

Holy Cross Health, Inc.

(A Member of Trinity Health)

Consolidated Financial Statements as of and
for the Years Ended June 30, 2017 and 2016,
Supplemental Consolidating Information as of
and for the Year Ended June 30, 2017, and
Independent Auditors' Report

HOLY CROSS HEALTH, INC.
(A Member of Trinity Health)

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INDEPENDENT AUDITORS' REPORT

To Trinity Health Corporation and the
Board of Directors of Holy Cross Health, Inc.:

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

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

Emphasis of Matter

The accompanying consolidated financial statements have been prepared from the separate records maintained by the Corporation and may not necessarily be indicative of the conditions that would have existed or the results of operations if the Corporation had been operated as a company that was not affiliated with Trinity Health. Portions of certain revenue and expenses represent allocations to and from the Corporation's ultimate parent, Trinity Health. Our opinion is not modified with respect to this matter.

Deloitte & Touche LLP

October 12, 2017

HOLY CROSS HEALTH, INC.
(A Member of Trinity Health)

CONSOLIDATED BALANCE SHEETS
AS OF JUNE 30, 2017 AND 2016
(In thousands)

	2017	2016
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 21,065	\$ 37,234
Investment in Trinity Health pooled investment program	222,859	175,544
Patient accounts receivable—net of allowance for doubtful accounts of \$12.3 million and \$15.2 million in 2017 and 2016, respectively	74,137	79,099
Inventories	9,122	9,259
Prepaid expenses and other current assets	<u>4,114</u>	<u>6,910</u>
Total current assets	<u>331,297</u>	<u>308,046</u>
ASSETS LIMITED OR RESTRICTED AS TO USE:		
Deferred compensation	446	286
By donors	4,636	4,759
By board	<u>2,000</u>	<u>2,000</u>
Total assets limited or restricted as to use	<u>7,082</u>	<u>7,045</u>
PROPERTY AND EQUIPMENT—Net	473,717	492,594
INVESTMENTS IN UNCONSOLIDATED AFFILIATES	29,024	22,528
PREPAID CHARGES FOR SHARED INFORMATION SERVICES	25,805	23,338
OTHER ASSETS	<u>11,469</u>	<u>8,731</u>
TOTAL ASSETS	<u>\$ 878,394</u>	<u>\$ 862,282</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Current portion of notes payable to Trinity Health and affiliates	\$ 7,581	\$ 8,149
Accounts payable	30,964	33,169
Accrued expenses	3,727	1,968
Salaries, wages, and related liabilities	20,470	27,208
Estimated payables to third-party payers	<u>21,409</u>	<u>18,737</u>
Total current liabilities	84,151	89,231
NOTES PAYABLE TO TRINITY HEALTH AND AFFILIATES—Net of current portion	400,782	408,363
OTHER LONG-TERM LIABILITIES	<u>9,429</u>	<u>8,005</u>
Total liabilities	<u>494,362</u>	<u>505,599</u>
NET ASSETS:		
Unrestricted	379,396	351,922
Temporarily restricted	4,586	4,718
Permanently restricted	<u>50</u>	<u>43</u>
Total net assets	<u>384,032</u>	<u>356,683</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 878,394</u>	<u>\$ 862,282</u>

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

HOLY CROSS HEALTH, INC.
(A Member of Trinity Health)

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

	2017	2016
UNRESTRICTED REVENUE:		
Patient service revenue—net of contractual and other allowances	\$ 540,532	\$ 525,273
Provision for bad debts	<u>19,639</u>	<u>24,885</u>
Net patient service revenue less provision for bad debts	520,893	500,388
Net assets released from restrictions	201	370
Other revenue	<u>24,163</u>	<u>14,413</u>
Total unrestricted revenue	<u>545,257</u>	<u>515,171</u>
EXPENSES:		
Salaries and wages	221,265	212,453
Employee benefits	46,010	46,691
Contract labor	<u>6,014</u>	<u>6,253</u>
Total labor expenses	273,289	265,397
Supplies	86,241	81,680
Purchased services	81,609	76,426
Depreciation and amortization	38,202	36,656
Occupancy	22,196	20,054
Interest	14,437	11,997
Other	<u>10,554</u>	<u>7,855</u>
Total expenses	<u>526,528</u>	<u>500,065</u>
OPERATING INCOME BEFORE SEVERANCE EXPENSE	18,729	15,106
SEVERANCE EXPENSE	<u>1,338</u>	<u>-</u>
OPERATING INCOME	<u>17,391</u>	<u>15,106</u>
NONOPERATING ITEMS:		
Earnings (losses) in Trinity Health pooled investment program	24,248	(5,242)
Other	<u>(1,528)</u>	<u>(1,540)</u>
Total nonoperating items	<u>22,720</u>	<u>(6,782)</u>
EXCESS OF REVENUE OVER EXPENSES	<u>40,111</u>	<u>8,324</u>

(Continued)

HOLY CROSS HEALTH, INC.
(A Member of Trinity Health)

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

	2017	2016
UNRESTRICTED NET ASSETS:		
Excess of revenue over expenses	\$ 40,111	\$ 8,324
Net assets released from restrictions for capital	1,744	2,711
Transfers to affiliates	<u>(14,381)</u>	<u>(11,365)</u>
Increase (decrease) in unrestricted net assets	<u>27,474</u>	<u>(330)</u>
TEMPORARILY RESTRICTED NET ASSETS:		
Contributions	1,813	1,209
Net assets released from restrictions	<u>(1,945)</u>	<u>(3,081)</u>
Decrease in temporarily restricted net assets	<u>(132)</u>	<u>(1,872)</u>
PERMANENTLY RESTRICTED NET ASSETS:		
Net investment income (loss)	<u>7</u>	<u>(2)</u>
Increase (decrease) in permanently restricted net assets	<u>7</u>	<u>(2)</u>
INCREASE (DECREASE) IN NET ASSETS	27,349	(2,204)
NET ASSETS—Beginning of year	<u>356,683</u>	<u>358,887</u>
NET ASSETS—End of year	<u>\$ 384,032</u>	<u>\$ 356,683</u>

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

(Concluded)

HOLY CROSS HEALTH, INC.
(A Member of Trinity Health)

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016
(In thousands)

	2017	2016
OPERATING ACTIVITIES:		
Increase (decrease) in net assets	<u>\$ 27,349</u>	<u>\$ (2,204)</u>
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities:		
Transfers to affiliates	14,381	11,365
Net realized (gains) losses on investments	(3,240)	1,551
Net unrealized (gains) losses on investments	(19,025)	5,307
Restricted contributions and investment income	(1,820)	(1,207)
Depreciation and amortization	38,202	36,656
Provision for bad debts	19,639	24,885
Equity (earnings) losses in unconsolidated affiliates	(6,333)	1,842
Loss on sale of property and equipment	270	304
Changes in:		
Patient accounts receivable	(14,677)	(21,605)
Other assets	(7,603)	(6,980)
Accounts payable and other liabilities	318	7,930
Estimated payables to third-party payers	<u>2,672</u>	<u>1,642</u>
Total adjustments	<u>22,784</u>	<u>61,690</u>
Net cash provided by operating activities	<u>50,133</u>	<u>59,486</u>
INVESTING ACTIVITIES:		
Purchases of property and equipment	(20,482)	(57,684)
Disbursements of restricted cash	(3,611)	(4,034)
Receipts of restricted cash	2,555	3,711
Investment in unconsolidated affiliate	(127)	-
Change in investments in Trinity Health pooled investment program	<u>(25,050)</u>	<u>21,810</u>
Net cash used in investing activities	<u>(46,715)</u>	<u>(36,197)</u>
FINANCING ACTIVITIES:		
Transfers to affiliates	(14,381)	(11,365)
Proceeds from restricted contributions and restricted investment income	2,999	3,405
Repayments of notes payable to Trinity Health and affiliates	(8,149)	(8,544)
Repayments of capital lease	<u>(56)</u>	<u>(56)</u>
Net cash used in financing activities	<u>(19,587)</u>	<u>(16,560)</u>
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(16,169)	6,729
CASH AND CASH EQUIVALENTS—Beginning of year	<u>37,234</u>	<u>30,505</u>
CASH AND CASH EQUIVALENTS—End of year	<u>\$ 21,065</u>	<u>\$ 37,234</u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid during the year for interest	<u>\$ 14,380</u>	<u>\$ 13,779</u>
Accrued property and equipment	<u>\$ 2,347</u>	<u>\$ 8,369</u>

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

HOLY CROSS HEALTH, INC.
(A Member of Trinity Health)

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

1. ORGANIZATION AND COMMUNITY BENEFIT MINISTRY

Holy Cross Health, Inc. (the "Corporation"), a Maryland not-for-profit corporation, owns and operates Holy Cross Hospital (HCH), a 425-bed acute care hospital; and Holy Cross Germantown Hospital (HCGH), a 93-bed acute care hospital that opened on October 1, 2014. Additionally, the Corporation is the parent of Holy Cross Health Foundation, a not-for-profit corporation established in 2007 supporting the charitable mission of the Corporation; and Maryland Care Group, Inc., a taxable corporation that owns a private home service agency. The Corporation provides services to patients who reside primarily in the local geographic region. The Corporation is a member of Trinity Health Corporation ("Trinity Health"), an Indiana not-for-profit corporation, sponsored by Catholic Health Ministries, a Public Juridic Person of the Holy Roman Catholic Church. Trinity Health 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. There are significant related-party transactions with Trinity Health and its Regional Health Ministries.

The mission statement for the Corporation is as follows:

"We, Holy Cross Health, Inc. and Trinity Health, serve together in the spirit of the Gospel as a compassionate and transforming healing presence within our communities. We carry out this mission in our communities through our commitment to be the most trusted provider of health care services."

Community Benefit Ministry—Consistent with its mission, the Corporation provides medical care to all patients regardless of their ability to pay. In addition, the Corporation provides services intended to benefit the poor and underserved, including those persons who cannot afford health insurance or other payments, such as copays and deductibles, because of inadequate resources and/or are uninsured or underinsured, and to enhance the health status of the communities in which it operates.

The State of Maryland requires all not-for-profit hospitals to compile and make public an annual report of community benefit activities according to the Community Benefit Reporting Requirements and Standard Definitions established by the Maryland Health Services Cost Review Commission (HSCRC). A summary prepared in accordance with the requirements reflecting the amount of the Corporation's community benefit ministry for the years ended June 30, 2017 and 2016, is as follows (in thousands):

	2017	2016
Charity care (charges)	\$34,217	\$35,846
Unpaid costs of Medicaid—Medicaid assessment	2,011	1,935
Community health services	4,159	4,940
Health professions education	3,998	3,070
Mission-driven health services	12,843	11,839
Research	304	205
Financial contributions	3	178
Community building activities	43	76
Community benefit operations	<u>1,113</u>	<u>890</u>
Total community benefit ministry	<u>\$58,691</u>	<u>\$58,979</u>

The Corporation provides a significant amount of care to patients not paid for by or on behalf of those receiving it that is reported as bad debt at cost, and not included in the amounts reported above. During the years ended June 30, 2017 and 2016, the Corporation reported bad debt at cost (determined using a cost-to-charge ratio applied to the provision for bad debts) adjusted by support received through the state's Uncompensated Care Fund of \$8.6 million and \$14.8 million, respectively. Total support received through the state's Uncompensated Care Fund for both bad debts and charity care was \$18.2 million and \$10.3 million for the years ended June 30, 2017 and 2016, respectively.

Charity Care (Charges)—This represents services provided to patients who cannot afford health care services due to inadequate resources and/or are uninsured or underinsured. A patient is classified as a charity patient in accordance with the Corporation's established policies and when no payment for such services is anticipated. The amounts of direct and indirect costs for services and supplies furnished under the Corporation's charity care policy totaled approximately \$27.4 million and \$28.2 million for the years ended June 30, 2017 and 2016, respectively, and are based on a ratio of the Corporation's operational costs to its gross charges.

Unpaid Costs of Medicaid—Medicaid Assessment—Medicaid is a joint federal and state program that pays the medical bills of people who have low income and cannot afford medical care. Maryland's regulatory system creates a unique process for hospital payment that differs from the rest of the nation. Community benefit expenses are equal to Medicaid revenue in Maryland; as such, the net effect is \$0. The exception to this is the impact on the hospital of its share of the Medicaid assessment. In recent years, the State of Maryland has closed fiscal gaps in the state Medicaid budget by assessing hospitals through the rate-setting system.

Community Health Services—Community health services are activities and services carried out to improve community health and well-being, for which no patient bill exists. These services are not expected to be financially self-supporting, although some may be supported by outside grants or funding. Amounts reported are net of any outside funding.

Some examples include health screenings, senior exercise classes, and support groups. The Corporation actively collaborates with community groups and agencies to assist those in need in providing such services.

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

Mission-Driven Health Services—Mission-driven 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 adult day care, palliative care, and pharmacy programs.

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

Financial Contributions—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 as well as resources contributed directly to programs, organizations, and foundations for efforts on behalf of the poor and the underserved. Amounts included here also represent certain in-kind donations.

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

Community Benefit Operations—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, which are not controlled by the Corporation, are accounted for using either the equity or the cost method of accounting. For equity-method investments, the Corporation has included its equity share of income or losses from investments in unconsolidated affiliates in other revenue in the consolidated statements of operations and changes in net assets. All material intercompany transactions and account balances have been eliminated in consolidation.

The accompanying consolidated financial statements present the financial position, results of operations and changes in net assets, and cash flows for the Corporation and are not necessarily indicative of what the financial position, results of operations and changes in net assets, and cash flows would have been if the Corporation had been operated as an unaffiliated corporation during the periods presented.

Use of Estimates—The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) requires management of the Corporation to make assumptions, estimates, and judgments that affect the amounts reported in the consolidated financial statements, including the notes thereto, and related disclosures of commitments and contingencies, if any. The Corporation considers critical accounting policies to be those that require more significant judgments and estimates in the preparation of its consolidated financial statements, including the following: recognition of net patient service revenue, which includes contractual allowances, provision for bad debts, and charity care; the valuation of patient accounts receivable, which includes the allowance for doubtful accounts and contractual allowances; and the recorded value of investments. Management relies on historical experience and other assumptions believed to be reasonable in making its judgment and estimates. Actual results could differ materially from those estimates.

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

Investments and Investment Earnings—Investments included in assets limited or restricted as to use are equity securities with readily determinable fair values classified as trading securities.

Investment earnings and losses (including realized gains and losses on investments, holding gains and losses on trading securities, interest, and dividends) are included in nonoperating items in the consolidated statements of operations and changes in net assets (see Note 13).

Investment in Trinity Health Pooled Investment Program—The Corporation invests certain of its funds in the Trinity Health pooled investment programs. See Note 13, Fair Value Measurements, for descriptions of the various types of financial instruments that are included in the pooled investment programs. Earnings, including interest and dividends; equity earnings; and realized and unrealized gains and losses on investment in the pooled investment program are allocated to the participants based upon each participant's weighted-average percentage of the pooled investment fund in which they are participating.

Derivative Financial Instruments—Trinity Health periodically utilizes various financial instruments (e.g., options and swaps) to hedge interest rate, equity downside risk, and other exposures. Trinity Health's policies prohibit trading in derivative financial instruments on a speculative basis.

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

Assets Limited or Restricted as to Use—Assets set aside by the board of directors (the "Board") for future capital improvements and other purposes, over which the Board retains control and may at its discretion subsequently use for other purposes, and donor-restricted assets are included in assets limited or restricted 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 and conditions are met. The gifts are reported as either temporarily or

permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statements of operations and changes in net assets as net assets released from restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are reported as unrestricted contributions in the consolidated statements of operations and changes in net assets.

Property and Equipment—Property and equipment, including internally used software, are recorded at cost, if purchased, or at fair value at the date of donation, if donated. Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed using the straight-line method. The useful lives of these assets range from three to 40 years. Interest costs incurred during the period of construction of capital assets are capitalized as a component of the cost of acquiring those assets.

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

Long-Lived Assets Impairment—The Corporation evaluates long-lived assets for possible impairment annually or 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 asset.

Prepaid Charges for Shared Information Services—The Corporation invests in information systems that are shared by other Regional Health Ministries of Trinity Health. Prepaid charges represent the pro rated portion of the net book value of shared information systems and include hardware, software, and other capital expenses, net of accumulated depreciation on these assets. Shared information systems are recorded at cost and depreciated over the estimated useful life of the assets using the straight-line method. Useful lives range from four to 10 years. As the assets are depreciated, the Corporation records amortization expense as allocated by Trinity Health.

Other Assets—Other assets include physician support agreements recorded at fair value and amortized over the contract period. Physician support agreements were \$10.8 million and \$5.6 million at June 30, 2017 and 2016, respectively, and related accumulated amortization was \$7.2 million and \$4.7 million, respectively. In addition, other assets include the Holy Cross Germantown Hospital's prepaid land lease to Montgomery College, which is amortized on a straight-line basis over the lease term. The prepaid land lease balance was \$7.2 million and \$7.3 million as of June 30, 2017 and 2016, respectively. See Note 5, Other Assets; and Note 11, Commitments and Contingencies.

Intercompany Loan Program—The Corporation has the ability to borrow funds through the Trinity Health intercompany loan program. Loans under this program accrue interest at a variable rate that approximates external interest costs for the fiscal year which is assessed quarterly. Interest and principal are paid monthly to Trinity Health under provisions of the loan agreement.

Other Long-Term Liabilities—Other long-term liabilities include deferred rent, which is expensed on a straight-line basis over the lease term, and physician support agreements payable. See Note 8, Other Long-Term Liabilities; and Note 11, Commitments and Contingencies.

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

Patient Accounts Receivable, Estimated Payables to Third-Party Payers, and Net Patient Service Revenue—The Corporation has agreements with third-party payers that provide for payments at amounts different from established rates. Patient accounts receivable and net patient service revenue are reported at the estimated net realizable amounts from patients, third-party payers, and others for services rendered. 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. Estimated receivables from third-party payers, including amounts receivable from Medicare and Medicaid meaningful use programs, are included in prepaid expenses and other current assets in the consolidated balance sheets.

Allowance for Doubtful Accounts—The Corporation recognizes a significant amount of patient service revenue at the time the services are rendered even though the Corporation does not assess the patient's ability to pay at that time. As a result, the provision for bad debts is presented as a deduction from patient service revenue (net of contractual provisions and discounts). For uninsured and underinsured patients that do not qualify for charity care, the Corporation establishes an allowance to reduce the carrying value of such receivables to their estimated net realizable value. This allowance is established based on the aging of accounts receivable and the historical collection experience for each type of payer. A significant portion of the Corporation's provision for doubtful accounts relates to self-pay patients, as well as co-payments and deductibles owed to the Corporation by patients with insurance. The Corporation's allowance for doubtful accounts for self-pay was 50% and 52% of total self-pay patient receivables at June 30, 2017 and 2016, respectively.

Income Taxes—The Corporation and Holy Cross Health Foundation have been recognized as tax exempt pursuant to Section 501(a) of the Internal Revenue Code. The Corporation also has a taxable subsidiary, Maryland Care Group, Inc., which is included in the consolidated financial statements. Maryland Care Group, Inc. has entered into a tax-sharing agreement and files consolidated federal income tax returns with other corporate taxable subsidiaries. The Corporation and its subsidiaries include penalties and interest, if any, with its provision for income taxes. The Corporation has no uncertain tax positions at June 30, 2017 and 2016.

Excess of Revenue over Expenses—The consolidated statements of operations and changes in net assets include excess of revenue over expenses. Changes in unrestricted net assets, which are excluded from excess of revenue over expenses, consistent with industry practice, include the 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), and cumulative effect of changes in accounting principles.

Forthcoming Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. In August 2015, the FASB amended the guidance to defer the effective date of this standard by one year. ASU No. 2014-09 affects any entity that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets unless those contracts are within the scope of other standards. The core principle of the guidance in ASU No. 2014-09 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The Corporation is currently evaluating the requirements of the new standard to insure that we have processes, systems, and internal controls in place to collect the necessary information to implement the standard, which will be effective for the Corporation beginning July 1, 2018. While the adoption of ASU No. 2014-09 will have a material effect on the amounts presented in certain categories on the consolidated statements of operations, the Corporation does not expect it to materially affect the results of operations.

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

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

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

In August 2016, the FASB issued ASU No. 2016-14, *Presentation of Financial Statements of Not-For-Profit Entities*. This guidance simplifies and improves how not-for-profit entities

classify net assets as well as the information presented in financial statements and notes about liquidity, financial performance, and cash flows. Specifically, this guidance reduces the three classifications of net assets on the balance sheet to two classifications. This guidance is effective for the Corporation beginning July 1, 2018. The Corporation is still evaluating the impact this guidance may have on its consolidated financial statements.

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

In July 2015, the FASB issued ASU No. 2015-11, *Simplifying the Measurement of Inventory*. This guidance requires entities to measure most inventories at the lower of cost or net realizable value. This guidance is effective for the Corporation beginning July 1, 2017. The Corporation does not expect this guidance to have a material impact on its consolidated financial statements.

3. INVESTMENTS IN UNCONSOLIDATED AFFILIATES

Investments in Unconsolidated Affiliates—The Corporation has investments in entities that are recorded under the cost or equity method of accounting. At June 30, 2017 and 2016, the Corporation maintained investments in unconsolidated affiliates with ownership percentages ranging from 20% to 25%. The Corporation's share of equity earnings (losses) from entities accounted for under the equity method of \$6.4 million and \$(1.8) million for the years ended June 30, 2017 and 2016, respectively, are included in other revenue in the consolidated statements of operations and changes in net assets. Investments in unconsolidated affiliates accounted for using the equity method of accounting as of June 30, 2017 and 2016, include the following:

Maryland Physicians Care (MPC)—Effective April 7, 2014, the Corporation acquired a 20% ownership in MPC, a Medicaid managed care organization. As of August 17, 2015, the Corporation's interest in MPC increased from 20% to 25% as a result of negotiations to settle the exit of a joint venture partner.

Maryland Care Management, Inc. (MCMI)—Effective August 1, 2016, the Corporation acquired a 25% ownership in MCMI. MCMI was established as a management resource to oversee MPC operations and provide strategic planning services.

Chesapeake Potomac Regional Cancer Center (CPRCC)—Effective July 1, 2007, Maryland Regional Cancer Center (MRCC) divested 100% of the CPRCC. The Corporation acquired a 20% ownership in CPRCC, a radiation therapy center.

Doctor's Regional Cancer Center (DRCC)—Effective July 1, 2007, MRCC divested 100% of the DRCC. The Corporation received a direct distribution from the gain on sale and acquired a 20% ownership in DRCC, a radiation therapy center.

The Blue Door Pharmacy (the “Blue Door”)—Effective May 20, 2015, the Corporation acquired a 25% ownership in The Blue Door Pharmacy, a full-service, retail pharmacy that began operations on July 6, 2016.

The unaudited summarized financial position and results of operations of these entities as of and for the years ended June 30, 2017 and 2016, are as follows (in thousands):

	2017				
	MCM	Blue Door	CPRCC	DRCC	MPC
Total assets	\$2,849	\$ 189	\$7,583	\$6,768	\$ 299,547
Total liabilities	581	359	686	880	196,417
Net assets	2,268	(170)	6,897	5,888	103,130
Revenue—net	4,840	454	7,306	8,201	1,092,780
Excess (deficiency) of revenue over expenses	2,273	(186)	336	575	17,458

	2016		
	CPRCC	DRCC	MPC
Total assets	\$7,550	\$5,670	\$ 205,027
Total liabilities	989	994	124,653
Net assets	6,561	4,676	80,374
Revenue—net	7,719	7,577	917,168
Excess (deficiency) of revenue over expenses	572	683	(13,896)

4. NET PATIENT SERVICE REVENUE

A summary of payment arrangements with major third-party payers is as follows:

Maryland HSCRC—Certain of the Corporation’s charges are subject to review and approval by the Maryland HSCRC (the “Commission”). The Corporation’s management has filed the required forms with the Commission and believes the Corporation to be in compliance with the Commission’s requirements.

The rate of reimbursement for services to patients under the Medicare and Medicaid programs is based on an agreement between the Centers for Medicare and Medicaid Services (CMS) and the Commission. The agreement provides that the programs reimburse the Corporation at set discounts from approved rates for services provided to program beneficiaries and is based upon a long-standing waiver from Medicare reimbursement principles in effect since 1977. In January 2014, CMS and the Commission agreed to implement a revised waiver and the previous waiver was terminated. The revised agreement allows a waiver from Medicare reimbursement principles under Section 1115A of the Social Security Act and continues as long as all hospitals elect to be reimbursed under this program, the all payer annual per capita total hospital cost growth does not exceed 3.58%, the Medicare per capita total hospital cost growth remains lower than the national annual per capita growth rate, and significant quality improvements are achieved related to 30-day hospital readmission rates and hospital acquired conditions. The new waiver agreement is expected to remain in effect through calendar 2018.

Under the Commission's current reimbursement methodology, HCH entered a global budget revenue arrangement and a gross revenue target was established for HCH based on the year ended June 30, 2013. Charges for 2017 and 2016 have been adjusted for inflation and other statewide allocation adjustments. The actual revenue charged is compared to the revenue target and to the extent that the actual revenue exceeds or is less than the target, the overcharge or undercharge, plus applicable penalties reduces (in the case of overcharges) or increases (in the case of undercharges) the approved target for future rate years. At June 30, 2017 and 2016, the Corporation was in compliance with its revenue target.

With the opening of HCGH in October 2014, the Commission established rates for the new facility at HCH rates which were effective with the July 1, 2014, rate order. The approved rates for HCGH will be linked to HCH-approved unit rates, and updated annually, until such time as volumes stabilize at HCGH. This is expected to happen by June 30, 2018. Finally, the Corporation has agreed to work with the Commission to establish a global budget arrangement similar to that between HCH and the Commission, or a similar population-based health reimbursement model then in effect, no later than July 1, 2018.

The Commission's rate-setting methodology for the Corporation's service centers that provide inpatient and outpatient services or only outpatient services consists of establishing an acceptable unit rate for defined inpatient and outpatient service centers within the hospital. The actual average unit charge for each service center is compared to the approved rate monthly and annually. Over and undercharges due to either patient volume or price variances, plus penalties, where applicable, are applied to decrease (in the case of overcharges) or increase (in the case of undercharges) future approved rates on an annual basis.

The timing of the Commission's rate adjustments for the Corporation could result in an increase or reduction in rates due to the variances and penalties described above in a year subsequent to the year in which such items occur. The Corporation's policy is to accrue revenue based on actual charges for services to patients in the year in which the services are performed and billed.

Kaiser Permanente—In accordance with the rate review system established by the Commission, the Corporation and Kaiser Permanente have agreed that those charges subject to the rate review system and covered by Kaiser Permanente were generally paid at approximately 98% of billed charges.

Medicare and Medicaid—Hospitals regulated by the Commission have been granted a waiver from the prospective payment system reimbursement provisions of the Medicare and Medicaid programs. The Corporation generally is paid at 94% of allowable charges for covered services under these programs. The Corporation is paid for outpatient dialysis at prospectively determined rates. These rates vary according to clinical, diagnostic, and other factors.

Patient service revenue, net of contractual, charity, and other allowances (but before the provision for bad debts), recognized during the years ended June 30, 2017 and 2016, is as follows (in thousands):

	2017	2016
Blue Cross	\$ 78,767	\$ 77,453
Commercial and other	143,257	146,659
Medicaid	102,347	97,258
Medicare	185,080	183,230
Uninsured	<u>31,081</u>	<u>20,673</u>
Net patient service revenue before provision for bad debts	<u>\$540,532</u>	<u>\$525,273</u>

A summary of net patient service revenue before provision for bad debts for the years ended June 30, 2017 and 2016, is as follows (in thousands):

	2017	2016
Gross charges:		
Acute inpatient	\$ 414,745	\$409,752
Outpatient, nonacute inpatient, and other	<u>230,283</u>	<u>211,914</u>
Gross patient revenue	645,028	621,666
Less—contractual and other allowances	<u>(104,496)</u>	<u>(96,393)</u>
Net patient service revenue before provision for bad debts	<u>\$ 540,532</u>	<u>\$525,273</u>

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

5. OTHER ASSETS

A summary of other assets at June 30, 2017 and 2016, is as follows (in thousands):

	2017	2016
Physician support agreements	\$ 3,589	\$ 881
Guarantees	133	508
Prepaid land lease	7,179	7,265
Patient loans receivable	491	-
Other	<u>77</u>	<u>77</u>
Other assets	<u>\$11,469</u>	<u>\$8,731</u>

6. PROPERTY AND EQUIPMENT

A summary of property and equipment at June 30, 2017 and 2016, is as follows (in thousands):

	2017	2016
Land	\$ 493	\$ 493
Buildings and improvements	597,757	592,748
Equipment	<u>167,396</u>	<u>158,454</u>
Total	765,646	751,695
Less accumulated depreciation and amortization	(293,632)	(265,174)
Construction in progress	<u>1,703</u>	<u>6,073</u>
Property and equipment—net	<u>\$ 473,717</u>	<u>\$ 492,594</u>

Equipment includes assets recorded under capital leases of \$3.2 million as of June 30, 2017 and 2016, with accumulated amortization for such assets of \$3.0 million and \$2.9 million as of June 30, 2017 and 2016, respectively. The associated charges to income are recorded in depreciation and amortization expense. In June 2017 and 2016, the Corporation completed an inventory of all fixed and movable equipment capitalized in the fixed asset system.

7. LONG-TERM DEBT AND OTHER FINANCING ARRANGEMENTS

A summary of notes payable, including amounts owed to Trinity Health, at June 30, 2017 and 2016, is as follows (in thousands):

	2017	2016
Notes payable to Trinity Health and affiliates, interest payable at a weighted-average interest rate of 3.5% and 3.3% during 2017 and 2016, respectively, payable in varying monthly installments—due through 2051	\$408,363	\$416,512
Less current portion of notes payable	<u>(7,581)</u>	<u>(8,149)</u>
Notes payable to Trinity Health and affiliates—net of current portion	<u>\$400,782</u>	<u>\$408,363</u>

Scheduled principal repayments on long-term debt as of June 30, 2017, are as follows (in thousands):

Years Ending June 30	
2018	\$ 7,581
2019	7,864
2020	8,165
2021	8,712
2022	9,086
Thereafter	<u>366,955</u>
 Total	 <u>\$408,363</u>

A summary of interest costs on borrowed funds during the years ended June 30, 2017 and 2016, is as follows (in thousands):

	2017	2016
Interest costs incurred	\$14,378	\$13,778
Less capitalized interest	<u>-</u>	<u>(1,811)</u>
 Interest expense included in operations	 <u>\$14,378</u>	 <u>\$11,967</u>

Obligated Group and Other Requirements—Trinity Health has debt outstanding under a master trust indenture dated October 3, 2013, as amended and supplemented thereto, the amended and restated master indenture (ARMI). The ARMI permits Trinity Health 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 Trinity Health). Proceeds from the 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 Ministries of Trinity Health constitute designated affiliates and Trinity Health 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 Corporation is a designated affiliate under the ARMI. The Obligated Group and the designated affiliates are referred to as the Credit Group.

Pursuant to the ARMI, the Obligated Group agent (Trinity Health) has caused the designated affiliates representing, when combined with the Obligated Group members, at least 85% of the consolidated net revenues of the Credit Group to grant to the master trustee security interests in their pledged property, which security interests secure all obligations issued under the ARMI. The aggregate amount of obligations outstanding using the ARMI (other than obligations that have been advance refunded) is \$6,008 million and \$5,821 million at June 30, 2017 and 2016, respectively.

There are several conditions and covenants required by the ARMI with which Trinity Health must comply, including covenants that require Trinity Health 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 Trinity Health 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 Trinity Health for the most recent fiscal year). Long-term debt outstanding as of June 30, 2017 and 2016, which has not been secured under the ARMI, is generally collateralized by certain property and equipment.

8. OTHER LONG-TERM LIABILITIES

A summary of other long-term liabilities at June 30, 2017 and 2016, is as follows (in thousands):

	2017	2016
Deferred rent	\$6,266	\$6,922
Physician support agreement payable	1,530	-
Patient loans payable	462	-
Asset retirement obligation	457	502
Deferred compensation	446	286
Other	<u>268</u>	<u>295</u>
Other long-term liabilities	<u>\$9,429</u>	<u>\$8,005</u>

9. PROFESSIONAL AND GENERAL LIABILITY PROGRAMS

The Corporation is a participant in a self-insured, pooled-risk professional and general liability program established for the Regional Health Ministries of Trinity Health. As a result, the Corporation is self-insured for certain levels of general and professional liability, workers' compensation, and certain other claims.

Trinity Health's current self-insurance program includes \$20 million per occurrence for the primary layers of professional and general liability, as well as \$10 million per occurrence for hospital government liability, \$5 million per occurrence for miscellaneous errors and omissions liability, and \$1 million per occurrence for management liability (directors' and officers' and employment practices), network security and privacy liability, and certain other coverages. In addition, through its wholly owned captive insurance company, Trinity Assurance, Ltd., and its various commercial reinsurers, Trinity Health maintains integrated excess liability coverage for professional/general liability, management liability, network security, and privacy liability. Trinity Health self-insures \$750,000 per occurrence for workers' compensation in most states, with commercial insurance providing coverage up to the statutory limits, and self-insures up to \$500,000 in property values per occurrence with commercial insurance providing additional coverage.

The Corporation has contributed an amount to Trinity Health, representing its share of the expected losses under the aforementioned programs and charged its contributions to expense. 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 Trinity Health's premium structure. Independent consulting actuaries assist in determining these factors from estimates of Trinity Health's expenses and available industry-wide data. Trinity Health discounts the reserves to their present value using a discount rate of 3%. The reserves include estimates of future trends in claim severity and frequency. Although considerable variability is inherent in such estimates,

management believes that the liability for unpaid claims and related allocated loss adjustment expenses is adequate based on the loss experience of Trinity Health. The estimates are continually reviewed and adjusted as necessary. The amount of the changes to the estimated self-insurance reserves was determined based upon the annual independent actuarial analyses.

Claims in excess of certain insurance coverage and the recorded self-insurance liability have been asserted against the Corporation by various claimants. The claims are in various stages of processing and some may ultimately be brought to trial. There are known incidents occurring through June 30, 2017, that may result in the assertion of additional claims and other claims may be asserted arising from services provided in the past. While it is possible that settlement of asserted claims and claims, 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 counsel, believes that the excess liability, if any, should not materially affect the consolidated financial position, results of operations, or cash flows of the Corporation.

10. PENSION AND OTHER BENEFIT PLANS

Defined Contribution Benefits—The Corporation sponsors defined contribution plans covering substantially all of its employees. These programs are funded by employee voluntary contributions, subject to legal limitations. Employer contributions to the plans include nonelective contributions of 3% of eligible compensation, and varying levels of matching contributions based on employee service. The employees direct their voluntary contributions and employer contributions among a variety of investment options. Contribution expense under the plans totaled \$9.3 million and \$9.0 million during the years ended June 30, 2017 and 2016, respectively.

Deferred Compensation—The Corporation has a nonqualified deferred compensation plan that permits eligible employees to defer a portion of their compensation. The plan allows participants to defer up to a maximum of \$15,000 of salary with interest accruing based on investment selections of the participant. The deferred amounts are distributable in cash after retirement or termination of employment. The assets and liabilities under the plan totaled \$0.4 million and \$0.3 million at June 30, 2017 and 2016, respectively, which are included in deferred compensation and other long-term liabilities in the consolidated balance sheets.

Noncontributory Defined Benefit Pension Plan (“Pension Plan”)—Substantially, all of the Corporation’s employees participate in a frozen, qualified noncontributory defined benefit pension plan. Effective June 2014, the plan was amended to freeze all future benefit accruals as of December 31, 2014. The plan’s assets are invested in equity securities, fixed-income securities, money market investments, hedge funds, commingled funds directly holding securities, long/short equity, private equity funds, and real estate. The plan is accounted for as a multiple-employer plan and has Church Plan status as determined by the Internal Revenue Service and is not governed by the Employee Retirement Income Security Act of 1974. As a multiple-employer plan, the Corporation contributes an amount equal to its proportionate share of the annual expense of Trinity Health. For the years ended June 30, 2017 and 2016, net pension income was \$0.9 million and \$1.5 million, respectively.

Postretirement Health Care and Life Insurance Benefits (“Postretirement Plans”)—The Corporation participates in a contributory plan established to provide uniform, defined postretirement health benefits, and life insurance (“retiree medical plan”)

to certain retirees of organizations affiliated with Trinity Health. Medical benefits for these retirees are subject to deductibles and co-payment provisions. All of the Postretirement Plans are closed to new participants. The Postretirement Plans' assets are invested in equity securities, fixed-income funds, and money market investments. The Postretirement Plans' are accounted for as a multiemployer plan. As a multiemployer plan, the Corporation contributes an amount equal to its proportionate share of the annual expense of Trinity Health. In June 2010, Trinity Health approved an amendment to restructure the funded plans as health reimbursement account arrangements for Medicare-eligible participants effective January 1, 2011. For the years ended June 30, 2017 and 2016, retiree medical plan income was \$0.4 million and \$0.3 million, respectively.

11. COMMITMENTS AND CONTINGENCIES

Operating Leases—The Corporation leases various land, equipment, and facilities under operating leases. Total rental expense, which includes provisions for maintenance in some cases, was \$3.8 million for the years ended June 30, 2017 and 2016.

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

Years Ending June 30	
2018	\$ 2,617
2019	2,514
2020	1,991
2021	1,958
2022	1,868
Thereafter	<u>4,264</u>
Total	<u>\$15,212</u>

Physician Support Agreements—Support agreements were entered into during the year ended June 30, 2015, at HCGH with various third-party physician practices. Support payments from the Corporation to physician practices represent a maximum monthly or quarterly amount equal to mutual agreed-upon costs of the physician practice payable, net of physician practice cash collections. The majority of support payments began in the first month of physician practice operations and will end the earlier of September 30, 2016, or when physician practice cash collections equal the maximum support payment. Each of these support agreements has been extended through periods ranging from September 30, 2017, to June 30, 2019. The total maximum support payments per the physician practice agreements, assuming no physician practice cash collections, were \$5.7 million and \$1.9 million as of June 30, 2017 and 2016, respectively. The physician support payment liabilities recorded as of June 30, 2017 and 2016, were \$3.8 million and \$0.9 million, respectively, and are included in accrued expenses and other liabilities in the consolidated balance sheets.

Asset Retirement Obligations—The Corporation has conditional asset retirement obligations for certain fixed assets, mainly related to the removal of asbestos, lead paint, and a lead-lined room. A reconciliation of the asset retirement obligation at June 30, 2017 and 2016, is as follows (in thousands):

	2017	2016
Asset retirement obligation—beginning of year	\$ 502	\$ 630
Accretion of expense		28
Remediation costs	<u>(45)</u>	<u>(156)</u>
Asset retirement obligation—end of year	<u>\$ 457</u>	<u>\$ 502</u>

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

12. RELATED-PARTY TRANSACTIONS

Trinity Health allocates the cost of central-administered services to the Corporation. The Corporation also shares certain services with affiliates and other Regional Health Ministries of Trinity Health. These services include treasury management, information systems, benefits administration, clinical engineering, accounts payable, patient financial services, and professional liability insurance. The composition of the related-party transactions with Trinity Health and other Regional Health Ministries for the years ended June 30, 2017 and 2016, is as follows (in thousands):

	2017	2016
Amounts recorded in the consolidated balance sheets:		
Investments in corporate pooled investment funds:		
Investments in Trinity Health pooled investment program	\$222,859	\$175,544
Assets limited or restricted as to use	<u>3,874</u>	<u>3,575</u>
Total investments in corporate pooled investment funds	<u>\$226,733</u>	<u>\$179,119</u>
Prepaid expenses and other current assets	\$ 627	\$ 808
Prepaid charges for shared information systems	25,805	23,338
Accounts payable	5,696	4,872
Deferred compensation liability—included in other liabilities	446	286
Notes payable to Trinity Health and affiliates, including current portion	408,363	416,512
Amounts recorded in the consolidated statements of operations and changes in net assets:		
Other revenue	884	464
Operating expenses:		
Employee benefits	(349)	(748)
Contract labor	4,931	5,546
Purchased services:		
Information services	22,406	22,019
Management services	5,713	5,740
Revenue management services	3,135	1,489
Supply chain and accounts payable services	714	671
Repairs and maintenance—included in occupancy	4,549	4,113
Amortization—included in depreciation and amortization	5,135	5,073
Interest expense (including amounts capitalized)	14,378	13,778
Insurance—included in other expenses	5,646	3,933
Other	953	1,118
Severance expense	571	-
Nonoperating items:		
Earnings (losses) in Trinity Health pooled investment program	24,248	(5,242)
Other	(1,528)	(1,540)
Transfers to affiliates	(14,381)	(11,365)

Trinity Health has purchased or constructed fixed assets, mainly computer hardware and software, that are utilized by the Regional Health Ministries of Trinity Health. The Corporation pays a prepaid service charge to Trinity Health to share in the use of these assets as allocated by Trinity Health and has recorded the prepayment as prepaid charges for shared information services. As the assets are used, the Corporation records amortization expense as allocated by Trinity Health.

13. 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, equity securities, debt securities, mutual funds, commingled funds, hedge funds, and derivatives. Liabilities measured at fair value on a recurring basis for disclosure only include debt.

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

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

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

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

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

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

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

Valuation Methodologies—Exchange-traded securities whose fair value is derived using quoted prices in active markets are classified as Level 1. In instances where quoted market prices are not readily available, fair value is estimated using quoted market prices and/or other market data for the same or comparable instruments and transactions in establishing

the prices, discounted cash flow models, and other pricing models. These models are primarily industry standard models that consider various assumptions, including time value and yield curve, as well as other relevant economic measures. The inputs to these models depend on the type of security being priced, but are typically benchmark yields, credit spreads, prepayment speeds, 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.

Trinity Health 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, Trinity Health reviews the independent reports of internal controls for these service providers. In addition, on a quarterly basis, Trinity Health 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. Trinity Health 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 pricing services and investment fund managers are representative of prices that would be received to sell the assets.

In instances in which 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 uses for instruments recorded at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy:

Cash and Cash Equivalents and Assets Limited or Restricted as to Use—The carrying amounts reported in the consolidated balance sheets approximate their fair value. Certain cash and cash equivalents are included in assets limited or restricted as to use in the consolidated balance sheets.

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.

Investment in Pooled Investment Program:

Trinity Health invests in various investment vehicles of which the Corporation has included in investment in pooled investment program and assets limited or restricted as to use in the consolidated balance sheets, including those described above. The following is a description of the other instruments included in the program along with the related valuation methodologies used:

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.

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 resulting in diversified multistrategy, multimanager investments approach. Some of these are developed by investment managers specifically for Trinity Health’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 things, such 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.

Derivatives—The fair value of the derivatives, which are mainly interest rate swaps, are estimated utilizing the terms of the swaps and publicly available market yield curves along with Trinity Health’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 information about the fair values of financial instruments measured at fair value on a recurring basis and recorded at June 30, 2017 and 2016, is as follows (in thousands):

	2017			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
Cash and cash equivalents	\$ 22,585	\$ -	\$ -	\$ 22,585
U.S. equity securities and mutual funds	<u>50</u>	<u>-</u>	<u>-</u>	<u>50</u>
Total	<u>\$ 22,635</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 22,635</u>
	2016			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
Cash and cash equivalents	\$ 37,846	\$ -	\$ -	\$ 37,846
U.S. equity securities and mutual funds	<u>43</u>	<u>-</u>	<u>-</u>	<u>43</u>
Total	<u>\$ 37,889</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 37,889</u>

The Corporation's policy is to recognize transfers between all levels as of the beginning of the reporting period. There were no transfers to or from Level 1, Level 2, or Level 3 during the years ended June 30, 2017 or 2016.

The information about the fair value of the Corporation's financial assets in the investment in the Trinity Health's pooled investment program at June 30, 2017 and 2016, according to the asset category and the valuation techniques used to determine their fair values is as follows:

	<u>2017</u>			
	<u>Identical Assets</u>	<u>Inputs</u>	<u>Inputs</u>	<u>Fair</u>
	<u>(Level 1)</u>	<u>(Level 2)</u>	<u>(Level 3)</u>	<u>Value</u>
Assets:				
Cash and cash equivalents	7 %	- %	- %	7 %
Equity securities	21	-	-	21
Debt securities:				
Government and government agency obligations	-	6	-	6
Corporate bonds	-	11	-	11
Asset-backed securities	-	2	-	2
Bank loans	-	1	-	1
Mutual funds:				
Equity mutual funds	4	-	-	4
Fixed-income mutual funds	-	-	-	-
Real estate investment funds	<u>1</u>	<u>-</u>	<u>-</u>	<u>1</u>
Total investments measured at fair value in Trinity Health pooled investment program	<u>33 %</u>	<u>20 %</u>	<u>- %</u>	53
Investments measured at net asset value:				
Commingled funds				21
Hedge funds				10
Equity method investments				<u>16</u>
Total investment in Trinity Health pooled investment program				<u>100 %</u>

	2016			
	Identical Assets (Level 1)	Inputs (Level 2)	Inputs (Level 3)	Fair Value
Assets:				
Cash and cash equivalents	12 %	- %	- %	12 %
Equity securities	17	-	-	17
Debt securities:				
Government and government agency obligations	-	6	-	6
Corporate bonds	-	7	-	7
Asset-backed securities	-	2	-	2
Bank loans	-	1	-	1
Mutual funds:				
Equity mutual funds	4	-	-	4
Fixed-income mutual funds	1	-	-	1
Real estate investment funds	<u>1</u>	<u>-</u>	<u>-</u>	<u>1</u>
Total investments measured at fair value in Trinity Health pooled investment program	<u>35 %</u>	<u>16 %</u>	<u>- %</u>	51
Investments measured at net asset value:				
Commingled funds				20
Hedge funds				12
Equity method investments				<u>17</u>
Total investment in Trinity Health pooled investment program				<u>100 %</u>

The composition of investment returns, including earnings on investments in the Trinity Health pooled investment program, included in the consolidated statements of operations and changes in net assets for the years ended June 30, 2017 and 2016, is as follows (in thousands):

	2017	2016
Dividend, interest income, and other	\$ 2,014	\$ 1,614
Net realized gains (losses)	3,240	(1,551)
Change in net unrealized gains (losses) on investments	<u>19,025</u>	<u>(5,307)</u>
Total investment return (loss)	<u>\$24,279</u>	<u>\$(5,244)</u>
Included in:		
Operating items	\$ 24	\$ -
Nonoperating items	24,248	(5,242)
Permanently restricted net assets	<u>7</u>	<u>(2)</u>
Total investment return (loss)	<u>\$24,279</u>	<u>\$(5,244)</u>

The methods and assumptions used by the Corporation in estimating the fair value of the Corporation's financial instruments that are not measured at fair value on a recurring basis for disclosures in the consolidated financial statements are as follows:

Unconditional Promises to Give—The carrying amount reported in the consolidated balance sheets for contributions and pledges receivable is at its estimated fair value. Unconditional promises to give at June 30, 2017 and 2016, consist of the following (in thousands):

	2017	2016
Amount expected to be collected in:		
Less than one year	\$1,680	\$1,708
One to five years	<u>225</u>	<u>1,365</u>
Total contributions receivable	1,905	3,073
Discount to present value of future cash flows	(89)	(203)
Allowance for uncollectible amounts	<u>(178)</u>	<u>(53)</u>
Total unconditional promises to give—net	<u>\$1,638</u>	<u>\$2,817</u>

Patient Accounts Receivable and Current Liabilities—The carrying amounts reported in the consolidated balance sheets approximate their fair value.

Long-Term Debt—The fair value of the Corporation's intercompany debt under the Trinity Health intercompany loan program is based on its proportionate share of Trinity Health's fair value for its tax-exempt fixed and variable rate bonds issued under its master indenture. The carrying amounts of Trinity Health's variable rate debt approximate its fair value. The fair value of Trinity Health's fixed rate debt is estimated using discounted cash flow analyses, based on current incremental borrowing rates for similar types of borrowing arrangements. Under the fair value hierarchy, these financial instruments are valued primarily using Level 2 inputs. The fair value of the tax-exempt fixed rate long-term revenue and refunding bonds was \$4,146 million and \$4,107 million as of June 30, 2017 and 2016, respectively. The related carrying value of the tax-exempt fixed rate long-term revenue and refunding bonds was \$3,755 million and \$3,540 million as of June 30, 2017 and 2016, respectively. The fair value of the taxable fixed rate long-term revenue bonds was \$361 million and \$382 million, as of June 30, 2017 and 2016, respectively. The related carrying value of the taxable fixed rate long-term revenue bonds was \$350 million as of June 30, 2017 and 2016, respectively.

14. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are those whose use by the Corporation has been limited by donors to a specific time period or purpose. Temporarily restricted net assets at June 30, 2017 and 2016, are available for the following purposes (in thousands):

	2017	2016
Education and research	\$ 168	\$ 296
Building and equipment	1,516	2,843
Cancer center/research	636	625
Patient care	1,271	195
Other	<u>995</u>	<u>759</u>
Total	<u>\$4,586</u>	<u>\$4,718</u>

15. SUBSEQUENT EVENTS

Management has evaluated subsequent events through October 12, 2017, the date the consolidated financial statements were available to be issued. There were no subsequent events requiring recording or disclosure in the consolidated financial statements.

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INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTAL CONSOLIDATING INFORMATION

To Trinity Health Corporation and the
Board of Directors of Holy Cross Health, Inc.:

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplemental consolidating information listed on pages 34-37 is presented for the purpose of additional analysis and is not a required part of the consolidated financial statements. This supplemental consolidating information is the responsibility of Holy Cross Health, Inc.'s management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. Such supplemental consolidating information has been subjected to the auditing procedures applied in our audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such supplemental consolidating information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, such supplemental consolidating information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Deloitte & Touche LLP

October 12, 2017

SUPPLEMENTAL CONSOLIDATING INFORMATION

HOLY CROSS HEALTH, INC.
(A Member of Trinity Health)

CONSOLIDATING SCHEDULE—BALANCE SHEET INFORMATION
AS OF JUNE 30, 2017
(In thousands)

	Holy Cross Hospital	Holy Cross Germantown Hospital	Holy Cross Health Network	Holy Cross Foundation	Maryland Care Group	Intercompany Elimination	Total
ASSETS							
CURRENT ASSETS:							
Cash and cash equivalents	\$ 17,349	\$ 1,816	\$ 676	\$ 418	\$ 806	\$ -	\$ 21,065
Investment in Trinity Health pooled investment program	108,955	112,768	-	1,136	-	-	222,859
Patient accounts receivable—net of allowance for doubtful accounts of \$12.3 million and \$15.2 million in 2017 and 2016, respectively	61,706	12,254	68	-	109	-	74,137
Inventories	6,336	2,786	-	-	-	-	9,122
Due from intercompany affiliates	351,701	-	-	-	526	(352,227)	-
Prepaid expenses and other current assets	3,409	343	358	4	-	-	4,114
Total current assets	<u>549,456</u>	<u>129,967</u>	<u>1,102</u>	<u>1,558</u>	<u>1,441</u>	<u>(352,227)</u>	<u>331,297</u>
ASSETS LIMITED OR RESTRICTED AS TO USE:							
Deferred compensation	268	173	5	-	-	-	446
By donors	302	-	-	4,334	-	-	4,636
By board	2,000	-	-	-	-	-	2,000
Total assets limited or restricted as to use	<u>2,570</u>	<u>173</u>	<u>5</u>	<u>4,334</u>	<u>-</u>	<u>-</u>	<u>7,082</u>
PROPERTY AND EQUIPMENT—Net	295,385	176,557	1,775	-	-	-	473,717
INVESTMENTS IN UNCONSOLIDATED AFFILIATES	2,640	-	26,384	-	-	-	29,024
PREPAID CHARGES FOR SHARED INFORMATION SERVICES	25,805	-	-	-	-	-	25,805
OTHER ASSETS	719	10,667	83	-	-	-	11,469
TOTAL ASSETS	<u>\$ 876,575</u>	<u>\$ 317,364</u>	<u>\$ 29,349</u>	<u>\$ 5,892</u>	<u>\$ 1,441</u>	<u>\$ (352,227)</u>	<u>\$ 878,394</u>
LIABILITIES AND NET ASSETS							
CURRENT LIABILITIES:							
Current portion of notes payable to Trinity Health and affiliates	\$ 7,581	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 7,581
Accounts payable	26,351	3,858	698	7	50	-	30,964
Accrued expenses	1,350	2,358	19	-	-	-	3,727
Due to intercompany affiliates	-	191,962	-	2,729	-	(194,691)	-
Salaries, wages, and related liabilities	17,449	2,396	568	41	16	-	20,470
Estimated payables to third-party payers	20,166	1,243	-	-	-	-	21,409
Total current liabilities	72,897	201,817	1,285	2,777	66	(194,691)	84,151
NOTES PAYABLE TO TRINITY HEALTH AND AFFILIATES—Net of current portion	400,782	157,536	-	-	-	(157,536)	400,782
OTHER LONG-TERM LIABILITIES	4,008	4,982	427	-	12	-	9,429
Total liabilities	<u>477,687</u>	<u>364,335</u>	<u>1,712</u>	<u>2,777</u>	<u>78</u>	<u>(352,227)</u>	<u>494,362</u>
NET ASSETS (DEFICIENCY):							
Unrestricted	398,622	(46,971)	27,637	(1,255)	1,363	-	379,396
Temporarily restricted	216	-	-	4,370	-	-	4,586
Permanently restricted	50	-	-	-	-	-	50
Total net assets (deficiency)	<u>398,888</u>	<u>(46,971)</u>	<u>27,637</u>	<u>3,115</u>	<u>1,363</u>	<u>-</u>	<u>384,032</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 876,575</u>	<u>\$ 317,364</u>	<u>\$ 29,349</u>	<u>\$ 5,892</u>	<u>\$ 1,441</u>	<u>\$ (352,227)</u>	<u>\$ 878,394</u>

HOLY CROSS HEALTH, INC.
(A Member of Trinity Health)

**CONSOLIDATING SCHEDULE—STATEMENT OF OPERATIONS AND CHANGES IN
NET ASSETS INFORMATION
FOR THE YEAR ENDED JUNE 30, 2017
(In thousands)**

	Holy Cross Hospital	Holy Cross Germantown Hospital	Holy Cross Health Network	Holy Cross Foundation	Maryland Care Group	Total
UNRESTRICTED REVENUE:						
Patient service revenue—net of contractual and other allowances	\$ 448,654	\$ 87,613	\$ 3,520	\$ -	\$ 745	\$ 540,532
Provision for bad debts	<u>13,615</u>	<u>6,004</u>	<u>20</u>	<u>-</u>	<u>-</u>	<u>19,639</u>
Net patient service revenue less provision for bad debts	435,039	81,609	3,500	-	745	520,893
Net assets released from restrictions	94	-	107	-	-	201
Other revenue	<u>14,372</u>	<u>1,676</u>	<u>7,778</u>	<u>337</u>	<u>-</u>	<u>24,163</u>
Total unrestricted revenue	<u>449,505</u>	<u>83,285</u>	<u>11,385</u>	<u>337</u>	<u>745</u>	<u>545,257</u>
EXPENSES:						
Salaries and wages	179,362	33,464	7,199	728	512	221,265
Employee benefits	37,621	6,825	1,386	142	36	46,010
Contract labor	<u>5,456</u>	<u>558</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,014</u>
Total labor expense	222,439	40,847	8,585	870	548	273,289
Supplies	72,888	12,834	400	118	1	86,241
Purchased services	54,762	22,786	3,583	391	87	81,609
Depreciation and amortization	26,127	11,829	246	-	-	38,202
Occupancy	18,541	2,916	724	-	15	22,196
Interest	8,883	5,554	-	-	-	14,437
Other	<u>9,685</u>	<u>359</u>	<u>439</u>	<u>68</u>	<u>3</u>	<u>10,554</u>
Total expenses	<u>413,325</u>	<u>97,125</u>	<u>13,977</u>	<u>1,447</u>	<u>654</u>	<u>526,528</u>
OPERATING INCOME (LOSS) BEFORE SEVERANCE EXPENSE	<u>36,180</u>	<u>(13,840)</u>	<u>(2,592)</u>	<u>(1,110)</u>	<u>91</u>	<u>18,729</u>
Severance expense	<u>1,310</u>	<u>-</u>	<u>-</u>	<u>28</u>	<u>-</u>	<u>1,338</u>
OPERATING INCOME (LOSS)	<u>34,870</u>	<u>(13,840)</u>	<u>(2,592)</u>	<u>(1,138)</u>	<u>91</u>	<u>17,391</u>
NONOPERATING ITEMS:						
Earnings in Trinity Health pooled investment program	14,660	9,311	-	277	-	24,248
Other	<u>(938)</u>	<u>(590)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,528)</u>
Total nonoperating items	<u>13,722</u>	<u>8,721</u>	<u>-</u>	<u>277</u>	<u>-</u>	<u>22,720</u>
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENSES	<u>48,592</u>	<u>(5,119)</u>	<u>(2,592)</u>	<u>(861)</u>	<u>91</u>	<u>40,111</u>

(Continued)

HOLY CROSS HEALTH, INC.
(A Member of Trinity Health)

**CONSOLIDATING SCHEDULE—STATEMENT OF OPERATIONS AND CHANGES IN
NET ASSETS INFORMATION
FOR THE YEAR ENDED JUNE 30, 2017
(In thousands)**

	Holy Cross Hospital	Holy Cross Germantown Hospital	Holy Cross Health Network	Holy Cross Foundation	Maryland Care Group	Total
UNRESTRICTED NET ASSETS:						
Excess (deficiency) of revenue over expenses	\$ 48,592	\$ (5,119)	\$ (2,592)	\$ (861)	\$ 91	\$ 40,111
Net assets released from restrictions for capital	12	10	-	1,722	-	1,744
Transfers to affiliates	<u>(22,567)</u>	<u>871</u>	<u>9,059</u>	<u>(1,744)</u>	<u>-</u>	<u>(14,381)</u>
Increase (decrease) in unrestricted net assets	<u>26,037</u>	<u>(4,238)</u>	<u>6,467</u>	<u>(883)</u>	<u>91</u>	<u>27,474</u>
TEMPORARILY RESTRICTED NET ASSETS:						
Contributions	52	-	-	1,761	-	1,813
Net assets released from restrictions	<u>(80)</u>	<u>-</u>	<u>-</u>	<u>(1,865)</u>	<u>-</u>	<u>(1,945)</u>
Decrease in temporarily restricted net assets	<u>(28)</u>	<u>-</u>	<u>-</u>	<u>(104)</u>	<u>-</u>	<u>(132)</u>
PERMANENTLY RESTRICTED NET ASSETS—						
Net investment income	<u>7</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>7</u>
Increase in permanently restricted net assets	<u>7</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>7</u>
INCREASE (DECREASE) IN NET ASSETS	26,016	(4,238)	6,467	(987)	91	27,349
NET ASSETS (DEFICIENCY)—Beginning of year	<u>372,872</u>	<u>(42,733)</u>	<u>21,170</u>	<u>4,102</u>	<u>1,272</u>	<u>356,683</u>
NET ASSETS (DEFICIENCY)—End of year	<u>\$ 398,888</u>	<u>\$ (46,971)</u>	<u>\$ 27,637</u>	<u>\$ 3,115</u>	<u>\$ 1,363</u>	<u>\$ 384,032</u>

(Concluded)