Trinity Health Completes Acquisition of MercyOne in Iowa during the First Quarter of FY2023
For the three months ended September 30, 2022

Summary Highlights for the First Quarter of FY2023 (Quarter Ended September 30, 2022)

Trinity Health reported growth in operating revenue of 0.7 percent to $5.0 billion in the first quarter of fiscal year 2023 compared to the first quarter of fiscal year 2022, with negligible Provider Relief Fund grant revenue recognized in both fiscal years. Revenue growth was aided by the September 1, 2022, acquisition of MercyOne in Iowa which added $126.2 million of operating revenue during the first quarter of the fiscal year. Excluding the MercyOne acquisition, revenue declined $89.9 million or 1.8 percent over the same quarter in the prior fiscal year, driven by a $77 million reduction in other revenue and a slight 0.3 percent, or $12.9 million, reduction in net patient service revenue. Other revenue was impacted primarily by a $20.1 million reduction in gain share revenue, an $18.1 million reduction in equity in earnings of unconsolidated affiliates and a $14.3 million reduction in pharmacy revenue, mainly in 340B programs. Including reductions in case mix index, volumes as measured by case mix adjusted equivalent discharges declined 2.5 percent during the first quarter of fiscal year 2023 compared to the same period in the prior fiscal year. Patient volumes have been impacted by staffing challenges. Volumes are stabilizing to a new normal and inpatient volumes may not return to pre-pandemic levels. The majority of the Corporation's revenue is comprised of outpatient and other non-patient revenue, and we continue to diversify our business segments as shifts from inpatient care to ambulatory, home health and digital telehealth care continue across the industry. With a focus on revenue improvement initiatives, improvements in payment rate helped to offset the impact of lower volumes.

Operating expenses increased $288.9 million, or 5.9 percent during the first three months of fiscal year 2023 over the same period in the prior fiscal year, with the MercyOne acquisition accounting for $131.2 million, or 2.7 percent, of the increase. Excluding the impact of the MercyOne acquisition, operating expenses for the first three months of fiscal year 2023 increased $157.6 million, or 3.2 percent, to $5.0 billion as the Corporation continues to tightly manage operating costs amid rising inflation. On a combined basis and excluding the impact of the MercyOne acquisition, salaries, wages, and employee benefit costs rose $134.0 million, or 5.3 percent, with a 6.8 percent increase in salary rates, partially offset by a 1.4 percent decrease in FTEs as aftershocks of the pandemic continue to drive industry wide staffing shortages and wage inflation. Expense increases were also incurred in occupancy, interest and insurance costs excluding the impact of the MercyOne acquisition. The Corporation continues to use strong cost controls over contract labor and other operational spending as we invest in our colleagues and utilize our FirstChoice internal staffing agency to augment labor stabilization. As a result, excluding the impact of the MercyOne acquisition, contract labor costs decreased $1.0 million in the first three months of fiscal year 2023 compared to the same period in the prior fiscal year. Further expense reductions were seen in supplies, purchased services and depreciation and amortization, with a 3% improvement in supply costs as percentage of net patient service revenue as the Corporation works to align expenses with revenue.

Downward pressure on first quarter fiscal year 2023 margins was driven by controlled expense growth that is still outpacing revenue growth, primarily premium labor rates. The Corporation reported an operating loss of $146.3 million (operating margin of (2.9) percent and operating cash flow margin of 2.8 percent) for the three months ended September 30, 2022 compared to operating income of $106.3 million (operating margin of 2.1 percent and operating cash flow margin of 7.7 percent) during the same period in the prior fiscal year. The Corporation is focused on clinical optimization and access, revenue growth opportunities, labor retention, recruitment and stabilization, new care delivery models, and continued cost reduction plans to improve operating performance during the remainder of fiscal year 2023.

In the first quarter of fiscal year 2022, other items included a $128.7 million gain on the sale of Gateway Health Plan, L.P. ("GHP") as the Corporation sold its 50 percent interest in GHP to the existing partner and parent owner, Highmark Ventures on August 31, 2021. During the first three months of fiscal year 2023, the Corporation reported non-operating losses of $404.6 million compared to $164.9 million of non-operating income during the same period in the prior fiscal year. The reduction was due primarily to investment returns of (3.5) percent in the first quarter of fiscal year 2023 compared to returns of 0.6 percent in the first quarter of fiscal year 2022. Investment results also drove equity in earnings of unconsolidated affiliates into a loss position. (Deficiency) excess of revenue over expenses for the fiscal year 2023 totaled ($565.0 million) (net margin of (12.3) percent), compared to $378.8 million (net margin of 7.2 percent) in the same period of fiscal year 2022.

Highlights as of and for the three months ended September 30, 2022, include:

- Total assets of $30.7 billion and net assets of $16.4 billion;
- Operating revenue growth of 0.7 percent to $5.0 billion compared to fiscal year 2022, including the impact of the MercyOne acquisition;
- Operating loss before other items of $146.3 million, or (2.9) percent operating margin;
- Unrestricted cash and investments of $9.8 billion; days cash on hand of 183 days compared to 211 days for the year ended June 30, 2022, including CARES Act Medicare cash advances, of which $379.7 million were repaid in the first quarter of fiscal year 2023; excluding Medicare cash advances, September 30, 2022 days cash on hand of 182 days decreased 21 days since June 30, 2022. The acquisition of MercyOne used 8 days of cash on hand (net of unrestricted cash and investments acquired in the transaction).

TRINITY HEALTH

UNAUDITED QUARTERLY REPORT

As of September 30, 2022, and June 30, 2022, and
For the three months ended September 30, 2022 and 2021

TRINITY HEALTH

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

ASSETS	As of September 30, 2022	As of June 30, 2022
CURRENT ASSETS:		
Cash and cash equivalents	$ 615,257	$ 643,363
Investments	5,242,325	5,717,088
Security lending collateral	444,319	502,981
Assets limited or restricted as to use - current portion	498,242	475,836
Patient accounts receivable	2,284,847	2,053,459
Estimated receivables from third-party payers	345,292	313,580
Other receivables	418,736	356,691
Inventories	408,617	383,736
Prepaid expenses and other current assets	323,514	171,547
Total current assets	10,581,149	10,618,281
ASSETS LIMITED OR RESTRICTED AS TO USE - noncurrent portion:		
Self-insurance, benefit plans, and other	919,516	912,032
By Board	3,725,715	4,494,293
By donors	522,970	503,742
Total assets limited or restricted as to use - noncurrent portion	5,168,201	5,910,067
PROPERTY AND EQUIPMENT - Net	8,555,525	8,154,678
OPERATING LEASE RIGHT-OF-USE ASSETS	639,429	530,999
INVESTMENTS IN UNCONSOLIDATED AFFILIATES	4,607,012	4,717,711
GOODWILL	820,660	814,131
PREPAID PENSION AND RETIREE HEALTH ASSETS	94,197	91,281
OTHER ASSETS	308,138	284,206
TOTAL ASSETS	$ 30,774,311	$ 31,121,354

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, 2022**	**June 30, 2022**
CURRENT LIABILITIES:		
Commercial paper	$ 399,142	$ 99,693
Short-term borrowings	632,730	632,730
Current portion of long-term debt	321,472	247,149
Current portion of operating lease liabilities	157,020	137,254
Medicare cash advances	29,402	389,485
Accounts payable and accrued expenses	1,737,244	1,453,495
Salaries, wages and related liabilities	1,130,410	1,198,363
Payable under security lending agreements	444,319	502,981
Estimated payables to third-party payers	314,936	341,683
Current portion of self-insurance reserves	335,857	324,166
Total current liabilities	5,502,532	5,326,999
LONG-TERM DEBT - Net of current portion	6,335,856	6,416,701
LONG-TERM PORTION OF OPERATING LEASE LIABILITIES	571,744	481,391
SELF-INSURANCE RESERVES - Net of current portion	1,160,026	1,158,241
ACCRUED PENSION AND RETIREE HEALTH COSTS	144,044	165,018
OTHER LONG-TERM LIABILITIES	659,170	675,696
Total liabilities	14,373,372	14,224,046
NET ASSETS:		
Net assets without donor restrictions	15,296,419	15,821,267
Noncontrolling ownership interest in subsidiaries	492,008	489,489
Total net assets without donor restrictions	15,788,427	16,310,756
Net assets with donor restrictions	612,512	586,552
Total net assets	16,400,939	16,897,308
TOTAL LIABILITIES AND NET ASSETS	$ 30,774,311	$ 31,121,354

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, 2022 AND 2021

(In thousands)

	2022	2021
OPERATING REVENUE:		
Net patient service revenue	$ 4,330,621	$ 4,238,411
Premium and capitation revenue	273,156	274,355
Net assets released from restrictions	5,655	4,926
Other revenue	398,239	453,618
Total operating revenue	5,007,671	4,971,310
EXPENSES:		
Salaries and wages	2,268,414	2,137,866
Employee benefits	418,522	396,543
Contract labor	135,747	84,372
Total labor expenses	2,822,683	2,618,781
Supplies	890,981	879,842
Purchased services and medical claims	687,200	680,656
Depreciation and amortization	224,030	221,530
Occupancy	206,702	187,132
Interest	61,186	55,176
Other	261,143	221,871
Total expenses	5,153,925	4,864,988
OPERATING (LOSS) INCOME BEFORE OTHER ITEMS	(146,254)	106,322
Gain on sale of Gateway Health Plan L.P.	-	127,204
OPERATING (LOSS) INCOME	(146,254)	233,526
NONOPERATING ITEMS:		
Investment (losses) earnings	(369,538)	77,825
Equity in (losses) earnings of unconsolidated affiliates	(49,420)	78,256
Change in market value and cash payments of interest rate swaps	28,313	4,460
Other net periodic retirement (cost) income	(18,007)	5,284
Other, including income taxes	4,026	(952)
Total nonoperating items	(404,626)	164,873
(DEFICIENCY) EXCESS OF REVENUE OVER EXPENSES	(550,880)	398,399
EXCESS OF REVENUE OVER EXPENSES ATTRIBUTABLE TO NONCONTROLLING INTEREST	(14,139)	(19,564)
(DEFICIENCY) EXCESS OF REVENUE OVER EXPENSES, net of noncontrolling interest	$ (565,019)	$ 378,835

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, 2022 AND 2021
(In thousands)

	2022	2021
NET ASSETS WITHOUT DONOR RESTRICTIONS:		
Net assets without donor restrictions attributable to Trinity Health:		
Excess of revenue over expenses	$ (565,019)	$ 378,835
Net assets released from restrictions for capital acquisitions	5,457	2,036
Net change in retirement plan related items - consolidated organizations	31,349	18,584
Other	3,365	2,030
(Decrease) increase in net assets without donor restrictions attributable to Trinity Health	(524,848)	401,485
Net assets without donor restrictions attributable to noncontrolling interest:		
Excess of revenue over expenses attributable to noncontrolling interest	14,139	19,564
Dividends and other	(11,620)	(12,275)
Increase in net assets without donor restrictions attributable to noncontrolling interest	2,519	7,289
NET ASSETS WITH DONOR RESTRICTIONS:		
Contributions:		
Program and time restrictions	11,055	10,492
Endowment funds	140	33
Net investment gains (losses):		
Program and time restrictions	(3,266)	3,086
Endowment funds	(5,700)	(541)
Net assets released from restrictions	(11,112)	(6,962)
Acquisitions	34,526	-
Other	317	(877)
Increase in net assets with donor restrictions	25,960	5,231
(DECREASE) INCREASE IN NET ASSETS	(496,369)	414,005
NET ASSETS - BEGINNING OF YEAR	16,897,308	18,508,265
NET ASSETS - END OF PERIOD	$ 16,400,939	$ 18,922,270

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, 2022 AND 2021
(In thousands)

	2022	2021
OPERATING ACTIVITIES:		
(Decrease) increase in net assets	$ (496,369)	$ 414,005
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	224,030	221,530
Amortization of right-of-use asset	32,545	31,464
Change in net unrealized and realized gains and losses on investments	431,164	(19,139)
Change in market values of interest rate swaps	(31,992)	(10,211)
Undistributed equity in earnings of unconsolidated affiliates	62,390	(26,914)
Gain on sale of Gateway Health Plan L.P.	-	(127,204)
Deferred retirement items - consolidated organizations	(13,800)	(6,151)
Restricted contributions and investment income received	(10,319)	(598)
Other adjustments	(40,028)	1,506
Changes in:		
Patient accounts receivable	(54,832)	22,839
Estimated receivables from third-party payers	(30,686)	13,174
Prepaid pension and retiree health costs	(2,916)	(25,363)
Other assets	(183,155)	(102,235)
Medicare cash advances	(379,731)	(174,145)
Accounts payable and accrued expenses	141,790	98,723
Estimated payables to third-party payers	(28,102)	23,156
Self-insurance reserves and other liabilities	(51,266)	(20,040)
Accrued pension and retiree health costs	(7,174)	(9,852)
Total adjustments	57,918	(109,460)
Net cash (used in) provided by operating activities	(438,451)	304,545
INVESTING ACTIVITIES:		
Net sales (purchases) of investments	933,703	(297,432)
Purchases of property and equipment	(230,970)	(169,351)
Cash proceeds from sale of Gateway Health Plan L.P.	-	321,904
Net cash used for acquisitions	(560,565)	-
Change in other investing activities	(1,079)	10,461
Net cash provided by (used in) investing activities	141,089	(134,418)
FINANCING ACTIVITIES:		
Proceeds from issuance of debt	15,077	12,082
Repayments of debt	(17,708)	(56,777)
Net change in commercial paper	299,449	19,994
Dividends paid	(11,564)	(11,641)
Proceeds from restricted contributions and restricted investment income	10,314	593
Increase in financing costs and other	(305)	(303)
Net cash provided by (used in) financing activities	295,263	(36,052)
NET (DECREASE) INCREASE IN CASH, CASH EQUIVALENTS, AND RESTRICTED CASH	(2,099)	134,075
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH - BEGINNING OF YEAR	801,155	949,951
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH - END OF PERIOD	$ 799,056	$ 1,084,026

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 26 states. The operations are organized into Regional Health Ministries, National Health Ministries and Mission Health Ministries ("Health Ministries"). The mission statement for the Corporation is as follows:

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") for interim financial reporting information. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation have been included and are of a normal and recurring nature. Operating results for the three months ended September 30, 2022 are not necessarily indicative of the results to be expected for the year ending June 30, 2023.

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

Use of Estimates – The preparation of consolidated financial statements in conformity with GAAP requires management of the Corporation to make assumptions, estimates and judgments that affect the amounts reported in the consolidated financial statements, including the notes thereto, and related disclosures of commitments and contingencies, if any.

The Corporation considers critical accounting policies to be those that require more significant judgments and estimates in the preparation of its consolidated financial statements, including the following: recognition of net patient service revenue, which includes explicit and implicit price concessions; financial assistance; premium revenue; recorded values of investments and derivatives; goodwill; evaluation of long-lived assets for impairment; reserves for losses and expenses related to health care professional and general liabilities; and risks and assumptions for measurement of pension and retiree health liabilities. Management relies on historical experience and other assumptions believed to be reasonable in making its judgments and estimates. Actual results could differ materially from those estimates.

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

The following table reconciles cash, cash equivalents and restricted cash shown in the statements of cash flows to amounts presented within the consolidated balance sheets as of September 30 (in thousands):

	2022	2021
Cash and cash equivalents	$ 615,257	$ 929,088
Restricted cash included in assets limited or restricted as to use - current portion		
Held by trust under bond indenture	3,962	4,147
Self insured benefit plans & other	109,822	80,202
By donors	4,732	5,642
Total restricted cash included in assets limited or restricted as to use - current portion	118,516	89,991
Restricted cash included in assets limited as to use - noncurrent portion		
Self insured benefit plans & other	31,198	33,867
By donors	34,085	31,080
Total restricted cash included in assets limited or restricted as to use - noncurrent portion	65,283	64,947
Total cash, cash equivalents, and restricted cash shown in the statements of cash flows	$ 799,056	$ 1,084,026

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, 2022, and June 30, 2022, the Corporation had securities loaned of $689.0 million and $748.6 million, respectively, and received collateral (cash and noncash) totaling $710.9 million and $774.7 million, respectively, relating to the securities loaned. The fees received for these transactions are recorded in nonoperating investment income in the consolidated statements of operations and changes in net assets. In addition, certain pension plans participate in securities lending programs with the Northern Trust Company, the plans' agent.

Patient Accounts Receivable, Estimated Receivables from and Payables to Third-Party Payers – An unconditional right to payment, subject only to the passage of time is treated as a receivable. Patient accounts receivable, including billed accounts and unbilled accounts for which there is an unconditional right to payment, and estimated amounts due from third-party payers for retroactive adjustments, are receivables if the right to consideration is unconditional and only the passage of time is required before payment of that consideration is due. For patient accounts receivable, the estimated uncollectable amounts are generally considered implicit price concessions that are a direct reduction to patient service revenue and accounts receivable.

The Corporation has agreements with third-party payers that provide for payments to the Corporation's Health Ministries at amounts different from established rates. Estimated retroactive adjustments under reimbursement agreements with third-party payers and other changes in estimates are included in net patient service revenue and estimated receivables from and payables to third-party payers. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods, as final settlements are determined.

Assets Limited as to Use – Assets set aside by the Board for quasi-endowments, future capital improvements, future funding of retirement programs and insurance claims, retirement of debt, held for borrowings under the intercompany loan program, and other purposes over which the Board retains control and may at its discretion subsequently use for other purposes, assets held by trustees under bond indenture and certain other agreements, and self-insurance trust and benefit plan arrangements are included in assets limited as to use.

Donor-Restricted Gifts – Unconditional promises to give cash and other assets to the Corporation are reported at fair value at the date the promise is received. Conditional promises to give and indications of intentions to give are reported at fair value at the date the gift is received. The gifts are reported as support with donor restrictions if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or program restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the consolidated statements of operations and changes in net assets as net assets released from restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are reported as contributions without donor restrictions in the consolidated statements of operations and changes in net assets.

Inventories – Inventories are stated at the lower of cost or market. The cost of inventories is determined principally by the weighted-average cost method.

Property and Equipment – Property and equipment, including internal-use software, are recorded at cost, if purchased, or at fair value at the date of donation, if donated. Finance lease right-of-use assets included in property and equipment represent the right to use the underlying assets for the lease term and are recognized at the lease commencement date based on the present value of lease payments over the term of the lease.

Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed using either the straight-line or an accelerated method and includes finance lease right-of-use asset amortization and internal-use software amortization. The useful lives of property and equipment range from 2 to 51 years, and finance lease agreements have initial terms typically ranging from 3 to 30 years. Interest costs incurred during the period of construction of capital assets are capitalized as a component of the cost of acquiring those assets.

Gifts of long-lived assets such as land, buildings, or equipment are reported as support without donor restrictions and are excluded from the excess of revenue over expenses, unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as support with donor restrictions.

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

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

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

Goodwill – Goodwill represents the future economic benefits arising from assets acquired in a business combination that are not individually identified and separately recognized.

Asset Impairments –

Property, Equipment and Right-of-Use Lease Assets – The Corporation evaluates long-lived assets for possible impairment whenever events or changes in circumstances indicate that the carrying amount of the asset, or related group of assets, may not be recoverable from estimated future undiscounted cash flows. If the estimated future undiscounted cash flows are less than the carrying value of the assets, the impairment recognized is calculated as the carrying value of the long-lived assets in excess of the fair value of the assets. The fair value of the assets is estimated based on appraisals, established market values of comparable assets or internal estimates of future net cash flows expected to result from the use and ultimate disposition of the assets.

Goodwill – Goodwill is tested for impairment on an annual basis or when an event or change in circumstance indicates the value of a reporting unit may have changed. Testing is conducted at the reporting unit level. If the carrying amount of the reporting unit goodwill exceeds the implied fair value of that goodwill, an impairment loss is recognized in an amount equal to that excess. Estimates of fair value are based on appraisals, established market prices for comparable assets or internal estimates of future net cash flows.

Other Assets – Other assets include long-term notes receivable, reinsurance recovery receivables, definite- and indefinite-lived intangible assets other than goodwill and prepaid retiree health costs. The net balances of definite-lived intangible assets include noncompete agreements, physician guarantees and other definite-lived intangible assets with finite lives amortized using the straight-line method over their estimated useful lives, which generally range from 2 to 20 years. Indefinite-lived intangible assets primarily include trade names, which are tested annually for impairment.

Short-Term Borrowings – Short-term borrowings include puttable variable-rate demand bonds supported by self-liquidity or liquidity facilities considered short-term in nature.

Medicare Cash Advances – In April 2020, the Corporation requested and received accelerated Medicare payments of $1.6 billion for its acute care hospitals, which was provided through the Coronavirus Aid, Relief and Economic Security Act (the "CARES Act"). The repayment terms allow recipients to extend repayment for a full ear before recoupment of the advance payments begins and limit the claim payment offset to 25% of the recipient's full Medicare payments for 11 months, followed by six months with claim offset limited to 50%. At the end of the 29-month period, any unapplied advance repayment amounts must be repaid by the Corporation. Claims for services provided to Medicare beneficiaries began being applied against the Corporation's cash advances in April 2021. Recoupment amounts estimated to be repaid within one year are classified in current liabilities on the consolidated balance sheets. During the three months ended September 30, 2022 and year ended June 30, 2022, the Center for Medicare and Medicaid Services ("CMS") recouped $379.7 million and $907.1 million, respectively, of the advances. The remaining balance as of September 30, 2022 is estimated to be repaid by the second quarter of fiscal year 2023 and is therefore classified in current liabilities on the consolidated balance sheets.

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.

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

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

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

PRF grants and Rural payments recognized as revenue, recorded in other revenue in the consolidated statements of operations and changes in net assets, totaled $0.1 million and $1.5 million for the three months ended September 30, 2022 and 2021, respectively. The Corporation has recognized substantially all grants received in other revenue in the statements of operations and changes in net assets through September 30,

2022. The Corporation has transferred both General Distribution and Targeted Distribution PRF grants amongst its subsidiaries. Compliance with the HHS Provider Relief Fund General and Targeted Distribution Post-Payment Notice of Reporting Requirements is complex and subject to HHS audit. Transferred Targeted Distribution payments face an increased likelihood of an audit by HHS. There can be no assurance that HHS will not challenge the Corporation's compliance with these reporting requirements. The Corporation believes the amount of PRF grants and Rural payments recognized as grant revenue is appropriate under the guidance from the Department of Health and Human Services ("HHS").

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

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

Forthcoming Accounting Pronouncements –

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

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

3. INVESTMENTS IN UNCONSOLIDATED AFFILIATES, BUSINESS ACQUISITIONS AND DIVESTITURES

Investments in Unconsolidated Affiliates – The Corporation and certain of its Health Ministries have investments in entities that are recorded under the cost and equity methods of accounting. The Corporation's share of equity earnings or losses from entities accounted for under the equity method and the classification on the consolidated statements of operations and changes in net assets for the three months ended September 30 are as follows (in thousands):

	2022	2021
Other revenue	$ 5,926	$ 23,542
Nonoperating Items	(49,420)	78,256
Total equity in (losses) earnings of unconsolidated affiliates	$ (43,494)	$ 101,798

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, 2022, and June 30, 2022, the Corporation's investment in BayCare totaled $3,918 million and $3,975 million, respectively.

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

Effective August 31, 2021, the Corporation, through MHP, sold its 50% interest in GHP to the existing partner and parent owner, Highmark. As a result of the transaction, the Corporation received a $62.5 million dividend distribution on August 27, 2021. Furthermore, the Corporation recorded a gain on the sale of $127.2 million in the three-month period ended September 30, 2021. As of both September 30, 2022, and June 30, 2022, the Corporation's investment in GHP totaled $0.

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, 2022, and June 30, 2022, the Corporation's investment in EH/SJHS totaled $216.9 million and $209.9 million, respectively.

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

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

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

	September 30, 2022	
	Baycare	**EH/SJHS**
Total assets	$ 10,794,552	$ 851,750
Total liabilities	$ 2,838,732	$ 611,631

	June 30, 2022		
	Baycare	**EH/SJHS**	**MHN**
Total assets	$ 10,913,820	$ 843,603	$ 336,400
Total liabilities	$ 2,842,405	$ 546,243	$ 109,263

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

	Three months ended September 30, 2022		
	Baycare	**EH/SJHS**	**MHN**
Revenue, net	$ 1,218,843	$ 227,031	$ 64,186
Excess (deficiency) of revenue over expenses	$ (112,419)	$ 10,053	$ (4,236)

MHN results are prior to the acquistion date of September 1, 2022, for the two months ended August 31, 2022.

	Three months ended September 30, 2021		
	Baycare	**EH/SJHS**	**MHN**
Revenue, net	$ 1,146,642	$ 252,075	$ 107,368
Excess (deficiency) of revenue over expenses	$ 120,206	$ 48,830	$ 3,530

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

	Three months ended September 30, 2022		
	Baycare	**EH/SJHS**	**MHN**
Other revenue	$ -	$ -	$ (2,077)
Equity in (losses) earnings of unconsolidated organizations	(56,670)	7,009	-
Other changes in net assets without donor restrictions	472	-	-
Total	$ (56,199)	$ 7,009	$ (2,077)

	Three months ended September 30, 2021			
	Baycare	EH/SJHS	GHP	MHN
Other revenue	$ -	$ -	$ -	$ 1,965
Equity in earnings of unconsolidated organizations	60,596	16,481	1,650	-
Gain on sale of investment	-	-	127,204	-
Other changes in net assets without donor restrictions	1,586	-	(300)	-
Total	$ 62,182	$ 16,481	$ 128,554	$ 1,965

Acquisitions:

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

The cash paid to CSH in consideration for the MercyOne Acquisition totaled $613.0 million. A post-closing reconciliation adjustment to the purchase price is stipulated in the definitive agreement to be determined and paid by the end of the second quarter of fiscal year 2023. The Corporation is still in the process of assessing the economic characteristics of certain assets acquired and liabilities assumed. The Corporation expects to substantially complete this assessment by June 30, 2023 and may adjust the amounts recorded as of September 1, 2022, to reflect revised evaluations. Based on purchase price paid as of September 1, 2022, the fair value of assets acquired, and liabilities assumed exceeded the fair value of consideration paid by an immaterial amount that was recorded as a gain in nonoperating items other, including income taxes in the consolidated statement of operations and changes in net assets.

Preliminary purchase price allocations (representing the fair value of consideration conveyed) for the MercyOne Acquisition is shown below as of September 1, 2022 (in thousands):

Estimated fair value of net tangible assets acquired:	
Investment, current	$ 56,072
Patient accounts receivable	176,557
Other current assets	57,218
Assets limited or restricted as to use - noncurrent portion	89,659
Property and equipment - net	452,803
Operating lease right-of-use assets	124,577
Other long-term assets	69,055
Previously held investments in unconsolidated affiliates	(111,151)
Current liabilities	(186,492)
Long-term portion of operating lease liabilities	(104,085)
Long-term debt	(1,516)
Other long-term liabilities	(29,285)
Net assets with donor restrictions	(34,526)
Cash paid, net of cash acquired	(553,897)
Gain	$ 4,989

For the three months ended September 30, 2022, the Corporation's consolidated statements of operations and changes in net assets included operating revenue of $126.2 million, operating losses of $5.0 million, and deficiency of revenue over expense of $7.0 million related to the operations of the MercyOne Acquisition.

The amount of the Corporation's pro forma revenue, earnings and changes in net assets had the MercyOne Acquisition occurred on July 1, 2021 for the three-month periods ended September 30 are as follows (in thousands):

	2022	2021
Total operating revenue	$ 5,242,701	$ 5,363,069
(Deficiency) excess of revenue over expenses net of noncontrolling interest	(580,186)	391,116
Change in net assets without donor restrictions	(554,457)	421,226
Change in net assets with donor restrictions	(7,630)	6,516

Pending Acquisitions:

Madera Community Hospital – On August 17, 2022, the Corporation and its affiliates, Saint Agnes Health and Saint Agnes Medical Center, signed a definitive agreement with Madera Community Hospital ("Madera") under which Saint Agnes Health would become the sole member of Madera upon the closing of the transaction. The transaction is contemplated to be completed in the second or third quarter of fiscal year 2023 and is subject to customary closing conditions and regulatory approvals. Madera operates an acute care hospital and provides certain other health care services in Madera, California. For the years ended June 30, 2022 and 2021, respectively, Madera's reported operating revenue totaled $104 million and $100 million, and deficiency of revenue over expenses totaled $13.1 million and $2.5 million.

Pending Divestiture:

St. Francis Medical Center ("SFMC") Trenton, N.J. – On December 22, 2021, the Corporation, its subsidiary Maxis Health System ("Maxis"), and SFMC signed a membership transfer agreement with Capital Health System, Inc. ("Capital") under which Capital will acquire the membership interest in SFMC and other associated operations of SFMC from Maxis, as well as $14.5 million of cash, and certain inventory and equipment. The Corporation anticipates the membership interest transfer will occur during the second quarter of its fiscal year 2023 and is subject to customary closing conditions, and regulatory review and approval by certain governmental authorities. There are no assurances that this transaction will occur. As a result of this transaction, the Corporation estimates restructuring charges in the range of $70 million to $100 million will be incurred.

For the three months ended September 30, 2022 and 2021, the Corporation's consolidated statements of operations and changes in net assets included operating revenue of $31.2 million and $37.3 million, respectively, and deficiency of revenue over expenses of $14.4 million and $5.7 million, respectively, related to the operations of SFMC.

4. PROPERTY AND EQUIPMENT

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

	September 30, 2022	June 30, 2022
Land	$ 399,978	$ 346,425
Buildings and improvements	10,946,386	10,613,884
Equipment	7,359,190	7,226,485
Finance lease right-of-use assets	91,417	90,717
Total	18,796,971	18,277,511
Accumulated depreciation and amortization	(10,983,910)	(10,764,701)
Construction in progress	742,464	641,868
Property and equipment - net	$ 8,555,525	$ 8,154,678

5. LONG-TERM DEBT AND OTHER FINANCING ARRANGEMENTS

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

Pursuant to the ARMI, the Obligated Group agent (which is the Corporation) has caused the designated affiliates representing, when combined with the Obligated Group members, at least 85% of the consolidated net revenues of the Trinity Health Credit Group to grant to the master trustee security interests in their pledged property which security interests secure all obligations issued under the ARMI. There are several conditions and covenants required by the ARMI with which the Corporation must comply, including covenants that require the Corporation to maintain a minimum historical debt-service coverage and limitations on liens or security interests in property, except for certain permitted encumbrances, affecting the property of the Corporation or any material designated affiliate (a designated affiliate whose total revenues for the most recent fiscal year exceed 5% of the combined total revenues of the Corporation for the most recent fiscal year). Long-term debt outstanding as of September 30, 2022 and June 30, 2022 that has not been secured under the ARMI is generally collateralized by certain property and equipment.

Commercial Paper – The Corporation's commercial paper program is authorized for borrowings up to $600 million. As of September 30, 2022, and June 30, 2022, the total amount of commercial paper outstanding was $399.1 million and $99.7 million, respectively. The Corporation issued commercial paper during the first quarter of fiscal year 2023 to fund the acquisition of MercyOne further discussed in Note 3. Proceeds from this program are to be used for general purposes of the Corporation. The notes are payable from the proceeds of subsequently issued notes and from other funds available to the Corporation, including funds derived from the liquidation of securities held by the Corporation in its investment portfolio.

Liquidity Facilities – The Corporation has a revolving credit agreement ("RCAI"), which establishes a revolving credit facility of $600 million for the Corporation. On September 29, 2022, the Corporation renewed its revolving credit facility. Of the $600 million available balance, the first tranche of $300 million expires on September 26, 2025 and the second tranche of $300 million expires on September 28, 2026. As of September 30, 2022 and June 30, 2022, there were no amounts outstanding under RCAI.

The Corporation has a general-purpose credit facility ("RCAII") of $600 million, which can be used for general corporate purposes and working capital needs. On September 29, 2022, the Corporation renewed its general-purpose credit facility, and the new maturity date is September 26, 2025. As of September 30, 2022 and June 30, 2022, there were no amounts outstanding under RCAII.

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

Standby Letters of Credit – The Corporation maintains an arrangement for multiple standby letters of credit with a financial institution with a capacity available of $90 million as of September 30, 2022 and June 30, 2022, respectively. The arrangement supports multiple insurance, unemployment, and other risk liabilities that total $61.1 million and $71.9 million as of September 30, 2022 and June 30, 2022 respectively. As of September 30, 2022, and June 30, 2022 there were no draws on the letters of credit.

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

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

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

In addition, on September 30, 2021, a subsidiary of the Corporation defeased $20.0 million of bonds and recorded a net gain from the early extinguishment of debt of $0.2 million in other nonoperating items in the consolidated statement of operations and changes in net assets for the three months ended September 30, 2021.

6. PROFESSIONAL AND GENERAL LIABILITY PROGRAMS

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

The Corporation's current self-insurance program includes $20 million per occurrence for the professional liability and $15 million per occurrence for general liability as well as $10 million per occurrence for hospital government liability, $5 million per occurrence for miscellaneous errors and omissions liability and network security and privacy liability, and $1 million per occurrence for management liability (directors' and officers' and employment practices), and certain other coverages. In addition, through TAL and its various commercial reinsurers, the Corporation maintains integrated excess liability coverage with separate annual aggregate limits for professional/general liability and management liability. The Corporation self-insures $750,000 per occurrence for workers' compensation in most states, with commercial insurance providing coverage up to the statutory limits and self-insures up to $500,000 per occurrence for first-party property damage with commercial insurance providing additional coverage. Privacy and network security coverage in excess of the self-insurance is also commercially insured.

The liability for self-insurance reserves represents estimates of the ultimate net cost of all losses and loss adjustment expenses, which are incurred but unpaid at the consolidated balance sheet date. The reserves are based on the loss and loss adjustment expense factors inherent in the Corporation's premium structure. Independent consulting actuaries determined these factors from estimates of the Corporation's expenses and available industry-wide data. The Corporation discounts the reserves to their present value using a discount rate of 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 20, 2022, 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, 2022, and June 30, 2022, the assets under these plans totaled \$309.7 million and \$306.7 million, respectively, and liabilities totaled \$320.4 million and \$314.0 million, respectively, which are included in self-insurance, benefit plans and other assets and other long-term liabilities in the consolidated balance sheets.

Defined Contribution Benefits – The Corporation sponsors defined contribution pension plans covering substantially all of its employees. These programs are funded by employee voluntary contributions, subject to legal limitations. Employer contributions to 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 \$91.8 million and \$87.0 million for the three-month periods ended September 30, 2022 and 2021, respectively, which is included in employee benefits in the consolidated statements of operations and changes in net assets.

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.

Plan Amendment - Effective December 31, 2021 the Board approved the termination of the Trinity Health ERISA Pension Plan. Finalization of the termination is expected to occur in fiscal year 2023, however, numerous actions are required which could prolong the process. The termination requires approval from the IRS, communications to participants, and the provision of a pension election window. Approval of plan termination has been received from the IRS. The process would conclude with the purchase of a group annuity contract from an insurance company to secure payment of all future benefits for remaining participants who do not elect a lump sum payout, and with the recording of a one-time settlement charge. During the first three months of fiscal year 2023 and during the fiscal year-ended 2022, the Trinity Health ERISA Pension plan operated as normal.

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	
	2022	2021	2022	2021
Interest cost	$ 73,616	$ 58,384	$ 940	$ 751
Expected return on assets	(71,829)	(74,206)	(2,268)	(2,604)
Amortization of prior service cost	(1,028)	(1,229)	(137)	(111)
Recognized net actuarial loss (gain)	19,605	14,835	(892)	(1,105)
Net periodic benefit income	$ 20,364	$ (2,216)	$ (2,357)	$ (3,069)

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 – Since March of 2020, the global COVID-19 pandemic has significantly affected the U.S. health care industry and the Corporation's patients, communities, employees, and business operations to various degrees across the Corporation's markets. Patient volumes are stabilizing to a new normal as the pandemic appears to be transitioning to an endemic state, which includes a shift from inpatient care to ambulatory, home health and digital telehealth care. On a same facility basis, COVID-19 discharges remained consistent with a 0.7% increase during the first quarter of fiscal year 2023 when compared to the same period in the prior fiscal year. The Corporation continues to focus on providing safe care for all patients during the ongoing pandemic. The Corporation's service mix, revenue mix and patient volumes still endure negative impacts from broad economic factors, such as on-going nationwide shortage of nursing staff, reduced consumer spending and rising inflation rates. The Corporation's response to the COVID-19 pandemic continues to require increased premium labor rates and use of contract labor staff, although contract labor costs during the first quarter of fiscal year 2023 excluding the MercyOne acquisition are consistent with costs during the same period in the prior fiscal year after significant increases incurred during the last half of fiscal year 2022. Labor and supply chain disruptions, including shortages, delays, and significant price increases in medical supplies, pharmaceuticals, and personal protective equipment, have impacted, and are expected to continue to impact the Corporation's operations. Lingering risks and uncertainties caused by the COVID-19 pandemic continue to impact the Corporation's business, financial condition, results of operations and cash flows.

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

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

The Corporation and its Health Ministries periodically receive requests for information and notices of investigations regarding potential noncompliance with those laws and regulations, billing, payment or other reimbursement matters; or indicating the existence of whistleblower litigation which, in some instances, have resulted in the Corporation entering into significant settlement agreements. There can be no assurance that regulatory authorities will not challenge the Corporation's compliance with these laws and regulations. In addition, the contracts the Corporation has with commercial payers also provide for retroactive audit and review of claims. The health care industry in general is experiencing an increase in these activities as federal and state governments increase their enforcement activities and institute new programs designed to identify potential irregularities in reimbursement or quality of patient care. Based on the information received to date, management does not believe the ultimate resolution of these matters will have a material adverse effect on the Corporation's future consolidated financial position or results of operations. Trinity Health monitors its business activities for compliance with applicable laws and regulations and operates a values-based ethics and compliance program that is designed to meet or exceed applicable federal guidelines and industry standards.

9. SUBSEQUENT EVENTS

Management has evaluated subsequent events through December 1, 2022, the date the quarterly report was issued. The following subsequent events occurred:

North Ottawa – The Corporation's affiliate, Mercy Health Partners, completed a transaction with North Ottawa Community Health System ("North Ottawa") under which Mercy Health Partners became the sole member of North Ottawa on October 1, 2022. North Ottawa and its affiliates operate an acute care hospital, urgent care center, long-term care facility and provide hospice services in the communities surrounding Grand Haven, Michigan. The transaction will provide improved access to specialists, primary care and health care services, while improving care delivery and access close to home in the Corporation's West Michigan market. The fair value of identifiable assets acquired, and liabilities assumed, have not yet been determined as the Corporation is still in the process of obtaining third-party valuations of certain tangible and intangible assets and is still assessing the economic characteristics of certain assets acquired and liabilities assumed. Thus, the opening consolidated balance sheet of entities and operations acquired at the effective date of the North Ottawa transaction is not yet available. The Corporation expects to substantially complete this assessment by June 30, 2023.

For the years ended June 30, 2022 and 2021, respectively, North Ottawa's reported operating revenue totaled $65.9 million and $72.6 million, and excess of revenue over expenses of $0.2 million and $6.5 million.

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

September 30, 2022

Introduction to Management's Discussion & Analysis

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

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management of the Corporation to make assumptions, estimates and judgments that affect the amounts reported in the financial statements, including the notes thereto, and related disclosures of commitments and contingencies, if any. The Corporation considers critical accounting policies to be those that require more significant judgments and estimates in the preparation of its financial statements, including the following: recognition of net patient service revenue, which includes explicit and implicit price concessions; financial assistance; premium revenue; recorded values of investments and derivatives; goodwill; evaluation of long-lived assets for impairment, reserves for losses and expenses related to health care professional and general liabilities; and risks and assumptions for measurement of pension and retiree medical liabilities. Management relies on historical experience and other assumptions, believed to be reasonable under the circumstances, in making its judgments and estimates. Actual results could differ materially from those estimates.

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

Coronavirus Pandemic – Since March of 2020, the global COVID-19 pandemic has significantly affected the U.S. health care industry and the Corporation’s patients, communities, employees, and business operations to various degrees across the Corporation’s markets. Patient volumes are stabilizing to a new normal as the pandemic appears to be transitioning to an endemic state, which includes a shift from inpatient care to ambulatory, home health and digital telehealth care. The majority of the Corporation’s revenue is comprised of outpatient and other non-patient revenue, and we continue to diversify our business segments which positions the Corporation to balance performance when individual segments are challenged. On a same facility basis, COVID-19 discharges remained consistent with a 0.7% increase during the first quarter of fiscal year 2023 when compared to the same period in the prior fiscal year. The Corporation continues to focus on providing safe care for all patients during the ongoing pandemic. The Corporation’s service mix, revenue mix and patient volumes still endure negative impacts from broad economic factors, such as on-going nationwide shortage of nursing staff, reduced consumer spending and rising inflation rates. The Corporation’s response to the COVID-19 pandemic continues to require increased premium labor rates and use of contract labor staff, although contract labor costs during the first quarter of fiscal year 2023 excluding the MercyOne acquisition are consistent with costs during the same period in the prior fiscal year after significant increases incurred during the last half of fiscal year 2022. Labor and supply chain disruptions, including shortages, delays, and significant price increases in medical supplies, pharmaceuticals, and personal protective equipment, have impacted and are expected to continue to impact the Corporation’s operations. Lingering risks and uncertainties caused by the COVID-19 pandemic continue to impact the Corporation’s business, financial condition, results of operations and cash flows.

The Corporation continues to take various actions to mitigate the impact on operations from the COVID-19 pandemic. The Corporation is focused on clinical optimization and access, revenue growth opportunities, labor retention, recruitment and stabilization, including utilization of our FirstChoice internal staffing agency to augment labor stabilization, new care delivery models, and continued cost reduction plans to mitigate the linger impacts of the COVID-19 pandemic. Furthermore, the

Corporation continues to control capital and reallocate resources to support its hospitals and clinicians.

The Corporation received Provider Relief Fund and Rural payments (collectively "PRF") grants, under the Coronavirus Aid, Relief and Economic Security Act (the "CARES Act"), the Paycheck Protection Program and Health Care Enhancement Act ("PPPHCE Act") and the American Rescue Plan Act of 2021, ("ARP," collectively the "Acts"). Grant funding received added to unrestricted cash reserves and partially offset a portion of the revenue shortfalls and operating expenses incurred as a direct result of the COVID-19 pandemic, primarily in fiscal years 2020 and 2021. Compliance with the Department of Health and Human Services ("HHS") Provider Relief Fund General and Targeted Distribution Post-Payment Notice of Reporting Requirements is complex and subject to HHS audit. There can be no assurance that HHS will not challenge the Corporation's compliance with these reporting requirements, however the Corporation believes it has fully complied with all requirements. The Corporation recognized a negligible amount of PRF grant revenue during the first quarter in both fiscal years 2023 and 2022.

In April 2020, the Corporation requested and received $1.6 billion of cash advances from accelerated Medicare payment requests under the CARES Act, which have been recorded as current Medicare cash advances on the consolidated balance sheets as of September 30, 2022 and June 30, 2022, based on the repayment requirements as of those dates. The balance of advances outstanding was $389.5 million and $29.4 million as of June30, 2022, and September 30, 2022, respectively as the Corporation repaid the majority of the outstanding cash advances during the first quarter of fiscal year 2023.

Recent Developments

Divestiture of 50% Interest in Gateway Health Plan, L.P., and Subsidiaries ("GHP") – Effective August 31, 2021, the Corporation, through its wholly owned subsidiary, Mercy Health Plan, sold its 50 percent interest in GHP, accounted for under the equity method, to the existing partner and parent owner, Highmark Ventures, Inc. As a result of the transaction the Corporation received a $62.5 million dividend distribution on August 27, 2021. Furthermore, the Corporation recorded a gain on the sale of $128.7 million in the consolidated statement of operations and changes in net assets for the quarter ended September 30, 2021.

St. Francis Medical Center ("SFMC") – In connection with the System's strategic evaluation of its remaining Ministry in New Jersey, SFMC, on December 21, 2021, the Corporation, its subsidiary Maxis Health System ("Maxis"), and SFMC signed a membership transfer agreement with Capital Health System, Inc. ("Capital") under which Capital will acquire the membership interest in SFMC and other associated operations of SFMC from Maxis, as well as $14.5 million of cash, and certain inventory and equipment. The Corporation anticipates the membership interest transfer will occur during the second quarter of the Corporation's fiscal year 2023 and is subject to customary closing conditions, and regulatory review and approval by certain governmental authorities. Management of the System believes this transaction will not have a material impact on the operations or financial condition of the System as a whole. There are no assurances that this transaction will occur. As a result of this transaction, the Corporation estimates restructuring charges in the range of $70 million to $100 million will be incurred. For the three months ended September 30, 2022 and 2021, the Corporation's consolidated statements of operations and changes in net assets included operating revenue of $31.2 million and $37.3 million, respectively, and deficiency of revenue over expense of $14.4 million and $5.7 million, respectively, related to the operations of SFMC.

MercyOne & Mercy Health Network ("MHN") – On September 1, 2022, the Corporation completed a transaction with CommonSpirit Health ("CSH") through which (i) the Corporation acquired CSH's 50% interest in MHN, which is the sole member of Wheaton Franciscan Services Inc. ("WFSI") and the MHN subsidiary that owns and controls Central Community Hospital ("CCH") (see Note 3 in the June 30, 2022 audited financial statements for further information regarding MHN, WFSI and CCH), thereby becoming the sole corporate member of MHN, (ii) MHN became the sole corporate member of Catholic Health Initiatives-Iowa, Corp. d/b/a MercyOne Des Moines Medical Center ("MercyOne Des Moines"), a regional health care system located in Des Moines, Iowa, and (iii) Trinity Home Health Services d/b/a Trinity Health At Home, a subsidiary of the Corporation, acquired certain home care, hospice, and home infusion pharmacy operations from an affiliate of CSH located in the vicinity of Des Moines ("Iowa Home Care Assets", and collectively with (i) and (ii), the "MercyOne Acquisition"). The cash paid to CSH in consideration for the MercyOne Acquisition totaled $613.0 million. A post-closing reconciliation adjustment to the purchase price is stipulated in the Definitive Agreement to be determined and paid by the end of the second quarter of fiscal year 2023. The Corporation is still in the process of assessing the economic characteristics of certain assets acquired and liabilities assumed. The Corporation expects to substantially complete this assessment by June 30, 2023, and may adjust the amounts recorded as of September 1, 2022, to reflect revised evaluations. Based on purchase price paid as of September 1, 2022, the fair value of assets acquired, and liabilities assumed exceeded the fair value of consideration paid by an immaterial amount that was recorded as a gain in nonoperating items other, including income taxes in the consolidated statement of operations and changes in net assets.

For the three months ended September 30, 2022, the Corporation's consolidated statements of operations and changes in net assets included operating revenue of $126.2 million, operating losses of $5.0 million, and deficiency of revenue over expense of $7.0 million related to the operations of the MercyOne Acquisition.

Results from Operations

For the quarters ended September 30,			
(dollars in millions)	FY22	FY23**	FY23
Operating Income (loss)*	$106.3	($141.1)	($146.3)
Operating Revenue	$4,971.3	$4,881.4	$5,007.7
Operating Margin*	2.1%	-2.9%	-2.9%
Operating Cash Flow Margin*	7.7%	2.8%	2.8%

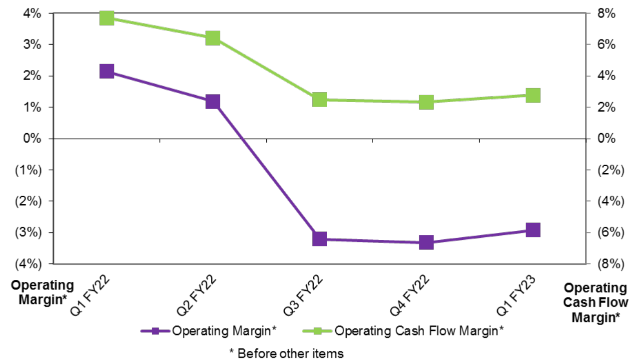
* Before other items

**Excludes MercyOne Acquisition results for comparison to FY22

Operating (Losses) Income Before Other Items

Trinity Health reported operating losses before other items of $146.3 million (operating margin of (2.9) percent and cash flow margin of 2.8 percent) for the first three months of fiscal year 2023 compared to operating income before other items of $106.3 million (operating margin of 2.1 percent and cash flow margin of 7.7 percent) in the prior fiscal year.

Downward pressure on first quarter fiscal year 2023 margins was driven by controlled expense growth that is still outpacing revenue growth, primarily premium labor rates. As shown in the following graph, the Corporation has seen improvements in margins compared to the third and fourth quarters of fiscal year 2022 when the COVID-19 Omicron variant surged, and unprecedented levels of contract labor costs and premium pay were incurred.

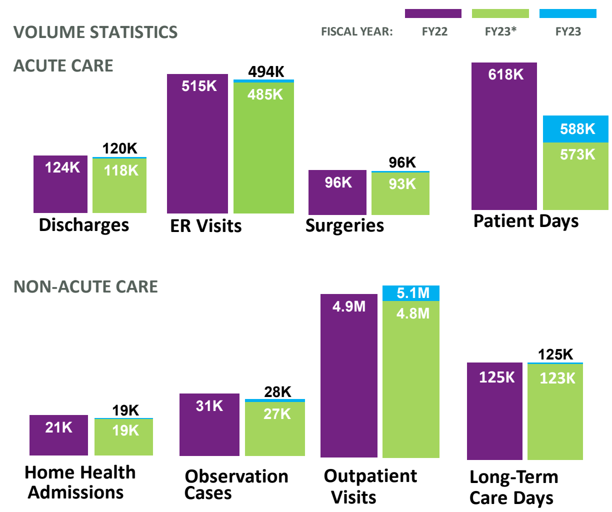


Including reductions in case mix index, and excluding the MercyOne Acquisition, volumes as measured by case mix adjusted equivalent discharges declined 2.5 percent, during the first quarter of fiscal year 2023 compared to the same period in the prior fiscal year.

The Corporation is focused on clinical optimization and access, revenue growth opportunities, labor retention, recruitment and stabilization, new care delivery models, and continued cost reduction plans to improve operating performance during the remainder of fiscal year 2023.

Revenue

Total operating revenue of $5.0 billion increased $36.3 million, or 0.7 percent, for the first three months of fiscal year 2023 compared to the same period of fiscal year 2022, with negligible Provider Relief Fund grant revenue recognized in both fiscal years. Revenue growth was aided by the September 1, 2022, MercyOne Acquisition which added $126.2 million of operating revenue during the first quarter of the fiscal year. Excluding the MercyOne Acquisition, revenue declined $89.9 million or 1.8 percent over the same quarter in the prior fiscal year. On a same facility basis, net patient service revenue decreased $12.9 million, or 0.3 percent, primarily due to same facility decreased volume and unfavorable shift in payer mix. With a focus on revenue improvement initiatives, improvements in payment rate helped to offset the unfavorable impacts of volumes and payer mix. Other revenue for the first three months for fiscal year 2023 decreased $77.0 million compared to the prior fiscal year on a same facility basis, driven by a $20.1 million reduction in gain share revenue, an $18.1 million reduction in equity in earnings of unconsolidated affiliates and a $14.3 million reduction in pharmacy revenue, mainly in 340B programs. The majority of the Corporation's revenue is comprised of outpatient and other non-patient revenue, and we continue to diversify our business segments that positions us for balanced performance when individual segments are challenged.



*Prior to the impact of the MercyOne Acquisition

Expenses

Total operating expenses of $5.2 billion increased $288.9 million, or 5.9 percent for the first three months of fiscal year 2023, with the MercyOne Acquisition accounting for $131.2 million, or 2.7 percent, of the increase over the same period in the prior fiscal year. Excluding the impact of the MercyOne Acquisition, operating expenses for the first three months of fiscal year 2023 increased $157.6 million, or 3.2 percent, to $5.0 billion as the Corporation continues to tightly manage operating costs amid soaring inflation. On a combined basis and excluding the impact of the MercyOne acquisition, salaries, wages and employee benefit costs rose $134.0 million, or 5.3 percent, with a 6.8 percent increase in salary rates, partially offset by a 1.4 percent decrease in FTEs as aftershocks of the pandemic continue to drive industry wide staffing shortages and wage inflation. Expense increases were also incurred in occupancy, interest and insurance costs excluding the impact of the MercyOne Acquisition. The Corporation continues to use strong cost controls over contract labor and other operational spending as we invest in our colleagues and utilize our FirstChoice internal staffing agency to augment labor stabilization. As a result, excluding the impact of the MercyOne Acquisition, contract labor costs decreased $1.0 million in the first three months of fiscal year 2023 compared to the same period in the prior fiscal year. Contract labor costs for MercyOne Des Moines totaled $49.9 million and include the costs for colleagues that are currently leased from CHS. Further expense reductions were seen in supplies, purchased services and depreciation and amortization, with a 3% improvement in supply costs as percentage of net patient service revenue as the Corporation works to align expenses with revenue.

Other Items

For the first quarter of fiscal year 2022, other items included a $128.7 million gain on the sale of the Corporation's 50 percent equity interest in GHP.

Including the gain on sale, operating income totaled $233.5 million, with operating margin of 4.7 percent and operating cash flow margin of 10.3 percent for the first quarter of fiscal year 2022.

Nonoperating Items

During the first three months of fiscal year 2023, the Corporation reported non-operating losses of $404.6 million compared to $164.9 million of non-operating income during the same period in the prior fiscal year. The reduction was due primarily to investment returns of (3.5) percent in the first quarter of fiscal year 2023 compared to returns of 0.6 percent in the first quarter of fiscal year 2022. Investment results also drove the $127.7 million reduction in equity in losses of unconsolidated affiliates.

Excess of Revenue over Expenses

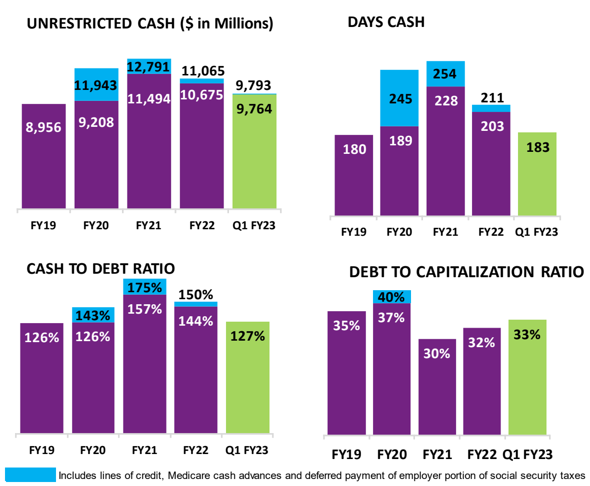
Deficiency of revenue over expenses for the first three months of fiscal year 2023 was $565.0 million (net margin of (12.3) percent) compared to excess of revenue over expenses of $378.8 million (net margin of 7.2 percent), for the same period in fiscal year 2022. The decrease was primarily due to lower nonoperating gains, related to lower investment earnings, and lower operating income driven by growth in labor costs as well as stabilizing, but lower volumes.

Balance Sheet

Balance sheet metrics remained strong, although certain metrics were impacted by a reduction in nonoperating investment income reflective of global market financial conditions. Total assets of $30.8 billion decreased $347.0 million, or 1.1 percent as of September 30, 2022, compared to June 30, 2022. The MercyOne Acquisition added $973.9 million of assets as of the September 1, 2022 acquisition date, prior to consideration of cash paid.

A $1,271.6 million reduction in unrestricted cash and investments accounted for a majority of the reduction in total assets, primarily $613 million purchase price for the MercyOne Acquisition, $369.6 million of nonoperating investment losses, $379.7 million of repayments of Medicare cash advances, and $171.6 million in capital expenditures, partially offset by the issuance of $299.4 million of commercial paper. Total assets include unrestricted cash and investments of $9.8 billion or 183 days of cash on hand as of September 30, 2022 compared to $11.1 billion of unrestricted cash and investments or 211 days of cash on hand as of June 30, 2022. The MercyOne Acquisition used 8 days of cash during the first quarter of fiscal year 2023, while the same period of fiscal year 2022 includes seven days of cash generated from the sale of GHP. Net days in accounts receivable increased by 1.4 days to 43.9 days as of September 30, 2022 compared to June 30, 2022.

Total liabilities of $14.4 billion increased $149.3 million, or 1.0 percent compared to June 30, 2022. The MercyOne Acquisition added $321.4 million of total liabilities as of the September 1, 2022 acquisition date. Liabilities further increased $299.4 million for the issuance of commercial paper, partially offset by $379.7 million in repayments of Medicare cash advances. Debt to capitalization as of September 30, 2022 was 33 percent compared to 32 percent as of June 30, 2022. Both debt to capitalization and cash to debt were further impacted by investment losses during the first quarter of fiscal year 2023.



Statement of Cash Flows

Cash, cash equivalents and restricted cash decreased $2.1 million during first three months of fiscal year 2023. Operating activities used $484.5 million of cash which includes a $379.7 million repayment of Medicare cash advances. Investing activities provided $141.1 million of cash including $933.7 million in net sales of investments, partially offset by $560.6 million of net cash used for acquisitions and $231 million for purchases of property and equipment. Financing activities provided $295.3 million of cash, primarily from the $299.4 million net issuance of commercial paper.

TRINITY HEALTH
Liquidity Reporting
September 30, 2022

	($ in millions) (unaudited)	
ASSETS		
Daily Liquidity		
Money Market Funds (Moody's rated Aaa)	$ 203	
Checking and Deposit Accounts (at P-1 rated bank)	457	
Repurchase Agreements	-	
U.S. Treasuries & Aaa-rated Agencies	-	
Dedicated Bank Lines	600	
Subtotal Daily Liquidity (Cash & Securities)	$ 1,260	
Undrawn Portion of $600M Taxable Commercial Paper Program	200	
Subtotal Daily Liquidity Including Taxable Commercial Paper Program		$ 1,460
Weekly Liquidity		
Exchange Traded Equity	$ 2,805	
Publicly Traded Fixed Income Securities Rated at least Aa3 and Bond Funds	1,780	
Equity Funds	781	
Other	179	
Subtotal Weekly Liquidity		5,545
TOTAL DAILY AND WEEKLY LIQUIDITY		$ 7,005
Longer-Term Liquidity		
Funds, vehicles, investments that allow withdrawals with less than one-month notice	1,282	
Funds, vehicles, investments that allow withdrawals with one-month notice or longer	3,193	
Total Longer-Term Liquidity		$ 4,475
LIABILITIES (Self-liquidity Variable Rate Demand Bonds & Commercial Paper)		
Weekly Put Bonds		
VRDO Bonds (7-day)		$ 185
Long-Mode Put Bonds		
VRDO Bonds (Commercial Paper Mode)		146
Taxable Commercial Paper Outstanding		400
TOTAL SELF-LIQUIDITY DEBT AND COMMERCIAL PAPER		$ 731
Ratio of Daily and Weekly Liquidity to Self-Liquidity Debt and Commercial Paper		9.59

Trinity Health

Financial Ratios and Statistics (Unaudited)

	September 30, 2022	September 30, 2021
Financial Indicators		
Liquidity Ratios (as of September 30)		
Days Cash on Hand	183	211
Days in Accounts Receivable, Net	43.9	42.5
Leverage Ratios (as of September 30)		
Debt to Capitalization	33%	32%
Cash to Debt	127%	150%
Profitability Ratios (For the Fiscal Year Ended June 30)		
Operating Margin before Other Items	(2.9%)	2.1%
Operating Cash Flow Margin before Other Items	2.8%	7.7%
Statistical Indicators (For the Fiscal Year Ended June 30)		
Rounded to nearest thousand		
Discharges	120,000	124,000
Patient Days	588,000	618,000
Outpatient Visits	5,092,000	4,917,000
Emergency Room Visits	494,000	515,000
Observation Cases	28,000	31,000
Continuing Care		
Home Health Admissions	19,000	21,000
Long-term Care Patient Days	125,000	125,000