

Trinity Health

Consolidated Financial Statements as of and for the
years ended June 30, 2017 and 2016,
Supplemental Consolidating Schedules as of and for
the Year Ended June 30, 2017,
and Independent Auditors' Reports

TRINITY HEALTH

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Trinity Health Corporation
Livonia, Michigan

We have audited the accompanying consolidated financial statements of Trinity Health Corporation and its subsidiaries (the "Corporation") which comprise the consolidated balance sheets as of June 30, 2017 and 2016, and the related consolidated statements of operations and changes in net assets and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We did not audit the consolidated financial statements of Baycare Health System, the Corporation's investment which is accounted for by the use of the equity method. The accompanying consolidated financial statements of the Corporation include its investment in the net assets of Baycare Health System of \$2.4 billion and \$2.1 billion as of June 30, 2017, and 2016, respectively, and its equity method income from Baycare Health System of \$360.1 million and \$145.0 million for the years ended June 30, 2017 and 2016, respectively. The consolidated financial statements of Baycare Health System for the years ended December 31, 2016 and 2015, were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for Baycare Health System, is based on the reports of the other auditors and the procedures that we considered necessary in the circumstances with respect to the inclusion of the Corporation's equity investment and equity method income in the accompanying consolidated financial statements taking into consideration the differences in fiscal years. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Corporation's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, based on our audits and the reports of the other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Corporation as of June 30, 2017 and 2016, and the results of its operations and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Deloitte & Touche LLP

September 27, 2017

TRINITY HEALTH

CONSOLIDATED BALANCE SHEETS

JUNE 30, 2017 AND 2016

(In thousands)

ASSETS	2017	2016
CURRENT ASSETS:		
Cash and cash equivalents	\$ 1,008,197	\$ 1,044,683
Investments	3,526,204	3,617,501
Security lending collateral	332,972	262,035
Assets limited or restricted as to use - current portion	328,712	314,706
Patient accounts receivable, net of allowance for doubtful accounts of \$428.9 million and \$385.2 million at June 30, 2017 and 2016, respectively	1,877,860	1,849,736
Estimated receivables from third-party payors	260,856	248,179
Other receivables	360,051	336,705
Inventories	274,830	248,092
Prepaid expenses and other current assets	172,051	212,008
Assets held for sale	-	64,272
Total current assets	8,141,733	8,197,917
ASSETS LIMITED OR RESTRICTED AS TO USE - noncurrent portion:		
Held by trustees under bond indenture agreements	7,139	4,881
Self-insurance, benefit plans and other	823,948	780,102
By Board	3,709,246	2,959,641
By donors	460,491	409,493
Total assets limited or restricted as to use - noncurrent portion	5,000,824	4,154,117
PROPERTY AND EQUIPMENT - Net	7,853,456	7,676,734
INVESTMENTS IN UNCONSOLIDATED AFFILIATES	3,105,173	2,681,778
GOODWILL	301,043	304,845
OTHER ASSETS	336,854	363,480
TOTAL ASSETS	\$ 24,739,083	\$ 23,378,871

LIABILITIES AND NET ASSETS

	<u>2017</u>	<u>2016</u>
CURRENT LIABILITIES:		
Commercial paper	\$ 99,861	\$ 145,958
Short-term borrowings	1,039,840	1,067,730
Current portion of long-term debt	192,680	106,345
Accounts payable and accrued expenses	1,404,413	1,361,438
Salaries, wages and related liabilities	820,014	861,757
Payable under security lending agreements	332,972	262,035
Estimated payables to third-party payors	331,585	374,014
Current portion of self-insurance reserves	269,874	255,552
Liabilities held for sale	-	67,453
	<u>4,491,239</u>	<u>4,502,282</u>
Total current liabilities	4,491,239	4,502,282
LONG-TERM DEBT - Net of current portion	5,269,862	5,132,377
SELF-INSURANCE RESERVES - Net of current portion	980,624	933,362
ACCRUED PENSION AND RETIREE HEALTH COSTS	1,315,991	1,857,639
OTHER LONG-TERM LIABILITIES	695,940	705,998
	<u>12,753,656</u>	<u>13,131,658</u>
Total liabilities	12,753,656	13,131,658
NET ASSETS:		
Unrestricted net assets	11,282,433	9,576,379
Noncontrolling ownership interest in subsidiaries	173,703	186,595
Total unrestricted net assets	11,456,136	9,762,974
Temporarily restricted net assets	345,974	326,651
Permanently restricted net assets	183,317	157,588
	<u>11,985,427</u>	<u>10,247,213</u>
Total net assets	11,985,427	10,247,213
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 24,739,083</u>	<u>\$ 23,378,871</u>

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

TRINITY HEALTH

CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS YEARS ENDED JUNE 30, 2017 AND 2016 (In thousands)

	<u>2017</u>	<u>2016</u>
UNRESTRICTED REVENUE:		
Patient service revenue, net of contractual and other allowances	\$ 15,747,094	\$ 14,718,528
Provision for bad debts	(548,965)	(489,558)
Net patient service revenue less provision for bad debts	15,198,129	14,228,970
Premium and capitation revenue	1,039,749	869,030
Net assets released from restrictions	39,826	36,352
Other revenue	1,350,141	1,204,695
Total unrestricted revenue	<u>17,627,845</u>	<u>16,339,047</u>
EXPENSES:		
Salaries and wages	7,594,863	7,056,453
Employee benefits	1,510,144	1,457,253
Contract labor	242,018	205,916
Total labor expenses	<u>9,347,025</u>	<u>8,719,622</u>
Supplies	2,880,802	2,676,637
Purchased services	2,059,267	1,889,460
Depreciation and amortization	870,289	835,213
Occupancy	744,444	698,198
Medical claims	417,054	414,648
Interest	207,152	195,829
Other	835,673	758,103
Total expenses	<u>17,361,706</u>	<u>16,187,710</u>
OPERATING INCOME BEFORE OTHER ITEMS:	266,139	151,337
Asset impairment charges	(248,070)	(39,623)
Restructuring costs	(36,184)	-
Premium revenue adjustment	-	(65,335)
OPERATING (LOSS) INCOME	<u>(18,115)</u>	<u>46,379</u>
NONOPERATING ITEMS:		
Investment earnings (losses)	859,934	(199,326)
Equity in earnings of unconsolidated affiliates	376,642	162,075
Change in market value and cash payments of interest rate swaps	52,955	(94,783)
Gain (loss) from early extinguishment of debt	792	(43,056)
Inherent contributions related to acquisitions	65,103	133,355
Inherent contributions related to acquisitions - unconsolidated organizations	-	87,170
Other, including income taxes	(488)	(2,011)
Total nonoperating items	<u>1,354,938</u>	<u>43,424</u>
EXCESS OF REVENUE OVER EXPENSES	1,336,823	89,803
EXCESS OF REVENUE OVER EXPENSES ATTRIBUTABLE TO NONCONTROLLING INTEREST	<u>(45,599)</u>	<u>(48,460)</u>
EXCESS OF REVENUE OVER EXPENSES, net of noncontrolling interest	<u>\$ 1,291,224</u>	<u>\$ 41,343</u>

	<u>2017</u>	<u>2016</u>
UNRESTRICTED NET ASSETS:		
Unrestricted net asset attributable to Trinity Health:		
Excess of revenue over expenses	\$ 1,291,224	\$ 41,343
Net assets released from restrictions for capital acquisitions	37,695	28,031
Net change in retirement plan related items - consolidated organizations	372,579	(838,812)
Net change in retirement plan related items - unconsolidated organizations	4,123	8,544
Other	8,165	12,396
Increase (decrease) in unrestricted net assets before discontinued operations	<u>1,713,786</u>	<u>(748,498)</u>
Discontinued operations:		
Gain (loss) from operations	4,919	(56,165)
(Loss) gain on disposals and settlement of debt	(12,651)	106,765
Increase (decrease) in unrestricted net assets attributable to Trinity Health	<u>1,706,054</u>	<u>(697,898)</u>
Unrestricted net asset attributable to noncontrolling interests:		
Excess of revenue over expenses attributable to noncontrolling interests	45,599	48,460
Noncontrolling interests related to acquisitions	2,500	29,272
Dividends	(52,190)	(42,133)
Other	(8,801)	(45)
(Decrease) increase in unrestricted net assets attributable to noncontrolling interests before discontinued operations	<u>(12,892)</u>	<u>35,554</u>
Discontinued operations attributable to noncontrolling interests:		
Income from operations	-	47
(Decrease) increase in unrestricted net assets attributable to noncontrolling interests	<u>(12,892)</u>	<u>35,601</u>
TEMPORARILY RESTRICTED NET ASSETS:		
Contributions	83,378	84,422
Net investment gain (loss)	17,140	(9,165)
Net assets released from restrictions	(77,521)	(64,383)
Acquisitions	2,874	38,669
Other	(6,548)	1,442
Increase in temporarily restricted net assets	<u>19,323</u>	<u>50,985</u>
PERMANENTLY RESTRICTED NET ASSETS:		
Contributions for endowment funds	1,805	3,763
Net investment gain	7,892	1,361
Acquisitions	16,960	56,411
Other	(928)	1,084
Increase in permanently restricted net assets	<u>25,729</u>	<u>62,619</u>
INCREASE (DECREASE) IN NET ASSETS	<u>1,738,214</u>	<u>(548,693)</u>
NET ASSETS - BEGINNING OF YEAR	<u>10,247,213</u>	<u>10,795,906</u>
NET ASSETS - END OF YEAR	<u>\$ 11,985,427</u>	<u>\$ 10,247,213</u>

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

TRINITY HEALTH

CONSOLIDATED STATEMENTS OF CASH FLOWS

YEARS ENDED JUNE 30, 2017 AND 2016

(In thousands)

	<u>2017</u>	<u>2016</u>
OPERATING ACTIVITIES:		
Increase (decrease) in net assets	\$ 1,738,214	\$ (548,693)
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities:		
Depreciation and amortization	870,289	835,213
Provision for bad debts	548,965	489,558
Asset impairment charges	248,070	39,623
Restructuring costs, net of payments	23,484	-
Inherent contributions related to acquisitions	(65,103)	(133,355)
Inherent contributions related to acquisitions - unconsolidated organizations	-	(87,170)
(Gain) loss on extinguishment of debt	(792)	43,056
Change in net unrealized and realized gains on investments	(822,835)	267,459
Change in market values of interest rate swaps	(71,236)	72,950
Undistributed equity in earnings of unconsolidated affiliates	(407,057)	(184,225)
Deferred retirement items - consolidated organizations	(372,579)	838,812
Deferred retirement items - unconsolidated organizations	(4,123)	(8,544)
Noncash items, including net losses (gains) on disposal - discontinued operations	10,280	(88,595)
Increase in noncontrolling interests related to acquisitions	(2,500)	(29,272)
Restricted contributions and investment income received	(9,516)	(22,148)
Restricted net assets acquired	(19,834)	(95,080)
Other adjustments	34,412	11,860
Changes in:		
Patient accounts receivable	(536,942)	(525,800)
Other assets	(5,346)	2,430
Accounts payable and accrued expenses	(84,096)	199,364
Estimated receivables from third-party payors	(12,678)	(46,375)
Estimated payables to third-party payors	(48,914)	10,809
Self-insurance reserves and other liabilities	55,325	(5,107)
Accrued pension and retiree health costs	(256,668)	(159,797)
Total adjustments	<u>(929,394)</u>	<u>1,425,666</u>
Net cash provided by operating activities	<u>808,820</u>	<u>876,973</u>

	<u>2017</u>	<u>2016</u>
INVESTING ACTIVITIES:		
Purchases of investments	(3,446,670)	(3,373,316)
Proceeds from sales of investments	3,574,923	3,471,276
Purchases of property and equipment	(1,113,262)	(977,362)
Proceeds from disposal of property and equipment	8,094	19,784
Net cash acquired from acquisitions	5,610	100,807
Proceeds from the sale of divestitures	8,989	37,487
Change in investments in unconsolidated affiliates	(16,410)	(9,659)
Net repayments from (loans to) affiliates	6,108	(34,100)
Decrease in assets limited as to use and other	9,306	8,077
Net cash used in investing activities	<u>(963,312)</u>	<u>(757,006)</u>
FINANCING ACTIVITIES:		
Proceeds from issuance of debt	426,973	982,400
Repayments of debt	(235,460)	(924,445)
Net change in commercial paper	(47,075)	45,968
Dividends paid	(52,190)	(42,133)
Proceeds from grant received	20,000	-
Proceeds from restricted contributions and restricted investment income	9,516	22,148
Increase in financing costs and other	(3,758)	(2,432)
Net cash provided by financing activities	<u>118,006</u>	<u>81,506</u>
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(36,486)	201,473
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>1,044,683</u>	<u>843,210</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 1,008,197</u>	<u>\$ 1,044,683</u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid for interest (net of amounts capitalized)	\$ 211,260	\$ 198,809
New capital lease obligations for buildings and equipment	1,360	4,459
Accruals for purchases of property and equipment and other long-term assets	124,056	157,984
Unsettled investment trades and purchases	28,622	135,619
Unsettled investment trades and sales	18,043	74,631
Decrease (increase) in security lending collateral	70,937	(4,537)
(Increase) decrease in payable under security lending agreements	(70,937)	4,537

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

TRINITY HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED JUNE 30, 2017 AND 2016

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.

Community Benefit Ministry – Consistent with its mission, the Corporation provides medical care to all patients regardless of their ability to pay. In addition, the Corporation provides services intended to benefit the poor and underserved, including those persons who cannot afford health insurance or other payments, such as co-pays and deductibles because of inadequate resources and/or are uninsured or underinsured, and to improve the health status of the communities in which it operates. The following summary has been prepared in accordance with the Catholic Health Association of the United States’ (“CHA”), *A Guide for Planning and Reporting Community Benefit, 2015 Edition*.

The quantifiable costs of the Corporation's community benefit ministry for the years ended June 30 are as follows (in thousands):

	<u>2017</u>	<u>2016</u>
Ministry for the poor and underserved:		
Charity care at cost	\$ 185,880	\$ 187,310
Unpaid cost of Medicaid and other public programs	608,318	446,393
Programs for the poor and the underserved:		
Community health services	27,321	30,200
Subsidized health services	53,329	47,948
Financial contributions	18,932	16,493
Community building activities	1,488	1,480
Community benefit operations	4,333	4,380
Total programs for the poor and underserved	<u>105,403</u>	<u>100,501</u>
Ministry for the poor and underserved	<u>899,601</u>	<u>734,204</u>
 Ministry for the broader community:		
Community health services	14,307	15,396
Health professions education	138,519	132,845
Subsidized health services	44,532	46,398
Research	5,302	3,321
Financial contributions	29,222	29,404
Community building activities	1,958	1,764
Community benefit operations	4,818	3,983
Ministry for the broader community	<u>238,658</u>	<u>233,111</u>
Community benefit ministry	<u>\$ 1,138,259</u>	<u>\$ 967,315</u>

The Corporation provides a significant amount of uncompensated care to its uninsured and underinsured patients, which is reported as bad debt at cost and not included in the amounts reported above. During the years ended June 30, 2017 and 2016, the Corporation reported bad debt at cost (determined using a cost-to-charge ratio applied to the provision for bad debts) of \$161.7 million and \$157.2 million, respectively.

Ministry for the poor and underserved represents the financial commitment to seek out and serve those who need help the most, especially the poor, the uninsured and the indigent. This is done with the conviction that health care is a basic human right.

Ministry for the broader community represents the cost of services provided for the general benefit of the communities in which the Corporation operates. Many programs are targeted toward populations that may be poor, but also include those areas that may need special health services and support. These programs are not intended to be financially self-supporting.

Charity care at cost represents the cost of services provided to patients who cannot afford health care services due to inadequate resources and/or are uninsured or underinsured. A patient is classified as a charity patient in accordance with the Corporation's established policies as further described in Note 4. The cost of charity care is calculated using a cost-to-charge ratio methodology.

Unpaid cost of Medicaid and other public programs represent the cost (determined using a cost-to-charge ratio) of providing services to beneficiaries of public programs, including state Medicaid and indigent care programs, in excess of governmental and managed care contract payments.

Community health services are activities and services carried out to improve community health and well-being, for which no patient bill exists. These services are not expected to be financially self-supporting, although some may be supported by outside grants or funding. Some examples include community health education, free immunization services, free or low-cost prescription medications and rural and urban outreach programs. The Corporation actively collaborates with community groups and agencies to assist those in need in providing such services.

Health professions education includes the unreimbursed cost of training health professionals, such as medical residents, nursing students, technicians and students in allied health professions.

Subsidized health services are net costs for billed services that are subsidized by the Corporation. These include services offered despite a financial loss because they are needed in the community and either other providers are unwilling to provide the services or the services would otherwise not be available in sufficient amount. Examples of services include free-standing community clinics, hospice care, mobile units and behavioral health services.

Research includes unreimbursed clinical and community health research and studies on health care delivery, which is generalizable and shared with the public.

Financial contributions are made by the Corporation on behalf of the poor and underserved to community agencies and restricted to support community benefit activities. These amounts include special system-wide funds used to improve community health and well-being as well as resources contributed directly to programs, organizations, and foundations for efforts on behalf of the poor and underserved. Amounts included here also represent certain in-kind donations.

Community building activities include programs that address the root causes of health problems and focus on policy, systems and environmental changes. Examples include the costs of programs that improve the physical environment, promote economic development, enhance other community support systems, advocacy for community health improvement, develop leadership skills training, and build community coalitions.

Community benefit operations include costs associated with dedicated staff, community health needs and/or asset assessments, and other costs associated with community benefit strategy and operations.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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.

During the year ended June 30, 2016, Mercy Suburban Hospital and East Norriton Physician Services (“Mercy Suburban”), St. Joseph Mercy Port Huron (“Port Huron”) and Saint Michael's Medical Center (“St. Michael's”) were divested and the operations of these entities are reflected as discontinued operations. The consolidated statements of cash flows include impacts of cash flows related to these entities. Notes to these consolidated financial statements exclude these entities.

Use of Estimates – The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America (“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 contractual allowances, provisions for bad debts and charity care; premium revenue; recorded values of investments, derivatives, and goodwill; reserves for losses and expenses related to health care professional and general liabilities; and risks and assumptions for measurement of pension and retiree medical liabilities. Management relies on historical experience and other assumptions believed to be reasonable in making its judgments and estimates. Actual results could differ materially from those estimates.

Reclassifications – Certain prior-year amounts have been reclassified to conform to current-year presentation, including combining accounts payable and accrued liabilities in the consolidated balance sheet and consolidated statement of cash flows and discontinued operations in the consolidated statement of cash flows.

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

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

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

Derivative Financial Instruments – The Corporation periodically utilizes various financial instruments (e.g., options and swaps) to hedge interest rates, equity downside risk and other exposures. The Corporation's policies prohibit trading in derivative financial instruments on a speculative basis. The Corporation recognizes all derivative instruments in the consolidated balance sheets at fair value.

Securities Lending – The Corporation participates in securities lending transactions whereby a portion of its investments are loaned, through its agent, to various parties in return for cash and securities from the parties as collateral for the securities loaned. Each business day, the Corporation, through its agent, and the borrower determine the market value of the collateral and the borrowed securities. If on any business day the market value of the collateral is less than the required value, additional collateral is obtained as appropriate. The amount of cash collateral received under securities lending is reported as an asset and a corresponding payable in the consolidated balance sheets and is up to 105% of the market value of securities loaned. As of June 30, 2017 and 2016, the Corporation had securities loaned of \$452.0 million and \$272.6 million, respectively, and received collateral (cash and noncash) totaling \$463.1 million and \$277.7 million, respectively, relating to the securities loaned. The fees received for these transactions are recorded in nonoperating investment income in the consolidated statements of operations and changes in net assets. In addition, certain pension plans participate in securities lending programs with the Northern Trust Company, the plans' agent.

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

Donor-Restricted Gifts – Unconditional promises to give cash and other assets to the Corporation are reported at fair value at the date the promise is received. Conditional promises to give and indications of intentions to give are reported at fair value at the date the gift is received. The gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statements of operations and changes in net assets as net assets released from restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are reported as unrestricted contributions in the consolidated statements of operations and changes in net assets.

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

Assets and Liabilities Held for Sale – The Corporation has classified certain assets as assets held for sale in the consolidated balance sheets when the assets have met applicable criteria for this classification. The Corporation has also classified as held for sale those liabilities related to assets held for sale.

Property and Equipment – Property and equipment, including internal-use software, are recorded at cost, if purchased, or at fair value at the date of donation, if donated. Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed using either the straight-line or an accelerated method and includes capital lease and internal-use software amortization. The useful lives of these assets range from 2 to 50 years. Interest costs incurred during the period of construction of capital assets are capitalized as a component of the cost of acquiring those assets.

Gifts of long-lived assets such as land, buildings, or equipment are reported as unrestricted support and are excluded from the excess of revenue over expenses, unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support.

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

Asset Impairments –

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

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

Other Assets – Other assets include long-term notes receivable, reinsurance recovery receivables, definite and indefinite-lived intangible assets other than goodwill and prepaid retiree health costs. The net balances of definite-lived intangible assets include noncompete agreements, physician guarantees and other definite-lived intangible assets with finite lives amortized using the straight-line method over their estimated useful lives, which generally range from 2 to 10 years. Indefinite-lived intangible assets primarily include trade names, which are tested annually for impairment.

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

Other Long-Term Liabilities – Other long-term liabilities include deferred compensation, asset retirement obligations, interest rate swaps and deferred revenue from entrance fees. Deferred revenue from entrance fees are fees paid by residents of facilities for the elderly upon entering into continuing care contracts, which are amortized to income using the straight-line method over the estimated remaining life expectancy of the resident, net of the portion that is refundable to the resident.

Temporarily and Permanently Restricted Net Assets – Temporarily restricted net assets are those whose use by the Corporation has been limited by donors to a specific time period or purpose. Permanently restricted net assets have been restricted by donors to be maintained by the Corporation in perpetuity.

Patient Accounts Receivable, Estimated Receivables from and Payables to Third-Party Payors and Net Patient Service Revenue – The Corporation has agreements with third-party payors that provide for payments to the Corporation's Health Ministries at amounts different from established rates. Patient accounts receivable and net patient service revenue are reported at the estimated net realizable amounts from patients, third-party payors and others for services rendered. Estimated retroactive adjustments under reimbursement agreements with third-party payors and other changes in estimates are included in net patient service revenue and estimated receivables from and payables to third-party payors. 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. Estimated receivables from third-party payors include amounts receivable from Medicare and state Medicaid meaningful use programs.

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. Gross 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.

Allowance for Doubtful Accounts – The Corporation recognizes a significant amount of patient service revenue at the time the services are rendered even though the Corporation does not assess the patient's ability to pay at that time. As a result, the provision for bad debts is presented as a deduction from patient service revenue (net of contractual provisions and discounts). For uninsured and underinsured patients that do not qualify for charity care, the Corporation establishes an allowance to reduce the carrying value of such receivables to their estimated net realizable value. This allowance is established based on the aging of accounts receivable and the historical collection experience by the Health Ministries for each type of payor. A significant portion of the Corporation's provision for doubtful accounts relates to self-pay patients, as well as co-payments and deductibles owed to the Corporation by patients with insurance.

Premium and Capitation Revenue – The Corporation has certain Health Ministries that arrange for the delivery of health care services to enrollees through various contracts with providers and common provider entities. Enrollee contracts are negotiated on a yearly basis. Premiums are due monthly and are recognized as revenue during the period in which the Corporation is obligated to provide services to enrollees. Premiums received prior to the period of coverage are recorded as deferred revenue and included in accrued expenses in the consolidated balance sheets.

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

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

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

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

Adopted Accounting Pronouncements –

On July 1, 2016, the Corporation adopted Accounting Standards Update ("ASU") No. 2017-04, "*Simplifying the Test for Goodwill Impairment*," which simplifies the accounting for goodwill impairment by eliminating Step 2 from the goodwill impairment test. Although the adoption of this guidance resulted in a policy change for the Corporation, it did not have a material impact on its consolidated financial statements.

Forthcoming Accounting Pronouncements –

In May 2014, the Financial Accounting Standards Board ("FASB") issued ASU No. 2014-09, "*Revenue from Contracts with Customers (Topic 606)*." In August 2015, the FASB amended the guidance to defer the effective date of this standard by one year. ASU No. 2014-09 affects any entity that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets unless those contracts are within the scope of other standards. The core principle of the guidance in ASU No. 2014-09 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The Corporation is currently evaluating the requirements of the new standard to insure that we have processes, systems and internal controls in place to collect the necessary information to implement the standard, which will be effective for the Corporation beginning July 1, 2018. While the adoption of ASU No. 2014-09 will have a material effect on the amounts presented in certain categories in the consolidated statements of operations, the Corporation is still evaluating the impact this guidance may have on its consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02, *"Leases."* This guidance introduces a lessee model that brings substantially all leases on the consolidated balance sheet. The main difference between the guidance in ASU No. 2016-02 and current GAAP is the recognition of lease assets and lease liabilities by lessees for those leases classified as operating leases under current GAAP. Recognition of these leases assets and liabilities will have a material impact on the Corporation's consolidated balance sheets upon adoption. In transition, lessees and lessors are required to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach, which includes a number of optional practical expedients. This guidance is effective for the Corporation beginning July 1, 2019. The Corporation is still evaluating the impact this guidance may have on its consolidated financial statements.

In March 2017, the FASB issued ASU No. 2017-07, *"Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost,"* which amends the requirements related to the presentation of the components of net periodic benefit cost in the statement of operations for an entity's sponsored defined benefit pension and other postretirement plans. This guidance is effective for the Corporation beginning July 1, 2019. The Corporation does not expect this guidance to have a material impact on its consolidated financial statements.

In August 2016, the FASB issued ASU No. 2016-14, *"Presentation of Financial Statements of Not-For-Profit Entities."* This guidance simplifies and improves how not-for-profit entities classify net assets as well as the information presented in financial statements and notes about liquidity, financial performance and cash flows. Specifically, this guidance reduces the three classifications of net assets on the balance sheet to two classifications. This guidance is effective for the Corporation beginning July 1, 2018. The Corporation is still evaluating the impact this guidance may have on its consolidated financial statements.

In November 2016, the FASB issued ASU No. 2016-18 *"Restricted Cash,"* which adds and clarifies guidance in the presentation of changes in restricted cash on the statement of cash flows requiring restricted cash to be included with cash and cash equivalents in the statement of cash flows. This guidance does not provide a definition of restricted cash. This guidance is effective for the Corporation beginning July 1, 2019. The Corporation is still evaluating the impact this guidance may have on the consolidated statements of cash flows.

In March 2017, the FASB issued ASU No. 2017-08, *"Premium Amortization on Purchased Callable Debt Securities,"* which shortens the amortization period for certain callable debt securities held at a premium to be amortized to the earliest call date. Under current GAAP, the premium is generally amortized to the maturity date. This guidance is effective for the Corporation beginning July 1, 2020. The Corporation is still evaluating the impact this guidance may have on its consolidated financial statements.

In January 2017, the FASB issued ASU No. 2017-02, *"Clarifying When a Not-for-Profit Entity That Is a General Partner or a Limited Partner Should Consolidate a For-Profit Limited Partnership or Similar Entity,"* which adds and clarifies consolidation guidance for not-for-profits from ASU No. 2015-02 *"Amendments to the Consolidation Analysis,"* issued in February 2015. This guidance significantly changes the consolidation analysis required under GAAP. This guidance is effective for the Corporation beginning July 1, 2017. The Corporation does not expect this guidance to have a material impact on its consolidated financial statements.

In August 2016, the FASB issued ASU No. 2016-15, *"Classification of Certain Cash Receipts and Cash Payments."* This guidance adds and clarifies guidance on the classification of certain cash receipts and payments in the consolidated statement of cash flows. This guidance is effective for the Corporation beginning July 1, 2019. The Corporation is still evaluating the impact this guidance may have on its consolidated financial statements.

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

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. As of June 30, 2017 and 2016, the Corporation maintained investments in unconsolidated affiliates with ownership interests ranging from 2.7% to 51.0% and 0.4% to 51.0%, respectively. The Corporation’s share of equity earnings from entities accounted for under the equity method was \$433.8 million and \$213.9 million for the years ended June 30, 2017 and 2016, respectively, of which \$57.1 million and \$51.8 million, respectively, is included in other revenue and \$376.6 million and \$162.1 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 CHE 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 June 30, 2017 and 2016, the Corporation's investment in BayCare totaled \$2,447 million and \$2,079 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 June 30, 2017 and 2016, the Corporation's investment in GHP totaled \$170.3 million and \$147.6 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 was originally jointly sponsored by the Sisters of Mercy, Ascension Health System, the Franciscan Sisters of St. Joseph, and the Diocese of Buffalo. The Corporation held a one-third interest in CHS until May 1, 2017, when Ascension Health System withdrew its sponsorship and corporate membership in CHS, which increased the Corporation's interest from one-third to 50%. 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 June 30, 2017 and 2016, the Corporation's investment in CHS totaled \$85.2 million and \$73.3 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 June 30, 2017 and 2016, the Corporation's investment in EH/SJHS totaled \$90.6 million and \$82.3 million, respectively.

Mercy Health Network – The Corporation has a 50% interest in Mercy Health Network (“MHN”), a nonstock-basis membership corporation with Catholic Health Initiatives (“CHI”) holding the remaining 50% interest. Effective March 1, 2016, the Corporation and CHI amended and restated their existing MHN JOA that governs certain of their legacy operations in Iowa to strengthen MHN's management responsibilities over the Iowa operations, to jointly acquire health care operations in Iowa and contiguous markets, and to provide for greater financial, governance and clinical integration.

The JOA provides for the Corporation and CHI to maintain ownership of their respective assets in Iowa while agreeing to operate the Corporations' Iowa hospitals in collaboration with CHI's Mercy Hospital Medical Center, Des Moines, Iowa, as one organization with common governance and management. MHN has developed a regional health care network that provides for a collaborative effort in the areas of community health care development, enhanced access to health services for the poor and sharing of other common goals. Under the JOA, the Corporation and CHI equally share adjusted operating cash flow from Iowa operations, which commenced in July 2016. For the year ended June 30, 2017, other expense includes a charge of \$4.9 million related to the cash flow sharing agreement.

On May 1, 2016, MHN became the sole member of Wheaton Franciscan Services, Inc. ("WFSI"). WFSI operates three hospitals in Iowa located in Waterloo (Covenant Medical Center), Cedar Falls (Sartori Memorial Hospital) and Oelwein (Mercy Hospital of Franciscan Sisters). WFSI was consolidated into MHN's financial statements. As a result of this transaction, MHN recognized an inherent contribution in its consolidated statement of operations and changes in net assets, of which, the Corporation's share is \$87.2 million for the year ended June 30, 2016. As of June 30, 2017 and 2016, the Corporation's investment in MHN totaled \$94.2 million and \$91.0 million, respectively.

Condensed consolidated balance sheets of BayCare, GHP, CHS, EH/SJHS and MHN as of June 30 are as follows (in thousands):

	2017				
	<u>Baycare</u>	<u>GHP</u>	<u>CHS</u>	<u>EH/SJHS</u>	<u>MHN</u>
Total assets	\$ 7,004,163	\$ 1,028,120	\$ 1,127,664	\$ 467,148	\$ 267,763
Total liabilities	\$ 1,962,261	\$ 687,510	\$ 882,229	\$ 281,171	\$ 71,001

	2016				
	<u>Baycare</u>	<u>GHP</u>	<u>CHS</u>	<u>EH/SJHS</u>	<u>MHN</u>
Total assets	\$ 6,378,411	\$ 984,457	\$ 1,105,078	\$ 452,892	\$ 240,151
Total liabilities	\$ 2,068,541	\$ 689,217	\$ 884,839	\$ 283,450	\$ 53,768

Condensed consolidated statements of operations of BayCare, GHP, CHS, EH/SJHS and MHN for the years ended June 30 are as follows (in thousands):

	2017				
	<u>Baycare</u>	<u>GHP</u>	<u>CHS</u>	<u>EH/SJHS</u>	<u>MHN</u>
Revenue, net	\$ 3,503,224	\$ 2,491,710	\$ 1,119,170	\$ 550,326	\$ 365,378
Excess of revenue over expenses	\$ 714,418	\$ 38,771	\$ 13,794	\$ 24,194	\$ 5,790

	2016				
	<u>Baycare</u>	<u>GHP</u>	<u>CHS</u>	<u>EH/SJHS</u>	<u>MHN</u>
Revenue, net	\$ 3,236,962	\$ 2,347,557	\$ 1,076,954	\$ 506,107	\$ 71,664
Excess of revenue over expenses	\$ 287,766	\$ 32,497	\$ 29,131	\$ 18,846	\$ 176,908

The following amounts have been recognized in the accompanying consolidated statements of operations and changes in net assets related to the investments in BayCare, GHP, CHS, EH/SJHS and MHN for the years ended June 30 (in thousands):

	2017				
	Baycare	GHP	CHS	EH/SJHS	MHN
Other revenue	\$ -	\$ 20,283	\$ -	\$ -	\$ 3,160
Equity in earnings of unconsolidated organizations	360,067	-	6,363	11,287	-
Other changes in unrestricted net assets	7,780	(2,192)	5,460	(1,365)	-
Total	\$ 367,847	\$ 18,091	\$ 11,823	\$ 9,922	\$ 3,160
	2016				
	Baycare	GHP	CHS	EH/SJHS	MHN
Other revenue	\$ -	\$ 16,695	\$ -	\$ -	\$ 1,200
Equity in earnings of unconsolidated organizations	145,034	-	9,701	9,511	-
Inherent contribution	-	-	-	-	87,170
Other changes in unrestricted net assets	(391)	7,505	11,558	51	2,649
Total	\$ 144,643	\$ 24,200	\$ 21,259	\$ 9,562	\$ 91,019

The unaudited summarized financial position and results of operations for the entities accounted for under the equity method excluding BayCare, GHP, CHS, EH/SJHS and MHN as of and for the years ended June 30 are as follows (in thousands):

	2017					
	Medical Office Buildings	Outpatient and Diagnostic Services	Ambulatory Surgery Centers	Physician Hospital Organizations	Other Investees	Total
Total assets	\$ 71,410	\$ 202,953	\$ 53,811	\$ 101,596	\$ 671,569	\$ 1,101,339
Total liabilities	\$ 53,920	\$ 95,207	\$ 21,595	\$ 58,266	\$ 328,073	\$ 557,061
Revenue, net	\$ 22,423	\$ 222,524	\$ 88,956	\$ 47,054	\$ 1,542,945	\$ 1,923,902
Excess (deficiency) of revenue over expenses	\$ 8,410	\$ 24,530	\$ 23,056	\$ (11,697)	\$ 48,840	\$ 93,139
	2016					
	Medical Office Buildings	Outpatient and Diagnostic Services	Ambulatory Surgery Centers	Physician Hospital Organizations	Other Investees	Total
Total assets	\$ 87,351	\$ 174,519	\$ 60,695	\$ 14,454	\$ 521,628	\$ 858,647
Total liabilities	\$ 63,605	\$ 78,936	\$ 22,640	\$ 12,482	\$ 228,791	\$ 406,454
Revenue, net	\$ 17,943	\$ 246,410	\$ 91,053	\$ 20,938	\$ 1,288,857	\$ 1,665,201
Excess (deficiency) of revenue over expenses	\$ 7,036	\$ 24,449	\$ 25,702	\$ (1,987)	\$ 7,015	\$ 62,215

Acquisitions:

Saint Mary's Health System ("SMHS") – On August 1, 2016, the Corporation became, through its Trinity Health Of New England, Inc. subsidiary, the sole corporate member of SMHS, a regional health care system located in Waterbury, Connecticut, as part of a member substitution. As a result of this transaction, the Corporation recognized an inherent contribution of \$56.0 million for the year ended June 30, 2017, in the consolidated statement of operations and changes in net assets.

Summarized consolidated balance sheet information for SMHS at August 1, 2016, is shown below (in thousands):

Cash, cash equivalents, and investments	\$ 18,252	Accounts payable and accrued expenses	\$ 39,735
Patient accounts receivable, net	31,029	Accrued pension and retiree health costs	89,167
Other current assets	10,662	Other long-term liabilities	<u>26,203</u>
Assets limited or restricted as to use,		Total liabilities acquired	<u>\$ 155,105</u>
current portion	3,465		
Property and equipment	100,686	Unrestricted net assets	\$ 55,994
Assets limited or restricted as to use,		Unrestricted noncontrolling interest	<u>2,500</u>
noncurrent portion	62,150	Total unrestricted net assets	58,494
Other assets	<u>5,859</u>	Temporarily restricted net assets	1,978
Total assets acquired	<u>\$ 232,103</u>	Permanently restricted net assets	<u>16,526</u>
		Total net assets	<u>\$ 76,998</u>

For the 11-month period ended June 30, 2017, SMHS reported revenue of \$291.3 million and excess of revenue over expenses of \$4.2 million in the consolidated statement of operations.

Saint Francis Care ("SFC") – On October 1, 2015, the Corporation became the sole corporate member of SFC, a Connecticut nonstock corporation. On November 17, 2015, Saint Francis Care, Inc. changed its name to Trinity Health Of New England, Inc. SFC is the sole member of Saint Francis Hospital and Medical Center ("SFHMC"), a Connecticut nonstock corporation that operates a hospital in Hartford, Connecticut, and is also the sole member of Mount Sinai Rehabilitation Hospital, a Connecticut nonstock corporation that operates a rehabilitation facility. As a result of this transaction, the Corporation recognized an inherent contribution of \$70.9 million for the year ended June 30, 2016, in the consolidated statement of operations and changes in net assets. Summarized consolidated balance sheet information for SFC at October 1, 2015, is shown below (in thousands):

Cash, cash equivalents, and investments	\$ 135,568	Current portion of long-term debt	\$ 7,298
Patient accounts receivable, net	75,415	Accounts payable and accrued expenses	98,922
Other receivables	10,159	Other current liabilities	17,381
Inventories	9,701	Long-term debt	244,154
Other current assets	16,418	Accrued pension and retiree health costs	197,562
Property and equipment	411,067	Other long-term liabilities	<u>106,717</u>
Assets limited or restricted as to use,		Total liabilities acquired	<u>\$ 672,034</u>
noncurrent portion	145,992		
Other assets	<u>18,069</u>	Unrestricted net assets	\$ 70,996
Total assets acquired	<u>\$ 822,389</u>	Temporarily restricted net assets	26,180
		Permanently restricted net assets	<u>53,179</u>
		Total net assets	<u>\$ 150,355</u>

As part of the transaction, an investment of \$275 million in capital was committed over a five-year period by the Corporation. As disclosed in Note 6, the transaction included the extinguishment of bonds. In addition, as disclosed in Note 11, on October 1, 2015, the Corporation novated an interest rate swap from SFC that increased other long-term liabilities in the consolidated balance sheets by \$44.0 million.

For the years ended June 30, 2017 and 2016, SFC, inclusive of Johnson Memorial Medical Center, Inc. as noted below, reported revenue of \$1,004.3 million and \$727.9 million and excess of revenue over expenses of \$21.5 million and \$2.4 million, respectively, in the consolidated statements of operations. For the year ended June 30, 2016, these amounts represent nine months of SFC activity since being acquired by the Corporation and are inclusive of six months of Johnson Memorial Medical Center, Inc. activity as noted below.

Johnson Memorial Medical Center, Inc. ("Johnson") – On January 1, 2016, SFC acquired the assets of Johnson, a non-profit, nonstock holding company located in Stafford Springs, Connecticut. Johnson, through its subsidiaries, provides health care services throughout the Hartford and Tolland Connecticut counties. As a result of the acquisition, the Corporation recognized an inherent contribution of \$4.0 million for the year ended June 30, 2016, in the consolidated statement of operations and changes in net assets. Summarized consolidated balance sheet information for Johnson at January 1, 2016, is shown below (in thousands):

Patient accounts receivable, net	\$ 9,330	Current portion of long-term debt	\$ 801
Other receivables	777	Accounts payable and accrued expenses	11,765
Inventories	1,577	Other current liabilities	2,682
Other current assets	1,585	Long-term debt	22,749
Property and equipment	25,908	Other long-term liabilities	141
Other assets	3,472	Total liabilities acquired	<u>\$ 38,138</u>
Total assets acquired	<u>\$ 42,649</u>		
		Unrestricted net assets	\$ 3,971
		Temporarily restricted net assets	540
		Total net assets	<u>\$ 4,511</u>

For the year ended June 30, 2017, and the six-month period ended June 30, 2016, Johnson reported revenue of \$69.0 million and \$32.2 million and deficiency of revenue over expenses of (\$0.9) million and (\$3.3) million, respectively, in the consolidated statements of operations.

Divestitures:

The consolidated financial statements for all periods present the operations of the following entities as discontinued operations as the transactions were in process prior to the adoption of ASU No. 2014-8 "Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity."

St. Michael's – On August 10, 2015, St. Michael's and certain of its affiliates voluntarily filed for reorganization under Chapter 11 of the Bankruptcy Code. Pursuant to the provisions of the Bankruptcy Code, the transaction with Prime Healthcare Services ("Prime"), a hospital system based in Ontario, California, was subject to an "auction sale" process. By order of November 12, 2015, the Bankruptcy Court approved Prime as the successful bidder for the hospital resulting in a first amended and restated asset purchase agreement between the parties. The Corporation provided debtor-in-possession financing of \$15 million to St. Michael's, which was subsequently forgiven in consideration of releases by the Official Unsecured Creditors Committee and Debtors of any claims against Trinity Health arising out of Trinity Healths and Debtors' prepetition relationship, transactions or conduct as more fully described in a Global Settlement Agreement approved by the Bankruptcy Court on April 26, 2016.

Effective May 1, 2016, the Corporation sold substantially all of the health care operations and assets of St. Michael's to Prime and recorded a loss on disposal of \$35.7 million in discontinued operations in the consolidated statement of changes in net assets for the year ended June 30, 2016.

As part of a court order to settle St. Michael's outstanding debt and accrued interest, the Corporation paid \$55.8 million in July 2016, to settle \$233.4 million of St. Michael's debt that resulted in a \$177.6 million gain on disposal in discontinued operations in the consolidated statement of changes in net assets for the year ended June 30, 2016.

On January 12, 2017, the bankruptcy court issued an order confirming joint Chapter 11 Plan of Orderly Liquidation of St. Michael's and Affiliated Debtors. The Plan became effective as of April 17, 2017. Pursuant to the Plan as of the effective date, the remaining assets and liabilities and control of St. Michael's and its affiliated debtors have been transferred to a Liquidating Trustee to implement the Plan. As a result, St. Michael's was deconsolidated from the Corporation's financial statements resulting in a further loss on disposal of \$12.0 million in the consolidated statement of changes in net assets for the year ended June 30, 2017. As of August 1, 2017, the St. Michael's Board of Directors was dissolved, and the Directors and Officers relieved of their positions. Effective August 11, 2017 the Articles of Incorporation of St. Michael's were amended to remove Maxis Health System, a subsidiary of the Corporation, as the sole corporate member of St. Michael's, thereby formally severing the remaining indirect control and relationship between the Corporation and St. Michael's.

Mercy Suburban – Effective February 1, 2016, the Corporation sold substantially all of the health care operations and assets of Mercy Suburban to Prime. The impact of the disposal recorded in discontinued operations in the consolidated statements of changes in net assets at the effective date was immaterial to the Corporation. As disclosed in Note 6, the transaction resulted in the defeasance of bonds.

Port Huron – Effective September 1, 2015, the Corporation sold substantially all of the Corporation's health care operations located in Port Huron, Michigan, to Prime. As a result of the sale, a loss on disposal of \$10.2 million was recorded in the statement of changes in net assets. As disclosed in Note 6, the transaction resulted in the defeasance of bonds.

4. NET PATIENT SERVICE REVENUE

A summary of the payment arrangements with major third-party payors 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.

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. Compliance with such laws and regulations can be subject to future government review and interpretation as well as significant regulatory action, including fines, penalties and exclusion from the Medicare and Medicaid programs.

Charity Care – 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 charity patient based on income eligibility criteria as established by the Federal Poverty Guidelines. Charges for services to patients who meet the Corporation's guidelines for charity care are not reflected in the accompanying consolidated financial statements.

Patient service revenues, net of contractual and other allowances (but before the provision for bad debts), recognized during the years ended June 30 are as follows (in thousands):

	<u>2017</u>	<u>2016</u>
Medicare	\$ 6,100,637	\$ 5,674,206
Blue Cross	3,265,415	3,068,119
Medicaid	2,406,736	2,279,151
Uninsured	420,400	422,365
Commercial and Other	<u>3,553,906</u>	<u>3,274,687</u>
Total	<u>\$ 15,747,094</u>	<u>\$ 14,718,528</u>

A summary of net patient service revenue before provision for bad debts for the years ended June 30 is as follows (in thousands):

	<u>2017</u>	<u>2016</u>
Gross charges:		
Acute inpatient	\$ 21,426,622	\$ 20,274,353
Outpatient, nonacute inpatient and other	<u>25,196,819</u>	<u>23,195,830</u>
Gross patient service revenue	46,623,441	43,470,183
Less:		
Contractual and other allowances	(30,193,661)	(28,097,663)
Charity care charges	<u>(682,686)</u>	<u>(653,992)</u>
Net patient service revenue before provision for bad debts	<u>\$ 15,747,094</u>	<u>\$ 14,718,528</u>

5. LONG-LIVED ASSETS

Property and Equipment:

A summary of property and equipment as of June 30 is as follows (in thousands):

	<u>2017</u>	<u>2016</u>
Land	\$ 360,356	\$ 348,265
Buildings and improvements	9,068,510	8,867,512
Equipment	6,160,546	5,899,324
Capital leased assets	<u>179,814</u>	<u>179,315</u>
Total	15,769,226	15,294,416
Accumulated depreciation and amortization	(8,839,049)	(8,213,922)
Construction in progress	<u>923,279</u>	<u>596,240</u>
Property and equipment, net	<u>\$ 7,853,456</u>	<u>\$ 7,676,734</u>

As of June 30, 2017, commitments to purchase property and equipment of approximately \$511.4 million were outstanding. Significant commitments are primarily for facility expansion at existing campuses and related infrastructures at the following Health Ministries: Mount Carmel Health System in Columbus, Ohio – \$283.1 million; Mercy Health Campus in Muskegon, Michigan – \$50.4 million; and St. Peter's Health Partners in Albany, New York – \$31.6 million. Additionally, Trinity Information Services has commitments of \$27.6 million primarily related to system-wide software licenses and upgrades. The remaining amount is due to several smaller projects across the Corporation.

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

<u>RHM</u>	<u>Capital Commitment</u>	<u>Commitment Period Ending</u>	<u>Capital Spending through June 30, 2017</u>
Loyola University Health System, Chicago, IL	\$300 million over 7 years, \$400 million if performance metrics are achieved	June 30, 2018	\$326 million
St. Joseph's Hospital Health Center, Syracuse, NY	\$60 million over 4 years, \$90 million if performance metrics are achieved	June 30, 2019	\$53 million
St. Francis Hospital and Medical Center, Hartford, CT	\$275 million over 5 years if performance metrics are achieved	June 30, 2020	\$105 million

Goodwill:

The following table provides information on changes in the carrying amount of goodwill, which is included in the accompanying consolidated financial statements of the Corporation as of June 30 (in thousands):

	<u>2017</u>	<u>2016</u>
As of July 1:		
Goodwill	\$ 315,070	\$ 303,921
Accumulated impairment loss	<u>(10,225)</u>	<u>(10,225)</u>
Total	304,845	293,696
Goodwill acquired during the year	15,954	11,149
Impairment loss	<u>(19,756)</u>	-
Total	<u>\$ 301,043</u>	<u>\$ 304,845</u>
As of June 30:		
Goodwill	\$ 331,024	\$ 315,070
Accumulated impairment loss	<u>(29,981)</u>	<u>(10,225)</u>
Total	<u>\$ 301,043</u>	<u>\$ 304,845</u>

Impairments:

During the year ended June 30, 2017, the Corporation recorded impairment charges of \$248.1 million in the consolidated statement of operations and changes in net assets. Material adverse trends in the most recent estimates of future discounted and undiscounted cash flows of certain locations indicated that the carrying value of the long-lived assets, at these locations, were not recoverable from estimated future cash flows. The Corporation believes the most significant factors contributing to the continuing adverse financial trends in these locations include reductions in patient volumes and shifts in payor mix. Impairments were recorded primarily at three health ministries across the Corporation (\$216.4 million property and equipment and \$31.7 million goodwill, intangible and other assets).

During the year ended June 30, 2016, the Corporation recorded property and equipment impairment charges of \$39.6 million in the consolidated statement of operations and changes in net assets at one health ministry. Material adverse trends in the most recent estimates of future undiscounted cash flows of certain hospitals indicated that the carrying value of the long-lived assets were not recoverable from estimated future cash flows. Fair value was determined using a third-party valuation.

6. LONG-TERM DEBT AND OTHER FINANCING ARRANGEMENTS

A summary of short-term borrowings and long-term debt as of June 30 is as follows (in thousands):

	<u>2017</u>	<u>2016</u>
Short-term borrowings:		
Variable rate demand bonds with contractual maturities through 2048. Interest payable monthly at rates ranging from 0.37% to 0.95% during 2017 and 0.01% to 0.60% during 2016	\$ 1,039,840	\$ 1,067,730
Long-term debt:		
Tax-exempt revenue bonds and refunding bonds:		
Fixed-rate term and serial bonds, payable at various dates through 2048. Interest rate ranges from 2.00% to 8.38% during 2017 and 2.00% to 7.62% during 2016	\$ 3,756,426	\$ 3,540,345
Variable-rate term bonds, payable at various dates through 2051. Interest rate ranges from 0.80% to 1.80% during 2017 and 0.40% to 1.25% during 2016	837,222	815,950
Taxable revenue bonds:		
Fixed-rate term, payable in 2046. Interest rate of 4.13% during 2017 and 2016	350,000	350,000
Variable-rate term bonds, payable at various dates through 2051. Interest rate ranges from 1.23% to 1.50% during 2017 and 0.88% to 0.91% during 2016	54,680	54,680
Notes payable to banks. Interest payable at rates ranging from 0.90% to 5.00% during 2017 and 1.4% to 3.4% during 2016, fixed and variable, payable in varying monthly installments through 2032	30,570	36,606
Capital lease obligations (excluding imputed interest of \$40.7 million at June 30, 2017 and \$47.1 million at June 30, 2016)	104,385	129,157
Mortgage obligations. Interest payable at rates ranging from 3.35% to 6.25% during 2017 and 4.0% to 6.25% during 2016	86,120	91,363
Other	51,245	40,540
Total long-term debt	5,270,648	5,058,641
Less current portion, net of current discounts	(192,680)	(106,345)
Unamortized debt issuance costs	(35,836)	(34,776)
Unamortized premiums, net	227,730	214,857
Long-term debt, net of current portion	<u>\$ 5,269,862</u>	<u>\$ 5,132,377</u>

Contractually obligated principal repayments on short-term borrowings and long-term debt are as follows (in thousands):

	<u>Short-Term Borrowings</u>	<u>Long-Term Debt</u>
Years ending June 30:		
2018	\$ 30,200	\$ 197,367
2019	29,400	109,373
2020	38,665	103,268
2021	33,425	102,591
2022	35,450	105,720
Thereafter	<u>872,700</u>	<u>4,652,329</u>
Total	<u>\$ 1,039,840</u>	<u>\$ 5,270,648</u>

A summary of interest costs on borrowed funds primarily under the revenue bond indentures during the years ended June 30 is as follows (in thousands):

	<u>2017</u>	<u>2016</u>
Interest costs incurred	\$ 217,719	\$ 200,625
Less capitalized interest	<u>(10,567)</u>	<u>(4,796)</u>
Interest expense included in operations	<u>\$ 207,152</u>	<u>\$ 195,829</u>

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

The Trinity Health Credit Group does not include certain affiliates that borrow on their own or are (or may become) members of a separate New York obligated group, but which are included in the Corporation's consolidated financial statements. St. Peter's Hospital of the City of Albany currently is the obligated group agent of an obligated group created under that certain master trust indenture dated as of January 1, 2008, among St. Peter's Hospital of the City of Albany; St Peter's Health Partners; Memorial Hospital, Albany, New York; Samaritan Hospital of Troy, New York; Seton Health System, Inc.; Sunnyview Hospital and Rehabilitation Center; the Capital Region Geriatric Center, Inc.; Hawthorne Ridge, Inc.; and Manufacturers and Traders Trust Company, as master trustee. In addition, St. Joseph's Hospital Health Center, acquired on July 1, 2015, is not a designated affiliate and is not part of the Trinity Health Credit Group.

Pursuant to the ARMI, the Obligated Group agent (which is the Corporation) has caused the designated affiliates representing, when combined with the Obligated Group members, at least 85% of the consolidated net revenues of the Trinity Health Credit Group to grant to the master trustee security interests in their pledged property which security interests secure all obligations issued under the ARMI. There are several conditions and covenants required by the ARMI with which the Corporation must comply, including covenants that require the Corporation to maintain a minimum historical debt-service coverage and limitations on liens or security interests in property, except for certain permitted encumbrances, affecting the property of the Corporation or any material designated affiliate (a designated affiliate whose total revenues for the most

recent fiscal year exceed 5% of the combined total revenues of the Corporation for the most recent fiscal year). Long-term debt outstanding as of June 30, 2017 and 2016, 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 \$58.5 million mortgage loan outstanding at June 30, 2017, that is insured by the U.S. Department of Housing and Urban Development ("HUD"). MHSC's payment obligations under the two mortgage notes evidencing this loan are guaranteed by the Corporation. The mortgage loan agreements with HUD contain various covenants, including those relating to limitations on incurring additional debt, transactions with affiliates, transferring or disposing of designated property, use of funds and other assets of the mortgaged property, financial performance, required reserves, insurance coverage, timely submission of specified financial reports and restrictions on prepayment of the mortgage loan. MHSC and the Corporation provided covenants to HUD not to interfere in the performance of MHSC's obligations under the HUD-insured loan documents. MHSC is not a designated affiliate and is not part of the Trinity Health Credit Group.

Commercial Paper – The Corporation's commercial paper program is authorized for borrowings up to \$600 million. As of June 30, 2017 and 2016, the total amount of commercial paper outstanding was \$99.9 million and \$146.0 million, respectively. Proceeds from this program are to be used for general purposes of the Corporation. The notes are payable from the proceeds of subsequently issued notes and from other funds available to the Corporation, including funds derived from the liquidation of securities held by the Corporation in its investment portfolio. The interest rate charged on borrowings outstanding during the year ended June 30, 2017 and 2016, ranged from 0.40% to 1.28% and 0.09% to 0.50%, respectively.

Liquidity Facilities – The Corporation has entered into four credit agreements (collectively, the "Credit Agreements") with U.S. Bank National Association, which acts as an administrative agent for a group of lenders thereunder. The Credit Agreements establish 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 and totaled \$931 million as of June 30, 2017. In September 2016, the Corporation amended and restated the Credit Agreements previously expiring in July 2017 and extended that facility to July 2020. Amounts drawn under the Credit Agreements 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. As of June 30, 2017, of the \$931 million available balance, \$321 million expires in July 2018, \$285 million expires in July 2019 and \$325 million expires in July 2020. The Credit Agreements are secured by obligations under the ARMI. As of June 30, 2017 and 2016, there were no amounts outstanding on these Credit Agreements. In addition, in July 2015, the Corporation renewed a three-year general purpose credit facility of \$200 million. As of June 30, 2017 and 2016, there were no amounts outstanding under this credit facility.

Standby Letters of Credit – The Corporation has entered into various standby letters of credit totaling approximately \$56.7 million and \$54.5 million as of June 30, 2017 and 2016, respectively. In July 2015, the Corporation terminated a general purpose facility of \$45 million, of which \$42 million was related to letters of credit, which were merged into existing programs. These standby letters of credit are renewed annually and are available to the Corporation as necessary under its insurance programs and for unemployment liabilities. There were no draws on the letters of credit during the years ended June 30, 2017 and 2016.

Transactions – The acquisition of Saint Joseph's Hospital Health Center, Syracuse, New York, on July 1, 2015, and the acquisition of SFC on October 1, 2015, as described in Note 3, resulted in the assumption of debt of \$342.2 million and \$251.5 million, respectively. The majority of this debt was retired or defeased using proceeds from the issuance of \$372 million of commercial paper and a \$190 million draw on a general purpose credit facility, both of which were later replenished with proceeds from the issuance of long-term debt in January and February 2016 as described below. In addition, the acquisition of Johnson, as described in Note 3, resulted in the assumption of debt of \$23.3 million, the majority of which was subsequently redeemed.

As the result of the divestiture of Port Huron on September 1, 2015, described in Note 3, the Corporation defeased approximately \$31.9 million of bonds through the funding of various escrow accounts on November 5, 2015. In addition, the Corporation redeemed approximately \$12.2 million of bonds on November 25, 2015.

On November 24, 2015, the Corporation issued \$55 million of commercial paper that was used to redeem \$53.3 million in outstanding revenue bonds. On January 15, 2016, the Corporation issued \$63 million of commercial paper to finance the construction, acquisition and equipping of capital improvements.

During January 2016, the Trinity Health Credit Group issued \$555.6 million par value in tax-exempt fixed-rate hospital revenue bonds at a premium of \$76.7 million under the ARMI. During February 2016, the Trinity Health Credit Group issued \$263.8 million par value in tax-exempt variable rate private placement bonds and \$54.7 million par value in taxable variable rate private placement bonds. Proceeds from these issuances were used to retire \$600 million of then-outstanding taxable commercial paper obligations, pay down \$152.1 million of the then-outstanding line of credit draw, extinguish the remaining \$43.9 million of debt assumed with the acquisition of SJHHC and pay related transaction costs and to defease \$25.5 million of tax-exempt bonds. The remaining proceeds will be used to finance, refinance and reimburse a portion of the costs of acquisition, construction, renovation and equipping of health facilities, and to pay related costs of issuance.

In February 2016, the Corporation issued \$100 million of commercial paper for general corporate purposes and \$21 million to pay down the remaining outstanding line of credit draw.

As the result of the divestiture of Mercy Suburban described in Note 3, the Corporation defeased approximately \$25 million of bonds through the funding of various escrow accounts on April 27, 2016.

In October 2016, the Corporation remarketed \$50 million in tax-exempt, variable-rate hospital revenue bonds under the ARMI, pursuant to a continuing covenant agreement with a private purchaser, which provides for a 10-year mandatory tender period (subject to mandatory tender on October 1, 2026).

During January 2017, the Trinity Health Credit Group issued \$344.2 million par value in tax-exempt fixed-rate hospital revenue bonds at a premium of \$26.1 million under the ARMI. Proceeds were used partially to refund \$66.5 million of certain tax-exempt bonds and pay down \$54.8 million of then outstanding taxable commercial paper obligations. The remaining proceeds will be used to finance, refinance and reimburse a portion of the costs of acquisition, construction, renovation and equipping of health facilities and to pay related costs of issuance.

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 commercial coverage from unrelated third-party commercial insurers. TAL has also limited its liability through reinsurance arrangements.

Effective October 1, 2015, TAL policies include the facilities and individuals that were previously insured with Saint Francis Indemnity Company, LLC ("SFICL"), a captive insurance company domiciled in the State of Vermont, whose sole member is SFHMC. Policies issued and reinsurance purchased by SFICL prior to October 1, 2015, will remain in effect. SFICL did not, nor does it intend to, write or renew any insurance business after September 30, 2015. SFICL was merged into TAL on May 1, 2016, at which time all losses previous to October 1, 2015, for SFICL were assumed by TAL.

Effective August 1, 2016, TAL policies include the facilities and individuals that were previously insured with Saint Mary's Indemnity Company, LLC ("SMICL"), a captive insurance company domiciled in the State of Vermont, whose sole member is SMHS. Policies issued and reinsurance purchased by SMICL prior to

August 1, 2016, will remain in effect. SMICL did not, nor does it intend to, write or renew any insurance business after July 31, 2016, but will effectively run off its existing business. SMICL was merged into TAL in March 2017 at which time all losses previous to August 1, 2016, for SMICL were assumed by TAL.

The Corporation's current self-insurance program includes \$20 million per occurrence for the primary layers of professional and general liability, as well as \$10 million per occurrence for hospital government liability, \$5 million per occurrence for miscellaneous errors and omissions liability, and \$1 million per occurrence for management liability (directors' and officers' and employment practices), network security and privacy liability and certain other coverages. In addition, through TAL and its various commercial reinsurers, the Corporation maintains integrated excess liability coverage with separate annual limits for professional/general liability and management liability, network security and privacy 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 in property values per occurrence with commercial insurance providing additional coverage.

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

Claims in excess of certain insurance coverage and the recorded self-insurance liability have been asserted against the Corporation by various claimants. The claims are in various stages of processing and some may ultimately be brought to trial. There are known incidents occurring through June 30, 2017, 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 that may be asserted in the future could result in liabilities in excess of amounts for which the Corporation has provided, management, based upon the advice of legal counsel, believes that the excess liability, if any, should not materially affect the consolidated financial statements of the Corporation.

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 June 30, 2017 and 2016, the assets under these plans totaled \$198.7 million and \$171.3 million and liabilities totaled \$212.0 million and \$183.7 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 nonelective contributions of 3% of eligible compensation, 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 \$315.8 million and \$296.0 million for the years ended June 30, 2017 and 2016, respectively. In fiscal year 2017, forfeitures of \$7.0 million were used to offset employer contributions to the plans.

Noncontributory Defined Benefit Pension Plans (“Pension Plans”) – The Corporation maintains qualified, Pension Plans under which benefit accruals are frozen for the majority of employees. Certain nonqualified, supplemental plan arrangements also provide retirement benefits to specified groups of participants.

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

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 copayment provisions. The funded plans provide benefits to certain retirees at fixed dollar amounts in health reimbursement account arrangements for Medicare eligible participants.

Plan Acquisitions – As discussed in Note 3, the Corporation acquired SJHHC on July 1, 2015, SFC on October 1, 2015, and SMHS on August 1, 2016, including all related benefit plans. SJHHC maintains one qualified, Pension Plan that provides retirement benefits for substantially all full-time employees. Benefit accruals were frozen and the plan was closed to new participants in April 2014. The plan is subject to the provisions of ERISA. In addition, SJHHC provides other postretirement benefits (primarily health benefits) to an eligible group of employees. The postretirement plan was closed to new participants in 2000, and is unfunded. SFC maintains two qualified, noncontributory defined benefit plans that provide benefits for substantially all full-time employees. One of the plans is subject to ERISA, and the other is intended to be a "Church Plan." Both plans were frozen and closed to new participants in September 2006. SFC also provides other postretirement benefits, primarily health benefits, to an eligible group of employees. The postretirement plan is closed to new participants. SMHS maintains one qualified, noncontributory defined benefit pension plan that is intended to be a "Church Plan." The plan was frozen to new entrants in 1997 and curtailed to eliminate future benefit accruals in 2004. During 2017, the SJHHC and the SFC ERISA pension plans were merged into the Trinity Health ERISA Pension Plan.

The following table sets forth the changes in projected benefit obligations, accumulated postretirement obligations and changes in plan assets and funded status of the plans for both the Pension Plans and Postretirement Plans for the years ended June 30 (in thousands):

	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
	<u>Pension Plans</u>		<u>Postretirement Plans</u>	
Change in Benefit Obligations:				
Benefit obligation, beginning of year	\$ 7,715,344	\$ 6,553,044	\$ 142,255	\$ 110,004
Service cost	909	2,058	283	420
Interest cost	312,814	335,564	5,479	6,121
Amendments / plan change	-	(112,790)	-	-
Actuarial (gain) loss	(68,664)	746,309	(5,713)	5,924
Benefits paid	(396,143)	(328,328)	(6,635)	(6,571)
Medicare Part D reimbursement	-	-	84	63
Curtailments	(5,688)	(783)	-	-
Plan acquisitions	155,009	520,270	-	26,294
Benefit obligation, end of year	<u>7,713,581</u>	<u>7,715,344</u>	<u>135,753</u>	<u>142,255</u>
Change in Plan Assets:				
Fair value of plan assets, beginning of year	5,906,184	5,599,192	97,440	97,092
Actual return on plan assets	620,494	168,312	11,993	4,184
Employer contributions	236,060	137,098	3,370	2,735
Benefits paid	(396,143)	(328,328)	(6,635)	(6,571)
Plan acquisitions	66,800	329,910	-	-
Fair value of plan assets, end of year	<u>6,433,395</u>	<u>5,906,184</u>	<u>106,168</u>	<u>97,440</u>
Unfunded amount recognized June 30	<u>\$ (1,280,186)</u>	<u>\$ (1,809,160)</u>	<u>\$ (29,585)</u>	<u>\$ (44,815)</u>
Recognized in other long-term assets	\$ -	\$ -	\$ 6,220	\$ 3,664
Recognized in accrued pension and retiree health costs	\$ (1,280,186)	\$ (1,809,160)	\$ (35,805)	\$ (48,479)

Actuarial gains during 2017 are due primarily to changes in the discount rates used to measure plan liabilities. Certain plans were amended during 2016 to allow for participants active on or after January 1, 2016, to take their benefit as a lump sum when they terminate employment or retire. These amendments resulted in a decrease in accumulated plan benefits of \$113 million at June 30, 2016. Remaining actuarial losses during 2016 are primarily related to changes in discount rates used to measure plan liabilities.

The accumulated benefit obligation and fair value of plan assets for the qualified defined benefit pension plans for the years ended June 30 are as follows (in thousands):

	<u>2017</u>	<u>2016</u>
	<u>Pension Plans</u>	
Accumulated benefit obligation	\$ 7,713,045	\$ 7,704,254
Fair value of plan assets	6,433,395	5,906,184
Funded status	<u>\$(1,279,650)</u>	<u>\$(1,798,070)</u>

Components of net periodic benefit cost for the years ended June 30 consisted of the following (in thousands):

	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
	Pension Plans		Postretirement Plans	
Service cost	\$ 909	\$ 2,058	\$ 283	\$ 420
Interest cost	312,814	335,564	5,479	6,121
Expected return on assets	(410,158)	(403,283)	(7,078)	(7,052)
Amortization of prior service credit	(9,057)	(4,568)	(562)	(564)
Recognized net actuarial loss (gain)	86,701	42,791	(11)	(159)
Net periodic benefit income before curtailments	\$ (18,791)	\$ (27,438)	\$ (1,889)	\$ (1,234)
Curtailment/settlement loss	-	390	-	-
Net periodic income	<u>\$ (18,791)</u>	<u>\$ (27,048)</u>	<u>\$ (1,889)</u>	<u>\$ (1,234)</u>

The amounts in unrestricted net assets, including amounts arising during the year and amounts reclassified into net periodic benefit cost, are as follows (in thousands):

	Pension Plans			
	Net	Prior	Total	
	Loss (Gain)	Service Credit	Total	
Balance at July 1, 2015	\$ 2,029,583	\$ (26,506)	\$ 2,003,077	
Curtailments	(1,173)	-	(1,173)	
Reclassified into net periodic benefit cost	(42,791)	4,568	(38,223)	
Arising during the year	981,482	(112,789)	868,693	
Balance at June 30, 2016	<u>\$ 2,967,101</u>	<u>\$ (134,727)</u>	<u>\$ 2,832,374</u>	
Curtailments/settlements	(5,688)	-	(5,688)	
Reclassified into net periodic benefit cost	(86,701)	9,057	(77,644)	
Arising during the year	(279,157)	-	(279,157)	
Balance at June 30, 2017	<u>\$ 2,595,555</u>	<u>\$ (125,670)</u>	<u>\$ 2,469,885</u>	
	Postretirement Plans			All Plans
	Net	Prior	Total	Grand
	Loss (Gain)	Service Credit	Total	Total
Balance at July 1, 2015	\$ (2,652)	\$ (3,832)	\$ (6,484)	\$ 1,996,593
Curtailments	-	-	-	(1,173)
Reclassified into net periodic benefit cost	159	564	723	(37,500)
Arising during the year	8,792	-	8,792	877,485
Balance at June 30, 2016	<u>\$ 6,299</u>	<u>\$ (3,268)</u>	<u>\$ 3,031</u>	<u>\$ 2,835,405</u>
Curtailments	-	-	-	(5,688)
Reclassified into net periodic benefit cost	11	562	573	(77,071)
Arising during the year	(10,663)	-	(10,663)	(289,820)
Balance at June 30, 2017	<u>\$ (4,353)</u>	<u>\$ (2,706)</u>	<u>\$ (7,059)</u>	<u>\$ 2,462,826</u>

The following are estimated amounts to be amortized from unrestricted net assets into net periodic benefit cost during year ended June 30, 2018 (in thousands):

	Pension Plans	Postretirement Plans
Amortization of prior service credit	\$ (9,057)	\$ (501)
Recognized net actuarial loss (gain)	77,869	(183)
Total	<u>\$ 68,812</u>	<u>\$ (684)</u>

Assumptions used to determine benefit obligations and net periodic benefit cost as of and for the years ended June 30 were as follows:

	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
	<u>Pension Plans</u>		<u>Postretirement Plans</u>	
Benefit Obligations:				
Discount rate	3.95% - 4.35%	3.75% - 4.35%	3.60% - 4.20%	3.40% - 4.10%
Rate of compensation increase	2.50%	2.50%	N/A	N/A
Net Periodic Benefit Cost:				
Discount rate	3.75% - 5.20%	4.50% - 5.15%	3.40% - 4.40%	4.10% - 4.80%
Expected long-term return on plan assets	7.00%	7.00%	7.50%	7.50%
Rate of compensation increase	2.50%	2.50%	N/A	N/A

Approximately 72% and 73% of the Corporation's pension plan liabilities were measured using a 4.20% and 4.10% discount rate as of June 30, 2017 and 2016, respectively.

The Corporation utilizes a pension liability driven investment strategy in determining its asset allocation and long-term rate of return for plan assets. This risk management strategy uses a glide path methodology based on funded status to initiate asset allocation changes across the efficient frontier. Efficient frontier analysis models the risk and return trade-offs among asset classes while taking into consideration the correlation among the asset classes. Historical market returns and risks are examined as part of this process, but risk-based adjustments are made to correspond with modern portfolio theory. Long-term historical correlations between asset classes are used, consistent with widely accepted capital markets principles. Current market factors, such as inflation and interest rates, are evaluated before long-term capital market assumptions are determined. The long-term rate of return is established using the efficient frontier analysis approach with proper consideration of asset class diversification and rebalancing. Peer data and historical returns are reviewed to check for reasonableness and appropriateness.

Health Care Cost Trend Rates – Assumed health care cost trend rates have a significant effect on the amounts reported for the postretirement plans. The postretirement benefit obligation includes assumed health care cost trend rates as of June 30 as follows:

	<u>2017</u>	<u>2016</u>
Medical and drugs, pre-age 65	7.5%	6.9%
Medical and drugs, post-age 65	7.5%	6.9%
Ultimate trend rate	5.0%	5.0%
Year rate reaches the ultimate rate	2026	2023

A one-percentage point change in assumed health care cost trend rates would have the following effects as of June 30, 2017 (in thousands):

	<u>One-Percentage- Point Increase</u>	<u>One-Percentage- Point Decrease</u>
Effect on postretirement benefit obligation	\$ 3,784	\$ (3,211)
Effect on total of service cost and interest cost components	\$ 179	\$ (149)

The Corporation's investment allocations as of June 30 by investment category are as follows:

Investment Category:	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
	<u>Pension Plans</u>		<u>Postretirement Plans</u>	
Cash and cash equivalents	3%	2%	1%	1%
Marketable securities:				
U.S. and non-U.S. equity securities	7%	6%	-	-
Equity mutual funds	6%	5%	-	-
Debt securities	34%	35%	25%	25%
Other investments:				
Commingled funds	27%	27%	74%	74%
Hedge funds	18%	20%	-	-
Private equity funds	5%	5%	-	-
Total	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>

The Corporation employs a total return investment approach whereby a mix of equities and fixed-income investments are used to maximize the long-term return of plan assets for a prudent level of risk. Risk tolerance is established through careful consideration of plan liabilities, plan funded status and corporate financial condition. The investment portfolio contains a diversified blend of equity and fixed-income investments. Furthermore, equity investments are diversified across U.S. and non-U.S. stocks, as well as growth, value and small and large capitalizations. Other investments, such as hedge funds, interest rate swaps and private equity are used judiciously to enhance long-term returns while improving portfolio diversification. Derivatives may be used to gain market exposure in an efficient and timely manner; however, derivatives may not be used to leverage the portfolio beyond the market value of the underlying investments. Investment risk is measured and monitored on an ongoing basis through quarterly investment portfolio reviews, annual liability measurements and periodic asset/liability studies. For the majority of the Corporation's pension plan investments, the combined target investment allocation as of June 30, 2017, was global and traditional equity securities 36%; long/short equity 10%; fixed-income obligations 35%; hedge funds 11%; alternative debt 6%; and cash 2%.

The following table summarizes the Pension Plans' and Postretirement Plans' assets measured at fair value as of June 30 (in thousands). See Note 10 for definitions of Levels 1, 2 and 3 of the fair value hierarchy.

	2017			
	Quoted Prices in Active Markets for Identical Assets	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
Pension Plans:				
Cash and cash equivalents	\$ 172,134	\$ 2,755	\$ -	\$ 174,889
Equity securities	447,227	100	-	447,327
Debt securities				
Government and government agency obligations	-	665,241	-	665,241
Corporate bonds	-	1,425,466	-	1,425,466
Asset backed securities	-	62,106	-	62,106
Exchange traded/mutual funds				
Equity funds	384,215	-	-	384,215
Fixed-income funds	58,526	-	-	58,526
Private equity	-	-	4,275	4,275
Other	(6,617)	-	-	(6,617)
Subtotal	<u>1,055,485</u>	<u>2,155,668</u>	<u>4,275</u>	<u>3,215,428</u>
Investments measured at net asset value:				
Commingled funds				
Equity funds				1,736,705
Fixed-income funds				6,295
Hedge funds				1,179,981
Private equity				294,986
Total assets				<u>\$ 6,433,395</u>
Postretirement Plans:				
Exchange traded/mutual funds				
Short-term investment funds	\$ 983	\$ -	\$ -	\$ 983
Fixed-income funds	26,095	-	-	26,095
Other	210	-	-	210
Subtotal	<u>27,288</u>	<u>-</u>	<u>-</u>	<u>27,288</u>
Investment measured at net asset value:				
Equity commingled fund				78,880
Total assets				<u>\$ 106,168</u>

	2016			
	Quoted Prices in Active Markets for Identical Assets	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
Pension Plans:				
Cash and cash equivalents	\$ 138,056	\$ 1,522	\$ -	\$ 139,578
Equity securities	369,431	309	-	369,740
Debt securities				
Government and government agency obligations	-	687,292	-	687,292
Corporate bonds	-	1,253,192	-	1,253,192
Asset backed securities	-	75,871	-	75,871
Exchange traded/mutual funds				
Equity funds	294,113	-	-	294,113
Fixed-income funds	74,315	-	-	74,315
Private equity	-	-	5,405	5,405
Other	(28,410)	-	-	(28,410)
Subtotal	<u>847,505</u>	<u>2,018,186</u>	<u>5,405</u>	<u>2,871,096</u>
Investments measured at net asset value:				
Commingled funds				
Equity funds				1,530,706
Fixed-income funds				61,906
Hedge funds				1,134,007
Private equity				308,469
Total assets				<u>\$ 5,906,184</u>
Postretirement Plans:				
Exchange traded/mutual funds				
Short-term investment funds	\$ 1,178	\$ -	\$ -	\$ 1,178
Fixed-income funds	24,724	-	-	24,724
Other	145	-	-	145
Subtotal	<u>26,047</u>	<u>-</u>	<u>-</u>	<u>26,047</u>
Investment measured at net asset value:				
Equity commingled fund				71,393
Total assets				<u>\$ 97,440</u>

Unfunded capital commitments related to private equity investments totaled \$43.7 million and \$70.2 million as of June 30, 2017 and 2016, respectively.

See Note 10 for the Corporation's methods and assumptions to estimate the fair value of equity and debt securities, mutual funds, commingled funds and hedge funds.

Private Equity – These assets include two private equity funds that invest primarily in Europe, both directly and on the secondary market. These funds are valued based on competitive bid evaluation.

Other – Represents unsettled transactions relating primarily to purchases and sales of plan assets, accrued income and derivatives. Due to the short maturity of these assets and liabilities, the fair value approximates the carrying amounts. The fair value of the derivatives is estimated utilizing the terms of the derivative instruments and publicly available market yield curves. The Pension Plans' investment policies specifically prohibit the use of derivatives for speculative purposes.

The Corporation's policy is to recognize transfers between all levels as of the beginning of the reporting period. There were no significant transfers to or from Levels 1 and 2 during the years ended June 30, 2017 and 2016.

The following table summarizes the changes in Level 3 Pension Plan assets for the years ended June 30 (in thousands):

	Private Equity
Balance at July 1, 2015	\$ 7,568
Realized gain	610
Unrealized loss	(780)
Settlements	(1,993)
Balance at June 30, 2016	\$ 5,405
Realized gain	869
Unrealized loss	(344)
Settlements	(1,655)
Balance at June 30, 2017	\$ 4,275

The preceding methods may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Corporation believes the valuation methodologies are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

Expected Contributions – The Corporation expects to contribute \$168.1 million to its Pension Plans and \$3.1 million to its Postretirement Plans during the year ended June 30, 2018, under the Corporation's stated funding policies.

Expected Benefit Payments – The Corporation expects to pay the following for pension benefits for the year ending June 30, which reflect expected future service as appropriate, and expected postretirement benefits, before deducting the Medicare Part D subsidy (in thousands):

	Pension Plans	Postretirement Plans	Postretirement Medicare Part D Subsidy
Years ending June 30:			
2018	\$ 487,749	\$ 9,226	\$ 71
2019	469,106	9,427	68
2020	473,691	9,516	65
2021	475,604	9,550	61
2022	478,638	9,531	56
Years 2023 - 2027	2,347,607	45,409	214

9. COMMITMENTS AND CONTINGENCIES

Operating Leases – The Corporation leases various land, equipment and facilities under operating leases. Total rental expense, which includes provisions for maintenance in some cases, was \$249 million and \$227 million for the years ended June 30, 2017 and 2016, respectively.

The following is a schedule of future minimum lease payments under operating leases as of June 30, 2017, that have initial or remaining lease terms in excess of one year (in thousands):

Years ending June 30:	
2018	\$ 172,075
2019	143,029
2020	121,780
2021	104,552
2022	90,617
Thereafter	<u>178,044</u>
Total	<u>\$ 810,097</u>

Litigation and Settlements – On March 29, 2013, CHE was notified that it is a defendant in a lawsuit filed in the United States District Court for the Eastern District of Pennsylvania that challenges the church plan status of the CHE Employee Pension Plan. This is similar to other purported class action cases that have been brought against religiously affiliated health care systems or providers. On July 17, 2014, Trinity Health Corporation was notified that it is a defendant in a lawsuit filed in the United States District Court for the District of Maryland that challenges the church plan status of the Trinity Health Pension Plan. A final settlement agreement covering both litigations was executed on April 26, 2016. Preliminary judicial approval of the settlement was received on February 6, 2017, with final judicial approval received on May 31, 2017. The terms of the final settlement are now being implemented and will not have a material adverse effect on the financial condition of the Corporation.

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

Premium Revenue Adjustment - For the year ended June 30, 2016, the Corporation recorded a \$65.3 million liability for the estimated impact of identified data submission errors, ranging over a six-year period, related to Medigold, the Corporation's Medicare Advantage plans in Ohio. The impact of these errors has been determined to not be material to any of the prior-period consolidated financial statements. The Corporation has completed the submission of corrected data for all affected years to the Centers for Medicare and Medicaid Services. The liability is included in accounts payable and accrued expenses in the consolidated balance sheet as of June 30, 2017, and was not materially different from the original estimate.

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 and requirements for tax exemption for tax-exempt organizations. Compliance with such laws and regulations is complex and can be subject to future government interpretation as well as regulatory enforcement actions, including fines, penalties and exclusion from government health care programs, such as Medicare and Medicaid. The Corporation and its Health Ministries periodically receive notices from governmental agencies requesting information regarding billing, payment or other reimbursement matters, initiating investigations, or indicating the existence of whistleblower litigation. 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, results of operations or cash flows.

10. FAIR VALUE MEASUREMENTS

The Corporation's consolidated financial statements reflect certain assets and liabilities recorded at fair value. Assets and liabilities measured at fair value on a recurring basis in the Corporation's consolidated balance sheets include cash, cash equivalents, security lending collateral, equity securities, debt securities, mutual funds, commingled funds, hedge funds and derivatives. Defined benefit retirement plan assets are measured at fair value on an annual basis, see Note 8 for further details. Liabilities measured at fair value on a recurring basis for disclosure only include debt.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value should be based on assumptions that market participants would use, including a consideration of nonperformance risk.

To determine fair value, the Corporation uses various valuation methodologies based on market inputs. For many instruments, pricing inputs are readily observable in the market; the valuation methodology is widely accepted by market participants and involves little to no judgment. For other instruments, pricing inputs are less observable in the marketplace. These inputs can be subjective in nature and involve uncertainties and matters of considerable judgment. The use of different assumptions, judgments and/or estimation methodologies may have a material effect on the estimated fair value amounts.

The Corporation assesses the inputs used to measure fair value using a three-level hierarchy based on the extent to which inputs used in measuring fair value are observable in the market. The fair value hierarchy is as follows:

Level 1 – Quoted (unadjusted) prices for identical instruments in active markets

Level 2 – Other observable inputs, either directly or indirectly, including:

- Quoted prices for similar instruments in active markets
- Quoted prices for identical or similar instruments in nonactive markets (few transactions, limited information, noncurrent prices, high variability overtime, etc.)
- Inputs other than quoted prices that are observable for the instrument (interest rates, yield curves, volatilities, default rates, etc.)
- Inputs that are derived principally from or corroborated by other observable market data

Level 3 – Unobservable inputs that cannot be corroborated by observable market data

Valuation Methodologies – Exchange-traded securities whose fair value is derived using quoted prices in active markets are classified as Level 1. In instances where quoted market prices are not readily available, fair value is estimated using quoted market prices and/or other market data for the same or comparable instruments and transactions in establishing the prices, discounted cash flow models and other pricing models. These models are primarily industry-standard models that consider various assumptions, including time value and yield curve as well as other relevant economic measures. The inputs to these models depend on the type of security being priced, but are typically benchmark yields, credit spreads, prepayment spreads, reported trades and broker-dealer quotes, all with reasonable levels of transparency. Generally, significant changes in any of those inputs in isolation would result in a significantly different fair value measurement. The Corporation classifies these securities as Level 2 within the fair value hierarchy. The Corporation also has

certain investments that are classified as Level 3. These investments are primarily valued using competitive bid evaluations or cost, if it approximates fair value.

The Corporation maintains policies and procedures to value instruments using the best and most relevant data available. The Corporation has not adjusted the prices obtained. Third-party administrators do not provide access to their proprietary valuation models, inputs and assumptions. Accordingly, the Corporation reviews the independent reports of internal controls for these service providers. In addition, on a quarterly basis, the Corporation performs reviews of investment consultant industry peer group benchmarking and supporting relevant market data. Finally, all of the fund managers have an annual independent audit performed by an accredited accounting firm. The Corporation reviews these audited financials for ongoing validation of pricing used. Based on the information available, the Corporation believes that the fair values provided by the third-party administrators and investment fund managers are representative of prices that would be received to sell the assets.

In instances where the inputs used to measure fair value fall into different levels of the fair value hierarchy, the fair value measurement has been determined based on the lowest-level input that is significant to the fair value measurement in its entirety. The Corporation's assessment of the significance of a particular item to the fair value measurement in its entirety requires judgment, including the consideration of inputs specific to the asset.

Following is a description of the valuation methodologies the Corporation used for instruments recorded at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy:

Cash and Cash Equivalents – The carrying amounts reported in the consolidated balance sheets approximate their fair value. Certain cash and cash equivalents are included in investments and assets limited or restricted as to use in the consolidated balance sheet. Included in this category is commercial paper. The fair value of commercial paper is based on amortized cost. Commercial paper is designated as Level 2 investments with significant observable inputs, including security cost, maturity and credit rating.

Security Lending Collateral – The security lending collateral is invested in a Northern Trust sponsored commingled collateral fund, which is composed primarily of short-term securities. The fair value amounts of the commingled collateral fund are determined using the calculated net asset value per share (or its equivalent) for the fund with the underlying investments valued using techniques similar to those used for instruments noted below.

Equity Securities – Equity securities are valued at the closing price reported on the applicable exchange on which the security is traded or are estimated using quoted market prices for similar securities.

Debt Securities – Debt securities are valued using quoted market prices and/or other market data for the same or comparable instruments and transactions in establishing the prices, discounted cash flow models and other pricing models. These models are primarily industry-standard models that consider various assumptions, including time value and yield curve as well as other relevant economic measures.

Exchange-Traded/Mutual Funds – Exchange-traded funds are valued at the closing price reported on the applicable exchange on which the fund is traded or estimated using quoted market prices for similar securities. Mutual funds are valued using the net asset value based on the value of the underlying assets owned by the fund, minus liabilities, divided by the number of shares outstanding and multiplied by the number of shares owned.

Commingled Funds – Commingled funds are developed for investment by institutional investors only and, therefore, do not require registration with the Securities and Exchange Commission. Commingled funds are recorded at fair value based on net asset value, which is calculated using the most recent fund financial statements.

Hedge Funds – Hedge funds utilize either a direct or a “fund-of-funds” approach resulting in diversified multistrategy, multimanager investments. Underlying investments in these funds may include equity securities, debt securities, commodities, currencies and derivatives. These funds are valued at net asset value, which is calculated using the most recent fund financial statements.

The Corporation classifies its equity and debt securities, mutual funds, commingled funds and hedge funds as trading securities. The amount of holding gains (losses) included in the excess of revenue over expenses related to securities still held as of June 30, 2017 and 2016, were \$757.7 million and \$(170.5) million, respectively.

Equity Method Investments – Certain other investments are accounted for using the equity method. These investments are structured as limited liability corporations and partnerships and are designed to produce stable investment returns regardless of market activity. These investments utilize a combination of “fund-of-funds” and direct fund investment strategies resulting in a diversified multistrategy, multimanager investment approach. Some of these funds are developed by investment managers specifically for the Corporation’s use and are similar to mutual funds, but are not traded on a public exchange. Underlying investments in these funds may include other funds, equity securities, debt securities, commodities, currencies and derivatives. Audited information is only available annually based on the limited liability corporations, partnerships or funds’ year-end. Management’s estimates of the fair values of these investments are based on information provided by the third-party administrators and fund managers or the general partners. Management obtains and considers the audited financial statements of these investments when evaluating the overall reasonableness of the recorded value. In addition to a review of external information provided, management’s internal procedures include such things as review of returns against benchmarks and discussions with fund managers on performance, changes in personnel or process, along with evaluations of current market conditions for these investments. Because of the inherent uncertainty of valuations, values may differ materially from the values that would have been used had a ready market existed. Unfunded capital commitments related to equity method investments totaled \$439.5 million and \$249.3 million as of June 30, 2017 and 2016, respectively.

Interest Rate Swaps – The fair value of the Corporation’s derivatives, which are mainly interest rate swaps, are estimated utilizing the terms of the swaps and publicly available market yield curves along with the Corporation’s nonperformance risk as observed through the credit default swap market and bond market and based on prices for recent trades. These swap agreements are classified as Level 2 within the fair value hierarchy.

The following tables present information about the fair value of the Corporation's financial instruments measured at fair value on a recurring basis and recorded as of June 30 (in thousands):

	2017			
	Quoted Prices in Active Markets for Identical Assets	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
Assets:				
Cash and cash equivalents	\$ 1,568,148	\$ 54,754	\$ -	\$ 1,622,902
Security lending collateral	-	332,972	-	332,972
Equity securities	1,829,262	2,306	5,468	1,837,036
Debt securities:				
Government and government agency obligations	-	730,319	5,310	735,629
Corporate bonds	-	972,127	1,019	973,146
Asset backed securities	-	222,466	-	222,466
Bank loans	-	31,361	-	31,361
Other	-	21,025	-	21,025
Exchange traded/mutual funds:				
Equity funds	632,779	-	-	632,779
Fixed income funds	99,146	-	-	99,146
Real estate investment funds	43,140	-	-	43,140
Other	79,970	-	-	79,970
Interest rate swaps	-	5,124	-	5,124
Subtotal	<u>\$ 4,252,445</u>	<u>\$ 2,372,454</u>	<u>\$ 11,797</u>	<u>\$ 6,636,696</u>
Investments measured at net asset value:				
Commingled funds				1,511,026
Hedge funds				810,826
Equity method investments				<u>1,164,378</u>
Total assets				<u><u>\$ 10,122,926</u></u>
Liabilities:				
Interest rate swaps	\$ -	\$ 169,198	\$ -	\$ 169,198

2016

	Quoted Prices in Active Markets for Identical Assets	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
Assets:				
Cash and cash equivalents	\$ 1,600,092	\$ 48,603	\$ -	\$ 1,648,695
Security lending collateral	-	262,035	-	262,035
Equity securities	1,484,897	1,814	5,468	1,492,179
Debt securities:				
Government and government agency obligations	-	674,012	1,433	675,445
Corporate bonds	-	654,335	617	654,952
Asset backed securities	-	249,606	-	249,606
Bank loans	-	76,087	-	76,087
Other	-	13,143	-	13,143
Exchange traded/mutual funds:				
Equity funds	545,077	-	-	545,077
Fixed-income funds	151,113	-	-	151,113
Real estate investment funds	42,816	-	-	42,816
Other	66,389	-	-	66,389
Interest rate swaps	-	15,832	-	15,832
Subtotal	<u>\$ 3,890,384</u>	<u>\$ 1,995,467</u>	<u>\$ 7,518</u>	<u>\$ 5,893,369</u>
Investments measured at net asset value:				
Commingled funds				1,407,636
Hedge funds				844,464
Equity method investments				<u>1,176,699</u>
Total assets				<u><u>\$ 9,322,168</u></u>
Liabilities:				
Interest rate swaps	\$ -	\$ 250,965	\$ -	\$ 250,965

The following table reconciles the information about the fair value of the Corporation's financial instruments measured at fair value on a recurring basis presented in the table above to amounts presented in the consolidated balance sheets as of June 30 (in thousands):

	<u>2017</u>	<u>2016</u>
Assets:		
Cash and cash equivalents	\$ 1,008,197	\$ 1,044,683
Investments	3,526,204	3,617,501
Security lending collateral	332,972	262,035
Assets limited or restricted as to use - current portion	328,712	314,706
Assets limited or restricted as to use - noncurrent portion:		
Held by trustees under bond indenture agreements	7,139	4,881
Self-insurance, benefit plans and other	823,948	780,102
By Board	3,709,246	2,959,641
By donor	460,491	409,493
Interest rate swaps in other long-term assets	5,124	15,832
Less items not recorded at fair value:		
Total unconditional promises to give, net	(55,857)	(57,765)
Reinsurance recovery receivable	(23,250)	(28,941)
Total assets	<u>\$ 10,122,926</u>	<u>\$ 9,322,168</u>

The Corporation's policy is to recognize transfers between all levels as of the beginning of the reporting period. There were no significant transfers to or from Levels 1 and 2 during the years ended June 30, 2017 and 2016.

The following table summarizes the changes in Level 3 assets for the years ended June 30 (in thousands):

	<u>Equity</u>	<u>Government</u>	<u>Corporate</u>	<u>Total</u>
	<u>Securities</u>	<u>Agency</u>	<u>Bonds</u>	
		<u>Obligations</u>		
Balance at July 1, 2015	<u>\$ 5,997</u>	<u>\$ 2,555</u>	<u>\$ 1,318</u>	<u>\$ 9,870</u>
Realized (loss) gain	(14)	(56)	24	(46)
Unrealized loss	(495)	(81)	(57)	(633)
Purchases	-	-	-	-
Settlements	(20)	(985)	(915)	(1,920)
Transfers from Level 2	-	-	247	247
Balance at June 30, 2016	<u>\$ 5,468</u>	<u>\$ 1,433</u>	<u>\$ 617</u>	<u>\$ 7,518</u>
Realized (loss) gain	-	(54)	(58)	(112)
Unrealized loss	-	(23)	141	118
Purchases	-	4,450	936	5,386
Settlements	-	(496)	(641)	(1,137)
Transfers from Level 2	-	-	24	24
Balance at June 30, 2017	<u>\$ 5,468</u>	<u>\$ 5,310</u>	<u>\$ 1,019</u>	<u>\$ 11,797</u>

Investments in Entities that Calculate Net Asset Value per Share – The Corporation holds shares or interests in investment companies at year-end, included in commingled funds and hedge funds, where the fair value of the investment held is estimated based on the net asset value per share (or its equivalent) of the investment company. There were no unfunded commitments as of June 30, 2017 and 2016. The fair value and redemption rules of these investments are as follows as of June 30 (in thousands):

2017			
	Fair Value	Redemption Frequency	Redemption Notice Period
Commingled funds	\$ 1,511,026	Daily and semi-monthly	2 - 3 days
Hedge funds	810,826	Monthly, quarterly, semi-annually, bi-annually	10 - 95 days
Total	<u>\$ 2,321,852</u>		

2016			
	Fair Value	Redemption Frequency	Redemption Notice Period
Commingled funds	\$ 1,407,636	Daily and semi-monthly	0 - 2 days
Hedge funds	844,464	Monthly, quarterly, semi-annually, bi-annually	15 - 95 days
Total	<u>\$ 2,252,100</u>		

The hedge fund category includes equity long/short hedge funds, multistrategy hedge funds and relative value hedge funds. Equity long/short hedge funds invest both long and short, primarily in US common stocks. Management of the fund has the ability to shift investments from value to growth strategies, from small to large capitalization stocks and from a net long position to a net short position. Multistrategy hedge funds pursue multiple strategies to diversify risks and reduce volatility. Relative value hedge fund's strategy is to exploit structural and technical inefficiencies in the market by investing in financial instruments that are perceived to be inefficiently priced as a result of business, financial or legal uncertainties. Investments representing approximately 3.5% and 3.2% of the value of the investments in this category as of June 30, 2017 and 2016, respectively, can only be redeemed bi-annually subsequent to the initial investment date. Investments representing 36.4% and 42.3% of the investments in this category as of June 30, 2017 and 2016, respectively, can only be redeemed at the rate of 25% per quarter.

The commingled fund category primarily includes investments in funds that invest in financial instruments of U.S. and non-U.S. entities, primarily bonds, notes, bills, debentures, currencies and interest rate and derivative products.

The composition of investment returns included in the consolidated statements of operations and changes in net assets for the years ended June 30 is as follows (in thousands):

	<u>2017</u>	<u>2016</u>
Dividend, interest income and other	\$ 135,510	\$ 108,255
Realized gain (loss), net	102,794	(76,215)
Realized equity earnings, other investments	23,437	26,072
Change in net unrealized gain (loss) on investments	<u>696,604</u>	<u>(217,316)</u>
Total investment return	<u>\$ 958,345</u>	<u>\$ (159,204)</u>
Included in:		
Operating income	\$ 73,379	\$ 47,926
Nonoperating items	859,934	(199,326)
Changes in restricted net assets	<u>25,032</u>	<u>(7,804)</u>
Total investment return	<u>\$ 958,345</u>	<u>\$ (159,204)</u>

In addition to investments, assets restricted as to use include receivables for unconditional promises to give cash and other assets net of allowances for uncollectible promises to give. Unconditional promises to give consist of the following as of June 30 (in thousands):

	<u>2017</u>	<u>2016</u>
Amounts expected to be collected in:		
Less than one year	\$ 24,572	\$ 24,343
One to five years	33,635	35,471
More than five years	<u>7,183</u>	<u>4,644</u>
	65,390	64,458
Discount to present value of future cash flows	(4,471)	(2,927)
Allowance for uncollectible amounts	<u>(5,062)</u>	<u>(3,766)</u>
Total unconditional promises to give, net	<u>\$ 55,857</u>	<u>\$ 57,765</u>

Patient Accounts Receivable, Estimated Receivables from Third-Party Payors and Current Liabilities – The carrying amounts reported in the consolidated balance sheets approximate their fair value.

Long-Term Debt – The carrying amounts of the Corporation’s variable-rate debt approximate their fair values. The fair value of the Corporation’s fixed-rate debt is estimated using discounted cash flow analyses, based on current incremental borrowing rates for similar types of borrowing arrangements. Under the fair value hierarchy, these financial instruments are valued primarily using Level 2 inputs. The fair value of the tax-exempt fixed-rate long-term revenue and refunding bonds was \$4,148 million and \$4,107 million as of June 30, 2017 and 2016, respectively. The related carrying value of the tax-exempt fixed-rate long-term revenue and refunding bonds was \$3,756 million and \$3,540 million as of June 30, 2017 and 2016, respectively. The fair value of the taxable fixed-rate long-term revenue bonds was \$361 million and \$382 million as of June 30, 2017 and 2016, respectively. The related carrying value of the taxable fixed-rate long-term revenue bonds was \$350 million as of June 30, 2017 and 2016. The fair values of the remaining fixed-rate capital leases, notes payable to banks and mortgage loans are not materially different from their carrying values.

11. DERIVATIVE FINANCIAL INSTRUMENTS

Derivative Financial Instruments – In the normal course of business, the Corporation is exposed to market risks, including the effect of changes in interest rates and equity market volatility. To manage these risks, the Corporation enters into various derivative contracts, primarily interest rate swaps. Interest rate swaps are used to manage the effect of interest rate fluctuations.

Management reviews the Corporation’s hedging program, derivative position and overall risk management on a regular basis. The Corporation only enters into transactions it believes will be highly effective at offsetting the underlying risk.

Interest Rate Swaps – The Corporation utilizes interest rate swaps to manage interest rate risk related to the Corporation’s variable interest rate debt and a fixed-income investment portfolio. Cash payments on interest rate swaps totaled \$19.6 million and \$21.3 million for the years ended June 30, 2017 and 2016, respectively, and are included in nonoperating income.

Certain of the Corporation’s interest rate swaps contain provisions that give certain counterparties the right to terminate the interest rate swap if a rating is downgraded below specified thresholds. If a ratings downgrade threshold is breached, the counterparties to the derivative instruments could demand immediate termination of the swaps. Such termination could result in a payment from the Corporation or a payment to the Corporation depending on the market value of the interest rate swap.

Effect of Derivative Instruments on Excess of Revenue over Expenses – The following table represents the effect derivative instruments had on the Corporation’s financial performance for the years ended June 30 (in thousands):

Derivatives Not Designated as Hedging Instruments	Location of Net Gain (Loss) Recognized in Excess of Revenue over Expenses or Unrestricted Net Assets	Amount of Net Gain (Loss) Recognized in Excess of Revenue over Expenses	
		2017	2016
Excess of Revenue over Expenses:			
Interest rate swaps	Change in market value and cash payment on interest rate swaps	\$ 52,955	\$ (94,783)
Interest rate swaps	Investment losses	-	(5,107)
		<u>\$ 52,955</u>	<u>\$ (99,890)</u>

Balance Sheet Effect of Derivative Instruments - The following table summarizes the estimated fair value of the Corporation’s derivative financial instruments as of June 30 (in thousands):

Derivatives Not Designated as Hedging Instruments	Consolidated Balance Sheet Location	Fair Value	
		2017	2016
Asset Derivatives:			
Interest rate swaps	Other long-term assets	\$ 5,124	\$ 15,832
Liability Derivatives:			
Interest rate swaps	Other long-term liabilities	\$ 169,198	\$ 250,965

As disclosed in Note 3, as part of the acquisition of SFC, on October 1, 2015, the Corporation novated an interest rate swap from SFC that increased other long-term liabilities in the consolidated balance sheets by \$44.0 million.

The counterparties to the interest rate swaps expose the Corporation to credit loss in the event of nonperformance. As of June 30, 2017 and 2016, an adjustment for nonperformance risk reduced derivative assets by \$0.6 million and \$1.2 million and derivative liabilities by \$8.3 million and \$13.2 million, respectively.

12. TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS

Temporarily restricted net assets are those whose use by the Corporation has been limited by donors to a specific time period or purpose. Permanently restricted net assets have been restricted by donors to be maintained in perpetuity. Temporarily restricted net assets and permanently restricted net assets as of June 30 are available for the following purposes (in thousands):

	<u>2017</u>	<u>2016</u>
Temporarily Restricted Net Assets:		
Education and research	\$ 27,072	\$ 27,197
Building and equipment	108,475	122,738
Patient care	62,829	48,070
Cancer center/research	26,614	16,956
Services for elderly care	34,718	29,944
Other	86,266	81,746
Total	<u>\$ 345,974</u>	<u>\$ 326,651</u>
Permanently Restricted Net Assets:		
Hospital operations	\$ 102,516	\$ 81,850
Medical programs	10,344	10,316
Scholarship funds	6,075	5,765
Research funds	11,800	11,857
Community service funds	17,150	16,413
Other	35,432	31,387
Total	<u>\$ 183,317</u>	<u>\$ 157,588</u>

The Corporation's endowments consist of funds established for a variety of purposes. Endowments include both donor-restricted endowment funds and funds designated by the Board to function as endowments. Net assets associated with endowment funds, including funds designated by the Board to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions. The Corporation considers various factors in making a determination to appropriate or accumulate donor-restricted endowment funds.

The Corporation employs a total return investment approach whereby a mix of equities and fixed-income investments are used to maximize the long-term return of endowment funds for a prudent level of risk. The Corporation targets a diversified asset allocation to achieve its long-term return objectives within prudent risk constraints. The Corporation can appropriate each year all available earnings in accordance with donor restrictions. The endowment corpus is to be maintained in perpetuity. Certain donor-restricted endowments require a portion of annual earnings to be maintained in perpetuity along with the corpus. Only amounts exceeding the amounts required to be maintained in perpetuity are expended.

The following table summarizes endowment net asset composition by type of fund as of June 30 (in thousands):

	2017			
	Unrestricted	Temporarily	Permanently	Total
	Net Assets	Restricted	Restricted	
Donor-restricted endowment funds	\$ -	\$ 64,067	\$ 183,317	\$ 247,384
Board-designated endowment funds	74,100	-	-	74,100
Total endowment funds	\$ 74,100	\$ 64,067	\$ 183,317	\$ 321,484

	2016			
	Unrestricted	Temporarily	Permanently	Total
	Net Assets	Restricted	Restricted	
Donor-restricted endowment funds	\$ -	\$ 44,728	\$ 157,588	\$ 202,316
Board-designated endowment funds	76,384	-	-	76,384
Total endowment funds	\$ 76,384	\$ 44,728	\$ 157,588	\$ 278,700

Changes in endowment net assets for the years ended June 30 include (in thousands):

	Unrestricted	Temporarily	Permanently	Total
	Net Assets	Restricted	Restricted	
Endowment net assets, July 1, 2015	\$ 81,674	\$ 35,313	\$ 94,969	\$ 211,956
Investment return:				
Investment income	590	990	1,509	3,089
Change in net realized and unrealized losses	(6,770)	(2,719)	(148)	(9,637)
Total investment return	(6,180)	(1,729)	1,361	(6,548)
Contributions	1,157	-	3,763	4,920
Appropriation of endowment assets for expenditures	(1,217)	(1,706)	-	(2,923)
Transfer to create board-designated endowment	950	-	-	950
Acquisition of SJHHC	-	-	3,232	3,232
Acquisition of SFC	-	12,623	53,179	65,802
Other	-	227	1,084	1,311
Endowment net assets, June 30, 2016	76,384	44,728	157,588	278,700
Investment return:				
Investment income	6,558	1,737	1,675	9,970
Change in net realized and unrealized losses	1,096	6,487	6,217	13,800
Total investment return	7,654	8,224	7,892	23,770
Contributions	-	9,797	1,805	11,602
Appropriation of endowment assets for expenditures	(12,504)	(1,561)	(928)	(14,993)
Acquisitions	-	2,857	16,960	19,817
Other	2,566	22	-	2,588
Endowment net assets, June 30, 2017	\$ 74,100	\$ 64,067	\$ 183,317	\$ 321,484

The table below describes the restrictions for endowment amounts classified as temporarily restricted net assets and permanently restricted net assets as of June 30 (in thousands):

	<u>2017</u>	<u>2016</u>
Temporarily Restricted Net Assets:		
Term endowment funds	\$ 4,183	\$ 3,668
The portion of perpetual endowment funds without a purpose restriction	410	-
The portion of perpetual endowment funds subject to a purpose restriction	<u>59,474</u>	<u>41,060</u>
Total endowment funds classified as temporarily restricted net assets	<u>\$ 64,067</u>	<u>\$ 44,728</u>
Permanently Restricted Net Assets:		
Investments for which income is unrestricted	\$ 145,187	\$ 137,262
Investments for which income is temporarily restricted	31,773	14,658
Endowments requiring income to be added to the original gift	<u>6,357</u>	<u>5,668</u>
Total	<u>\$ 183,317</u>	<u>\$ 157,588</u>

Funds with Deficiencies – Periodically the fair value of assets associated with the individual donor-restricted endowment funds may fall below the level that the donor requires the Corporation to retain as a fund of perpetual duration. Deficiencies of this nature are reported in unrestricted net assets. These deficiencies result from unfavorable market fluctuations and/or continued appropriation for certain programs that was deemed prudent by the Corporation.

13. RESTRUCTURING CHARGES

During the year ended June 30, 2017, management authorized and committed the Corporation to undertake a comprehensive performance improvement plan to realign its cost structure. The Corporation had a workforce reduction as part of the plan. As a result of these actions, restructuring charges of \$36.2 million were recorded in the consolidated statements of operations and changes in net assets. The restructuring charges are primarily for severance and termination benefits. As of June 30, 2017, \$12.7 million in benefits have been paid. There were no restructuring charges during the year ended June 30, 2016.

14. SUBSEQUENT EVENTS

Management has evaluated subsequent events through September 27, 2017, the date the consolidated financial statements were issued. The following subsequent events were noted:

Non-binding Letter of Intent – On August 31, 2017, the Corporation, through its subsidiary Maxis Health, signed a non-binding letter of intent ("LOI") to transfer control of its Lourdes Health System ("Lourdes"), based in Camden, New Jersey, and Saint Francis Medical Center ("SFMC"), in Trenton, New Jersey, to Cooper University Health Care (Cooper). The agreement will bring together health care providers from across south and central New Jersey, allowing expanded access to high quality care for thousands of new patients. As a result of this LOI, the Corporation's consolidated balance sheet for the quarter ended September 30, 2017, will reflect certain of Lourdes and SFMC's assets and liabilities as held for sale. The agreement is subject to development of a definitive agreement and regulatory approval, the timing of which is uncertain.

Liquidity Facilities – In August 2017, the Corporation extended the maturity date on \$321 million of the available balance of \$931 million under the Credit Agreements. The maturity date was extended from July 2018 to July 2021.

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INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTAL CONSOLIDATING SCHEDULES

To the Board of Directors of
Trinity Health Corporation
Livonia, Michigan

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplemental consolidating schedules (the "Schedules") listed in the table of contents are presented for the purpose of additional analysis and are not a required part of the consolidated financial statements. These Schedules are the responsibility of Trinity Health Corporation's management and were derived from and relate directly to the underlying accounting and other records used to prepare the consolidated financial statements. Such Schedules have been subjected to the auditing procedures applied in our audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such Schedules directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion such Schedules are fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Deloitte & Touche LLP

September 27, 2017

TRINITY HEALTH

Supplemental Condensed Consolidating Balance Sheets - Information

June 30, 2017

(In thousands)

	Saint Agnes Medical Center, Fresno	Saint Alphonsus Health System, Oregon-Idaho	Mercy Health Services, Iowa-Nebraska	Loyola University Health System, Chicago	Mercy Hospital and Medical Center, Chicago	Saint Joseph Regional Medical Center, South Bend	Mercy Health, West Michigan	Saint Joseph Mercy Health System, Southeast Michigan	Mount Carmel Health System, Columbus
ASSETS									
CURRENT ASSETS:									
Cash, cash equivalents and investments	\$ 57,033	\$ 225,707	\$ 183,475	\$ 232,619	\$ 13,769	\$ 92,917	\$ 262,365	\$ 896,934	\$ 799,322
Assets limited as to use - current portion	220	378	472	1,469	4,385	346	1,659	3,537	821
Patient and other receivables, net	172,471	148,711	147,083	242,328	43,938	64,065	173,645	255,239	209,616
Other current assets	<u>9,087</u>	<u>16,819</u>	<u>27,067</u>	<u>30,186</u>	<u>4,434</u>	<u>9,267</u>	<u>29,347</u>	<u>32,682</u>	<u>32,192</u>
Total current assets	238,811	391,615	358,097	506,602	66,526	166,595	467,016	1,188,392	1,041,951
ASSETS LIMITED OR RESTRICTED AS TO USE -									
Noncurrent portion:									
Held in trust	-	7,418	18,075	27,644	3,976	5,947	14,897	25,269	22,845
By Board	284,542	82,663	209,741	1,696	-	-	346,055	136,315	426,967
By donors	<u>6,978</u>	<u>6,814</u>	<u>9,860</u>	<u>36,660</u>	<u>-</u>	<u>9,526</u>	<u>16,374</u>	<u>46,011</u>	<u>9,668</u>
Total assets limited or restricted as to use - noncurrent portion	291,520	96,895	237,676	66,000	3,976	15,473	377,326	207,595	459,480
PROPERTY AND EQUIPMENT, Net	196,303	536,911	288,944	537,119	67,851	342,005	416,723	944,227	790,118
OTHER ASSETS	<u>27,626</u>	<u>73,158</u>	<u>298,954</u>	<u>84,579</u>	<u>9,025</u>	<u>26,387</u>	<u>73,651</u>	<u>214,523</u>	<u>153,824</u>
TOTAL ASSETS	<u>\$ 754,260</u>	<u>\$ 1,098,579</u>	<u>\$ 1,183,671</u>	<u>\$ 1,194,300</u>	<u>\$ 147,378</u>	<u>\$ 550,460</u>	<u>\$ 1,334,716</u>	<u>\$ 2,554,737</u>	<u>\$ 2,445,373</u>
LIABILITIES AND NET ASSETS									
CURRENT LIABILITIES									
CURRENT LIABILITIES	\$ 89,308	\$ 119,532	\$ 103,784	\$ 248,153	\$ 51,168	\$ 46,251	\$ 138,977	\$ 246,706	\$ 379,845
LONG-TERM DEBT, Noncurrent portion	93,707	265,062	229,373	548,376	85,329	305,025	285,704	642,541	642,962
OTHER LIABILITIES	2,144	9,132	26,028	115,353	7,632	6,503	21,728	37,917	22,827
NET ASSETS:									
Unrestricted	561,902	697,658	814,258	244,525	(817)	182,812	870,274	1,579,214	1,389,251
Restricted	<u>7,199</u>	<u>7,195</u>	<u>10,228</u>	<u>37,893</u>	<u>4,066</u>	<u>9,869</u>	<u>18,033</u>	<u>48,359</u>	<u>10,488</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 754,260</u>	<u>\$ 1,098,579</u>	<u>\$ 1,183,671</u>	<u>\$ 1,194,300</u>	<u>\$ 147,378</u>	<u>\$ 550,460</u>	<u>\$ 1,334,716</u>	<u>\$ 2,554,737</u>	<u>\$ 2,445,373</u>

TRINITY HEALTH

Supplemental Condensed Consolidating Balance Sheets - Information

June 30, 2017

(In thousands)

	Holy Cross Health, Silver Spring	St. Peter's Health Partners, Albany	Saint Joseph Health, Inc., Syracuse	Trinity Health Of New England Corporation, Inc., Connecticut	Mercy Health System of SEPA, Philadelphia	St. Mary Medical Center, Langhorne	Lourdes Health System, Camden	St. Francis Medical Center, Trenton	Saint Francis Healthcare, Wilmington
ASSETS									
CURRENT ASSETS:									
Cash, cash equivalents and investments	\$ 243,923	\$ 318,986	\$ 85,452	\$ 113,609	\$ 122,459	\$ 352,377	\$ 59,676	\$ 1,936	\$ 9,494
Assets limited as to use - current portion	1,508	11,144	7,401	2,221	-	160	-	32	-
Patient and other receivables, net	77,442	152,740	92,195	208,649	92,523	65,556	70,778	17,834	31,263
Other current assets	9,931	18,334	11,200	52,165	12,095	12,505	17,621	4,271	4,055
Total current assets	332,804	501,204	196,248	376,644	227,077	430,598	148,075	24,073	44,812
ASSETS LIMITED OR RESTRICTED AS TO USE -									
Noncurrent portion:									
Held in trust	446	20,814	3,879	7,436	-	1,512	4,073	-	-
By Board	2,000	142,759	514	43,066	10,000	-	-	1,664	-
By donors	3,128	78,628	7,147	111,757	4,342	20,112	2,398	1,723	162
Total assets limited or restricted as to use - noncurrent portion	5,574	242,201	11,540	162,259	14,342	21,624	6,471	3,387	162
PROPERTY AND EQUIPMENT, Net	473,717	613,801	283,782	665,477	85,563	217,067	103,547	-	28,087
OTHER ASSETS	66,299	52,664	23,272	115,485	219,301	18,570	46,285	5,060	5,462
TOTAL ASSETS	\$ 878,394	\$ 1,409,870	\$ 514,842	\$ 1,319,865	\$ 546,283	\$ 687,859	\$ 304,378	\$ 32,520	\$ 78,523
LIABILITIES AND NET ASSETS									
CURRENT LIABILITIES	\$ 84,150	\$ 189,726	\$ 120,491	\$ 254,632	\$ 129,156	\$ 54,804	\$ 73,080	\$ 38,024	\$ 37,123
LONG-TERM DEBT, Noncurrent portion	401,403	280,083	266,155	368,090	112,898	124,521	243,678	91,776	113,157
OTHER LIABILITIES	8,808	83,419	36,975	378,869	9,283	4,161	4,739	1,446	41
NET ASSETS:									
Unrestricted	379,397	765,553	76,974	203,703	288,892	484,102	(19,504)	(100,500)	(71,927)
Restricted	4,636	91,089	14,247	114,571	6,054	20,271	2,385	1,774	129
TOTAL LIABILITIES AND NET ASSETS	\$ 878,394	\$ 1,409,870	\$ 514,842	\$ 1,319,865	\$ 546,283	\$ 687,859	\$ 304,378	\$ 32,520	\$ 78,523

TRINITY HEALTH

Supplemental Condensed Consolidating Balance Sheets - Information

June 30, 2017

(In thousands)

	St. Mary's Health Care System, Inc., Athens	Holy Cross Hospital, Inc., Ft. Lauderdale	Trinity Continuing Care Services	Trinity Home Health Services	Trinity Health PACE	Pittsburgh Mercy Health System Inc., Pittsburgh	Mercy Primary Care Center, Detroit	Trinity Health Consolidated Labs
ASSETS								
CURRENT ASSETS:								
Cash, cash equivalents and investments	\$ 44,570	\$ 49,986	\$ 49,034	\$ 12,353	\$ 9,837	\$ 15,342	\$ 6,855	\$ 4,608
Assets limited as to use - current portion	1,944	6,415	3,687	36	-	-	-	-
Patient and other receivables, net	32,927	71,992	40,497	20,727	3,607	20,568	44	4,934
Other current assets	<u>6,703</u>	<u>8,890</u>	<u>3,215</u>	<u>731</u>	<u>241</u>	<u>516</u>	<u>-</u>	<u>2,849</u>
Total current assets	86,144	137,283	96,433	33,847	13,685	36,426	6,899	12,391
ASSETS LIMITED OR RESTRICTED AS TO USE -								
Noncurrent portion:								
Held in trust	1,425	13,901	16,966	31	-	27	-	-
By Board	16,851	42,266	45,381	-	945	96,362	-	-
By donors	<u>4,187</u>	<u>30,287</u>	<u>2,013</u>	<u>794</u>	<u>406</u>	<u>7,093</u>	<u>511</u>	<u>-</u>
Total assets limited or restricted as to use - noncurrent portion	22,463	86,454	64,360	825	1,351	103,482	511	-
PROPERTY AND EQUIPMENT, Net	121,201	224,763	286,811	2,088	7,998	10,471	475	2,025
OTHER ASSETS	<u>10,488</u>	<u>43,712</u>	<u>21,133</u>	<u>5,824</u>	<u>14,732</u>	<u>-</u>	<u>-</u>	<u>1,229</u>
TOTAL ASSETS	<u>\$ 240,296</u>	<u>\$ 492,212</u>	<u>\$ 468,737</u>	<u>\$ 42,584</u>	<u>\$ 37,766</u>	<u>\$ 150,379</u>	<u>\$ 7,885</u>	<u>\$ 15,645</u>
LIABILITIES AND NET ASSETS								
CURRENT LIABILITIES	\$ 34,144	\$ 57,181	\$ 46,412	\$ 15,707	\$ 10,957	\$ 6,577	\$ 434	\$ 7,393
LONG-TERM DEBT, Noncurrent portion	65,844	170,554	251,757	532	22,000	1,337	-	2,240
OTHER LIABILITIES	1,425	49,950	106,298	31	552	591	-	205
NET ASSETS:								
Unrestricted	134,577	184,889	61,875	25,482	3,851	134,781	6,940	5,807
Restricted	<u>4,306</u>	<u>29,638</u>	<u>2,395</u>	<u>832</u>	<u>406</u>	<u>7,093</u>	<u>511</u>	<u>-</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 240,296</u>	<u>\$ 492,212</u>	<u>\$ 468,737</u>	<u>\$ 42,584</u>	<u>\$ 37,766</u>	<u>\$ 150,379</u>	<u>\$ 7,885</u>	<u>\$ 15,645</u>

TRINITY HEALTH

Supplemental Condensed Consolidating Balance Sheets - Information

June 30, 2017

(In thousands)

	Trinity Health Warde Lab LLC	Global Health Ministry	St. Joseph's Health System, Inc., Atlanta	Trinity Health Partners	Trinity Health ACO, Inc.	Allegany Franciscan Ministries	SJSA Foundation	Cadillac Foundation
ASSETS								
CURRENT ASSETS:								
Cash, cash equivalents and investments	\$ 1,460	\$ 3,350	\$ 169,953	\$ 28,662	\$ 6,509	\$ 120,151	\$ 11,874	\$ -
Assets limited as to use - current portion	-	13	413	-	-	1,242	960	-
Patient and other receivables, net	-	17	1,778	183	7,999	-	-	-
Other current assets	<u>15</u>	<u>4</u>	<u>331</u>	<u>-</u>	<u>82</u>	<u>14</u>	<u>19</u>	<u>98</u>
Total current assets	1,475	3,384	172,475	28,845	14,590	121,407	12,853	98
ASSETS LIMITED OR RESTRICTED AS TO USE -								
Noncurrent portion:								
Held in trust	-	-	18	-	-	-	-	-
By Board	-	-	17,453	-	-	-	875	13,153
By donors	-	<u>309</u>	<u>21,597</u>	-	-	-	<u>21,412</u>	-
Total assets limited or restricted as to use - noncurrent portion	-	309	39,068	-	-	-	22,287	13,153
PROPERTY AND EQUIPMENT, Net	7,268	-	31,278	-	-	23	14	-
OTHER ASSETS	-	-	<u>90,638</u>	-	-	<u>7</u>	<u>1</u>	<u>2</u>
TOTAL ASSETS	<u>\$ 8,743</u>	<u>\$ 3,693</u>	<u>\$ 333,459</u>	<u>\$ 28,845</u>	<u>\$ 14,590</u>	<u>\$ 121,437</u>	<u>\$ 35,155</u>	<u>\$ 13,253</u>
LIABILITIES AND NET ASSETS								
CURRENT LIABILITIES	\$ 75	\$ 816	\$ 2,965	\$ 8,630	\$ 12,917	\$ 6,826	\$ 1,034	\$ -
LONG-TERM DEBT, Noncurrent portion	-	-	-	-	-	-	-	-
OTHER LIABILITIES	-	-	879	-	-	-	291	-
NET ASSETS:								
Unrestricted	8,668	2,641	305,249	20,215	1,673	114,611	11,555	13,253
Restricted	-	<u>236</u>	<u>24,366</u>	-	-	-	<u>22,275</u>	-
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 8,743</u>	<u>\$ 3,693</u>	<u>\$ 333,459</u>	<u>\$ 28,845</u>	<u>\$ 14,590</u>	<u>\$ 121,437</u>	<u>\$ 35,155</u>	<u>\$ 13,253</u>

TRINITY HEALTH

**Supplemental Condensed Consolidating Balance Sheets -
Information**

June 30, 2017

(In thousands)

	Trinity Assurance Insurance Company	Investment in Baycare Health System	Investment in Catholic Health System, Inc.	Mercy Health Services, North	St. Joseph Mercy, Port Huron	Saint Michael's Medical Center and Related Entities, Newark	St. James Mercy Health System, Inc., Hornell	Mercy Hospital, Inc., Miami
ASSETS								
CURRENT ASSETS:								
Cash, cash equivalents and investments	\$ 73	\$ -	\$ -	\$ 9,742	\$ 24,796	\$ (153)	\$ 6,088	\$ 50
Assets limited as to use - current portion	113,935	-	-	-	-	122	-	-
Patient and other receivables, net	3,042	-	-	18	-	1	127	-
Other current assets	8	-	-	-	-	-	55	-
Total current assets	117,058	-	-	9,760	24,796	(30)	6,270	50
ASSETS LIMITED OR RESTRICTED AS TO USE -								
Noncurrent portion:								
Held in trust	537,034	-	-	-	270	-	-	4,594
By Board	-	-	-	-	-	-	-	-
By donors	-	-	-	-	-	-	-	-
Total assets limited or restricted as to use - noncurrent portion	537,034	-	-	-	270	-	-	4,594
PROPERTY AND EQUIPMENT, Net	-	-	-	-	-	-	548	-
OTHER ASSETS	-	2,447,295	85,164	-	1,860	-	204	4,123
TOTAL ASSETS	\$ 654,092	\$ 2,447,295	\$ 85,164	\$ 9,760	\$ 26,926	\$ (30)	\$ 7,022	\$ 8,767
LIABILITIES AND NET ASSETS								
CURRENT LIABILITIES	\$ 130,209	\$ -	\$ -	\$ 5,351	\$ 6,895	\$ 166,991	\$ 11,258	\$ 29,340
LONG-TERM DEBT, Noncurrent portion	-	-	-	-	-	-	115	-
OTHER LIABILITIES	489,735	-	-	-	270	-	1,147	-
NET ASSETS:								
Unrestricted	34,148	2,422,258	82,590	4,409	19,761	(167,193)	(5,498)	(20,573)
Restricted	-	25,037	2,574	-	-	172	-	-
TOTAL LIABILITIES AND NET ASSETS	\$ 654,092	\$ 2,447,295	\$ 85,164	\$ 9,760	\$ 26,926	\$ (30)	\$ 7,022	\$ 8,767

TRINITY HEALTH**Supplemental Condensed Consolidating Balance Sheets -
Information****June 30, 2017****(In thousands)**

	Maxis Health System	Mercy Uihlein Health Corp.	System Office	Eliminations and Other	TRINITY HEALTH
ASSETS					
CURRENT ASSETS:					
Cash, cash equivalents and investments	\$ 571	\$ -	\$ 512,293	\$ (292,684)	\$ 4,867,373
Assets limited as to use - current portion	-	-	164,192	-	328,712
Patient and other receivables, net	-	-	355,236	(331,006)	2,498,767
Other current assets	-	-	112,262	(22,410)	446,881
Total current assets	571	-	1,143,983	(646,100)	8,141,733
ASSETS LIMITED OR RESTRICTED AS TO USE -					
Noncurrent portion:					
Held in trust	-	-	92,590	-	831,087
By Board	4,874	-	1,783,104	-	3,709,246
By donors	-	-	594	-	460,491
Total assets limited or restricted as to use - noncurrent portion	4,874	-	1,876,288	-	5,000,824
PROPERTY AND EQUIPMENT, Net	-	-	565,884	1,367	7,853,456
OTHER ASSETS	-	-	5,676,496	(6,173,963)	3,743,070
TOTAL ASSETS	\$ 5,445	\$ -	\$ 9,262,651	\$ (6,818,696)	\$ 24,739,083
LIABILITIES AND NET ASSETS					
CURRENT LIABILITIES	\$ 47,901	\$ -	\$ 2,114,835	\$ (638,519)	\$ 4,491,239
LONG-TERM DEBT, Noncurrent portion	5,991	-	5,021,713	(5,372,061)	5,269,862
OTHER LIABILITIES	-	-	2,365,539	(801,363)	2,992,555
NET ASSETS:					
Unrestricted	(48,447)	-	(240,041)	(7,112)	11,456,136
Restricted	-	-	605	359	529,291
TOTAL LIABILITIES AND NET ASSETS	\$ 5,445	\$ -	\$ 9,262,651	\$ (6,818,696)	\$ 24,739,083

TRINITY HEALTH

**Supplemental Condensed Consolidating Statements of Operations
and Changes in Net Assets - Information**

June 30, 2017

(In thousands)

	Saint Agnes Medical Center, Fresno	Saint Alphonsus Health System, Oregon-Idaho	Mercy Health Services, Iowa-Nebraska	Loyola University Health System, Chicago	Mercy Hospital and Medical Center, Chicago	Saint Joseph Regional Medical Center, South Bend	Mercy Health, West Michigan	Saint Joseph Mercy Health System, Southeast Michigan	Mount Carmel Health System, Columbus
Unrestricted revenue:									
Net patient service revenue less provision for bad debts	\$ 474,267	\$ 814,509	\$ 827,210	\$ 1,217,774	\$ 217,693	\$ 416,297	\$ 1,117,867	\$ 1,946,369	\$ 1,191,092
Other	8,417	54,526	129,371	132,586	19,398	16,595	228,348	134,056	678,501
Total unrestricted revenue	482,684	869,035	956,581	1,350,360	237,091	432,892	1,346,215	2,080,425	1,869,593
Expenses:									
Labor costs	226,227	434,729	450,709	752,332	123,606	194,136	629,575	1,064,457	707,472
Purchased services	75,901	147,316	156,416	120,161	50,056	76,037	212,967	251,659	231,767
Depreciation, amortization and interest	31,806	55,060	62,179	76,600	18,461	38,943	70,041	139,253	114,788
Other	152,331	202,242	253,144	408,392	65,904	119,695	366,077	522,082	769,151
Total expenses	486,265	839,347	922,448	1,357,485	258,027	428,811	1,278,660	1,977,451	1,823,178
OPERATING INCOME (LOSS) BEFORE OTHER ITEMS	(3,581)	29,688	34,133	(7,125)	(20,936)	4,081	67,555	102,974	46,415
Other	(2,439)	(11,693)	(941)	(2,447)	(148,288)	(2,317)	(507)	-	(2,288)
OPERATING INCOME (LOSS)	(6,020)	17,995	33,192	(9,572)	(169,224)	1,764	67,048	102,974	44,127
NONOPERATING ITEMS:									
Investment income and interest rate swaps	38,356	37,507	41,705	28,069	314	9,951	64,807	99,494	106,645
Loss from early extinguishment of debt	-	-	-	-	-	-	-	-	-
Other	(9)	12	(21)	-	-	(832)	(131)	(604)	(932)
Total nonoperating items	38,347	37,519	41,684	28,069	314	9,119	64,676	98,890	105,713
EXCESS OF REVENUE OVER EXPENSES	32,327	55,514	74,876	18,497	(168,910)	10,883	131,724	201,864	149,840
LESS EXCESS OF REVENUE OVER EXPENSES ATTRIBUTABLE TO NONCONTROLLING INTEREST	-	(134)	(27,698)	-	(443)	-	(133)	(1,419)	(4,769)
EXCESS OF REVENUE OVER EXPENSES - Net of noncontrolling interest	<u>\$ 32,327</u>	<u>\$ 55,380</u>	<u>\$ 47,178</u>	<u>\$ 18,497</u>	<u>\$ (169,353)</u>	<u>\$ 10,883</u>	<u>\$ 131,591</u>	<u>\$ 200,445</u>	<u>\$ 145,071</u>
CHANGES IN NET ASSETS									
INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS	\$ 18,080	\$ 40,611	\$ 18,400	\$ 24,954	\$ (170,945)	\$ (623)	\$ 109,624	\$ 147,898	\$ 107,714
INCREASE (DECREASE) IN RESTRICTED NET ASSETS	789	275	516	3,178	(893)	(522)	1,703	5,624	1,465
INCREASE (DECREASE) IN NET ASSETS	18,869	40,886	18,916	28,132	(171,838)	(1,145)	111,327	153,522	109,179
NET ASSETS, Beginning of year	550,232	663,967	805,570	254,286	175,087	193,826	776,980	1,474,051	1,290,560
NET ASSETS, End of year	<u>\$ 569,101</u>	<u>\$ 704,853</u>	<u>\$ 824,486</u>	<u>\$ 282,418</u>	<u>\$ 3,249</u>	<u>\$ 192,681</u>	<u>\$ 888,307</u>	<u>\$ 1,627,573</u>	<u>\$ 1,399,739</u>

TRINITY HEALTH

Supplemental Condensed Consolidating Statements of Operations and Changes in Net Assets - Information

June 30, 2017

(In thousands)

	Holy Cross Health, Silver Spring	St. Peter's Health Partners, Albany	Saint Joseph Health, Inc., Syracuse	Trinity Health Of New England Corporation, Inc., Connecticut	Mercy Health System of SEPA, Philadelphia	St. Mary Medical Center, Langhorne	Lourdes Health System, Camden	St. Francis Medical Center, Trenton	Saint Francis Healthcare, Wilmington
Unrestricted revenue:									
Net patient service revenue less provision for bad debts	\$ 520,893	\$ 1,234,216	\$ 641,720	\$ 1,673,394	\$ 586,578	\$ 487,301	\$ 494,425	\$ 111,720	\$ 140,985
Other	24,364	93,693	53,292	108,886	125,529	48,624	63,400	32,835	27,609
Total unrestricted revenue	545,257	1,327,909	695,012	1,782,280	712,107	535,925	557,825	144,555	168,594
Expenses:									
Labor costs	273,288	751,577	372,432	1,012,297	391,326	250,616	309,706	68,325	87,544
Purchased services	81,609	162,571	97,184	218,312	128,243	96,632	113,134	50,658	35,986
Depreciation, amortization and interest	52,639	77,338	41,805	90,861	25,147	30,994	27,657	9,038	9,232
Other	118,992	330,121	178,517	459,702	134,037	140,352	129,761	34,003	38,607
Total expenses	526,528	1,321,607	689,938	1,781,172	678,753	518,594	580,258	162,024	171,369
OPERATING INCOME (LOSS) BEFORE OTHER ITEMS	18,729	6,302	5,074	1,108	33,354	17,331	(22,433)	(17,469)	(2,775)
Other	(1,338)	(4,242)	(1,778)	(8,182)	(2,135)	(2,946)	(35,520)	(37,342)	(1,812)
OPERATING INCOME (LOSS)	17,391	2,060	3,296	(7,074)	31,219	14,385	(57,953)	(54,811)	(4,587)
NONOPERATING ITEMS:									
Investment income and interest rate swaps	22,720	35,943	8,720	14,850	17,337	50,970	6,350	(586)	1,067
Loss from early extinguishment of debt	-	-	-	-	-	-	-	-	-
Other	1	(143)	561	57,195	-	(28)	(31)	(1)	-
Total nonoperating items	22,721	35,800	9,281	72,045	17,337	50,942	6,319	(587)	1,067
EXCESS OF REVENUE OVER EXPENSES	40,112	37,860	12,577	64,971	48,556	65,327	(51,634)	(55,398)	(3,520)
LESS EXCESS OF REVENUE OVER EXPENSES ATTRIBUTABLE TO NONCONTROLLING INTEREST	-	-	(3,364)	-	-	(4,064)	(739)	(1,794)	-
EXCESS OF REVENUE OVER EXPENSES - Net of noncontrolling interest	<u>\$ 40,112</u>	<u>\$ 37,860</u>	<u>\$ 9,213</u>	<u>\$ 64,971</u>	<u>\$ 48,556</u>	<u>\$ 61,263</u>	<u>\$ (52,373)</u>	<u>\$ (57,192)</u>	<u>\$ (3,520)</u>
CHANGES IN NET ASSETS									
INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS	\$ 27,473	\$ 51,217	\$ 12,344	\$ 71,087	\$ 41,833	\$ 57,272	\$ (57,329)	\$ (60,098)	\$ (5,978)
INCREASE (DECREASE) IN RESTRICTED NET ASSETS	(123)	4,906	2,252	23,317	439	(458)	1,006	48	(1,117)
INCREASE (DECREASE) IN NET ASSETS	27,350	56,123	14,596	94,404	42,272	56,814	(56,323)	(60,050)	(7,095)
NET ASSETS, Beginning of year	356,683	800,519	76,625	223,870	252,674	447,559	39,204	(38,676)	(64,703)
NET ASSETS, End of year	<u>\$ 384,033</u>	<u>\$ 856,642</u>	<u>\$ 91,221</u>	<u>\$ 318,274</u>	<u>\$ 294,946</u>	<u>\$ 504,373</u>	<u>\$ (17,119)</u>	<u>\$ (98,726)</u>	<u>\$ (71,798)</u>

TRINITY HEALTH

Supplemental Condensed Consolidating Statements of Operations and Changes in Net Assets - Information

June 30, 2017

(In thousands)

	St. Mary's Health Care System, Inc., Athens	Holy Cross Hospital, Inc., Ft. Lauderdale	Trinity Continuing Care Services	Trinity Home Health Services	Trinity Health PACE	Pittsburgh Mercy Health System Inc., Pittsburgh	Mercy Primary Care Center, Detroit	Trinity Health Consolidated Labs
Unrestricted revenue:								
Net patient service revenue less provision for bad debts	\$ 257,698	\$ 435,376	\$ 223,303	\$ 121,176	\$ (132)	\$ 40,632	\$ 261	\$ -
Other	8,509	22,316	138,959	2,799	61,725	62,860	615	47,134
Total unrestricted revenue	266,207	457,692	362,262	123,975	61,593	103,492	876	47,134
Expenses:								
Labor costs	136,237	240,863	197,000	95,315	22,868	73,021	1,268	9,829
Purchased services	49,674	66,023	56,802	11,150	24,221	4,407	175	17,434
Depreciation, amortization and interest	16,763	31,447	32,663	1,574	2,257	2,166	11	1,097
Other	68,624	130,867	74,176	14,515	11,624	22,316	968	18,628
Total expenses	271,298	469,200	360,641	122,554	60,970	101,910	2,422	46,988
OPERATING INCOME (LOSS) BEFORE OTHER ITEMS	(5,091)	(11,508)	1,621	1,421	623	1,582	(1,546)	146
Other	-	(1,071)	(527)	(477)	-	-	-	-
OPERATING INCOME (LOSS)	(5,091)	(12,579)	1,094	944	623	1,582	(1,546)	146
NONOPERATING ITEMS:								
Investment income and interest rate swaps	6,372	10,093	9,605	1,585	996	9,212	1,005	555
Loss from early extinguishment of debt	-	-	-	-	-	-	-	-
Other	-	(158)	7,027	-	-	2,024	-	1
Total nonoperating items	6,372	9,935	16,632	1,585	996	11,236	1,005	556
EXCESS OF REVENUE OVER EXPENSES	1,281	(2,644)	17,726	2,529	1,619	12,818	(541)	702
LESS EXCESS OF REVENUE OVER EXPENSES ATTRIBUTABLE TO NONCONTROLLING INTEREST	-	(844)	-	(47)	-	-	-	-
EXCESS OF REVENUE OVER EXPENSES - Net of noncontrolling interest	<u>\$ 1,281</u>	<u>\$ (3,488)</u>	<u>\$ 17,726</u>	<u>\$ 2,482</u>	<u>\$ 1,619</u>	<u>\$ 12,818</u>	<u>\$ (541)</u>	<u>\$ 702</u>
CHANGES IN NET ASSETS								
INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS	\$ (2,202)	\$ (12,516)	\$ 12,790	\$ (1,263)	\$ 2,545	\$ 12,335	\$ 3,333	\$ 548
INCREASE (DECREASE) IN RESTRICTED NET ASSETS	320	9,650	964	478	35	(1,298)	58	-
INCREASE (DECREASE) IN NET ASSETS	(1,882)	(2,866)	13,754	(785)	2,580	11,037	3,391	548
NET ASSETS, Beginning of year	140,765	217,393	50,516	27,099	1,677	130,837	4,060	5,259
NET ASSETS, End of year	<u>\$ 138,883</u>	<u>\$ 214,527</u>	<u>\$ 64,270</u>	<u>\$ 26,314</u>	<u>\$ 4,257</u>	<u>\$ 141,874</u>	<u>\$ 7,451</u>	<u>\$ 5,807</u>

TRINITY HEALTH

**Supplemental Condensed Consolidating Statements of Operations
and Changes in Net Assets - Information**

June 30, 2017

(In thousands)

	Trinity Health Warde Lab LLC	Global Health Ministry	St. Joseph's Health System, Inc., Atlanta	Trinity Health Partners	Trinity Health ACO, Inc.	Allegheny Franciscan Ministries	SJSA Foundation	Cadillac Foundation
Unrestricted revenue:								
Net patient service revenue less provision for bad debts	\$ -	\$ -	\$ 2,180	\$ -	\$ -	\$ -	\$ -	\$ -
Other	664	3,976	23,097	-	(3,475)	9,357	4,101	1,036
Total unrestricted revenue	664	3,976	25,277	-	(3,475)	9,357	4,101	1,036
Expenses:								
Labor costs	-	1,042	16,641	374	-	964	1,351	-
Purchased services	117	78	2,707	2,683	1,445	113	659	-
Depreciation, amortization and interest	308	6	729	43	-	7	10	-
Other	211	2,542	3,941	499	114	8,273	487	1,011
Total expenses	636	3,668	24,018	3,599	1,559	9,357	2,507	1,011
OPERATING INCOME (LOSS) BEFORE OTHER ITEMS	28	308	1,259	(3,599)	(5,034)	-	1,594	25
Other	-	-	-	-	-	-	-	-
OPERATING INCOME (LOSS)	28	308	1,259	(3,599)	(5,034)	-	1,594	25
NONOPERATING ITEMS:								
Investment income and interest rate swaps	121	285	22,270	3,251	1,239	4,885	1,058	-
Loss from early extinguishment of debt	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-
Total nonoperating items	121	285	22,270	3,251	1,239	4,885	1,058	-
EXCESS OF REVENUE OVER EXPENSES	149	593	23,529	(348)	(3,795)	4,885	2,652	25
LESS EXCESS OF REVENUE OVER EXPENSES ATTRIBUTABLE TO NONCONTROLLING INTEREST	-	-	-	-	-	-	-	-
EXCESS OF REVENUE OVER EXPENSES - Net of noncontrolling interest	\$ 149	\$ 593	\$ 23,529	\$ (348)	\$ (3,795)	\$ 4,885	\$ 2,652	\$ 25
CHANGES IN NET ASSETS								
INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS	\$ 149	\$ 566	\$ 32,182	\$ (6,105)	\$ (3,794)	\$ 4,884	\$ 2,652	\$ 25
INCREASE (DECREASE) IN RESTRICTED NET ASSETS	-	247	(5,692)	-	-	-	664	-
INCREASE (DECREASE) IN NET ASSETS	149	813	26,490	(6,105)	(3,794)	4,884	3,316	25
NET ASSETS, Beginning of year	8,519	2,064	303,125	26,320	5,467	109,727	30,514	13,228
NET ASSETS, End of year	\$ 8,668	\$ 2,877	\$ 329,615	\$ 20,215	\$ 1,673	\$ 114,611	\$ 33,830	\$ 13,253

TRINITY HEALTH

**Supplemental Condensed Consolidating Statements of Operations
and Changes in Net Assets - Information**

June 30, 2017

(In thousands)

	Trinity Assurance Insurance Company	Investment in Baycare Health System	Investment in Catholic Health System, Inc.	Mercy Health Services, North	St. Joseph Mercy, Port Huron	Saint Michael's Medical Center and Related Entities, Newark	St. James Mercy Health System, Inc., Homell	Mercy Hospital, Inc., Miami
Unrestricted revenue:								
Net patient service revenue less provision for bad debts	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Other	105,656	-	-	-	-	-	303	-
Total unrestricted revenue	105,656	-	-	-	-	-	303	-
Expenses:								
Labor costs	-	-	-	-	-	-	47	-
Purchased services	939	-	-	-	-	-	20	-
Depreciation, amortization and interest	-	-	-	-	-	-	91	-
Other	104,717	-	-	-	-	-	197	-
Total expenses	105,656	-	-	-	-	-	355	-
OPERATING INCOME (LOSS) BEFORE OTHER ITEMS	-	-	-	-	-	-	(52)	-
Other	-	-	-	-	-	-	-	-
OPERATING INCOME (LOSS)	-	-	-	-	-	-	(52)	-
NONOPERATING ITEMS:								
Investment income and interest rate swaps	-	360,067	6,363	-	-	-	-	(1,713)
Loss from early extinguishment of debt	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-
Total nonoperating items	-	360,067	6,363	-	-	-	-	(1,713)
EXCESS OF REVENUE OVER EXPENSES	-	360,067	6,363	-	-	-	(52)	(1,713)
LESS EXCESS OF REVENUE OVER EXPENSES ATTRIBUTABLE TO NONCONTROLLING INTEREST	-	-	-	-	-	-	-	-
EXCESS OF REVENUE OVER EXPENSES - Net of noncontrolling interest	\$ -	\$ 360,067	\$ 6,363	\$ -	\$ -	\$ -	\$ (52)	\$ (1,713)
CHANGES IN NET ASSETS								
INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS	\$ 4,949	\$ 367,847	\$ 11,823	\$ (3,243)	\$ 4,010	\$ (12,035)	\$ 1,490	\$ (2,436)
INCREASE (DECREASE) IN RESTRICTED NET ASSETS	-	401	-	-	-	(3,889)	-	-
INCREASE (DECREASE) IN NET ASSETS	4,949	368,248	11,823	(3,243)	4,010	(15,924)	1,490	(2,436)
NET ASSETS, Beginning of year	29,199	2,079,047	73,341	7,652	15,751	(151,097)	(6,988)	(18,137)
NET ASSETS, End of year	\$ 34,148	\$ 2,447,295	\$ 85,164	\$ 4,409	\$ 19,761	\$ (167,021)	\$ (5,498)	\$ (20,573)

TRINITY HEALTH

Supplemental Condensed Consolidating Statements of Operations and Changes in Net Assets - Information June 30, 2017

(In thousands)

	Maxis Health System	Mercy Uihlein Health Corp.	System Office	Eliminations and Other	TRINITY HEALTH
Unrestricted revenue:					
Net patient service revenue less provision for bad debts	\$ -	\$ -	\$ 3,325	\$ -	\$ 15,198,129
Other	-	-	1,648,913	(1,688,859)	2,429,716
Total unrestricted revenue	-	-	1,652,238	(1,688,859)	17,627,845
Expenses:					
Labor costs	127	-	602,939	(153,215)	9,347,025
Purchased services	-	-	361,583	(847,572)	2,059,267
Depreciation, amortization and interest	-	-	314,991	(298,564)	1,077,441
Other	-	-	371,408	(380,255)	4,877,973
Total expenses	127	-	1,650,921	(1,679,606)	17,361,706
OPERATING INCOME (LOSS) BEFORE OTHER ITEMS	(127)	-	1,317	(9,253)	266,139
Other	-	-	(17,109)	1,145	(284,254)
OPERATING INCOME (LOSS)	(127)	-	(15,792)	(8,108)	(18,115)
NONOPERATING ITEMS:					
Investment income and interest rate swaps	(4,841)	(156)	265,098	7,962	1,289,531
Loss from early extinguishment of debt	-	-	792	-	792
Other	-	-	688	(4)	64,615
Total nonoperating items	(4,841)	(156)	266,578	7,958	1,354,938
EXCESS OF REVENUE OVER EXPENSES	(4,968)	(156)	250,786	(150)	1,336,823
LESS EXCESS OF REVENUE OVER EXPENSES ATTRIBUTABLE TO NONCONTROLLING INTEREST	-	-	-	(151)	(45,599)
EXCESS OF REVENUE OVER EXPENSES - Net of noncontrolling interest	<u>\$ (4,968)</u>	<u>\$ (156)</u>	<u>\$ 250,786</u>	<u>\$ (301)</u>	<u>\$ 1,291,224</u>
CHANGES IN NET ASSETS					
INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS	\$ (5,130)	\$ 3,136	\$ 841,278	\$ 1,810	\$ 1,693,162
INCREASE (DECREASE) IN RESTRICTED NET ASSETS	-	-	55	654	45,052
INCREASE (DECREASE) IN NET ASSETS	(5,130)	3,136	841,333	2,464	1,738,214
NET ASSETS, Beginning of year	(43,317)	(3,136)	(1,080,769)	(9,217)	10,247,213
NET ASSETS, End of year	<u>\$ (48,447)</u>	<u>\$ -</u>	<u>\$ (239,436)</u>	<u>\$ (6,753)</u>	<u>\$ 11,985,427</u>