Trinity Health Reports Operating Income Growth in the First Quarter of FY2021 Despite Continued Pandemic Challenges

Summary Highlights for the First Quarter of FY2021 (Quarter Ended September 30, 2020)

In the first quarter of fiscal year 2021, Trinity Health reported improved operating results driven by strong cost controls, lower operating expenses, as well as improved operating revenue compared to the fourth quarter of fiscal 2020, with negligible Provider Relief Fund grant revenue recognized in the quarter. Operating income of $112.1 million for the first three months of fiscal 2021 increased $18.1 million compared to $94.0 million in the same period in the prior fiscal year. The system's first-quarter, fiscal year 2021 operating margin was 2.3 percent compared to 2.0 percent in the same period of the prior year, while operating cash flow margin was 8.2 percent in the first quarter of fiscal year 2021 compared to 7.9 percent during the same period of the prior year. Expenses for the quarter decreased by $29.7 million, or 0.6 percent, to $4.683 billion, primarily driven by lower purchased services and medical claims and lower labor expenses, partially offset, by an increase in supply costs driven by pandemic-related lab and drug costs.

In the first quarter of fiscal year 2021, Trinity Health reported operating revenue of $4.795 billion compared to $4.806 billion in the same period in the prior fiscal year, a decrease of $11.5 million, or 0.2 percent. Operating revenue has continued to be negatively impacted by volume declines related to the COVID-19 pandemic. Year-over-year volumes, as measured by case mix adjusted equivalent discharges ("CMAEDs"), decreased 5.2 percent for the three months ended September 2020 compared to the prior fiscal year. However, after significant volume declines in the spring of 2020 during the first pandemic surge and stay-at-home orders, the Corporation continues to see volume recovery across many of its markets, with resumption of outpatient and elective services that began in June. Volume declines were partially offset by payment rate increases, improvements in case mix, and to a lesser extent, improvements in payer mix. Operating revenue includes $2.4 million of Provider Relief Fund grants recognized in the three months ended September 30, 2020.

For the first quarter of fiscal year 2021, Trinity Health reported non-operating gains of $674.8 million compared to gains of $83.9 million for the same period in fiscal year 2020. Higher gains in the first three months of fiscal year 2021 were primarily due to higher investment earnings driven by overall global investment market conditions. Excess of revenue over expenses for the first three months of fiscal year 2021 totaled $771.9 million, compared to $166.4 million in the same period in the prior fiscal year.

Known and unknown risks and uncertainties caused by the COVID-19 pandemic are having, and will likely continue to have, a material impact on the Corporation's business, financial condition, results of operations and cash flows. At this point, the Corporation cannot estimate the length or severity of the pandemic, which limits the Corporation's ability to forecast the pandemic's impact on the Corporation's financial position, results of operations or cash flows. The Corporation believes the actions it has taken continue to position Trinity Health to have liquidity adequate to fund essential services and make timely debt service payments during the COVID-19 pandemic.

Highlights for the first quarter ended September 30, 2020, include:

- Total assets of $31.9 billion and net assets of $14.4 billion;
- Operating revenue of $4.795 billion, a 0.2 percent decrease over the same period in fiscal year 2020;
- Operating income of $112.1 million, or 2.3 percent operating margin;
- Unrestricted cash and investments of $12.8 billion; and
- Days cash on hand of 265 days compared to 245 days for the year ended June 30, 2020, including lines of credit draws and CARES Act Medicare cash advances; excluding these items, days cash on hand of 211 days improved 20 days since June 30, 2020.

TRINITY HEALTH

UNAUDITED QUARTERLY REPORT

As of September 30, 2020, and June 30, 2020, and
For the three months ended September 30, 2020 and 2019

TRINITY HEALTH

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TRINITY HEALTH

CONSOLIDATED BALANCE SHEETS (UNAUDITED)

(In thousands)

	As of	
ASSETS	**September 30, 2020**	**June 30, 2020**
CURRENT ASSETS:		
Cash and cash equivalents	$ 2,210,791	$ 2,191,598
Investments	6,580,327	5,988,670
Security lending collateral	284,241	296,053
Assets limited or restricted as to use - current portion	383,498	402,129
Patient accounts receivable	1,865,808	1,715,740
Estimated receivables from third-party payers	248,219	252,278
Other receivables	379,783	386,520
Inventories	450,143	378,523
Prepaid expenses and other current assets	253,858	219,146
Total current assets	12,656,668	11,830,657
ASSETS LIMITED OR RESTRICTED AS TO USE - Noncurrent portion:		
Held by trustees under bond indenture agreements	6,851	6,676
Self-insurance, benefit plans, and other	921,194	871,641
By Board	3,881,895	3,589,471
By donors	503,380	476,249
Total assets limited or restricted as to use - Noncurrent portion	5,313,320	4,944,037
PROPERTY AND EQUIPMENT - Net	8,222,741	8,278,585
OPERATING LEASE RIGHT-OF-USE ASSETS	478,135	495,648
INVESTMENTS IN UNCONSOLIDATED AFFILIATES	4,261,959	4,057,789
GOODWILL	539,926	439,687
OTHER ASSETS	416,570	410,673
TOTAL ASSETS	$ 31,889,319	$ 30,457,076

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

(Continued)

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

	As of	
LIABILITIES AND NET ASSETS	**September 30, 2020**	**June 30, 2020**
CURRENT LIABILITIES:		
Commercial paper	$ 99,985	$ 99,979
Short-term lines of credit	615,000	615,000
Short-term borrowings	667,275	667,275
Current portion of long-term debt	146,916	387,544
Current portion of operating lease liabilities	133,544	135,342
Medicare cash advances	1,646,171	1,634,160
Accounts payable and accrued expenses	1,827,358	1,455,173
Salaries, wages and related liabilities	1,315,549	1,152,589
Payable under security lending agreements	284,241	296,053
Estimated payables to third-party payers	413,296	414,271
Current portion of self-insurance reserves	269,716	269,813
Total current liabilities	7,419,051	7,127,199
LONG-TERM DEBT - Net of current portion	6,851,457	6,554,014
LONG-TERM PORTION OF OPERATING LEASE LIABILITIES	433,342	454,039
SELF-INSURANCE RESERVES - Net of current portion	1,112,715	1,059,916
ACCRUED PENSION AND RETIREE HEALTH COSTS	850,532	943,473
OTHER LONG-TERM LIABILITIES	798,007	787,687
Total liabilities	17,465,104	16,926,328
NET ASSETS:		
Net assets without donor restrictions	13,529,615	12,726,231
Noncontrolling ownership interest in subsidiaries	311,905	238,337
Total net assets without donor restrictions	13,841,520	12,964,568
Net assets with donor restrictions	582,695	566,180
Total net assets	14,424,215	13,530,748
TOTAL LIABILITIES AND NET ASSETS	$ 31,889,319	$ 30,457,076

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)
THREE MONTHS ENDED SEPTEMBER 30, 2020 AND 2019
(In thousands)

	2020	**2019**
OPERATING REVENUE:		
Net patient service revenue	$ 4,071,021	$ 4,125,777
Premium and capitation revenue	269,764	264,373
Net assets released from restrictions	7,593	6,453
Other revenue	446,258	409,560
Total operating revenue	4,794,636	4,806,163
EXPENSES:		
Salaries and wages	2,079,078	2,063,216
Employee benefits	388,053	389,616
Contract labor	40,729	68,215
Total labor expenses	2,507,860	2,521,047
Supplies	832,444	803,980
Purchased services and medical claims	653,830	688,599
Depreciation and amortization	218,808	220,623
Occupancy	181,216	187,341
Interest	60,295	62,754
Other	228,061	227,857
Total expenses	4,682,514	4,712,201
OPERATING INCOME	112,122	93,962
NONOPERATING ITEMS:		
Investment earnings	462,599	21,454
Equity in earnings of unconsolidated affiliates	184,708	72,377
Change in market value and cash payments of interest rate swaps	1,034	(28,730)
Other net periodic retirement income	27,683	19,982
Other, including income taxes	(1,203)	(1,189)
Total nonoperating items	674,821	83,894
EXCESS OF REVENUE OVER EXPENSES	786,943	177,856
EXCESS OF REVENUE OVER EXPENSES ATTRIBUTABLE TO NONCONTROLLING INTEREST	(15,072)	(11,441)
EXCESS OF REVENUE OVER EXPENSES, net of noncontrolling interest	$ 771,871	$ 166,415

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)
THREE MONTHS ENDED SEPTEMBER 30, 2020 AND 2019
(In thousands)

	2020	2019
NET ASSETS WITHOUT DONOR RESTRICTIONS :		
Net assets without donor restrictions attributable to Trinity Health:		
Excess of revenue over expenses	$ 771,871	$ 166,415
Net assets released from restrictions for capital acquisitions	3,920	7,726
Net change in retirement plan related items - consolidated organizations	31,177	(29,115)
Cumulative effect of change in accounting principle	-	(18,187)
Other	(3,584)	13,995
Increase in net assets without donor restrictions attributable to Trinity Health	803,384	140,834
Net assets without donor restrictions attributable to noncontrolling interest:		
Excess of revenue over expenses attributable to noncontrolling interest	15,072	11,441
Noncontrolling interests related to acquisitions	71,586	-
Dividends and other	(13,090)	(10,219)
Increase in net assets without donor restrictions attributable to noncontrolling interest	73,568	1,222
NET ASSETS WITH DONOR RESTRICTIONS :		
Contributions:		
Program and time restrictions	13,037	14,411
Endowment funds	1,017	681
Net investment gains (losses):		
Program and time restrictions	7,845	(2,807)
Endowment funds	8,860	(489)
Net assets released from restrictions	(11,513)	(14,179)
Other	(2,731)	(319)
Increase (decrease) in net assets with donor restrictions	16,515	(2,702)
INCREASE IN NET ASSETS	893,467	139,354
NET ASSETS - BEGINNING OF YEAR	13,530,748	13,835,408
NET ASSETS - END OF PERIOD	$ 14,424,215	$ 13,974,762

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

TRINITY HEALTH

SUMMARIZED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

THREE MONTHS ENDED SEPTEMBER 30, 2020 AND 2019

(In thousands)

	2020	2019
OPERATING ACTIVITIES:		
Increase in net assets	$ 893,467	$ 139,354
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	218,808	220,623
Amortization of right-of-use asset	30,407	35,358
Gain on sale of subsidiaries	-	(5,693)
Change in net unrealized and realized gains and losses on investments	(471,514)	7,234
Change in market values of interest rate swaps	(7,337)	24,945
Undistributed equity in earnings of unconsolidated affiliates	(206,918)	(67,974)
Deferred retirement items - consolidated organizations	(9,832)	48,187
Increase in noncontrolling interest related to acquisitions	(71,586)	-
Restricted contributions and investment income received	(3,922)	(7,915)
Cumulative effect of change in accounting principal	-	18,187
Other adjustments	7,400	(7,268)
Changes in:		
Patient accounts receivable	(134,792)	(95,775)
Other assets	(124,406)	(85,238)
Medicare cash advances	12,011	-
Accounts payable and accrued expenses	598,878	10,031
Estimated receivables from third-party payers	4,059	(11,522)
Estimated payables to third-party payers	(975)	36,764
Self-insurance reserves and other liabilities	28,805	(76,954)
Accrued pension and retiree health costs	(83,109)	(89,861)
Total adjustments	(214,023)	(46,871)
Net cash provided by operating activities	679,444	92,483
INVESTING ACTIVITIES:		
Net sales (purchases) of investments	(464,555)	31,281
Purchases of property and equipment	(171,599)	(201,882)
Proceeds from the sale of divestitures	-	48,976
Net cash used for acquisitions	(42,936)	-
Change in other investing activities	25,145	18,473
Net cash used in investing activities	(653,945)	(103,152)
FINANCING ACTIVITIES:		
Proceeds from issuance of debt	10,807	15,696
Repayments of debt	(17,370)	(16,604)
Net change in commercial paper	6	345
Dividends paid	(12,823)	(10,240)
Proceeds from restricted contributions and restricted investment income	3,700	7,543
Increase in financing costs and other	(119)	(154)
Net cash used in financing activities	(15,799)	(3,414)
NET INCREASE (DECREASE) IN CASH, CASH EQUIVALENTS, AND RESTRICTED CASH	9,700	(14,083)
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH - BEGINNING OF YEAR	2,339,381	605,870
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH - END OF PERIOD	$ 2,349,081	$ 591,787

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

1. ORGANIZATION AND MISSION

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") for interim financial reporting information. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation have been included and are of a normal and recurring nature. Operating results for the three months ended September 30, 2020 are not necessarily indicative of the results to be expected for the year ending June 30, 2020.

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; evaluation of long-lived assets for impairment, including goodwill; 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 September 30 (in thousands):

	2020	2019
Cash and cash equivalents	$ 2,210,791	$ 478,840
Restricted cash included in assets limited or restricted as to use - current portion		
Held by trust under bond indenture	11,578	11,380
Self insured benefit plans & other	48,659	34,001
By donors	4,699	5,136
Total restricted cash included in assets limited or restricted as to use - current portion	64,936	50,517
Restricted cash included in assets limited as to use - noncurrent portion		
Held by trust under bond indenture	6,851	6,053
Self insured benefit plans & other	32,215	27,533
By donors	34,288	28,844
Total restricted cash included in assets limited or restricted as to use - noncurrent portion	73,354	62,430
Total cash, cash equivalents, and restricted cash shown in the statements of cash flows	$ 2,349,081	$ 591,787

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 September 30, 2020, and June 30, 2020, the Corporation had securities loaned of $593.2 million and $663.3 million, respectively, and received collateral (cash and noncash) totaling $616.2 million and $684.5 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 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, effective July 1, 2019, 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, finance lease right-of-use asset amortization and internal-use software amortization. The useful lives of property and equipment range from 2 to 50 years, and finance lease agreements have initial terms typically ranging from 3 to 10 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 3 to 10 years. The Corporation's equipment lease agreements typically have an initial term of one to six 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 15 years. Indefinite-lived intangible assets primarily include trade names, which are tested annually for impairment.

Short-Term Lines of Credit – Short-term lines of credit include those facilities whose scheduled termination date is no longer than 364 days from the effective date of the facility. Any drawdowns outstanding are due on or prior to any Scheduled Termination Date.

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 – Accelerated Medicare payments requested by the Corporation for its acute care hospitals were received primarily in April 2020, and were provided through the Coronavirus Aid, Relief and Economic Security Act (the "CARES Act"). In the future, claims for services provided to Medicare beneficiaries will be applied against the cash advances. Any unapplied advance repayment amounts must be repaid by the Corporation. As further discussed in Note 9, the repayment terms for Medicare cash advances were modified through the passage of the Continuing Appropriations Act, 2021 and Other Extensions Act on October 1, 2020.

Deferred payment of social security taxes – The CARES Act provides for deferred payment of the employer portion of social security taxes between March 27, 2020, and December 31, 2020, with 50% of the deferred amount due December 31, 2021, and the remaining 50% due December 31, 2022. The Corporation began deferring the employer portion of social security taxes in mid-April 2020, with $205.4 million recorded in salaries, wages and related liabilities on the consolidated balance sheet as of September 30, 2020.

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 classified 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.

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 Corporation has received significant Provider Relief Fund grants under both the CARES Act and the Paycheck Protection Program and Health Care Enhancement Act ("PPPHCE Act," collectively the "Acts"). The Corporation received $1.1 billion of Provider Relief Fund grants through September 30, 2020, with $460.8 million received in the three months ended September 30, 2020. Grants recognized as revenue totaled $644 million for the year-ended June 30, 2020, with $2.4 million of additional grants recognized as revenue for the three months ended September 30, 2020. As further described in Note 9, the U.S. Department of Health and Human Services ("HHS") issued revised guidance on the use, and thus revenue recognition of the grants, on September 19, 2020, and then issued further revised guidance on October 22, 2020 and November 2, 2020. Additionally, HHS continues to update and provide clarifying guidance via Frequently Asked Questions. Significant questions remain on the interpretation of the new guidance. The Corporation believes the amount of grants recognized as grant revenue is appropriate under the various and changing guidance from HHS and continues to monitor progression of clarifying guidance issued by HHS. If unable to attest to or comply with current or future terms and conditions, the Corporation's ability to retain some or all of the distributions received may be impacted.

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

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

3. INVESTMENTS IN UNCONSOLIDATED AFFILIATES, BUSINESS ACQUISITIONS AND DIVESTITURES

Investments in Unconsolidated Affiliates – The Corporation and certain of its Health Ministries have investments in entities that are recorded under the cost and equity methods of accounting. The Corporation's share of equity earnings from entities accounted for under the equity method was $219.8 million and $81.0 million for the three months ended September 30, 2020 and 2019, respectively, of which $35.1 million and $8.6 million, respectively, is included in other revenue and $184.7 million and $72.4 million, respectively, is included in nonoperating items in the consolidated statements of operations and changes in net assets. The most significant of these investments include the following:

BayCare Health System – The Corporation has a 50.4% interest in BayCare Health System Inc. and Affiliates ("BayCare"), a Florida not-for-profit corporation exempt from state and federal income taxes. BayCare was formed in 1997 pursuant to a Joint Operating Agreement ("JOA") among the not-for-profit, tax-exempt members of the 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 September 30, 2020, and June 30, 2020, the Corporation's investment in BayCare totaled $3,446 million and $3,268 million, respectively.

Gateway Health Plan – The Corporation has a 50% interest in Gateway Health Plan, L.P. and subsidiaries ("GHP"), a Pennsylvania limited partnership. GHP has two general partners, Highmark

Ventures Inc., formerly known as Alliance Ventures, Inc., and Mercy Health Plan (a wholly owned subsidiary of the Corporation), each owning 1%. In addition to the general partners, there are two limited partners, Highmark Inc. and Mercy Health Plan, each owning 49%. As of September 30, 2020, and June 30, 2020, the Corporation's investment in GHP totaled $246.0 million and $227.0 million, respectively.

Catholic Health System, Inc. – The Corporation has a 50% interest in Catholic Health System, Inc. and subsidiaries ("CHS") with the Diocese of Buffalo holding the remaining 50%. CHS, formed in 1998, is a not-for-profit integrated delivery health care system in western New York. CHS operates several organizations, the largest of which are four acute care hospitals located in Buffalo, New York: Mercy Hospital of Buffalo, Kenmore Mercy Hospital, Sisters of Charity Hospital, and St. Joseph Hospital. As of September 30, 2020, and June 30, 2020, the Corporation's investment in CHS totaled $38.5 million and $37.9 million, respectively.

Emory Healthcare/St. Joseph's Health System – The Corporation has a 49% interest in Emory Healthcare/St. Joseph's Health System ("EH/SJHS"). EH/SJHS operates several organizations, including two acute care hospitals, St. Joseph's Hospital of Atlanta and John's Creek Hospital. As of September 30, 2020, and June 30, 2020, the Corporation's investment in EH/SJHS totaled $145.8 million and $143.4 million, respectively.

Mercy Health Network – The Corporation has a 50% interest in Mercy Health Network, dba MercyOne, ("MHN"), a nonstock-basis membership corporation with CommonSpiritHealth, ("CSH"), formerly known as Catholic Health Initiatives, holding the remaining 50% interest. MHN is the sole member of Wheaton Franciscan Services, Inc. ("WFSI") that operates three hospitals in Iowa: Covenant Medical Center located in Waterloo, Sartori Memorial Hospital located in Cedar Falls and Mercy Hospital of Franciscan Sisters located in Oelwein.

Effective March 1, 2016, the Corporation and CSH amended and restated their existing MHN Joint Operating Agreement ("JOA") that governs certain of their legacy operations in Iowa to strengthen MHN's management responsibilities over the Iowa operations, to jointly acquire health care operations in Iowa and contiguous markets, and to provide for greater financial, governance and clinical integration. The JOA provides for the Corporation and CSH to maintain ownership of their respective assets in Iowa while agreeing to operate the Corporation's Iowa hospitals in collaboration with CSH's Mercy Hospital Medical Center, Des Moines, Iowa, as one organization with common governance and management. MHN has developed a regional health care network that provides for a collaborative effort in the areas of community health care development, enhanced access to health services for the poor and sharing of other common goals. Under the JOA, the Corporation and CSH equally share adjusted operating cash flow from Iowa operations, which commenced in July 2016. The Corporation and CSH agreed to suspend the cash flow sharing arrangement for fiscal years 2019 and 2020. As of September 30, 2020, and June 30, 2020, the Corporation's investment in MHN totaled $107.1 million and $104.7 million, respectively.

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

	September 30, 2020				
	Baycare	GHP	CHS	EH/SJHS	MHN
Total assets	$ 10,059,842	$ 904,100	$ 1,419,574	$ 714,999	$ 358,163
Total liabilities	$ 3,035,367	$ 419,700	$ 1,253,673	$ 501,745	$ 138,872

	June 30, 2020				
	Baycare	GHP	CHS	EH/SJHS	MHN
Total assets	$ 9,602,588	$ 1,126,600	$ 1,404,460	$ 625,990	$ 340,127
Total liabilities	$ 2,941,834	$ 674,800	$ 1,239,762	$ 402,160	$ 125,657

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

	Three months ended September 30, 2020				
	Baycare	GHP	CHS	EH/SJHS	MHN
Revenue, net	$ 1,030,050	$ 588,400	$ 309,965	$ 171,279	$ 100,799
Excess (deficiency) of revenue over expenses	$ 359,273	$ 32,500	$ 1,042	$ 647	$ 4,547

	Three months ended September 30, 2019				
	Baycare	GHP	CHS	EH/SJHS	MHN
Revenue, net	$ 1,025,224	$ 598,471	$ 375,583	$ 181,753	$ 97,679
Excess (deficiency) of revenue over expenses	$ 69,668	$ (7,636)	$ (21,809)	$ 13,740	$ 4,570

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

	Three months ended September 30, 2020				
	Baycare	GHP	CHS	EH/SJHS	MHN
Other revenue	$ -	$ 18,750	$ -	$ -	$ 2,394
Equity in earnings of unconsolidated organizations	181,110	-	521	2,453	-
Other changes in net assets without donor restrictions	193	(16,269)	81	-	-
	$ 181,303	$ 2,481	$ 602	$ 2,453	$ 2,394

	Three months ended September 30, 2019				
	Baycare	GHP	CHS	EH/SJHS	MHN
Other revenue	$ -	$ (4,099)	$ -	$ -	$ 2,750
Equity in earnings of unconsolidated organizations	73,077	-	(8,265)	7,161	-
Other changes in net assets without donor restrictions	(2,631)	1,411	339	-	-
	$ 70,446	$ (2,688)	$ (7,926)	$ 7,161	$ 2,750

Acquisitions, Sales and Divestitures:

Consolidation of Saint Agnes/Dignity/USP Surgery Centers, L.L.C. – Effective July 1, 2020, a venture was created between Saint Agnes Medical Center ("Saint Agnes"), CHI National Services ("Dignity") and USP Fresno Inc, a California corporation ("USP") (collectively, "Saint Agnes/Dignity/USP Surgery Centers", L.L.C., a California limited liability company). Saint Agnes owns a controlling interest of 50.1%, Dignity owns 24.95% and USP owns the remaining 24.95% interest of the venture. Saint Agnes/Dignity/USP Surgery Centers simultaneously acquired a 71.35% interest in two surgical hospitals, with the remaining interest held by physicians, Fresno Surgery Center, L.P. a California limited partnership d/b/a Fresno Surgical Hospital ("FSH") and Sierra Pacific Surgery Center, LLC, a Tennessee limited liability company d/b/a Sumit Surgical ("Summit"). Saint Agnes/Dignity/USP Surgery Centers recorded operating revenue of $25.5 million, operating income of $1.8 million, and excess of revenue over expenses of $1.3 million for the three months ended September 30, 2020.

The Corporation is still in the process of assessing the economic characteristics of certain assets acquired and liabilities assumed. The Corporation expects to substantially complete this assessment through the year ended June 30, 2021, and may adjust the amounts recorded as of July 1, 2020, to reflect revised evaluations. Summarized consolidated opening balance sheet information for Saint Agnes/Dignity/USP Surgery Centers is shown below as of July 1, 2020 (in thousands):

Assets		**Liabilities**	
Cash and cash equivalents	$ 3,465	Current portion of long-term debt	$ 3,599
Patient accounts receivable	15,275	Current portion of operating lease liabilities	488
Inventories	3,010	Accounts payable and accrued expenses	8,406
Prepaid expenses and other current assets	1,465	Salary, wages, and related liabilities	1,743
		Other current liabilities	1,203
Property and equipment, net	20,443	Long-term debt, net of current portion	64,607
Operating lease right-of-use assets	55,538	Long-term portion of operating lease liabilities	1,561
Goodwill	100,239	Other long-term liabilities	31
Other assets	189	Total liabilities acquired	$ 81,638
Total assets acquired	$ 199,624	**Net assets**	
		Net assets without donor restrictions	46,400
		Net assets attributable to noncontrolling interest	71,586
		Total net assets	$ 117,986
		Total liabilities and net assets	$ 199,624

Mercy Health System of Chicago, Chicago ("MHSC") - During July 2020, the Corporation and the Board of MHSC announced a clinical transformation plan for Mercy Hospital and Medical Center, Chicago ("Hospital and Medical Center") to a community-based health care organization. The new organization will focus on serving community needs by providing diagnostic, urgent care, and care coordination services, and will honor the legacy of the mission of its founding sponsors and will be a Mission Health Ministry of Trinity Health. The transformation plan was developed due to significant changes in MHSC's health care environment, including substantial declines in both inpatient and outpatient volumes, and cumulative deficiency of revenue over expenses at the Hospital and Medical Center totaling $303.2 million over the last seven fiscal years. In coordination with the transformation, plans include discontinuation of inpatient acute care services at the Hospital and Medical Center and the wind-down of the Hospital and Medical Center as a licensed full-service acute care hospital, subject to regulatory and other approvals. As a result of the decision, fiscal year 2021 restructuring charges are estimated in a range of $90 million to $115 million and will be recorded once regulatory approval has been received. The charges primarily include retention pay, severance and termination benefits, as well as other exit costs.

The Hospital and Medical Center recorded operating revenue of $56.5 million and $60.4 million, respectively, and incurred a deficiency of revenue over expense of $11.0 million and $6.8 million, respectively, for the three months ended September 30, 2020 and 2019.

4. PROPERTY AND EQUIPMENT

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

	September 30, 2020	June 30, 2020
Land	$ 359,310	$ 359,344
Buildings and improvements	10,255,560	10,240,356
Equipment	6,682,724	6,601,634
Finance lease right-of-use assets	91,097	34,152
Total	17,388,691	17,235,486
Accumulated depreciation and amortization	(9,992,083)	(9,787,322)
Construction in progress	826,133	830,421
Property and equipment, net	$ 8,222,741	$ 8,278,585

In conjunction with the acquisition of St. Francis Hospital and Medical Center, Hartford, CT ("SFC") during the year ended June 30, 2016, the Corporation committed to $275 million of capital spending over five years, if performance metrics were achieved, with the commitment period ended June 30, 2020. The Corporation's related capital spending for SFC through September 30, 2020 is $227.6 million. The Corporation is working with SFC to meet the full commitment targeted over the next 3 to 5 years, as the recent pace of investments have been limited due to the COVID-19 pandemic.

5. LONG-TERM DEBT AND OTHER FINANCING ARRANGEMENTS

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

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 September 30, 2020 and June 30, 2020 that has not been secured under the ARMI is generally collateralized by certain property and equipment.

Further, Mercy Health System of Chicago ("MHSC") has a $50.8 million mortgage loan outstanding at September 30, 2020 that is insured by the U.S. Department of Housing and Urban Development ("HUD"). MHSC's payment obligations under the two mortgage notes evidencing this loan are guaranteed by the Corporation. The mortgage loan agreements with HUD contain various covenants, including those relating to limitations on incurring additional debt, transactions with affiliates, transferring or disposing of designated property, use of funds and other assets of the mortgaged property, financial performance, required reserves, insurance coverage, timely submission of specified financial reports and restrictions on prepayment of the mortgage loan. MHSC and the Corporation provided covenants to HUD not to interfere in the performance of MHSC's obligations under the HUD-insured loan documents. MHSC is not a designated affiliate and is not part of the Trinity Health Credit Group.

Commercial Paper – The Corporation's commercial paper program is authorized for borrowings up to $600.0 million. As of September 30, 2020 and June 30, 2020, the total amount of commercial paper outstanding was $100.0 million, respectively. Proceeds from this program are to be used for general purposes of the Corporation. The notes are payable from the proceeds of subsequently issued notes and from other funds available to the Corporation, including funds derived from the liquidation of securities held by the Corporation in its investment portfolio.

Liquidity Facilities – On July 29, 2019, the Corporation renewed 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 $900 million available balance, the amount is divided equally among the three tranches ($300 million each). On July 29, 2019, the Corporation extended the maturity dates to August 2021, August 2022 and August 2023 for the related tranches, respectively. As of September 30, 2020 and June 30, 2020, there were no amounts outstanding under RCAI.

On July 29, 2019, the Corporation renewed a three-year general-purpose credit facility of $200 million with a maturity date of July 29, 2022 ("RCAII"), which is recorded in long-term debt on the consolidated balance sheets. In March 2020, the Corporation exercised its option to increase RCAII by $85 million, increasing the size of RCAII to $285 million. On March 16, 2020 and March 24, 2020, the Corporation executed draws on such credit facility in the amounts of $200 million and $85 million, respectively. As of September 30, 2020 and June 30, 2020, there was $285 million outstanding under RCAII.

In addition, in March 2020, the Corporation entered into two additional general-purpose credit facilities ("RCAIII" and "RCAIV," respectively) with separate financial institutions. The Corporation entered into RCAIII on March 24, 2020, in the amount of $400 million. A draw in the amount of $400 million was executed on March 25, 2020. RCAIII terminates on March 23, 2021. The Corporation entered into RCAIV on March 27, 2020, in the amount of $100 million. A draw in the amount of $100 million was executed on March 30, 2020. RCAIV terminates on March 25, 2022, which is recorded in long-term debt on the consolidated balance sheets. As of September 30, 2020 and June 30, 2020, there was $400 million outstanding under RCAIII. As of September 30, 2020 and June 30, 2020, there was $100 million outstanding under RCAIV.

On April 2, 2020, the Corporation entered into a general-purpose credit facility ("RCAV") in the amount of $100 million, and a draw in the amount of $100 million was executed on April 3, 2020. RCAV terminates on April 1, 2021. As of September 30, 2020 and June 30, 2020, there was $100 million outstanding under RCAV.

On June 18, 2020, the Corporation entered into an additional general-purpose credit facility ("RCAVI") in the amount of $115 million, and a draw in the amount of $115 million was executed on June 18, 2020.

RCAVI terminates on June 17, 2021. As of September 30, 2020 and June 30, 2020, there was $115 million outstanding under RCAVI.

Each financial institution providing liquidity support under RCAI, RCAII, RCAIII, RCAIV, RCAV, and RCAVI 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 $115.0 million as of September 30, 2020 and June 30, 2020, respectively. The arrangement supports multiple insurance, unemployment, and other risk liabilities that have been issued in the amounts of $85.3 million as of September 30, 2020 and June 30, 2020, respectively. As of September 30, 2020 and June 30, 2020 there were no draws on the letters of credit.

In March 2020, the Corporation entered into a two-year standby letters of credit arrangement with a separate 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 have been issued in the amount of $19.5 million as of September 30, 2020 and June 30, 2020, respectively. As of September 30, 2020 and June 30, 2020 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.

6. PROFESSIONAL AND GENERAL LIABILITY PROGRAMS

The Corporation operates a wholly owned insurance company, Trinity Assurance, Ltd. ("TAL"). TAL qualifies as a captive insurance company and provides certain insurance coverage to the Corporation's Health Ministries under a centralized program. The Corporation is self-insured for certain levels of general and professional liability, workers' compensation and certain other claims. The Corporation has limited its liability by purchasing other coverages from unrelated third-party commercial insurers. TAL has also limited its liability through commercial reinsurance arrangements.

The Corporation's current self-insurance program includes $15 million per occurrence for the primary layers of professional and general liability as well as $10 million per occurrence for hospital government liability, $5 million per occurrence for miscellaneous errors and omissions liability, and $1 million per occurrence for management liability (directors' and officers' and employment practices), network security and privacy liability and certain other coverages. In addition, through TAL and its various commercial reinsurers, the Corporation maintains integrated excess liability coverage with separate annual 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 2.5%. 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 September 30, 2020, 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 September 30, 2020 and June 30, 2020, the assets under these plans totaled $291.1 million and $272.9 million, respectively, and liabilities totaled $298.8 million and $278.3 million, respectively, which are included in self-insurance, benefit plans and other assets and other long-term liabilities in the consolidated balance sheets.

Defined Contribution Benefits – The Corporation sponsors defined contribution pension plans covering substantially all of its employees. These programs are funded by employee voluntary contributions, subject to legal limitations. Employer contributions to these plans include a nonelective contribution of 3% for participants who satisfy certain eligibility requirements, with a minimum nonelective contribution for certain participants, and varying levels of matching contributions based on employee service. The employees direct their voluntary contributions and employer contributions among a variety of investment options. Contribution expense under the plans totaled $88.5 million and $92.3 million for the three month periods ended September 30, 2020 and 2019, respectively.

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

Certain plans are subject to the provisions of the Employee Retirement Security Act of 1974 ("ERISA"). The majority of the plans sponsored by the Corporation are intended to be "Church Plans," as defined in 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.

Postretirement Health Care and Life Insurance Benefits ("Postretirement Plans") – The Corporation sponsors both funded and unfunded contributory plans to provide health care benefits to certain of its retirees. All of the Postretirement Plans are closed to new participants. The Postretirement Plans cover certain hourly and salaried employees who retire from certain Health Ministries. Medical benefits for these retirees are subject to deductibles and cost sharing provisions. The funded plans provide benefits to certain retirees at fixed dollar amounts in health reimbursement account arrangements for Medicare eligible participants. Components of net periodic benefit income for the three-month periods ended September 30 consisted of the following (in thousands):

	Pension Plans		Postretirement Plans	
	2020	**2019**	**2020**	**2019**
Service cost	$ -	$ -	$ 2	$ 8
Interest cost	60,388	70,355	809	1,067
Expected return on assets	(108,159)	(108,066)	(1,984)	(2,051)
Amortization of prior service cost	(1,229)	(1,229)	(111)	(111)
Recognized net actuarial loss (gain)	23,041	20,446	(348)	(385)
Net periodic benefit income	$ (25,959)	$ (18,494)	$ (1,632)	$ (1,472)

Service cost is included in employee benefits expense in the consolidated statements of operations and changes in net assets.

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 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 **–** In March 2020, the global COVID-19 pandemic began to significantly affect the Corporation's patients, communities, employees and business operations. Patient volumes and the related revenue for most of the Corporation's health care services were materially impacted in the spring of 2020 and continue to be impacted but were returning to more normalized levels through September 30, 2020. Various policies have been implemented by federal, state and local governments in response to the COVID-19 pandemic that caused restrictions on nonessential medical services, travel bans, physical distancing and shelter-in-place orders. Although it has continued the safe return of non-COVID-19 patient volumes, the Corporation continues to experience reduced patient volumes compared to the same period in the prior fiscal year. The Corporation's response to the COVID-19 pandemic continues to require additional staff and supply resources. Even with appropriate protective measures, community and workplace exposures to COVID-19 have resulted in clinicians and others in the Corporation's Health Ministries contracting the virus, which could further limit the ability to treat all patients who seek care, as workforce disruptions continue to occur. 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. In addition, broad economic factors resulting from the COVID-19 pandemic, including elevated unemployment rates and reduced consumer spending, are impacting service mix, revenue mix and patient volumes.

The Corporation expects consolidated patient volumes and revenue will continue to be negatively impacted by the continuing presence of COVID-19 in its' markets. The Corporation has taken and continues to take various actions to increase its liquidity and mitigate the impact on operations from the COVID-19 pandemic. Beginning In fiscal year 2020, the Corporation increased the amount available under, and drew upon, various revolving credit facilities. Furthermore, the Corporation continues to take steps to control capital and operational spending and reallocate resources to support its hospitals and clinicians. These steps continue to include furloughs, schedule reductions and negotiating supplier concessions. The Corporation has received significant Provider Relief Fund grants under both the CARES Act and the PPPHCE Act, which continue to add to unrestricted cash and days of cash.

Known and unknown risks and uncertainties caused by the COVID-19 pandemic, including those described above, are having, and will likely continue to have, a material impact on the Corporation's business, financial condition, results of operations and cash flows. At this point, the Corporation cannot estimate the length or severity of the pandemic, which limits the Corporation's ability to forecast the pandemic's impact on the Corporation's financial position, results of operations and cash flows. The impact to the Corporation's financial position, results of operations and cash flows are heavily dependent on the Corporation's ability to manage through surges of COVID-19 in each of the Health Ministries. The Corporation believes the actions it has taken continue to position Trinity Health to have liquidity adequate to fund essential services and make timely debt service payments during the COVID-19 pandemic.

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

9. SUBSEQUENT EVENTS

Management has evaluated subsequent events through November 30, 2020, the date the quarterly report was issued. The following subsequent events were noted:

Amendment of Repayment Terms of Medicare Advances - On October 1, 2020, the Continuing Appropriations Act, 2021 and Other Extensions Act (the "CA Act") was signed into law. Among other things, the CA Act significantly changed the repayment terms for Medicare advance payments made under the Medicare Fee-for-Service accelerated and advanced payment program. As originally structured, advance payments made under the program would have been recouped by offsetting 100% of the recipient's Medicare claim payments beginning 120 days after the advance payment was made, with interest beginning to accrue as soon as 210 days after the date of the advance at a rate of 10.25%. The CA Act amended these repayment terms as follows: allows recipients to extend repayment for a full year before recoupment of the advance payments begins; limits 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%; and lowers the interest rate on balances still outstanding after the 29-month recoupment period to 4.00%.

At September 30, 2020, the Corporation had received Medicare advance payments of approximately $1.6 billion, which were included in current liabilities in the consolidated balance sheets. During the quarter ended December 2020, the Corporation will reclassify approximately $1.3 billion of these advance payments to long-term liabilities as a result of the extended recoupment period under the CA Act.

Provider Relief Fund Grants - Subsequent to September 30, 2020, the Corporation received additional funding of $6 million in CARES Act and PPPHCE Act Relief Funds, which amounts did not qualify for financial statement recognition for the three months ended September 30, 2020. As discussed in Note 2, on October 22, 2020, and again on November 2, 2020, HHS further revised its guidance for reporting requirements for Provider Relief Fund grants. In addition to other changes, this guidance clarified the policy for transferring certain categories of grant funds among providers within a hospital system and significantly modified the methodology for determining lost revenues in connection with the grants. The October 22, 2020 guidance will result in an increase of grant revenue during the three months ending December 31, 2020 based on the Corporation's revised estimate of lost revenues through September 30, 2020.

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

September 30, 2020

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; evaluation of long-lived assets for impairment, including goodwill; reserves for losses and expenses related to health care professional and general liabilities; and risks and assumptions for measurement of pension and retiree medical liabilities. Management relies on historical experience and other assumptions, believed to be reasonable under the circumstances, in making its judgments and estimates. Actual results could differ materially from those estimates.

Coronavirus Pandemic

In March 2020, the global COVID-19 pandemic began to significantly affect the Corporation's patients, communities, employees and business operations. Patient volumes and the related revenue for most of the Corporation's health care services were materially impacted in the spring of 2020 and continue to be impacted but were returning to more normalized levels through September 30, 2020. Various policies have been implemented by federal, state and local governments in response to the COVID-19 pandemic that caused restrictions on nonessential medical services, travel bans, physical distancing and shelter-in-place orders. Although it has continued the safe return of non-COVID-19 patient volumes, the Corporation continues to experience reduced patient volumes compared to the same period in the prior fiscal year. The Corporation's response to the COVID-19 pandemic continues to require additional staff and supply resources. Even with appropriate protective measures, community and workplace exposures to COVID-19 have resulted in clinicians and others in the Corporation's Health Ministries contracting the virus, which could further limit the ability to treat all patients who seek care, as workforce disruptions continue to occur. 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. In addition, broad economic factors resulting from the COVID-19 pandemic, including elevated unemployment rates and reduced consumer spending, are impacting service mix, revenue mix and patient volumes.

The Corporation expects consolidated patient volumes and revenue will continue to be negatively impacted by the continuing presence of COVID-19 in its markets. The Corporation has taken and continues to take various actions to increase its liquidity and mitigate the impact on operations from the COVID-19 pandemic. Beginning In fiscal year 2020, the Corporation increased the amount available under, and drew upon, various revolving credit facilities. Furthermore, the Corporation continues to take steps to control capital and operational spending and reallocate resources to support its hospitals and clinicians. These steps continue to include furloughs, schedule reductions and negotiating supplier concessions. The Corporation has received significant Provider Relief Fund grants under both the Coronavirus Aid, Relief and Economic Security Act (the "CARES Act") and the Paycheck Protection Program and Health Care Enhancement Act ("PPPHCE Act," collectively the "Acts"), which continue to add to unrestricted cash reserves.

Known and unknown risks and uncertainties caused by the COVID-19 pandemic, including those described above, are having, and will likely continue to have, a material impact on the Corporation's business, financial condition, results of operations and cash flows. At this point, the Corporation cannot estimate the length or severity of the pandemic, which limits the Corporation's ability to forecast the pandemic's impact on the Corporation's financial position, results of operations and cash flows.

The impact to the Corporation's financial position, results of operations and cash flows are heavily dependent on the Corporation's ability to manage through surges of COVID-19 in each of the Health Ministries. The Corporation believes the actions it has taken continue to position Trinity Health to have liquidity adequate to fund essential services and make timely debt service payments during the COVID-19 pandemic.

The Corporation has received significant Provider Relief Fund grants under both the CARES Act and the PPPHCE Act. The Corporation received $1.1 billion of Provider Relief Fund grants through September 30, 2020, with $460.8 million received in the three months ended September 30, 2020. Grants recognized as revenue totaled $644 million for the year-ended June 30, 2020, with $2.4 million of additional grants recognized as revenue for the three months ended September 30, 2020. The U.S. Department of Health and Human Services ("HHS") issued revised guidance on the use, and thus revenue recognition of the grants, on September 19, 2020, and then issued further revised guidance on October 22, 2020 and November 2, 2020. Additionally, HHS continues to update and provide clarifying guidance via Frequently Asked Questions. Significant questions remain on the interpretation of the new guidance. The Corporation believes the amount of grants recognized as grant revenue is appropriate under the various and changing guidance from HHS and continues to monitor progression of clarifying guidance issued by HHS. If unable to attest to or comply with current or future terms and conditions, the Corporation's ability to retain some or all of the distributions received may be impacted.

Furthermore, during April 2020, the Corporation requested and received $1.6 billion of cash advances from accelerated Medicare payment requests under the CARES Act, which were recorded as Medicare cash advances on the consolidated balance sheet as of September 30, 2020 and June 30, 2020. On October 1, 2020, the Continuing Appropriations Act, 2021 and Other Extensions Act (the "CA Act") was signed into law. Among other things, the CA Act significantly changed the repayment terms for Medicare advance payments made under the Medicare Fee-for-Service accelerated and advanced payment program. As originally structured, advance payments made under the program would have been recouped by offsetting 100% of the recipient's Medicare claim payments beginning 120 days after the advance payment was made, with interest beginning to accrue as soon as 210 days after the date of the advance at a rate of 10.25%. The CA Act amended these repayment terms as follows: allows recipients to extend repayment for a full year before recoupment of the advance payments begins; limits 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%; and lowers the interest rate on balances still outstanding after the 29-month recoupment period to 4.00%. During the quarter ended December 2020, the Corporation will reclassify approximately $1.3 billion of these advance payments to long-term liabilities as a result of the extended recoupment period under the CA Act.

Lastly, the CARES Act provides for deferred payment of the employer portion of social security taxes between March 27, 2020, and December 31, 2020, with 50% of the deferred amount due December 31, 2021, and the remaining 50% due December 31, 2022. The Corporation began deferring the employer portion of social security taxes in mid-April 2020, with $205.4 million recorded in salaries, wages and related liabilities on the consolidated balance sheet as of September 30, 2020.

Recent Developments

Consolidation of Saint Agnes/Dignity/USP Surgery Centers, L.L.C. – Effective July 1, 2020, a venture was created between Saint Agnes Medical Center ("Saint Agnes"), CHI National Services ("Dignity") and USP Fresno Inc, a California corporation ("USP") (collectively, "Saint Agnes/Dignity/USP Surgery Centers", L.L.C., a California limited liability company). Saint Agnes owns a controlling interest of 50.1%, Dignity owns 24.95% and USP owns the remaining 24.95% interest of the venture. Saint Agnes/Dignity/USP Surgery Centers simultaneously acquired a 71.35% interest in two surgical hospitals, with the remaining interest held by physicians, Fresno Surgery Center, L.P. a California limited partnership d/b/a Fresno Surgical Hospital ("FSH") and Sierra Pacific Surgery Center, LLC, a Tennessee limited liability company d/b/a Sumit Surgical ("Summit"). Saint Agnes/Dignity/USP Surgery Centers recorded operating revenue of $25.5 million, operating income of $1.8 million, and excess of revenue over expenses of $1.3 million for the three months ended September 30, 2020. As a result of the acquisition, the

Corporation recorded $100.2 million of goodwill in its consolidated balance sheet as of July 1, 2020.

Results from Operations

Operating Income

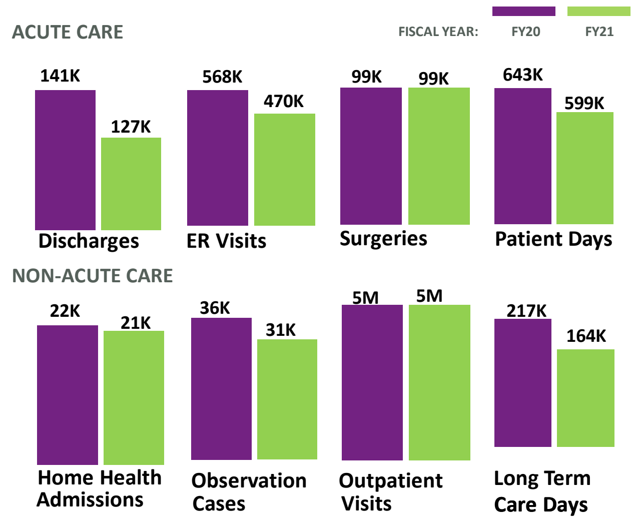
In the first quarter of fiscal year 2021, Trinity Health reported improved operating results driven by strong cost controls, lower operating expenses, as well as improved operating revenue compared to the fourth quarter of fiscal 2020, with negligible Provider Relief Fund grant revenue recognized in the quarter. Operating income of $112.1 million for the first three months of fiscal 2021 increased $18.1 million compared to $94.0 million in the same period in the prior fiscal year. The system's first quarter fiscal year 2021 operating margin was 2.3 percent compared to 2.0 percent in the same period of the prior year, while operating cash flow margin was 8.2 percent in the first quarter of fiscal year 2021 compared to 7.9 percent during the same period of the prior year.

Year-over-year volumes, as measured by case mix adjusted equivalent discharges ("CMAEDs"), decreased 5.2 percent for the three months ended September 2020 compared to the prior fiscal year. However, after significant volume declines in the spring of 2020 during the first pandemic surge and stay-at-home orders, the Corporation continues to see volume recovery across many of its markets, with resumption of outpatient and elective services that began in June.

(dollars in millions)	Q1 FY20	Q1 FY21
Operating Income	$94.0	$112.1
Operating Revenue	$4,806	$4,795
Operating Margin	2.0%	2.3%
Operating Cash Flow Margin	7.9%	8.2%

Revenue

Total operating revenue of $4.795 billion decreased $11.5 million, or 0.2%, for the first three months of fiscal year 2021 compared to the same period in fiscal year 2020. Net patient service revenue declined $54.8 million due primarily to the following: (i) $229.2 million from volume declines, partially offset by (ii) $85.4 million from payment rate increases, (iii) $66.0 million from improvements in case mix, and (iv) $12.2 million from improvements in payer mix. Other revenue increased $36.7 million primarily related to improved equity in earnings of the Corporation's investment in Gateway Health Plan. The Corporation recognized $2.4 million of Provider Relief Fund grant revenue for the three months ended September 2020, based on the September 19, 2020, revised guidance issued by HHS.



Expenses

Total operating expenses of $4.683 billion decreased $29.7 million, or 0.6% for the first three months of fiscal year 2021 compared to the same period in fiscal year 2020. The decrease in operating expenses was due primarily to the following: (i) a $34.8 million decrease in purchased services and medical claims, mainly from reduced gain share and consulting costs and (ii) a $13.2 million decrease in labor expenses, primarily driven by lower FTEs and lower contract labor expenses. These decreases were partially offset by increased supply expenses of $28.5 million driven by pandemic-related lab and drug costs.

Nonoperating Items

The Corporation reported gains in nonoperating items of $674.8 million for the first three months fiscal year 2021 compared to $83.9 million for the same period in fiscal year 2020. The $590.9 million increase in gains in the first three months of fiscal year 2021 was primarily due to higher investment earnings of $441.1 million, an increase of equity in earnings of unconsolidated affiliates of $112.3 million, and an increase in market value and cash payments of interest rate swaps of $29.8 million, all driven by overall global investment market conditions.

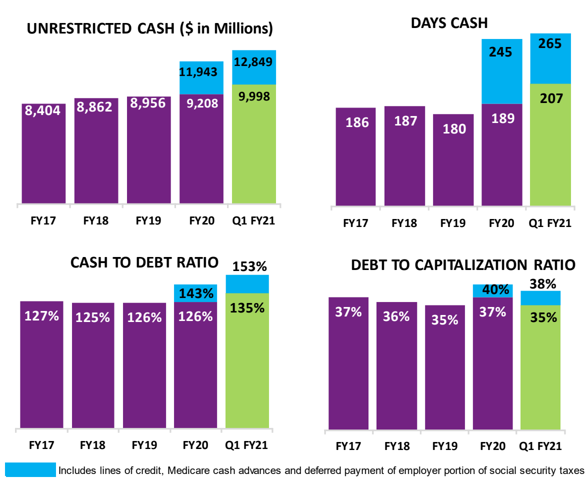
Excess of Revenue Over Expenses

Excess of revenue over expenses for the first three months of fiscal year 2021 was $771.9 million compared to $166.4 million for the same period in fiscal year 2020. The increase was primarily due to higher nonoperating gains.

Balance Sheet

Total assets of $31.9 billion increased $1.4 billion, or 4.7% as of September 30, 2020, compared to June 30, 2020. The increase in assets was due primarily to the following: (i) $906 million increase in unrestricted cash and investments, (ii) $204.2 million increase in investments in unconsolidated affiliates, (iii) $150.1 million increase in patient accounts receivable and (iv) $100.2 million increase in goodwill. Total assets include unrestricted cash and investments of $12.8 billion or 265 days of cash on hand. For the first three months of fiscal year 2021, days cash on hand increased 20 days primarily related to investment earnings and $328.1 million of additional Provider Relief Fund grants received. Net days in accounts receivable decreased by 6.8 days to 40.5 days as of September 30, 2020 compared to June 30, 2020.

Total liabilities of $17.5 billion increased $538.7 million, or 3.2%, primarily due to increased accounts payable and accrued expenses, including an increase of $325.7 million in Provider Relief Fund grants, and increased salaries, wages and related liabilities, including an increase of $104.0 million related to deferred payment of the employer portion of social security taxes under the CARES Act. Debt to capitalization as of September 30, 2020, decreased to a ratio of 38% from 40% compared to June 30, 2020.



Statement of Cash Flows

Cash, cash equivalents and restricted cash increased $9.7 million during the first quarter of fiscal year 2021. Operating activities provided $679.4 million of cash, including $328.1 million of Provider Relief Fund grants received. Investing activities used $653.9 million of cash including $464.6 million for net purchases of investments, $171.6 million for purchases of property and equipment and $42.9 million for acquisitions. Financing activities used $15.8 million of cash, including $17.4 million for repayments of debt.

TRINITY HEALTH
Liquidity Reporting
September 30, 2020

	($ in millions) (unaudited)	
ASSETS		
Daily Liquidity		
Money Market Funds (Moody's rated Aaa)	$ 75	
Checking and Deposit Accounts (at P-1 rated bank)	1,062	
Repurchase Agreements	-	
U.S. Treasuries & Aaa-rated Agencies	-	
Dedicated Bank Lines	900	
Subtotal Daily Liquidity (Cash & Securities)	$ 2,037	
Undrawn Portion of $600M Taxable Commercial Paper Program	500	
Subtotal Daily Liquidity Including Taxable Commercial Paper Program		$ 2,537
Weekly Liquidity		
Exchange Traded Equity	$ 3,238	
Publicly Traded Fixed Income Securities Rated at least Aa3 and Bond Funds	2,533	
Equity Funds	1,075	
Other	432	
Subtotal Weekly Liquidity		7,278
TOTAL DAILY AND WEEKLY LIQUIDITY		$ 9,815
Longer-Term Liquidity		
Funds, vehicles, investments that allow withdrawals with less than one-month notice	3,020	
Funds, vehicles, investments that allow withdrawals with one-month notice or longer	2,345	
Total Longer-Term Liquidity		$ 5,365
LIABILITIES (Self-liquidity Variable Rate Demand Bonds & Commercial Paper)		
Weekly Put Bonds		
VRDO Bonds (7-day)		$ 206
Long-Mode Put Bonds		
VRDO Bonds (Commercial Paper Mode)		160
Taxable Commercial Paper Outstanding		100
TOTAL SELF-LIQUIDITY DEBT AND COMMERCIAL PAPER		$ 466
Ratio of Daily and Weekly Liquidity to Self-Liquidity Debt and Commercial Paper		21.06

Trinity Health
Financial Ratios and Statistics (Unaudited)

	September 30, 2020	September 30, 2019
<u>**Financial Indicators**</u>		
Liquidity Ratios (at September 30)		
Days Cash on Hand	265	183
Days in Accounts Receivable, Net	41	45
Leverage Ratios (at September 30)		
Debt to Capitalization	38%	35%
Cash to Debt	153%	126%
Profitability Ratios (For the Three Months Ended September 30)		
Operating Margin	2.3%	2.0%
Operating Cash Flow Margin	8.2%	7.9%
<u>**Statistical Indicators (For the Year Ended June 30)**</u>		
Rounded to nearest thousand		
Discharges	127,000	141,000
Patient Days	599,000	643,000
Outpatient Visits	5,040,000	5,036,000
Emergency Room Visits	470,000	568,000
Observation Cases	31,000	36,000
<u>Continuing Care</u>		
Home Health Admissions	21,000	22,000
Long-term Care Patient Days	164,000	217,000