



**Trinity Health Reports Operating Revenue of \$14.2 billion in First Nine Months of FY2020;  
COVID-19 Pandemic Crisis Impacts System Wide Results in March**

Summary Highlights for the Nine Months Ended March 31, 2020

Trinity Health's results of operations were significantly impacted by the effects of the COVID-19 pandemic and shelter-in-place orders in most of the Corporation's markets during the last two weeks of March in fiscal 2020. Trinity Health reported operating revenue of \$14.2 billion for the first nine months of fiscal year 2020 compared to operating revenue of \$14.3 billion for the same period in the prior fiscal year, a decrease of \$80.0 million, or 0.6 percent. The decrease is attributed to both the COVID-19 pandemic, as well as the membership transfer of Lourdes Health System ("Lourdes") on June 30, 2019. Trinity Health estimates the COVID-19 pandemic contributed a \$173.5 million, or 1.2 percent, decrease to net patient service revenue during the nine months ended fiscal 2020. Excluding the impact of the divestiture of Lourdes, revenue growth on a same ministry basis was \$320.3 million, or 2.3 percent, in the first nine months of fiscal year 2020 compared to the same period in the prior year.

While year-over-year same ministry volumes, as measured by case mix adjusted equivalent discharges ("CMAEDs"), increased 0.8 percent for the nine months ended March 2020, CMAEDs declined 6.4 percent during the quarter ended March 2020. In the month of March 2020, CMAEDs declined 13.3 percent over the prior year. Of note, surgical volumes declined 10.1 percent on a same ministry basis during the quarter ended March 2020 compared to March 2019, and specifically in March 2020, surgical volumes declined 25.5 percent on a same ministry basis as compared to prior year.

Results reflect an operating loss of \$103.5 million for the first nine months of fiscal year 2020 compared to operating income of \$150.4 million in same period in the prior fiscal year. The system's fiscal year 2020 nine month operating margin of (0.7) percent compares to the prior year's operating margin of 0.8 percent, and operating cash flow margin of 5.2 percent in fiscal year 2020 compares to the prior year's operating cash flow margin of 6.5 percent.

Expenses for the first nine months of fiscal year 2020 decreased by \$173.9 million, or 1.2 percent, to \$14.3 billion. Excluding the impact of Lourdes, expense growth on a same ministry basis was \$601.3 million, or 4.4 percent. Same ministry expense growth was driven by increases in labor costs, purchased services, supply costs, and to a lesser extent, \$52.7 million of costs related to the system's strategic conversion to the Epic electronic health records platform in the Michigan Region. The COVID-19 pandemic also added \$14.1 million of direct costs in March 2020, primarily in labor, supplies and to a lesser extent in purchased services. While the Corporation has taken many steps to reduce both operating and capital spending in response to the COVID-19 pandemic and related reduction in patient volumes and revenue, more significant related actions began in April 2020, including reduced salaries for executives, implementing furloughs, reduced hours, and negotiating supplier concessions.

For the first nine months of fiscal year 2020, Trinity Health reported non-operating losses of \$746.3 million compared to gains of \$377.2 million for the same period in fiscal year 2019. Losses in the first nine months of fiscal year 2020 were primarily due to a reduction in investment earnings of \$859.4 million, a decrease of equity in earnings of unconsolidated affiliates of \$206.0 million, and a reduction in market value and cash payment of interest rate swaps of \$47.8 million, all primarily driven by global investment market conditions in March 2020 due to the COVID-19 pandemic. Deficiency of revenue over expenses for the first nine months of fiscal year 2020 totaled \$883.5 million, compared to excess of revenue over expenses of \$457.9 million in the prior fiscal year.

As the COVID-19 pandemic is still evolving, much of its impact remains unknown and difficult to predict. Accordingly, the ultimate effect of COVID-19 on the operating margins and financial results of the Corporation is likely to be adverse and significant. At this point, the Corporation cannot estimate the length or severity of the pandemic, which limits Trinity Health's ability to forecast the pandemic's impact on its financial position or results of operations.

Highlights as of and for the nine months ended March 31, 2020, include:

- Total assets of \$27.2 billion and net assets of \$13.0 billion;
- Total operating revenue of \$14.2 billion, a 2.3 percent increase over the same period in fiscal year 2019, excluding the impact of the Lourdes divestiture;
- Operating loss of \$103.5 million, or (0.7) percent operating margin;
- Deficiency of revenue over expense of \$883.5 million;
- Lines of credit draws of \$785 million to position the Corporation for potential liquidity needs;
- Unrestricted cash and investments of \$8.8 billion; and
- Days cash on hand of 178 days compared to 179 days for the nine months ended March 2019, and 180 days for the year ended June 30, 2019.

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

As of March 31, 2020, and June 30, 2019, and  
For the nine months ended March 31, 2020 and 2019

# TRINITY HEALTH

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

	As of	
	March 31, 2020	June 30, 2019
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 1,215,518	\$ 474,314
Investments	3,882,464	4,833,039
Security lending collateral	214,072	264,435
Assets limited or restricted as to use - current portion	381,205	403,799
Patient accounts receivable	1,941,780	2,012,354
Estimated receivables from third-party payers	235,805	267,181
Other receivables	392,385	374,818
Inventories	341,207	297,804
Prepaid expenses and other current assets	189,032	179,124
Total current assets	8,793,468	9,106,868
<b>ASSETS LIMITED OR RESTRICTED AS TO USE - noncurrent portion:</b>		
Held by trustees under bond indenture agreements	6,450	5,828
Self-insurance, benefit plans, and other	782,969	867,132
By Board	3,529,913	3,474,947
By donors	470,069	460,836
Total assets limited or restricted as to use - noncurrent portion	4,789,401	4,808,743
PROPERTY AND EQUIPMENT - Net	8,374,384	8,359,974
OPERATING LEASE RIGHT-OF-USE ASSETS	584,700	-
INVESTMENTS IN UNCONSOLIDATED AFFILIATES	3,861,465	3,876,028
GOODWILL	445,166	437,403
OTHER ASSETS	396,497	383,088
<b>TOTAL ASSETS</b>	<b>\$ 27,245,081</b>	<b>\$ 26,972,104</b>

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

(Continued)

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

	As of	
	March 31, 2020	June 30, 2019
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES:</b>		
Commercial paper	\$ 99,904	\$ 99,493
Short-term lines of credit	400,000	-
Short-term borrowings	667,275	686,670
Current portion of long-term debt	383,374	126,727
Current portion of operating lease liability	140,176	-
Accounts payable and accrued expenses	1,302,236	1,435,939
Salaries, wages, and related liabilities	869,239	919,055
Payable under security lending agreements	214,072	264,435
Estimated payables to third-party payers	381,909	375,116
Current portion of self-insurance reserves	282,238	282,364
Total current liabilities	4,740,423	4,189,799
LONG-TERM DEBT - Net of current portion	6,571,134	6,222,908
LONG-TERM PORTION OF OPERATING LEASE LIABILITY	466,924	-
SELF-INSURANCE RESERVES - Net of current portion	980,453	1,036,697
ACCRUED PENSION AND RETIREE HEALTH COSTS	745,533	933,238
OTHER LONG-TERM LIABILITIES	763,219	754,054
Total liabilities	14,267,686	13,136,696
<b>NET ASSETS:</b>		
Net assets without donor restrictions	12,183,507	13,047,732
Noncontrolling ownership interest in subsidiaries	234,921	234,987
Total net assets without donor restrictions	12,418,428	13,282,719
Net assets with donor restrictions	558,967	552,689
Total net assets	12,977,395	13,835,408
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 27,245,081</b>	<b>\$ 26,972,104</b>

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

(Concluded)

**TRINITY HEALTH**  
**CONSOLIDATED STATEMENTS OF OPERATIONS AND**  
**CHANGES IN NET ASSETS (UNAUDITED)**  
**NINE MONTHS ENDED MARCH 31, 2020 AND 2019**  
**(In thousands)**

	<b>2020</b>	<b>2019</b>
OPERATING REVENUE:		
Net patient service revenue	\$ 12,287,266	\$ 12,334,797
Premium and capitation revenue	790,450	834,006
Net assets released from restrictions	20,950	27,359
Other revenue	1,126,214	1,108,759
Total operating revenue	<u>14,224,880</u>	<u>14,304,921</u>
EXPENSES:		
Salaries and wages	6,255,919	6,212,753
Employee benefits	1,277,376	1,269,618
Contract labor	207,307	245,710
Total labor expenses	<u>7,740,602</u>	<u>7,728,081</u>
Supplies	2,446,198	2,392,052
Purchased services and medical claims	2,058,687	1,925,351
Depreciation and amortization	668,227	640,315
Occupancy	571,379	586,684
Interest	181,873	178,328
Other	661,420	703,680
Total expenses	<u>14,328,386</u>	<u>14,154,491</u>
OPERATING (LOSS) INCOME BEFORE OTHER ITEMS	(103,506)	150,430
Restructuring costs	-	(35,237)
OPERATING (LOSS) INCOME	<u>(103,506)</u>	<u>115,193</u>
NONOPERATING ITEMS:		
Investment (losses) earnings	(705,578)	153,776
Equity in earnings of unconsolidated affiliates	10,888	216,845
Change in market value and cash payments of interest rate swaps	(77,777)	(29,954)
Other net periodic retirement income	60,877	40,486
Loss from early extinguishment of debt	(32,527)	(3,408)
Other, including income taxes	(2,136)	(497)
Total nonoperating items	<u>(746,253)</u>	<u>377,248</u>
(DEFICIENCY) EXCESS OF REVENUE OVER EXPENSES	(849,759)	492,441
EXCESS OF REVENUE OVER EXPENSES ATTRIBUTABLE TO NONCONTROLLING INTEREST	(33,693)	(34,540)
(DEFICIENCY) EXCESS OF REVENUE OVER EXPENSES, net of noncontrolling interest	<u>\$ (883,452)</u>	<u>\$ 457,901</u>

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

(Continued)

**TRINITY HEALTH**  
**CONSOLIDATED STATEMENTS OF OPERATIONS AND**  
**CHANGES IN NET ASSETS (UNAUDITED)**  
**NINE MONTHS ENDED MARCH 31, 2020 AND 2019**  
**(In thousands)**

	<u>2020</u>	<u>2019</u>
NET ASSETS WITHOUT DONOR RESTRICTIONS :		
Net assets without donor restrictions attributable to Trinity Health:		
(Deficiency) excess of revenue over expenses	\$ (883,452)	\$ 457,901
Net assets released from restrictions for capital acquisitions	24,319	43,596
Net change in retirement plan related items - consolidated organizations	8,753	59,788
Net change in retirement plan related items - unconsolidated organizations	(17,607)	7,762
Cumulative effect of change in accounting principle	(17,757)	-
Other	21,519	(7,397)
(Decrease) increase in net assets without donor restrictions attributable to Trinity Health	<u>(864,225)</u>	<u>561,650</u>
Net assets without donor restrictions attributable to noncontrolling interest:		
Excess of revenue over expenses attributable to noncontrolling interest	33,693	34,540
Sale of noncontrolling interest in subsidiary	-	53,768
Dividends and other	(33,759)	(29,969)
(Decrease) increase in net assets without donor restrictions attributable to noncontrolling interest	<u>(66)</u>	<u>58,339</u>
NET ASSETS WITH DONOR RESTRICTIONS :		
Contributions:		
Program and time restrictions	51,946	76,873
Endowment funds	6,212	3,390
Net investment gains (losses):		
Program and time restrictions	(3,539)	1,017
Endowment funds	(2,982)	(2,152)
Net assets released from restrictions	(45,269)	(70,955)
Other	(90)	(27,638)
Increase in net assets with donor restrictions	<u>6,278</u>	<u>(19,465)</u>
(DECREASE) INCREASE IN NET ASSETS	(858,013)	600,524
NET ASSETS - BEGINNING OF YEAR	<u>13,835,408</u>	<u>13,344,016</u>
NET ASSETS - END OF PERIOD	<u><u>\$ 12,977,395</u></u>	<u><u>\$ 13,944,540</u></u>

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

(Concluded)



**TRINITY HEALTH**
**SUMMARIZED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)**
**NINE MONTHS ENDED MARCH 31, 2020 AND 2019**
**(In thousands)**

	<b>2020</b>	<b>2019</b>
OPERATING ACTIVITIES:		
(Decrease) increase in net assets	\$ (858,013)	\$ 600,524
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	668,227	640,315
Operating lease expense	112,734	-
Loss from early extinguishment of debt	32,527	3,408
Gain on sale of subsidiaries	(5,693)	(16,018)
Change in net unrealized and realized gains and losses on investments	831,172	(67,846)
Change in market values of interest rate swaps	65,289	19,902
Undistributed equity in earnings of unconsolidated affiliates	4,108	(236,464)
Deferred retirement items - consolidated organizations	48,187	(14,362)
Deferred retirement items - unconsolidated organizations	17,607	(7,762)
Sale of noncontrolling interest in subsidiary	-	(53,768)
Restricted contributions and investment income received	(18,127)	(28,692)
Cumulative effect of change in accounting principal	17,757	-
Other adjustments	2,529	42,485
Changes in:		
Patient accounts receivable	71,198	(107,310)
Other assets	(135,748)	(67,211)
Accounts payable and accrued expenses	(169,600)	(32,132)
Estimated receivables from third-party payers	31,376	(26,074)
Estimated payables to third-party payers	6,717	(5,117)
Self-insurance reserves and other liabilities	(193,901)	25,352
Accrued pension and retiree health costs	(255,056)	(190,963)
Total adjustments	<u>1,131,303</u>	<u>(122,257)</u>
Net cash provided by operating activities	<u>273,290</u>	<u>478,267</u>
INVESTING ACTIVITIES:		
Net sales (purchases) of investments	124,822	(409,971)
Purchases of property and equipment	(677,267)	(801,286)
Proceeds from disposal of property and equipment	3,112	1,421
Proceeds from the sale of divestitures	48,976	21,944
Change in investments in unconsolidated affiliates	(2,099)	(24,047)
Net cash used for acquisitions	(10,081)	(188)
Change in other investing activities	17,569	22,172
Net cash used in investing activities	<u>(494,968)</u>	<u>(1,189,955)</u>
FINANCING ACTIVITIES:		
Proceeds from issuance of debt	1,939,919	421,490
Repayments of debt	(1,745,414)	(236,855)
Draws on lines of credit	785,000	-
Net change in commercial paper	411	(120)
Dividends paid	(35,391)	(29,747)
Proceeds from restricted contributions and restricted investment income	17,678	7,028
Increase in financing costs and other	(10,889)	(3,428)
Net cash provided by (used in) financing activities	<u>951,314</u>	<u>158,368</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	729,636	(553,320)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	605,870	1,129,641
CASH AND CASH EQUIVALENTS - END OF PERIOD	<u>\$ 1,335,506</u>	<u>\$ 576,321</u>

# TRINITY HEALTH

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) NINE MONTHS ENDED MARCH 31, 2020 AND 2019

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### 1. ORGANIZATION AND MISSION

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

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

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") for interim financial reporting information. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation have been included and are of a normal and recurring nature. Operating results for the nine months ended March 31, 2020 are not necessarily indicative of the results to be expected for the year ending June 30, 2020.

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

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

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

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

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

	<b>2020</b>	<b>2019</b>
Cash and cash equivalents	\$ 1,215,518	\$ 459,538
Restricted cash included in assets limited or restricted as to use - current portion		
Held by trust under bond indenture	30	346
Self insured benefit plans & other	52,794	3,787
By donors	5,399	11,969
Total restricted cash included in assets limited or restricted as to use - current portion	58,223	16,102
Restricted cash included in assets limited as to use - noncurrent portion		
Held by trust under bond indenture	6,467	5,646
Self insured benefit plans & other	23,052	70,542
By donors	32,246	24,493
Total restricted cash included in assets limited or restricted as to use - noncurrent portion	61,765	100,681
Total cash, cash equivalents, and restricted cash shown in the statements of cash flows	\$ 1,335,506	\$ 576,321

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

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

**Derivative Financial Instruments** – The Corporation periodically utilizes various financial instruments (e.g., options and swaps) to hedge interest rates, equity downside risk, and other exposures. The

Corporation's policies prohibit trading in derivative financial instruments on a speculative basis. The Corporation recognizes all derivative instruments in the consolidated balance sheets at fair value.

***Securities Lending*** – The Corporation participates in securities lending transactions whereby a portion of its investments are loaned, through its agent, to various parties in return for cash and securities from the parties as collateral for the securities loaned. Each business day, the Corporation, through its agent, and the borrower determine the market value of the collateral and the borrowed securities. If on any business day the market value of the collateral is less than the required value, additional collateral is obtained as appropriate. The amount of cash collateral received under securities lending is reported as an asset and a corresponding payable in the consolidated balance sheets and is up to 105% of the market value of securities loaned. As of March 31, 2020, and June 30, 2019, the Corporation had securities loaned of \$663.8 million and \$514.5 million, respectively, and received collateral (cash and noncash) totaling \$696.2 million and \$529.5 million, respectively, relating to the securities loaned. The fees received for these transactions are recorded in nonoperating investment income in the consolidated statements of operations and changes in net assets. In addition, certain pension plans participate in securities lending programs with the Northern Trust Company, the plans' agent.

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

Under the provisions of Accounting Standards Update ("ASU") No. 2014-09 "*Revenue from Contracts with Customers (Topic 606)*," 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.

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

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

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

**Property and Equipment** – Property and equipment, including internal-use software, are recorded at cost, if purchased, or at fair value at the date of donation, if donated. Finance lease right-of-use assets included in property and equipment, effective July 1, 2019, represent the right to use the underlying assets for the lease term and are recognized at the 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 capital lease amortization for the nine months ended March 31, 2019, finance lease right-of-use asset amortization for the nine months ended March 31, 2020 and internal-use software amortization. The useful lives of property and equipment range from two to 50 years, and finance lease agreements have initial terms typically ranging from three to 10 years. Interest costs incurred during the period of construction of capital assets are capitalized as a component of the cost of acquiring those assets.

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

**Right-of-Use Lease Assets and Lease Liabilities**– The Corporation determines if an arrangement is a lease at inception of the contract. The right-of-use assets represent the right to use the underlying assets for the lease term and the lease liabilities represent the obligation to make lease payments arising from the leases. Right-of-use assets and lease liabilities are recognized at 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 three to 10 years. The Corporation's equipment lease agreements typically have an initial term of one to six years. These real estate leases may include one or more options to renew, with renewals that can extend the lease term from five 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 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 actual 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 10 years. Indefinite-lived intangible assets primarily include trade names, which are tested annually for impairment.

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

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

***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 expected to be entitled to in exchange for providing patient care. These amounts are due from patients, third-party payers (including commercial payers and government programs) and others, and include variable consideration for retroactive revenue adjustments due to settlement of audits, reviews, and investigations. Generally, the Corporation bills patients and third-party payers several days after the services are performed or the patient is discharged from the facility.

The Corporation determines performance obligations based on the nature of the services provided. Revenue for performance obligations satisfied over time is recognized based on actual charges incurred in relation to total expected charges. The Corporation believes that this method provides a faithful depiction of the transfer of services over the term of the performance obligation based on the inputs needed to satisfy the obligation. Generally, performance obligations satisfied over time relate to patients in hospitals receiving inpatient acute care services, or receiving services in outpatient centers, or in their

homes (home care). The Corporation measures performance obligations from admission to the hospital, or the commencement of an outpatient service, to the point when it is no longer required to provide services to the patient, which is generally at the time of discharge or the completion of the outpatient services. Revenue for performance obligations satisfied at a point in time is generally recognized when goods are provided to our patients and customers in a retail setting (for example, pharmaceuticals and medical equipment) and the Corporation does not believe that it is required to provide additional goods and services related to that sale.

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

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

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

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

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

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

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

***(Deficiency) Excess of Revenue Over Expenses*** – The consolidated statements of operations and changes in net assets includes (deficiency) 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.

***Adopted Accounting Pronouncements –***

Effective July 1, 2019, the Corporation adopted FASB ASU No. 2016-02, "Leases (Topic 842)" using the modified retrospective transition approach as of the period of adoption. The financial statements for periods prior to July 1, 2019 were not modified for the application of the new lease accounting standard. The main difference between the guidance in ASU No. 2016-02 and previous standards is the recognition of lease assets and lease liabilities by lessees for those leases classified as operating leases under previous standards. Upon adoption of ASU No. 2016-02, the Corporation recorded \$637.4 million of right-of-use assets and \$653.7 million of liabilities associated with operating leases in the consolidated balance sheet. The Corporation has recognized a charge of \$17.8 million as a cumulative effect adjustment to net assets without donor restrictions in the consolidated statements of operations and changes in net assets. The Corporation has elected the practical expedient that allows lessees to choose to not separate lease and non-lease components by class of underlying asset and is applying this expedient to all relevant asset classes. The Corporation has also elected the practical expedient package to not reassess at adoption (i) expired or existing contracts as to whether they are or contain a lease, (ii) the lease classification of any existing leases or (iii) initial indirect costs for existing leases.

Effective July 1, 2019, the Corporation adopted FASB ASU No. 2017-07, "Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost," which amends the requirements related to the presentation of the components of net periodic benefit cost in the statements of operations for an entity's sponsored defined benefit pension and other postretirement plans on a retrospective basis. For

the nine months ended March 31, 2019, the Corporation reclassified \$40.5 million of defined benefit pension and postretirement plan income from employee benefits expense to nonoperating income in the consolidated statement of operations and changes in net assets as a result of adopting the new guidance. For the nine months ended March 31, 2020, the Corporation recorded \$60.9 million of defined benefit pension and postretirement plan income to nonoperating income in the consolidated statement of operations and changes in net assets.

Effective July 1, 2019, the Corporation adopted FASB ASU No. 2016-18, "Restricted Cash," which adds and clarifies guidance in the presentation of changes in restricted cash on the statement of cash flows and requires restricted cash to be included with cash and cash equivalents in the statement of cash flows on a retrospective basis. The adoption of ASU No. 2016-18 changed the amounts presented as cash and cash equivalents in the statements of cash flows. As of March 31, 2019, the Corporation modified the cash flow statement to include restricted cash of \$116.8 million under the new standard. It also impacted certain disclosures but did not materially impact the Corporation's financial position, or results of operations.

#### ***Forthcoming Accounting Pronouncements –***

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

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

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

***Investments in Unconsolidated Affiliates*** – The Corporation and certain of its Health Ministries have investments in entities that are recorded under the cost and equity methods of accounting. The Corporation's share of equity earnings from entities accounted for under the equity method was \$23.2 million and \$260.9 million for the nine months ended March 31, 2020 and 2019, respectively, of which \$12.3 million and \$44.0 million, respectively, is included in other revenue and \$10.9 million and \$216.9 million, respectively, is included in nonoperating items in the consolidated statements of operations and changes in net assets. The most significant of these investments include the following:

***BayCare Health System*** – The Corporation has a 50.4% interest in BayCare Health System Inc. and Affiliates ("BayCare"), a Florida not-for-profit corporation exempt from state and federal income taxes. BayCare was formed in 1997 pursuant to a Joint Operating Agreement ("JOA") among the not-for-profit, tax-exempt members of the Trinity Health BayCare Participants, Morton Plant Mease Health Care, Inc., and South Florida Baptist Hospital, Inc. (collectively, the "Members"). BayCare consists of three community health alliances located in the Tampa Bay area of Florida, including St. Joseph's-Baptist Healthcare Hospital, St. Anthony's Health Care, and Morton Plant Mease Health Care. The Corporation has the right to appoint nine of the 21 voting members of the Board of Directors of BayCare, therefore the Corporation accounts for BayCare under the equity method of accounting. As of March 31, 2020, and June 30, 2019, the Corporation's investment in BayCare totaled \$3,100 million and \$3,058 million, respectively.

**Gateway Health Plan** – The Corporation has a 50% interest in Gateway Health Plan, L.P. and subsidiaries ("GHP"), a Pennsylvania limited partnership. GHP has two general partners, Highmark Ventures Inc., formerly known as Alliance Ventures, Inc., and Mercy Health Plan (a wholly owned subsidiary of the Corporation), each owning 1%. In addition to the general partners, there are two limited partners, Highmark Inc. and Mercy Health Plan, each owning 49%. As of March 31, 2020, and June 30, 2019, the Corporation's investment in GHP totaled \$200.1 million and \$213.7 million, respectively.

**Catholic Health System, Inc.** – The Corporation has a 50% interest in Catholic Health System, Inc. and subsidiaries ("CHS") with the Diocese of Buffalo holding the remaining 50%. CHS, formed in 1998, is a not-for-profit integrated delivery health care system in western New York. CHS operates several organizations, the largest of which are four acute care hospitals located in Buffalo, New York: Mercy Hospital of Buffalo; Kenmore Mercy Hospital; Sisters of Charity Hospital; and St. Joseph Hospital. As of March 31, 2020, and June 30, 2019, the Corporation's investment in CHS totaled \$32.1 million and \$97.3 million, respectively.

**Emory Healthcare/St. Joseph's Health System** – The Corporation has a 49% interest in Emory Healthcare/St. Joseph's Health System ("EH/SJHS"). EH/SJHS operates several organizations, including two acute care hospitals, St. Joseph's Hospital of Atlanta and John's Creek Hospital. As of March 31, 2020, and June 30, 2019, the Corporation's investment in EH/SJHS totaled \$161.0 million and \$136.7 million, respectively.

**Mercy Health Network** – The Corporation has a 50% interest in Mercy Health Network, dba MercyOne, ("MHN"), a nonstock-basis membership corporation with CommonSpiritHealth, ("CSH"), formerly known as Catholic Health Initiatives holding the remaining 50% interest. MHN is the sole member of Wheaton Franciscan Services, Inc. ("WFSI") that operates three hospitals in Iowa: Covenant Medical Center located in Waterloo, Sartori Memorial Hospital located in Cedar Falls, and Mercy Hospital of Franciscan Sisters located in Oelwein. In November 2018, a subsidiary of MHN acquired Central Community Hospital, a critical access hospital located in Elkader, Iowa, and as a result of this transaction, the Corporation recognized an inherent contribution of \$3.7 million for the year ended June 30, 2019, in the consolidated statement of operations and changes in net assets.

Effective March 1, 2016, the Corporation and CSH amended and restated their existing MHN Joint Operating Agreement ("JOA") that governs certain of their legacy operations in Iowa to strengthen MHN's management responsibilities over the Iowa operations, to jointly acquire health care operations in Iowa and contiguous markets, and to provide for greater financial, governance, and clinical integration. The JOA provides for the Corporation and CSH to maintain ownership of their respective assets in Iowa while agreeing to operate the Corporation's Iowa hospitals in collaboration with CSH's Mercy Hospital Medical Center, Des Moines, Iowa, as one organization with common governance and management. MHN has developed a regional health care network that provides for a collaborative effort in the areas of community health care development, enhanced access to health services for the poor and sharing of other common goals. Under the JOA, the Corporation and CSH equally share adjusted operating cash flow from Iowa operations which commenced in July 2016. The Corporation and CSH agreed to suspend the cash flow sharing arrangement for fiscal years 2019 and 2020. As of March 31, 2020 and June 30, 2019, the Corporation's investment in MHN totaled \$97.0 million and \$95.7 million, respectively.

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

	<b>March 31, 2020</b>				
	<b>Baycare</b>	<b>GHP</b>	<b>CHS</b>	<b>EH/SJHS</b>	<b>MHN</b>
Total assets	\$ 8,403,639	\$ 830,900	\$ 1,288,398	\$ 562,349	\$ 283,980
Total liabilities	\$ 2,267,015	\$ 435,300	\$ 1,150,684	\$ 326,684	\$ 87,885

	<b>June 30, 2019</b>				
	<b>Baycare</b>	<b>GHP</b>	<b>CHS</b>	<b>EH/SJHS</b>	<b>MHN</b>
Total assets	\$ 8,390,504	\$ 1,093,943	\$ 1,335,359	\$ 534,806	\$ 301,725
Total liabilities	\$ 2,141,893	\$ 663,102	\$ 1,066,702	\$ 275,275	\$ 105,207

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

	<b>Nine months ended March 31, 2020</b>				
	<b>Baycare</b>	<b>GHP</b>	<b>CHS</b>	<b>EH/SJHS</b>	<b>MHN</b>
Revenue, net	\$ 3,076,067	\$ 1,766,900	\$ 852,447	\$ 549,322	\$ 297,073
Excess (deficiency) of revenue over expenses	\$ 59,688	\$ (32,200)	\$ (90,555)	\$ 38,130	\$ (1,332)

	<b>Nine months ended March 31, 2019</b>				
	<b>Baycare</b>	<b>GHP</b>	<b>CHS</b>	<b>EH/SJHS</b>	<b>MHN</b>
Revenue, net	\$ 2,920,416	\$ 1,858,322	\$ 880,941	\$ 517,848	\$ 292,540
Excess (deficiency) of revenue over expenses	\$ 379,157	\$ 23,508	\$ (12,277)	\$ 18,077	\$ 11,240

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

Nine months ended March 31, 2020					
	Baycare	GHP	CHS	EH/SJHS	MHN
Other revenue	\$ -	\$ (15,417)	\$ -	\$ -	\$ 2,758
Equity in earnings of					
unconsolidated organizations	30,089	-	(45,278)	24,611	-
Other changes in net assets					
without donor restrictions	9,657	1,567	(19,975)	-	-
	<u>\$ 39,746</u>	<u>\$ (13,850)</u>	<u>\$ (65,253)</u>	<u>\$ 24,611</u>	<u>\$ 2,758</u>
Nine months ended March 31, 2019					
	Baycare	GHP	CHS	EH/SJHS	MHN
Other revenue	\$ -	\$ 8,176	\$ -	\$ -	\$ 3,445
Equity in earnings of					
unconsolidated organizations	203,950	-	(4,653)	17,679	-
Inherent contributions related					
to acquisitions	-	-	-	-	3,726
Other changes in net assets					
without donor restrictions	1,841	(11,115)	11,804	-	-
	<u>\$ 205,791</u>	<u>\$ (2,939)</u>	<u>\$ 7,151</u>	<u>\$ 17,679</u>	<u>\$ 7,171</u>

***Sales and Divestitures:***

***Membership Transfer Agreement Lourdes Health System ("Lourdes")*** – Effective June 30, 2019, Maxis, a wholly-controlled subsidiary of Trinity Health, transferred membership interests of Our Lady of Lourdes Health Care Services, Inc. (the Lourdes legal entity) from Maxis to Virtua Health, Inc. ("Virtua"). The transfer to Virtua included substantially all of the health care operations and certain assets and working capital of Lourdes, effective as of June 30, 2019. Lourdes includes Our Lady of Lourdes Medical Center (Camden, NJ) and Lourdes Medical Center of Burlington County (Willingboro, NJ) and their affiliated operations.

For the nine months ended March 31, 2019, the Corporation's consolidated statements of operations and changes in net assets included revenue of \$400.5 million and deficiency of revenue over expenses of \$27.1 million related to the operations of Lourdes.

#### 4. PROPERTY AND EQUIPMENT

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

	<b>March 31, 2020</b>	<b>June 30, 2019</b>
Land	\$ 358,525	\$ 357,802
Buildings and improvements	10,390,767	9,928,543
Equipment	6,447,584	6,264,515
Finance lease right-of-use assets	31,789	-
Capital leased assets	-	133,181
Total	17,228,665	16,684,041
Accumulated depreciation and amortization	(9,989,830)	(9,439,638)
Construction in progress	1,135,549	1,115,571
Property and equipment, net	<u>\$ 8,374,384</u>	<u>\$ 8,359,974</u>

In conjunction with the acquisition of St. Francis Hospital and Medical Center, Hartford, CT ("SFC") during the year ended June 30, 2016, the Corporation committed to \$275 million of capital spending over five years, if performance metrics are achieved, with the commitment period ending June 30, 2020. The Corporation's related capital spending for SFC through March 31, 2020 is \$213.2 million.

#### 5. LEASES

The following table presents the components of the Corporation's right-of-use assets and liabilities related to finance leases and their classification in the consolidated balance sheet (in thousands):

<b>Component of Finance Lease Balances</b>	<b>Classification in Consolidated Balance Sheet</b>	<b>March 31, 2020</b>
Assets:		
Finance lease right-of-use assets, net	Property and equipment	\$ 29,188
Liabilities:		
Current portion of finance lease liability	Current portion of long-term debt	4,603
Long-term portion of finance lease liability	Long-term debt	49,010

The components of lease expense and their classification in the consolidated statement of operations and changes in net assets for the nine months ended March 31 were as follows (in thousands):

<b>Component of Lease Expenses</b>	<b>Classification in Statements of Operations and Changes in Net Assets</b>	<b>March 31, 2020</b>
Operating lease expense	Occupancy	\$ 112,734
Finance lease expense:		
Amortization of right-of-use assets	Depreciation and amortization	2,591
Interest on lease liabilities	Interest	2,915
Total finance lease expense		5,506
Short-term lease expense	Occupancy	47,184
Total lease expense		\$ 165,424

The weighted average remaining lease term and weighted average discount rate as of and for the nine months ended March 31, 2020, were as follows:

	<b>Weighted average remaining lease term (years)</b>	<b>Weighted average discount rate</b>
Operating leases	7.03	3.15%
Finance leases	8.89	6.48%

Supplemental cash flow information related to leases for the nine-month period ended March 31, 2020 was as follows (in thousands):

	<b>2020</b>
<b>Cash paid for amounts included in the measurement of lease liabilities:</b>	
Operating cash outflows from operating leases	\$ 134,941
Operating cash outflows from finance leases	2,915
Financing cash outflows from finance leases	5,361
<b>Right-of-use assets obtained in exchange for lease obligations:</b>	
Operating leases	718,011
Finance leases	29,309

Future maturities of lease liabilities as of March 31, 2020 are presented in the following table (in thousands):

	<b>Operating Leases</b>	<b>Finance Leases</b>	<b>Total</b>
2021	\$ 148,327	\$ 8,618	\$ 156,945
2022	130,303	8,523	138,826
2023	103,524	8,310	111,834
2024	79,423	8,313	87,736
2025	56,467	8,218	64,685
Thereafter	160,817	28,763	189,580
Total lease payments	678,861	70,745	749,606
Less: Imputed interest	(71,761)	(17,132)	(88,893)
Total lease obligations	607,100	53,613	660,713
Less: Current obligations	(140,176)	(4,603)	(144,779)
Long-term lease obligations	\$ 466,924	\$ 49,010	\$ 515,934

The following is a schedule of future minimum lease payments under operating leases that had an initial or remaining lease term in excess of one year as of June 30, 2019, prior to adoption of ASU No. 2016-02 (in thousands):

Years ending June 30:	
2020	\$ 172,118
2021	148,749
2022	127,253
2023	98,410
2024	73,409
Thereafter	172,236
Total	\$ 792,175

## 6. LONG-TERM DEBT AND OTHER FINANCING ARRANGEMENTS

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

Effective June 28, 2019, the St. Peter's obligated group and master trust indenture were discharged and certain New York entities that now constitute Designated Affiliates were formally transitioned to the Trinity Health Credit Group. Prior to June 28, 2019, those New York entities, consisting of St. Peter's Hospital of the City of Albany; St Peter's Health Partners; Memorial Hospital, Albany, New York; Samaritan Hospital of Troy, New York; Seton Health System, Inc.; Sunnyview Hospital and Rehabilitation Center; the Capital Region Geriatric Center, Inc. and Hawthorne Ridge, Inc., were included



in the Corporation's consolidated financial statements, but were not part of the Trinity Health Credit Group. Additionally, St. Joseph's Hospital Health Center, Syracuse, New York became a designated affiliate on June 28, 2019. Also, as a result of the transfer of Lourdes, described in Note 3, the related Designated Affiliates were removed from the Trinity Health Credit Group effective June 30, 2019.

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 revenue for the most recent fiscal year exceed 5% of the combined total revenue of the Corporation for the most recent fiscal year). Long-term debt outstanding as of March 31, 2020 and June 30, 2019 that has not been secured under the ARMI is generally collateralized by certain property and equipment.

Further, Mercy Health System of Chicago ("MHSC") has a \$51.8 million mortgage loan outstanding at March 31, 2020 that is insured by the U.S. Department of Housing and Urban Development ("HUD"). MHSC's payment obligations under the two mortgage notes evidencing this loan are guaranteed by the Corporation. Such guarantee is not secured under the ARMI. The mortgage loan agreements with HUD contain various covenants, including those relating to limitations on incurring additional debt, transactions with affiliates, transferring or disposing of designated property, use of funds and other assets of the mortgaged property, financial performance, required reserves, insurance coverage, timely submission of specified financial reports, and restrictions on prepayment of the mortgage loan. MHSC and the Corporation provided covenants to HUD not to interfere in the performance of MHSC's obligations under the HUD-insured loan documents. MHSC is not a designated affiliate and is not part of the Trinity Health Credit Group.

**Commercial Paper** – The Corporation's commercial paper program is authorized for borrowings up to \$600 million. As of March 31, 2020 and June 30, 2019, the total amount of commercial paper outstanding was \$99.9 million and \$99.5 million, respectively. Proceeds from this program are to be used for general purposes of the Corporation. The notes are payable from the proceeds of subsequently issued notes and from other funds available to the Corporation, including funds derived from the liquidation of securities held by the Corporation in its investment portfolio.

**Liquidity Facilities** – On July 29, 2019, the Corporation renewed its revolving credit agreement ("RCAI"), by and among the Corporation and US Bank National Association, which acts as an administrative agent for a group of lenders under the Credit Agreement. RCAI establishes a revolving credit facility for the Corporation, under which that group of lenders agree to lend to the Corporation amounts that may fluctuate from time to time. Amounts drawn under the RCAI can only be used to support the Corporation's obligation to pay the purchase price of bonds that are subject to tender and that have not been successfully remarketed, and the maturing principal of and interest on commercial paper notes. Of the \$900 million available balance, the amount is divided equally among the three tranches (\$300 million each). On July 29, 2019, the Corporation extended the maturity dates to August 2021, August 2022 and August 2023 for the related tranches, respectively. As of March 31, 2020 and June 30, 2019, there were no amounts outstanding under RCAI.

On July 29, 2019, the Corporation renewed a three-year general-purpose credit facility of \$200 million with a maturity date of July 2022 ("RCAII"). In March 2020, the Corporation exercised its option to increase RCAII by \$85 million, increasing the size of RCAII to \$285 million. On March 16, 2020 and March 24, 2020, the Corporation executed draws on such credit facility in the amounts of \$200 million and \$85 million respectively.

In addition, in March 2020, the Corporation entered into two additional general-purpose credit facilities (“RCAIII” and “RCAIV,” respectively) with separate financial institutions. The Corporation entered into RCAIII on March 24, 2020, in the amount of \$400 million. A draw in the amount of \$400 million was executed on March 25, 2020. RCAIII terminates on March 23, 2021. The Corporation entered into RCAIV on March 27, 2020, in the amount of \$100 million. A draw in the amount of \$100 million was executed on March 30, 2020. RCAIV terminates on March 25, 2022.

The Corporation recorded \$385 million of lines of credit, associated with draws on credit facilities RCAII and RCAIV, as long-term debt on the consolidated balance sheet as of March 31, 2020 based on termination dates.

Each financial institution providing liquidity support under RCAI, RCAII, RCAIII and RCAIV 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 in the amount of \$115 million. Such arrangement supports multiple insurance and unemployment liabilities in the amount of \$85.5 million as of March 31, 2020. Those standby letters of credit are renewed annually and are available to the Corporation as necessary. As of March 31, 2020 and June 30, 2019 there were no draws on the letters of credit.

In March 2020, the Corporation entered into a two-year standby letters of credit arrangement with a separate financial institution in the amount of \$50 million. Such arrangement supports multiple letters of credit that relate to insurance and unemployment liabilities as necessary. As of March 31, 2020 and June 30, 2019 there were no draws on the letters of credit.

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

***Transactions*** – During December 2019, the Trinity Health Credit Group issued \$315.9 million par value tax-exempt fixed-rate hospital revenue and refunding bonds at a premium of \$34.1 million. Proceeds were used to refund \$50.0 million of certain tax-exempt bonds on a current basis. The remaining proceeds were used to refinance and reimburse a portion of the costs of acquisition, construction, and renovation and equipping of various health facilities.

Concurrently during December 2019, the Trinity Health Credit Group issued \$1,091.0 million par value taxable fixed-rate hospital revenue refunding bonds at par and \$300.8 million par value taxable fixed-rate corporate bonds at par. The proceeds were used to advance refund \$1,281.0 million of certain tax-exempt bonds. The Corporation advance refunded the bonds by depositing funds in trustee-held escrow accounts exclusively for the payment of principal and interest. The trustees/escrow agents are solely responsible for the subsequent extinguishment of the bonds. The trustee held escrow accounts are invested in U.S. government securities.

Also, during December 2019, the Corporation converted \$218.3 million par value tax-exempt, revenue bonds then held by bank direct purchasers, at a premium of \$31.7 million from variable to fixed-rate and remarketed such bonds to the public.

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

## **7. PROFESSIONAL AND GENERAL LIABILITY PROGRAMS**

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

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

The liability for self-insurance reserves represents estimates of the ultimate net cost of all losses and loss adjustment expenses, which are incurred but unpaid at the consolidated balance sheet date. The reserves are based on the loss and loss adjustment expense factors inherent in the Corporation's premium structure. Independent consulting actuaries determined these factors from estimates of the Corporation's expenses and available industry-wide data. The Corporation discounted 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 March 31, 2020, that may result in the assertion of additional claims and other claims may be asserted arising from services provided in the past. While it is possible that settlement of asserted claims and claims which may be asserted in the future could result in liabilities in excess of amounts for which the Corporation has provided, management, based upon the advice of the legal counsel, believes that the excess liability, if any, should not materially affect the consolidated financial statements of the Corporation.

## **8. PENSION AND OTHER BENEFIT PLANS**

***Deferred Compensation*** – The Corporation has nonqualified deferred compensation plans at certain Health Ministries that permit eligible employees to defer a portion of their compensation. The deferred amounts are distributable in cash after retirement or termination of employment. As of March 31, 2020 and June 30, 2019, the assets under these plans totaled \$240.0 million and \$256.0 million, respectively, and liabilities totaled \$243.3 million and \$269.3 million, respectively, which are included in self-insurance, benefit plans and other assets and other long-term liabilities in the consolidated balance sheets.

***Defined Contribution Benefits*** – The Corporation sponsors defined contribution pension plans covering substantially all of its employees. These programs are funded by employee voluntary contributions, subject to legal limitations. Employer contributions to these plans include a nonelective contribution of 3% for participants who satisfy certain eligibility requirements, with a minimum nonelective contribution for certain participants, and varying levels of matching contributions based on employee service. The employees direct their voluntary contributions and employer contributions among a variety of investment options. Contribution expense under the plans totaled \$274.0 million and \$269.5 million for the nine-month periods ended March 31, 2020 and 2019, respectively.

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

Certain plans are subject to the provisions of the Employee Retirement Security Act of 1974 ("ERISA"). The majority of the plans sponsored by the Corporation are intended to be "Church Plans", as defined in Code Section 414(e) and Section 3(33) of the ERISA, which have not made an election under Section 410(d) of the Code to be subject to ERISA. The Corporation's adopted funding policy for the majority of its qualified church plans, which is reviewed annually, is to fund the current service cost based on the accumulated benefit obligations and amortization of any under or over funding.

***Postretirement Health Care and Life Insurance Benefits ("Postretirement Plans")*** – The Corporation sponsors both funded and unfunded contributory plans to provide health care benefits to certain of its retirees. All of the Postretirement Plans are closed to new participants. The Postretirement Plans cover certain hourly and salaried employees who retire from certain Health Ministries. Medical benefits for these retirees are subject to deductibles and cost sharing provisions. The funded plans provide benefits to certain retirees at fixed dollar amounts in health reimbursement account arrangements for Medicare eligible participants. Components of net periodic benefit income for the nine-month periods ended March 31 consisted of the following (in thousands):

	<b>Pension Plans</b>		<b>Postretirement Plans</b>	
	<b>2020</b>	<b>2019</b>	<b>2020</b>	<b>2019</b>
Service cost	\$ -	\$ -	\$ 23	\$ 65
Interest cost	209,915	234,979	3,153	3,968
Expected return on assets	(324,430)	(319,096)	(6,153)	(5,787)
Amortization of prior service cost	(3,686)	(4,071)	(332)	(316)
Recognized net actuarial loss (gain)	61,825	50,703	(1,169)	(890)
Net periodic benefit income	<u>\$ (56,376)</u>	<u>\$ (37,485)</u>	<u>\$ (4,478)</u>	<u>\$ (2,960)</u>

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

## 9. 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 System's future consolidated financial position or results of operations.

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

***COVID-19 Pandemic*** – In March 2020, the global COVID-19 pandemic began to significantly affect the Corporation's patients, communities, employees and business operations. Patient volumes and the related revenue for most of the Corporation's health care services were significantly impacted during March 2020 as various policies were implemented by federal, state and local governments in response to the COVID-19 pandemic that caused restrictions on nonessential medical services, travel bans, social distancing and shelter-in-place orders. These policies forced the Corporation to reduce hours and temporarily close certain operations, as well as dramatically reduce surgical procedures and outpatient diagnostic and treatment services, emergency care and physician patient visits. In addition, broad economic factors resulting from the COVID-19 pandemic, including increasing unemployment rates and reduced consumer spending, are impacting service mix, revenue mix and patient volumes. The Corporation expects

consolidated patient volumes and revenues to continue to be negatively impacted until the effects of the pandemic begin to subside, and the economy begins to stabilize. The Corporation has taken and continues to take, various actions to increase its liquidity and mitigate the impact on operations from the COVID-19 pandemic. To increase liquidity, the Corporation has increased the amount available under, and has drawn upon, various revolving credit facilities discussed further in Notes 6 and 10 and has frozen new capital projects. The Corporation continues to review projects in process and is allocating capital to meet emergent needs associated with COVID-19. Furthermore, the Corporation has taken steps to control spending and reallocate resources to support its hospitals and clinicians. These steps included implementing executive pay reductions, redeploying staff to different roles and locations across the system, implementing furloughs and schedule reductions, and negotiating supplier concessions, all of which began in April 2020. As the COVID-19 pandemic is still evolving, much of its impact remains unknown and difficult to predict. Accordingly, the ultimate effect of COVID-19 on the operating margins and financial results of the Corporation is likely to be adverse and significant. At this point, the Corporation cannot estimate the length or severity of the pandemic, which limits the Corporation's ability to forecast the pandemic's impact on the Corporation's financial position or results of operations. Impact to financial position and results of operations is heavily dependent on the ability to resume patient services in each of the various Regional Health Ministries. However, the Corporation believes the actions it has taken, as supplemented by the various forms of government aid discussed further in Note 10, position Trinity Health to have liquidity adequate to fund essential services and make timely debt service payments during this phase of the COVID-19 pandemic.

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

## 10. SUBSEQUENT EVENTS

Management has evaluated subsequent events through May 21, 2020, the date the quarterly report was issued. The following subsequent events were noted:

On April 2, 2020, the Corporation entered into an additional general-purpose credit facility ("RCAV") in the amount of \$100 million, and a draw in the amount of \$100 million was executed on April 3, 2020. RCAV terminates on April 1, 2021.

Subsequent to March 31, 2020, the Corporation requested accelerated Medicare payments as provided for in the Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act"), which allows for eligible health care facilities to request up to six months of advance Medicare payments for acute care hospitals. After 120 days past receipt of the advance payment, claims for services provided to Medicare beneficiaries will be applied against the advance payment balance. Any unapplied advance payment amounts must be paid in full within one year from receipt of the advance payments for acute care hospitals. During April 2020, the Corporation received approximately \$1.6 billion from these accelerated Medicare payment requests.

The CARES Act further authorized \$100 billion in funding to hospitals and other healthcare providers to be distributed through the Public Health and Social Services Emergency Fund ("Relief Funds"). Payments from Relief Funds are intended to compensate health care providers for lost revenues and incremental 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 Relief Funds to reimburse expenses or losses that other sources are obligated to reimburse. The Corporation received approximately \$600 million in Relief Fund payments in April and May 2020, which amounts did not qualify for financial statement recognition during the nine months ended March 31, 2020.

Lastly, the CARES Act provides for deferred payment of the employer portion of social security taxes between March 27, 2020 and December 31, 2020, with 50% of the deferred amount due December 31, 2021 and the remaining 50% due December 31, 2022. The Corporation began deferring the employer portion of social security taxes in mid-April 2020.

Further, the Paycheck Protection Program and Health Care Enhancement Act enacted on April 24, 2020 provides for an additional \$75 billion in emergency appropriations to eligible providers for COVID-19 response, which funds have not yet been distributed. Furthermore, terms and conditions have not yet been finalized as to how the funds may be utilized once distributed.

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

March 31, 2020



## Introduction to Management's Discussion & Analysis

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

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

### **Coronavirus Pandemic**

In December 2019, the coronavirus disease 2019 ("COVID-19"), was detected in China and has since spread worldwide. The World Health Organization declared it a pandemic in March 2020. Since the first case was confirmed in the United States by the Centers for Disease Control and Prevention ("CDC"), cases of COVID-19 have escalated rapidly and have been confirmed in every state and the District of Columbia. President Trump declared a national emergency and a variety of federal, state and local government efforts have been initiated. Additionally, all states and the District of Columbia have issued and been approved for major disaster declarations due to COVID-19 and many states have taken significant steps to curtail the spread of COVID-19.

The Corporation has implemented its disaster plan, which

included standing up a system incident command ("IC") as well as incident commands at each of the Health Ministries. The system IC is led by the Corporation's Chief Medical Officer. The IC triages all COVID-19 matters pertaining to patients, workforce, and health care operations and to ensure that federal and state information and guidelines are disseminated throughout the system. The IC is also responsible for ensuring the coordination of COVID-19 policies, procedures, clinical practices, staffing, logistics and communications across the Health Ministries.

In March 2020, the global COVID-19 pandemic began to significantly affect the Corporation's patients, communities, employees and business operations. Patient volumes and the related revenue for most of the Corporation's health care services were significantly impacted during March 2020 as various policies were implemented by federal, state and local governments in response to the COVID-19 pandemic that caused restrictions on nonessential medical services, travel bans, social distancing and shelter-in-place orders. These policies forced the Corporation to reduce hours and temporarily close certain operations, as well as dramatically reduce surgical procedures and outpatient diagnostic and treatment services, emergency care and physician patient visits. In addition, broad economic factors resulting from the COVID-19 pandemic, including increasing unemployment rates and reduced consumer spending, are impacting service mix, revenue mix and patient volumes. The Corporation expects consolidated patient volumes and revenues to continue to be negatively impacted until the effects of the pandemic begin to subside, and the economy begins to stabilize. The Corporation has taken and continues to take various actions to increase its liquidity and mitigate the impact on operations from the COVID-19 pandemic.

To increase liquidity, the Corporation has increased the amount available under, and has drawn upon, various revolving credit facilities, and has frozen new capital projects. The Corporation continues to review projects in process and is allocating capital to meet emergent needs associated with COVID-19. Furthermore, the Corporation has taken steps to control spending and reallocate resources to support its hospitals and clinicians. These steps included implementing executive pay reductions, redeploying staff to different roles and locations across



the system, implementing furloughs and schedule reductions, and negotiating supplier concessions, all of which began in April 2020. As the COVID-19 pandemic is still evolving, much of its impact remains unknown and difficult to predict. Accordingly, the ultimate effect of COVID-19 on the operating margins and financial results of the Corporation is likely to be adverse and significant. At this point, the Corporation cannot estimate the length or severity of the pandemic, which limits the Corporation's ability to forecast the pandemic's impact on the Corporation's financial position or results of operations. Impact to financial position and results of operations is heavily dependent on the ability to resume patient services in each of the various Regional Health Ministries. However, the Corporation believes the actions it has taken, as supplemented by the various forms of government aid discussed below, position Trinity Health to have liquidity adequate to fund essential services and make timely debt service payments during this phase of the COVID-19 pandemic.

Subsequent to March 31, 2020, the Corporation requested accelerated Medicare payments as provided for in the Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act"), which allows for eligible health care facilities to request up to six months of advance Medicare payments for acute care hospitals. After 120 days past receipt of the advance payment, claims for services provided to Medicare beneficiaries will be applied against the advance payment balance. Any unapplied advance payment amounts must be paid in full within one year from receipt of the advance payments for acute care hospitals. During April 2020, the Corporation received approximately \$1.6 billion from these accelerated Medicare payment requests.

The CARES Act further authorized \$100 billion in funding to hospitals and other healthcare providers to be distributed through the Public Health and Social Services Emergency Fund ("Relief Funds"). Payments from Relief Funds are intended to compensate health care providers for lost revenues and incremental 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 Relief Funds to reimburse expenses or losses that other sources are obligated to reimburse. The Corporation received

approximately \$600 million in Relief Fund payments in April and May 2020, which amounts did not qualify for financial statement recognition during the nine months ended March 31, 2020.

Lastly, the CARES Act provides for deferred payment of the employer portion of social security taxes between March 27, 2020, and December 31, 2020, with 50% of the deferred amount due December 31, 2021, and the remaining 50% due December 31, 2022. The Corporation began deferring the employer portion of social security taxes in mid-April 2020.

Further, the Paycheck Protection and Healthcare Enhancement Act enacted on April 24, 2020, provides for an additional \$75 billion in Relief Funds through emergency appropriations to eligible providers for COVID-19 response, which funds have not yet been distributed. Furthermore, terms and conditions have not yet been finalized as to how the funds may be utilized once distributed.

## Recent Developments

### ***Adoption of Accounting Pronouncements***

Effective July 1, 2019, the Corporation adopted Financial Accounting Standards Board ("FASB") Accounting Standards Update ("ASU") No. 2016-02, "Leases (Topic 842)" using the modified retrospective transition approach as of the period of adoption. The financial statements for periods prior to July 1, 2019, were not modified for the application of the new lease accounting standard. Upon adoption of ASU No. 2016-02, the Corporation recorded \$637.4 million of right-of-use assets and \$653.7 million of liabilities associated with operating leases in the consolidated balance sheets. The Corporation also recognized a charge of \$17.8 million as a cumulative effect adjustment to net assets without donor restrictions in the consolidated statements of operations and changes in net assets as a result of adopting the new standard.

Effective July 1, 2019, the Corporation adopted FASB ASU No. 2017-07, "Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost," which amends the requirements related to the presentation of the components of net periodic benefit cost in the statements of operations for an entity's sponsored defined benefit pension and other

postretirement plans on a retrospective basis. For the nine months ended March 31, 2019, the Corporation reclassified \$40.5 million of defined benefit pension and postretirement plan income to nonoperating income in the consolidated statements of operations and changes in net assets as a result of adopting the new standard.

Effective July 1, 2019, the Corporation adopted the FASB ASU No. 2016-18, "Restricted Cash," which adds and clarifies guidance in the presentation of changes in restricted cash on the statement of cash flows and requires restricted cash to be included with cash and cash equivalents in the statement of cash flows on a retrospective basis. The adoption of ASU No. 2016-18 changed the amounts presented as cash and cash equivalents in the statement of cash flows. As of March 31, 2019, the Corporation modified the cash flow statement to include restricted cash of \$116.8 million under the new standard. It also impacted certain disclosures but did not materially impact the Corporation's financial position, or results of operations.

### **Membership Transfer Agreement Lourdes Health System ("Lourdes")**

Effective June 30, 2019, Maxis Health System ("Maxis"), a wholly-controlled subsidiary of Trinity Health, transferred membership interests of Our Lady of Lourdes Health Care Services, Inc. (the Lourdes legal entity) from Maxis to Virtua Health, Inc. ("Virtua"). The transfer to Virtua included substantially all of the health care operations and certain assets and working capital of Lourdes effective as of June 30, 2019. Lourdes included Our Lady of Lourdes Medical Center (Camden, NJ) and Lourdes Medical Center of Burlington County (Willingboro, NJ) and their affiliated operations. Accordingly, the Corporation's results of operations exclude Lourdes for the nine months ended March 31, 2020.

## **Results from Operations**

### **Operating Income or Loss**

Results of operations were significantly impacted by the COVID-19 pandemic and shelter-in-place orders in most of the Corporation's markets during the last two weeks of March in fiscal 2020. The Corporation reported an operating loss before other items of \$103.5 million for the first nine months of fiscal year 2020 compared to operating income before other items of \$150.4 million for the same period in fiscal year 2019. Operating margin and

operating cash flow margin were (0.7%) and 5.2%, respectively, for the first nine months of fiscal year 2020 compared to 0.8% and 6.5% for the same period in fiscal year 2019. On a same ministry basis, excluding Lourdes, operating income was \$177.5 million for the first nine months of fiscal year 2019, with corresponding operating margin and operating cash flow margin of 1.0% and 7.1%, respectively. For the quarter, the Corporation reported an operating loss before other items of \$206.1 million during the quarter ended March 2020 compared to operating income before other items of \$37.0 million for the same period in fiscal year 2019. Furthermore, the Corporation reported an operating loss before other items of \$173.6 million in the month of March 2020 compared to operating income before other items of \$13.3 million in the month of March 2019. Margins for the quarter ended March and for the month of March are shown in the tables below.

While year-over-year same ministry volumes, as measured by case mix adjusted equivalent discharges ("CMAEDs"), increased 0.8% for the nine months ended March 2020, CMAEDs declined 6.4% during the quarter ended March 2020. In the month of March 2020, CMAEDs declined 13.3%, over the prior year. Of note, surgical volumes declined 10.1% on a same ministry basis during the quarter ended March 2020 compared to March 2019, while surgical volumes declined 25.5% on a same ministry basis in the month of March 2020 compared to March 2019.

For the nine months ended March 31,			
(dollars in millions)	FY19	FY19**	FY20
Operating Income (Loss)*	\$150.4	\$177.5	(\$103.5)
Operating Revenue	\$14,305	\$13,904	\$14,225
Operating Margin*	1.1%	1.3%	-0.7%
Operating Cash Flow Margin*	6.8%	7.1%	5.2%

For the three months ended March 31,			
(dollars in millions)	FY19	FY19**	FY20
Operating Income (Loss)*	\$37.0	\$45.9	(\$206.1)
Operating Revenue	\$4,822	\$4,689	\$4,516
Operating Margin*	0.8%	1.0%	-4.6%
Operating Cash Flow Margin*	6.9%	6.8%	1.7%

For the one month ended March 31,			
(dollars in millions)	FY19	FY19**	FY20
Operating Income (Loss)*	\$13.3	\$16.0	(\$173.6)
Operating Revenue	\$1,638	\$1,592	\$1,336
Operating Margin*	0.8%	1.0%	-13.0%
Operating Cash Flow Margin*	6.4%	6.8%	-5.9%

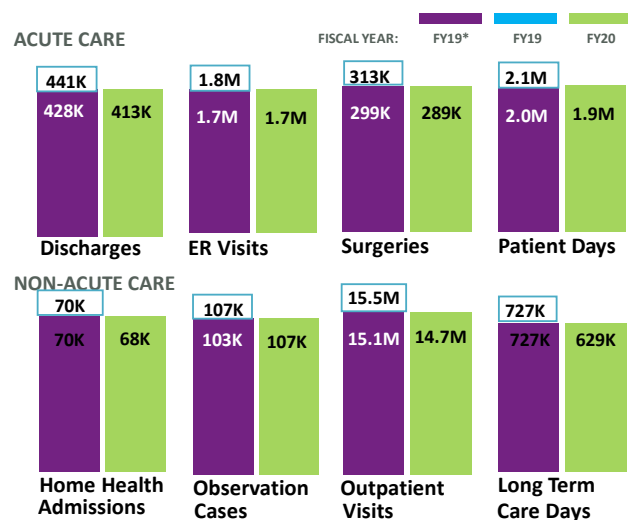
\* Before other items

\*\* Excludes Lourdes Health System results for comparison to FY20

## Revenue

Total operating revenue of \$14.2 billion decreased \$80.0 million, or 0.6%, for the first nine months of fiscal year 2020 compared to the same period in fiscal year 2019. The decrease is attributed to both the membership transfer of Lourdes as well as the COVID-19 pandemic. Excluding the results of Lourdes in fiscal year 2019, total operating revenue increased \$320.3 million, or 2.3% over the prior fiscal year. On a same ministry basis, the increase in revenue was due primarily to the following: (i) \$296 million from payment rate increases, (ii) \$98 million from improvements in case mix, and (iii) \$5.5 million from volume growth. Volumes were drastically reduced by the COVID-19 pandemic largely during the second half of the month of March 2020. Excluding the impact of Lourdes, net patient service revenue declined \$77.1 million during the quarter ended March 2020 compared to the quarter ended March 2019, while net patient service revenue declined \$175.3 million in the month of March 2020 compared to the month of March 2019.

Furthermore, increases for the first nine months of the year were also partially offset by a continued shift in payer mix, due to an increase in uninsured patients. In addition premium and other revenue decreased \$7.1 million in the first nine months of fiscal 2020 compared to the prior year, primarily related to a reduction in equity in earnings of unconsolidated affiliates.



\* Excluding the impact of Lourdes Health System

## Expenses

Total operating expenses of \$14.3 billion increased \$173.9 million, or 1.2% for the first nine months of fiscal year 2020 compared to the same period in fiscal year 2019. Excluding the results of Lourdes from fiscal year 2019, operating expenses increased \$601.3 million, or 4.4%, as compared to the first nine months of fiscal year 2020. The Corporation has taken steps to reduce both operating and capital spending in response to the COVID-19 pandemic and related reduction in patient volumes and revenue. In early March, executive compensation was reduced, which lowered expenses by \$46.9 million. Many other actions, including reduced salaries for executives, staffing furloughs, reduced hours, and negotiating supplier concessions, began in April 2020. On a same ministry basis, the increase in operating expenses for the nine months ended March 2020 was due primarily to the following: (i) salaries and wages, and contract labor of \$197.3 million, primarily due to a 2.1% increase in rate and a 1.1% increase in FTEs, (ii) employee benefits of \$49.4 million, primarily related to FICA, health benefits and defined contribution retirement costs, (iii) purchased services and medical claims of \$199.5 million, mainly due to outsourced medical professional fees, software maintenance and data services, consulting and billing services, (iv) supplies of \$115.9 million, impacted by service mix, rates, and increased retail pharmacy volumes, and (v) depreciation and amortization of \$32.6 million related to new facilities and software costs. The COVID-19 pandemic added \$14.1 million of direct costs in March 2020, primarily in labor, supplies and to a lesser extent in purchased services.

## Other Items

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

## Nonoperating Items

The Corporation reported losses in nonoperating items of \$746.3 million for the first nine months of fiscal year 2020 compared to gains of \$377.2 million for the same period in fiscal year 2019. Losses in the first nine months of fiscal year 2020 were primarily due to a reduction in investment earnings of \$859.4 million, a decrease of equity in earnings of unconsolidated affiliates of \$206.0 million, and a

reduction in market value and cash payments of interest rate swaps of \$47.8 million, all primarily driven by global investment market conditions in March 2020 due to the COVID-19 pandemic. The reduction in the first nine months of fiscal year 2020 also includes a \$32.5 million noncash loss from the early extinguishment of debt.

### **Deficiency or Excess of Revenue over Expenses**

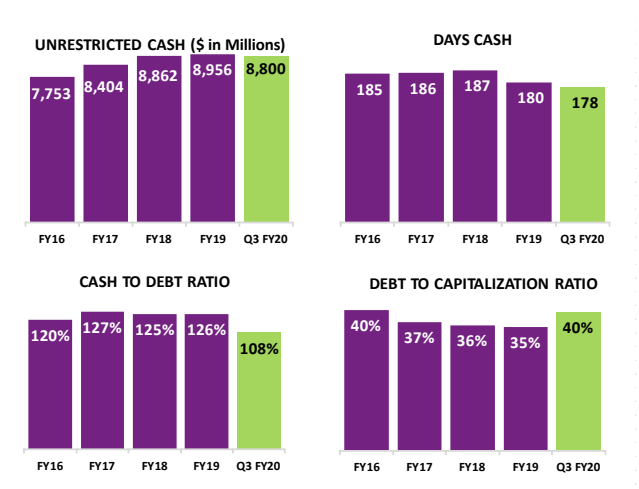
Deficiency of revenue over expenses for the first nine months of fiscal year 2020 was \$883.5 million compared to an excess of revenue over expenses of \$457.9 million for the same period in fiscal year 2019. The decrease in fiscal 2020 was primarily due to nonoperating investment losses, a decline in operating income and declines of equity in earnings of unconsolidated affiliates.

### **Balance Sheet**

Total assets of \$27.2 billion increased \$273.0 million, or 1.0% as of March 31, 2020, compared to June 30, 2019. The increase in assets includes the recognition of operating lease right-of-use lease assets of \$584.7 million as a result of the adoption of ASU No. 2016-02. The financial statements for periods prior to July 1, 2019 were not modified for the application of this standard as the Corporation elected the modified retrospective transition approach. Assets also increased \$300 million from proceeds of debt issuances in December 2019, and \$785 million from proceeds of line of credit facilities drawn in March 2020. These increases were partially offset by decreases in investments due to investment losses primarily incurred during March 2020, and a reduction in patient accounts receivable. Total assets include unrestricted cash and investments of \$8.8 billion or 178 days of cash on hand. Days cash on hand decreased one day as of March 31, 2020 compared to the same period in the prior fiscal year. Lines of credit draws net of investment losses added two days of cash for the nine months ended March 31, 2020. Net days in accounts receivable decreased by 2.7 days to 43.1 days as of March 31, 2020 compared to the same period in the prior fiscal year.

Total liabilities of \$14.3 billion increased \$1.1 billion, or 8.6%, primarily due to the recognition of \$607.1 million of operating lease liabilities under ASU No. 2016-02, \$300 million from proceeds of debt issuances, and \$785 million from line of credit draws to position the Corporation for potential liquidity needs as a result of the COVID-19

pandemic and volatile investment markets. These were partially offset by decreased accounts payable and accrued expenses, and accrued pension and retiree health costs, which included cash funding of the plans of \$136.2 million. Debt to capitalization as of March 31, 2020 increased to a ratio of 40% from 35% compared to June 30, 2019.



### **Statement of Cash Flows**

The cash flow statement reflects the adoption of ASU No. 2016-18, "Restricted Cash," for both fiscal years 2019 and 2020. Cash, cash equivalents and restricted cash increased \$729.6 million during the nine months ended March 31, 2020. Operating activities provided \$273.3 million of cash. Investing activities used \$495 million of cash including \$677.3 million for purchases of property and equipment, partially offset by \$124.8 million proceeds from sales of investments. Financing activities provided \$951.3 million of cash, including \$785 million of drawdowns during March 2020 on both short-term and long-term lines of credit.

TRINITY HEALTH  
Liquidity Reporting  
March 31, 2020

	(\$ in millions) (unaudited)
<b>ASSETS</b>	
<b><u>Daily Liquidity</u></b>	
Money Market Funds (Moody's rated Aaa)	\$ 120
Checking and Deposit Accounts (at P-1 rated bank)	1,228
Repurchase Agreements	-
U.S. Treasuries & Aaa-rated Agencies	-
Dedicated Bank Lines	900
<b>Subtotal Daily Liquidity (Cash &amp; Securities)</b>	<b>\$ 2,248</b>
Undrawn Portion of \$600M Taxable Commercial Paper Program	500
<b>Subtotal Daily Liquidity Including Taxable Commercial Paper Program</b>	<b>\$ 2,748</b>
<b><u>Weekly Liquidity</u></b>	
Exchange Traded Equity	\$ 2,427
Publicly Traded Fixed Income Securities Rated at least Aa3 and Bond Funds	1,587
Equity Funds	674
Other	375
<b>Subtotal Weekly Liquidity</b>	<b>5,063</b>
<b>TOTAL DAILY AND WEEKLY LIQUIDITY</b>	<b>\$ 7,811</b>
<b><u>Longer Term Liquidity</u></b>	
Funds, vehicles, investments that allow withdrawals with less than one-month notice	1,178
Funds, vehicles, investments that allow withdrawals with one month notice or longer	2,229
<b>Total Longer-Term Liquidity</b>	<b>\$ 3,407</b>
<b>LIABILITIES (Self-liquidity Variable Rate Demand Bonds &amp; Commercial Paper)</b>	
<b><u>Weekly Put Bonds</u></b>	
VRDO Bonds (7-day)	\$ 205
<b><u>Long-Mode Put Bonds</u></b>	
VRDO Bonds (Commercial Paper Mode)	160
<b><u>Taxable Commercial Paper Outstanding</u></b>	<b>100</b>
<b>TOTAL SELF-LIQUIDITY DEBT AND COMMERCIAL PAPER</b>	<b>\$ 465</b>
<b>Ratio of Daily and Weekly Liquidity to Self-Liquidity Debt and Commercial Paper</b>	<b>16.79</b>

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

	March 31, 2020	March 31, 2019
<b><u>Financial Indicators</u></b>		
<b>Liquidity Ratios (at March 31)</b>		
Days Cash on Hand	178	179
Days in Accounts Receivable, Net	43.1	45.8
<b>Leverage Ratios (at March 31)</b>		
Debt to Capitalization	40%	36%
Cash to Debt	108%	122%
<b>Profitability Ratios (For the Nine Months Ended March 31)</b>		
Operating Margin before Other Items	(0.7%)	0.8%
Operating Cash Flow Margin before Other Items	5.2%	6.5%
<b><u>Statistical Indicators (For the Nine Months Ended March 31)</u></b>		
Rounded to nearest thousand		
Discharges	413,000	441,000
Patient Days	1,914,000	2,051,000
Outpatient Visits	14,693,000	15,472,000
Emergency Room Visits	1,657,000	1,763,000
Observation Cases	107,000	107,000
<b><u>Continuing Care</u></b>		
Home Health Admissions	68,000	70,000
Long-term Care Patient Days	629,000	727,000