

Trinity Health

Consolidated Financial Statements as of and for the
years ended June 30, 2022 and 2021,
and Independent Auditor's Report

TRINITY HEALTH

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INDEPENDENT AUDITOR'S REPORT

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

Opinion

We have audited the consolidated financial statements of Trinity Health Corporation and its subsidiaries (the "Corporation"), which comprise the consolidated balance sheets as of June 30, 2022 and 2021, 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 (collectively referred to as the "financial statements").

In our opinion, based on our audits and the report of the other auditors, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of June 30, 2022 and 2021, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

We did not audit the combined financial statements of BayCare Health System, the Corporation's investment in 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 \$4.0 billion and \$4.2 billion as of June 30, 2022, and 2021, respectively, and its equity method income (loss) from BayCare Health System of \$(184.9) million and \$880.5 million for the years ended June 30, 2022 and 2021, respectively. The combined financial statements of BayCare Health System for the years ended December 31, 2021 and 2020, 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.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the

design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for one year after the date that the financial statements are issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Company's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Deloitte + Touche LLP

September 21, 2022

TRINITY HEALTH

CONSOLIDATED BALANCE SHEETS JUNE 30, 2022 AND 2021 (In thousands)

ASSETS	2022	2021
CURRENT ASSETS:		
Cash and cash equivalents	\$ 643,363	\$ 781,989
Investments	5,717,088	7,316,257
Security lending collateral	502,981	392,728
Assets limited or restricted as to use - current portion	475,836	456,723
Patient accounts receivable	2,053,459	2,078,192
Estimated receivables from third-party payers	313,580	322,586
Other receivables	356,691	356,161
Inventories	383,736	389,553
Prepaid expenses and other current assets	171,547	163,438
Total current assets	10,618,281	12,257,627
ASSETS LIMITED OR RESTRICTED AS TO USE - noncurrent portion:		
Self-insurance, benefit plans and other	912,032	1,063,638
By Board	4,494,293	4,486,606
By donors	503,742	556,951
Total assets limited or restricted as to use - noncurrent portion	5,910,067	6,107,195
PROPERTY AND EQUIPMENT - Net	8,154,678	8,209,177
OPERATING LEASE RIGHT-OF-USE ASSETS	530,999	531,522
INVESTMENTS IN UNCONSOLIDATED AFFILIATES	4,717,711	5,071,333
GOODWILL	814,131	820,127
PREPAID PENSION AND RETIREE HEALTH ASSETS	91,281	324,006
OTHER ASSETS	284,206	300,760
TOTAL ASSETS	\$ 31,121,354	\$ 33,621,747

LIABILITIES AND NET ASSETS	2022	2021
CURRENT LIABILITIES:		
Commercial paper	\$ 99,693	\$ 99,994
Short-term borrowings	632,730	650,465
Current portion of long-term debt	247,149	224,938
Current portion of operating lease liabilities	137,254	141,130
Medicare cash advances	389,485	923,492
Accounts payable and accrued expenses	1,453,495	1,506,756
Salaries, wages and related liabilities	1,198,363	1,112,506
Payable under security lending agreements	502,981	392,728
Estimated payables to third-party payers	341,683	381,120
Current portion of self-insurance reserves	324,166	304,454
Total current liabilities	5,326,999	5,737,583
LONG-TERM DEBT - Net of current portion	6,416,701	6,339,608
LONG-TERM PORTION OF OPERATING LEASE LIABILITIES	481,391	467,876
SELF-INSURANCE RESERVES - Net of current portion	1,158,241	1,168,843
ACCRUED PENSION AND RETIREE HEALTH COSTS	165,018	209,097
LONG-TERM MEDICARE CASH ADVANCES	-	373,089
OTHER LONG-TERM LIABILITIES	675,696	817,386
Total liabilities	14,224,046	15,113,482
NET ASSETS:		
Net assets without donor restrictions	15,821,267	17,376,413
Noncontrolling ownership interest in subsidiaries	489,489	490,170
Total net assets without donor restrictions	16,310,756	17,866,583
Net assets with donor restrictions	586,552	641,682
Total net assets	16,897,308	18,508,265
TOTAL LIABILITIES AND NET ASSETS	\$ 31,121,354	\$ 33,621,747

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, 2022 AND 2021

(In thousands)

	<u>2022</u>	<u>2021</u>
OPERATING REVENUE:		
Net patient service revenue	\$ 17,042,518	\$ 16,734,960
Premium and capitation revenue	1,089,363	1,090,997
Net assets released from restrictions	30,270	34,899
Other revenue	<u>1,771,527</u>	<u>2,302,797</u>
Total operating revenue	<u>19,933,678</u>	<u>20,163,653</u>
EXPENSES:		
Salaries and wages	8,865,906	8,346,945
Employee benefits	1,644,251	1,667,422
Contract labor	<u>626,294</u>	<u>280,874</u>
Total labor expenses	11,136,451	10,295,241
Supplies	3,530,720	3,475,668
Purchased services and medical claims	2,654,415	2,699,973
Depreciation and amortization	876,099	896,434
Occupancy	751,891	738,875
Interest	225,797	236,128
Other	<u>906,819</u>	<u>975,575</u>
Total expenses	<u>20,082,192</u>	<u>19,317,894</u>
OPERATING (LOSS) INCOME BEFORE OTHER ITEMS	(148,514)	845,759
Gain on sale of Gateway Health Plan L.P.	128,678	-
Restructuring costs	(72,568)	(76,671)
Asset impairment charges	<u>(113,864)</u>	<u>(111,513)</u>
OPERATING (LOSS) INCOME	<u>(206,268)</u>	<u>657,575</u>
NONOPERATING ITEMS:		
Investment (losses) earnings	(1,015,043)	2,295,265
Equity in (losses) earnings of unconsolidated affiliates	(150,214)	912,860
Change in market value and cash payments of interest rate swaps	63,431	33,001
Other net periodic retirement (expense) income	(50,332)	47,336
Other, including income taxes	<u>262</u>	<u>(18,279)</u>
Total nonoperating items	<u>(1,151,896)</u>	<u>3,270,183</u>
(DEFICIENCY) EXCESS OF REVENUE OVER EXPENSES	(1,358,164)	3,927,758
EXCESS OF REVENUE OVER EXPENSES ATTRIBUTABLE TO NONCONTROLLING INTEREST	<u>(73,184)</u>	<u>(75,784)</u>
(DEFICIENCY) EXCESS OF REVENUE OVER EXPENSES, NET OF NONCONTROLLING INTEREST	<u>\$ (1,431,348)</u>	<u>\$ 3,851,974</u>

	<u>2022</u>	<u>2021</u>
NET ASSETS WITHOUT DONOR RESTRICTIONS:		
Net assets without donor restrictions attributable to Trinity Health:		
(Deficiency) excess of revenue over expenses	\$ (1,431,348)	\$ 3,851,974
Net assets released from restrictions for capital acquisitions	28,786	26,519
Net change in retirement plan related items - consolidated organizations	(181,200)	810,392
Net change in retirement plan related items - unconsolidated organizations	(2,047)	(33,631)
Other	<u>30,663</u>	<u>(5,072)</u>
(Decrease) increase in net assets without donor restrictions attributable to Trinity Health	<u>(1,555,146)</u>	<u>4,650,182</u>
Net assets without donor restrictions attributable to noncontrolling interests:		
Excess of revenue over expenses attributable to noncontrolling interests	73,184	75,784
Noncontrolling interests related to acquisition	-	241,980
Dividends and other	<u>(73,865)</u>	<u>(65,931)</u>
(Decrease) increase in net assets without donor restrictions attributable to noncontrolling interests	<u>(681)</u>	<u>251,833</u>
NET ASSETS WITH DONOR RESTRICTIONS:		
Contributions:		
Program and time restrictions	41,000	66,697
Endowment funds	3,097	4,377
Net investment (losses) gains:		
Program and time restrictions	(15,903)	38,575
Endowment funds	(18,672)	31,580
Net assets released from restrictions	(59,056)	(61,418)
Other	<u>(5,596)</u>	<u>(4,309)</u>
(Decrease) increase in net assets with donor restrictions	<u>(55,130)</u>	<u>75,502</u>
(DECREASE) INCREASE IN NET ASSETS	(1,610,957)	4,977,517
NET ASSETS - BEGINNING OF YEAR	<u>18,508,265</u>	<u>13,530,748</u>
NET ASSETS - END OF YEAR	<u>\$ 16,897,308</u>	<u>\$ 18,508,265</u>

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

TRINITY HEALTH

CONSOLIDATED STATEMENTS OF CASH FLOWS

YEARS ENDED JUNE 30, 2022 AND 2021

(In thousands)

	<u>2022</u>	<u>2021</u>
OPERATING ACTIVITIES:		
(Decrease) increase in net assets	\$ (1,610,957)	\$ 4,977,517
Adjustments to reconcile (decrease) increase in net assets to net cash provided by operating activities:		
Depreciation and amortization	876,099	896,434
Amortization of right-of-use asset	126,033	128,326
Asset impairment charges	113,864	111,513
(Gain) loss on sale of subsidiaries	(2,302)	9,490
Increase in noncontrolling interest related to acquisitions	-	(241,980)
Change in net unrealized and realized gains and losses on investments	1,294,285	(2,281,855)
Change in market values of interest rate swaps	(87,240)	(50,297)
Undistributed equity in earnings of unconsolidated affiliates	193,042	(995,067)
Gain on sale of Gateway Health Plan L.P.	(128,678)	-
Deferred retirement items - consolidated organizations	181,200	(810,392)
Deferred retirement items - unconsolidated organizations	2,047	33,631
Restricted contributions and investment income received	(5,958)	(9,868)
Other adjustments	15,911	79,124
Changes in:		
Patient accounts receivable	24,733	(343,523)
Estimated receivables from third-party payers	9,006	(70,308)
Prepaid pension and retiree health costs	(80,892)	(14,157)
Other assets	(44,488)	28,079
Medicare cash advances	(907,096)	(337,579)
Accounts payable and accrued expenses	55,529	12,812
Estimated payables to third-party payers	(39,437)	(33,151)
Self-insurance reserves and other liabilities	(135,917)	7,702
Accrued pension and retiree health costs	88,340	(177,488)
Total adjustments	<u>1,548,081</u>	<u>(4,058,554)</u>
Net cash (used in) provided by operating activities	<u>\$ (62,876)</u>	<u>\$ 918,963</u>

	<u>2022</u>	<u>2021</u>
INVESTING ACTIVITIES:		
Proceeds from sales of investments	\$ 5,239,199	\$ 5,989,040
Purchases of investments	(4,782,766)	(6,161,580)
Purchases of property and equipment	(908,283)	(857,494)
Proceeds from disposal of property and equipment	13,659	9,519
Cash proceeds from sale of Gateway Health Plan L.P.	323,378	-
Net cash used for acquisitions	(1,291)	(224,560)
Proceeds from the sales of divestitures	-	12,658
Change in investments in unconsolidated affiliates	(20,505)	5,474
Increase in assets limited as to use and other	12,511	34,719
Net cash used in investing activities	<u>(124,098)</u>	<u>(1,192,224)</u>
FINANCING ACTIVITIES:		
Proceeds from issuance of debt	433,714	366,820
Repayments of debt	(324,337)	(421,861)
Net change in commercial paper	(301)	15
Repayments on lines of credit	-	(1,000,000)
Dividends paid	(73,065)	(66,549)
Proceeds from restricted contributions and restricted investment income	6,259	9,268
Financing costs and other	(4,092)	(3,862)
Net cash provided by (used in) financing activities	<u>38,178</u>	<u>(1,116,169)</u>
NET DECREASE IN CASH, CASH EQUIVALENTS, AND RESTRICTED CASH	(148,796)	(1,389,430)
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH - BEGINNING OF YEAR	<u>949,951</u>	<u>2,339,381</u>
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH - END OF YEAR	<u>\$ 801,155</u>	<u>\$ 949,951</u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid for interest - net of amounts capitalized	\$ 237,807	\$ 252,623
Accruals for purchases of property and equipment and other long-term assets	83,394	105,916
Unsettled investment trades and purchases	43,096	42,202
Unsettled investment trades and sales	9,736	17,323
Increase in security lending collateral	110,253	96,675
Increase in payable under security lending agreements	(110,253)	(96,675)

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, 2022 AND 2021

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 25 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 our Mission, Trinity Health provides medical care to all patients regardless of their ability to pay. In addition, Trinity Health provides services intended to benefit those who are poor and vulnerable, 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 works to improve the health status of the communities in which it operates. In addition to the people Trinity Health touches directly with clinical care, our Mission extends to reach millions of people who live in our communities. Trinity Health lives our Mission, not only through the delivery of medical care but also through community service programs, such as street outreach programs to meet the needs of homeless populations, and Social Care Models to connect individuals to food, housing and other essential daily support.

Trinity Health is building on the legacy of our founders by making a transformational shift from being primarily focused on traditional episodic care to emphasizing total population health, which includes contributing to the overall health and well-being of our communities by impacting the social influencers of health such as through partnerships to increase affordable housing and food access.

In response to the coronavirus disease 2019 (“COVID-19”), Trinity Health redirected community benefit resources to address the most urgent social and medical needs in our communities, including food support, education support, and homeless outreach. These costs have been included in the appropriate category below.

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, 2020 Edition*.

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

	<u>2022</u>	<u>2021</u>
Ministry for those who are poor and underserved:		
Financial assistance	\$ 191,594	\$ 179,492
Unpaid cost of Medicaid and other public programs	762,110	582,149
Programs for those who are poor and underserved:		
Community health improvement services	23,255	22,433
Subsidized health services	50,743	44,632
Financial contributions	22,174	17,646
Community building activities	1,570	1,533
Community benefit operations	<u>4,699</u>	<u>3,694</u>
Total programs for those who are poor and underserved	<u>102,441</u>	<u>89,938</u>
Ministry for those who are poor and underserved	<u>1,056,145</u>	<u>851,579</u>
Ministry for the broader community:		
Community health improvement services	11,657	9,905
Health professions education	215,232	221,873
Subsidized health services	40,762	57,034
Research	5,574	4,385
Financial contributions	30,980	27,288
Community building activities	1,396	1,070
Community benefit operations	<u>9,081</u>	<u>7,456</u>
Ministry for the broader community	<u>314,682</u>	<u>329,011</u>
Community benefit ministry	<u>\$ 1,370,827</u>	<u>\$ 1,180,590</u>

Ministry for those who are poor and underserved represents the financial commitment to seek out and serve those who need help the most, especially those who are 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.

Financial assistance 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 financial assistance patient in accordance with the Corporation's established policies as further described in Note 2. The cost of financial assistance is calculated using a cost-to-charge ratio methodology.

Unpaid cost of Medicaid and other public programs represents 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 improvement 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 social and environmental improvement activities that address the social influencers of health, 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 to community organizations and are 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 those who are 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 advocacy for community health improvement, the costs of programs that improve the physical environment, promote economic development, enhance other community support systems, develop leadership skills through training and build community coalitions.

Community benefit operations include costs associated with dedicated staff, community health needs 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.

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 explicit and implicit price concessions; financial assistance; premium revenue; recorded values of investments and derivatives; goodwill; evaluation of long-lived assets for impairment; reserves for losses and expenses related to health care professional and general liabilities; and risks and assumptions for measurement of pension and retiree health liabilities. Management relies on historical experience and other assumptions believed to be reasonable in making its judgments and estimates. Actual results could differ materially from those estimates.

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

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

	<u>2022</u>	<u>2021</u>
Cash and cash equivalents	\$ 643,363	\$ 781,989
Restricted cash included in assets limited or restricted as to use - current portion		
Self-insurance, benefit plans and other	96,077	93,590
By donors	<u>4,525</u>	<u>5,129</u>
Total restricted cash included in assets limited or restricted as to use - current portion	100,602	98,719
Restricted cash included in assets limited as to use - noncurrent portion		
Self-insurance, benefit plans and other	24,251	33,533
By donors	<u>32,939</u>	<u>35,710</u>
Total restricted cash included in assets limited or restricted as to use - noncurrent portion	<u>57,190</u>	<u>69,243</u>
Total cash, cash equivalents, and restricted cash shown in the statements of cash flows	<u><u>\$ 801,155</u></u>	<u><u>\$ 949,951</u></u>

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

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

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

Securities Lending – The Corporation participates in securities lending transactions whereby a portion of its investments are loaned, through its agent, to various parties in return for cash and securities from the parties as collateral for the securities loaned. Each business day, the Corporation, through its agent, and the borrower determine the market value of the collateral and the borrowed securities. If on any business day the market value of the collateral is less than the required value, additional collateral is obtained as appropriate. The amount of cash collateral received under securities lending is reported as an asset and a corresponding payable in the consolidated balance sheets and is up to 105% of the market value of securities loaned. As of June 30, 2022 and 2021, the Corporation had securities loaned of \$748.6 million and \$842.0 million, respectively, and received collateral (cash and noncash) totaling \$774.7 million and \$871.0 million, respectively, relating to the securities loaned. The fees received for these transactions are recorded in nonoperating investment income in the consolidated statements of operations and changes in net assets. In addition, certain pension plans participate in securities lending programs with the Northern Trust Company, the plans’ agent.

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

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

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

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

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

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

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

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

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

Operating lease right-of-use assets and liabilities are recorded for leases that are not considered finance leases. The Corporation's operating leases are primarily for real estate, vehicles, and medical and office equipment. Real estate leases include outpatient, medical office, ground, and corporate administrative office space. The Corporation's real estate lease agreements typically have an initial term of 2 to 10 years. The Corporation's equipment lease agreements typically have an initial term of 2 to 6 years. The real estate

leases may include one or more options to renew, with renewals that can extend the lease term from 5 to 10 years. The exercise of lease renewal options is at the Corporation's sole discretion. For accounting purposes, options to extend or terminate the lease are included in the lease term when it is reasonably certain that the option will be exercised. Operating lease liabilities represent the obligation to make lease payments arising from the leases and are recognized at the lease commencement date based on the present value of lease payments over the lease term.

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

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

Asset Impairments –

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

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

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

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

Medicare Cash Advances – In April 2020, the Corporation requested and received accelerated Medicare payments of \$1.6 billion for its acute care hospitals, which was provided through the Coronavirus Aid, Relief and Economic Security Act (the "CARES Act"). The repayment terms allow recipients to extend repayment for a full year before recoupment of the advance payments begins and limit the claim payment offset to 25% of the recipient's full Medicare payments for 11 months, followed by six months with claim offset limited to 50%. At the end of the 29-month period, any unapplied advance repayment amounts must be repaid by the Corporation. Claims for services provided to Medicare beneficiaries began being applied against the Corporation's cash advances in April 2021. Recoupment amounts estimated to be repaid within one year are classified in current liabilities, with the remainder classified in long-term liabilities on the consolidated balance sheets.

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

Net Assets with Donor Restrictions – Net assets with donor restrictions are those whose use by the Corporation has been limited by donors to a specific time period or program. In addition, certain net assets have been restricted by donors to be maintained by the Corporation in perpetuity.

Net Patient Service Revenue – The Corporation reports patient service revenue at the amount that reflects the consideration it is expected to be entitled to in exchange for providing patient care. These amounts are due from patients, third-party payers (including commercial payers and government programs) and others, and include variable consideration for retroactive revenue adjustments due to settlement of audits, reviews, and investigations. Generally, the Corporation bills patients and third-party payers several days after the services are performed or the patient is discharged from a facility.

The Corporation determines performance obligations based on the nature of the services provided. Revenue for performance obligations satisfied over time is recognized based on actual charges incurred in relation to total expected charges. The Corporation believes that this method provides a faithful depiction of the transfer of services over the term of the performance obligation based on the inputs needed to satisfy the obligation. Generally, performance obligations satisfied over time relate to patients in hospitals receiving inpatient acute care services, or receiving services in outpatient centers, or in their homes (home care). The Corporation measures performance obligations from admission to the hospital, or the commencement of an outpatient service, to the point when it is no longer required to provide services to the patient, which is generally at the time of discharge or the completion of the outpatient services. Revenue for performance obligations satisfied at a point in time is generally recognized when goods are provided to our patients and customers in a retail setting (for example, pharmaceuticals and medical equipment) and the Corporation does not believe that it is required to provide additional goods and services related to that sale.

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

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

The Corporation determines the transaction price based on standard charges for services provided, reduced by contractual adjustments provided to third-party payers, discounts provided to uninsured and underinsured patients in accordance with the Corporation’s policy, and implicit price concessions provided to uninsured and underinsured patients. The Corporation determines its estimates of contractual adjustments and discounts based on contractual agreements, discount policies and historical experience. The estimate

of implicit price concessions is based on historical collection experience with the various classes of patients using a portfolio approach as a practical expedient to account for patient contracts with similar characteristics, as collective groups rather than individually. The financial statement effect of using this practical expedient is not materially different from an individual contract approach.

Generally, patients who are covered by third-party payers are responsible for related deductibles and coinsurance, which vary in amount. The Corporation also provides services to uninsured and underinsured patients, and offers those uninsured and underinsured patients a discount, either by policy or law, from standard charges. The Corporation estimates the transaction price for patients with deductibles and coinsurance and for those who are uninsured and underinsured based on historical experience and current market conditions, using the portfolio approach. The initial estimate of the transaction price is determined by reducing the standard charge by any contractual adjustments, discounts, and implicit price concessions. Subsequent changes to the estimate of the transaction price are generally recorded as adjustments to patient service revenue in the period of the change. Subsequent changes that are determined to be the result of an adverse change in the payer's or patient's ability to pay are recorded as bad debt expense in other expenses in the statement of operations and changes in net assets. Agreements with third-party payers typically provide for payments at amounts less than established charges. A summary of the payment arrangements with major third-party payers is as follows:

Medicare – Acute inpatient and outpatient services rendered to Medicare program beneficiaries are paid primarily at prospectively determined rates. These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors. Certain items are reimbursed at a tentative rate with final settlement determined after submission of annual cost reports and audits thereof by the Medicare fiscal intermediaries.

Medicaid – Reimbursement for services rendered to Medicaid program beneficiaries includes prospectively determined rates per discharge, per diem payments, discounts from established charges, fee schedules and cost reimbursement methodologies with certain limitations. Cost reimbursable items are reimbursed at a tentative rate with final settlement determined after submission of annual cost reports and audits thereof by the Medicaid fiscal intermediaries.

Other – Reimbursement for services to certain patients is received from commercial insurance carriers, health maintenance organizations and preferred provider organizations. The basis for reimbursement includes prospectively determined rates per discharge, per diem payments and discounts from established charges.

Cost report settlements under these programs are subject to audit by Medicare and Medicaid auditors and administrative and judicial review, and it can take several years until final settlement of such matters is determined and completely resolved. Because the laws, regulations, instructions and rule interpretations governing Medicare and Medicaid reimbursement are complex and change frequently, the estimates that have been recorded could change by material amounts.

Settlements with third-party payers for retroactive revenue adjustments due to audits, reviews or investigations are considered variable consideration and are included in the determination of the estimated transaction price for providing patient care. These settlements are estimated based on the terms of the payment agreement with the payer, correspondence from the payer and historical settlement activity, including an assessment to ensure that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the retroactive adjustment is subsequently resolved. Estimated settlements are adjusted in future periods as adjustments become known (that is, new information becomes available), or as years are settled or are no longer subject to such audits, reviews and investigations.

Financial Assistance – The Corporation provides services to all patients regardless of ability to pay. In accordance with the Corporation’s policy, a patient is classified as a financial assistance patient based on specific criteria, including income eligibility as established by the *Federal Poverty Guidelines*, as well as other financial resources and obligations.

Charges for services to patients who meet the Corporation’s guidelines for financial assistance are not reported as net patient service revenue in the accompanying consolidated financial statements. Therefore, the Corporation has determined it has provided implicit price concessions to uninsured and underinsured patients and patients with other uninsured balances (for example, copays and deductibles). The implicit price concessions included in estimating the transaction price represent the difference between amounts billed to patients and the amounts the Corporation expects to collect based on its collection history with those patients.

Self-Insured Employee Health Benefits – The Corporation administers self-insured employee health benefit plans for employees. The majority of the Corporation’s employees participate in the programs. The provisions of the plans permit employees and their dependents to elect to receive medical care at either the Corporation’s Health Ministries or other health care providers. Patient service revenue has been reduced by an allowance for self-insured employee health benefits, which represents revenue attributable to medical services provided by the Corporation to its employees and dependents in such years.

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

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

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

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

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

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

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

Forthcoming Accounting Pronouncements –

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

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

In November 2021, the FASB issued No. 2021-09, “*Leases (Topic 842) – Discount Rate for Lessees That Are Not Public Business Entities*”. The amendments in this guidance affect lessees that are not public business entities, including all not-for-profit entities, regardless of whether they are conduit bond obligors and employee benefit plans. Current guidance includes a practical expedient that allows the entity to use a risk-free rate as the discount rate for all leases. The amendments in this update allow those lessees to make the risk-free rate election by class of underlying asset, rather than an entity-wide level. This guidance is effective for the Corporation beginning July 1, 2022. The Corporation has elected not to use the risk-free rate by class of underlying asset.

3. INVESTMENTS IN UNCONSOLIDATED AFFILIATES, BUSINESS ACQUISITIONS AND DIVESTITURES

Investments in Unconsolidated Affiliates – The Corporation and certain of its Health Ministries have investments in entities that are recorded under the cost and equity methods of accounting. As of June 30, 2022 and 2021, the Corporation maintained investments in unconsolidated affiliates with ownership interests ranging from 2.0% to 50.4% and 1.0% to 50.4%, respectively. The Corporation’s share of equity earnings or losses from entities accounted for under the equity method and the classification on the consolidated statements of operations and changes in net assets for the years ended June 30 are as follows (in thousands):

	<u>2022</u>	<u>2021</u>
Other revenue	\$ 56,444	\$ 119,928
Nonoperating items	<u>(150,214)</u>	<u>912,860</u>
Total equity in (losses) earnings of unconsolidated affiliates	<u>\$ (93,770)</u>	<u>\$ 1,032,788</u>

The most significant of these investments include the following:

BayCare Health System – The Corporation has a 50.4% interest in BayCare Health System Inc. and Affiliates (“BayCare”), a Florida not-for-profit corporation exempt from state and federal income taxes. BayCare was formed in 1997 pursuant to a Joint Operating Agreement (“JOA”) among the not-for-profit, tax-exempt members of the Trinity Health BayCare Participants, Morton Plant Mease Health Care, Inc., and South Florida Baptist Hospital, Inc. (collectively, the “Members”). BayCare consists of three community health alliances located in the Tampa Bay area of Florida, including St. Joseph’s-Baptist Healthcare Hospital, St. Anthony’s Health Care, and Morton Plant Mease Health Care. The Corporation has the right to appoint nine of the 21 voting members of the Board of Directors of BayCare; therefore, the Corporation accounts for BayCare under the equity method of accounting. As of June 30, 2022 and 2021, the Corporation’s investment in BayCare totaled \$3,975 million and \$4,151 million, respectively.

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

Effective August 31, 2021, the Corporation, through MHP, sold its 50% interest in GHP to the existing partner and parent owner, Highmark. As a result of the transaction, the Corporation received a \$62.5 million dividend distribution on August 27, 2021. Furthermore, the Corporation recorded a gain on the sale of \$128.7 million during fiscal year 2022 in the consolidated statement of operations and changes in net assets. As of June 30, 2022 and 2021, the Corporation’s investment in GHP totaled \$0 and \$255.9 million, respectively.

Catholic Health System, Inc. – The Corporation held a 50% interest in Catholic Health System, Inc. and subsidiaries (“CHS”) with the Diocese of Buffalo holding the remaining 50% as of June 30, 2021. CHS, formed in 1998, is a not-for-profit integrated delivery health care system in western New York. CHS operates several organizations, the largest of which are four acute care hospitals located in Buffalo, New York: Mercy Hospital of Buffalo, Kenmore Mercy Hospital, Sisters of Charity Hospital, and St. Joseph Hospital. Effective November 6, 2021, the Corporation withdrew as a member of CHS. There was no impact to the Corporation’s consolidated balance sheet, statement of operations and changes in net assets or cash flows from the membership withdrawal. As of both June 30, 2022 and 2021, the Corporation’s investment in CHS totaled \$0.

Emory Healthcare/St. Joseph's Health System – The Corporation has a 49% interest in Emory Healthcare/St. Joseph's Health System (“EH/SJHS”). EH/SJHS operates several organizations, including two acute care hospitals, St. Joseph's Hospital of Atlanta and John's Creek Hospital. As of June 30, 2022 and 2021, the Corporation's investment in EH/SJHS totaled \$209.9 million and \$176.5 million, respectively.

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

Effective March 1, 2016, the Corporation and CSH 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 CSH to maintain ownership of their respective assets in Iowa while agreeing to operate the Corporation's Iowa hospitals in collaboration with CSH's Mercy Hospital Medical Center, Des Moines, Iowa, as one organization with common governance and management. MHN has developed a regional health care network that provides for a collaborative effort in the areas of community health care development, enhanced access to health services for the poor and sharing of other common goals. Under the JOA, the Corporation and CSH equally share adjusted operating cash flow from Iowa operations, which commenced in July 2016. The Corporation and CSH agreed to suspend the cash flow sharing arrangement for fiscal year 2021 and 2022. As of June 30, 2022 and 2021, the Corporation's investment in MHN totaled \$109.6 million and \$118.4 million, respectively. See Note 15 for further information regarding MHN and CSH.

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

	BayCare	EH/SJHS	MHN			
Total assets	\$ 10,913,820	\$843,603	\$336,400			
Total liabilities	\$ 2,842,405	\$546,243	\$109,263			
2021						
	BayCare	GHP	CHS	EH/SJHS	MHN	
Total assets	\$ 11,442,894	\$ 1,274,300	\$ 1,313,588	\$ 822,481	\$ 374,023	
Total liabilities	\$ 3,016,012	\$ 762,600	\$ 1,278,381	\$ 547,529	\$ 129,416	

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

	2022			
	<u>BayCare</u>	<u>EH/SJHS</u>	<u>MHN</u>	
Revenue, net	\$ 4,537,933	\$ 907,806	\$ 429,155	
Excess (deficiency) of revenue over expenses	\$ (366,760)	\$ 67,490	\$ (17,534)	

	2021				
	<u>BayCare</u>	<u>GHP</u>	<u>CHS</u>	<u>EH/SJHS</u>	<u>MHN</u>
Revenue, net	\$ 4,291,421	\$ 2,517,507	\$ 1,186,530	\$ 785,759	\$ 412,148
Excess (deficiency) of revenue over expenses	\$ 1,746,736	\$ 63,180	\$ (66,073)	\$ 62,405	\$ 25,555

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):

	2022			
	<u>BayCare</u>	<u>GHP</u>	<u>EH/SJHS</u>	<u>MHN</u>
Other revenue	\$ -	\$ 1,650	\$ -	\$ (8,767)
Equity in earnings of unconsolidated organizations	(184,884)	-	33,551	-
Gain on sale of investments	-	128,678	-	-
Other changes in net assets without donor restrictions	<u>7,032</u>	<u>(300)</u>	<u>-</u>	<u>-</u>
Total	<u>\$ (177,852)</u>	<u>\$ 130,028</u>	<u>\$ 33,551</u>	<u>\$ (8,767)</u>

	2021				
	<u>BayCare</u>	<u>GHP</u>	<u>CHS</u>	<u>EH/SJHS</u>	<u>MHN</u>
Other revenue	\$ -	\$ 31,822	\$ -	\$ -	\$ 13,652
Equity in earnings of unconsolidated organizations	880,530	-	(4,954)	33,209	-
Other changes in net assets without donor restrictions	<u>7,289</u>	<u>(2,850)</u>	<u>(32,992)</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 887,819</u>	<u>\$ 28,972</u>	<u>\$ (37,946)</u>	<u>\$ 33,209</u>	<u>\$ 13,652</u>

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):

	2022					
	Medical Office Buildings	Outpatient and Diagnostic Services	Ambulatory Surgery Centers	Physician Hospital Organizations	Other Investees	Total
Total assets	\$ 39,592	\$ 183,153	\$ 211,511	\$ 106,988	\$ 1,179,177	\$ 1,720,421
Total liabilities	\$ 27,560	\$ 65,274	\$ 135,898	\$ 22,234	\$ 444,389	\$ 695,355
Revenue, net	\$ 9,518	\$ 180,509	\$ 179,550	\$ 50,680	\$ 2,029,103	\$ 2,449,360
Excess of revenue over expenses	\$ 3,020	\$ 16,127	\$ 22,071	\$ 5,031	\$ 109,475	\$ 155,724
	2021					
	Medical Office Buildings	Outpatient and Diagnostic Services	Ambulatory Surgery Centers	Physician Hospital Organizations	Other Investees	Total
Total assets	\$ 40,110	\$ 153,967	\$ 195,561	\$ 103,073	\$ 1,080,877	\$ 1,573,588
Total liabilities	\$ 28,216	\$ 61,547	\$ 126,985	\$ 29,489	\$ 455,836	\$ 702,073
Revenue, net	\$ 9,784	\$ 191,690	\$ 146,512	\$ 32,744	\$ 1,739,321	\$ 2,120,051
Excess of revenue over expenses	\$ 2,651	\$ 17,087	\$ 29,755	\$ 4,265	\$ 179,984	\$ 233,742

Acquisition:

Consolidation of the Surgery Center at Easton (“Easton”) – On December 31, 2020, Mount Carmel Health System, a wholly controlled subsidiary of Trinity Health, acquired a 50% controlling interest in Easton with the remaining 50% interest held by a number of physician investors. Easton owns and operates an ambulatory surgery center known as Surgery Center at Easton located in Columbus, Ohio. As a result of the transaction, the Corporation recorded goodwill of \$272.4 million in the consolidated balance sheet as of December 31, 2020. For the year ended June 30, 2022 and six months ended June 30, 2021, the Corporation’s consolidated statements of operations and changes in net assets included operating revenue of \$57.8 million and \$29.0 million, respectively, and excess of revenue over expenses of \$33.1 million and \$18.5 million, respectively, related to the operations of Easton.

Summarized consolidated balance sheet information for Easton is shown below as of December 31, 2020 (in thousands):

Assets		Liabilities	
Cash and cash equivalents	\$ 2,657	Current portion of long-term debt	\$ 885
Patient accounts receivable	4,775	Current portion of operating lease liabilities	604
Inventories	450	Accounts payable and accrued expenses	1,304
Prepaid expenses and other current assets	136	Salary, wages, and related liabilities	169
Property and equipment, net	645	Long-term debt, net of current portion	609
Operating lease right-of-use assets	6,881	Long-term portion of operating lease liabilities	<u>6,358</u>
Goodwill	272,449	Total liabilities acquired	9,929
		Net assets	
		Net assets without donor restrictions	139,242
		Net assets attributable to noncontrolling interest	<u>138,822</u>
		Total net assets	<u>278,064</u>
Total assets acquired	<u>\$ 287,993</u>	Total liabilities and net assets	<u>\$ 287,993</u>

Sales and Pending Divestitures:

Mercy Health System of Chicago (“MHSC”) – In July 2020, MHSC announced a clinical transformation plan for Mercy Hospital and Medical Center (“Mercy”) to a community-based health care organization, named Mercy Care Center (“MCC”). The new organization will focus on serving community needs by providing diagnostic imaging, urgent care, and care coordination services, and will honor the legacy of the mission of its founding sponsors as a Mission Health Ministry of the Corporation. On June 1, 2021, Mercy and MHSC sold certain assets, including the land and hospital building on the Mercy campus, to Insight Chicago, Inc., an Illinois not-for-profit corporation and operations of MHSC and Mercy largely ceased. MCC is currently providing limited services including urgent care services and contracted breast and cervical cancer screening. MCC is still awaiting Medicare approval to establish services for governmental and state payers.

For the years ended June 30, 2022 and 2021, the Corporation’s consolidated statements of operations and changes in net assets included operating revenue of \$0 and \$165.7 million, respectively, and incurred a deficiency of revenue over expense of \$0 and \$141.1 million, respectively, related to the operations of MHSC. For the year ended June 30, 2021, \$76.7 million of restructuring charges, primarily for severance and termination benefits and loss on sale of property, plant and equipment, were recorded in the consolidated statement of operations and changes in net assets related to the transformation plan.

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

For the years ended June 30, 2022 and 2021, the Corporation's consolidated statements of operations and changes in net assets included operating revenue of \$142.8 million and \$167.1 million, respectively, and deficiency of revenue over expenses of \$39.4 million and \$2.9 million, respectively, related to the operations of SFMC.

4. OPERATING REVENUE

Operating revenue consists primarily of net patient service revenue and premium and capitation revenue. Revenue from patient's deductibles and coinsurance are included in the categories presented below based on the primary payer. Premium revenue primarily results from the Corporation's health plans, which sell Medicare Advantage products, under several separate contracts with the Center for Medicare and Medicaid Services ("CMS"). The table below shows sources of net patient service revenue by primary payer for the years ended June 30 (in thousands):

	<u>2022</u>	<u>2021</u>
Net patient service revenue, by payer:		
Medicare	\$ 6,955,548	\$ 6,820,395
Blue Cross	3,438,938	3,432,556
Medicaid	2,801,076	2,726,452
Uninsured	317,485	347,744
Commercial and other	<u>3,529,471</u>	<u>3,407,813</u>
Net patient service revenue	<u>\$ 17,042,518</u>	<u>\$ 16,734,960</u>

The composition of net patient service revenue and other revenue based on service lines for the years ended June 30 (in thousands) are as follows:

	<u>2022</u>	<u>2021</u>
Net patient service revenue, by service line:		
Acute care - inpatient	\$ 7,516,594	\$ 7,533,992
Acute care - outpatient	6,873,733	6,552,855
Physician services	2,099,171	2,047,189
Long term care	186,637	217,166
Home health care	<u>366,383</u>	<u>383,758</u>
Net patient service revenue	17,042,518	16,734,960
Premium revenue	613,772	611,615
Capitation revenue	475,591	479,382
Grant revenue	281,354	672,671
Revenue from other sources	<u>1,520,443</u>	<u>1,665,025</u>
Total operating revenue	<u>\$ 19,933,678</u>	<u>\$ 20,163,653</u>

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

PRF grants and Rural payments recognized as revenue, recorded in other revenue in the consolidated statements of operations and changes in net assets, totaled \$140.5 million and \$618.8 million for the years ended June 30, 2022 and 2021, respectively. The Corporation recognized substantially all grants received in other revenue in the statements of operations and changes in net assets for the year ended June 30, 2022. The Corporation believes the amount of PRF grants and Rural payments recognized as grant revenue is appropriate under the guidance issued by the Department of Health and Human Services (“HHS”). The Corporation has transferred both General Distribution and Targeted Distribution PRF grants amongst its subsidiaries.

5. LONG-LIVED ASSETS

Property and Equipment:

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

	<u>2022</u>	<u>2021</u>
Land	\$ 346,425	\$ 340,838
Buildings and improvements	10,613,884	10,503,285
Equipment	7,226,485	6,850,045
Finance lease right-of-use assets	<u>90,717</u>	<u>94,384</u>
Total	18,277,511	17,788,552
Accumulated depreciation and amortization	(10,764,701)	(10,265,700)
Construction in progress	<u>641,868</u>	<u>686,325</u>
Property and equipment - net	<u>\$ 8,154,678</u>	<u>\$ 8,209,177</u>

As of June 30, 2022, commitments for capital projects of approximately \$378.8 million were outstanding. Significant commitments are primarily for facility expansion at existing campuses and related infrastructures at the following Health Ministries: Trinity Health Of New England \$159.1 million; Trinity Health Michigan \$83.9 million; St. Joseph's Hospital, Syracuse, New York \$25.9 million; St. Alphonsus Regional Medical Center, Boise, Idaho \$22.8 million; Holy Cross Hospital Inc., Ft. Lauderdale, Florida \$22.6 million; St. Peter's Health Partners, Albany, New York \$15.2 million; MercyOne Medical Center, Dubuque, Iowa \$11.1 million; and Trinity Health Senior Communities \$10.4 million. The remaining amount is due to several smaller projects across the Corporation.

Leases:

The following table presents the components of the Corporation's right-of-use assets and liabilities related to finance leases and their classification in the consolidated balance sheets as of June 30 (in thousands):

Component of Finance Lease Balances	Classification in Consolidated Balance Sheets	2022	2021
Assets:			
Finance lease right-of-use assets - net	Property and equipment	\$ 76,862	\$ 82,496
Liabilities:			
Current portion of finance lease liability	Current portion of long-term debt	10,770	9,181
Long-term portion of finance lease liability	Long-term debt	91,698	100,644

The components of lease expense and their classification in the consolidated statements of operations and changes in net assets for the years ended June 30 were as follows (in thousands):

Component of Lease Expenses	Classification in Statements of Operations and Changes in Net Assets	2022	2021
Operating lease expense	Occupancy	\$ 143,274	\$ 146,061
Finance lease expense:			
Amortization of right-of-use assets	Depreciation and amortization	8,647	8,291
Interest on lease liabilities	Interest	2,769	3,275
Total finance lease expense		11,416	11,566
Short-term lease expense	Occupancy	46,125	53,980
Total lease expense		\$ 200,815	\$ 211,607

The weighted average remaining lease term and weighted average discount rate as of and for the years ended June 30 were as follows:

Weighted average remaining lease term (years)	2022	2021
Operating leases	7.17	6.95
Finance leases	9.33	11.91

Weighted average discount rate	2022	2021
Operating leases	2.53%	3.26%
Finance leases	5.49%	5.84%

Supplemental cash flow information related to leases for the years ended June 30 was as follows (in thousands):

	<u>2022</u>	<u>2021</u>
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash outflows from operating leases	\$ 163,608	\$ 162,604
Operating cash outflows from finance leases	2,769	3,275
Financing cash outflows from finance leases	12,245	12,103
Right-of-use assets obtained in exchange for lease obligations:		
Operating leases	167,799	158,958
Finance leases	3,084	4,452

Future maturities of lease liabilities as of June 30, 2022 are presented in the following table (in thousands):

	<u>Operating Leases</u>	<u>Finance Leases</u>
2023	\$ 150,706	\$ 16,492
2024	128,803	15,739
2025	102,664	12,642
2026	82,764	10,566
2027	58,189	10,228
Thereafter	<u>155,458</u>	<u>72,123</u>
Total lease payments	678,584	137,790
Less: Imputed interest	<u>(59,939)</u>	<u>(35,322)</u>
Total lease obligations	618,645	102,468
Less: Current obligations	<u>(137,254)</u>	<u>(10,770)</u>
Long-term lease obligations	<u>\$ 481,391</u>	<u>\$ 91,698</u>

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>2022</u>	<u>2021</u>
As of July 1:		
Goodwill	\$ 859,191	\$ 478,751
Accumulated impairment loss	(39,064)	(39,064)
Total	820,127	439,687
Goodwill acquired during the year	1,495	380,440
Impairment loss	(7,491)	-
Total	<u>814,131</u>	<u>820,127</u>
As of June 30:		
Goodwill	860,686	859,191
Accumulated impairment loss	(46,555)	(39,064)
Total	<u>\$ 814,131</u>	<u>\$ 820,127</u>

Impairments:

During the year ended June 30, 2022, the Corporation recorded impairment charges of \$113.9 million in the consolidated statement of operations and changes in net assets. Included in the total impairment charges were \$73.7 million related to aged buildings and structures, operating leased space and related furniture and equipment to be vacated or no longer used. In addition, \$30.2 million was primarily at certain long term care facilities, where the most recent estimates of future undiscounted cash flows indicated that the carrying value of the long-lived assets 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 continued declines in occupancy of continuing care facilities. Therefore, these assessments resulted in impairments of the buildings, leases and equipment. The Corporation also recorded impairment of \$10.0 million of goodwill and other assets.

During the year ended June 30, 2021, the Corporation recorded impairment charges of \$111.5 million in the consolidated statement of operations and changes in net assets. Of the total impairment charges, \$59.4 million were primarily at certain continuing care facilities of the Corporation, where the most recent estimates of future undiscounted cash flows indicated that the carrying value of the long-lived assets 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 continued declines in occupancy of continuing care facilities and rising labor costs. Therefore, this assessment resulted in impairments of the buildings and equipment related to these facilities. The Corporation also recognized \$15.8 million of impairments related to an unconsolidated equity method investment. In addition, the Corporation recorded impairment charges of \$5.6 million related to operating leased space no longer in use and \$30.7 million of other asset impairments.

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>2022</u>	<u>2021</u>
Short-term borrowings:		
Variable rate demand bonds with contractual maturities through 2049. Interest payable monthly at rates ranging from 0.02% to 1.40% during 2022 and 0.20% to 0.77% during 2021	\$ 632,730	\$ 650,465
Long-term debt:		
Tax-exempt revenue bonds and refunding bonds:		
Fixed-rate term and serial bonds, payable at various dates through 2051. Interest rates ranging from 1.25% to 5.00% during 2022 and 2021	\$ 3,584,535	\$ 3,383,950
Variable-rate term bonds, payable at various dates through 2051. Interest rates ranging from 0.47% to 1.84% during 2022 and 0.48% to 1.48% during 2021	338,835	435,200
Taxable revenue bonds:		
Fixed-rate term, payable through 2051. Interest rates ranging from 1.03% to 4.13% during 2022 and 2021	2,209,190	2,218,715
Notes payable to banks. Interest payable at rates ranging from 1.34% to 5.00% during 2022 and 1.0% to 6.0% during 2021, fixed and variable, payable in varying monthly installments through 2049	43,220	49,362
Financing lease obligations (excluding imputed interest of \$35.3 million at June 30, 2022 and \$16.8 million at June 30, 2021)	102,468	109,825
Mortgage obligations. Interest payable at rates ranging from 3.35% to 5.04% during 2022 and 2021	6,642	10,414
Other	55,651	52,930
Total long-term debt	6,340,541	6,260,396
Less current portion - net of current discounts	(247,149)	(224,938)
Unamortized debt issuance costs	(37,670)	(37,200)
Unamortized premiums - net	360,979	341,350
Long-term debt - net of current portion	<u>\$ 6,416,701</u>	<u>\$ 6,339,608</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:		
2023	\$ 16,395	\$ 200,451
2024	16,920	137,189
2025	22,120	113,833
2026	22,995	114,126
2027	23,920	116,517
Thereafter	<u>530,380</u>	<u>5,658,425</u>
Total	<u>\$ 632,730</u>	<u>\$ 6,340,541</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>2022</u>	<u>2021</u>
Interest costs incurred	\$ 227,485	\$ 237,380
Less capitalized interest	<u>(1,688)</u>	<u>(1,252)</u>
Interest expense included in operations	<u>\$ 225,797</u>	<u>\$ 236,128</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 or advance refund tax-exempt bonds. Certain Health Ministries of the Corporation constitute designated affiliates and the Corporation covenants to cause each designated affiliate to pay, loan or otherwise transfer to the Obligated Group such amounts necessary to pay the amounts due on all obligations issued under the ARMI. The Obligated Group and the designated affiliates are referred to as the Trinity Health Credit Group.

Pursuant to the ARMI, the Obligated Group agent (which is the Corporation) has caused the designated affiliates representing, when combined with the Obligated Group members, at least 85% of the consolidated net revenues of the Trinity Health Credit Group to grant to the master trustee security interests in their pledged property which security interests secure all obligations issued under the ARMI. There are several conditions and covenants required by the ARMI with which the Corporation must comply, including covenants that require the Corporation to maintain a minimum historical debt-service coverage and limitations on liens or security interests in property, except for certain permitted encumbrances, affecting the property of the Corporation or any material designated affiliate (a designated affiliate whose total revenues for the most recent fiscal year exceed 5% of the combined total revenues of the Corporation for the most recent fiscal year). Long-term debt outstanding as of June 30, 2022 and 2021, that has not been secured under the ARMI is generally collateralized by certain property and equipment.

Commercial Paper – The Corporation’s commercial paper program is authorized for borrowings up to \$600 million. As of June 30, 2022 and 2021, the total amount of commercial paper outstanding was \$99.7 million and \$100.0 million, respectively. Proceeds from this program are to be used for general purposes of the Corporation. The notes are payable from the proceeds of subsequently issued notes and from other funds available to the Corporation, including funds derived from the liquidation of securities held by the Corporation in its investment portfolio. The interest rate charged on borrowings outstanding during the years ended June 30, 2022 and 2021, ranged from 0.06% to 2.00% and 0.08% to 1.62%, respectively.

Liquidity Facilities – On June 8, 2021, the Corporation renewed and amended its revolving credit agreement (“RCAI”), by and among the Corporation and U.S. Bank National Association, which acts as an administrative agent for a group of lenders under RCAI. RCAI establishes a revolving credit facility for the Corporation, under which that group of lenders agree to lend to the Corporation amounts that may fluctuate from time to time. Amounts drawn under the RCAI can only be used to support the Corporation’s obligation to pay the purchase price of bonds that are subject to tender and that have not been successfully remarketed, and the maturing principal of and interest on commercial paper notes. Of the \$600 million available balance, the first tranche of \$300 million expires on June 7, 2023 and the second tranche of \$300 million expires on June 7, 2024. As of June 30, 2022 and 2021, there were no amounts outstanding under RCAI.

On June 8, 2021, the Corporation renewed its three-year general-purpose credit facility (“RCAII”) and increased the available balance from \$285 million to \$600 million, with a maturity date of June 7, 2024. The agreement is by and among the Corporation and U.S. Bank National Association, which acts as an administrative agent for a group of lenders under RCAII and establishes a revolving credit facility for the Corporation, under which that group of lenders agree to lend to the Corporation amounts that may fluctuate from time to time. Amounts drawn under the RCAII can be used for general corporate purposes and working capital needs. As of June 30, 2022 and 2021, there were no amounts outstanding under RCAII.

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

During fiscal year 2020, the Corporation entered into four additional general purpose credit facilities with independent financial institutions to meet potential liquidity needs during the COVID-19 pandemic totaling \$1.0 billion. These credit facilities were subsequently repaid and terminated during fiscal year 2021.

Standby Letters of Credit – The Corporation maintains an arrangement for multiple standby letters of credit with a financial institution with a capacity available of \$90 million as of June 30, 2022 and 2021. The arrangement supports multiple insurance, unemployment, and other risk liabilities that have been issued in the amounts of \$71.9 million and \$69.4 million as of June 30, 2022 and 2021, respectively. As of June 30, 2022 and 2021, there were no draws on the letters of credit.

In addition, the Corporation maintains a two-year arrangement for standby letters of credit with an additional financial institution in the amount of \$50.0 million. The arrangement supports multiple letters of credit that can relate to multiple insurance, unemployment, and other risk liabilities that have been issued in the amount of \$0.2 million and \$19.5 million as of June 30, 2022 and 2021, respectively. As of June 30, 2022 and 2021 there were no draws on the letters of credit.

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

Transactions – During January 2021, the Trinity Health Credit Group issued \$300.0 million par value taxable fixed-rate bonds. Proceeds were used to partially refund \$166.8 million of certain tax-exempt bonds. This transaction resulted in the Corporation recognizing a loss on extinguishment of debt of \$1.5 million in the statement of operations and changes in net assets. The remaining proceeds were used for general corporate purposes. The Corporation currently refunded certain tax-exempt bonds within 90 days of the call date of such bonds, and advance refunded certain other tax-exempt bonds by depositing funds in trustee-held escrow accounts exclusively for the payment of principal and interest of such bonds. The trustees/escrow agents are solely responsible for the subsequent extinguishment of the bonds. The trustee held escrow accounts are invested in U.S. government securities.

During January 2022, the Trinity Health Credit Group issued \$331.0 million par value tax-exempt hospital revenue and remarketing bonds at a premium of \$46.4 million. A portion of the bonds were issued in the fixed rate mode and a portion in the term rate mode. Proceeds were used to remarket \$75.0 million of certain tax-exempt variable-rate bonds as tax-exempt fixed-rate hospital revenue bonds to their stated maturity. As a result of this transaction, the Corporation recognized a loss on extinguishment of debt of \$0.3 million in other nonoperating items in the consolidated statement of operations and changes in net assets for the year ended June 30, 2022.

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

Mercy Health System of Chicago (“MHSC”) prepaid its two previously existing mortgage loans that were insured by the U.S. Department of Housing and Urban Development (“HUD”). One loan was repaid in the amount of \$23.8 million on November 30, 2020, which incurred a prepayment premium of \$2.4 million and then the second mortgage loan was repaid in the amount of \$23.7 million on May 26, 2021. In addition, pertaining to the second mortgage loan, the Corporation recorded a net loss from early extinguishment of debt of \$0.7 million in other nonoperating items in the statement of operations and changes in net assets for the year ended June 30, 2021.

Further, due to the disposition of MHSC on August 12, 2021, the Corporation defeased \$18.8 million of tax-exempt fixed rate hospital revenue and refunding bonds. The Corporation recorded a net loss from early extinguishment of debt of \$0.5 million in other nonoperating items in the consolidated statement of operations and changes in net assets for the year ended June 30, 2022.

Also, as a result of disposition of various property and leases, the Corporation defeased \$11.7 million of bonds through the funding of various escrow accounts on May 13, 2021 resulting in a loss on early extinguishment of debt of \$1.5 million in other nonoperating items in the statement of operations and changes in net assets for the year ended June 30, 2021.

On September 30, 2021, a subsidiary of the Corporation defeased \$20.0 million of bonds and recorded a net gain from the early extinguishment of debt of \$0.2 million in other nonoperating items in the consolidated statement of operations and changes in net assets for the year ended June 30, 2022.

On June 30, 2022, the Corporation redeemed \$29.7 million of tax-exempt fixed rate bonds. The Corporation recorded a net gain from early extinguishment of debt of \$0.9 million in other nonoperating items in the consolidated statement of operations and changes in net assets for the year ended June 30, 2022.

7. PROFESSIONAL AND GENERAL LIABILITY PROGRAMS

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

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

The liability for self-insurance reserves represents estimates of the ultimate net cost of all losses and loss adjustment expenses, which are incurred but unpaid at the consolidated balance sheet date. The reserves are based on the loss and loss adjustment expense factors inherent in the Corporation’s premium structure. Independent consulting actuaries determined these factors from estimates of the Corporation’s expenses and available industry-wide data. The Corporation discounts the reserves to their present value using a discount rate of 2.5%. The reserves include estimates of future trends in claim severity and frequency. Although considerable variability is inherent in such estimates, management believes that the liability for unpaid claims and related adjustment expenses is adequate based on the loss experience of the Corporation. The estimates are continually reviewed and adjusted as necessary. The changes to the estimated self-insurance reserves were determined based upon the annual independent actuarial analyses.

Claims in excess of certain insurance coverage and the recorded self-insurance liability have been asserted against the Corporation by various claimants. The claims are in various stages of processing, and some may ultimately be brought to trial. There are known incidents occurring through June 30, 2022, that may result in the assertion of additional claims and other claims may be asserted arising from services provided in the past. While it is possible that settlement of asserted claims and claims which may be asserted in the future could result in liabilities in excess of amounts for which the Corporation has provided, management, based upon the advice of legal counsel, believes that the excess liability, if any, should not materially affect the consolidated financial statements of the Corporation.

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, 2022 and 2021, the assets under these plans totaled \$306.7 million and \$349.6 million, respectively, and liabilities totaled \$314.0 million and \$356.5 million, respectively, which are included in self-insurance, benefit plans and other assets and other long-term liabilities in the consolidated balance sheets.

Defined Contribution Benefits – The Corporation sponsors defined contribution pension plans covering substantially all of its employees. These programs are funded by employee voluntary contributions, subject to legal limitations. Employer contributions to these plans include a nonelective contribution of 3% for participants who satisfy certain eligibility requirements, with a minimum nonelective contribution for certain participants, and varying levels of matching contributions based on employee service. The employees direct their voluntary contributions and employer contributions among a variety of investment options. Contribution expense under the plans totaled \$330.9 million and \$343.8 million for the years ended June 30, 2022 and 2021, respectively, which is included in employee benefits in the consolidated statements of operations and changes in net assets.

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

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

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

Postretirement Health Care and Life Insurance Benefits (“Postretirement Plans”) – The Corporation sponsors both funded and unfunded contributory plans to provide health care benefits to certain of its retirees. All of the Postretirement Plans are closed to new participants. The Postretirement Plans cover certain hourly and salaried employees who retire from certain Health Ministries. Medical benefits for these retirees are subject to deductibles and cost sharing provisions. The funded plans provide benefits to certain retirees at fixed dollar amounts in health reimbursement account arrangements for Medicare eligible participants.

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>2022</u>	<u>2021</u>	<u>2022</u>	<u>2021</u>
	<u>Pension Plans</u>		<u>Postretirement Plans</u>	
Change in Benefit Obligations:				
Benefit obligation, beginning of year	\$ 7,634,001	\$ 7,921,426	\$ 106,523	\$ 114,100
Service cost	-	-	2	9
Interest cost	233,505	241,134	2,999	3,208
Actuarial (gain) loss	(1,278,080)	17,019	(23,443)	(4,377)
Benefits paid	(336,346)	(333,192)	(5,805)	(6,437)
Plan amendments	1,357	-	(1,122)	-
Settlements	(178,093)	(212,386)	-	-
Medicare Part D reimbursement	-	-	22	20
Benefit obligation, end of year	<u>6,076,344</u>	<u>7,634,001</u>	<u>79,176</u>	<u>106,523</u>
Change in Plan Assets:				
Fair value of plan assets, beginning of year	7,692,336	7,023,543	163,097	124,856
Actual return on plan assets	(1,279,514)	1,072,426	(16,914)	42,340
Employer contributions	41,148	141,945	1,874	2,338
Benefits paid	(336,346)	(333,192)	(5,805)	(6,437)
Settlements	(178,093)	(212,386)	-	-
Fair value of plan assets, end of year	<u>5,939,531</u>	<u>7,692,336</u>	<u>142,252</u>	<u>163,097</u>
(Unfunded) funded amount recognized June 30	<u>\$ (136,813)</u>	<u>\$ 58,335</u>	<u>\$ 63,076</u>	<u>\$ 56,574</u>
Recognized in other long-term assets	\$ 12,498	\$ 243,439	\$ 78,783	\$ 80,567
Recognized in accrued pension and retiree health costs	\$ (149,311)	\$ (185,104)	\$ (15,707)	\$ (23,993)

The benefit obligation actuarial gain in 2022 was due primarily to increases in the discount rates to measure plan liabilities. The benefit obligation actuarial loss in 2021 was due primarily to changes in demographics and mortality assumptions.

The accumulated benefit obligation for all defined benefit pension plans was \$6,076.3 million and \$7,634.0 million at June 30, 2022 and 2021, respectively.

Information for pension plans with an accumulated benefit obligation in excess of plan assets (in thousands)

	2022	2021
Accumulated benefit obligation	\$ 5,234,516	\$ 805,392
Fair value of plan assets	5,085,205	620,288
Funded status	<u>\$ (149,311)</u>	<u>\$ (185,104)</u>

The projected benefit obligation in excess of plan assets and the accumulated benefit obligation in excess of plan assets are equal.

The accumulated postretirement benefit obligation for all plans was \$79.2 million and \$106.5 million at June 30, 2022 and 2021, respectively.

Information for postretirement plans with an accumulated benefit obligation in excess of plan assets (in thousands)

	2022	2021
Accumulated benefit obligation	\$ 16,010	\$ 24,308
Fair value of plan assets	303	439
Funded status	<u>\$ (15,707)</u>	<u>\$ (23,869)</u>

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

	2022	2021	2022	2021
	Pension Plans	Pension Plans	Postretirement Plans	Postretirement Plans
Service cost	\$ -	\$ -	\$ 2	\$ 9
Interest cost	233,505	241,134	2,999	3,208
Expected return on assets	(296,164)	(433,643)	(10,418)	(7,936)
Amortization of prior service credit	(4,880)	(4,914)	(443)	(443)
Recognized net actuarial loss (gain)	59,513	91,811	(4,424)	(1,423)
Net periodic benefit income				
before settlements	(8,026)	(105,612)	(12,284)	(6,585)
Settlements	70,642	64,861	-	-
Net periodic benefit expense (income)	<u>\$ 62,616</u>	<u>\$ (40,751)</u>	<u>\$ (12,284)</u>	<u>\$ (6,585)</u>

The deferred losses (gains) included in net assets without donor restrictions, including amounts arising during the year and amounts reclassified into net periodic benefit cost, are as follows (in thousands):

	Pension Plans		
	Net Loss (Gain)	Prior Service Credit	Total
Balance at July 1, 2020	\$ 2,859,030	\$ (106,271)	\$ 2,752,759
Reclassified into net periodic benefit cost	(91,811)	4,914	(86,897)
Arising during the year	(621,772)	-	(621,772)
Settlements	(64,861)	-	(64,861)
	<u>\$ 2,080,586</u>	<u>\$ (101,357)</u>	<u>\$ 1,979,229</u>
Balance at June 30, 2021			
Reclassified into net periodic benefit cost	(59,513)	4,880	(54,633)
Arising during the year	297,597	1,357	298,954
Settlements	(70,642)	-	(70,642)
	<u>\$ 2,248,028</u>	<u>\$ (95,120)</u>	<u>\$ 2,152,908</u>
Balance at June 30, 2022			

	Postretirement Plans			All Plans
	Net Loss (Gain)	Prior Service Credit	Total	Grand Total
Balance at July 1, 2020	\$ (25,417)	\$ (1,993)	\$ (27,410)	\$ 2,725,349
Reclassified into net periodic benefit cost	1,423	443	1,866	(85,031)
Arising during the year	(38,728)	-	(38,728)	(660,500)
Settlements	-	-	-	(64,861)
	<u>\$ (62,722)</u>	<u>\$ (1,550)</u>	<u>\$ (64,272)</u>	<u>\$ 1,914,957</u>
Balance at June 30, 2021				
Reclassified into net periodic benefit cost	4,424	443	4,867	(49,766)
Arising during the year	3,776	(1,122)	2,654	301,608
Settlements	-	-	-	(70,642)
	<u>\$ (54,522)</u>	<u>\$ (2,229)</u>	<u>\$ (56,751)</u>	<u>\$ 2,096,157</u>
Balance at June 30, 2022				

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

	<u>2022</u>	<u>2021</u>	<u>2022</u>	<u>2021</u>
	<u>Pension Plans</u>		<u>Postretirement Plans</u>	
Benefit Obligations:				
Discount rate	4.20% - 5.25%	2.80% - 3.35%	4.80% - 5.10%	2.25% - 3.05%
Weighted average interest crediting rate	4.13%	2.67%	N/A	N/A
Net Periodic Benefit Cost:				
Discount rate	2.80% - 3.35%	2.75% - 3.45%	2.25% - 3.05%	2.30% - 3.00%
Weighted average interest crediting rate	2.67%	2.66%	N/A	N/A
Expected long-term return on plan assets	2.00% - 5.00%	4.00% - 6.50%	6.50%	6.50%

Approximately 70% of the Corporation's pension plan liabilities were measured using a 5.15% discount rate as of June 30, 2022. Approximately 76% of the Corporation's pension liabilities were measured using a 3.15% discount rate as of June 30, 2021.

The Corporation utilizes a pension liability driven investment ("LDI") 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, which was further refined during fiscal year 2021 to protect the funded status of the Pension Plans. The revised glidepath was developed in alignment of an improving hedging ratio, which measures the percentage of hedging assets to Pension Plan liabilities. The glidepath methodology is used 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>2022</u>	<u>2021</u>
Medical and drugs, pre-age 65	6.11%	6.39%
Medical and drugs, post-age 65	6.11%	6.39%
Ultimate trend rate	5.00%	5.00%
Year rate reaches the ultimate rate	2026	2026

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

	<u>2022</u>	<u>2021</u>	<u>2022</u>	<u>2021</u>
	<u>Pension Plans</u>		<u>Postretirement Plans</u>	
Investment Category:				
Cash and cash equivalents	4%	5%	-	-
Marketable securities:				
U.S. and non-U.S. equity securities	6%	6%	-	-
Equity mutual funds	1%	2%	-	-
Debt securities	58%	56%	9%	11%
Other investments:				
Commingled funds	25%	22%	91%	89%
Hedge funds	3%	7%	-	-
Private equity funds	3%	2%	-	-
Total	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>

The LDI investment strategy focuses on maintaining an appropriate liability hedging ratio along the glidepath. It utilizes a mix of equities, hedge funds and fixed-income investments 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 monthly 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, 2022, was fixed-income obligations 78%; global and traditional equity securities 18%; hedge funds 2%; and cash 2%.

The following table summarizes the Pension Plans' and Postretirement Plans' assets measured at fair value as of June 30, 2022 (in thousands). See Note 10 for definitions of Levels 1, 2 and 3 of the fair value hierarchy.

	2022		
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Total Fair Value
Pension Plans:			
Cash and cash equivalents	\$ 199,274	\$ -	\$ 199,274
Equity securities	331,417	37	331,454
Debt securities			
Government and government agency obligations	-	801,999	801,999
Corporate bonds	-	2,654,075	2,654,075
Exchange traded/mutual funds			
Equity funds	64,649	-	64,649
Other	61,407	-	61,407
	<u>\$ 656,747</u>	<u>\$ 3,456,111</u>	<u>\$ 4,112,858</u>
Subtotal			
	<u>\$ 656,747</u>	<u>\$ 3,456,111</u>	<u>\$ 4,112,858</u>
Investments measured at net asset value:			
Commingled funds			
Equity funds			737,904
Fixed-income funds			751,224
Hedge funds			177,332
Private equity			160,213
			<u>160,213</u>
			<u>\$ 5,939,531</u>
Total assets			
			<u>\$ 5,939,531</u>
Postretirement Plans:			
Exchange traded/mutual funds			
Short-term investment funds	\$ 243	\$ -	\$ 243
Fixed-income funds	11,996	-	11,996
	<u>\$ 12,239</u>	<u>\$ -</u>	<u>\$ 12,239</u>
Subtotal			
	<u>\$ 12,239</u>	<u>\$ -</u>	<u>\$ 12,239</u>
Investment measured at net asset value:			
Equity commingled fund			130,013
			<u>130,013</u>
Total assets			
			<u>\$ 142,252</u>

The following table summarizes the Pension Plans' and Postretirement Plans' assets measured at fair value as of June 30, 2021 (in thousands).

	2021		
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Total Fair Value
Pension Plans:			
Cash and cash equivalents	\$ 282,885	\$ -	\$ 282,885
Equity securities	497,527	32	497,559
Debt securities			
Government and government agency obligations	-	992,402	992,402
Corporate bonds	-	3,305,802	3,305,802
Exchange traded/mutual funds			
Equity funds	162,666	-	162,666
Fixed-income funds	8,761	-	8,761
Other	43,073	-	43,073
Subtotal	<u>\$ 994,912</u>	<u>\$ 4,298,236</u>	<u>\$ 5,293,148</u>
Investments measured at net asset value:			
Commingled funds			
Equity funds			967,853
Fixed-income funds			693,675
Hedge funds			548,507
Private equity			189,153
Total assets			<u>\$ 7,692,336</u>
Postretirement Plans:			
Exchange traded/mutual funds			
Short-term investment funds	\$ 470	\$ -	\$ 470
Fixed-income funds	17,137	-	17,137
Subtotal	<u>\$ 17,607</u>	<u>\$ -</u>	<u>\$ 17,607</u>
Investment measured at net asset value:			
Equity commingled fund			145,490
Total assets			<u>\$ 163,097</u>

Unfunded capital commitments related to private equity investments totaled \$35.2 million and \$50.1 million as of June 30, 2022 and 2021, respectively. The private equity investments are in harvest mode and the anticipated amount of capital to be called is less than 15% of the unfunded amount.

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 several private equity funds that invest primarily in the United States, Asia, and Europe, both directly and on the secondary market, pursuing distressed opportunities and natural resources, primarily energy. These funds are valued at net asset value, which is calculated using the most recent fund financial statements.

Derivatives – 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.

Other – Represents unsettled transactions relating primarily to purchases and sales of plan assets and accrued income. Due to the short maturity of these assets and liabilities, the fair value approximates the carrying amounts.

There were no Level 3 assets in the Pension Plan portfolios at June 30, 2022 or 2021.

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 approximately \$47.3 million to its Pension Plans and \$2.3 million to its Postretirement Plans during the year ended June 30, 2023, 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:

	<u>Pension Plans</u>	<u>Postretirement Plans</u>
Years ending June 30:		
2023	\$ 824,218	\$ 7,642
2024	443,543	7,445
2025	441,802	7,258
2026	438,734	7,061
2027	436,242	6,864
Years 2028 – 2032	2,044,474	30,882

9. COMMITMENTS AND CONTINGENCIES

Litigation and Settlements – In November 2018, Mount Carmel, the Corporation’s Regional Health Ministry in Central Ohio, discovered sentinel events relating to the clinical practice by one of its physicians and the related conduct of certain of Mount Carmel’s staff. The physician’s employment was terminated, and this matter was reported to the authorities. Mount Carmel has been fully cooperative with the investigations. The Corporation believes that this matter will be resolved without material adverse effect to the Corporation’s future consolidated financial position or results of operations.

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

COVID-19 Pandemic – Beginning in March of 2020, the global COVID-19 pandemic began to significantly affect the U.S. health care industry and the Corporation’s patients, communities, employees and business operations. Patient volumes and related revenue for the Corporation’s health care services continue to fluctuate with COVID-19 pandemic surge and recovery waves with prolonged reduced patient volumes compared to pre-COVID-19 periods. On a same facility basis, COVID-19 discharges reached their highest levels of the pandemic during the month of January 2022, necessitating voluntary curbing of elective surgeries across most markets for a period early in the third quarter of fiscal year 2022. The Corporation’s service mix, revenue mix and patient volumes still endure negative impacts from broad economic factors, such as on-going nationwide shortage of nursing staff, reduced consumer spending and rising inflation rates. The Corporation’s response to the COVID-19 pandemic continues to require additional contract labor staff and increased premium labor rates but utilization of both was significantly reduced during the fourth quarter of fiscal year 2022. Both labor and supply chain disruptions, including shortages, delays and significant price increases in medical supplies, pharmaceuticals and personal protective equipment, have impacted and are expected to continue to impact the Corporation’s operations. Risks and uncertainties caused by the COVID-19 pandemic continue to impact the Corporation’s business, financial condition, results of operations and cash flows.

The Corporation continues to take various actions to mitigate the impact on operations from the COVID-19 pandemic. Furthermore, the Corporation has taken steps to control capital and operational spending and reallocate resources to support its hospitals and clinicians. The Corporation received PRF grants, under the CARES Act, the PPPHCE Act, and Rural payments under the ARP Act of 2021, which added to unrestricted cash reserves and also partially offset a portion of the revenue shortfalls and operating expenses incurred as a direct result of the COVID-19 pandemic. Compliance with the HHS Provider Relief Fund General and Targeted Distribution Post-Payment Notice of Reporting Requirements is complex and subject to HHS audit. Transferred Targeted Distribution payments face an increased likelihood of an audit by HHS. There can be no assurance that HHS will not challenge the Corporation’s compliance with these reporting requirements.

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

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

10. LIQUIDITY AND FAIR VALUE MEASUREMENTS

Liquidity and Availability – The following financial assets are not subject to donor or other contractual restrictions and are available for expenditure generally within one year of the balance sheet date. Board-designated funds have been established in which the Board has the objective of setting funds aside that can be drawn upon for current needs. Also, as more fully described in Note 6, the Corporation has a commercial paper program authorized for borrowings of up to \$600 million and a general-purpose credit facility of \$600 million as of June 30, 2022. As of both June 30, 2022 and 2021, there were no amounts outstanding under the existing general purpose credit facility. Various credit facilities executed during fiscal year 2020 were fully drawn upon in the amount of \$1.0 billion in the event of liquidity needs related to the COVID-19 pandemic. Such credit facilities were terminated and fully repaid during fiscal year 2021.

In April 2020, the Corporation requested and received accelerated Medicare payments of \$1.6 billion through the CARES Act. For the years ended June 30, 2022 and 2021, CMS recouped \$907.1 million and \$337.6 million, respectively, of the advances. The remaining recoupment amounts are estimated to be repaid by the second quarter of fiscal year 2023.

The Corporation monitors liquidity position through days cash on hand, which is defined as total unrestricted cash and investments without donor or contractual restrictions, divided by total operating expenses minus depreciation and amortization, divided by the number of days in the period.

The following table depicts the liquidity position of the Corporation as of June 30, but does not include cash or securities provided to the Corporation as collateral under its securities lending program (in thousands):

	<u>2022</u>	<u>2021</u>
Cash and cash equivalents	\$ 643,363	\$ 781,989
Investment securities classified as current assets	5,717,088	7,316,257
Board-designated funds	<u>4,704,093</u>	<u>4,692,496</u>
Total unrestricted cash and investments	<u>\$ 11,064,544</u>	<u>\$ 12,790,742</u>
Days cash on hand	211	254

For the years ended June 30, 2022 and 2021, days cash on hand decreased 43 days and increased 9 days, respectively. The decrease in fiscal year 2022 is related to investment losses and the recoupment of the majority of the Medicare cash advances, partially offset by proceeds from the disposition of GHP as discussed further in Note 3 and \$140.5 million of PRF and Rural grant revenue. The increase in fiscal year 2021 is related to increased investment earnings and \$489.2 million of PRF grant revenue received in fiscal year 2021, partially offset by the repayments on lines of credit, the recoupment of a portion of Medicare cash advances and the repayment of the deferred employer portion of social security taxes.

Approximately 10.6% of the Board-designated funds include private equity investments that may not be as readily available depending on market conditions. The Corporation has other assets limited or restricted as to use for donor-restricted purposes, debt service and for future capital improvements. Additionally, certain other Board-designated assets are designated for future capital expenditures and operating reserves. These assets limited to use, which are more fully described in Note 12, are not available for general expenditure within the next year. However, the Board-designated amounts could be made available, if necessary and are thus reflected in the amounts above.

In addition, as of June 30, 2022 the Corporation had a working capital surplus of \$5.3 billion.

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 over time, 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. There were no Level 3 investments as of June 30, 2022 and 2021.

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 included in the excess of revenue over expenses related to securities still held as of June 30, 2022 and 2021, were \$773.1 million and \$2,182.0 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 \$693.7 million and \$748.5 million as of June 30, 2022 and 2021, 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 table presents 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, 2022 (in thousands):

	2022		
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Total Fair Value
Assets:			
Cash and cash equivalents	\$ 985,684	\$ 10,183	\$ 995,867
Security lending collateral	-	502,981	502,981
Equity securities	3,134,434	6,013	3,140,447
Debt securities:			
Government and government agency obligations	-	965,894	965,894
Corporate bonds	-	1,515,911	1,515,911
Asset backed securities	-	412,851	412,851
Bank loans	-	32	32
Other	-	5,287	5,287
Exchange traded/mutual funds:			
Equity funds	563,647	-	563,647
Fixed income funds	423,704	-	423,704
Real estate investment funds	80,473	-	80,473
Other	44,099	-	44,099
Interest rate swaps	-	2,524	2,524
Subtotal	<u>\$ 5,232,041</u>	<u>\$ 3,421,676</u>	<u>\$ 8,653,717</u>
Equity method investments			2,637,270
Investments measured at net asset value:			
Commingled funds			1,215,828
Hedge funds			<u>603,976</u>
Total assets			<u>\$ 13,110,791</u>
Liabilities:			
Interest rate swaps	<u>\$ -</u>	<u>\$ 88,980</u>	<u>\$ 88,980</u>

The following table presents 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, 2021 (in thousands):

	2021		
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Total Fair Value
Assets:			
Cash and cash equivalents	\$ 1,009,578	\$ 43,859	\$ 1,053,437
Security lending collateral	-	392,728	392,728
Equity securities	3,865,137	16,349	3,881,486
Debt securities:			
Government and government agency obligations	-	861,911	861,911
Corporate bonds	-	2,485,206	2,485,206
Asset backed securities	-	532,557	532,557
Bank loans	-	6,643	6,643
Other	-	6,336	6,336
Exchange traded/mutual funds:			
Equity funds	578,605	-	578,605
Fixed income funds	306,877	-	306,877
Real estate investment funds	85,099	-	85,099
Other	175,224	-	175,224
Interest rate swaps	-	2,202	2,202
Subtotal	<u>\$ 6,020,520</u>	<u>\$ 4,347,791</u>	<u>\$ 10,368,311</u>
Equity method investments			2,218,844
Investments measured at net asset value:			
Commingled funds			1,608,317
Hedge funds			<u>746,870</u>
Total assets			<u>\$ 14,942,342</u>
Liabilities:			
Interest rate swaps	<u>\$ -</u>	<u>\$ 175,897</u>	<u>\$ 175,897</u>

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>2022</u>	<u>2021</u>
Assets:		
Cash and cash equivalents	\$ 643,363	\$ 781,989
Investments	5,717,088	7,316,257
Security lending collateral	502,981	392,728
Assets limited or restricted as to use - current portion	475,836	456,723
Assets limited or restricted as to use - noncurrent portion:		
Self-insurance, benefit plans and other	912,032	1,063,638
By Board	4,494,293	4,486,606
By donor	503,742	556,951
Interest rate swaps in other long-term assets	2,524	2,202
Less items not recorded at fair value:		
Unconditional promises to give - net	(54,026)	(59,059)
Reinsurance recovery receivable	(80,268)	(47,900)
Other, primarily beneficial interests in trusts	(6,774)	(7,793)
Total assets	<u>\$ 13,110,791</u>	<u>\$ 14,942,342</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, 2022 and 2021. The fair value and redemption rules of these investments are as follows as of June 30 (in thousands):

		<u>2022</u>	
	<u>Fair Value</u>	<u>Redemption Frequency</u>	<u>Redemption Notice Period</u>
Commingled funds	\$ 1,215,828	Daily, thrice-monthly, monthly	2 - 10 days
Hedge funds	<u>603,976</u>	Daily, monthly, quarterly, semi-annually, annually	15 - 95 days
Total	<u>\$ 1,819,804</u>		
		<u>2021</u>	
	<u>Fair Value</u>	<u>Redemption Frequency</u>	<u>Redemption Notice Period</u>
Commingled funds	\$ 1,608,317	Daily, semi-monthly	2 - 15 days
Hedge funds	<u>746,870</u>	Daily, monthly, quarterly, semi-annually, annually	2 - 95 days
Total	<u>\$ 2,355,187</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 U.S. 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 0.4% and 0.5% of the value of the investments in this category as of June 30, 2022 and 2021, respectively, can only be redeemed semi-annually, bi-annually, or annually subsequent to the initial investment date. Investments representing 65.0% and 52.0% of the investments in this category as of June 30, 2022 and 2021, 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>2022</u>	<u>2021</u>
Dividend, interest income and other	\$ 226,813	\$ 225,812
Realized gain - net	262,498	611,285
Realized equity earnings, other investments	142,868	123,571
Change in net unrealized (loss) gain on investments	<u>(1,699,351)</u>	<u>1,548,700</u>
Total investment return	<u>\$ (1,067,172)</u>	<u>\$ 2,509,368</u>
Included in:		
Operating income	\$ (17,554)	\$ 143,948
Nonoperating items	(1,015,043)	2,295,265
Changes in net assets with donor restrictions	<u>(34,575)</u>	<u>70,155</u>
Total investment return	<u>\$ (1,067,172)</u>	<u>\$ 2,509,368</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>2022</u>	<u>2021</u>
Amounts expected to be collected in:		
Less than one year	\$ 40,897	\$ 42,365
One to five years	17,562	20,893
More than five years	<u>3,077</u>	<u>3,004</u>
	61,536	66,262
Discount to present value of future cash flows	(3,793)	(3,186)
Allowance for uncollectible amounts	<u>(3,717)</u>	<u>(4,017)</u>
Total unconditional promises to give - net	<u>\$ 54,026</u>	<u>\$ 59,059</u>

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. Cash payments on interest rate swaps totaled \$23.2 million and \$17.0 million for the years ended June 30, 2022 and 2021, 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 (Deficiency) Excess of Revenue over Expenses – The Corporation has interest rate swaps not designated as hedging instruments which are included in the (deficiency) excess of revenue over expenses in the statement of operations. Net gains included in the change in market value and cash payments of interest rate swaps totaled \$63.4 million and \$33.0 million for the years ended June 30, 2022 and 2021, respectively.

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	
		2022	2021
Asset Derivatives:			
Interest rate swaps	Other assets	\$ 2,524	\$ 2,202
Liability Derivatives:			
Interest rate swaps	Other long-term liabilities	\$ 88,980	\$ 175,897

The counterparties to the interest rate swaps expose the Corporation to credit loss in the event of nonperformance. As of June 30, 2022 and 2021, an adjustment for nonperformance risk reduced derivative assets by \$0.1 million and \$0, respectively, and derivative liabilities by \$3.4 million and \$2.7 million, respectively.

12. NET ASSETS WITHOUT DONOR RESTRICTIONS AND WITH DONOR RESTRICTIONS

Net assets with donor restrictions are those whose use by the Corporation has been limited by donors to a specific program or time period. In addition, certain restricted assets have been restricted by donors to be maintained by the Corporation in perpetuity. Net assets with donor restrictions as of June 30 are restricted for the following programs or periods (in thousands):

	<u>2022</u>	<u>2021</u>
Subject to expenditure for specified program		
Education and research	\$ 41,754	\$ 42,722
Building and equipment	66,384	69,512
Patient care	50,284	57,561
Cancer center/research	19,206	25,269
Services for elderly care	40,704	45,412
Other	95,712	104,745
	<u>314,044</u>	<u>345,221</u>
Subject to the passage of time		
For periods after June 30	<u>54,026</u>	<u>59,059</u>
Total subject to expenditure for specified program and passage of time	<u>\$ 368,070</u>	<u>\$ 404,280</u>
Subject to organization spending policy and appropriation		
Investment in perpetuity, which, once appropriated, is expendable to support:		
Hospital operations	122,929	141,167
Medical programs	14,353	13,126
Scholarship funds	10,783	10,274
Research funds	12,826	11,975
Community service funds	15,662	16,410
Other	41,929	44,450
	<u>218,482</u>	<u>237,402</u>
Total net assets with donor restrictions	<u>\$ 586,552</u>	<u>\$ 641,682</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 changes in endowment net assets and composition by type of fund for the years ended June 30 are as follows (in thousands):

	Net Assets Without Donor Restrictions	Net Assets With Donor Restrictions	Total
Endowment net assets, July 1, 2020	\$ 89,510	\$ 250,943	\$ 340,453
Investment return:			
Investment income	6,040	8,777	14,817
Change in net realized and unrealized gains (losses)	15,528	42,191	57,719
Total investment return	21,568	50,968	72,536
Contributions	859	13,390	14,249
Appropriation of endowment assets for expenditures	(3,800)	(2,064)	(5,864)
Other	(7,770)	(3,425)	(11,195)
Endowment net assets, June 30, 2021	100,367	309,812	410,179
Investment return:			
Investment income	-	3,696	3,696
Change in net realized and unrealized gains (losses)	(9,363)	(31,078)	(40,441)
Total investment return	(9,363)	(27,382)	(36,745)
Contributions	3,755	6,170	9,925
Appropriation of endowment assets for expenditures	(2,184)	(1,833)	(4,017)
Other	(915)	(10,478)	(11,393)
Endowment net assets, June 30, 2022	<u>\$ 91,660</u>	<u>\$ 276,289</u>	<u>\$ 367,949</u>

The table below describes the restrictions for endowment amounts classified as net assets with donor restrictions as of June 30 (in thousands):

	2022	2021
Net assets with donor restrictions:		
Endowments requiring income to be added to the original gift	\$ 10,110	\$ 6,698
Term endowment funds	8,115	10,975
Accumulated investment gains on endowment funds:		
Without purpose restrictions	168,835	183,079
With purpose restrictions	89,229	109,060
Total endowment funds classified as net assets with donor restrictions	<u>\$ 276,289</u>	<u>\$ 309,812</u>

Underwater Endowments – Periodically, the fair value of assets associated with the individual donor-restricted endowment funds may fall below the level that the donor or the Uniform Prudent Management of Institutional Funds Act (UPMIFA) requires the Corporation to retain as a fund of perpetual duration. Deficiencies of this nature did not exist for the year ended June 30, 2021. As of June 30, 2022, the Corporation had two underwater endowments. The Corporation has a policy that permits spending from underwater endowment funds depending on the degree to which the fund is underwater, unless otherwise precluded by donor intent or relevant laws and regulations. However, the Corporation’s policy for all endowments is the investment returns released into income during the year may not exceed 5% of the total investment pool balance. This policy also applies to underwater endowments.

Governing Board Designations – At times, the Corporation’s governing Board may make designations or appropriations that result in self-imposed limits on the use of resources without donor restrictions, known as Board-designated net assets. The Corporation’s governing Board has designated, from net assets without donor restrictions amounts for the following purposes as of June 30 (in thousands):

	<u>2022</u>	<u>2021</u>
Quasi-endowment funds	\$ 91,660	\$ 100,367
Future capital improvements	812,482	937,585
System development fund	690,442	657,718
Insurance and retirement programs	849,593	904,845
Retirement of debt/intercompany loan program	1,763,924	1,634,871
Program/mission	283,740	319,781
Liquidity reserve	30,886	30,827
Other	<u>181,366</u>	<u>106,502</u>
Total governing Board designations	4,704,093	4,692,496
Less current portion	<u>(209,800)</u>	<u>(205,890)</u>
Total governing Board designations - net of current portion	<u>\$ 4,494,293</u>	<u>\$ 4,486,606</u>

13. RELATED PARTY TRANSACTIONS

The Corporation provides information services, insurance coverage, lab services and other administrative support services to certain equity investees and other non-consolidated affiliates. For the years ended, June 30, 2022 and 2021, respectively, revenue for these services totaled \$43.9 million and \$61.7 million which is included in other revenue in the consolidated statement of operations and changes in net assets. As of June 30, 2022 and 2021, respectively, accounts receivable for services provided totaled \$4.2 million and \$3.5 million which is included in other receivables in the consolidated balance sheets. In addition, the Corporation receives lab services from a non-consolidated affiliate. For the years ended, June 30, 2022 and 2021, respectively, expenses for these services totaled \$26.7 million and \$20.8 million which is included in purchased services and medical claims expense in the consolidated statement of operations and changes in net assets. As of June 30, 2022 and 2021 there were no outstanding payables for these services.

14. RESTRUCTURING CHARGES

During the fourth quarter of fiscal year 2022, the Corporation undertook actions to reduce administrative costs in response to patient volumes that continue to be below pre-pandemic levels as well as increased operating costs, primarily labor costs. As a result of these actions, restructuring charges, primarily for severance and termination benefits, of \$72.6 million for the year ended June 30, 2022 were recorded in the consolidated statement of operations and changes in net assets.

As further discussed in Note 3, for the year ended June 30, 2021, \$76.7 million of restructuring charges, primarily for severance and termination benefits and loss on sale of property, plant and equipment, were recorded in the consolidated statement of operations and changes in net assets related to the Mercy and MHSC transformation plan.

15. SUBSEQUENT EVENTS

Management has evaluated subsequent events through September 21, 2022, the date the consolidated financial statements were issued. The following subsequent events were noted:

Completed and Pending Acquisitions:

MercyOne & MHN – On September 1, 2022, the Corporation completed a transaction with CommonSpirit Health (“CSH”) through which (i) the Corporation acquired CSH’s 50% interest in MHN, which is the sole member of WFSI and the MHN subsidiary that owns and controls CCH (see Note 3 for further information regarding MHN), thereby becoming the sole corporate member of MHN, (ii) MHN became the sole corporate member of Catholic Health Initiatives-Iowa, Corp. d/b/a MercyOne Des Moines Medical Center (“MercyOne Des Moines”), a regional health care system located in Des Moines, Iowa, and (iii) Trinity Home Health Services d/b/a Trinity Health At Home, a subsidiary of the Corporation, acquired certain home care, hospice, and home infusion pharmacy operations from an affiliate of CSH located in the vicinity of Des Moines (“Iowa Home Care Assets”, and collectively with (i) and (ii), the “MercyOne Transaction”). The cash paid to CSH in consideration for the MercyOne Transaction totaled \$613.0 million. The fair value of identifiable assets acquired, and liabilities assumed, have not yet been determined as the Corporation is still in the process of obtaining third-party valuations of certain tangible and intangible assets and is still assessing the economic characteristics of certain assets acquired and liabilities assumed. Thus, the opening consolidated balance sheet of entities and operations acquired at the effective date of the MercyOne Transaction is not yet available. The Corporation expects to substantially complete this assessment by December 31, 2022. Pro-forma financial data is not yet available.

For the years ended June 30, 2022 and 2021, respectively, reported operating revenue totaled \$1,130.4 million and \$1,130.6 million at MercyOne Des Moines, \$381.0 million and \$377.7 million at WFSI, \$10.2 million and \$10.2 million at CCH, and \$18.6 million and \$20.9 million for the Iowa Home Care Assets; reported excess (deficiency) of revenue over expenses totaled (\$108.8) million and \$89.6 million at MercyOne Des Moines, (\$17.4) million and \$24.6 million at WFSI, (\$0.1) million and \$0.9 million at CCH, and \$0.3 million and \$1.2 million at Iowa Home Care Assets.

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

North Ottawa Community Health System – On September 14, 2022, the Corporation’s affiliate, Mercy Health Partners, signed a definitive agreement with North Ottawa Community Health System (“North Ottawa”) under which Mercy Health Partners would become the sole member of North Ottawa upon the closing of the transaction. The transaction is contemplated to be completed on October 1, 2022 and is subject to customary closing conditions and regulatory approvals. North Ottawa and its affiliates operate an acute care hospital, urgent care center, long-term care facility and provide hospice services in the communities surrounding Grand Haven, Michigan. For the years ended June 30, 2022 and 2021, respectively, North Ottawa’s reported operating revenue totaled \$69.3 million and \$72.4 million, and (deficiency) excess of revenue over expenses totaled (\$0.3) million and \$6.5 million.

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