



**Trinity Health, one of the largest faith-based, innovative health care organizations in the nation, reports a 5.1 percent net margin with excess of revenue over expenses of \$856.3 million**

Summary Highlights for the First Nine Months of Fiscal Year 2023 (Nine Months Ended March 31, 2023)

Trinity Health reported growth in operating revenue of 5.4 percent to \$15.9 billion in the first nine months of fiscal year 2023 compared to the same period of fiscal year 2022, despite a reduction of \$137.2 million in CARES Act Provider Relief Fund ("PRF") grant revenue year over year. Revenue growth was driven by the acquisitions of MercyOne in Iowa on September 1, 2022, North Ottawa Community Health System in Michigan on October 1, 2022, and Genesis Health System in Iowa on March 1, 2023, (collectively the "Acquisitions") which added \$1.0 billion of operating revenue during the first nine months of the fiscal year. Excluding the Acquisitions and divestiture of St. Francis Medical Center ("SFMC") on December 21, 2022, operating revenue declined \$131.2 million or 0.9 percent over the same period in the prior fiscal year, driven by a \$175.2 million, or 12.3 percent reduction in other revenue, inclusive of the decrease in PRF grant revenue, along with reductions in gain share revenue of \$37.9 million. These reductions in other revenue were partially offset by a \$17.1 million increase in premium and capitation revenue. On a same facility basis, net patient service revenue increased by 0.2 percent, or \$29.3 million, primarily due to improvements in payment rate and to a lesser extent increased volumes. This was partially offset by an unfavorable shift in payer mix and case mix.

Including reductions in case mix index on a same ministry basis, volumes as measured by case mix adjusted equivalent discharges ("CMAEDs") increased 1.1 percent during the first nine months of fiscal year 2023 compared to the same period in the prior fiscal year. Fiscal year 2023 has shown steady quarterly growth in CMAEDs, with a 6.1 percent improvement in CMAEDs for the third quarter of fiscal year 2023 over the same quarter of fiscal year 2022. While inpatient volumes are stabilizing to a new normal that may not return to pre-pandemic levels, the majority of the Corporation's revenue is comprised of outpatient and other non-patient revenue. The Corporation continues to diversify its business segments to shift from inpatient care to ambulatory, home health, PACE, urgent care, specialty pharmacy and digital telehealth care.

Operating expenses increased \$1.1 billion, or 7.2 percent during the first nine months of fiscal year 2023 over the same period in the prior fiscal year, with the Acquisitions accounting for almost the entirety of this increase. Excluding the impact of the Acquisitions and divestiture of SFMC, operating expenses for the first nine months of fiscal year 2023 increased \$63.3 million, or 0.4 percent over the same period in the prior fiscal year. Total operating costs per case (as measured by CMAEDs) has improved during the third quarter compared to the second quarter of fiscal year 2023 as the Corporation continues to tightly manage operating costs amid soaring inflation. Excluding the impact of the Acquisitions and divestiture of SFMC, salaries, wages, and employee benefit costs rose \$171.2 million, or 2.2 percent, with a 3.8 percent increase in salary rates, partially offset by a 1.0 percent decrease in FTEs as aftershocks of the pandemic continue to drive industry wide staffing shortages and wage inflation. Rate increases were tempered by a \$54.6 million reduction in executive compensation and \$39.7 million of additional pharmacy rebates recognized in the first nine months of fiscal year 2023 compared to the same period in the prior fiscal year. Supply costs increased \$43.7 million, or 1.7%, compared to the prior fiscal year on a same facility basis, although both supplies per case and supplies as a percent of net patient service revenue decreased from fiscal year 2022. Expense increases were also incurred in interest, occupancy, and other expenses. The Corporation continues to use strong cost controls over contract labor and other operational spending as colleague investment and utilization of its FirstChoice internal staffing agency promotes labor stabilization. On a same facility basis, contract labor costs decreased \$193.9 million or 40.3 percent in the first nine months of fiscal year 2023 compared to the same period in the prior fiscal year which reflected unprecedented pandemic driven contract labor costs incurred during the third

quarter of fiscal year 2022. Further expense reductions were seen in purchased services, and depreciation and amortization.

Downward pressure on margins in the first nine months of fiscal year 2023 was driven by controlled expense growth that is still outpacing revenue growth, primarily premium labor rates and inflation with significant price increases impacting supplies. Revenue also reflects the year over year \$137.2 million reduction in PRF grant revenue. The Corporation reported operating losses before other items of \$263.1 million (operating margin of [1.6] percent and operating cash flow margin of 3.7 percent) for the nine months ended March 31, 2023 compared to operating income before other items of \$11.0 million (operating margin of 0.1 percent and operating cash flow margin of 5.6 percent) during the same period in the prior fiscal year. The Corporation has seen some upturn in margins compared to earlier quarters of fiscal year 2023, and in particular, improvements over the third quarter of fiscal year 2022 when the COVID-19 Omicron variant surged with unprecedented levels of contract labor costs and premium pay incurred. The Corporation is focused on clinical optimization and access, revenue growth opportunities, labor retention, recruitment and stabilization and continued cost reduction plans to improve operating performance during the remainder of fiscal year 2023 and into fiscal year 2024. In addition, the Corporation has launched a new innovative care delivery model using a 3-person team with on-site and virtual nursing named “TogetherTeam” that will be implemented system-wide by the end of fiscal year 2024.

For the first nine months of fiscal year 2023, other items consisted of \$53.9 million in dividend income received from a cost method investment, an \$8.0 million gain for final settlement from the fiscal year 2022 sale of Gateway Health Plan, L.P. (“GHP”), offset by \$82.3 million of restructuring costs related to the divestiture of SFMC which occurred on December 21, 2022. For the first nine months of fiscal year 2022, other items included a \$128.7 million gain on the sale of GHP as the Corporation sold its 50 percent interest in GHP to the existing partner and parent owner, Highmark Ventures on August 31, 2021.

During the first nine months of fiscal year 2023, the Corporation reported non-operating income of \$1.2 billion compared to non-operating losses of \$40.3 million during the same period in the prior fiscal year. This improvement includes investment returns of 5.4 percent in the first nine months of fiscal year 2023 compared to returns of 0.8 percent in the prior fiscal year, or a \$629.3 million increase year over year. Investment results also drove the \$212.9 million improvement in equity in earnings of unconsolidated affiliates. In addition, during fiscal year 2023, inherent contributions of \$484.6 million were recorded, \$468.9 million related to the acquisition of Genesis Health System, and the remainder related to the Grand Haven Acquisition. Excess of revenue over expenses for the first nine months of fiscal year 2023 totaled \$856.3 million, net margin of 5.1 percent, compared to \$43.0 million, net margin of 0.3 percent, in the same period of fiscal year 2022.

Highlights as of and for the nine months ended March 31, 2023, include:

- Total assets of \$32.0 billion and net assets of \$18.0 billion,
- Operating revenue growth of 5.4 percent to \$15.9 billion compared to fiscal year 2022, including the impact of the Acquisitions,
- Operating loss before other items of \$263.1 million, or (1.6) percent operating margin,
- Excess of revenue over expenses of \$856.3 million, net margin of 5.1 percent,
- Unrestricted cash and investments of \$10.2 billion; days cash on hand of 180 days compared to 211 days for the year ended June 30, 2022, including CARES Act Medicare cash advances, of which \$409.5 million were fully repaid in the first nine months of fiscal year 2023 (inclusive of advances acquired)

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

As of March 31, 2023, and June 30, 2022, and  
For the nine months ended March 31, 2023 and 2022

# TRINITY HEALTH

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

|   | As of                |                      |
|---|----------------------|----------------------|
|   | March 31,<br>2023    | June 30,<br>2022     |
| <b>ASSETS</b>   |                      |                      |
| <b>CURRENT ASSETS:</b>  |                      |                      |
| Cash and cash equivalents   | \$ 875,451           | \$ 643,363           |
| Investments   | 4,861,410            | 5,717,088            |
| Security lending collateral   | 352,880              | 502,981              |
| Assets limited or restricted as to use - current portion            | 458,379              | 475,836              |
| Patient accounts receivable   | 2,545,264            | 2,053,459            |
| Estimated receivables from third-party payers                       | 299,190              | 313,580              |
| Other receivables   | 418,139              | 356,691              |
| Inventories   | 429,468              | 383,736              |
| Prepaid expenses and other current assets                           | 275,601              | 171,547              |
| Total current assets  | 10,515,782           | 10,618,281           |
| <b>ASSETS LIMITED OR RESTRICTED AS TO USE - noncurrent portion:</b> |                      |                      |
| Self-insurance, benefit plans, and other                            | 1,020,179            | 912,032              |
| By Board  | 4,218,532            | 4,494,293            |
| By donors   | 591,687              | 503,742              |
| Total assets limited or restricted as to use - noncurrent portion   | 5,830,398            | 5,910,067            |
| <b>PROPERTY AND EQUIPMENT - Net</b>                                 | 8,734,751            | 8,154,678            |
| <b>OPERATING LEASE RIGHT-OF-USE ASSETS</b>                          | 618,403              | 530,999              |
| <b>INVESTMENTS IN UNCONSOLIDATED AFFILIATES</b>                     | 5,049,981            | 4,717,711            |
| <b>GOODWILL</b>   | 845,344              | 814,131              |
| <b>PREPAID PENSION AND RETIREE HEALTH ASSETS</b>                    | 99,982               | 91,281               |
| <b>OTHER ASSETS</b>   | 324,879              | 284,206              |
| <b>TOTAL ASSETS</b>   | <u>\$ 32,019,520</u> | <u>\$ 31,121,354</u> |

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

(Continued)

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

|   | As of                |                      |
|---|----------------------|----------------------|
|   | March 31,<br>2023    | June 30,<br>2022     |
| <b>LIABILITIES AND NET ASSETS</b>                 |                      |                      |
| <b>CURRENT LIABILITIES:</b>                       |                      |                      |
| Commercial paper                                  | \$ 99,666            | \$ 99,693            |
| Short-term borrowings                             | 616,335              | 632,730              |
| Current portion of long-term debt                 | 244,666              | 247,149              |
| Current portion of operating lease liabilities    | 152,145              | 137,254              |
| Medicare cash advances                            | -                    | 389,485              |
| Accounts payable and accrued expenses             | 1,652,124            | 1,453,495            |
| Salaries, wages and related liabilities           | 971,863              | 1,198,363            |
| Payable under security lending agreements         | 352,880              | 502,981              |
| Estimated payables to third-party payers          | 290,652              | 341,683              |
| Current portion of self-insurance reserves        | 328,550              | 324,166              |
| Total current liabilities                         | 4,708,881            | 5,326,999            |
| LONG-TERM DEBT - Net of current portion           | 6,765,257            | 6,416,701            |
| LONG-TERM PORTION OF OPERATING LEASE LIABILITIES  | 553,907              | 481,391              |
| SELF-INSURANCE RESERVES - Net of current portion  | 1,137,569            | 1,158,241            |
| ACCRUED PENSION AND RETIREE HEALTH COSTS          | 143,517              | 165,018              |
| OTHER LONG-TERM LIABILITIES                       | 754,635              | 675,696              |
| Total liabilities                                 | 14,063,766           | 14,224,046           |
| <b>NET ASSETS:</b>                                |                      |                      |
| Net assets without donor restrictions             | 16,782,831           | 15,821,267           |
| Noncontrolling ownership interest in subsidiaries | 498,449              | 489,489              |
| Total net assets without donor restrictions       | 17,281,280           | 16,310,756           |
| Net assets with donor restrictions                | 674,474              | 586,552              |
| Total net assets                                  | 17,955,754           | 16,897,308           |
| <b>TOTAL LIABILITIES AND NET ASSETS</b>           | <b>\$ 32,019,520</b> | <b>\$ 31,121,354</b> |

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

(Concluded)

**TRINITY HEALTH**  
**CONSOLIDATED STATEMENTS OF OPERATIONS AND**  
**CHANGES IN NET ASSETS (UNAUDITED)**  
**NINE MONTHS ENDED MARCH 31, 2023 AND 2022**  
**(In thousands)**

|  | <b>2023</b>       | <b>2022</b>       |
|--|-------------------|-------------------|
| OPERATING REVENUE:   |                   |                   |
| Net patient service revenue  | \$ 13,710,230     | \$ 12,856,323     |
| Premium and capitation revenue   | 832,590           | 819,515           |
| Net assets released from restrictions                                      | 23,315            | 24,672            |
| Other revenue  | 1,380,539         | 1,425,628         |
| Total operating revenue  | <u>15,946,674</u> | <u>15,126,138</u> |
| EXPENSES:  |                   |                   |
| Salaries and wages   | 6,929,400         | 6,620,026         |
| Employee benefits  | 1,288,751         | 1,269,963         |
| Contract labor   | 683,743           | 485,825           |
| Total labor expenses   | <u>8,901,894</u>  | <u>8,375,814</u>  |
| Supplies   | 2,900,025         | 2,659,646         |
| Purchased services and medical claims                                      | 2,148,270         | 2,001,105         |
| Depreciation and amortization  | 666,497           | 664,131           |
| Occupancy  | 635,884           | 565,811           |
| Interest   | 192,760           | 166,769           |
| Other  | 764,459           | 681,845           |
| Total expenses   | <u>16,209,789</u> | <u>15,115,121</u> |
| OPERATING (LOSS) INCOME BEFORE OTHER ITEMS                                 | (263,115)         | 11,017            |
| Restructuring costs  | (82,259)          | -                 |
| Dividend received from cost method investee                                | 53,864            | -                 |
| Gain on sale of Gateway Health Plan L.P.                                   | 8,000             | 128,678           |
| OPERATING (LOSS) INCOME  | <u>(283,510)</u>  | <u>139,695</u>    |
| NONOPERATING ITEMS:  |                   |                   |
| Investment earning (losses)  | 457,334           | (171,952)         |
| Equity in earnings of unconsolidated affiliates                            | 295,360           | 84,056            |
| Change in market value and cash payments of interest rate swaps            | 18,157            | 37,184            |
| Other net periodic retirement (cost) income                                | (56,655)          | 15,300            |
| Inherent contributions   | 484,579           | -                 |
| Other, including income taxes  | (2,756)           | (4,936)           |
| Total nonoperating items   | <u>1,196,019</u>  | <u>(40,348)</u>   |
| EXCESS OF REVENUE OVER EXPENSES  | 912,509           | 99,347            |
| EXCESS OF REVENUE OVER EXPENSES ATTRIBUTABLE<br>TO NONCONTROLLING INTEREST | <u>(56,171)</u>   | <u>(56,326)</u>   |
| EXCESS OF REVENUE OVER EXPENSES,<br>net of noncontrolling interest         | <u>\$ 856,338</u> | <u>\$ 43,021</u>  |

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

(Continued)

**TRINITY HEALTH**  
**CONSOLIDATED STATEMENTS OF OPERATIONS AND**  
**CHANGES IN NET ASSETS (UNAUDITED)**  
**NINE MONTHS ENDED MARCH 31, 2023 AND 2022**  
**(In thousands)**

|   | <u>2023</u>          | <u>2022</u>          |
|---|----------------------|----------------------|
| NET ASSETS WITHOUT DONOR RESTRICTIONS:  |                      |                      |
| Net assets without donor restrictions attributable to Trinity Health:                     |                      |                      |
| Excess of revenue over expenses   | \$ 856,338           | \$ 43,021            |
| Net assets released from restrictions for capital acquisitions                            | 13,844               | 13,249               |
| Net change in retirement plan related items - consolidated organizations                  | 66,223               | 43,460               |
| Net change in retirement plan related items - unconsolidated organizations                | 13,567               | (2,047)              |
| Other   | 11,592               | 21,894               |
| Increase in net assets without donor restrictions attributable to Trinity Health          | <u>961,564</u>       | <u>119,577</u>       |
| Net assets without donor restrictions attributable to noncontrolling interest:            |                      |                      |
| Excess of revenue over expenses attributable to noncontrolling interest                   | 56,171               | 56,326               |
| Dividends and other   | (47,211)             | (51,203)             |
| Increase in net assets without donor restrictions attributable to noncontrolling interest | <u>8,960</u>         | <u>5,123</u>         |
| NET ASSETS WITH DONOR RESTRICTIONS:   |                      |                      |
| Contributions:  |                      |                      |
| Program and time restrictions   | 40,522               | 36,872               |
| Endowment funds   | 1,024                | 726                  |
| Net investment gains:   |                      |                      |
| Program and time restrictions   | 12,162               | 844                  |
| Endowment funds   | 1,386                | (2,319)              |
| Net assets released from restrictions   | (37,159)             | (37,921)             |
| Acquisitions  | 69,732               | -                    |
| Other   | 255                  | (1,058)              |
| Increase (decrease) in net assets with donor restrictions                                 | <u>87,922</u>        | <u>(2,856)</u>       |
| INCREASE IN NET ASSETS  | 1,058,446            | 121,844              |
| NET ASSETS - BEGINNING OF YEAR  | 16,897,308           | 18,508,265           |
| NET ASSETS - END OF PERIOD  | <u>\$ 17,955,754</u> | <u>\$ 18,630,109</u> |

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, 2023 AND 2022**
**(In thousands)**

|   | <b>2023</b>         | <b>2022</b>       |
|---|---------------------|-------------------|
| <b>OPERATING ACTIVITIES:</b>  |                     |                   |
| Increase in net assets  | \$ 1,058,446        | \$ 121,844        |
| Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities: |                     |                   |
| Depreciation and amortization   | 666,497             | 664,131           |
| Amortization of right-of-use asset  | 106,933             | 94,426            |
| Change in net unrealized and realized gains and losses on investments                                 | (386,054)           | 323,386           |
| Change in market values of interest rate swaps  | (24,743)            | (55,342)          |
| Undistributed equity in earnings of unconsolidated affiliates   | (284,217)           | (45,591)          |
| Inherent contributions related to acquisitions  | (484,413)           | -                 |
| Loss on transfer of St. Francis Medical Center  | 22,842              | -                 |
| Gain on sale of Gateway Health Plan L.P.  | (8,000)             | (128,678)         |
| Dividend received from cost method investee   | (53,864)            | -                 |
| Deferred retirement items - consolidated organizations  | (13,800)            | (6,151)           |
| Deferred retirement items - unconsolidated organizations  | (13,567)            | 2,047             |
| Restricted contributions acquired   | (69,732)            | -                 |
| Other adjustments   | 6,405               | 3,837             |
| Changes in:   |                     |                   |
| Patient accounts receivable   | (207,502)           | (17,087)          |
| Estimated receivables from third-party payers   | 15,415              | 18,612            |
| Prepaid pension and retiree health costs  | (8,702)             | (61,328)          |
| Other assets  | (97,766)            | (91,665)          |
| Medicare cash advances  | (409,533)           | (556,343)         |
| Accounts payable and accrued expenses   | (214,249)           | (4,503)           |
| Estimated payables to third-party payers  | (64,122)            | (23,609)          |
| Self-insurance reserves and other liabilities   | (129,049)           | (82,026)          |
| Accrued pension and retiree health costs  | (9,701)             | (25,663)          |
| Total adjustments   | <u>(1,660,922)</u>  | <u>8,453</u>      |
| Net cash (used in) provided by operating activities   | <u>(602,476)</u>    | <u>130,297</u>    |
| <b>INVESTING ACTIVITIES:</b>  |                     |                   |
| Net sales (purchases) of investments  | 1,836,667           | (130,926)         |
| Purchases of property and equipment   | (642,151)           | (591,282)         |
| Change in investments in unconsolidated affiliates  | (29,488)            | (15,234)          |
| Cash proceeds from sale of Gateway Health Plan L.P.   | 8,000               | 323,378           |
| Dividend received from cost method investee   | 53,864              | -                 |
| Cash used for disposal of St. Francis Medical Center  | (14,500)            | -                 |
| Net cash used for acquisitions  | (530,598)           | -                 |
| Change in other investing activities  | (4,151)             | 17,388            |
| Net cash provided by (used in) investing activities   | <u>677,643</u>      | <u>(396,676)</u>  |
| <b>FINANCING ACTIVITIES:</b>  |                     |                   |
| Proceeds from issuance of debt  | 366,620             | 419,983           |
| Repayments of debt  | (169,761)           | (277,392)         |
| Net change in commercial paper  | (26)                | (43)              |
| Dividends paid  | (47,161)            | (50,874)          |
| Proceeds from restricted contributions and restricted investment income                               | 6,192               | 2,953             |
| Increase in financing costs and other   | (2,328)             | (3,811)           |
| Net cash provided by financing activities   | <u>153,536</u>      | <u>90,816</u>     |
| <b>NET INCREASE (DECREASE) IN CASH, CASH EQUIVALENTS, AND RESTRICTED CASH</b>                         | <b>228,703</b>      | <b>(175,563)</b>  |
| <b>CASH, CASH EQUIVALENTS, AND RESTRICTED CASH - BEGINNING OF YEAR</b>                                | <b>801,155</b>      | <b>949,951</b>    |
| <b>CASH, CASH EQUIVALENTS, AND RESTRICTED CASH - END OF PERIOD</b>                                    | <b>\$ 1,029,858</b> | <b>\$ 774,388</b> |

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

# TRINITY HEALTH

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) NINE MONTHS ENDED MARCH 31, 2023 AND 2022

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### 1. ORGANIZATION AND MISSION

Trinity Health Corporation, an Indiana nonprofit corporation headquartered in Livonia, Michigan, and its subsidiaries (“Trinity Health” or the “Corporation”), controls one of the largest health care systems in the United States. The Corporation is sponsored by Catholic Health Ministries, a Public Juridic Person of the Holy Roman Catholic Church. The Corporation operates a comprehensive integrated network of health services, including inpatient and outpatient services, physician services, managed care coverage, home health care, long-term care, assisted living care and rehabilitation services located in 26 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, 2023 are not necessarily indicative of the results to be expected for the year ending June 30, 2023.

**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 explicit and implicit price concessions; financial assistance; premium revenue; recorded values of investments and derivatives; goodwill; evaluation of long-lived assets for impairment; reserves for losses and expenses related to health care professional and general liabilities; and risks and assumptions for measurement of pension and retiree health liabilities. Management relies on historical experience and other assumptions believed to be reasonable in making its judgments and estimates. Actual results could differ materially from those estimates.

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

The following table reconciles cash, cash equivalents and restricted cash shown in the statements of cash flows to amounts presented within the consolidated balance sheets as of March 31 (in thousands):

|   | <u>2023</u>         | <u>2022</u>       |
|---|---------------------|-------------------|
| Cash and cash equivalents   | \$ 875,451          | \$ 607,164        |
| Restricted cash included in assets limited or restricted as to use - current portion          |                     |                   |
| Held by trust under bond indenture  | 224                 | 258               |
| Self insured benefit plans & other  | 83,297              | 102,605           |
| By donors   | <u>4,151</u>        | <u>5,036</u>      |
| Total restricted cash included in assets limited or restricted as to use - current portion    | 87,672              | 107,899           |
| Restricted cash included in assets limited as to use - noncurrent portion                     |                     |                   |
| Self insured benefit plans & other  | 27,318              | 22,998            |
| By donors   | <u>39,417</u>       | <u>36,327</u>     |
| Total restricted cash included in assets limited or restricted as to use - noncurrent portion | <u>66,735</u>       | <u>59,325</u>     |
| Total cash, cash equivalents, and restricted cash shown in the statements of cash flows       | <u>\$ 1,029,858</u> | <u>\$ 774,388</u> |

**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, net of direct investment expenses, 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, 2023, and June 30, 2022, the Corporation had securities loaned of \$655.6 million and \$748.6 million, respectively, and received collateral (cash and noncash) totaling \$670.1 million and \$774.7 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.

***Patient Accounts Receivable, Estimated Receivables from and Payables to Third-Party Payers*** – 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, the estimated uncollectable amounts are generally considered implicit price concessions that are a direct reduction to patient service revenue and accounts receivable.

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 net 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.

***Assets Limited as to Use*** – Assets set aside by the Board for quasi-endowments, 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 support with donor restrictions 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 program restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions 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 contributions without donor restrictions included in other revenue 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.

***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. Finance lease right-of-use assets included in property and equipment represent the right to use the underlying assets for the lease term and are recognized at the lease commencement date based on the present value of lease payments over the term of the lease.

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 finance lease right-of-use asset amortization and internal-use software amortization. The useful lives of property and equipment range from 2 to 51 years, and finance lease agreements have initial terms typically ranging from 3 to 30 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 support without donor restrictions 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 support with donor restrictions.

***Right-of-Use Lease Assets and Lease Liabilities*** – The Corporation determines if an arrangement is a lease at inception of the contract. Right-of-use assets represent the right to use the underlying assets for the lease term and lease liabilities represent the obligation to make lease payments arising from the leases. Right-of-use assets and lease liabilities are recognized at the lease commencement date based on the present value of lease payments over the lease term. The Corporation uses the implicit rate noted within the contract, when available. Otherwise, the Corporation uses its incremental borrowing rate estimated using recent secured debt issuances that correspond to various lease terms, information obtained from banking advisors, and the Corporation's secured debt fair value. The Corporation does not recognize leases, for operating or finance type, with an initial term of 12 months or less ("short-term leases") on the consolidated balance sheet, and the lease expense for these short-term leases is recognized on a straight-line basis over the lease term within occupancy expense in the consolidated statements of operations and changes in net assets. The Corporation's finance leases are primarily for real estate. Finance lease right-of-use assets are included in property and equipment, with the related liabilities included in current and long-term debt on the consolidated balance sheet.

Operating lease right-of-use assets and liabilities are recorded for leases that are not considered finance leases. The Corporation's operating leases are primarily for real estate, vehicles, and medical and office equipment. Real estate leases include outpatient, medical office, ground, and corporate administrative office space. The Corporation's real estate lease agreements typically have an initial term of 2 to 10 years. The Corporation's equipment lease agreements typically have an initial term of 2 to 6 years. The real estate leases may include one or more options to renew, with renewals that can extend the lease term from 5 to 10 years. The exercise of lease renewal options is at the Corporation's sole discretion. For accounting purposes, options to extend or terminate the lease are included in the lease term when it is reasonably certain that the option will be exercised. Operating lease liabilities represent the obligation to make lease payments arising from the leases and are recognized at the lease commencement date based on the present value of lease payments over the lease term.

Certain of the Corporation's lease agreements for real estate include payments based on common area maintenance expenses and others include rental payments adjusted periodically for inflation. These variable lease payments are recognized in occupancy expense, net, but are not included in the right-of-use asset or liability balances when they can be separately identified in the contract. The Corporation's lease agreements do not contain any material residual value guarantees, restrictions, or covenants.

***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, Equipment and Right-of-Use Lease Assets*** – 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 20 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.

***Medicare Cash Advances*** – In April 2020, the Corporation requested and received accelerated Medicare payments of \$1.6 billion for its acute care hospitals, which was provided through the Coronavirus Aid, Relief and Economic Security Act (the “CARES Act”). The repayment terms allow recipients to extend repayment for a full year before recoupment of the advance payments begins and limit the claim payment offset to 25% of the recipient’s full Medicare payments for 11 months, followed by six months with claim offset limited to 50%. At the end of the 29-month period, any unapplied advance repayment amounts must be repaid by the Corporation. Claims for services provided to Medicare beneficiaries began being applied against the Corporation’s cash advances in April 2021. During the nine months ended March 31, 2023 and year ended June 30, 2022, the Center for Medicare and Medicaid Services (“CMS”) recouped \$409.5 million (including advances acquired; see MercyOne and MHN in Note 3), and \$907.1 million, respectively, of the advances. As of March 31, 2023, the remaining balance was fully repaid.

***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.

***Net Assets with Donor Restrictions*** – Net assets with donor restrictions are those whose use by the Corporation has been limited by donors to a specific time period or program. In addition, certain net assets have been restricted by donors to be maintained by the Corporation in perpetuity.

***Net Patient Service Revenue*** – The Corporation reports patient service revenue at the amount that reflects the consideration it is 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 a 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 from 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 payer's or patient's ability to pay are recorded as bad debt expense in other expenses in the statement of operations and changes in net assets. 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.

**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 net patient service 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.

***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.

***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 accounts payable and 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 included in accounts payable and 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.

***Other Revenue*** – Other revenue is recorded at amounts the Corporation expects to collect in exchange for providing goods or services not directly associated with patient care and recorded over the time in which obligations to provide goods or services are satisfied. Other revenue includes revenue from the following sources: grants, retail pharmacy, operating investment income, assisted and independent living, equity in earnings of unconsolidated affiliates if the unconsolidated affiliate is operational and projected to make routine and regular cash distributions, incentive revenue, and gainshare recognized under alternative payment models and ancillary services.

***Grant Revenue*** – Where grants are determined to be contributions, unconditional grants are recognized as revenue when received. Conditional grants are recognized as revenue when the Corporation has complied with and substantially met the conditions associated with the grant. For grants that are not contributions, the Corporation recognizes revenue at the amount that reflects the consideration it is expected to be entitled to in exchange for providing services under the term of the grant agreement.

The CARES Act authorized \$100 billion in funding to hospitals and other health care providers to be distributed through the Public Health and Social Services Emergency Fund, Provider Relief Funds (“PRF grants”). Also, the Paycheck Protection Program and Health Care Enhancement Act (“PPHCE Act”) enacted on April 24, 2020 provides an additional \$75 billion in emergency appropriations to eligible providers for COVID-19 response including distributions to safety net hospitals to compensate for lost revenues and qualified expenses, loan forgiveness and capacity expansion. Furthermore, on December 27, 2020, the Consolidated Appropriations Act (“CAA Act,” collectively the “Acts”) provided additional guidance regarding recognition of PRF grants. During fiscal year 2022, the Corporation applied for and received PRF Phase 4 grants and Rural payments under the American Rescue Plan Act (“ARP Act”) of 2021. PRF grants are intended to compensate health care providers for lost revenues and qualified expenses incurred in response to the COVID-19 pandemic and are not required to be repaid, provided that the recipients attest to and comply with certain terms and conditions, including limitations on balance billing and not using PRF grants to reimburse expenses or losses that other sources are obligated to reimburse.

PRF grants and Rural payments recognized as revenue, recorded in other revenue in the consolidated statements of operations and changes in net assets, totaled \$1.3 million and \$138.5 million for the nine months ended March 31, 2023 and 2022, respectively. The Corporation has recognized all grants received in other revenue in the statements of operations and changes in net assets through March 31, 2023. The Corporation has transferred both General Distribution and Targeted Distribution PRF grants amongst its subsidiaries. Compliance with the HHS Provider Relief Fund General and Targeted Distribution Post-Payment Notice of Reporting Requirements is complex and subject to HHS audit. Transferred Targeted Distribution payments face an increased likelihood of an audit by HHS. There can be no assurance that HHS will not challenge the Corporation's compliance with these reporting requirements. The Corporation believes the amount of PRF grants and Rural payments recognized as grant revenue is appropriate under the guidance from the Department of Health and Human Services ("HHS").

***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 net assets without donor restrictions, which are excluded from excess of revenue over expenses, consistent with industry practice, include the effective portion of the change in market value of derivatives that meet hedge accounting requirements, permanent transfers of assets to and from affiliates for other than goods and services, contributions of long-lived assets received or gifted (including assets acquired using contributions, which by donor restriction were to be used for the purposes of acquiring such assets), net change in retirement plan related items, discontinued operations and cumulative effects of changes in accounting principles.

***Forthcoming Accounting Pronouncements*** –

In June 2016, the FASB issued ASU No. 2016-13, "*Financial Instruments – Credit Losses (Topic 326)*". This guidance is intended to align the needs of the users of financial statements related to credit loss recognition and also address the potential weakness from the delayed recognition of credit losses, resulting in an overstatement of assets. The amendments replace the current incurred loss methodology, which delays recognition until it is probable a loss has occurred, with one that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. This guidance is effective for the Corporation beginning July 1, 2023. The Corporation is still evaluating the impact this guidance will have on its consolidated financial statements and results of operations.

In October 2021, the FASB issued No. 2021-08, "*Business Combinations (Topic 805) – Accounting for Contract Assets and Contract Liabilities from Contracts with Customers*". This guidance was issued to address the inconsistency in accounting related to recognition of an acquired contract liability and the payment terms and their effect on subsequent revenue by the acquirer. The amendments in this update require that the acquirer recognize, and measure contract assets and contract liabilities acquired in a business combination in accordance with Topic 606, as if it had originated the contracts, generally consistent with how they were recognized and measured in the acquiree's financial statements. This guidance is effective for the Corporation beginning July 1, 2024. The Corporation will apply this guidance in consideration of any future business combinations that may occur on or after July 1, 2024.

### 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 or losses from entities accounted for under the equity method and the classification on the consolidated statements of operations and changes in net assets for the nine months ended March 31 are as follows (in thousands):

|   | <u>2023</u>       | <u>2022</u>       |
|---|-------------------|-------------------|
| Other revenue   | \$ 10,528         | \$ 53,530         |
| Nonoperating Items                                    | 296,935           | 84,056            |
| Total equity in earnings of unconsolidated affiliates | <u>\$ 307,463</u> | <u>\$ 137,586</u> |

The most significant of these investments include the following:

**BayCare Health System** – The Corporation holds 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 Trinity Health 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, 2023, and June 30, 2022, the Corporation’s investment in BayCare totaled \$4,279 million and \$3,975 million, respectively.

**Gateway Health Plan** – The Corporation held a 50% interest in Gateway Health Plan, L.P., and subsidiaries (“GHP”), a Pennsylvania limited partnership. GHP had two general partners, Highmark Ventures Inc. (“Highmark”), formerly known as Alliance Ventures, Inc., and Mercy Health Plan (“MHP”, a wholly owned subsidiary of the Corporation), each owning 1%. In addition to the general partners, there were two limited partners, Highmark and MHP, each owning 49%.

Effective August 31, 2021, the Corporation, through MHP, sold its 50% interest in GHP to the existing partner and parent owner, Highmark. As a result of the transaction, the Corporation received a \$62.5 million dividend distribution on August 27, 2021. Furthermore, the Corporation recorded a gain on the sale of \$128.7 million in the nine-month period ended March 31, 2022 as well as an additional gain of \$8.0 million related to final settlement during fiscal year 2023 in the consolidated statement of operations and changes in net assets. As of both March 31, 2023, and June 30, 2022, the Corporation’s investment in GHP totaled \$0.

**Emory Healthcare/St. Joseph’s Health System** – The Corporation holds 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, 2023, and June 30, 2022, the Corporation’s investment in EH/SJHS totaled \$217.2 million and \$209.9 million, respectively.

**Life Flight Network, LLC** – The Corporation, through its subsidiary Saint Alphonsus Regional Medical Center, Inc. holds a 25% interest in Life Flight Network, LLC (“Life Flight”), an Oregon limited liability company and its affiliates. Life Flight was formed in 2019 pursuant to a JOA. The members of Life Flight, each owning 25%, are Saint Alphonsus Regional Medical Center, Inc., Legacy Emmanuel Hospital and Health Center, Oregon Health and Sciences University, and Providence Health System. Life Flight provides services, including both air and ground ambulance services, in the Pacific Northwest with 34 bases in Oregon, Washington, Idaho and Montana. The Corporation accounts for Life Flight under the equity method of accounting. As of March 31, 2023 and June 30, 2022, the Corporation’s investment in Life Flight totaled \$70.1 million and \$72.5 million, respectively.

***Mercy Health Network*** – The Corporation held a 50% interest in Mercy Health Network, dba MercyOne, (“MHN”), a nonstock-basis membership corporation with CommonSpirit Health (“CSH”), holding the remaining 50% interest. MHN was the sole member of Wheaton Franciscan Services, Inc. (“WFSI”) that operates three hospitals in Iowa: Covenant Medical Center located in Waterloo, Sartori Memorial Hospital located in Cedar Falls and Mercy Hospital of Franciscan Sisters located in Oelwein. MHN is also the sole member of Central Community Hospital (“CCH”), a critical access hospital located in Elkader, Iowa.

On September 1, 2022, the Corporation completed a transaction with CSH through which the Corporation acquired CSH’s 50% interest in MHN, and now wholly owns MHN. See “Acquisitions” subsequently in Note 3 for further information regarding this transaction. As of March 31, 2023, and June 30, 2022, the Corporation’s investment in MHN totaled \$0 million and \$109.6 million, respectively.

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

| <b>March 31, 2023</b> |                |                |                    |  |
|-----------------------|----------------|----------------|--------------------|--|
|                       | <b>Baycare</b> | <b>EH/SJHS</b> | <b>Life Flight</b> |  |
| Total assets          | \$ 11,464,884  | \$ 847,694     | \$ 365,050         |  |
| Total liabilities     | \$ 2,798,564   | \$ 602,499     | \$ 56,586          |  |

| <b>June 30, 2022</b> |                |                |                    |            |
|----------------------|----------------|----------------|--------------------|------------|
|                      | <b>Baycare</b> | <b>EH/SJHS</b> | <b>Life Flight</b> | <b>MHN</b> |
| Total assets         | \$ 10,913,820  | \$ 843,603     | \$ 354,246         | \$ 336,400 |
| Total liabilities    | \$ 2,842,405   | \$ 546,243     | \$ 34,691          | \$ 109,263 |

Condensed consolidated statements of operations of BayCare, EH/SJHS, Life Flight and MHN are as follows (in thousands):

| <b>Nine months ended March 31, 2023</b>      |                |                |                    |            |
|--|----------------|----------------|--------------------|------------|
|  | <b>Baycare</b> | <b>EH/SJHS</b> | <b>Life Flight</b> | <b>MHN</b> |
| Revenue, net                                 | \$ 3,658,807   | \$ 677,034     | \$ 168,341         | \$ 64,186  |
| Excess (deficiency) of revenue over expenses | \$ 571,666     | \$ 14,510      | \$ 22,370          | \$ (4,236) |

| <b>Nine months ended March 31, 2022</b>      |                |                |                    |            |
|--|----------------|----------------|--------------------|------------|
|  | <b>Baycare</b> | <b>EH/SJHS</b> | <b>Life Flight</b> | <b>MHN</b> |
| Revenue, net                                 | \$ 3,396,842   | \$ 638,188     | \$ 208,148         | \$ 323,961 |
| Excess (deficiency) of revenue over expenses | \$ 105,772     | \$ 54,772      | \$ 80,289          | \$ (4,928) |

MHN results are prior to the acquisition date of September 1, 2022, and for the nine months ended March 31, 2022.

The following amounts have been recognized in the accompanying consolidated statements of operations and changes in net assets related to the investments in BayCare, EH/SJHS, Life Flight, MHN, and GHP (in thousands):

| Nine months ended March 31, 2023 |                   |                 |                 |                   |  |
|----------------------------------|-------------------|-----------------|-----------------|-------------------|--|
|                                  | Baycare           | EH/SJHS         | Life Flight     | MHN               |  |
| Other revenue                    | \$ -              | \$ -            | \$ 5,593        | \$ (2,077)        |  |
| Equity in earnings of            |                   |                 |                 |                   |  |
| unconsolidated organizations     | 288,177           | 6,983           | -               | -                 |  |
| Other changes in net assets      |                   |                 |                 |                   |  |
| without donor restrictions       | 15,986            | -               | -               | -                 |  |
| Total                            | <u>\$ 304,162</u> | <u>\$ 6,983</u> | <u>\$ 5,593</u> | <u>\$ (2,077)</u> |  |

| Nine months ended March 31, 2022 |                  |                  |                  |                   |                   |
|----------------------------------|------------------|------------------|------------------|-------------------|-------------------|
|                                  | Baycare          | EH/SJHS          | Life Flight      | MHN               | GHP               |
| Other revenue                    | \$ -             | \$ -             | \$ 19,072        | \$ (1,364)        | \$ 1,650          |
| Equity in earnings of            |                  |                  |                  |                   |                   |
| unconsolidated organizations     | 53,320           | 27,020           | -                | -                 | -                 |
| Gain on sale of investment       | -                | -                | -                | -                 | 128,678           |
| Other changes in net assets      |                  |                  |                  |                   |                   |
| without donor restrictions       | 4,272            | -                | -                | -                 | (300)             |
| Total                            | <u>\$ 57,592</u> | <u>\$ 27,020</u> | <u>\$ 19,072</u> | <u>\$ (1,364)</u> | <u>\$ 130,028</u> |

### ***Acquisitions:***

***MercyOne & MHN*** – On September 1, 2022, the Corporation completed a transaction with CSH through which (i) the Corporation acquired CSH’s 50% interest in MHN, which is the sole member of WFSI and the MHN subsidiary that owns and controls CCH, thereby becoming the sole corporate member of MHN, (ii) MHN became the sole corporate member of Catholic Health Initiatives-Iowa, Corp. d/b/a MercyOne Des Moines Medical Center (“MercyOne Des Moines”), a regional health care system located in Des Moines, Iowa, and (iii) Trinity Home Health Services d/b/a Trinity Health At Home, a subsidiary of the Corporation, acquired certain home care, hospice, and home infusion pharmacy operations from an affiliate of CSH located in the vicinity of Des Moines (“Iowa Home Care Assets”, and collectively with (i) and (ii), the “MercyOne Acquisition”). The completion of the acquisition marks a shared commitment to ensuring access to health care across Iowa. Operating as a part of Trinity Health, MercyOne will retain its name and brand while enhancing more integrated and unified care in the communities it serves.

The cash paid to CSH in consideration for the MercyOne Acquisition totaled \$633.9 million, including a \$20.9 million post-closing reconciliation adjustment as stipulated in the definitive agreement paid during the third quarter of fiscal year 2023. The Corporation is still in the process of assessing the economic characteristics of certain assets acquired and liabilities assumed. The Corporation expects to substantially complete this assessment by June 30, 2023, and may adjust the amounts recorded as of September 1, 2022, to reflect revised evaluations. Based on purchase price paid as of September 1, 2022, and payment related to the post-closing reconciliation adjustment, goodwill of \$24.7 million was recorded on the consolidated balance sheet as of March 31, 2023.

For the nine months ended March 31, 2023, the Corporation’s consolidated statements of operations and changes in net assets included operating revenue of \$903.2 million, operating losses of \$79.3 million, and deficiency of revenue over expense of \$62.1 million related to the operations of the MercyOne Acquisition.

***North Ottawa Community Health System (“Grand Haven”)*** – The Corporation’s affiliate, Mercy Health Partners, completed a transaction with Grand Haven under which Mercy Health Partners became the sole member of Grand Haven on October 1, 2022. Grand Haven and its affiliates operate an acute care hospital, urgent care center, long-term care facility and provide hospice services in the communities surrounding Grand Haven, Michigan. The transaction will provide improved access to specialists, primary care and health care services, while improving care delivery and access close to home in the Corporation’s West Michigan market. The fair value of identifiable assets acquired exceeded the fair value of liabilities assumed by \$15.7 million which was recorded as an inherent contribution in nonoperating items in the consolidated statement of operations and changes in net assets for the nine months ended March 31, 2023. The Corporation is still in the process of obtaining third-party valuations of certain tangible and intangible assets and is still assessing the economic characteristics of certain assets acquired and liabilities assumed. The Corporation expects to substantially complete this assessment by June 30, 2023.

For the nine months ended March 31, 2023 the Corporation’s consolidated statements of operations and changes in net assets included operating revenue of \$31.6 million, operating losses of \$0.9 million, and deficiency of revenue over expenses of \$1.3 million related to the operations of Grand Haven.

***Genesis Health System*** – On March 1, 2023, the Corporation and its affiliate, MHN, completed a transaction with Genesis Health System, an Iowa nonprofit corporation and Genesis Health System, an Illinois not-for-profit corporation (together “Genesis”), under which MHN became the sole member of each and acquired substantially all assets and liabilities except for certain foundation assets, liabilities and net assets. Genesis and its affiliates operate four acute care hospitals, including two critical access hospitals, convenient care centers, physician practices, a long-term care facility joint venture, an independent living facility for seniors and hospice services in the communities in eastern Iowa and western Illinois. The fair value of identifiable assets acquired exceeded the fair value of liabilities assumed by \$468.9 million that was recorded as an inherent contribution in nonoperating items in the consolidated statement of operations and changes in net assets for the nine months ended March 31, 2023. The Corporation is still in the process of obtaining third-party valuations of certain tangible and intangible assets and is still assessing the economic characteristics of certain assets acquired and liabilities assumed. The Corporation expects to substantially complete this assessment by February 28, 2024. As part of the transaction the Corporation also agreed to a capital commitment as further disclosed in Note 5.

For the nine months ended March 31, 2023 the Corporation’s consolidated statements of operations and changes in net assets included operating revenue of \$66.5 million, operating losses of \$1.8 million, and excess of revenue over expenses of \$0.7 million related to the operations of Genesis.

Summarized balance sheet information is shown below as of the respective acquisition dates (in thousands):

|  | <b>MercyOne</b>   | <b>Grand Haven</b> | <b>Genesis</b>    |
|--|-------------------|--------------------|-------------------|
| <b>Estimated fair value of net tangible assets acquired:</b> |                   |                    |                   |
| Cash   | \$ -              | \$ 5,665           | \$ 45,177         |
| Investments, current   | 90,277            | -                  | -                 |
| Patient accounts receivable                                  | 174,392           | 5,596              | 104,376           |
| Other current assets   | 57,218            | 2,972              | 51,484            |
| Assets limited or restricted as to use - noncurrent portion  | 55,245            | 2,341              | 331,220           |
| Property and equipment - net                                 | 436,682           | 22,864             | 212,637           |
| Operating lease right-of-use assets                          | 95,549            | -                  | 44,495            |
| Other long-term assets                                       | 77,413            | 2,031              | 14,215            |
| Goodwill   | 24,706            | -                  | -                 |
| Previously held investments in unconsolidated affiliates     | (111,151)         | -                  | 52,250            |
| Medicare cash advances                                       | (19,648)          | -                  | -                 |
| Other current liabilities                                    | (156,390)         | (11,877)           | (136,490)         |
| Long-term debt   | -                 | (11,702)           | (127,415)         |
| Long-term portion of operating lease liabilities             | (82,778)          | -                  | (41,223)          |
| Other long-term liabilities                                  | (32,218)          | (2,001)            | (40,510)          |
| Noncontrolling ownership interest in subsidiaries            | -                 | -                  | (6,320)           |
| Net assets with donor restrictions                           | (34,526)          | (202)              | (35,004)          |
| Cash paid, net of cash acquired                              | <u>\$ 574,771</u> | -                  | -                 |
| Inherent contribution  |                   | <u>\$ 15,687</u>   | <u>\$ 468,892</u> |

The amount of the Corporation's pro forma revenue, earnings and changes in net assets, had the MercyOne, Grand Haven and Genesis acquisitions occurred on July 1, 2021 are as follows for the nine month periods ended March 31 (in thousands):

|   | <b>2023</b>   | <b>2022</b>   |
|---|---------------|---------------|
| Total operating revenue   | \$ 16,685,894 | \$ 16,892,255 |
| Excess (deficiency) of revenue over expenses net of noncontrolling interest | 822,713       | (24,147)      |
| Change in net assets without donor restrictions                             | 741,854       | 57,822        |
| Change in net assets with donor restrictions                                | 17,417        | (2,494)       |

***Divestiture:***

***St. Francis Medical Center ("SFMC") Trenton, N.J.*** – On December 22, 2022, the Corporation, through its subsidiary Maxis Health System ("Maxis"), transferred the membership interest of SFMC and certain subsidiaries as well as \$14.5 million of cash, and certain inventory and equipment, to Capital Health System, Inc. ("Capital"). As a result of this transaction, restructuring costs of \$82.3 million were incurred, primarily related to loss on sale, asset retirement obligations and transition benefits for colleagues.

For the nine months ended March 31, 2023 and 2022, the Corporation's consolidated statements of operations and changes in net assets included operating revenue of \$59.3 million and \$108.7 million, respectively, and deficiency of revenue over expenses of \$103.0 million (inclusive of restructuring costs) and \$23.5 million, respectively, related to the operations of SFMC.

#### 4. PROPERTY AND EQUIPMENT

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

|   | March 31,<br>2023   | June 30,<br>2022    |
|---|---------------------|---------------------|
| Land                                      | \$ 429,314          | \$ 346,425          |
| Buildings and improvements                | 11,231,037          | 10,613,884          |
| Equipment                                 | 7,480,405           | 7,226,485           |
| Finance lease right-of-use assets         | 93,242              | 90,717              |
| Total                                     | 19,233,998          | 18,277,511          |
| Accumulated depreciation and amortization | (11,372,064)        | (10,764,701)        |
| Construction in progress                  | 872,817             | 641,868             |
| Property and equipment - net              | <u>\$ 8,734,751</u> | <u>\$ 8,154,678</u> |

#### 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 or advance refund tax-exempt bonds. 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.

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, 2023 and June 30, 2022, that has not been secured under the ARMI is generally collateralized by certain property and equipment.

**Commercial Paper** – The Corporation’s commercial paper program is authorized for borrowings up to \$600 million. As of March 31, 2023, and June 30, 2022, the total amount of commercial paper outstanding was \$99.7 million. Proceeds from this program are to be used for general purposes of the Corporation. The notes are payable from the proceeds of subsequently issued notes and from other funds available to the Corporation, including funds derived from the liquidation of securities held by the Corporation in its investment portfolio.

***Liquidity Facilities*** – On September 29, 2022, the Corporation renewed and amended its revolving credit agreement (“RCAI”), by and among the Corporation and U.S. Bank National Association, which acts as an administrative agent for a group of lenders under RCAI. RCAI 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 RCAI 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 \$600 million available balance, the first tranche of \$300 million expires on September 26, 2025 and the second tranche of \$300 million expires on September 28, 2026. As of March 31, 2023, and 2022, there were no amounts outstanding under RCAI.

On September 29, 2022, the Corporation renewed its three-year general-purpose credit facility (“RCAII”) of \$600 million, with a maturity date of September 26, 2025. The agreement is by and among the Corporation and U.S. Bank National Association, which acts as an administrative agent for a group of lenders under RCAII and 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 RCAII can be used for general corporate purposes and working capital needs. As of March 31, 2023, and 2022, there were no amounts outstanding under RCAII.

Each financial institution providing liquidity support under RCAI and RCAII is secured by an obligation under the ARMI.

***Standby Letters of Credit*** – The Corporation maintains an arrangement for multiple standby letters of credit with a financial institution with a capacity available of \$90 million as of March 31, 2023 and June 30, 2022, respectively. The arrangement supports multiple insurance, unemployment, and other risk liabilities that total \$63.8 million and \$71.9 million as of March 31, 2023 and June 30, 2022, respectively. As of March 31, 2023, and June 30, 2022, there were no draws on the letters of credit.

In addition, the Corporation maintains a two-year arrangement for standby letters of credit with an additional financial institution in the amount of \$50.0 million. The arrangement supports multiple letters of credit that can relate to multiple insurance, unemployment, and other risk liabilities that total \$0.2 million as of March 31, 2023, and June 30, 2022, respectively. As of March 31, 2023, and 2022 there were no draws on the letters of credit.

The banks providing standby letters of credit are not secured by an obligation under the ARMI.

***Transactions*** – During January 2022, the Corporation issued \$331.0 million par value tax-exempt hospital revenue and remarketing bonds at a premium of \$46.4 million. A portion of the bonds was issued in the fixed rate mode and a portion in the term rate mode. Proceeds were used to remarket \$75.0 million of certain tax-exempt variable-rate bonds as tax-exempt fixed-rate hospital revenue bonds to their stated maturity. As a result of this transaction, the Corporation recognized a loss on extinguishment of debt of \$0.3 million in other nonoperating items in the consolidated statement of operations and changes in net assets for the year ended June 30, 2022.

On June 30, 2022, the Corporation redeemed \$29.7 million of tax-exempt fixed rate bonds. The Corporation recorded a net gain from early extinguishment of debt of \$0.9 million in other nonoperating items in the consolidated statement of operations and changes in net assets for the year ended June 30, 2022.

In December 2022, the Corporation issued \$329.7 million par value in tax-exempt fixed rate private placement bonds. Proceeds were used to retire \$300 million of outstanding taxable commercial paper obligations issued in connection with the acquisition of MercyOne & MHN as described in Note 3, and to refinance \$29.7 million of outstanding taxable commercial paper obligations in connection with certain tax-exempt fixed rate hospital revenue bonds refunded on a current basis in June 2022.

In January 2023, the Corporation renewed \$50.0 million direct placement bonds that were scheduled for mandatory put in February 2023. In addition, during February 2023, the Corporation renewed \$54.7 million taxable fixed-rate direct placement bonds and converted them to taxable variable-rate direct placement bonds. This debt obligation was scheduled for mandatory put in February 2023.

On March 1, 2023, the acquisition of Genesis, as described in Note 3, resulted in the assumption of revenue bonds that totaled \$140.7 million. On the acquisition date, Trinity Health issued replacement obligations under the ARMI in exchange for obligations securing bonds previously issued under the Genesis Master Indenture (“GMI”). The replacement obligations were accepted by banks previously holding Genesis revenue bonds. Furthermore, all obligations under the GMI were cancelled and the GMI was discharged.

Each series of the referenced bonds is secured by an obligation issued under the ARMI.

Due to the disposition of Mercy Health System of Chicago, on August 12, 2021, the Corporation defeased \$18.8 million of tax-exempt fixed rate hospital revenue and refunding bonds. The Corporation recorded a net loss from early extinguishment of debt of \$0.5 million in other nonoperating items in the consolidated statement of operations and changes in net assets for the year ended June 30, 2022.

On September 30, 2021, a subsidiary of the Corporation defeased \$20.0 million of bonds and recorded a net gain from the early extinguishment of debt of \$0.2 million in other nonoperating items in the consolidated statement of operations and changes in net assets for the year ended June 30, 2022.

## **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 \$20 million per occurrence for the professional liability and \$15 million per occurrence for general liability as well as \$10 million per occurrence for hospital government liability, \$5 million per occurrence for miscellaneous errors and omissions liability and network security and privacy liability, and \$1 million per occurrence for management liability (directors’ and officers’ and employment practices), 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 3.0% and 2.5% as of March 31, 2023 and June 30, 2022, respectively. 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, 2023, that may result in the assertion of additional claims and other claims may be asserted arising from services provided in the past. While it is possible that settlement of asserted claims and claims which may be asserted in the future could result in liabilities in excess of amounts for which the Corporation has provided, management, based upon the advice of legal counsel, believes that the excess liability, if any, should not materially affect the consolidated financial statements of the Corporation.

## 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, 2023, and June 30, 2022, the assets under these plans totaled \$380.3 million and \$306.7 million, respectively, and liabilities totaled \$383.4 million and \$314.0 million, respectively, which are included in self-insurance, benefit plans and other assets and other long-term liabilities in the consolidated balance sheets.

***Defined Contribution Benefits*** – The Corporation sponsors defined contribution pension plans covering substantially all of its employees. These programs are funded by employee voluntary contributions, subject to legal limitations. Employer contributions to the majority of 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 \$282.1 million and \$267.6 million for the nine-month periods ended March 31, 2023 and 2022, respectively, which is included in employee benefits in the consolidated statements of operations and changes in net assets.

As part of the acquisition of Genesis disclosed in Note 3, the Corporation acquired two defined contribution plans subject to the Employee Retirement Security Act of 1974 (“ERISA”) in which eligible participants are provided an employer match equal to 25% of the first 10% of employee contributions, up to a maximum of 2.5% of eligible compensation. Contribution expense under these plans totaled \$0.5 million from the date of acquisition through March 31, 2023.

***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 ERISA. The majority of the plans sponsored by the Corporation are intended to be “Church Plans,” as defined in the Code Section 414(e) and Section 3(33) of the ERISA, as amended, which have not made an election under Section 410(d) of the Code to be subject to ERISA. The Corporation’s adopted funding policy for 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.

***Plan Termination*** – Effective December 31, 2021 the Board approved the termination of the Trinity Health ERISA Pension Plan. Approval of plan termination has been received from the IRS. The termination requires communications to participants and included the provision of a pension lump sum election window that ran from January 24, 2023 to March 10, 2023. The process will conclude with the purchase of a group annuity contract from an insurance company to secure payment of all future benefits for remaining participants who do not elect a lump sum payout, and with the recording of a one-time settlement charge. During the first nine months of fiscal year 2023 and during the fiscal year ended 2022, the Trinity Health ERISA Pension plan operated as normal. See Note 9 for additional information regarding the plan termination.

**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 expense (income) for the nine-month periods ended March 31 consisted of the following (in thousands):

|                                       | <b>Pension Plans</b> |                   | <b>Postretirement Plans</b> |                   |
|---------------------------------------|----------------------|-------------------|-----------------------------|-------------------|
|                                       | <b>2023</b>          | <b>2022</b>       | <b>2023</b>                 | <b>2022</b>       |
| Service cost                          | \$ -                 | \$ -              | \$ 1                        | \$ 1              |
| Interest cost                         | 222,674              | 175,131           | 2,830                       | 2,249             |
| Expected return on assets             | (214,467)            | (222,177)         | (6,804)                     | (7,811)           |
| Amortization of prior service cost    | (3,093)              | (3,663)           | (410)                       | (332)             |
| Recognized net actuarial loss (gain)  | 58,698               | 44,621            | (2,770)                     | (3,317)           |
| Net periodic benefit expense (income) | <u>\$ 63,812</u>     | <u>\$ (6,088)</u> | <u>\$ (7,153)</u>           | <u>\$ (9,210)</u> |

## 8. COMMITMENTS AND CONTINGENCIES

**Litigation and Settlements** – In November 2018, Mount Carmel Health System (“Mount Carmel”), the Corporation’s Regional Health Ministry in Central Ohio, discovered sentinel events relating to the clinical practice by one of its physicians and the related conduct of certain of Mount Carmel’s staff. The physician’s employment was terminated, and this matter was reported to the authorities. Mount Carmel has been fully cooperative with the investigations. The matter has been resolved as to the criminal aspects, however, the civil litigation remains pending. 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, from time to time, in other litigation and regulatory investigations that may result in litigation or settlement, arising in the ordinary course of doing business. After consultation with legal counsel, management believes that these matters will be resolved without material adverse effect on the Corporation’s future consolidated financial position or results of operations.

**COVID-19 Pandemic** – Since March of 2020, the global COVID-19 pandemic has significantly affected the U.S. health care industry and the Corporation’s patients, communities, employees, and business operations to various degrees across the Corporation’s markets. The United States Federal Public Health Emergency (“PHE”) expired on May 11, 2023 and the pandemic appears to have transitioned to an endemic state, with periodic surges of COVID-19 cases anticipated in the future, similar to annual influenza surges. Inpatient volumes are stabilizing to a new normal that may not return to pre-pandemic levels, which includes a shift from inpatient care to ambulatory, home health, PACE, urgent care, specialty pharmacy and digital telehealth care. On a same facility basis, COVID-19 discharges are much lower during the first nine months of fiscal year 2023, with a 42.0% decrease, when compared to the same period in the prior fiscal year.

The Corporation’s service mix, revenue mix and patient volumes still endure negative impacts from broad economic factors spurred by the pandemic, such as on-going nationwide shortage of nursing staff, reduced consumer spending and rising inflation rates. Furthermore, the expiration of the PHE will result in reduced payments from Medicare for patients diagnosed with COVID-19, as well as other revenue reductions and cost increases, and the cessation of pandemic related waivers on certain care delivery requirements and continuous enrollment of Medicaid beneficiaries, which will all put further financial strains on the U.S. health care industry and the Corporation. The Corporation’s response to these new and ongoing economic

factors continues to require increased premium labor rates and use of contract labor staff, although contract labor costs during the first nine months of fiscal year 2023, excluding acquisitions, are significantly lower, 40.3%, than the same period in the prior fiscal year. However, labor costs in total are still challenged with an increase over the period in the prior fiscal year. Labor and supply chain disruptions, including shortages, delays, and significant price increases in medical supplies, pharmaceuticals, and personal protective equipment, have impacted, and are expected to continue to impact the Corporation's operations. Cost increases outpacing revenue growth have put strains on the Corporation's financial results and historical debt service coverage ratio. The Corporation's historical debt service coverage ratio exceeded the 1.1 minimum threshold required for the rolling twelve-month period ended March 31, 2023. Linger risks and uncertainties spurred by the COVID-19 pandemic continue to impact the financial condition, results of operations and cash flows of the Corporation.

The Corporation continues to take various actions to mitigate the impact on operations from the negative ongoing economic factors. The Corporation is focused on clinical optimization and access, revenue growth opportunities, labor retention, recruitment and stabilization, including utilization of the Corporation's FirstChoice internal staffing agency to augment labor stabilization, new care delivery models, and continued cost reduction plans to mitigate the lingering impacts of COVID-19. Furthermore, the Corporation continues to control capital and reallocate resources to support its operations and clinicians.

***Health Care Regulatory Environment*** – The health care industry is subject to numerous and complex federal, state and local government laws and regulations. These laws and regulations include, but are not limited to, matters such as licensure, accreditation, data privacy and security, government health care program participation requirements, government reimbursement rules for patient services, fraud and abuse prevention requirements, and requirements for tax-exempt organizations. Both the CARES Act and the PPPHCE Act include Terms and Conditions as well as attestation to accept related funding. In addition, requirements for accepting, using and reporting on use of the funds are numerous and the compliance guidance has been subject to periodic updates by the Department of Health and Human Services. Laws and regulations concerning government programs, including Medicare, Medicaid, CARES Act and PPPHCE Act, are subject to varying interpretation. Compliance with such laws and regulations is nuanced 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.

The Corporation and its Health Ministries periodically receive requests for information and notices of investigations regarding potential noncompliance with those laws and regulations, billing, payment or other reimbursement matters; 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. Trinity Health monitors its business activities for compliance with applicable laws and regulations and operates a values-based ethics and compliance program that is designed to meet or exceed applicable federal guidelines and industry standards.

## 9. SUBSEQUENT EVENTS

Management has evaluated subsequent events through May 26, 2023, the date the quarterly report was issued. The following subsequent event occurred:

***Pension Plan Settlement*** – In May 2023, the Trinity Health ERISA Pension Plan paid approximately \$82.5 million in lump sum payments to plan participants who elected such payments within the voluntary lump sum window. On May 18, 2023, the Corporation irrevocably transferred all future obligations to a third-party insurance company through the purchase of a group annuity contract. In addition to use of plan assets to fully settle benefits and remaining costs, the Corporation estimates additional plan contributions of \$14.6 million will be required, of which \$13 million was contributed to the plan on May 16, 2023. Further, the Corporation is in the process of finalizing the transaction actuary report and estimates a non-cash settlement loss of \$87 million.

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

March 31, 2023



## Introduction to Management's Discussion & Analysis

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 preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management of the Corporation to make assumptions, estimates and judgments that affect the amounts reported in the financial statements, including the notes thereto, and related disclosures of commitments and contingencies, if any. The Corporation considers critical accounting policies to be those that require more significant judgments and estimates in the preparation of its financial statements, including the following: recognition of net patient service revenue, which includes explicit and implicit price concessions; financial assistance; premium revenue; recorded values of investments and derivatives; 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.

Certain statements constitute "forward-looking statements." Such statements generally are identifiable by the terminology used such as "plan," "expect," "predict," "estimate," "anticipate," "forecast" or similar words. The achievement of certain results or other expectations contained in such forward-looking statements involve known and unknown risks, uncertainties, and other factors, many of which the Corporation is unable to predict or control, that may cause actual results, performance, or achievements to be materially different from those expressed or implied by forward-looking statements.

**Coronavirus Pandemic** – Since March of 2020, the global COVID-19 pandemic has significantly affected the U.S. health care industry and the Corporation's patients, communities, employees, and business operations to various degrees across the Corporation's markets. The United States Federal Public Health Emergency ("PHE") expired on May 11, 2023 and the pandemic appears to have transitioned to an endemic state, with periodic surges of COVID-19 cases anticipated in the future, similar to annual influenza surges. Inpatient volumes are stabilizing to a new normal that may not return to pre-pandemic levels, which includes a shift from inpatient care to ambulatory, home health, PACE, urgent care, specialty pharmacy and digital telehealth care. On a same facility basis, COVID-19 discharges are much lower during the first nine months of fiscal year 2023, with a 42.0% decrease, when compared to the same period in the prior fiscal year.

The majority of the Corporation's revenue is comprised of outpatient and other non-patient revenue, and diversification of its business segments helps to balance performance when individual segments are challenged. The Corporation's service mix, revenue mix and patient volumes still endure negative impacts from broad economic factors spurred by the pandemic, such as an on-going nationwide shortage of nursing staff, reduced consumer spending and rising inflation rates. Furthermore, the expiration of the PHE will result in reduced payments from Medicare for patients diagnosed with COVID-19, as well as other revenue reductions and cost increases, and the cessation of pandemic related waivers on certain care delivery requirements and continuous enrollment of Medicaid beneficiaries, which will all put further financial strains on the U.S. health care industry and the Corporation. The Corporation's response to these new and ongoing economic factors continues to require increased premium labor rates and use of contract labor staff, although contract labor costs during the first nine months of fiscal year 2023, on a same facility basis, are significantly lower, 40.3%, than the same period in the prior fiscal year. Same facility labor costs in total have seen a decrease over fiscal year 2022 as well. Labor and supply chain disruptions, including shortages, delays, and significant price increases in medical supplies, pharmaceuticals, and personal protective equipment, have impacted, and are expected to continue to impact the Corporation's operations.

Cost increases outpacing revenue growth have put strains on the Corporation's financial results and historical debt service coverage ratio. The Corporation's historical debt service coverage ratio exceeded the 1.1 minimum threshold required for the rolling twelve-month period ended March 31, 2023. Lingering risks and uncertainties spurred by the COVID-19 pandemic continue to impact the financial condition, results of operations and cash flows of the Corporation.

The Corporation continues to take various actions to mitigate the impact on operations from the negative ongoing economic factors. The Corporation is focused on clinical optimization and access, revenue growth opportunities, labor retention, recruitment and stabilization, including utilization of its FirstChoice internal staffing agency to augment labor stabilization, new care delivery models, and continued cost reduction plans to mitigate the lingering impacts of COVID-19. Furthermore, the Corporation continues to control capital and reallocate resources to support its operations and clinicians.

The Corporation received Provider Relief Fund and Rural payments (collectively "PRF") grants, under the Coronavirus Aid, Relief and Economic Security Act (the "CARES Act"), the Paycheck Protection Program and Health Care Enhancement Act, the Consolidated Appropriations Act and the American Rescue Plan Act, (collectively the "Acts"). Among other things, Federal legislation under the Acts authorized aggregate grant payments of \$178 billion to be distributed through the Public Health and Social Services Emergency Fund ("PRF"). Grant funding received added to unrestricted cash reserves and partially offset a portion of the revenue shortfalls and operating expenses incurred as a direct result of the COVID-19 pandemic, primarily in fiscal years 2020 and 2021. Compliance with the Department of Health and Human Services ("HHS") Provider Relief Fund General and Targeted Distribution Post-Payment Notice of Reporting Requirements is complex and subject to HHS audit. There can be no assurance that HHS will not challenge the Corporation's compliance with these reporting requirements, however the Corporation believes it is in full compliance.

The Corporation recognized \$1.3 million of PRF grant revenue during the first nine months of fiscal year 2023 and \$138.5 million during the first nine months of fiscal

year 2022. The Corporation believes the amount of PRF grants recognized as grant revenue is appropriate under the guidance from HHS.

In April 2020, the Corporation requested and received \$1.6 billion of cash advances from accelerated Medicare payment requests under the CARES Act. Recoupment amounts were classified as current liabilities as they were expected to be repaid within one year as of June 30, 2022. The balance of Medicare cash advances outstanding as of June 30, 2022 was \$389.5 million. As of March 31, 2023, the remaining balance was fully repaid.

## Recent Developments

***Divestiture of 50% Interest in Gateway Health Plan, L.P., and Subsidiaries ("GHP")*** – Effective August 31, 2021, the Corporation, through its wholly owned subsidiary, Mercy Health Plan, sold its 50 percent interest in GHP, accounted for under the equity method, to the existing partner and parent owner, Highmark Ventures, Inc. As a result of the transaction, the Corporation received a \$62.5 million dividend distribution on August 27, 2021. Furthermore, the Corporation recorded a gain on the sale of \$128.7 million in the consolidated statement of operations and changes in net assets for the nine months ended March 31, 2022. In fiscal year 2023, an additional gain of \$8.0 million was recorded in the consolidated statement of operations and changes in net assets related to the final transaction settlement.

***MercyOne & Mercy Health Network*** – On September 1, 2022, the Corporation completed a transaction with CommonSpirit Health ("CSH") through which (i) the Corporation acquired CSH's 50% interest in Mercy Health Network ("MHN"), which is the sole member of Wheaton Franciscan Services Inc. ("WFSI") and the MHN subsidiary that owns and controls Central Community Hospital ("CCH"), thereby becoming the sole corporate member of MHN, (ii) MHN became the sole corporate member of Catholic Health Initiatives-Iowa, Corp. d/b/a MercyOne Des Moines Medical Center ("MercyOne Des Moines"), a regional health care system located in Des Moines, Iowa, and (iii) Trinity Home Health Services d/b/a Trinity Health At Home, a subsidiary of the Corporation, acquired certain home care, hospice, and home infusion pharmacy operations from an affiliate of CSH located in the vicinity of Des Moines ("Iowa Home Care Assets", and collectively with (i) and (ii), the "MercyOne Acquisition"). The cash

paid to CSH in consideration for the MercyOne Acquisition totaled \$633.9 million, including a \$20.9 million post-closing reconciliation adjustment as stipulated in the definitive agreement paid during the third quarter of fiscal year 2023. Based on purchase price paid as of September 1, 2022, and the post-closing reconciliation adjustment, goodwill of \$24.7 million was recorded on the consolidated balance sheet as of March 31, 2023.

For the nine months ended March 31, 2023, the Corporation's consolidated statements of operations and changes in net assets included operating revenue of \$903.2 million, operating losses of \$79.3 million, and deficiency of revenue over expense of \$62.1 million related to the operations of the MercyOne Acquisition.

**North Ottawa Community Health System ("Grand Haven")** – The Corporation's affiliate, Mercy Health Partners, completed a transaction with North Ottawa Community Health System ("Grand Haven") under which Mercy Health Partners became the sole member of Grand Haven on October 1, 2022. Grand Haven and its affiliates operate an acute care hospital, urgent care center, long-term care facility and provide hospice services in the communities surrounding Grand Haven, Michigan. The acquisition will provide improved access to specialists, primary care, and health care services, while improving care delivery and access close to home in the Corporation's West Michigan market. The fair value of identifiable assets acquired exceeded the fair value of liabilities assumed by \$15.7 million that was recorded as an inherent contribution in nonoperating items in the consolidated statement of operations and changes in net assets for the nine months ended March 31, 2023.

For the nine months ended March 31, 2023 the Corporation's consolidated statements of operations and changes in net assets included operating revenue of \$31.6 million and deficiency of revenue over expenses of \$1.3 million related to the operations of Grand Haven.

**St. Francis Medical Center ("SFMC")** – On December 21, 2022, the Corporation, through its subsidiary Maxis Health System ("Maxis"), transferred the membership interest of SFMC and certain subsidiaries as well as \$14.5 million of cash, and certain inventory and equipment, to Capital Health System, Inc. ("Capital"). As a result of this transaction, restructuring charges of \$82.3 million were incurred, primarily related to loss on sale, asset retirement obligations and transition benefits for colleagues.

For the nine months ended March 31, 2023 and 2022, the Corporation's consolidated statements of operations and changes in net assets included operating revenue of \$59.3 million and \$108.7 million, respectively, and deficiency of revenue over expense of \$103.0 million (inclusive of restructuring costs) and \$23.5 million, respectively, related to the operations of SFMC.

**Genesis Health System** – On March 1, 2023, the Corporation and its affiliate, MHN, completed a transaction with Genesis Health System, an Iowa nonprofit corporation and Genesis Health System, an Illinois not-for-profit corporation (together "Genesis"), under which MHN became the sole member of each and acquired substantially all assets and liabilities except for certain foundation assets, liabilities and net assets. Genesis and its affiliates operate four acute care hospitals, including two critical access hospitals, convenient care centers, physician practices, a long-term care facility joint venture, an independent living facility for seniors and hospice services in the communities in eastern Iowa and western Illinois. The fair value of identifiable assets acquired exceeded the fair value of liabilities assumed by \$468.9 million that was recorded as an inherent contribution in nonoperating items in the consolidated statement of operations and changes in net assets for the nine months ended March 31, 2023.

For the nine months ended March 31, 2023 the Corporation's consolidated statements of operations and changes in net assets included operating revenue of \$66.5 million, operating losses of \$1.8 million, and excess of revenue over expenses of \$0.7 million related to the operations of Genesis.

The Corporation is still in the process of obtaining third-party valuations of certain tangible and intangible assets for the acquisitions of MercyOne, Grand Haven, and Genesis, collectively the ("Acquisitions") and is still assessing the economic characteristics of certain assets acquired and liabilities assumed for the Acquisitions. The Corporation expects to substantially complete this assessment by June 30, 2023 and may adjust the amounts recorded to reflect revised evaluations.

## Results from Operations

| For the nine months ended March 31, |            |            |            |            |
|-------------------------------------|------------|------------|------------|------------|
| (dollars in millions)               | FY22**     | FY22       | FY23**     | FY23       |
| Operating Income (Loss)*            | \$30.2     | \$11.0     | (\$164.3)  | (\$263.1)  |
| Operating Revenue                   | \$15,017.4 | \$15,126.1 | \$14,886.2 | \$15,946.7 |
| Operating Margin*                   | 0.2%       | 0.1%       | -1.1%      | -1.6%      |
| Operating Cash Flow Margin*         | 5.7%       | 5.6%       | 4.4%       | 3.7%       |

\* Before other items

\*\* Excludes MercyOne, Genesis, and Grand Haven Acquisitions and Trenton Divestiture for FY23 and the Trenton Divestiture for FY22

| Excluding Provider Relief Fund Grants*** |            |            |            |            |
|--|------------|------------|------------|------------|
| For the nine months ended March 31,      |            |            |            |            |
| (dollars in millions)                    | FY22**     | FY22       | FY23**     | FY23       |
| Operating Income (Loss)*                 | (\$106.8)  | (\$127.5)  | (\$165.5)  | (\$264.5)  |
| Operating Revenue                        | \$14,880.3 | \$14,987.6 | \$14,885.0 | \$15,945.3 |
| Operating Margin*                        | -0.7%      | -0.9%      | -1.1%      | -1.7%      |
| Operating Cash Flow Margin*              | 4.8%       | 4.7%       | 4.4%       | 3.7%       |

\* Before other items

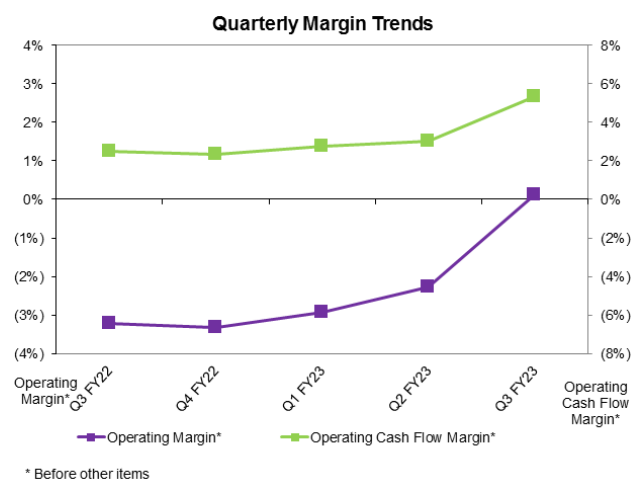
\*\* Excludes MercyOne, Genesis, and Grand Haven Acquisitions and Trenton Divestiture for FY23 and the Trenton Divestiture for FY22

\*\*\* Excludes PRF Grant Revenue

### Operating (Losses) Income Before Other Items

Trinity Health reported operating losses before other items of \$263.1 million (operating margin of [1.6] percent and cash flow margin of 3.7 percent) for the first nine months of fiscal year 2023 compared to operating income before other items of \$11.0 million (operating margin of 0.1 percent and cash flow margin of 5.6 percent) in the same period in fiscal year 2022. The first nine months of fiscal year 2023 included \$1.3 million of PRF grant revenue compared to \$138.5 million of PRF grant revenue during the same period in fiscal year 2022, or a \$137.2 million reduction year over year.

Downward pressure on fiscal year 2023 margins was further driven by controlled expense growth that is still outpacing revenue growth, primarily premium labor rates and inflation with significant price increases impacting supplies. As shown in the following graph, the Corporation has seen some upturn in margins compared to earlier quarters of fiscal year 2023 and in particular, improvements over the third and fourth quarters of fiscal year 2022 when the COVID-19 Omicron variant surged, with unprecedented levels of contract labor costs and premium pay incurred.



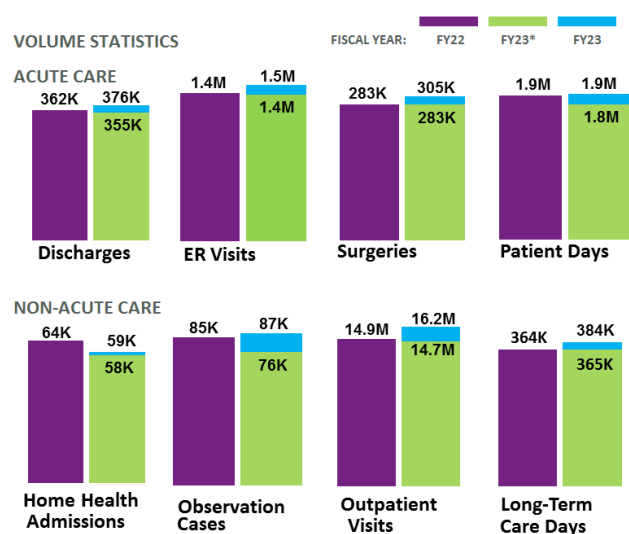
Including reductions in case mix index, on a same facility basis, volumes as measured by case mix adjusted equivalent discharges (“CMAEDs”) increased 1.1 percent, during fiscal year 2023 compared to the same nine month period in the prior fiscal year. Fiscal year 2023 has shown steady quarterly growth in CMAEDs, with a 6.1 percent improvement in CMAEDs for the third quarter of fiscal year 2023 over the same quarter of fiscal year 2022.

The Corporation is focused on clinical optimization and access, revenue growth opportunities, labor retention, recruitment and stabilization and continued cost reduction plans to improve operating performance during the remainder of fiscal year 2023 and into fiscal year 2024. In addition, the Corporation has launched a new innovative care delivery model using a 3-person team with on-site and virtual nursing named “TogetherTeam” that will be implemented system-wide by the end of fiscal year 2024.

### Revenue

Total operating revenue of \$15.9 billion increased \$820.5 million, or 5.4 percent, for the first nine months of fiscal year 2023 compared to the same period of fiscal year 2022. Revenue growth was driven by the Acquisitions which added \$1.0 billion of operating revenue during the first nine months of the fiscal year. Excluding the Acquisitions and divestiture of SFMC, operating revenue declined \$131.2 million or 0.9 percent over the same period in the prior fiscal year, inclusive of the reduction in PRF grant revenue. On a same facility basis, net patient service revenue increased \$29.3 million, or 0.2 percent, primarily due to improvements in payment rate and to a lesser extent increased volumes. This was partially offset by an unfavorable shift in payer mix and case mix. On a

same facility basis, other revenue, for the first nine months of fiscal year 2023 decreased \$175.2 million, or 12.3%, compared to the prior fiscal year on a same facility basis, driven by the reduction in PRF grant revenue and a \$37.9 million reduction in gain share revenue. The reductions in other revenue were partially offset by a \$17.1 million increase in premium and capitation revenue. The majority of the Corporation's revenue is comprised of outpatient and other non-patient revenue, and the Corporation continues to diversify its business segments to gain better position for balanced performance when individual segments are challenged.



\*Excluding the impact of the Acquisitions and the divestiture of SFMC

## Expenses

Total operating expenses of \$16.2 billion increased \$1.1 billion, or 7.2 percent for the first nine months of fiscal year 2023, with the Acquisitions accounting for almost the entirety of this increase. Excluding the impact of the Acquisitions and divestiture of SFMC, operating expenses for the first nine months of fiscal year 2023 increased \$63.3 million, or 0.4 percent. Total operating costs per case (as measured by CMAEDs) improved during the third quarter over the second quarter of fiscal year 2023 as the Corporation continues to tightly manage operating costs amid soaring inflation. Excluding the impact of the Acquisitions and divestiture of SFMC, salaries, wages, and employee benefit costs rose \$171.2 million, or 2.2 percent, with a 3.8 percent increase in salary rates, partially offset by a 1.0 percent decrease in FTEs as aftershocks of the pandemic continue to drive industry wide staffing shortages and wage inflation. Rate increases were tempered by a \$54.6 million reduction in executive

compensation and \$39.7 million of additional pharmacy rebates recognized in the first nine months of fiscal year 2023 compared to the same period in the prior fiscal year. Supply costs increased \$43.7 million, or 1.7%, compared to the prior year on a same facility basis, with significant inflation driven rate increases, although both supplies per case and supplies as a percent of net patient service revenue decreased from fiscal year 2022. Expense increases were also incurred in interest, occupancy, and other expenses. The Corporation continues to use strong cost controls over contract labor and other operational spending as colleague investment and utilization of its FirstChoice internal staffing agency promotes labor stabilization. On a same facility basis, contract labor costs decreased \$193.9 million, or 40.3%, in the first nine months of fiscal year 2023 compared to the same period in the prior fiscal year which reflects unprecedented pandemic driven contract labor costs incurred during the third quarter of fiscal year 2022. Contract labor costs for MercyOne Des Moines, one of the larger components of the MercyOne Acquisition, totaled \$364.5 million and includes the costs for colleagues that are currently leased from CSH. Further expense reductions were seen in purchased services and depreciation and amortization, with \$23.0 million of savings recognized as asset lives were adjusted to reflect historical usage that differed from original estimates.

## Other Items

For the first nine months of fiscal year 2023, other items consisted of \$53.9 million for a dividend received from a cost method investment related to a gain on sale realized by the investee and an \$8.0 million gain for the final settlement from the fiscal year 2022 sale of GHP, offset by \$82.3 million of restructuring costs related to the divestiture of SFMC, as noted above. For the first nine months of fiscal year 2022, other items included a \$128.7 million gain on the sale of the Corporation's 50 percent equity interest in GHP. Including other items, operating (loss) income totaled (\$283.5) million and \$139.7 million, with operating margin of (1.8) percent and 0.9 percent, respectively, for the first nine months of fiscal years 2023 and 2022.

## Nonoperating Items

During the first nine months of fiscal year 2023, the Corporation reported non-operating income of \$1.2 billion compared to non-operating losses of \$40.3 million during the same period in the prior fiscal year. This improvement in nonoperating items includes investment returns of \$457.3 million or 5.4 percent in the first nine months of fiscal year 2023 compared to losses of 0.8 percent during the same period of fiscal year 2022, or a \$629.3 million increase year over year. Investment results also drove the \$212.9 million improvement in equity in earnings of unconsolidated affiliates. In addition, during fiscal year 2023, inherent contributions of \$484.6 million were recorded, \$468.9 million related to the acquisition of Genesis Health System, and the remainder related to the Grand Haven acquisition. Conversely, net periodic retirement costs increased \$72.0 million for the first nine months of fiscal year 2023 compared to the same period in the prior fiscal year, along with a decline in the change in market value and cash payments of interest rate swaps by \$19.0 million.

## Excess of Revenue over Expenses

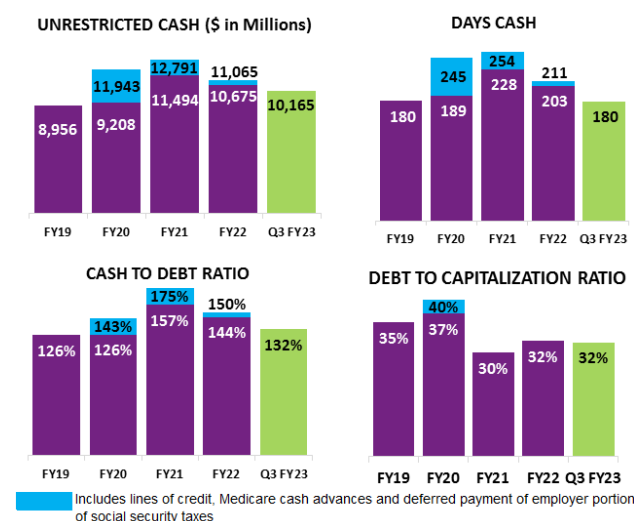
Excess of revenue over expenses for the first nine months of fiscal year 2023 was \$856.3 million (net margin of 5.1 percent) compared to excess of revenue over expenses of \$43.0 million (net margin of 0.3 percent), for the same period in fiscal year 2022. The improvement was primarily due to an increase in nonoperating gains, particularly related to investment earnings, equity in earnings of unconsolidated affiliates and inherent contributions, partially offset by operating losses and other items, with a net unfavorable impact of \$149.1 million for the first nine months of fiscal year 2023 compared to the same period in the prior fiscal year.

## Balance Sheet

Balance sheet ratios have been impacted by operating results and the Acquisitions. Total assets of \$32.0 billion increased \$898.2 million, or 2.9 percent as of March 31, 2023, compared to June 30, 2022. The Acquisitions added \$1.9 billion of assets offset by the \$633.9 million MercyOne purchase price. An \$899.2 million reduction in unrestricted cash and investments partially offset the Acquisition increase for a majority of the additional decrease in total assets, which includes a net \$471.6 million unrestricted cash reduction for the MercyOne Acquisition, \$409.5 million of repayments of Medicare

cash advances, and \$642.2 million in capital expenditures, partially offset by \$457.3 million of nonoperating investment earnings, the net cash acquired for the Genesis acquisition of \$290.8 million, and net working capital changes. Total unrestricted cash and investments were \$10.2 billion and \$11.1 billion or 180 days of cash on hand and 211 days of cash on hand as of March 31, 2023 and June 30, 2022, respectively. The MercyOne Acquisition used net eight days of cash during the first quarter of fiscal year 2023, while the Genesis Acquisition generated 5 days of cash. The same period of fiscal year 2022 includes seven days of cash generated from the sale of GHP. Net days in accounts receivable increased by 2.7 days to 45.2 days from June 30, 2022 to March 31, 2023.

Total liabilities of \$14.1 billion decreased \$160.3 million, or 1.1 percent compared to June 30, 2022, primarily due to the payment of Medicare cash advances of \$409.5 million, inclusive of advances acquired, a decrease in salaries, wages and related liabilities of \$226.5 million (mainly \$135 million due to a reduction in number of days accrued and a reduction in accrued executive compensation), and a decrease in security lending obligation of \$150.1 million. These decreases were partially offset by a net increase in commercial paper and debt of \$329.7 million which includes the issuance \$329.7 million of tax-exempt private placement bonds in fiscal year 2023 and \$140.7 million of revenue bonds acquired as part of the Genesis acquisition, partially offset by principal payments of \$116.3 million. The Acquisitions added \$662.3 million of total liabilities as of their acquisition dates. Debt to capitalization was 32 percent as of March 31, 2023 and June 30, 2022.



***Statement of Cash Flows***

Cash, cash equivalents and restricted cash increased \$228.7 million during the first nine months of fiscal year 2023. Operating activities used \$602.5 million of cash which includes a \$409.5 million repayment of Medicare cash advances, inclusive of advances acquired at MercyOne, since June 30, 2022. Investing activities provided \$677.6 million of cash including \$1.8 billion in net sales of investments, partially offset by \$642.2 million for purchases of property and equipment and \$530.6 million of net cash used for acquisitions. Financing activities provided \$153.5 million of cash, primarily from the \$196.9 million bond issuances net of principal payments.

**TRINITY HEALTH**  
**Liquidity Reporting**  
**March 31, 2023**

(\$ in millions)  
(unaudited)

**ASSETS**

**Daily Liquidity**

|   |                 |
|---|-----------------|
| Money Market Funds (Moody's rated Aaa)                  | \$ 585          |
| Checking and Deposit Accounts (at P-1 rated bank)       | 558             |
| Repurchase Agreements                                   | -               |
| U.S. Treasuries & Aaa-rated Agencies                    | -               |
| Dedicated Bank Lines                                    | 600             |
| <b>Subtotal Daily Liquidity (Cash &amp; Securities)</b> | <b>\$ 1,743</b> |

|  |     |
|--|-----|
| Undrawn Portion of \$600M Taxable Commercial Paper Program | 500 |
|--|-----|

**Subtotal Daily Liquidity Including Taxable Commercial Paper Program** \$ 2,243

**Weekly Liquidity**

|   |          |
|---|----------|
| Exchange Traded Equity  | \$ 2,739 |
| Publicly Traded Fixed Income Securities Rated at least Aa3 and Bond Funds | 1,752    |
| Equity Funds  | 646      |
| Other   | 181      |

**Subtotal Weekly Liquidity** 5,318

**TOTAL DAILY AND WEEKLY LIQUIDITY** \$ 7,561

**Longer-Term Liquidity**

|   |       |
|---|-------|
| Funds, vehicles, investments that allow withdrawals with less than one-month notice | 1,479 |
| Funds, vehicles, investments that allow withdrawals with one-month notice or longer | 3,244 |

**Total Longer-Term Liquidity** \$ 4,723

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

**Weekly Put Bonds**

|                    |        |
|--------------------|--------|
| VRDO Bonds (7-day) | \$ 174 |
|--------------------|--------|

**Long-Mode Put Bonds**

|                                    |     |
|------------------------------------|-----|
| VRDO Bonds (Commercial Paper Mode) | 140 |
|------------------------------------|-----|

|  |            |
|--|------------|
| <b><u>Taxable Commercial Paper Outstanding</u></b> | <b>100</b> |
|--|------------|

**TOTAL SELF-LIQUIDITY DEBT AND COMMERCIAL PAPER** \$ 414

**Ratio of Daily and Weekly Liquidity to Self-Liquidity Debt and Commercial Paper** 18.26

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

|   | March 31,<br>2023 | March 31,<br>2022 |
|---|-------------------|-------------------|
| <b><u>Financial Indicators</u></b>  |                   |                   |
| <b>Liquidity Ratios (as of March 31)</b>                                  |                   |                   |
| Days Cash on Hand   | 180               | 237               |
| Days in Accounts Receivable, Net  | 45.2              | 42.3              |
| <b>Leverage Ratios (as of March 31)</b>                                   |                   |                   |
| Debt to Capitalization  | 32%               | 30%               |
| Cash to Debt  | 132%              | 168%              |
| <b>Profitability Ratios (For the Nine Months Ended March 31)</b>          |                   |                   |
| Operating Margin before Other Items                                       | (1.6%)            | 0.1%              |
| Operating Cash Flow Margin before Other Items                             | 3.7%              | 5.6%              |
| <b><u>Statistical Indicators (For the Nine Months Ended March 31)</u></b> |                   |                   |
| Rounded to nearest thousand   |                   |                   |
| Discharges  | 376,000           | 362,000           |
| Patient Days  | 1,879,000         | 1,866,000         |
| Outpatient Visits   | 16,197,000        | 14,862,000        |
| Emergency Room Visits   | 1,512,000         | 1,437,000         |
| Observation Cases   | 87,000            | 85,000            |
| <b><u>Continuing Care</u></b>   |                   |                   |
| Home Health Admissions  | 59,000            | 64,000            |
| Long-term Care Patient Days   | 384,000           | 364,000           |