

# Trinity Health

Consolidated Financial Statements as of and for the  
years ended June 30, 2020 and 2019,  
and Independent Auditors' Report



# TRINITY HEALTH

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## INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated financial statements of Trinity Health Corporation and its subsidiaries (the "Corporation"), which comprise the consolidated balance sheets as of June 30, 2020 and 2019, and the related consolidated statements of operations and changes in net assets and cash flows for the years then ended, and the related notes to the consolidated financial statements.

### Management's Responsibility for the Consolidated Financial Statements

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

### Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We did not audit the consolidated financial statements of BayCare Health System, the Corporation's investment which is accounted for by the use of the equity method. The accompanying consolidated financial statements of the Corporation include its investment in the net assets of BayCare Health System of \$3.3 billion and \$3.1 billion as of June 30, 2020, and 2019, respectively, and its equity method income from BayCare Health System of \$202.5 million and \$295.7 million for the years ended June 30, 2020 and 2019, respectively. The combined financial statements of BayCare Health System for the years ended December 31, 2019 and 2018, were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for Baycare Health System, is based on the reports of the other auditors and the procedures that we considered necessary in the circumstances with respect to the inclusion of the Corporation's equity investment and equity method income in the accompanying consolidated financial statements taking into consideration the differences in fiscal years. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

## Opinion

In our opinion, based on our audits and the reports of the other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Corporation as of June 30, 2020 and 2019, and the results of its operations and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## Change in Accounting Principle

As discussed in Note 2 to the consolidated financial statements, effective July 1, 2019, the Corporation adopted the Financial Accounting Standards Board Accounting Standards Update 2016-02, "*Leases (Topic 842)*", using the modified retrospective transition method. Our opinion is not modified with respect to this matter.

*Deloitte & Touche LLP*

September 16, 2020

# TRINITY HEALTH

## CONSOLIDATED BALANCE SHEETS

JUNE 30, 2020 AND 2019

(In thousands)

ASSETS	2020	2019
CURRENT ASSETS:		
Cash and cash equivalents	\$ 2,191,598	\$ 474,314
Investments	5,988,670	4,833,039
Security lending collateral	296,053	264,435
Assets limited or restricted as to use - current portion	402,129	403,799
Patient accounts receivable	1,715,740	2,012,354
Estimated receivables from third-party payers	252,278	267,181
Other receivables	386,520	374,818
Inventories	378,523	297,804
Prepaid expenses and other current assets	219,146	179,124
Total current assets	11,830,657	9,106,868
ASSETS LIMITED OR RESTRICTED AS TO USE - Noncurrent portion:		
Held by trustees under bond indenture agreements	6,676	5,828
Self-insurance, benefit plans and other	871,641	867,132
By Board	3,589,471	3,474,947
By donors	476,249	460,836
Total assets limited or restricted as to use - Noncurrent portion	4,944,037	4,808,743
PROPERTY AND EQUIPMENT - Net	8,278,585	8,359,974
OPERATING LEASE RIGHT-OF-USE ASSETS	495,648	-
INVESTMENTS IN UNCONSOLIDATED AFFILIATES	4,057,789	3,876,028
GOODWILL	439,687	437,403
OTHER ASSETS	410,673	383,088
TOTAL ASSETS	\$ 30,457,076	\$ 26,972,104

<b>LIABILITIES AND NET ASSETS</b>	<b>2020</b>	<b>2019</b>
<b>CURRENT LIABILITIES:</b>		
Commercial paper	\$ 99,979	\$ 99,493
Short-term lines of credit	615,000	-
Short-term borrowings	667,275	686,670
Current portion of long-term debt	387,544	126,727
Current portion of operating lease liabilities	135,342	-
Medicare cash advances	1,634,160	-
Accounts payable and accrued expenses	1,455,173	1,435,939
Salaries, wages and related liabilities	1,152,589	919,055
Payable under security lending agreements	296,053	264,435
Estimated payables to third-party payers	414,271	375,116
Current portion of self-insurance reserves	269,813	282,364
Total current liabilities	7,127,199	4,189,799
LONG-TERM DEBT - Net of current portion	6,554,014	6,222,908
LONG-TERM PORTION OF OPERATING LEASE LIABILITIES	454,039	-
SELF-INSURANCE RESERVES - Net of current portion	1,059,916	1,036,697
ACCRUED PENSION AND RETIREE HEALTH COSTS	943,473	933,238
OTHER LONG-TERM LIABILITIES	787,687	754,054
Total liabilities	16,926,328	13,136,696
<b>NET ASSETS:</b>		
Net assets without donor restrictions	12,726,231	13,047,732
Noncontrolling ownership interest in subsidiaries	238,337	234,987
Total net assets without donor restrictions	12,964,568	13,282,719
Net assets with donor restrictions	566,180	552,689
Total net assets	13,530,748	13,835,408
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 30,457,076</b>	<b>\$ 26,972,104</b>

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, 2020 AND 2019

(In thousands)

	<u>2020</u>	<u>2019</u>
OPERATING REVENUE:		
Net patient service revenue	\$ 15,454,773	\$ 16,601,888
Premium and capitation revenue	1,064,491	1,060,900
Net assets released from restrictions	29,296	39,184
Other revenue	2,284,467	1,591,251
Total operating revenue	<u>18,833,027</u>	<u>19,293,223</u>
EXPENSES:		
Salaries and wages	8,137,053	8,331,228
Employee benefits	1,654,500	1,700,738
Contract labor	267,937	315,601
Total labor expenses	<u>10,059,490</u>	<u>10,347,567</u>
Supplies	3,122,083	3,228,199
Purchased services and medical claims	2,750,885	2,642,804
Depreciation and amortization	894,959	861,009
Occupancy	756,300	780,984
Interest	244,156	238,944
Other	930,436	921,954
Total expenses	<u>18,758,309</u>	<u>19,021,461</u>
OPERATING INCOME BEFORE OTHER ITEMS	<u>74,718</u>	<u>271,762</u>
Restructuring costs	(212,941)	(82,384)
Asset impairment charges	(202,746)	(25,192)
Loss on transfer of Lourdes Health System	(3,693)	(57,405)
OPERATING (LOSS) INCOME	<u>(344,662)</u>	<u>106,781</u>
NONOPERATING ITEMS:		
Investment earnings	176,167	421,163
Equity in earnings of unconsolidated affiliates	172,283	318,510
Change in market value and cash payments of interest rate swaps	(80,037)	(54,215)
Other net periodic retirement income	81,258	54,059
Loss from early extinguishment of debt	(32,528)	(7,067)
Other, including income taxes	(7,027)	(4,926)
Total nonoperating items	<u>310,116</u>	<u>727,524</u>
(DEFICIENCY) EXCESS OF REVENUE OVER EXPENSES	<u>(34,546)</u>	<u>834,305</u>
EXCESS OF REVENUE OVER EXPENSES ATTRIBUTABLE TO		
NONCONTROLLING INTEREST	<u>(40,913)</u>	<u>(48,334)</u>
(DEFICIENCY) EXCESS OF REVENUE OVER EXPENSES, NET OF NONCONTROLLING INTEREST	<u>\$ (75,459)</u>	<u>\$ 785,971</u>



	<u>2020</u>	<u>2019</u>
NET ASSETS WITHOUT DONOR RESTRICTIONS:		
Net assets without donor restrictions attributable to Trinity Health:		
(Deficiency) excess of revenue over expenses	\$ (75,459)	\$ 785,971
Net assets released from restrictions for capital acquisitions	34,961	57,306
Net change in retirement plan related items - consolidated organizations	(238,652)	(418,622)
Net change in retirement plan related items - unconsolidated organizations	(17,608)	7,762
Cumulative effect of change in accounting principle	(44,301)	-
Other	19,558	33,561
(Decrease) increase in net assets without donor restrictions attributable to Trinity Health	<u>(321,501)</u>	<u>465,978</u>
Net assets without donor restrictions attributable to noncontrolling interests:		
Excess of revenue over expenses attributable to noncontrolling interests	40,913	48,334
Sale of noncontrolling interest in subsidiaries	-	56,715
Dividends and other	(37,563)	(46,218)
Increase in net assets without donor restrictions attributable to noncontrolling interests	<u>3,350</u>	<u>58,831</u>
NET ASSETS WITH DONOR RESTRICTIONS:		
Contributions:		
Program and time restrictions	68,697	95,686
Endowment funds	6,269	3,877
Net investment gains (losses):		
Program and time restrictions	105	3,667
Endowment funds	(801)	1,547
Net assets released from restrictions	(64,257)	(96,490)
Other	3,478	(41,704)
Increase (decrease) in net assets with donor restrictions	<u>13,491</u>	<u>(33,417)</u>
(DECREASE) INCREASE IN NET ASSETS	(304,660)	491,392
NET ASSETS - BEGINNING OF YEAR	<u>13,835,408</u>	<u>13,344,016</u>
NET ASSETS - END OF YEAR	<u>\$ 13,530,748</u>	<u>\$ 13,835,408</u>

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

# TRINITY HEALTH

## CONSOLIDATED STATEMENTS OF CASH FLOWS

YEARS ENDED JUNE 30, 2020 AND 2019

(In thousands)

	<u>2020</u>	<u>2019</u>
OPERATING ACTIVITIES:		
(Decrease) increase in net assets	\$ (304,660)	\$ 491,392
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities:		
Depreciation and amortization	894,959	861,009
Amortization of right-of-use operating lease assets	129,741	-
Asset impairment charges	202,746	25,192
Loss on transfer of Lourdes Health System	3,693	57,405
Gain on sale of subsidiaries	(5,693)	(16,018)
Sale of noncontrolling interest in subsidiaries	-	(56,715)
Loss on extinguishment of debt	32,528	7,067
Change in net unrealized and realized gains on investments	(84,811)	(330,221)
Change in market values of interest rate swaps	61,871	40,729
Undistributed equity in earnings of unconsolidated affiliates	(198,295)	(343,290)
Deferred retirement items - consolidated organizations	238,652	418,622
Deferred retirement items - unconsolidated organizations	17,608	(7,762)
Restricted contributions and investment income received	(16,775)	(80,001)
Cumulative effect of change in accounting principle	44,301	-
Other adjustments	(11,130)	34,696
Changes in:		
Patient accounts receivable	297,238	(830)
Estimated receivables from third-party payers	14,903	(34,418)
Other assets	(215,201)	(42,015)
Medicare cash advances	1,634,160	-
Accounts payable and accrued expenses	272,569	89,074
Estimated payables to third-party payers	39,079	(20,854)
Self-insurance reserves and other liabilities	(151,019)	9,699
Accrued pension and retiree health costs	(247,482)	(183,197)
Total adjustments	<u>2,953,642</u>	<u>428,172</u>
Net cash provided by operating activities	<u>\$ 2,648,982</u>	<u>\$ 919,564</u>

	<u>2020</u>	<u>2019</u>
<b>INVESTING ACTIVITIES:</b>		
Proceeds from sales of investments	\$ 2,682,051	\$ 4,129,917
Purchases of investments	(3,856,958)	(4,372,566)
Purchases of property and equipment	(950,933)	(1,276,346)
Proceeds from disposal of property and equipment	3,321	7,065
Net cash used for acquisitions	(13,312)	(188)
Proceeds from the sales of divestitures	48,976	21,944
Change in investments in unconsolidated affiliates	(1,162)	(45,276)
Increase (decrease) in assets limited as to use and other	15,945	(10,276)
Net cash used in investing activities	<u>(2,072,072)</u>	<u>(1,545,726)</u>
<b>FINANCING ACTIVITIES:</b>		
Proceeds from issuance of debt	1,954,121	434,534
Repayments of debt	(1,766,170)	(339,604)
Net change in commercial paper	486	(411)
Draws on lines of credit	1,000,000	-
Dividends paid	(37,485)	(46,218)
Proceeds from restricted contributions and restricted investment income	16,678	58,194
Increase in financing costs and other	(11,029)	(4,104)
Net cash provided by financing activities	<u>1,156,601</u>	<u>102,391</u>
<b>NET INCREASE (DECREASE) IN CASH, CASH EQUIVALENTS, AND RESTRICTED CASH</b>	<b>1,733,511</b>	<b>(523,771)</b>
<b>CASH, CASH EQUIVALENTS, AND RESTRICTED CASH - BEGINNING OF YEAR</b>	<b><u>605,870</u></b>	<b><u>1,129,641</u></b>
<b>CASH, CASH EQUIVALENTS, AND RESTRICTED CASH - END OF YEAR</b>	<b><u>\$ 2,339,381</u></b>	<b><u>\$ 605,870</u></b>
<b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:</b>		
Cash paid for interest - net of amounts capitalized	\$ 260,388	\$ 251,755
Accruals for purchases of property and equipment and other long-term assets	128,689	144,696
Unsettled investment trades and purchases	26,084	22,253
Unsettled investment trades and sales	5,684	10,316
Increase (decrease) in security lending collateral	31,618	(10,793)
(Increase) decrease in payable under security lending agreements	(31,618)	10,793

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, 2020 AND 2019

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### 1. ORGANIZATION AND MISSION

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

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

**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 6 million people Trinity Health touches directly with clinical care, our Mission extends to reach another 30 million people who live in our communities. Trinity Health lives our Mission, not only through the delivery of medical care but also through community serving programs, such as street outreach programs to meet the needs of homeless populations, and Social Care Hubs 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 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>2020</u>	<u>2019</u>
<b>Ministry for those who are poor and underserved:</b>		
Financial assistance	\$ 207,123	\$ 203,581
Unpaid cost of Medicaid and other public programs	724,831	586,161
Programs for those who are poor and the underserved:		
Community health improvement services	26,792	29,073
Subsidized health services	49,282	49,287
Financial contributions	18,975	19,675
Community building activities	1,565	2,130
Community benefit operations	<u>6,393</u>	<u>5,976</u>
Total programs for those who are poor and underserved	<u>103,007</u>	<u>106,141</u>
Ministry for those who are poor and underserved	<u>1,034,961</u>	<u>895,883</u>
 <b>Ministry for the broader community:</b>		
Community health improvement services	14,735	13,223
Health professions education	189,591	168,132
Subsidized health services	57,439	45,039
Research	4,869	4,531
Financial contributions	27,160	28,321
Community building activities	1,449	1,639
Community benefit operations	<u>4,940</u>	<u>3,889</u>
Ministry for the broader community	<u>300,183</u>	<u>264,774</u>
Community benefit ministry	<u>\$ 1,335,144</u>	<u>\$ 1,160,657</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*** represent the cost (determined using a cost-to-charge ratio) of providing services to beneficiaries of public programs, including state Medicaid and indigent care programs, in excess of governmental and managed care contract payments.

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

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

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

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

**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, 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>2020</u>	<u>2019</u>
Cash and cash equivalents	\$ 2,191,598	\$ 474,314
Restricted cash included in assets limited or restricted as to use - current portion		
Held by trust under bond indenture	11,578	11,415
Self insured benefit plans & other	64,720	54,670
By donors	<u>4,698</u>	<u>5,798</u>
Total restricted cash included in assets limited or restricted as to use - current portion	80,996	71,883
Restricted cash included in assets limited as to use - noncurrent portion		
Held by trust under bond indenture	6,676	5,845
Self insured benefit plans & other	27,761	27,485
By donors	<u>32,350</u>	<u>26,343</u>
Total restricted cash included in assets limited or restricted as to use - noncurrent portion	<u>66,787</u>	<u>59,673</u>
Total cash, cash equivalents, and restricted cash shown in the statements of cash flows	<u>\$ 2,339,381</u>	<u>\$ 605,870</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, 2020 and 2019, the Corporation had securities loaned of \$663.3 million and \$514.5 million, respectively, and received collateral (cash and noncash) totaling \$684.5 million and \$529.5 million, respectively, relating to the securities loaned. The fees received for these transactions are recorded in nonoperating investment income in the consolidated statements of operations and changes in net assets. In addition, certain pension plans participate in securities lending programs with the Northern Trust Company, the plans’ agent.

**Patient Accounts Receivable, Estimated Receivables from and Payables to Third-Party Payers** – 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, effective July 1, 2019, 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 capital lease amortization for the year ended June 30, 2019, finance lease right-of-use asset amortization for the year ended June 30, 2020 and internal-use software amortization. The useful lives of property and equipment range from 2 to 50 years, and finance lease agreements have initial terms typically ranging from 3 to 10 years. Interest costs incurred during the period of construction of capital assets are capitalized as a component of the cost of acquiring those assets.

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

***Right-of-Use Lease Assets and Lease Liabilities*** – The Corporation determines if an arrangement is a lease at inception of the contract. 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 3 to 10 years. The Corporation's equipment lease agreements typically have an initial term of one to six 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 15 years. Indefinite-lived intangible assets primarily include trade names, which are tested annually for impairment.

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

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

***Medicare Cash Advances*** – Accelerated Medicare payments requested by the Corporation for its acute care hospitals were received in April 2020, and were provided through the Coronavirus Aid, Relief and Economic Security Act (the “CARES Act”). After 120 days past receipt of the advance payments, claims for services provided to Medicare beneficiaries will be applied against these cash advances. Any unapplied advance payment amounts must be paid in full within one year from receipt of the advance payments.

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

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

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

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

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

completed when the patients are discharged, which generally occurs within days or weeks from the end of the reporting period.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

**Adopted Accounting Pronouncements** –

Effective July 1, 2019, the Corporation adopted FASB ASU No. 2016-02, "Leases (Topic 842)" using the modified retrospective transition approach as of the period of adoption. The consolidated financial statements for periods prior to July 1, 2019 were not modified for the application of the new lease accounting standard. The main difference between the guidance in ASU No. 2016-02 and previous standards is the recognition of lease assets and lease liabilities by lessees for those leases classified as operating leases under previous standards. Upon adoption of ASU No. 2016-02, the Corporation recorded \$608.8 million of right-of-use assets and \$653.7 million of liabilities associated with operating leases in the consolidated balance sheet. Upon adoption, the Corporation recognized a charge of \$44.3 million as a cumulative effect adjustment to net assets without donor restrictions in the consolidated statement of operations and changes in net assets, primarily related to right-of-use operating lease asset impairments. At the date of adoption, the most recent estimates of future undiscounted cash flows indicated that the carrying value of the right-of-use operating lease assets were not recoverable from estimated future cash flows as of June 30, 2019. The Corporation engaged a third-party valuation specialist to determine the fair value of the

right-of-use operating lease assets, and the resulting impairments were recorded as a cumulative effect adjustment as of July 1, 2019. The Corporation has elected the practical expedient that allows lessees to choose to not separate lease and non-lease components by class of underlying asset and is applying this expedient to all relevant asset classes. The Corporation has also elected the practical expedient package to not reassess at adoption (i) expired or existing contracts as to whether they are or contain a lease, (ii) the lease classification of any existing leases or (iii) initial indirect costs for existing leases.

Effective July 1, 2019, the Corporation adopted FASB ASU No. 2017-07, *“Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost,”* which amends the requirements related to the presentation of the components of net periodic benefit cost in the statements of operations for an entity’s sponsored defined benefit pension and other postretirement plans on a retrospective basis. For the year ended June 30, 2019, the Corporation reclassified \$54.1 million of defined benefit pension and postretirement plan income from employee benefits expense to nonoperating income in the consolidated statement of operations and changes in net assets as a result of adopting the new guidance. For the year ended June 30, 2020, the Corporation recorded \$81.3 million of defined benefit pension and postretirement plan income to nonoperating income in the consolidated statement of operations and changes in net assets.

Effective July 1, 2019, the Corporation adopted FASB ASU No. 2016-18, *“Restricted Cash,”* which adds and clarifies guidance in the presentation of changes in restricted cash on the statement of cash flows and requires restricted cash to be included with cash and cash equivalents in the statement of cash flows on a retrospective basis. The adoption of ASU No. 2016-18 changed the amounts presented as cash and cash equivalents in the statements of cash flows, and it also impacted certain disclosures but did not materially impact the Corporation’s financial position, or results of operations. As of June 30, 2019, the Corporation modified the cash flow statement to include restricted cash of \$131.6 million under the new standard.

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

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

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

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

***Investments in Unconsolidated Affiliates*** – The Corporation and certain of its Health Ministries have investments in entities that are recorded under the cost and equity methods of accounting. As of June 30, 2020 and 2019, the Corporation maintained investments in unconsolidated affiliates with ownership interests ranging from 1.0% to 50.4%. The Corporation’s share of equity earnings from entities accounted for under the equity method was \$227.1 million and \$376.0 million for the years ended June 30, 2020 and 2019, respectively, of which \$54.8 million and \$57.5 million, respectively, is included in other revenue and \$172.3 million and \$318.5 million, respectively, is included in nonoperating items in the consolidated statements of operations and changes in net assets. The most significant of these investments include the following:

***BayCare Health System*** – The Corporation has a 50.4% interest in BayCare Health System Inc. and Affiliates (“BayCare”), a Florida not-for-profit corporation exempt from state and federal income taxes. BayCare was formed in 1997 pursuant to a Joint Operating Agreement (“JOA”) among the not-for-profit, tax-exempt members of the Trinity Health BayCare Participants, Morton Plant Mease Health Care, Inc., and South Florida Baptist Hospital, Inc. (collectively, the “Members”). BayCare consists of three community health alliances located in the Tampa Bay area of Florida, including St. Joseph’s-Baptist Healthcare Hospital, St. Anthony’s Health Care, and Morton Plant Mease Health Care. The Corporation has the right to appoint nine of the 21 voting members of the Board of Directors of BayCare; therefore, the Corporation accounts for BayCare under the equity method of accounting. As of June 30, 2020 and 2019, the Corporation’s investment in BayCare totaled \$3,268 million and \$3,058 million, respectively.

***Gateway Health Plan*** – The Corporation has a 50% interest in Gateway Health Plan, L.P. and subsidiaries (“GHP”), a Pennsylvania limited partnership. GHP has two general partners, Highmark Ventures Inc., formerly known as Alliance Ventures, Inc., and Mercy Health Plan (a wholly owned subsidiary of the Corporation), each owning 1%. In addition to the general partners, there are two limited partners, Highmark Inc. and Mercy Health Plan, each owning 49%. As of June 30, 2020 and 2019, the Corporation’s investment in GHP totaled \$227.0 million and \$213.7 million, respectively.

***Catholic Health System, Inc.*** – The Corporation has a 50% interest in Catholic Health System, Inc. and subsidiaries (“CHS”) with the Diocese of Buffalo holding the remaining 50%. CHS, formed in 1998, is a not-for-profit integrated delivery health care system in western New York. CHS operates several organizations, the largest of which are four acute care hospitals located in Buffalo, New York: Mercy Hospital of Buffalo, Kenmore Mercy Hospital, Sisters of Charity Hospital, and St. Joseph Hospital. As of June 30, 2020 and 2019, the Corporation’s investment in CHS totaled \$37.9 million and \$97.3 million, respectively.

***Emory Healthcare/St. Joseph’s Health System*** – The Corporation has a 49% interest in Emory Healthcare/St. Joseph’s Health System (“EH/SJHS”). EH/SJHS operates several organizations, including two acute care hospitals, St. Joseph’s Hospital of Atlanta and John’s Creek Hospital. As of June 30, 2020 and 2019, the Corporation’s investment in EH/SJHS totaled \$143.4 million and \$136.7 million, respectively.

***Mercy Health Network*** – The Corporation has a 50% interest in Mercy Health Network, dba MercyOne, (“MHN”), a nonstock-basis membership corporation with CommonSpirit Health (“CSH”), formerly known as Catholic Health Initiatives, holding the remaining 50% interest. MHN is the sole member of Wheaton Franciscan Services, Inc. (“WFSI”) that operates three hospitals in Iowa: Covenant Medical Center located in Waterloo, Sartori Memorial Hospital located in Cedar Falls and Mercy Hospital of Franciscan Sisters located in Oelwein. In November 2018, a subsidiary of MHN acquired Central Community Hospital, a critical access hospital located in Elkader, Iowa, and as a result of this transaction, the Corporation



recognized an inherent contribution of \$3.7 million for the year ended June 30, 2019, in the consolidated statement of operations and changes in net assets.

Effective March 1, 2016, the Corporation and CSH amended and restated their existing MHN Joint Operating Agreement (“JOA”) that governs certain of their legacy operations in Iowa to strengthen MHN’s management responsibilities over the Iowa operations, to jointly acquire health care operations in Iowa and contiguous markets, and to provide for greater financial, governance and clinical integration. The JOA provides for the Corporation and CSH to maintain ownership of their respective assets in Iowa while agreeing to operate the Corporation’s Iowa hospitals in collaboration with CSH’s Mercy Hospital Medical Center, Des Moines, Iowa, as one organization with common governance and management. MHN has developed a regional health care network that provides for a collaborative effort in the areas of community health care development, enhanced access to health services for the poor and sharing of other common goals. Under the JOA, the Corporation and CSH equally share adjusted operating cash flow from Iowa operations, which commenced in July 2016. The Corporation and CSH agreed to suspend the cash flow sharing arrangement for fiscal years 2020 and 2019. As of June 30, 2020 and 2019, the Corporation’s investment in MHN totaled \$104.7 million and \$95.7 million, respectively.

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

	<b>2020</b>				
	<b>BayCare</b>	<b>GHP</b>	<b>CHS</b>	<b>EH/SJHS</b>	<b>MHN</b>
Total assets	\$ 9,602,588	\$ 1,126,600	\$ 1,404,460	\$ 625,990	\$ 340,127
Total liabilities	\$ 2,941,834	\$ 674,800	\$ 1,239,762	\$ 402,160	\$ 125,657
	<b>2019</b>				
	<b>BayCare</b>	<b>GHP</b>	<b>CHS</b>	<b>EH/SJHS</b>	<b>MHN</b>
Total assets	\$ 8,390,504	\$ 1,093,943	\$ 1,335,359	\$ 534,806	\$ 301,725
Total liabilities	\$ 2,141,893	\$ 663,102	\$ 1,066,702	\$ 275,275	\$ 105,207

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

	<b>2020</b>				
	<b>BayCare</b>	<b>GHP</b>	<b>CHS</b>	<b>EH/SJHS</b>	<b>MHN</b>
Revenue - net	\$ 3,994,126	\$ 2,369,479	\$ 1,225,087	\$ 713,302	\$ 396,696
Excess (deficiency) of revenue over expenses	\$ 401,591	\$ 19,483	\$ (79,254)	\$ 31,986	\$ 14,048
	<b>2019</b>				
	<b>BayCare</b>	<b>GHP</b>	<b>CHS</b>	<b>EH/SJHS</b>	<b>MHN</b>
Revenue - net	\$ 3,921,211	\$ 2,518,789	\$ 1,169,970	\$ 696,240	\$ 390,429
Excess (deficiency) of revenue over expenses	\$ 614,424	\$ 19,731	\$ (2,349)	\$ 43,302	\$ 8,014

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):

	<b>2020</b>				
	<b>BayCare</b>	<b>GHP</b>	<b>CHS</b>	<b>EH/SJHS</b>	<b>MHN</b>
Other revenue	\$ -	\$ 12,357	\$ -	\$ -	\$ 9,072
Equity in earnings of unconsolidated organizations	202,477	-	(39,627)	7,020	-
Other changes in net assets without donor restrictions	4,223	867	(19,741)	-	-
Total	<u>\$ 206,700</u>	<u>\$ 13,224</u>	<u>\$ (59,368)</u>	<u>\$ 7,020</u>	<u>\$ 9,072</u>

  

	<b>2019</b>				
	<b>BayCare</b>	<b>GHP</b>	<b>CHS</b>	<b>EH/SJHS</b>	<b>MHN</b>
Other revenue	\$ -	\$ 9,066	\$ -	\$ -	\$ 2,511
Equity in earnings of unconsolidated organizations	295,688	-	(1,175)	23,591	-
Other changes in net assets without donor restrictions	6,373	(8,283)	11,932	-	-
Total	<u>\$ 302,061</u>	<u>\$ 783</u>	<u>\$ 10,757</u>	<u>\$ 23,591</u>	<u>\$ 2,511</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):

	<b>2020</b>					
	<b>Medical Office Buildings</b>	<b>Outpatient and Diagnostic Services</b>	<b>Ambulatory Surgery Centers</b>	<b>Physician Hospital Organizations</b>	<b>Other Investees</b>	<b>Total</b>
Total assets	\$ 45,498	\$ 157,062	\$ 87,755	\$ 100,780	\$ 967,166	\$ 1,358,261
Total liabilities	\$ 30,307	\$ 61,054	\$ 50,530	\$ 25,218	\$ 467,848	\$ 634,957
Revenue - net	\$ 10,819	\$ 184,658	\$ 68,341	\$ 24,411	\$ 1,649,012	\$ 1,937,241
Excess of revenue over expenses	\$ 2,902	\$ 13,990	\$ 18,109	\$ 1,003	\$ 51,823	\$ 87,827

  

	<b>2019</b>					
	<b>Medical Office Buildings</b>	<b>Outpatient and Diagnostic Services</b>	<b>Ambulatory Surgery Centers</b>	<b>Physician Hospital Organizations</b>	<b>Other Investees</b>	<b>Total</b>
Total assets	\$ 69,646	\$ 281,538	\$ 55,037	\$ 99,365	\$ 738,944	\$ 1,244,530
Total liabilities	\$ 48,413	\$ 121,091	\$ 20,769	\$ 23,363	\$ 339,819	\$ 553,455
Revenue - net	\$ 15,615	\$ 296,004	\$ 88,662	\$ 20,510	\$ 1,498,902	\$ 1,919,693
Excess of revenue over expenses	\$ 3,777	\$ 31,910	\$ 25,621	\$ (827)	\$ 41,052	\$ 101,533

### ***Sales and Divestitures:***

***St. Joseph Mercy Chelsea Hospital (“Chelsea”)*** – Effective July 1, 2018, the Corporation, through its subsidiary Trinity Health - Michigan, sold a 49% noncontrolling membership interest to the Regents of the University of Michigan as part of a broader initiative to develop and implement new collaborations on a statewide basis throughout Michigan to improve the health of the communities that they serve and enhance the efficiencies and value of the systems’ delivery of health care. The Corporation maintains control of Chelsea. At the effective date, \$53.8 million was recorded as noncontrolling ownership interest in subsidiaries in the consolidated statements of operations and changes in net assets and on the consolidated balance sheet. For the years ended June 30, 2020 and 2019, the Corporation’s consolidated statements of operations and changes in net assets included revenue of \$163.3 million and \$173.2 million, respectively, as well as (deficiency) excess of revenue over expenses of (\$9.7) million and \$2.3 million, respectively, related to the operations of Chelsea prior to the provision for noncontrolling ownership interest.

***Membership Transfer Agreement Lourdes Health System (“Lourdes”)*** – Effective June 30, 2019, Maxis, a wholly-controlled subsidiary of Trinity Health, transferred membership interests of Our Lady of Lourdes Health Care Services, Inc. (the Lourdes legal entity) from Maxis to Virtua Health, Inc. (“Virtua”). The transfer to Virtua included substantially all of the health care operations and certain assets and working capital of Lourdes effective as of June 30, 2019. Lourdes includes Our Lady of Lourdes Medical Center (Camden, NJ) and Lourdes Medical Center of Burlington County (Willingboro, NJ) and their affiliated operations. As a result of the transaction, a loss on transfer of \$57.4 million was recorded in the statement of operations and changes in net assets for the year-ended June 30, 2019. An additional loss of \$3.7 million was recorded in the statement of operations and changes in net assets for the year-ended June 30, 2020 related to the transfer of Lourdes.

For the year ended June 30, 2019, the Corporation’s consolidated statements of operations and changes in net assets included revenue of \$542.4 million and deficiency of revenue over expenses of \$90.6 million, related to the operations of and loss on sale of Lourdes.

## **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 CMS. The table below shows sources of net patient service revenue by primary payer for the years ended June 30 (in thousands):

	<u>2020</u>	<u>2019</u>
<b>Net patient service revenue, by payer:</b>		
Medicare	\$ 6,304,365	\$ 6,681,591
Blue Cross	3,227,890	3,384,270
Medicaid	2,456,859	2,640,210
Uninsured	301,255	372,364
Commercial and other	<u>3,164,404</u>	<u>3,523,453</u>
Net patient service revenue, by payer	<u>\$ 15,454,773</u>	<u>\$ 16,601,888</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>2020</u>	<u>2019</u>
<b>Service line net patient service revenue:</b>		
Acute care - inpatient	\$ 7,115,318	\$ 7,531,801
Acute care - outpatient	5,839,112	6,351,416
Physician services	1,824,784	1,986,771
Long term care	279,460	324,644
Home health care	396,099	407,256
Net patient service revenue, by service line	<u>\$ 15,454,773</u>	<u>\$ 16,601,888</u>
Premium revenue	597,558	612,487
Capitation revenue	466,933	448,413
Grant revenue	742,390	87,383
Revenue from other sources	<u>1,571,373</u>	<u>1,543,052</u>
Total operating revenue	<u><u>\$ 18,833,027</u></u>	<u><u>\$ 19,293,223</u></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 (“Relief Funds”). Furthermore, the Paycheck Protection Program and Health Care Enhancement Act (“PPPHCE Act”, collectively the “Acts”) enacted on April 24, 2020 provides an additional \$75 billion in emergency appropriations to eligible providers for COVID-19 response including distributions to safety net hospitals to compensate for lost revenues and qualified expenses, loan forgiveness and capacity expansion. Payments from Relief Funds 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 Relief Funds to reimburse expenses or losses that other sources are obligated to reimburse. The Corporation received \$775 million in payments under the Acts as of June 30, 2020, of which, \$131 million was recorded as deferred revenue in accounts payable and accrued expenses in the consolidated balance sheet. For the year ended June 30, 2020, the consolidated statement of operations and changes in net assets includes \$644 million of grants recognized in other revenue under the Acts.

## 5. LONG-LIVED ASSETS

### *Property and Equipment:*

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

	<u>2020</u>	<u>2019</u>
Land	\$ 359,344	\$ 357,802
Buildings and improvements	10,240,356	9,928,543
Equipment	6,601,634	6,264,515
Finance lease right-of-use assets	34,152	-
Capital leased assets	-	133,181
Total	17,235,486	16,684,041
Accumulated depreciation and amortization	(9,787,322)	(9,439,638)
Construction in progress	830,421	1,115,571
Property and equipment - net	<u>\$ 8,278,585</u>	<u>\$ 8,359,974</u>

As of June 30, 2020, commitments for capital projects of approximately \$194.8 million were outstanding. Significant commitments are primarily for facility expansion at existing campuses and related infrastructures at the following Health Ministries: St. Mary Mercy Livonia Hospital, Livonia, Michigan – \$33.0 million; St. Peter’s Health Partners, Albany, New York – \$23.6 million; Mercy Health Campus, Muskegon, Michigan – \$22.0 million; and Holy Cross Hospital Inc., Ft. Lauderdale, Florida – \$10.4 million. Additionally, Trinity Information Services has commitments of \$37.8 million primarily related to system-wide software licenses and upgrades. The remaining amount is due to several smaller projects across the Corporation.

In conjunction with the acquisition of St. Francis Hospital and Medical Center, Hartford, CT (“SFC”) during the year ended June 30, 2016, the Corporation committed to \$275 million of capital spending over five years, if performance metrics were achieved, with the commitment period ending June 30, 2020. The Corporation’s related capital spending for SFC through June 30, 2020 is \$225.7 million. The Corporation is working with SFC to meet the full commitment targeted over the next 3 to 5 years, as the recent pace of investments have been limited due to COVID-19.

### *Leases:*

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

<u>Component of Finance Lease Balances</u>	<u>Classification in Consolidated Balance Sheet</u>	<u>2020</u>
Assets:		
Finance lease right-of-use assets - net	Property and equipment	\$ 30,557
Liabilities:		
Current portion of finance lease liability	Current portion of long-term debt	5,908
Long-term portion of finance lease liability	Long-term debt	47,082

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

<u>Component of Lease Expenses</u>	<u>Classification in Statements of Operations and Changes in Net Assets</u>	<u>2020</u>
Operating lease expense	Occupancy	\$ 148,046
Finance lease expense:		
Amortization of right-of-use assets	Depreciation and amortization	3,585
Interest on lease liabilities	Interest	3,761
Total finance lease expense		<u>7,346</u>
Short-term lease expense	Occupancy	<u>61,002</u>
Total lease expense		<u>\$ 216,394</u>

The weighted average remaining lease term and weighted average discount rate as of and for the year ended June 30, 2020, were as follows:

	<u>Weighted average remaining lease term (years)</u>	<u>Weighted average discount rate</u>
Operating leases	6.94	3.15%
Finance leases	8.66	6.35%

Supplemental cash flow information related to leases for the year ended June 30, 2020 was as follows (in thousands):

	<u>2020</u>
<b>Cash paid for amounts included in the measurement of lease liabilities:</b>	
Operating cash outflows from operating leases	\$ 145,873
Operating cash outflows from finance leases	3,761
Financing cash outflows from finance leases	11,174
<b>Right-of-use assets obtained in exchange for lease obligations:</b>	
Operating leases	720,559
Finance leases	32,235

Future maturities of lease liabilities as of June 30, 2020 are presented in the following table (in thousands):

	<b>Operating Leases</b>	<b>Finance Leases</b>	<b>Total</b>
2021	\$ 155,855	\$ 9,093	\$ 164,948
2022	130,716	8,875	139,591
2023	102,946	8,759	111,705
2024	79,305	8,770	88,075
2025	56,455	6,493	62,948
Thereafter	<u>137,863</u>	<u>27,451</u>	<u>165,314</u>
Total lease payments	663,140	69,441	732,581
Less: Imputed interest	<u>(73,759)</u>	<u>(16,451)</u>	<u>(90,210)</u>
Total lease obligations	589,381	52,990	642,371
Less: Current obligations	<u>(135,342)</u>	<u>(5,908)</u>	<u>(141,250)</u>
Long-term lease obligations	<u>\$ 454,039</u>	<u>\$ 47,082</u>	<u>\$ 501,121</u>

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

Years ending June 30:	
2020	\$ 172,118
2021	148,749
2022	127,253
2023	98,410
2024	73,409
Thereafter	<u>172,236</u>
Total	<u>\$ 792,175</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>2020</u>	<u>2019</u>
As of July 1:		
Goodwill	\$ 468,441	\$ 468,441
Accumulated impairment loss	<u>(31,038)</u>	<u>(29,981)</u>
Total	437,403	438,460
Goodwill acquired during the year	10,310	-
Impairment loss	<u>(8,026)</u>	<u>(1,057)</u>
Total	<u>\$ 439,687</u>	<u>\$ 437,403</u>
As of June 30:		
Goodwill	\$ 478,751	\$ 468,441
Accumulated impairment loss	<u>(39,064)</u>	<u>(31,038)</u>
Total	<u>\$ 439,687</u>	<u>\$ 437,403</u>

**Impairments:**

During the year ended June 30, 2020, the Corporation recorded impairment charges of \$202.7 million in the consolidated statement of operations and changes in net assets. Of the total impairment charges, \$113.5 million were primarily at certain facilities of five Health Ministries across 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 reduction in volumes and shifts in payer mix, coupled with the need for extensive future capital investments. Finally, as a result of COVID-19, the Corporation re-assessed several of its physician practice and office space leases and determined that several facilities were or could be vacated, however, the leases are non-cancellable. Therefore this assessment resulted in impairments of the right-of-use assets, leasehold improvements and equipment related to these facilities. As a result, the Corporation recorded additional impairment charges of \$69.1 million related to physician practice and office space leases. The total impairments were comprised of \$145.0 million of property and equipment, \$44.4 million of right-of-use lease assets and \$13.3 million of goodwill and other assets.

During the year ended June 30, 2019, the Corporation recorded impairment charges of \$25.2 million in the consolidated statement of operations and changes in net assets. \$23.4 million of the impairments were primarily at certain facilities of four Health Ministries across the Corporation where material adverse trends in 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 reduction in volumes, shifts in payer mix or a reduction in the remaining estimated useful life of the assets. The total impairments were comprised of \$23.4 million of property and equipment, and \$1.8 million of goodwill and other assets.



## 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>2020</u>	<u>2019</u>
<b>Short-term lines of credit:</b>		
General purpose credit facilities with contractual maturities through June 2021. Interest rates ranging from 0.93% to 2.52% during 2020	<u>\$ 615,000</u>	<u>\$ -</u>
<b>Short-term borrowings:</b>		
Variable rate demand bonds with contractual maturities through 2049. Interest payable monthly at rates ranging from 0.11% to 7.00% during 2020 and 0.85% to 2.40% during 2019	<u>\$ 667,275</u>	<u>\$ 686,670</u>
<b>Long-term debt:</b>		
Tax-exempt revenue bonds and refunding bonds:		
Fixed-rate term and serial bonds, payable at various dates through 2050. Interest rates ranging from 1.81% to 5.00% during 2020 and 2.72% to 6.25% during 2019	\$3,561,400	\$4,388,570
Variable-rate term bonds, payable at various dates through 2051. Interest rates ranging from 0.54% to 5.68% during 2020 and 1.32% to 3.19% during 2019	527,247	830,967
Taxable revenue bonds:		
Fixed-rate term, payable in 2049. Interest rates ranging from 2.03% to 4.13% during 2020 and 4.13% during 2019	1,873,365	481,515
Variable-rate term bonds, payable at various dates through 2051. Interest rates ranging from 0.62% to 2.11% during 2020 and 2.53% to 2.97% during 2019	54,680	54,680
Long-term lines of credit, general purpose credit facilities, with contractual maturities through 2022. Interest rates ranging from 0.72% to 2.50% during 2020	385,000	-
Notes payable to banks. Interest payable at rates ranging from 1.00% to 6.40% during 2020 and 1.44% to 5.15% during 2019, fixed and variable, payable in varying monthly installments through 2031	25,804	27,214
Financing lease obligations (excluding imputed interest of \$16.5 million at June 30, 2020)	52,991	-
Capital lease obligations (excluding imputed interest of \$24.9 million at June 30, 2019)	-	69,715
Mortgage obligations. Interest payable at rates ranging from 3.35% to 5.04% during 2020 and 2019	65,296	70,817
Other	60,951	59,223
Total long-term debt	<u>6,606,734</u>	<u>5,982,701</u>
Less current portion - net of current discounts	(387,544)	(126,727)
Unamortized debt issuance costs	(38,456)	(37,670)
Unamortized premiums - net	373,280	404,604
Long-term debt - net of current portion	<u>\$6,554,014</u>	<u>\$ 6,222,908</u>

Contractually obligated principal repayments on short-term borrowings and long-term debt, excluding the long-term lines of credit, are as follows (in thousands):

	<u>Short-Term Borrowings</u>	<u>Long-Term Debt</u>
Years ending June 30:		
2021	\$ 16,810	\$ 147,542
2022	17,735	136,254
2023	16,395	136,258
2024	16,920	138,293
2025	22,120	125,336
Thereafter	<u>577,295</u>	<u>5,538,051</u>
Total	<u>\$ 667,275</u>	<u>\$ 6,221,734</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>2020</u>	<u>2019</u>
Interest costs incurred	\$ 249,142	\$ 256,692
Less capitalized interest	<u>(4,986)</u>	<u>(17,748)</u>
Interest expense included in operations	<u>\$ 244,156</u>	<u>\$ 238,944</u>

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

Effective June 28, 2019, the St. Peter’s obligated group and master trust indenture were discharged and certain New York entities that constitute designated affiliates were formally transitioned to the Trinity Health Credit Group. Prior to June 28, 2019, those New York entities, consisting of St. Peter’s Hospital of the City of Albany; St Peter’s Health Partners; Memorial Hospital, Albany, New York; Samaritan Hospital of Troy, New York; Seton Health System, Inc.; Sunnyview Hospital and Rehabilitation Center; the Capital Region Geriatric Center, Inc. and Hawthorne Ridge, Inc., were included in the Corporation’s consolidated financial statements, but were not part of the Trinity Health Credit Group. Additionally, St. Joseph’s Hospital Health Center, Syracuse, New York became a designated affiliate on June 28, 2019. Also, as a result of the transfer of Lourdes, described in Note 3, the related designated affiliates were removed from the Trinity Health Credit Group effective June 30, 2019.

Pursuant to the ARMI, the Obligated Group agent (which is the Corporation) has caused the designated affiliates representing, when combined with the Obligated Group members, at least 85% of the consolidated net revenues of the Trinity Health Credit Group to grant to the master trustee security interests in their pledged property which security interests secure all obligations issued under the ARMI. There are several

conditions and covenants required by the ARMI with which the Corporation must comply, including covenants that require the Corporation to maintain a minimum historical debt-service coverage and limitations on liens or security interests in property, except for certain permitted encumbrances, affecting the property of the Corporation or any material designated affiliate (a designated affiliate whose total 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, 2020 and 2019, that has not been secured under the ARMI is generally collateralized by certain property and equipment.

Further, Mercy Health System of Chicago (“MHSC”) has a \$51.3 million and \$53.3 million mortgage loan outstanding at June 30, 2020 and 2019, respectively, that is insured by the U.S. Department of Housing and Urban Development (“HUD”). MHSC’s payment obligations under the two mortgage notes evidencing this loan are guaranteed by the Corporation. The mortgage loan agreements with HUD contain various covenants, including those relating to limitations on incurring additional debt, transactions with affiliates, transferring or disposing of designated property, use of funds and other assets of the mortgaged property, financial performance, required reserves, insurance coverage, timely submission of specified financial reports and restrictions on prepayment of the mortgage loan. MHSC and the Corporation provided covenants to HUD not to interfere in the performance of MHSC’s obligations under the HUD-insured loan documents. MHSC is not a designated affiliate and is not part of the Trinity Health Credit Group.

**Commercial Paper** – The Corporation’s commercial paper program is authorized for borrowings up to \$600.0 million. As of June 30, 2020 and 2019, the total amount of commercial paper outstanding was \$100.0 million and \$99.5 million, respectively. Proceeds from this program are to be used for general purposes of the Corporation. The notes are payable from the proceeds of subsequently issued notes and from other funds available to the Corporation, including funds derived from the liquidation of securities held by the Corporation in its investment portfolio. The interest rate charged on borrowings outstanding during the years ended June 30, 2020 and 2019, ranged from 0.10% to 4.50% and 1.89% to 2.55%, respectively.

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

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

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

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

On June 18, 2020, the Corporation entered into an additional general-purpose credit facility (“RCAVI”) in the amount of \$115 million, and a draw in the amount of \$115 million was executed on June 18, 2020. RCAVI terminates on June 17, 2021.

Each financial institution providing liquidity support under RCAI, RCAII, RCAIII, RCAIV, RCAV, and RCAVI is secured by an obligation under the ARMI.

***Standby Letters of Credit*** – The Corporation maintains an arrangement for multiple standby letters of credit with a financial institution with a capacity available of \$115.0 million as of June 30, 2020 and 2019. The arrangement supports multiple insurance, unemployment, and other risk liabilities that have been issued in the amounts of \$85.5 million and \$107.0 million as of June 30, 2020 and 2019, respectively. As of June 30, 2020 and 2019 there were no draws on the letters of credit.

In March 2020, the Corporation entered into a two-year standby letters of credit arrangement with a separate financial institution in the amount of \$50.0 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 \$19.5 million. As of June 30, 2020 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 February 2019, the Trinity Health Credit Group issued \$347.0 million par value tax-exempt fixed-rate hospital revenue bonds at a premium of \$36.5 million under the ARMI. Proceeds were used to partially refund \$78.9 million of certain tax-exempt bonds. The remaining proceeds were used to refinance and reimburse a portion of the costs of acquisition, construction, and renovation and equipping of health facilities. The Corporation also refunded certain tax-exempt bonds within 90 days of the call date of such 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. Also during February 2019, \$75.0 million of tax-exempt variable-rate direct placement bonds were converted to a floating rate note.

As a result of the divestiture of Lourdes on June 30, 2019, described in Note 3, the Corporation defeased approximately \$85.2 million of bonds through the funding of various escrow accounts on June 28, 2019. In addition, the Corporation redeemed approximately \$1.3 million of bonds on June 28, 2019.

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

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

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

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

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

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

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

The liability for self-insurance reserves represents estimates of the ultimate net cost of all losses and loss adjustment expenses, which are incurred but unpaid at the consolidated balance sheet date. The reserves are based on the loss and loss adjustment expense factors inherent in the Corporation’s premium structure. Independent consulting actuaries determined these factors from estimates of the Corporation’s expenses and available industry-wide data. The Corporation 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, 2020, that may result in the assertion of additional claims and other claims may be asserted arising from services provided in the past. While it is possible that settlement of asserted claims and claims which may be asserted in the future could result in liabilities in excess of amounts for which the Corporation has provided, management, based upon the advice of 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, 2020 and 2019, the assets under these plans totaled \$272.9 million and \$256.0 million, respectively, and liabilities totaled \$278.3 million and \$269.3 million, respectively, which are included in self-insurance, benefit plans and other assets and other long-term liabilities in the consolidated balance sheets.

***Defined Contribution Benefits*** – The Corporation sponsors defined contribution pension plans covering substantially all of its employees. These programs are funded by employee voluntary contributions, subject to legal limitations. Employer contributions to these plans include a nonelective contribution of 3% for participants who satisfy certain eligibility requirements, with a minimum nonelective contribution for certain participants, and varying levels of matching contributions based on employee service. The employees direct their voluntary contributions and employer contributions among a variety of investment options. Contribution expense under the plans totaled \$347.9 million and \$353.6 million for the years ended June 30, 2020 and 2019, respectively.

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

Certain plans are subject to the provisions of the Employee Retirement Security Act of 1974 (“ERISA”). The majority of the plans sponsored by the Corporation are intended to be “Church Plans,” as defined in 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.

***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>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
	<u>Pension Plans</u>		<u>Postretirement Plans</u>	
<b>Change in Benefit Obligations:</b>				
Benefit obligation, beginning of year	\$ 7,610,651	\$ 7,190,747	\$ 118,577	\$ 123,762
Service cost	-	-	31	87
Interest cost	279,697	313,309	4,197	5,290
Actuarial loss (gain)	519,991	560,724	(1,910)	(3,697)
Benefits paid	(488,770)	(454,129)	(6,864)	(6,238)
Settlements	(143)	-	-	-
Medicare Part D reimbursement	-	-	69	25
Plan change	-	-	-	(652)
Benefit obligation, end of year	<u>7,921,426</u>	<u>7,610,651</u>	<u>114,100</u>	<u>118,577</u>
<b>Change in Plan Assets:</b>				
Fair value of plan assets, beginning of year	6,705,997	6,533,160	119,963	113,506
Actual return on plan assets	635,434	499,917	9,162	10,415
Employer contributions	171,025	127,049	2,595	2,280
Benefits paid	(488,770)	(454,129)	(6,864)	(6,238)
Settlements	(143)	-	-	-
Fair value of plan assets, end of year	<u>7,023,543</u>	<u>6,705,997</u>	<u>124,856</u>	<u>119,963</u>
(Unfunded) funded amount recognized June 30	<u>\$ (897,883)</u>	<u>\$ (904,654)</u>	<u>\$ 10,756</u>	<u>\$ 1,386</u>
Recognized in other long-term assets	\$ 19,406	\$ 101	\$ 36,940	\$ 29,869
Recognized in accrued pension and retiree health costs	\$ (917,289)	\$ (904,755)	\$ (26,184)	\$ (28,483)

Actuarial losses during both 2020 and 2019 are due primarily to decreases in the discount rates used to measure plan liabilities and changes in demographics.

The accumulated benefit obligation for all defined benefit pension plans was \$7,921.4 million and \$7,610.5 million at June 30, 2020 and 2019, respectively.

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

	<b>2020</b>	<b>2019</b>
Accumulated benefit obligation	\$ 7,551,212	\$ 7,601,244
Fair value of plan assets	6,633,923	6,696,610
Funded status	\$ (917,289)	\$ (904,634)

**Information for pension plans with a projected benefit obligation in excess of plan assets (in thousands)**

	<b>2020</b>	<b>2019</b>
Projected benefit obligation	\$ 7,551,212	\$ 7,601,365
Fair value of plan assets	6,633,923	6,696,610
Funded status	\$ (917,289)	\$ (904,755)

The accumulated postretirement benefit obligation for all plans was \$114.1 million and \$118.6 million at June 30, 2020 and 2019, respectively.

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

	<b>2020</b>	<b>2019</b>
Accumulated benefit obligation	\$ 26,435	\$ 28,782
Fair value of plan assets	438	508
Funded status	\$ (25,997)	\$ (28,274)

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

	<b>2020</b>	<b>2019</b>	<b>2020</b>	<b>2019</b>
	<b>Pension Plans</b>		<b>Postretirement Plans</b>	
Service cost	\$ -	\$ -	\$ 31	\$ 87
Interest cost	279,697	313,309	4,197	5,290
Expected return on assets	(432,614)	(425,523)	(8,204)	(7,716)
Amortization of prior service credit	(4,914)	(5,428)	(443)	(421)
Recognized net actuarial loss (gain)	82,514	67,590	(1,562)	(1,188)
Settlement	78	-	-	-
Net periodic benefit income	\$ (75,239)	\$ (50,052)	\$ (5,981)	\$ (3,948)



The amounts 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):

	<b>Pension Plans</b>			
	<b>Net</b>	<b>Prior</b>	<b>Total</b>	
	<b>Loss (Gain)</b>	<b>Service Credit</b>		
Balance at July 1, 2018	\$ 2,205,710	\$ (116,613)	\$ 2,089,097	
Reclassified into net periodic benefit cost	(67,590)	5,428	(62,162)	
Arising during the year	486,326	-	486,326	
Balance at June 30, 2019	\$ 2,624,446	\$ (111,185)	\$ 2,513,261	
Reclassified into net periodic benefit cost	(82,670)	4,914	(77,756)	
Arising during the year	317,176	-	317,176	
Settlement	78	-	78	
Balance at June 30, 2020	\$ 2,859,030	\$ (106,271)	\$ 2,752,759	

  

	<b>Postretirement Plans</b>			<b>All Plans</b>
	<b>Net</b>	<b>Prior</b>	<b>Total</b>	<b>Grand</b>
	<b>Loss (Gain)</b>	<b>Service Credit</b>		<b>Total</b>
Balance at July 1, 2018	\$ (18,817)	\$ (2,205)	\$ (21,022)	\$ 2,068,075
Reclassified into net periodic benefit cost	1,188	421	1,609	(60,553)
Arising during the year	(6,499)	(652)	(7,151)	479,175
Balance at June 30, 2019	\$ (24,128)	\$ (2,436)	\$ (26,564)	\$ 2,486,697
Reclassified into net periodic benefit cost	1,562	443	2,005	(75,751)
Arising during the year	(2,851)	-	(2,851)	314,325
Settlement	-	-	-	78
Balance at June 30, 2020	\$ (25,417)	\$ (1,993)	\$ (27,410)	\$ 2,725,349

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

	<b>2020</b>	<b>2019</b>	<b>2020</b>	<b>2019</b>
	<b>Pension Plans</b>		<b>Postretirement Plans</b>	
<b>Benefit Obligations:</b>				
Discount rate	2.75% - 3.45%	3.60% - 4.00%	2.30% - 3.00%	3.30% - 3.75%
Weighted average interest crediting rate	2.66%	3.12%	N/A	N/A
Rate of compensation increase	N/A	N/A	N/A	N/A
<b>Net Periodic Benefit Cost:</b>				
Discount rate	3.60% - 4.00%	4.15% - 4.60%	3.30% - 3.75%	3.75% - 4.55%
Weighted average interest crediting rate	3.12%	3.59%	N/A	N/A
Expected long-term return on plan assets	5.00% - 6.75%	5.00% - 6.75%	7.00%	7.00%
Rate of compensation increase	N/A	N/A	N/A	N/A

Approximately 76% of the Corporation's pension plan liabilities were measured using a 3.15% and 3.80% discount rate as of June 30, 2020 and 2019, respectively.

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

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

	<u>2020</u>	<u>2019</u>
Medical and drugs, pre-age 65	6.67%	6.95%
Medical and drugs, post-age 65	6.67%	6.95%
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:

<b>Investment Category:</b>	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
	<u>Pension Plans</u>		<u>Postretirement Plans</u>	
Cash and cash equivalents	2%	3%	-	-
Marketable securities:				
U.S. and non-U.S. equity securities	13%	12%	-	-
Equity mutual funds	3%	4%	-	-
Debt securities	47%	42%	17%	19%
Other investments:				
Commingled funds	20%	20%	83%	81%
Hedge funds	13%	16%	-	-
Private equity funds	2%	3%	-	-
Total	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>

The Corporation employs a total return investment approach whereby a mix of equities and fixed-income investments are used to maximize the long-term return of plan assets for a prudent level of risk. Risk tolerance is established through careful consideration of plan liabilities, plan funded status and corporate financial condition. The investment portfolio contains a diversified blend of equity and fixed-income investments. Furthermore, equity investments are diversified across U.S. and non-U.S. stocks, as well as growth, value and small and large capitalizations. Other investments, such as hedge funds, interest rate swaps and private equity are used judiciously to enhance long-term returns while improving portfolio

diversification. Derivatives may be used to gain market exposure in an efficient and timely manner; however, derivatives may not be used to leverage the portfolio beyond the market value of the underlying investments. Investment risk is measured and monitored on an ongoing basis through quarterly investment portfolio reviews, annual liability measurements and periodic asset/liability studies. For the majority of the Corporation's pension plan investments, the combined target investment allocation as of June 30, 2020, was global and traditional equity securities 35%; long/short equity 7%; fixed-income obligations 40%; hedge funds 11%; alternative debt 5%; and cash 2%.

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

	<b>2020</b>		
	<b>Quoted Prices in Active Markets for Identical Assets (Level 1)</b>	<b>Significant Other Observable Inputs (Level 2)</b>	<b>Total Fair Value</b>
<b>Pension Plans:</b>			
Cash and cash equivalents	\$ 190,555	\$ 1,166	\$ 191,721
Equity securities	890,179	101	890,280
Debt securities			
Government and government			
agency obligations	-	1,050,056	1,050,056
Corporate bonds	-	2,186,249	2,186,249
Asset backed securities	-	44,392	44,392
Exchange traded/mutual funds			
Equity funds	209,167	-	209,167
Fixed-income funds	33,316	-	33,316
Other	(60,317)	-	(60,317)
Subtotal	<u>\$ 1,262,900</u>	<u>\$ 3,281,964</u>	<u>\$ 4,544,864</u>
<b>Investments measured at net asset value:</b>			
Commingled funds			
Equity funds			1,383,852
Fixed-income funds			6,582
Hedge funds			934,949
Private equity			153,296
Total assets			<u>\$ 7,023,543</u>
<b>Postretirement Plans:</b>			
Exchange traded/mutual funds			
Short-term investment funds	\$ 191	\$ -	\$ 191
Fixed-income funds	20,857	-	20,857
Subtotal	<u>\$ 21,048</u>	<u>\$ -</u>	<u>\$ 21,048</u>
<b>Investment measured at net asset value:</b>			
Equity commingled fund			103,808
Total assets			<u>\$ 124,856</u>

	2019		
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Total Fair Value
<b>Pension Plans:</b>			
Cash and cash equivalents	\$ 224,876	\$ 6,677	\$ 231,553
Equity securities	797,342	101	797,443
Debt securities			
Government and government agency obligations	-	1,070,431	1,070,431
Corporate bonds	-	1,672,888	1,672,888
Asset backed securities	-	38,286	38,286
Exchange traded/mutual funds			
Equity funds	255,465	-	255,465
Fixed-income funds	52,440	-	52,440
Other	(1,089)	-	(1,089)
Subtotal	<u>\$ 1,329,034</u>	<u>\$ 2,788,383</u>	<u>\$ 4,117,417</u>
<b>Investments measured at net asset value:</b>			
Commingled funds			
Equity funds			1,304,625
Fixed-income funds			13,279
Hedge funds			1,065,553
Private equity			205,123
Total assets			<u>\$ 6,705,997</u>
<b>Postretirement Plans:</b>			
Exchange traded/mutual funds			
Short-term investment funds	\$ 281	\$ -	\$ 281
Fixed-income funds	22,985	-	22,985
Other	809	-	809
Subtotal	<u>\$ 24,075</u>	<u>\$ -</u>	<u>\$ 24,075</u>
<b>Investment measured at net asset value:</b>			
Equity commingled fund			95,888
Total assets			<u>\$ 119,963</u>

Unfunded capital commitments related to private equity investments totaled \$53.2 million and \$51.1 million as of June 30, 2020 and 2019, respectively.

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

**Private Equity** – These assets include 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.

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

Assets were transferred out of Level 3 into Level 1 in fiscal year 2019. There are no Level 3 assets in any of the Pension Plan portfolios at June 30, 2020. The following table summarizes the changes in Level 3 Pension Plan assets for the years ended June 30, 2019 (in thousands):

	<u>Private Equity</u>
Balance at July 1, 2018	\$ 2,421
Transfer out of level 3	<u>(2,421)</u>
Balance at June 30, 2019	<u>\$ -</u>

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 \$143 million to its Pension Plans and \$3 million to its Postretirement Plans during the year ended June 30, 2021, under the Corporation’s stated funding policies.

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

	<u>Pension Plans</u>	<u>Postretirement Plans</u>	<u>Postretirement Medicare Part D Subsidy</u>
<b>Years ending June 30:</b>			
2021	\$ 557,357	\$ 8,526	\$ 40
2022	496,554	8,554	36
2023	494,240	8,401	32
2024	487,137	8,194	29
2025	483,477	7,995	25
Years 2026 - 2030	2,268,352	36,515	82

## 9. COMMITMENTS AND CONTINGENCIES

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

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

***COVID-19 Pandemic*** – In March 2020, the global COVID-19 pandemic began to significantly affect the Corporation’s patients, communities, employees and business operations. Patient volumes and the related revenue for most of the Corporation’s health care services were materially impacted from mid-March through June 30, 2020, and continue to be impacted subsequent to year-end. Various policies were implemented by federal, state and local governments in response to the COVID-19 pandemic that caused restrictions on nonessential medical services, travel bans, physical distancing and shelter-in-place orders. These policies forced the Corporation to reduce hours and temporarily close certain operations, as well as significantly reduce surgical procedures, outpatient diagnostic and treatment services, and physician patient visits. A significant reduction in emergency care visits was experienced as well. The Corporation’s response to the COVID-19 pandemic also required additional staff and supply resources. These circumstances had a material negative impact on operating results. In addition, even with appropriate protective measures, exposure to COVID-19 increases the risk that clinicians and others in the Corporation’s Health Ministries may contract the virus, which could further limit the ability to treat all patients who seek care. If more COVID-19 surges were to occur, some of the Corporation’s Health Ministries could experience workforce disruptions. 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. In addition, broad economic factors resulting from the COVID-19 pandemic, including increased continuing unemployment rates and reduced consumer spending, are impacting service mix, revenue mix and patient volumes.

While nonessential medical services have resumed at the Corporation’s Health Ministries, it expects consolidated patient volumes and revenue will continue to be negatively impacted by the continuing presence of COVID-19 in our markets. The Corporation has taken and continues to take various actions to increase its liquidity and mitigate the impact on operations from the COVID-19 pandemic. To increase liquidity, the Corporation increased the amount available under, and has drawn upon, various revolving credit facilities discussed further in Note 6 and has significantly restricted new capital projects. Furthermore, the Corporation has taken steps to control spending and reallocate resources to support its hospitals and clinicians. These steps included implementing executive pay reductions, redeploying staff to different roles and locations across the system, implementing furloughs and schedule reductions, and negotiating supplier concessions, all of which began in April 2020. Additionally, as discussed in Note 13, a restructuring plan was announced in June 2020 to re-size the Corporation and its Health Ministries, redesign work and reduce costs due to projected lower revenue continuing during fiscal year 2021 as a result of the COVID-19 pandemic. As discussed in Note 4, the Corporation received significant grants during the fourth quarter of fiscal year 2020, which helped to mitigate some of the negative financial impacts of the COVID-19 pandemic. Known and unknown risks and uncertainties caused by the COVID-19 pandemic, including those described above, are having, and will likely continue to have, a material impact on the Corporation’s business, financial condition, results of operations and cash flows. At this point, the Corporation cannot estimate the length or severity of the pandemic, which limits the

Corporation's ability to forecast the pandemic's impact on the Corporation's financial position, results of operations and cash flows. The impact to the Corporation's financial position, results of operations and cash flows are heavily dependent on the Corporation's ability to emerge from the pandemic by regaining patient volumes in each of the Health Ministries. The Corporation believes the actions it has taken, as supplemented by the various forms of government aid received, position Trinity Health to have liquidity adequate to fund essential services and make timely debt service payments during the COVID-19 pandemic.

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

## **10. 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 various general purpose credit facilities of \$1.0 billion. The credit facilities were fully drawn upon in the event of liquidity needs related to the COVID-19 pandemic.

Furthermore, during April 2020, the Corporation requested and received \$1,634.2 million of cash advances from accelerated Medicare payment requests under the CARES Act, which are recorded as Medicare cash advances on the consolidated balance sheet as of June 30, 2020.

Lastly, the CARES Act provides for deferred payment of the employer portion of social security taxes between March 27, 2020 and December 31, 2020, with 50% of the deferred amount due no later than December 31, 2021 and the remaining 50% due no later than December 31, 2022. The Corporation began deferring the employer portion of social security taxes in mid-April 2020, with \$101.4 million recorded in salaries, wages and related liabilities on the consolidated balance sheet as of June 30, 2020.

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>2020</u>	<u>2019</u>
Cash and cash equivalents	\$ 2,191,598	\$ 474,314
Investment securities classified as current assets	5,988,670	4,833,039
Board-designated funds	<u>3,763,120</u>	<u>3,648,527</u>
Total unrestricted cash and investments	<u>\$ 11,943,388</u>	<u>\$ 8,955,880</u>
Days cash on hand	245	180

For the year ended June 30, 2020, days cash on hand increased 56 days related to draws on lines of credit, funds received as Medicare cash advances and deferred payments of the employer portion of social security taxes under the CARES Act. For the year ended June 30, 2019, days cash on hand was restated and decreased by one day to reflect the implementation of ASU No. 2017-07 which is more fully described in Note 2.

Approximately 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, 2020 the Corporation has a working capital surplus of \$4.7 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 overtime, etc.)
- Inputs other than quoted prices that are observable for the instrument (interest rates, yield curves, volatilities, default rates, etc.)
- Inputs that are derived principally from or corroborated by other observable market data

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

**Valuation Methodologies** – Exchange-traded securities whose fair value is derived using quoted prices in active markets are classified as Level 1. In instances where quoted market prices are not readily available, fair value is estimated using quoted market prices and/or other market data for the same or comparable instruments and transactions in establishing the prices, discounted cash flow models and other pricing models. These models are primarily industry-standard models that consider various assumptions, including time value and yield curve as well as other relevant economic measures. The inputs to these models depend on the type of security being priced, but are typically benchmark yields, credit spreads, prepayment spreads, reported trades and broker-dealer quotes, all with reasonable levels of transparency. Generally, significant changes in any of those inputs in isolation would result in a significantly different fair value measurement. The Corporation classifies these securities as Level 2 within the fair value hierarchy. The Corporation also had certain investments classified as Level 3. These investments were primarily valued using competitive bid evaluations or cost, if it approximates fair value. There were no level 3 investments as of June 30, 2020.

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, 2020 and 2019, were \$1,012.3 million and \$1,013.4 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 \$823.3 million and \$825.9 million as of June 30, 2020 and 2019, respectively.

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

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

	<b>2020</b>		
	<b>Quoted Prices in Active Markets for Identical Assets (Level 1)</b>	<b>Significant Other Observable Inputs (Level 2)</b>	<b>Total Fair Value</b>
<b>Assets:</b>			
Cash and cash equivalents	\$ 2,361,678	\$ 55,307	\$ 2,416,985
Security lending collateral	-	296,053	296,053
Equity securities	3,081,510	6,606	3,088,116
Debt securities:			
Government and government agency obligations	-	629,120	629,120
Corporate bonds	-	1,141,024	1,141,024
Asset backed securities	-	301,494	301,494
Bank loans	-	7,252	7,252
Other	-	11,670	11,670
Exchange traded/mutual funds:			
Equity funds	539,850	-	539,850
Fixed income funds	1,543,057	-	1,543,057
Real estate investment funds	75,117	-	75,117
Other	137,159	-	137,159
Interest rate swaps	-	2,792	2,792
Subtotal	<u>\$ 7,738,371</u>	<u>\$ 2,451,318</u>	<u>\$ 10,189,689</u>
Equity method investments			1,729,366
Investments measured at net asset value:			
Commingled funds			1,145,761
Hedge funds			638,206
Total assets			<u>\$ 13,703,022</u>
<b>Liabilities:</b>			
Interest rate swaps	\$ -	\$ 226,784	\$ 226,784

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

	<b>2019</b>			
	<b>Quoted Prices in Active Markets for Identical Assets (Level 1)</b>	<b>Significant Other Observable Inputs (Level 2)</b>	<b>Significant Unobservable Inputs (Level 3)</b>	<b>Total Fair Value</b>
<b>Assets:</b>				
Cash and cash equivalents	\$ 699,225	\$ 51,255	\$ -	\$ 750,480
Security lending collateral	-	264,435	-	264,435
Equity securities	2,851,609	1,414	6,708	2,859,731
Debt securities:				
Government and government agency obligations	-	641,859	107	641,966
Corporate bonds	-	1,008,042	293	1,008,335
Asset backed securities	-	319,678	-	319,678
Bank loans	-	13,462	-	13,462
Other	-	14,353	-	14,353
Exchange traded/mutual funds:				
Equity funds	587,061	-	-	587,061
Fixed income funds	469,638	-	-	469,638
Real estate investment funds	81,615	-	-	81,615
Other	109,129	-	-	109,129
Interest rate swaps	-	6,813	-	6,813
Subtotal	<u>\$ 4,798,277</u>	<u>\$ 2,321,311</u>	<u>\$ 7,108</u>	<u>\$ 7,126,696</u>
Equity method investments				1,611,706
Investments measured at net asset value:				
Commingled funds				1,235,860
Hedge funds				691,561
Total assets				<u>\$ 10,665,823</u>
<b>Liabilities:</b>				
Interest rate swaps	\$ -	\$ 168,933	\$ -	\$ 168,933

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>2020</u>	<u>2019</u>
<b>Assets:</b>		
Cash and cash equivalents	\$ 2,191,598	\$ 474,314
Investments	5,988,670	4,833,039
Security lending collateral	296,053	264,435
Assets limited or restricted as to use - current portion	402,129	403,799
Assets limited or restricted as to use - noncurrent portion:		
Held by trustees under bond indenture agreements	6,676	5,828
Self-insurance, benefit plans and other	871,641	867,132
By Board	3,589,471	3,474,947
By donor	476,249	460,836
Interest rate swaps in other long-term assets	2,792	6,813
<b>Less items not recorded at fair value:</b>		
Total unconditional promises to give - net	(72,457)	(74,392)
Reinsurance recovery receivable	(42,823)	(42,487)
Other, primarily beneficial interests in trusts	(6,977)	(8,441)
Total assets	<u>\$ 13,703,022</u>	<u>\$ 10,665,823</u>

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

	<u>Equity Securities</u>	<u>Government Agency Obligations</u>	<u>Corporate Bonds</u>	<u>Total</u>
Balance at July 1, 2018	\$ 6,540	\$ 4,180	\$ 622	\$ 11,342
Realized loss	-	-	(29)	(29)
Unrealized loss	-	(8)	(59)	(67)
Purchases	168	-	297	465
Settlements	-	(3,848)	(538)	(4,386)
Transfers to Level 2	-	(217)	-	(217)
Balance at June 30, 2019	<u>\$ 6,708</u>	<u>\$ 107</u>	<u>\$ 293</u>	<u>\$ 7,108</u>
Transfers to Level 2	(6,708)	(107)	(293)	(7,108)
Balance at June 30, 2020	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</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, 2020 and 2019. The fair value and redemption rules of these investments are as follows as of June 30 (in thousands):

<b>2020</b>			
	<b>Fair Value</b>	<b>Redemption Frequency</b>	<b>Redemption Notice Period</b>
Commingled funds	\$ 1,145,761	Daily, monthly, semi-monthly	2 - 15 days
Hedge funds	<u>638,206</u>	Monthly, semi-monthly, quarterly, semi-annually, annually	15 - 95 days
Total	<u>\$ 1,783,967</u>		
<b>2019</b>			
	<b>Fair Value</b>	<b>Redemption Frequency</b>	<b>Redemption Notice Period</b>
Commingled funds	\$ 1,235,860	Daily, monthly, semi-monthly	2 - 15 days
Hedge funds	<u>691,561</u>	Monthly, quarterly, semi-annually	15 - 120 days
Total	<u>\$ 1,927,421</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 0.0% of the value of the investments in this category as of June 30, 2020 and 2019, respectively, can only be redeemed semi-annually, bi-annually, or annually subsequent to the initial investment date. Investments representing 64.1% and 68.5% of the investments in this category as of June 30, 2020 and 2019, 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>2020</u>	<u>2019</u>
Dividend, interest income and other	\$ 176,622	\$ 177,085
Realized gain - net	87,452	176,969
Realized equity earnings, other investments	23,310	38,450
Change in net unrealized (loss) gain on investments	<u>(21,333)</u>	<u>123,793</u>
Total investment return	<u>\$ 266,051</u>	<u>\$ 516,297</u>

**Included in:**

Operating income	\$ 90,580	\$ 89,920
Nonoperating items	176,167	421,163
Changes in net assets with donor restrictions	<u>(696)</u>	<u>5,214</u>
Total investment return	<u>\$ 266,051</u>	<u>\$ 516,297</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>2020</u>	<u>2019</u>
<b>Amounts expected to be collected in:</b>		
Less than one year	\$ 46,674	\$ 48,501
One to five years	30,461	29,891
More than five years	<u>3,819</u>	<u>4,933</u>
	80,954	83,325
Discount to present value of future cash flows	(4,134)	(5,104)
Allowance for uncollectible amounts	<u>(4,363)</u>	<u>(3,828)</u>
Total unconditional promises to give - net	<u>\$ 72,457</u>	<u>\$ 74,393</u>

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



## 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 \$18.2 million and \$13.3 million for the years ended June 30, 2020 and 2019, respectively, and are included in nonoperating income.

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

**Effect of Derivative Instruments on Excess of Revenue over Expenses** – The Corporation has interest rate swaps not designated as hedging instruments which are included in the excess of revenue over expenses in the statement of operations. Net losses included in the change in market value and cash payments of interest rate swaps totaled \$80.0 million and \$54.2 million for the years ended June 30, 2020 and 2019, 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	
		2020	2019
Asset Derivatives:			
Interest rate swaps	Other assets	\$ 2,792	\$ 6,813
Liability Derivatives:			
Interest rate swaps	Other long-term liabilities	\$ 226,784	\$ 168,933

The counterparties to the interest rate swaps expose the Corporation to credit loss in the event of nonperformance. As of June 30, 2020 and 2019, an adjustment for nonperformance risk reduced derivative assets by \$0.1 million in both years, and derivative liabilities by \$12.2 million and \$5.2 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>2020</u>	<u>2019</u>
<b>Subject to expenditure for specified program</b>		
Education and research	\$ 40,229	\$ 40,424
Building and equipment	62,774	98,797
Patient care	47,623	42,121
Cancer center/research	22,791	26,290
Services for elderly care	35,258	36,566
Other	<u>82,964</u>	<u>90,630</u>
Total subject to expenditure for specified program	<u>291,639</u>	<u>334,828</u>
<b>Subject to the passage of time</b>		
For periods after June 30	<u>72,457</u>	<u>23,958</u>
Total subject to expenditure for specified program and passage of time	<u>\$ 364,096</u>	<u>\$ 358,786</u>
<b>Subject to organization spending policy and appropriation</b>		
Investment in perpetuity, which, once appropriated, is expendable to support:		
Hospital operations	115,772	108,763
Medical programs	12,766	12,377
Scholarship funds	8,675	8,819
Research funds	11,717	11,684
Community service funds	14,566	14,221
Other	<u>38,588</u>	<u>38,039</u>
Total subject to organization spending policy and appropriation	<u>202,084</u>	<u>193,903</u>
Total net assets with donor restrictions	<u>\$ 566,180</u>	<u>\$ 552,689</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):

	<b>Net Assets Without Donor Restrictions</b>	<b>Net Assets With Donor Restrictions</b>	<b>Total</b>
Endowment net assets, July 1, 2018	\$ 87,590	\$ 253,161	\$ 340,751
<b>Investment return:</b>			
Investment income	2,225	8,524	10,749
Change in net realized and unrealized gains (losses)	2,800	(5,166)	(2,366)
Total investment return	5,025	3,358	8,383
Contributions	957	6,142	7,099
Appropriation of endowment assets for expenditures	(3,648)	(2,666)	(6,314)
Other	3,861	(15,915)	(12,054)
Endowment net assets, June 30, 2019	93,785	244,080	337,865
<b>Investment return:</b>			
Investment income	1,826	2,128	3,954
Change in net realized and unrealized gains (losses)	186	(2,249)	(2,063)
Total investment return	2,012	(121)	1,891
Contributions	4,080	9,879	13,959
Appropriation of endowment assets for expenditures	(2,728)	(2,112)	(4,840)
Other	(7,639)	(783)	(8,422)
Endowment net assets, June 30, 2020	<u>\$ 89,510</u>	<u>\$ 250,943</u>	<u>\$ 340,453</u>

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

	<b>2020</b>	<b>2019</b>
<b>Net assets with donor restrictions:</b>		
Endowments requiring income to be added to the original gift	\$ 6,664	\$ 6,483
Term endowment funds	5,446	4,677
Accumulated investment gains on endowment funds:		
Without purpose restrictions	155,804	150,111
With purpose restrictions	83,029	82,809
Total endowment funds classified as net assets with donor restrictions	<u>\$ 250,943</u>	<u>\$ 244,080</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 exist did not exist for the years ended June 30, 2020 and 2019. 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>2020</u>	<u>2019</u>
Quasi-endowment funds	\$ 89,510	\$ 93,785
Future capital improvements	852,292	1,098,835
System development fund	649,680	865,983
Insurance and retirement programs	705,413	666,662
Retirement of debt/intercompany loan program	1,068,238	542,427
Program/mission	285,003	265,051
Liquidity reserve	30,717	23,555
Other	<u>82,267</u>	<u>92,222</u>
Total governing Board designations	3,763,120	3,648,520
Less current portion	<u>(173,649)</u>	<u>(173,573)</u>
Total governing Board designations - net of current portion	<u>\$ 3,589,471</u>	<u>\$ 3,474,947</u>

### 13. RESTRUCTURING CHARGES

During the fourth quarter of fiscal 2020, the Corporation announced plans to restructure, and re-size the Corporation and its Health Ministries, redesign work and reduce costs due to projected lower revenue during fiscal 2021 as a result of the COVID-19 pandemic. The plans were customized across the Health Ministries and the Corporation’s system office, based on the related circumstances, including volume growth projections and the cost and revenue challenges in each market. The plans contain additional colleague transitions, including position eliminations and involuntary severance under a one-time benefits program that provides a minimum level of enhanced severance benefits, extended or new furloughs, and extended or new reductions in schedules. As a result of these actions, restructuring charges, primarily for severance and termination benefits, of \$212.9 million for the year ended June 30, 2020 were recorded in the consolidated statement of operations and changes in net assets.

During the year ended June 30, 2019, management authorized a plan to consolidate and restructure staffing, primarily related to revenue cycle billing services, voluntary severance programs and certain information systems colleagues. In addition, certain sites undertook early lease terminations. As a result of these actions, restructuring charges of \$82.4 million for the year ended June 30, 2019 were recorded in the consolidated statement of operations and changes in net assets. The restructuring charges are primarily for severance, termination benefits and early lease termination costs. As of June 30, 2020 and 2019, \$234.7 million and \$72.2 million, was accrued in salaries, wages and related liabilities on the consolidated balance sheets for these plans.

#### 14. SUBSEQUENT EVENTS

Management has evaluated subsequent events through September 16, 2020, the date the consolidated financial statements were issued. The following subsequent events were noted:

***Mercy Health System of Chicago, Chicago (“MHSC”)*** - During July 2020, the Corporation and the Board of MHSC announced a clinical transformation plan for Mercy Hospital and Medical Center, Chicago (“Hospital and Medical Center”) to a community-based health care organization. The new organization will focus on serving community needs by providing diagnostic, urgent care, and care coordination services, and will honor the legacy of the mission of its founding sponsors and will be a Mission Health Ministry of Trinity Health. The transformation plan was developed due to significant changes in MHSC’s health care environment, including substantial declines in both inpatient and outpatient volumes, and cumulative deficiency of revenue over expenses at the Hospital and Medical Center totaling \$303.2 million over the last seven fiscal years. In coordination with the transformation, plans include discontinuation of inpatient acute care services at the Hospital and Medical Center and the wind-down of the Hospital and Medical Center as a licensed full-service acute care hospital, subject to regulatory and other approvals. As a result of the decision, fiscal year 2021 restructuring charges are estimated in a range of \$90 million to \$115 million and will be recorded once regulatory approval has been received. The charges primarily include retention pay, severance and termination benefits, as well as other exit costs.

The Hospital and Medical Center recorded operating revenue of \$275.6 million and excess of revenue over expense of \$4.1 million, aided by significant state and CARES Act funding, for the year ended June 30, 2020. During the year ended June 30, 2019, the Hospital and Medical Center recorded operating revenue of \$238.5 million, and incurred a deficiency of revenue over expenses of \$36.4 million.

***Grant Funds Received*** - Subsequent to June 30, 2020, the Corporation received additional funding of \$328.9 million in CARES Act and PPPHCE Act Relief Funds, which amounts did not qualify for financial statement recognition during the year ended June 30, 2020.

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