,869
Capital leased assets	164,101	160,685
Total	16,315,509	15,987,456
Accumulated depreciation and amortization	(9,463,316)	(9,068,253)
Construction in progress	1,277,910	1,106,377
Property and equipment, net	$ 8,130,103	$ 8,025,580

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

Regional Health Ministry	Capital Commitment	Commitment Period Ending	Capital Spending through March 31, 2019
St. Joseph's Hospital Health Center, Syracuse, NY	$60 million over four years, $75 million if performance metrics are achieved	June 30, 2019	$113 million
St. Francis Hospital and Medical Center, Hartford, CT	$275 million over five years if performance metrics are achieved	June 30, 2020	$183 million

5. LONG-TERM DEBT AND OTHER FINANCING ARRANGEMENTS

Obligated Group and Other Requirements – The Corporation has debt outstanding under a master trust indenture dated October 3, 2013, as amended and supplemented, the amended and restated master indenture (“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 or its affiliates, 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 March 31, 2019 and June 30, 2018 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 $55.0 million mortgage loan outstanding at March 31, 2019 that is insured by the U.S. Department of Housing and Urban Development ("HUD"). MHSC’s payment obligations under the two mortgage notes evidencing this loan are guaranteed by the

Corporation. The mortgage loan agreements with HUD contain various covenants, including those relating to limitations on incurring additional debt, transactions with affiliates, transferring or disposing of designated property, use of funds and other assets of the mortgaged property, financial performance, required reserves, insurance coverage, timely submission of specified financial reports, and restrictions on prepayment of the mortgage loan. MHSC and the Corporation provided covenants to HUD not to interfere in the performance of MHSC's obligations under the HUD-insured loan documents. MHSC is not a designated affiliate and is not part of the Trinity Health Credit Group.

Commercial Paper – The Corporation's commercial paper program is authorized for borrowings up to $600 million. As of March 31, 2019 and June 30, 2018, the total amount of commercial paper outstanding was $99.8 million and $99.9 million, respectively. Proceeds from this program are to be used for general purposes of the Corporation. The notes are payable from the proceeds of subsequently issued notes and from other funds available to the Corporation, including funds derived from the liquidation of securities held by the Corporation in its investment portfolio.

Liquidity Facilities – On August 30, 2018, the Corporation reduced its commitment amount from $931 million to $900 million under a single Credit Agreement (the "Credit Agreement"), by and among the Corporation and US Bank National Association, which acts as an administrative agent for a group of lenders under the Credit Agreement. The Credit Agreement establishes 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. Amounts drawn under the Credit Agreement can only be used to support the Corporation's obligation to pay the purchase price of bonds that are subject to tender and that have not been successfully remarketed, and the maturing principal of and interest on commercial paper notes. Of the $900 million available balance, the amount is divided equally among the three tranches ($300 million each), with maturity dates of August 2020, August 2021, and August 2022. The Credit Agreement is secured by obligations under the ARMI. As of March 31, 2019 and June 30, 2018, there were no amounts outstanding on this Credit Agreement.

In addition, in September 2017, the Corporation renewed a three-year general purpose credit facility of $200 million. As of March 31, 2019 and June 30, 2018, there were no amounts outstanding under this credit facility.

Transactions **–** In October 2017, 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 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.

During February 2019, the Trinity Health Credit Group issued $347.0 million par value tax-exempt fixed-rate hospital revenue bonds at a premium of $36.5 million under the ARMI. Proceeds were used to partially refund $78.9 million of certain tax-exempt bonds. The remaining proceeds will be used to refinance and reimburse a portion of the costs of acquisition, construction, and renovation and equipping of health facilities. The Corporation also refunded certain tax-exempt bonds within 90 days of the call date of such bonds, by depositing funds in trustee-held escrow accounts exclusively for the payment of principal and interest of such bonds. 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 February 2019, $75.0 million of tax-exempt variable-rate direct placement bonds were converted to a floating rate note.

6. 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.

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 aggregate limits for professional/general liability and management 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. Privacy and network security coverage in excess of the self-insurance is also commercially insured.

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

Claims in excess of certain insurance coverage and the recorded self-insurance liability have been asserted against the Corporation by various claimants. The claims are in various stages of processing and some may ultimately be brought to trial. There are known incidents occurring through March 31, 2019, that may result in the assertion of additional claims and other claims may be asserted arising from services provided in the past. While it is possible that settlement of asserted claims and claims which may be asserted in the future could result in liabilities in excess of amounts for which the Corporation has provided, management, based upon the advice of the legal counsel, believes that the excess liability, if any, should not materially affect the consolidated financial statements of the Corporation.

7. PENSION AND OTHER BENEFIT PLANS

Deferred Compensation – The Corporation has nonqualified deferred compensation plans at certain Health Ministries that permit eligible employees to defer a portion of their compensation. The deferred amounts are distributable in cash after retirement or termination of employment. As of March 31, 2019 and June 30, 2018, the assets under these plans totaled $247.2 million and $230.4 million, respectively, and liabilities totaled $257.2 million and $240.3 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 a nonelective contribution of 3% for participants who satisfy certain eligibility requirements, with a minimum nonelective contribution for certain participants, 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 $269.5 million and $254.6 million for the nine month periods ended March 31, 2019 and 2018, respectively.

Noncontributory Defined Benefit Pension Plans ("Pension Plans") – The Corporation maintains qualified Pension Plans that are closed to new participants and under which benefit accruals are frozen. Certain nonqualified, supplemental plan arrangements also provide retirement benefits to specified groups of participants.

Certain plans are subject to the provisions of the Employee Retirement Security Act of 1974 ("ERISA"). The majority of the plans sponsored by the Corporation are intended to be "Church Plans", as defined in Code Section 414(e) and Section 3(33) of the ERISA, 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 the majority of its qualified church plans, which is reviewed annually, is to fund the current 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 cost sharing provisions. The funded plans provide benefits to certain retirees at fixed dollar amounts in health reimbursement account arrangements for Medicare eligible participants.

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

	Pension Plans		Postretirement Plans	
	2019	2018	2019	2018
Service cost	$ -	$ -	$ 65	$ 126
Interest cost	234,979	235,397	3,968	4,007
Expected return on assets	(319,096)	(329,971)	(5,787)	(5,802)
Amortization of prior service cost	(4,071)	(6,793)	(316)	(376)
Recognized net actuarial loss	50,703	58,397	(890)	(137)
Net periodic benefit income	$ (37,485)	$ (42,970)	$ (2,960)	$ (2,182)

8. CONTINGENCIES

Litigation and Settlements – One of the Corporation's Regional Health Ministries, Mount Carmel Health System ("MCHS") discovered sentinel events relating to a clinical practice by one of its physicians and the related conduct of certain of MCHS' staff. The physician's employment has been terminated, and this matter has been reported to the authorities. The Corporation and MCHS have been fully cooperative with the investigations. Based on its own investigation, the Corporation and MCHS developed an action plan and immediately began implementing steps to ensure that these events do not happen again. The Corporation believes that this matter will be resolved without material adverse effect to the Corporation's future consolidated financial position or results of operations.

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

Health Care Regulatory Environment – The health care industry is subject to numerous and complex laws and regulations of federal, state, and local governments. These laws and regulations include, but are not limited to, matters such as licensure, accreditation, privacy, government health care program participation requirements and government reimbursement for patient services, fraud and abuse requirements, and requirements for tax-exempt organizations. Laws and regulations concerning government programs, including Medicare and Medicaid, are subject to varying interpretation. Compliance with such laws and regulations is complex and can be subject to future government review and interpretation as well as significant regulatory enforcement actions, including fines, penalties, and potential exclusion from government health care programs such as Medicare and Medicaid. As a result of investigations by governmental agencies, the Corporation and its Health Ministries periodically receive requests for information and notices regarding alleged noncompliance with those laws and regulations, billing, payment or other reimbursement matters initiating investigations, or indicating the existence of whistleblower litigation which, in some instances, have resulted in the Corporation entering into significant settlement agreements. There can be no assurance that regulatory authorities will not challenge the Corporation's compliance with these laws and regulations. In addition, the contracts the Corporation has with commercial payers also provide for retroactive audit and review of claims. The health care industry in general is experiencing an increase in these activities as federal and state governments increase their enforcement activities and institute new programs designed to identify potential irregularities in reimbursement or quality of patient care. Based on the information received to date, management does not believe the ultimate resolution of these matters will have a material adverse effect on the Corporation's future consolidated financial position or results of operations.

9. RESTRUCTURING CHARGES

During the quarter ended March 31, 2019, management authorized a plan to consolidate and restructure staffing, primarily related to revenue cycle billing services colleagues. As a result of these actions, restructuring charges of $35.2 million for the nine months ended March 31, 2019 have been included in the consolidated statement of operations and changes in net assets. The restructuring charges are primarily for severance and termination benefits. As of March 31, 2019, substantially all of the charges have yet to be paid.

10. SUBSEQUENT EVENTS

Management has evaluated subsequent events through May 31, 2019, the date the quarterly report was issued and noted no subsequent events requiring recording or disclosure in the consolidated financial statements or related notes to the consolidated financial statements.

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

March 31, 2019

Introduction to Management's Discussion & Analysis

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management of the Corporation to make assumptions, estimates and judgments that affect the amounts reported in the financial statements, including the notes thereto, and related disclosures of commitments and contingencies, if any. The Corporation considers critical accounting policies to be those that require more significant judgments and estimates in the preparation of its financial statements, including the following: recognition of patient service revenue, which includes explicit and implicit price concessions; 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 medical liabilities. Management relies on historical experience and other assumptions believed to be reasonable under the circumstances in making its judgments and estimates. Actual results could differ materially from those estimates.

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

The coverage gains achieved as a result of the ACA could be reduced with future legislative and/or administrative action. President Trump has repeatedly urged Congress to repeal all or a portion of the ACA. Through executive actions, he continues to urge federal agencies to exercise their authority to waive or delay the implementation of the Act, directed the departments of Treasury, Labor and Health and Human Services to expand the availability of association health plans, short-term limited duration insurance and health reimbursement arrangements, and stopped payment of the Cost Sharing Reductions ("CSRs"). As a result, insurers may decide to discontinue participation in the Health Insurance Marketplace ("Marketplace"). Insurers dropping out of the Marketplace would negatively impact access to coverage in some areas. Additionally, each chamber of Congress has taken action on different versions of legislation aimed at repealing all or portions of the Act, but none passed both chambers. Congress did effectively eliminate the individual mandate penalties (the "shared responsibility payment") for years after 2018 as part of the Tax Cuts and Jobs Act of 2017. Additionally, at the state level, legislators and some governors are discussing policy changes that would reduce the number of individuals eligible for Medicaid expansion.

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

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

Recent Developments

MacNeal Hospital and MacNeal Health Providers ("MacNeal") – On March 1, 2018, the Corporation's Loyola University Health System, 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. As a result of this transaction, the Corporation recognized goodwill of $142.4 million as cash consideration paid exceeded net assets acquired.

Membership Transfer Agreement Lourdes Health System ("Lourdes") – On June 4, 2018, Maxis Health System ("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 healthcare operations and certain assets and working capital of Lourdes. As a result, certain assets and liabilities met the criteria to be classified as held for sale in the accompanying consolidated balance sheet as of June 30, 2018 in accordance with the guidance in the FASB's ASC 360, "*Property, Plant and Equipment*." These assets and liabilities were recorded at the lower of their carrying amount or their fair value less estimated costs to sell. The closing of the transaction remains subject to regulatory approvals, as well as other customary closing conditions, with expected finalization of the transfer during the fourth quarter of fiscal year 2019.

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, which is consolidated in these financial statements.

Results from Operations

Operating Income

Operating income before other items for the first nine months of fiscal year 2019 was $190.9 million compared to $280.6 million for the same period in fiscal year 2018. Operating margin and operating cash flow margin before other items were 1.3% and 7.1%, respectively, for the first nine months of fiscal year 2019 compared to 2.1% and 8.0% for the same period in fiscal year 2018. MacNeal reported operating losses of $5.4 million in fiscal 2019 compared to operating income of $0.5 million in the prior year. Year over year volume increases and improved payment rates lifted revenue. However, these gains were partially negated by an increase in third party payer denials and downgrade of payments (which are both vigorously challenged) and a reduction in earnings of health plans accounted for on the equity method. Margins were also compressed by an increase in operating expenses, both in labor and supplies (mainly in pharmaceuticals and specialty pharmaceuticals.)

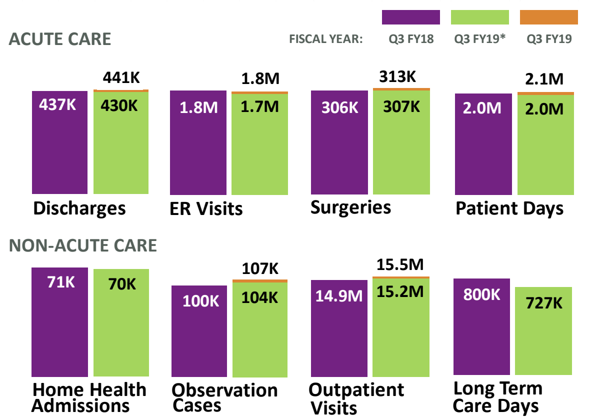
(dollars in millions)	FY18	FY18*	FY19	FY19*
Operating Income**	$280.6	$280.1	$190.9	$196.4
Operating Revenue	$13,577	$13,548	$14,305	$14,045
Operating Margin**	2.1%	2.1%	1.3%	1.4%
Operating Cash Flow Margin**	8.0%	8.0%	7.1%	7.1%

* Excluding the impact of the MacNeal acquisition

** Before other items

Revenue

Total unrestricted revenue of $14.3 billion increased $727.5 million, or 5.4%, for the first nine months of fiscal year 2019 compared to the same period in fiscal year 2018. Revenue from the MacNeal acquisition accounted for $230.2 million, or 1.7%, of the increase over the prior year. The remaining increase in revenue is primarily attributed to: (i) $216 million from volume growth, (ii) $243 million of payment rate increases, (iii) $90 million from improvements in case mix, and (iv) an increase of $83.8 million in other revenue, primarily an increase in retail pharmacy revenue of $69.4 million and $16.1 million of gains on divestitures of two long-term care facilities. These increases were partially tempered by an increase in payer payment denials, an unfavorable shift in payer mix and a $25.3 million reduction in earnings of health plans accounted for on the equity method. Same facility volumes were favorable to prior year with 11 of the 19 Regional Health Ministries experiencing increases in case mix adjusted equivalent discharges.



* Excluding the impact of MacNeal

Expenses

Total operating expenses of $14.1 billion increased $817 million, or 6.1% for the first nine months of fiscal year 2019 compared to the same period in fiscal year 2018. Expenses from the MacNeal acquisition accounted for $236.1 million of the increase or 1.8% over the prior year. The remaining increase in operating expenses is attributed to: (i) salaries and wages increase of $269.0 million (primarily due to a 2.5% increase in rate and a 2.0% increase in FTEs), (ii) employee benefits increase of $86.7 million primarily due to employee healthcare, FICA on higher wages and defined contribution retirement costs, and (iii) supplies and pharmaceuticals increase of $146.7 million, impacted by volumes, service mix and rate. The increase in contract labor is related to the MacNeal acquisition, as the majority of colleagues were leased for the first six months of fiscal 2019. Other expenses increased $32.4 million which includes an increase of $29.0 million in provider taxes. Expenses for purchased services and medical claims, occupancy, interest and depreciation and amortization, did not materially change million for the first nine months of fiscal year 2019 compared to the same period in fiscal year 2018.

Other Items

For the nine months ended March 31, 2019, other items include restructuring costs of $35.2 million related to the Corporation's decision to consolidate revenue cycle billing services and provide severance benefits to impacted colleagues.

Nonoperating Items

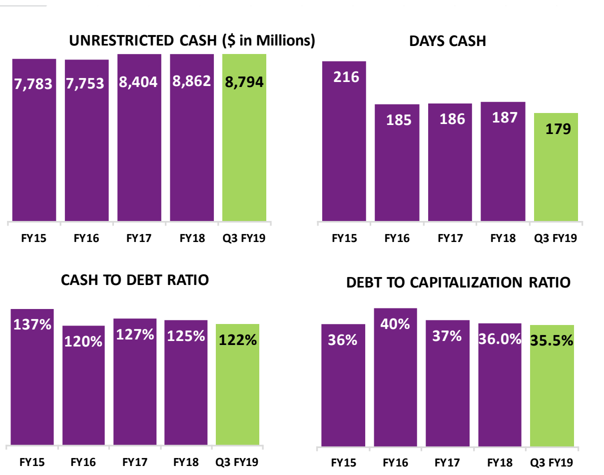
The Corporation reported nonoperating gains of $336.8 million for the first nine months of fiscal year 2019 compared to gains of $668.4 million for the same period in fiscal year 2018. The difference is related to a $301.7 million decrease in nonoperating investment returns (5.6% return for the first nine months of fiscal year 2018 versus a 2.5% return in the current fiscal year), a $46.8 million reduction in the valuation of derivatives and a $21.2 million reduction in equity in earnings of unconsolidated affiliates (both primarily driven by overall global investment and market conditions). These reductions were partially offset by a reduction on loss on early extinguishment of debt.

Excess of Revenue over Expenses

Excess of revenue over expenses for the first nine months of fiscal year 2019 was $457.9 million compared to an excess of revenue over expenses of $914.8 million for the same period in fiscal year 2018, which was an improvement of $759.4 million over the six months ended December 31, 2018. The variance to prior year was primarily due to significant declines in global investment and financial market conditions as well as an $89.7 million decrease in operating income.

Balance Sheet

Total assets of $26.6 billion increased $428.5 million, or 1.6% as of March 31, 2019, compared to June 30, 2018. The increase in assets was mainly driven by increases in investments in unconsolidated affiliates, property and equipment and investment returns. Total assets include unrestricted cash and investments of $8.8 billion, a $68 million decrease from June 30, 2018. Days of cash on hand of 179 days are reduced from 187 days at June 30, 2018. Net days in accounts receivable increased by 1.3 days to 45.8 days as of March 31, 2019 compared to fiscal year June 30, 2018. Total liabilities of $12.7 billion decreased $172 million, or 1.3%, primarily due to decreases in accounts payable and accrued expenses due to recognition of deferred revenue at June 30, 2018 and timing differences, and cash funding of $96.9 million for accrued pension and retiree health costs. Issuance of debt net of payments added $162.6 million of liabilities. Debt to capitalization as of March 31, 2019 decreased slightly to a ratio of 35.5% from 36.0% compared to June 30, 2018.



Statement of Cash Flows

Cash and cash equivalents decreased $512.2 million during the nine months of fiscal year 2019. Operating activities provided $474.6 million of cash. Investing activities used $1.1 billion of cash including $801.3 million for purchases of property and equipment and $368.8 million for purchases of investments. Financing activities provided $162.0 million of cash primarily due to proceeds from issuance of debt in excess of repayments.

TRINITY HEALTH
Liquidity Reporting
March 31, 2019

ASSETS	($ in millions) (unaudited)	
Daily Liquidity		
Money Market Funds (Moody's rated Aaa)	$ 116	
Checking and Deposit Accounts (at P-1 rated bank)	433	
Repurchase Agreements	-	
U.S. Treasuries & Aaa-rated Agencies	-	
Dedicated Bank Lines	900	
Subtotal Daily Liquidity (Cash & Securities)	$ 1,449	
Undrawn Portion of $600 million Taxable Commercial Paper Program	500	
Subtotal Daily Liquidity Including Taxable Commercial Paper Program		$ 1,949
Weekly Liquidity		
Exchange Traded Equity	$ 2,845	
Publicly Traded Fixed Income Securities Rated at least Aa3 and Bond Funds	1,719	
Equity Funds	894	
Other	423	
Subtotal Weekly Liquidity		5,881
TOTAL DAILY AND WEEKLY LIQUIDITY		$ 7,830
Longer Term Liquidity		
Funds, vehicles, investments that allow withdrawals with less than one month notice	1,254	
Funds, vehicles, investments that allow withdrawals with one month notice or longer	2,189	
Total Longer Term Liquidity		$ 3,443
LIABILITIES (Self-liquidity Variable Rate Demand Bonds & Commercial Paper)		
Weekly Put Bonds		
VRDO Bonds (7-day)		$ 217
Long-Mode Put Bonds		
VRDO Bonds (Commerical Paper Mode)		168
Taxable Commercial Paper Outstanding		100
TOTAL SELF-LIQUIDITY DEBT AND COMMERCIAL PAPER		$ 485
Ratio of Daily and Weekly Liquidity to Self Liquidity Debt and Commercial Paper		16.15

Trinity Health
Financial Ratios and Statistics (Unaudited)

	March 31, 2019	March 31, 2018
Financial Indicators		
Liquidity Ratios (at March 31)		
Days Cash on Hand	179	187
Days in Accounts Receivable, Net	45.8	46.1
Leverage Ratios (at March 31)		
Debt to Capitalization	36%	37%
Cash to Debt	122%	122%
Profitability Ratios (For the Nine Months Ended March 31)		
Operating Margin Before Other Items	1.3%	2.1%
Operating Cash Flow Margin Before Other Items	7.1%	8.0%
Statistical Indicators (For the Nine Months Ended March 31)		
Rounded to nearest thousand		
Discharges	441,000	437,000
Patient Days	2,051,000	2,026,000
Outpatient Visits	15,472,000	14,944,000
Emergency Room Visits	1,763,000	1,774,000
Continuing Care		
Home Health Admissions	70,000	71,000
Long-term Care Patient Days	727,000	800,000