

TRINITY HEALTH AND SUBSIDIARIES
CONSOLIDATED FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
YEARS ENDED JUNE 30, 2018 AND 2017

**TRINITY HEALTH AND SUBSIDIARIES
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INDEPENDENT AUDITORS' REPORT

Board of Directors
Trinity Health and Subsidiaries
Minot, North Dakota

We have audited the accompanying consolidated financial statements of Trinity Health and Subsidiaries, which comprise the consolidated balance sheets as of June 30, 2018 and 2017, and the related consolidated statements of operations, 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 conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 auditors' 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 entity'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 entity'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, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Trinity Health and Subsidiaries as of June 30, 2018 and 2017, and the results of their operations, changes in their net assets, and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 25, 2018, on our consideration of Trinity Health and Subsidiaries' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the result of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Trinity Health and Subsidiaries' internal control over financial reporting and compliance.



CliftonLarsonAllen LLP

Minneapolis, Minnesota
September 25, 2018

TRINITY HEALTH AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
JUNE 30, 2018 AND 2017

ASSETS	2018	2017
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 44,730,633	\$ 96,710,115
Current Portion of Assets Limited as to Use	41,091,826	5,168,332
Accounts Receivable:		
Patient and Resident, Net	62,133,520	55,799,002
Other, Net	1,377,631	1,287,846
Accrued Interest	1,363,486	8,259
Inventories	9,553,881	9,690,433
Prepaid Expenses	4,312,611	3,821,125
Total Current Assets	164,563,588	172,485,112
ASSETS LIMITED AS TO USE		
Held by Trustee for Bond Reserve Fund	24,848,587	6,705,108
Held by Trustee for Debt Service	29,868,868	5,168,332
Held by Trustee for Construction Project Fund	323,614,561	-
Total Assets Limited as to Use	378,332,016	11,873,440
Less: Amount Required to Meet Current Obligations	(41,091,826)	(5,168,332)
Noncurrent Assets Limited as to Use	337,240,190	6,705,108
INVESTMENTS	114,864,674	43,772,370
PROPERTY AND EQUIPMENT, NET	112,898,711	97,094,928
OTHER ASSETS		
Long-Term Deposits	766,139	990,707
Other Assets	961,933	1,073,750
Total Other Assets	1,728,072	2,064,457
 Total Assets	 \$ 731,295,235	 \$ 322,121,975

See accompanying Notes to Consolidated Financial Statements.

TRINITY HEALTH AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS (CONTINUED)
JUNE 30, 2018 AND 2017

LIABILITIES AND NET ASSETS	2018	2017
CURRENT LIABILITIES		
Current Portion of Long-Term Debt	\$ 4,452,764	\$ 4,136,063
Accounts Payable	21,095,956	14,902,854
Accrued Expenses:		
Salaries, Wages, and Payroll Taxes	15,585,435	15,666,010
Vacation and Sick Pay	7,013,594	7,004,348
Interest	1,600,069	1,457,934
Other Expenses	5,239,417	4,934,475
Estimated Third-Party Payor Settlements	9,897,000	9,430,000
Estimated Professional Malpractice Liability	1,226,000	1,147,000
Total Current Liabilities	66,110,235	58,678,684
LONG-TERM LIABILITIES		
Long-Term Debt, Net of Current Portion and Deferred Financing Costs, Net	432,770,911	59,303,497
Asset Retirement Obligation	9,475,100	9,290,760
Total Long-Term Liabilities	442,246,011	68,594,257
 Total Liabilities	 508,356,246	 127,272,941
NET ASSETS		
Unrestricted	214,909,626	187,037,134
Temporarily Restricted	6,486,646	6,269,183
Permanently Restricted	1,542,717	1,542,717
Total Net Assets	222,938,989	194,849,034
 Total Liabilities and Net Assets	 \$ 731,295,235	 \$ 322,121,975

See accompanying Notes to Consolidated Financial Statements.

TRINITY HEALTH AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
YEARS ENDED JUNE 30, 2018 AND 2017

	2018	2017
UNRESTRICTED REVENUES, GAINS, AND OTHER SUPPORT		
Net Patient and Resident Service Revenue (Net of Contractual Allowances and Discounts)	\$ 473,839,658	\$ 453,945,905
Provision for Uncollectible Accounts	(23,023,537)	(17,232,268)
Net Patient and Resident Service Revenue Less Provision for Uncollectible Accounts	450,816,121	436,713,637
Other Operating Revenue	12,237,621	8,399,823
Total Unrestricted Revenues, Gains, and Other Support	463,053,742	445,113,460
 EXPENSES		
Salaries and Wages	220,937,043	214,530,837
Employee Benefits and Payroll Taxes	36,318,614	36,590,544
Drugs and Supplies	87,826,492	89,197,648
Purchased Services and Professional Fees	44,211,695	42,908,815
Maintenance, Equipment Rental, and Utilities	23,687,131	22,562,321
Insurance	1,753,512	1,944,287
Other Operating Expenses	8,805,775	10,101,812
Depreciation	15,337,674	13,307,448
Interest	1,607,519	3,439,675
Total Expenses	440,485,455	434,583,387
 OPERATING INCOME	22,568,287	10,530,073
 NONOPERATING GAINS		
Investment Income	4,188,616	3,865,887
Gain on Disposal of Property and Equipment	2,731	13,654
Other Nonoperating Gains	1,112,858	955,075
Total Nonoperating Gains	5,304,205	4,834,616
 EXCESS OF REVENUES, GAINS, AND OTHER SUPPORT OVER EXPENSES	\$ 27,872,492	\$ 15,364,689

See accompanying Notes to Consolidated Financial Statements.

TRINITY HEALTH AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS
YEARS ENDED JUNE 30, 2018 AND 2017

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
NET ASSETS - JULY 1, 2016	\$ 171,672,445	\$ 6,250,256	\$ 1,530,275	\$ 179,452,976
Excess of Revenues, Gains, and Other Support Over Expenses	15,364,689	-	-	15,364,689
Restricted Contributions	-	994,785	12,442	1,007,227
Net Assets Released from Restrictions - Operations	-	(975,858)	-	(975,858)
Change in Net Assets - 2017	<u>15,364,689</u>	<u>18,927</u>	<u>12,442</u>	<u>15,396,058</u>
NET ASSETS - JUNE 30, 2017	187,037,134	6,269,183	1,542,717	194,849,034
Excess of Revenues, Gains, and Other Support Over Expenses	27,872,492	-	-	27,872,492
Restricted Investment Income	-	344,149	-	344,149
Restricted Contributions	-	1,147,353	-	1,147,353
Net Assets Released from Restrictions - Operations	-	(1,274,039)	-	(1,274,039)
Change in Net Assets - 2018	<u>27,872,492</u>	<u>217,463</u>	<u>-</u>	<u>28,089,955</u>
NET ASSETS - JUNE 30, 2018	<u>\$ 214,909,626</u>	<u>\$ 6,486,646</u>	<u>\$ 1,542,717</u>	<u>\$ 222,938,989</u>

See accompanying Notes to Consolidated Financial Statements.

TRINITY HEALTH AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2018 AND 2017

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ 28,089,955	\$ 15,396,058
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:		
Depreciation	15,337,674	13,307,448
Amortization of Bond Issue Costs	162,630	45,577
Change in Asset Retirement Obligation	184,340	184,340
Amortization of Notes Receivable	628,667	604,500
Gain on Disposal of Property and Equipment	(2,731)	(13,654)
Change in Net Unrealized Gains on Investments	(150,536)	(444,390)
Permanently Restricted Contributions	-	(12,442)
Changes in Operating Assets and Liabilities:		
Patient and Resident Receivables, Net	(6,334,518)	(1,829,636)
Other Receivables	(295,625)	(254,125)
Accrued Interest	(1,355,227)	(1,885)
Inventories	136,552	(40,526)
Prepaid Expenses	(266,918)	(1,300,716)
Accounts Payable	3,771,748	(3,764,210)
Accrued Expenses	375,748	(6,083,667)
Estimated Third-Party Payor Settlements	467,000	1,088,000
Estimated Professional Malpractice Liability	79,000	233,000
Net Cash Provided by Operating Activities	40,827,759	17,113,672
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Property and Equipment	(28,724,831)	(15,861,381)
Proceeds from Sale of Property and Equipment	7,459	128,186
Additions to Notes Receivable	(476,216)	(619,770)
Payments on Notes Receivable	165,206	113,791
Net Change in Assets Limited as to Use	(366,458,576)	1,864,230
Purchase of Investments	(79,827,196)	(22,434,411)
Proceeds from Sales or Maturities of Investments	8,885,428	11,399,992
Net Cash Used by Investing Activities	(466,428,726)	(25,409,363)
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal Payments on Long-Term Debt	(11,095,179)	(11,824,811)
Issuance of Long-Term Debt, Net of Refinancing	384,716,664	-
Permanently Restricted Contributions	-	12,442
Net Cash Provided (Used) by Financing Activities	373,621,485	(11,812,369)
DECREASE IN CASH AND CASH EQUIVALENTS	(51,979,482)	(20,108,060)
Cash and Cash Equivalents - Beginning of Year	96,710,115	116,818,175
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 44,730,633	\$ 96,710,115
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash Paid for Interest	\$ 9,245,885	\$ 3,467,002
Cash Received for Income Taxes	\$ (709,554)	\$ (315,065)
Fixed Asset Payable	\$ 3,506,984	\$ 1,085,630

See accompanying Notes to Consolidated Financial Statements.

TRINITY HEALTH AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

The consolidated financial statements of Trinity Health and Subsidiaries (Trinity) consist of a parent company, Trinity Health, and seven wholly owned subsidiaries:

- Trinity Hospitals (the Hospitals), a North Dakota nonprofit corporation, owns and operates an acute care hospital located on two campuses in Minot, North Dakota, that has a licensed capacity of 416 beds and provides a wide range of health care services to the patients it serves.
- Trinity Homes has a 230-bed skilled-care nursing component and a 15-room retirement home.
- Trinity Health Foundation (the Foundation) is a tax-exempt nonprofit organization whose purpose is directed toward improving medical services and facilities in the Minot, North Dakota area.
- Trinity Kenmare Hospital, a North Dakota nonprofit corporation, owns and operates an acute care hospital in Kenmare, North Dakota. It is licensed for 25 beds, which are shared between acute beds and swing beds. It currently is classified as a critical access hospital by Medicare.
- B & B Drug is a for-profit pharmacy whose stock is 100% owned by Trinity.
- MAOPS is a for-profit retail pharmacy and durable medical equipment company. The Hospitals owns 100% of the outstanding stock of MAOPS, which is located in the Trinity Health - Medical Arts Building to serve the patients treated there and also in its own stand-alone location off of the campus.

The Obligated Group consists of Trinity Health, Trinity Hospitals, Trinity Homes, and Trinity Kenmare Hospital.

Principles of Consolidation

The consolidated financial statements include the accounts of Trinity Health and Subsidiaries identified above. All material intercompany accounts and transactions have been eliminated in consolidation.

Basis of Presentation

The accompanying consolidated financial statements are presented in accordance with accounting principles generally accepted in the United States of America, (GAAP), as codified by the Financial Accounting Standards Board (FASB).

Use of Estimates

The preparation of consolidated financial statements in conformity with GAAP requires the Trinity to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements. Estimates also affect the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

TRINITY HEALTH AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash and Cash Equivalents

Trinity considers cash and all short-term investments purchased with an original maturity of three months or less and not otherwise classified as investments or assets limited as to use to be cash and cash equivalents. Cash and cash equivalents are stated at cost, which approximates fair value.

Patient and Resident Accounts Receivable, Net

Patient and resident accounts receivable are reduced by an allowance for doubtful accounts. In evaluating the collectability of patient and resident accounts receivable, Trinity analyzes its past history and identifies trends for each of its major payor sources of revenue to estimate the appropriate allowance for doubtful accounts and provision for bad debts. Management regularly reviews data about these major payor sources of revenue in evaluating the sufficiency of the allowance for doubtful accounts. For receivables associated with services provided to patients who have third-party coverage, Trinity analyzes contractually due amounts and provides an allowance for doubtful accounts and a provision for bad debts, if necessary (for example, for expected uncollectible deductibles and copayments on accounts for which the third-party payor has not yet paid, or for payors who are known to be having financial difficulties that make the realization of amounts due unlikely). For receivables associated with self-pay patients (which includes both patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill), Trinity records a provision for bad debts in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The difference between the standard rates (or the discounted rates if negotiated) and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for doubtful accounts.

Inventories

Inventories are stated at the lower of cost (last in, first out) or market value.

Assets Limited as to Use

Assets limited as to use include assets held by trustees under bond reserve fund, debt service fund and construction project fund. The majority of the funds are placed in guaranteed investment contracts, which are fixed rate deposit agreements, and are recorded at cost, which approximates fair value. Amounts required to meet certain current liabilities of Trinity are classified as current assets in the consolidated balance sheets.

Investments and Investment Income

Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value in the consolidated balance sheets. Investment income or loss (including realized and unrealized gains and losses on investments, interest and dividends) is included in the excess of revenues, gains, and other support over expenses unless the income or loss is restricted by donor or law. In general, investments are exposed to various risks, such as interest rate, credit, and overall market volatility risk. Due to the level of risk associated with certain investments, it is reasonably possible that changes in the values of the investments will occur in the near term and that such changes could materially affect the investment balances and the amounts reported in the consolidated balance sheets.

TRINITY HEALTH AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments and Investment Income (Continued)

Trinity classifies its entire investment portfolio as trading, with unrealized gains and losses included in the excess of revenues, gains, and other support over expenses. Unrealized gains and losses on the temporarily restricted investments are reported as increases or decreases in temporarily restricted net assets, as appropriate.

Property and Equipment, Net

Property and equipment acquisitions in excess of \$1,500 with an expected life of three years or greater are recorded at cost. Depreciation is provided over the estimated useful life of each class of depreciable assets ranging from 3 to 40 years, and is computed using the straight-line method. Equipment under capital lease obligations is amortized on the straight-line method over the shorter period of the lease term or the estimated useful life of the equipment. Such amortization is included in depreciation in the consolidated statements of operations. Depreciation expense for fiscal years 2018 and 2017 was \$15,337,674 and \$13,307,448, respectively.

Impairment of Long-Lived Assets

Trinity reviews long-lived assets for impairment whenever events or changes in circumstances indicate the carrying amount of an asset may be not recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of carrying amount or the fair value less costs to sell. Trinity has accelerated depreciation on the buildings and fixed equipment that will not be used after the hospital project is complete to adjust the useful lives to coincide with the expected completion date of the project. The amount of accelerated depreciation for fiscal year 2018 was \$1,905,740. There was no accelerated depreciation for fiscal year 2017.

Deferred Financing Costs

Deferred financing costs are being amortized over the period the related obligations are outstanding using the effective interest method. Amortization for fiscal years 2018 and 2017 was \$162,630 and \$45,577, respectively, which is included with interest expense.

Net Assets

Net assets are classified into three separate categories based on the existence or absence of donor-imposed restrictions. In the consolidated financial statements, net assets that have similar characteristics have been combined into categories as follows:

Unrestricted – Net assets that are not subject to donor-imposed restrictions. Board designated funds are included in this classification and amounted to \$1,290,798 and \$845,817 as of June 30, 2018 and 2017, respectively.

TRINITY HEALTH AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Net Assets (Continued)

Temporarily Restricted – Net assets subject to donor-imposed restrictions that may or will be met either with actions of Trinity and/or the passage of time. When a restriction expires, temporarily restricted net assets are classified to unrestricted net assets and reported in the consolidated statements of operations.

Permanently Restricted – Net assets subject to donor-imposed restrictions that are maintained permanently by Trinity. Generally, the donors of these assets permit Trinity to use all or part of the income earned on related investments for specific or general purposes.

Trinity follows guidance on endowments of not-for-profit organizations, including guidance on the net asset classification of donor-restricted endowment funds that are subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA). This guidance provides for additional disclosures about the Trinity's endowment funds.

Asset Retirement Obligation

Asset retirement obligation represents an estimate for the cost to remove the asbestos in the buildings Trinity owns for which it has an obligation to remove at a future date. This estimate is recorded at net present value using a risk-free interest rate and an inflationary rate. This estimate has been recorded in accordance with FASB Codification Topic 410, *Asset Retirement Obligations*.

Net Patient and Resident Service Revenue

Trinity has agreements with third-party payors that provide for payments to Trinity at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per diem payments. Net patient and resident service revenue is reported at the estimated net realizable amounts from patients, residents, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with 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.

TRINITY HEALTH AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Contributions

Contributions are recorded at fair value in the year made. Contributions 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 a purpose restriction is accomplished), temporarily restricted net assets are classified as unrestricted net assets and reported in the consolidated statements of 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 financial statements. In the absence of donor specification that income and gains on donated funds are restricted, such income and gains are reported as unrestricted activity.

Other Operating Revenue

Other operating revenue consists of pharmacy sales, cafeteria sales, medical equipment sales and rentals, and real estate rentals. Revenue from sales of pharmaceuticals, medical supplies, and medical equipment is recognized at the time of delivery of the goods. Revenue from the rental of real estate and medical equipment is recognized over the rental period.

Nonoperating Gains

Nonoperating gains consist of unrestricted contributions, investment income, and gains on disposal of property and equipment.

Excess of Revenues, Gains, and Other Support over Expenses

Excess of revenues, gains, and other support over expenses includes operating expenses, interest and dividends, unless the income or loss is restricted by donor law, realized and unrealized gains and losses on investments. Changes in unrestricted net assets which are excluded from excess of revenues, gains, and other support over expenses, consistent with industry practice, include unrealized gains on investments classified as other than trading securities, permanent transfers of assets to and from affiliates for other than goods and services, contributions of long-lived assets (including assets acquired using contributions which by donor restriction were to be used for purposes of acquiring such assets).

Income Taxes

Trinity Health and the following subsidiaries, Trinity Hospitals, Trinity Homes, Trinity Health Foundation, Trinity Kenmare Hospital, and Community Ambulance Service have all been recognized by the Internal Revenue Service (IRS) as a nonprofit corporation as described in Sec. 501(c)(3) of the Internal Revenue Code (IRC) and is exempt from federal income taxes pursuant to Sec. 501(a) of the IRC. All unrelated business income generated by Trinity is subject to federal income tax under Section 511 of the IRC.

B & B and MAOPS are for-profit entities. The provisions for income taxes are based on amounts estimated to be currently payable and those deferred because of temporary differences between the financial statement and tax bases of assets and liabilities. These differences consist primarily of bad debts and depreciation.

TRINITY HEALTH AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income Taxes (Continued)

Trinity's policy is to evaluate the likelihood that its uncertain tax positions will prevail upon examination based on the extent to which those positions have substantial support within the Internal Revenue Code and Regulations, Revenue Rulings, court decisions, and other evidence. It is the opinion of management that the Company has no significant uncertain tax positions that would be subject to change upon examination. Trinity's income tax returns are subject to review and examination by federal, state, and local authorities.

Sales Taxes

Sales taxes collected from customers and remitted to taxing authorities are excluded from revenues and cost of sales, respectively.

Fair Value of Financial Instruments

Fair value measurement applies to reported balances that are required or permitted to be measured at fair value under an existing accounting standard. Trinity emphasizes that fair value is a market-based measurement, not an entity-specific measurement. Therefore, a fair value measurement should be determined based on the assumptions that market participants would use in pricing the asset or liability and establishes a fair value hierarchy.

The fair value hierarchy consists of three levels of inputs that may be used to measure fair value as follows:

Level 1 – Inputs that utilize quoted prices (unadjusted) in active markets for identical assets or liabilities that Trinity has the ability to access.

Level 2 – Inputs that include quoted prices for similar assets and liabilities in active markets and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument. Fair values for these instruments are estimated using pricing models, quoted prices of securities with similar characteristics, or discounted cash flows.

Level 3 – Inputs that are unobservable inputs for the asset or liability, which are typically based on an entity's own assumptions, as there is little, if any, related market activity.

In instances where the determination of the fair value measurement is based on inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy within which the entire fair value measurement falls is based on the lowest level input that is significant to the fair value measurement in its entirety.

Trinity also adopted the policy of valuing certain financial instruments at fair value. This accounting policy allows entities the irrevocable option to elect fair value for the initial and subsequent measurement for certain financial assets and liabilities on an instrument-by-instrument basis. Trinity has not elected to measure any existing financial instruments at fair value; however, Trinity may elect to measure newly acquired financial instruments at fair value in the future.

TRINITY HEALTH AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Reclassifications

Certain items in the prior year consolidated financial statements have been reclassified to conform to the current year's presentation. These reclassifications had no effect on total net assets of the Trinity.

Subsequent Events

In preparing these consolidated financial statements, Trinity has considered events and transactions that have occurred through September 25, 2018, the date the consolidated financial statements were available to be issued.

NOTE 2 COMMUNITY SERVICE AND CHARITY CARE

The mission of Trinity is to excel at meeting the needs of the whole person through the provision of quality health care and health related services. Trinity provides services to patients regardless of their ability to pay for those services.

In furtherance of its mission, Trinity provides a wide variety of benefits to the community, including offering various community-based service programs, such as health screenings, in-home caregiver services, social service, and support counseling for patients and families, pastoral care, crisis intervention, transportation to and from the hospital campuses, and the donation of space for use by community groups. Additionally, a large number of health-related educational programs are provided for the benefit of the community, including health enhancements and wellness, classes on specific conditions, telephone information services, and costs related to programs designed to improve the general standards of the health of the community. The cost of providing the above services is not included in Trinity's charity care amount.

Trinity also provides medical care at a reduced charge to residents of its community through the provision of charity care. Included in Trinity's definition of charity care are the following: (a) services provided to the uninsured or underinsured and (b) services provided to patients expressing a willingness to pay but who are determined to be unable to pay because of socioeconomic factors.

Trinity maintains records to identify and monitor the level of charity care it provides. Those records include the amount of charges foregone for services and supplies furnished under this charity care policy, and an estimated cost (based on the cost to charge ratio) of those services and supplies. The estimated costs and expenses incurred to provide charity care for the years ended June 30, 2018 and 2017 was approximately \$2,414,000 and \$2,094,000, respectively.

Trinity did not receive any funds to subsidize the costs of providing charity care under its financial assistance policy for the years ended June 30, 2018 and 2017.

TRINITY HEALTH AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

NOTE 2 COMMUNITY SERVICE AND CHARITY CARE (CONTINUED)

Trinity also provides medical care at a reduced charges to residents of the community through bad debts, which are services provided to patients expressing a willingness to pay but who are determined to be unable to pay because of socioeconomic factors.

Trinity maintains records to identify and monitor the level of community benefits it provides. These records include management's estimate of the cost for bad debt services, and the cost of services, and supplies furnished for community service programs.

NOTE 3 NET PATIENT AND RESIDENT SERVICE REVENUE

Trinity has agreements with third-party payors that provide for payments to Trinity at amounts different from its established rates. A summary of the payment arrangements with major third-party payors follows:

Medicare

Trinity is paid for inpatient acute care services rendered to Medicare program beneficiaries under prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. The prospectively determined classification of patients and the appropriateness of the patients' admissions are subject to validation reviews by a Medicare peer review organization which is under contract with Trinity to perform such reviews.

Trinity Hospital's cost reports have been audited and finalized by the Medicare fiscal intermediary through June 30, 2014. Trinity Kenmare Hospital's Medicare cost reports have been audited and finalized by the Medicare fiscal intermediary through June 30, 2017.

Most outpatient services are paid to Medicare program beneficiaries under an outpatient prospective payment system, with predetermined rates based on a patient classification system that is based on clinical diagnostic and other factors. Outpatient services subject to the outpatient prospective payment system are not subject to cost report settlement.

Medicaid

Inpatient acute care services rendered under the Medicaid program are also paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Outpatient services rendered to Medicaid program beneficiaries are reimbursed primarily under a prospective payment category of service.

Blue Cross

Trinity is reimbursed at prospectively determined rates, which are not subject to retroactive adjustment.

TRINITY HEALTH AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

NOTE 3 NET PATIENT AND RESIDENT SERVICE REVENUE (CONTINUED)

Uninsured Patients

Trinity recognizes patient service revenue associated with services provided to patients who have third-party payor coverage on the basis of contractual rates for the services rendered. For uninsured patients that do not qualify for charity care, Trinity recognizes revenue on the basis of its standard rates for services provided (or on the basis of discounted rates, if negotiated or provided by policy). On the basis of historical experience, a significant portion of Trinity's uninsured patients will be unable or unwilling to pay for the services provided. Thus, Trinity records a significant provision for uncollectible accounts related to uninsured patients in the period the services are provided.

Other

Trinity also has entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payments under these agreements includes various discounts from established rates.

Net revenue from the Medicare and Medicaid programs accounted for approximately 29% and 11%, respectively, of Trinity's net patient and resident service revenue for the fiscal year ended June 30, 2018. Net revenue from the Medicare and Medicaid programs accounted for approximately 27% and 12%, respectively, of Trinity's net patient and resident service revenue for the fiscal year ended June 30, 2017. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

Patient and resident service revenue, net of contractual allowances and discounts (but before the provision for uncollectible accounts), recognized in the period from these major payor sources, is as follows:

	<u>2018</u>	<u>2017</u>
Patient and Resident Service Revenue (Net of Contractual Allowances and Discounts) from:		
Third-Party Payors	\$ 446,055,703	\$ 430,066,738
Uninsured Patients	<u>27,783,955</u>	<u>23,879,167</u>
Total	473,839,658	453,945,905
Provision for Uncollectible Accounts	<u>(23,023,537)</u>	<u>(17,232,268)</u>
Net Patient and Resident Service Revenue Less Provision for Uncollectible Accounts	<u>\$ 450,816,121</u>	<u>\$ 436,713,637</u>

TRINITY HEALTH AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

NOTE 3 NET PATIENT AND RESIDENT SERVICE REVENUE (CONTINUED)

The following is a summary of accounts receivable composition for patients and residents as of June 30:

	<u>2018</u>	<u>2017</u>
Gross Patient and Resident Receivables	\$ 180,230,246	\$ 156,642,873
Allowance for Doubtful Accounts	(22,255,669)	(21,387,247)
Contractual Allowances and Discounts	<u>(95,841,057)</u>	<u>(79,456,624)</u>
Patient and Resident Receivables, Net	<u>\$ 62,133,520</u>	<u>\$ 55,799,002</u>

NOTE 4 INVESTMENTS AND ASSETS LIMITED AS TO USE

The composition of investments and assets limited as to use at June 30 is set forth in the following table:

	<u>2018</u>	<u>2017</u>
Cash and Money Markets	\$ 15,792,792	\$ 13,849,186
Certificates of Deposit	76,566,874	2,403,366
Guaranteed Investment Contracts	336,817,741	6,538,606
Common Stock	3,087,827	2,457,295
Mutual Funds	24,931,429	23,324,124
U.S. Treasury Obligations	81,062	629,397
Government Backed Obligations	1,713,239	1,546,296
Corporate Obligations	31,675,844	2,839,193
Municipal Obligations	<u>2,529,882</u>	<u>2,058,347</u>
Total Investments and Assets Limited as to Use	<u>\$ 493,196,690</u>	<u>\$ 55,645,810</u>

The following table provides a reconciliation of the balances to amounts reported in consolidated balance sheets:

	<u>2018</u>	<u>2017</u>
Held by Trustee for Bond Reserve Fund	\$ 24,848,587	\$ 6,705,108
Held by Trustee for Debt Service	29,868,868	5,168,332
Held by Trustee for Construction Project Fund	323,614,561	-
Investments	<u>114,864,674</u>	<u>43,772,370</u>
Total Investments and Assets Limited as to Use	<u>\$ 493,196,690</u>	<u>\$ 55,645,810</u>

Investment income and gains on investments limited as to use and other investments are composed of the following for the years ended June 30:

	<u>2018</u>	<u>2017</u>
Interest and Dividend Income	\$ 2,377,946	\$ 1,249,928
Realized Gains on Investments	1,660,134	2,171,569
Unrealized Gains on Investments	150,536	444,390
Total Investment Income	<u>\$ 4,188,616</u>	<u>\$ 3,865,887</u>

TRINITY HEALTH AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

NOTE 5 PROPERTY AND EQUIPMENT, NET

Property and equipment at June 30 consisted of:

	<u>2018</u>	<u>2017</u>
Land and Improvements	\$ 13,257,005	\$ 13,017,908
Buildings and Improvements	59,096,561	59,096,561
Fixed Equipment	77,797,315	77,515,109
Moveable Equipment	162,954,743	155,017,732
Construction in Progress	35,134,228	12,809,486
Gross Property and Equipment	<u>348,239,852</u>	<u>317,456,796</u>
Accumulated Depreciation	<u>(235,341,141)</u>	<u>(220,361,868)</u>
Property and Equipment, Net	<u>\$ 112,898,711</u>	<u>\$ 97,094,928</u>

Construction in Progress

Construction in progress at June 30, 2018 consists of costs associated with a new medical campus and various remodeling projects and equipment upgrades. The new medical campus has approximately \$30 million of costs at June 30, 2018 and is funded through the issuance of the Series 2017C bonds (see Note 6). The project is expected to be completed during fiscal year 2021 at a total cost of approximately \$380 million consisting of \$310 million on construction and \$70 million on equipment. Interest capitalized for the year ended June 30, 2018 totaled \$5,908,919. No interest was capitalized during the year ended June 30, 2017.

The 21st Avenue project has approximately \$4 million of costs at June 30, 2018. The project was completed in September 2018 with a purchase price of approximately \$3.1 million, construction costs of \$1.3 million and equipment cost of \$200,000. The project was paid for with operating funds. The remaining various remodeling projects and equipment upgrades are being funded through internal funds.

Equipment Under Capital Lease

Equipment under capital leases were paid off during the year ended June 30, 2018. The cost of the equipment acquired under capital lease was \$2,955,401 at June 30, 2017 and the accumulated depreciation was \$1,942,983.

TRINITY HEALTH AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

NOTE 6 LONG-TERM DEBT

A summary of long-term debt at June 30 is as follows:

<u>Description</u>	<u>2018</u>	<u>2017</u>
<u>Bonds Payable</u>		
Loan payable to County of Ward, North Dakota (Health Care Facilities Revenue Bonds, Series 2006 Trinity Obligated Group), interest rate ranging from 5.00% to 5.25% with principal payments due annually. Refinanced during fiscal year 2018 through the Series 2017 A-1 and A-2 issuance.	\$ -	\$ 56,895,000
Loan payable to County of Ward, North Dakota (Health Care Facilities Revenue Refunding Bonds, Series 2017A-1 and A-2 (Trinity Obligated Group), average interest rate of 3.10% with principal payments due annually beginning June 1, 2018 through June 1, 2027.	44,010,500	-
Loan payable to County of Ward, North Dakota (Health Care Facilities Revenue Bonds, Series 2017B Trinity Obligated Group), average interest rate of 3.20% with principal payments due annually beginning June 1, 2020 through June 1, 2031.	10,000,000	-
Loan payable to County of Ward, North Dakota (Health Care Facilities Revenue Bonds, Series 2017C Trinity Obligated Group), average interest rate of 5.00% with principal payments due annually beginning June 1, 2028 through June 1, 2053.	350,330,000	-
<u>Notes Payable</u>		
3.375% USDA Loan, interest only through May 2014, payable in monthly installments of \$25,355 beginning June 2014 through May 2042, collateralized by real estate.	4,981,386	5,115,068
<u>Capital Lease Obligations</u>		
Various Capital Lease Obligations with varying interest rates ranging from 3.26% to 4.493%, monthly principal and interest payments, paid off during fiscal year 2018.	-	292,764
Total	409,321,886	62,302,832
Less: Unamortized Debt Issuance Costs	(3,878,048)	(585,608)
Long-Term Debt, Net of Unamortized Debt Issuance Costs	405,443,838	61,717,224
Less: Current Portion	(4,452,764)	(4,136,063)
Plus: Bond Premium	31,779,837	1,722,336
Long-Term Debt, Net of Current Portion	<u>\$ 432,770,911</u>	<u>\$ 59,303,497</u>

TRINITY HEALTH AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

NOTE 6 LONG-TERM DEBT (CONTINUED)

Required principal payments under the various debt agreements are payable during the years ending June 30 as follows:

<u>Year Ending June 30.</u>	<u>Bonds Payable</u>	<u>Notes Payable</u>
2019	\$ 4,314,500	\$ 138,264
2020	5,143,200	143,003
2021	5,306,200	147,905
2022	5,473,300	152,975
2023	5,639,900	158,218
Thereafter	378,463,400	4,241,021
Total	<u>\$ 404,340,500</u>	<u>\$ 4,981,386</u>

Restrictive Covenants

Under the terms of the Bond agreements, the Trinity Obligated Group, consisting of Trinity Health, Trinity Hospitals, Trinity Kenmare, and Trinity Homes, is required to maintain Debt Service Coverage during the life of the bonds of not less than 120%, so that the excess revenues (excluding depreciation and interest) is not less than 120% of the Maximum Annual Debt Service. Management has determined Trinity was in compliance with this Debt Service Coverage Ratio requirement at June 30, 2018.

In addition, the Trinity Obligated Group is required to maintain a Funded Indebtedness Ratio of less than 80% through June 30, 2022 and 75% thereafter. The ratio is calculated as the Obligated Group total funded indebtedness divided by the Obligated Group total funded indebtedness and its total unrestricted net assets. Management has determined Trinity was in compliance with the Funded Indebtedness Ratio at June 30, 2018.

Trinity Obligated Group is required to maintain Unrestricted Days Cash on Hand of 60 days. Unrestricted Days Cash on Hand is calculated by taking the Obligated Group total operating cash divided by the Obligated Group expense per day (excluding depreciation and interest). Management has determined Trinity was in compliance with the Days Cash on Hand requirement at June 30, 2018.

NOTE 7 EMPLOYEE BENEFIT PLANS

Trinity has a TriniPlus Retirement Plan, a discretionary defined contribution plan that covers substantially all employees. Contributions and costs were determined as a percentage of each covered employee's estimated calendar-year salary and totaled \$4,129,492 and \$4,182,272 for the years ended June 30, 2018 and 2017, respectively. Trinity follows IRC Section 401(k) provisions in the TriniPlus Retirement Plan, which also covers substantially all employees. Matching contributions are limited to 25% of the first 6% contributed by the employee and were \$2,598,362 and \$2,543,845 for the years ended June 30, 2018 and 2017, respectively.

TRINITY HEALTH AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

NOTE 8 FUNCTIONAL EXPENSES

Trinity provides general health care services to residents within its geographic location. Expenses related to providing these services at June 30 are as follows:

	<u>2018</u>	<u>2017</u>
Health Care Services	\$ 381,226,760	\$ 373,396,525
General and Administrative	58,106,521	60,196,782
Fundraising	1,152,174	990,080
Total Expenses	<u>\$ 440,485,455</u>	<u>\$ 434,583,387</u>

NOTE 9 CONCENTRATIONS OF CREDIT RISK

Trinity grants credit without collateral to its patients, most of who are insured under third-party payor agreements. The mix of net receivables from patients and other third-party payors was as follows at June 30:

	<u>2018</u>	<u>2017</u>
Medicare	28 %	23 %
Medicaid	17	17
Blue Cross	11	14
Commercial Insurance	28	29
Self-Pay	16	17
Total	<u>100 %</u>	<u>100 %</u>

FDIC Coverage

Trinity has from time to time deposits in excess of FDIC limits. Management believes any credit risk related to these deposits is minimal.

TRINITY HEALTH AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

NOTE 10 FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair Value Measurements

Trinity uses fair value measurements to record fair value adjustments to certain assets and to determine fair value disclosures. For additional information on how Trinity measures fair value refer to Note 1. The following table presents the fair value hierarchy for the balances of the assets of Trinity measured at fair value on a recurring basis as of June 30:

	2018			Total
	Level 1	Level 2	Level 3	
Investments and Assets				
Limited to Use:				
Common Stock	\$ 3,087,827	\$ -	\$ -	\$ 3,087,827
Mutual Funds	24,931,429	-	-	24,931,429
U.S. Treasury Obligations	81,062	-	-	81,062
Government Backed				
Obligations	1,713,239	-	-	1,713,239
Corporate Obligations	-	31,675,844	-	31,675,844
Municipal Obligations	-	2,529,882	-	2,529,882
Total Assets Measured at Fair Value	<u>\$ 29,813,557</u>	<u>\$ 34,205,726</u>	<u>\$ -</u>	<u>\$ 64,019,283</u>
	2017			Total
	Level 1	Level 2	Level 3	Total
Investments and Assets				
Limited to Use:				
Common Stock	\$ 2,457,295	\$ -	\$ -	\$ 2,457,295
Mutual Funds	23,324,124	-	-	23,324,124
U.S. Treasury Obligations	629,397	-	-	629,397
Government Backed				
Obligations	1,546,296	-	-	1,546,296
Corporate Obligations	-	2,839,193	-	2,839,193
Municipal Obligations	-	2,058,347	-	2,058,347
Total Assets Measured at Fair Value	<u>\$ 27,957,112</u>	<u>\$ 4,897,540</u>	<u>\$ -</u>	<u>\$ 32,854,652</u>

TRINITY HEALTH AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

NOTE 11 RESTRICTED NET ASSETS

Temporarily Restricted

Temporarily restricted net assets were available for the following purposes at June 30:

	Temporarily Restricted Net Assets 7/1/2017	Contributions	Restricted Investment Income	Transfers	Released	Temporarily Restricted Net Assets 6/30/2018
Cancer Center	\$ 452,549	\$ 171,773	\$ -	\$ -	\$ (328,793)	\$ 295,529
Hospice	1,486,721	20,806	-	-	(31,238)	1,476,289
Guest House	1,133,173	55,602	-	-	(15,042)	1,173,733
Trinity Nursing Home	255,166	28,674	-	-	(138,750)	145,090
All Other Temp Restricted	2,941,574	870,498	344,149	-	(760,216)	3,396,005
Total	<u>\$ 6,269,183</u>	<u>\$ 1,147,353</u>	<u>\$ 344,149</u>	<u>\$ -</u>	<u>\$ (1,274,039)</u>	<u>\$ 6,486,646</u>

	Temporarily Restricted Net Assets 7/1/2016	Contributions	Restricted Investment Income	Transfers	Released	Temporarily Restricted Net Assets 6/30/2017
Cancer Center	\$ 468,326	\$ 97,572	\$ -	\$ -	\$ (113,349)	\$ 452,549
Hospice	1,455,769	41,881	-	-	(10,929)	1,486,721
Guest House	1,072,542	67,813	-	-	(7,182)	1,133,173
Trinity Nursing Home	344,435	20,363	-	-	(109,632)	255,166
All Other Temp Restricted	2,909,184	767,156	-	-	(734,766)	2,941,574
Total	<u>\$ 6,250,256</u>	<u>\$ 994,785</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (975,858)</u>	<u>\$ 6,269,183</u>

Permanently Restricted

Trinity's permanently restricted net assets consist of individual funds established for a variety of purposes. The endowments consist solely of donor-restricted funds with endowment net assets of \$1,542,717 at June 30, 2018 and 2017. As required by GAAP, net assets associated with endowment funds, including funds designated by the board of directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

TRINITY HEALTH AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

NOTE 11 RESTRICTED NET ASSETS (CONTINUED)

Interpretation of Relevant Law

The Uniform Prudent Management of Institutional Funds Act (UPMIFA) (the Act) was adopted by the state of North Dakota on April 21, 2009. The board of directors of Trinity has interpreted the North Dakota state law as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, Trinity classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by Trinity in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, Trinity considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (1) The duration and preservation of the various funds
- (2) The purposes of the donor-restricted endowment funds
- (3) General economic conditions
- (4) The possible effect of inflation and deflation
- (5) The expected total return from income and the appreciation of investments
- (6) Trinity's investment policies.

Endowment Net Assets

The following are the changes in endowment net assets for the years ended June 30, 2018 and 2017:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Balance at July 1, 2016	\$ -	\$ 149,651	\$ 1,530,275	\$ 1,679,926
Restricted Contribution	-	-	12,442	12,442
Balance at June 30, 2017	-	149,651	1,542,717	1,692,368
Restricted Contribution	-	-	-	-
Balance at June 30, 2018	<u>\$ -</u>	<u>\$ 149,651</u>	<u>\$ 1,542,717</u>	<u>\$ 1,692,368</u>

TRINITY HEALTH AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

NOTE 11 RESTRICTED NET ASSETS (CONTINUED)

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or the Act requires Trinity to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature are reported in unrestricted net assets. There were no such deficiencies as of June 30, 2018 and 2017.

Return Objectives and Risk Parameters

Trinity has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment. Endowment assets include those assets of donor-restricted funds that Trinity must hold in perpetuity or for a donor-specified period. Under this policy, as approved by the board of directors, the endowment assets are invested in a manner that is intended to preserve and grow capital, strive for consistent absolute returns, preserve purchasing power by striving for long-term returns which either match or exceed the set payout, fees, and inflation without putting the principal value at imprudent risk, and diversify investments consistent with commonly accepted industry standards to minimize the risk of large losses.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, Trinity relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). Trinity targets a diversified asset allocation that meets Trinity's long-term rate-of-return objective while avoiding undue risk from imprudent concentration in any single asset class or investment vehicle.

Spending Policy and How the Investment Objectives Relate to Spending Policy

Trinity's spending policy is consistent with its objective of preservation of the fair value of the original gift of the endowment assets held in perpetuity as well as to provide additional real growth through new gifts and investment return.

TRINITY HEALTH AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

NOTE 12 COMMITMENTS AND CONTINGENCIES

Leases

The following is a schedule by year for the next five years of future minimum lease payments under operating leases as of June 30, 2018 that has initial or remaining terms in excess of one year:

<u>Year Ending June 30.</u>	<u>Amount</u>
2019	\$ 4,808,305
2020	3,579,031
2021	1,651,751
2022	944,702
2023	866,643
Thereafter	2,763,229
Total	<u>\$ 14,613,661</u>

Total rent expense for the years ended June 30, 2018 and 2017 was approximately \$5,297,000 and \$4,707,000, respectively. Trinity has a letter of credit in the amount of \$255,000 outstanding that is required under terms of a building lease agreement.

Professional Liability Insurance

Trinity insures its medical malpractice risks under a claims-made insurance policy with various insurers. Coverage limits are \$1,000,000 per claim and \$5,000,000 in aggregate. There is a \$25,000 deductible on each claim and \$300,000 in aggregate. Trinity also has umbrella excess liability coverage with excess liability coverage with \$25,000,000 per claim and \$25,000,000 in aggregate.

Employee Health Insurance

Trinity maintains a self-insured employee health benefit program. Individual loss insurance of \$275,000 at June 30, 2018 is purchased through an insurance company. Estimated unprocessed claims and claims incurred but not reported at June 30, 2018 and 2017 were approximately \$2,500,000 and \$2,200,000, respectively, have been recorded on the consolidated balance sheets in other accrued expenses.

Litigation

Trinity is involved in various legal actions in the normal course of business. The actions are in various stages of processing, and some may ultimately be brought to trial. As of June 30, 2018 and 2017, management has estimated and recorded a liability reserve for a range of potential costs associated with these legal actions, included in accounts payable on the consolidated balance sheets. Management believes the resolutions of these various matters will be resolved without a material adverse effect on the consolidated financial statements.

TRINITY HEALTH AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

NOTE 12 COMMITMENTS AND CONTINGENCIES (CONTINUED)

Health Care Legislation and Regulation

The health care industry is subject to numerous laws and regulations of federal, state, and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government health care program participation requirements, reimbursement for patient services, and Medicare and Medicaid fraud and abuse. Recently, government activity has increased with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by health care providers. Violation of these laws and regulations could result in expulsion from government health care programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed.

Management believes that Trinity is in substantial compliance with fraud and abuse as well as other applicable government laws and regulations. While no regulatory inquiries have been made, compliance with such laws and regulations is subject to government review and interpretation, as well as regulatory actions unknown or unasserted at this time.

NOTE 13 ELECTRONIC HEALTH RECORD INCENTIVE PROGRAM

The Electronic Health Record (EHR) incentive program was enacted as part of the American Recovery and Reinvestment Act of 2009 (ARRA) and the Health Information Technology for Economic and Clinical Health (HITECH) Act. These Acts provided for incentive payments under both the Medicare and Medicaid programs to eligible Hospitals that demonstrate meaningful use of certified EHR technology. The incentive payments are made based on a statutory formula and are contingent on Trinity continuing to meet the escalating meaningful use criteria.

For the first payment year, Trinity must attest, subject to an audit, that it met the meaningful use criteria for a continuous 90-day period. For the subsequent payment year, Trinity must demonstrate meaningful use for the entire year. The incentive payments are generally made over a four-year period.

Trinity demonstrated meaningful use to the Stage 1 criteria for the initial 90-day reporting period during the year ended June 30, 2014. Trinity believes they are reasonably assured of meeting the meaningful use criteria for the second and third payment years for Medicare and Medicaid. Trinity recognized revenue related to meaningful use incentives of approximately \$7,000 and \$883,000 for the years ended June 30, 2018 and 2017, respectively, which are included in other operating revenues on the consolidated statements of operations. Trinity demonstrated meaningful use to the Stage 2 criteria during fiscal year 2016; however, meeting the Stage 2 criteria has no impact on the expected EHR incentive program payments.



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**INDEPENDENT AUDITORS' REPORT
ON SUPPLEMENTARY INFORMATION**

Board of Directors
Trinity Health and Subsidiaries
Minot, North Dakota

We have audited the consolidated financial statements of Trinity Health and Subsidiaries as of and for the years ended June 30, 2018 and 2017, and have issued our report thereon dated September 25, 2018, which contained an unmodified opinion on those consolidated financial statements. Our audits were performed for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating balance sheets and consolidating statements of operations are presented for the purposes of additional analysis and are not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information 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, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Minneapolis, Minnesota
September 25, 2018

**TRINITY HEALTH AND SUBSIDIARIES
CONSOLIDATING BALANCE SHEET
JUNE 30, 2018**

ASSETS	Total Obligated Group	Total Other Subsidiaries	Eliminations	Consolidated
CURRENT ASSETS				
Cash and Cash Equivalents	\$ 37,018,994	\$ 7,711,639	\$ -	\$ 44,730,633
Current Portion of Assets Limited as to Use	41,091,826	-	-	41,091,826
Accounts Receivable:				
Patient and Resident, Net	60,635,172	1,498,348	-	62,133,520
Other, Net	1,197,356	180,275	-	1,377,631
Accrued Interest	1,363,486	-	-	1,363,486
Inventories	8,106,229	1,447,652	-	9,553,881
Prepaid Expenses	4,303,836	8,775	-	4,312,611
Total Current Assets	<u>153,716,899</u>	<u>10,846,689</u>	<u>-</u>	<u>164,563,588</u>
ASSETS LIMITED AS TO USE				
Held by Trustee for Bond Reserve	24,848,587	-	-	24,848,587
Held by Trustee for Debt Service	29,868,868	-	-	29,868,868
Held by Trustee for Construction Project	323,614,561	-	-	323,614,561
Total Assets Limited as to Use	<u>378,332,016</u>	<u>-</u>	<u>-</u>	<u>378,332,016</u>
Less: Amount Required to Meet Current Obligations	(41,091,826)	-	-	(41,091,826)
Noncurrent Assets Limited as to Use	<u>337,240,190</u>	<u>-</u>	<u>-</u>	<u>337,240,190</u>
INVESTMENTS	97,341,154	17,523,520	-	114,864,674
PROPERTY AND EQUIPMENT, NET	112,415,014	483,697	-	112,898,711
OTHER ASSETS				
Long-Term Deposits	766,139	-	-	766,139
Other Assets	961,933	-	-	961,933
Total Other Assets	<u>1,728,072</u>	<u>-</u>	<u>-</u>	<u>1,728,072</u>
Total Assets	<u>\$ 702,441,329</u>	<u>\$ 28,853,906</u>	<u>\$ -</u>	<u>\$ 731,295,235</u>

TRINITY HEALTH AND SUBSIDIARIES
CONSOLIDATING BALANCE SHEET (CONTINUED)
JUNE 30, 2018

LIABILITIES AND NET ASSETS	Total Obligated Group	Total Other Subsidiaries	Eliminations	Consolidated
CURRENT LIABILITIES				
Current Portion of Long-Term Debt	\$ 4,452,764	\$ -	\$ -	\$ 4,452,764
Accounts Payable	20,240,119	855,837	-	21,095,956
Accrued Expenses:				
Salaries, Wages, and Payroll Taxes	15,585,435	-	-	15,585,435
Vacation and Sick Pay	7,011,731	1,863	-	7,013,594
Interest	1,600,069	-	-	1,600,069
Other Expenses	5,351,417	(112,000)	-	5,239,417
Estimated Third-Party Payor Settlements	9,897,000	-	-	9,897,000
Estimated Professional Malpractice Liability	1,226,000	-	-	1,226,000
Total Current Liabilities	<u>65,364,535</u>	<u>745,700</u>	<u>-</u>	<u>66,110,235</u>
LONG-TERM LIABILITIES				
Long-Term Debt, Net of Current Portion and Deferred Financing Costs, Net	432,770,911	-	-	432,770,911
Asset Retirement Obligation	9,475,100	-	-	9,475,100
Total Long-Term Liabilities	<u>442,246,011</u>	<u>-</u>	<u>-</u>	<u>442,246,011</u>
 Total Liabilities	 507,610,546	 745,700	 -	 508,356,246
NET ASSETS				
Unrestricted	194,830,783	20,078,843	-	214,909,626
Temporarily Restricted	-	6,486,646	-	6,486,646
Permanently Restricted	-	1,542,717	-	1,542,717
Total Net Assets	<u>194,830,783</u>	<u>28,108,206</u>	<u>-</u>	<u>222,938,989</u>
 Total Liabilities and Net Assets	 <u>\$ 702,441,329</u>	 <u>\$ 28,853,906</u>	 <u>\$ -</u>	 <u>\$ 731,295,235</u>

**TRINITY HEALTH AND SUBSIDIARIES
CONSOLIDATING BALANCE SHEET
JUNE 30, 2017**

ASSETS	Total Obligated Group	Total Other Subsidiaries	Eliminations	Consolidated
CURRENT ASSETS				
Cash and Cash Equivalents	\$ 93,527,393	\$ 3,182,722	\$ -	\$ 96,710,115
Current Portion of Assets Limited as to Use	5,168,332	-	-	5,168,332
Accounts Receivable:				
Patient and Resident, Net	54,300,517	1,498,485	-	55,799,002
Other, Net	1,156,155	131,691	-	1,287,846
Accrued Interest	7,530	729	-	8,259
Inventories	8,107,861	1,582,572	-	9,690,433
Prepaid Expenses	3,821,125	-	-	3,821,125
Total Current Assets	<u>166,088,913</u>	<u>6,396,199</u>	<u>-</u>	<u>172,485,112</u>
ASSETS LIMITED AS TO USE				
Held by Trustee for Bond Reserve	6,705,108	-	-	6,705,108
Held by Trustee for Debt Service	5,168,332	-	-	5,168,332
Total Assets Limited as to Use	<u>11,873,440</u>	<u>-</u>	<u>-</u>	<u>11,873,440</u>
Less: Amount Required to Meet Current Obligations	<u>(5,168,332)</u>	<u>-</u>	<u>-</u>	<u>(5,168,332)</u>
Noncurrent Assets Limited as to Use	6,705,108	-	-	6,705,108
INVESTMENTS				
	27,417,673	16,354,697	-	43,772,370
PROPERTY AND EQUIPMENT, NET				
	96,584,180	510,748	-	97,094,928
OTHER ASSETS				
Long-Term Deposits	990,707	-	-	990,707
Other Assets	1,073,750	-	-	1,073,750
Total Other Assets	<u>2,064,457</u>	<u>-</u>	<u>-</u>	<u>2,064,457</u>
Total Assets	<u>\$ 298,860,331</u>	<u>\$ 23,261,644</u>	<u>\$ -</u>	<u>\$ 322,121,975</u>

TRINITY HEALTH AND SUBSIDIARIES
CONSOLIDATING BALANCE SHEET (CONTINUED)
JUNE 30, 2017

LIABILITIES AND NET ASSETS	Total Obligated Group	Total Other Subsidiaries	Eliminations	Consolidated
CURRENT LIABILITIES				
Current Portion of Long-Term Debt	\$ 4,136,063	\$ -	\$ -	\$ 4,136,063
Accounts Payable	14,367,965	534,889	-	14,902,854
Accrued Expenses:				
Salaries, Wages, and Payroll Taxes	15,666,010	-	-	15,666,010
Vacation and Sick Pay	7,002,485	1,863	-	7,004,348
Interest	1,457,934	-	-	1,457,934
Other Expenses	4,977,209	(42,734)	-	4,934,475
Estimated Third-Party Payor Settlements	9,430,000	-	-	9,430,000
Estimated Professional Malpractice Liability	1,147,000	-	-	1,147,000
Total Current Liabilities	<u>58,184,666</u>	<u>494,018</u>	<u>-</u>	<u>58,678,684</u>
LONG-TERM LIABILITIES				
Long-Term Debt, Net of Current Portion and Deferred Financing Costs, Net	59,303,497	-	-	59,303,497
Asset Retirement Obligation	9,290,760	-	-	9,290,760
Total Long-Term Liabilities	<u>68,594,257</u>	<u>-</u>	<u>-</u>	<u>68,594,257</u>
 Total Liabilities	 126,778,923	 494,018	 -	 127,272,941
NET ASSETS				
Unrestricted	172,081,408	14,955,726	-	187,037,134
Temporarily Restricted	-	6,269,183	-	6,269,183
Permanently Restricted	-	1,542,717	-	1,542,717
Total Net Assets	<u>172,081,408</u>	<u>22,767,626</u>	<u>-</u>	<u>194,849,034</u>
 Total Liabilities and Net Assets	 <u>\$ 298,860,331</u>	 <u>\$ 23,261,644</u>	 <u>\$ -</u>	 <u>\$ 322,121,975</u>

TRINITY HEALTH AND SUBSIDIARIES
CONSOLIDATING STATEMENT OF OPERATIONS
YEAR ENDED JUNE 30, 2018

	Total Obligated Group	Total Other Subsidiaries	Eliminations	Consolidated
UNRESTRICTED REVENUES, GAINS, AND OTHER SUPPORT				
Net Patient and Resident Service Revenue (Net of Contractual Allowances and Discounts)	\$ 452,024,041	\$ 21,815,617	\$ -	\$ 473,839,658
Provision (Recoveries of) for Uncollectible Accounts	(22,711,755)	(311,782)	-	(23,023,537)
Net Patient and Resident Service Revenue				
Less Provision for Uncollectible Accounts	429,312,286	21,503,835	-	450,816,121
Other Operating Revenue	13,231,575	(993,954)	-	12,237,621
Total Unrestricted Revenues, Gains, and Other Support	442,543,861	20,509,881	-	463,053,742
EXPENSES				
Salaries and Wages	217,671,479	3,265,564	-	220,937,043
Employee Benefits and Payroll Taxes	35,610,183	708,431	-	36,318,614
Drugs and Supplies	71,569,659	16,256,833	-	87,826,492
Purchased Services and Professional Fees	42,635,818	1,575,877	-	44,211,695
Maintenance, Equipment Rental, and Utilities	23,532,838	154,293	-	23,687,131
Insurance	1,751,306	2,206	-	1,753,512
Other Operating Expenses	9,120,243	(314,468)	-	8,805,775
Depreciation	15,289,063	48,611	-	15,337,674
Interest	1,607,519	-	-	1,607,519
Total Expenses	418,788,108	21,697,347	-	440,485,455
OPERATING INCOME (LOSS)	23,755,753	(1,187,466)	-	22,568,287
NONOPERATING GAINS				
Investment Income	3,178,229	1,010,387	-	4,188,616
Gain on Disposal of Property and Equipment	2,731	-	-	2,731
Other Nonoperating Gains	27,000	1,085,858	-	1,112,858
Total Nonoperating Gains	3,207,960	2,096,245	-	5,304,205
EXCESS OF REVENUES, GAINS, AND SUPPORT OVER EXPENSES	26,963,713	908,779	-	27,872,492
INTERCOMPANY TRANSFERS	(4,214,338)	4,214,338	-	-
INCREASE IN UNRESTRICTED NET ASSETS	\$ 22,749,375	\$ 5,123,117	\$ -	\$ 27,872,492

TRINITY HEALTH AND SUBSIDIARIES
CONSOLIDATING STATEMENT OF OPERATIONS
YEAR ENDED JUNE 30, 2017

	Total Obligated Group	Total Other Subsidiaries	Eliminations	Consolidated
UNRESTRICTED REVENUES, GAINS, AND OTHER SUPPORT				
Net Patient and Resident Service Revenue (Net of Contractual Allowances and Discounts)	\$ 432,241,538	\$ 21,704,367	\$ -	\$ 453,945,905
Provision for Uncollectible Accounts	(16,982,930)	(249,338)	-	(17,232,268)
Net Patient and Resident Service Revenue Less Provision for Uncollectible Accounts	415,258,608	21,455,029	-	436,713,637
Other Operating Revenue	8,328,112	71,711	-	8,399,823
Total Unrestricted Revenues, Gains, and Other Support	423,586,720	21,526,740	-	445,113,460
EXPENSES				
Salaries and Wages	211,439,397	3,091,440	-	214,530,837
Employee Benefits and Payroll Taxes	35,879,992	710,552	-	36,590,544
Drugs and Supplies	71,329,104	17,868,544	-	89,197,648
Purchased Services and Professional Fees	41,183,196	1,725,619	-	42,908,815
Maintenance, Equipment Rental, and Utilities	22,409,334	152,987	-	22,562,321
Insurance	1,942,310	1,977	-	1,944,287
Other Operating Expenses	9,968,122	133,690	-	10,101,812
Depreciation	13,261,713	45,735	-	13,307,448
Interest	3,439,675	-	-	3,439,675
Total Expenses	410,852,843	23,730,544	-	434,583,387
OPERATING INCOME (LOSS)	12,733,877	(2,203,804)	-	10,530,073
NONOPERATING GAINS (LOSSES)				
Investment Income	2,550,850	1,315,037	-	3,865,887
Gain on Disposal of Property and Equipment	13,654	-	-	13,654
Other Nonoperating Gains (Losses)	(5,433)	960,508	-	955,075
Total Nonoperating Gains	2,559,071	2,275,545	-	4,834,616
EXCESS OF REVENUES, GAINS, AND SUPPORT OVER EXPENSES	15,292,948	71,741	-	15,364,689
INTERCOMPANY TRANSFERS	(1,613,395)	1,613,395	-	-
INCREASE IN UNRESTRICTED NET ASSETS	\$ 13,679,553	\$ 1,685,136	\$ -	\$ 15,364,689



**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF CONSOLIDATED FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Board of Directors
Trinity Health and Subsidiaries
Minot, North Dakota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of Trinity Health and Subsidiaries, which comprise the consolidated balance sheet as of June 30, 2018, and the related consolidated statements of operations, changes in net assets, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated September 25, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered Trinity Health and Subsidiaries' internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing an opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of Trinity Health and Subsidiaries' internal control. Accordingly, we do not express an opinion on the effectiveness of Trinity Health and Subsidiaries' internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Trinity Health and Subsidiaries' consolidated financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of the consolidated financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reports under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of Trinity Health and Subsidiaries' internal control or compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Trinity Health and Subsidiaries' internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



CliftonLarsonAllen LLP

Minneapolis, Minnesota
September 25, 2018