

**Trinity Health – New England, Inc.**  
**Hartford, Connecticut**  
**(A member of Trinity Health)**

Consolidated Financial Statements  
Year Ended September 30, 2016,  
Supplemental Consolidating Schedules as of and for the  
Year Ended September 30, 2016, and  
Independent Auditors' Report

**Trinity Health – New England, Inc.**  
**(A member of Trinity Health)**

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## **INDEPENDENT AUDITORS' REPORT**

To the Board of Directors of  
Trinity Health – New England, Inc.

We have audited the accompanying financial statements of Trinity Health – New England, Inc. Hartford, Connecticut (the “Corporation”) (a member of Trinity Health Corporation), which comprise the consolidated balance sheet as of September 30, 2016, and the related consolidated statements of operations and changes in net assets and cash flows for the year 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 the 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 audit 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 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 September 30, 2016, and the results of its operations and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matter**

As described in Notes 1 and 10 to the consolidated financial statements, the Corporation is a member of Trinity Health Corporation. 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 an unaffiliated company. Portions of certain assets, income, and expenses represent allocations made from home-office items applicable to Trinity Health Corporation as a whole.

## **Report on Consolidated Schedules**

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidated schedules on pages 41-48 are presented for the purpose of additional analysis of the consolidated financial statements rather than to present the financial position, results of operation, and cash flows of the individual companies, and are not a required part of the consolidated financial statements. These schedules are the responsibility of the Corporation's management and were derived from, and relate directly to, the underlying accounting and other records used to prepare the consolidated financial statements. Such schedules have been subjected to the auditing procedures applied in our audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such schedules directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, such schedules are fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

*Deloitte & Touche LLP*

January 25, 2017

**Trinity Health – New England, Inc.**  
**(A member of Trinity Health)**

**CONSOLIDATED BALANCE SHEET**  
**AS OF SEPTEMBER 30, 2016**  
**(In thousands)**

<b>ASSETS</b>	<b>2016</b>
<b>CURRENT ASSETS:</b>	
Cash and cash equivalents	\$ 92,355
Investments	14,812
Investment in Trinity Health pooled investment program	60,125
Assets limited or restricted as to use—Current portion	6,853
Patient accounts receivable, net of allowance for doubtful accounts of \$34.9 million as of September 30, 2016	171,080
Estimated receivables from third-party payors	7,620
Other receivables	20,330
Receivables from affiliates	3,147
Inventories	19,795
Prepaid expenses and other current assets	11,387
Total current assets	<u>407,504</u>
<b>ASSETS LIMITED OR RESTRICTED AS TO USE—Noncurrent portion:</b>	
Self-insurance, benefit plans, and other	26,064
By board	39,825
By donors	110,059
Total assets limited or restricted as to use—non-current portion	<u>175,948</u>
PROPERTY AND EQUIPMENT—Net	641,643
INVESTMENTS IN UNCONSOLIDATED AFFILIATES	12,298
INTANGIBLE ASSETS	14,487
OTHER ASSETS	85,695
<b>TOTAL ASSETS</b>	<u><u>\$ 1,337,575</u></u>

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

<b>LIABILITIES AND NET ASSETS</b>	<b>2016</b>
<b>CURRENT LIABILITIES:</b>	
Current portion of long-term debt	\$ 2,965
Current portion of notes payable to Trinity Health and affiliates	7,451
Accounts payable	82,094
Accrued expenses	5,437
Salary, wages, and related liabilities	100,595
Current portion of self-insurance reserves	17,606
Estimated payables to third-party payors	20,635
Total current liabilities	<u>236,783</u>
LONG-TERM DEBT—Net of current portion	1,664
NOTES PAYABLE TO TRINITY HEALTH AND AFFILIATES—Net of current portion	371,520
SELF-INSURANCE RESERVES - Net of current portion	78,942
ACCRUED PENSION AND RETIREE HEALTH COSTS	314,044
OTHER LONG-TERM LIABILITIES	19,140
Total liabilities	<u>1,022,093</u>
<b>NET ASSETS:</b>	
Unrestricted net assets	199,555
Noncontrolling ownership interest in subsidiaries	2,588
Total unrestricted net assets	<u>202,143</u>
Temporarily restricted net assets	39,162
Permanently restricted net assets	74,177
Total net assets	<u>315,482</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u><u>\$ 1,337,575</u></u>

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

**Trinity Health – New England, Inc.**  
**(A member of Trinity Health)**

**CONSOLIDATED STATEMENT OF OPERATIONS AND CHANGES IN NET ASSETS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2016**  
**(In thousands)**

	<u>2016</u>
UNRESTRICTED REVENUE:	
Patient service revenue, net of contractual and other allowances	\$ 1,361,894
Provision for bad debts	27,578
Net patient service revenue less provision for bad debts	<u>1,334,316</u>
Capitation revenue	18,695
Net assets released from restrictions	8,278
Other revenue	78,413
Total unrestricted revenue	<u>1,439,702</u>
EXPENSES:	
Salaries and wages	641,683
Employee benefits	138,913
Contract labor	44,670
Total labor expenses	<u>825,266</u>
Supplies	222,918
Purchased services	129,833
Depreciation and amortization	65,759
Occupancy	63,206
Interest	11,894
Other	132,540
Total expenses	<u>1,451,416</u>
OPERATING LOSS	<u>(11,714)</u>
NONOPERATING ITEMS:	
Earnings in Trinity Health pooled investment program	2,939
Investment income	4,175
Loss from early extinguishment of debt	(4,034)
Inherent contribution related to acquisitions	60,065
Loss on earnings of unconsolidated affiliates	(1,875)
Interest	(1,299)
Other	(323)
Total nonoperating items	<u>59,648</u>
EXCESS OF REVENUE OVER EXPENSES	<u>\$ 47,934</u>

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

**Trinity Health – New England, Inc.**  
**(A member of Trinity Health)**

**CONSOLIDATED STATEMENT OF OPERATIONS AND CHANGES IN NET ASSETS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2016**  
**(In thousands)**

	<u>2016</u>
UNRESTRICTED NET ASSETS:	
Unrestricted net assets attributable to the Corporation:	
Excess of revenue over expenses	\$ 47,934
Net assets released from restrictions for capital acquisitions	2,888
Transfers to Trinity Health and affiliates	(3,541)
Transfers to Trinity Assurance, Ltd.	(12,083)
Transfers from Trinity Health	43,992
Acquisitions—Saint Mary's	(98)
Acquisitions—Riverbend	(5,158)
Net change in retirement plan-related items	(37,134)
Other	(3,090)
Increase in unrestricted net assets	<u>33,710</u>
Unrestricted net assets attributable to noncontrolling interests:	
Net investment gain	88
Acquisitions	2,500
Increase in unrestricted net assets attributable to noncontrolling interests	<u>2,588</u>
TEMPORARILY RESTRICTED NET ASSETS:	
Contributions	13,453
Net investment gain	666
Net assets released from restrictions	(11,165)
Acquisitions	2,524
Other	2,999
Increase in temporarily restricted net assets	<u>8,477</u>
PERMANENTLY RESTRICTED NET ASSETS:	
Net investment gain	2,247
Acquisitions	16,526
Increase in permanently restricted net assets	<u>18,773</u>
INCREASE IN NET ASSETS	63,548
NET ASSETS—Beginning of year	<u>251,934</u>
NET ASSETS—End of year	<u><u>\$ 315,482</u></u>

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



**Trinity Health – New England, Inc.**  
**(A member of Trinity Health)**

**CONSOLIDATED STATEMENT OF CASH FLOW**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2016**  
**(In thousands)**

	<u>2016</u>
OPERATING ACTIVITIES:	
Increase in net assets	\$ 63,548
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:	
Inherent contribution in acquisitions	(60,065)
Transfers to Trinity Health and affiliates	(15,951)
Depreciation and amortization	65,759
Provisions for bad debt	27,578
Change in net unrealized and realized gains on investments	(6,542)
Undistributed equity in earnings of affiliates	1,448
Restricted contributions and investment income received	(4)
Increase in noncontrolling interest due to Saint Mary's acquisition	(2,500)
Restricted net assets acquired	(19,050)
Deferred retirement items—consolidated organizations	8,668
Other adjustments	155
Changes in:	
Patient accounts receivable	(34,965)
Estimated payables from third-party payors	(2,231)
Other assets	(57,907)
Accounts payable and accrued expenses	(14,660)
Estimated receivables from third-party payors	(2,210)
Self-insurance reserves and other liabilities	(23,507)
Accrued pension and retiree health costs	18,647
Net cash used in operating activities	<u>\$ (53,789)</u>

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

	<u>2016</u>
<b>INVESTING ACTIVITIES:</b>	
Net change in investments	\$ 53,693
Change in investment in Trinity Health pooled investment program	(26,912)
Purchases of property and equipment	(52,900)
Increase in assets limited as to use	(2,611)
Net change in investment in unconsolidated affiliates	6,316
Cash acquired from Saint Mary's acquisition	17,928
Cash provided for Riverbend acquisition	(16,810)
Net cash provided by investing activities	<u>(21,296)</u>
<b>FINANCING ACTIVITIES:</b>	
Proceeds from issuance of debt	542
Repayments of intercompany long-term debt	(7,963)
Repayments of external debt	(272,254)
Proceeds from issuance of intercompany long-term debt	323,000
Transfers from Trinity Health and affiliates	15,951
Proceeds from restricted contributions and restricted investment income	4
Net cash provided by financing activities	<u>59,280</u>
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(15,805)</b>
<b>CASH AND CASH EQUIVALENTS—Beginning of year</b>	<b>108,160</b>
<b>CASH AND CASH EQUIVALENTS—End of year</b>	<b><u>\$ 92,355</u></b>
<b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:</b>	
Cash paid for interest	\$ 13,193
Accruals for purchases of property and equipment and other long-term assets	1,414

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

**Trinity Health – New England, Inc.**  
(A member of Trinity Health)

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**YEAR ENDED SEPTEMBER 30, 2016**

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**1. ORGANIZATION AND COMMUNITY BENEFIT MINISTRY**

Trinity Health – New England, Inc. (formerly known as Saint Francis *Care*, Inc.) (the “Corporation”), a Connecticut not-for-profit corporation, is an integrated health care delivery system and is the sole member of five hospitals—including Saint Francis Hospital and Medical Center and Mount Sinai Rehabilitation Hospital, Inc. in Hartford, Connecticut; Johnson Memorial Hospital, Inc. in Stafford Springs, Connecticut; Saint Mary’s Hospital, Inc. in Waterbury, Connecticut; and The Mercy Hospital, Inc. in Springfield, Massachusetts—that provide inpatient and outpatient services. The Corporation also owns and operates several subsidiaries that provide physician services, inpatient and outpatient rehabilitation services, behavioral health services, home health care, long-term care, and other health care services to the community. Effective October 1, 2015, the Corporation became a member of Trinity Health Corporation (“Trinity Health”), an Indiana nonprofit corporation, sponsored by Catholic Health Ministries, a Public Juridic Person of the Holy Roman Catholic Church. Trinity Health is the result of the consolidation of Catholic health systems over the last 16 years. There are significant related-party transactions with Trinity Health and the Corporation and its subsidiaries. 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.*

Effective October 1, 2015, Trinity Health became the sole corporate member of Saint Francis *Care*, Inc., and Saint Francis *Care*, Inc. and its subsidiaries formed the new Trinity Health Regional Health Ministry in New England. Effective November 17, 2015, Saint Francis *Care*, Inc. changed its name to Trinity Health – New England, Inc.

In connection with this transaction, Trinity Health applied push-down accounting to the Corporation’s consolidated balance sheet, which resulted in a new basis of accounting in accordance with the acquisition method of accounting under Accounting Standards Codification Topic 805, *Business Combinations*.

In connection with this affiliation, the Corporation recorded an adjustment to net assets amounting to approximately \$70.9 million on October 1, 2015, and this adjustment is included in beginning net assets on the consolidated statement of operations and changes in net assets for the period ending September 30, 2016. The transaction was accounted for as an acquisition with no consideration, and accordingly, the excess of the fair value of assets acquired over liabilities assumed was recognized as an inherent contribution received by Trinity Health.

A summarized consolidated opening balance sheet information as of October 1, 2015, for the Corporation is shown below (in thousands):

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

Effective December 23, 2015, Trinity Health – New England, Inc. became the sole member of Sisters of Providence Health System, Inc., The Mercy Hospital, Inc., and their related subsidiaries (“Sisters of Providence”). The results of operations for Sisters of Providence for the 12-month period ended September 30, 2016, are included in the consolidated financial statements of the Corporation.

Effective January 1, 2016, Trinity Health – New England, Inc. acquired certain unrestricted assets and liabilities of Old JMMC; Inc., Old JMH, Inc.; Old HCHS, Inc.; and Old JHC, Inc. (collectively referred to as “Old Johnson”) through an asset purchase agreement approved by the Bankruptcy Court on May 14, 2015. On November 24, 2015, Trinity Health – New England, Inc. formed new corporations named JMMC Acquisition Corp., JMH Acquisition Corp., HCHS Acquisition Corp., and JHC Acquisition Corp. These corporations began to provide health care services as of January 1, 2016, and the names of the newly formed acquisition corporations were amended to Johnson Memorial Hospital, Inc.; Johnson Memorial Medical Center, Inc.; Johnson Healthcare, Inc.; and Home and Community Health Services, Inc. (collectively referred to as “Johnson”) effective as of January 4, 2016. See the Business Acquisitions section in Note 3.

Effective July 1, 2016, the Corporation, through its subsidiary, Sisters of Providence Health System, Inc., acquired substantially all of the operations and certain assets and liabilities of MWA, P.C. and Physician Practice Partners, L.L.C. and formed Riverbend Medical Group, Inc., a physician practice located in Springfield, Massachusetts. See the Business Acquisitions section in Note 3.

On August 1, 2016, the Corporation became the sole corporate member of Saint Mary’s Hospital, Inc. as part of a member substitution. Saint Mary’s Hospital, Inc. and its subsidiaries are a regional health care system located in Waterbury, Connecticut. See the Business Acquisitions section in Note 3.

**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 because they are uninsured or underinsured, and to improve the health status of the communities in which it operates. The following summary has been prepared in accordance with the Catholic Health Association of the United States’ (CHA), *A Guide for Planning and Reporting Community Benefit, 2015 Edition*.

The quantifiable costs of the Corporation community benefit ministry for the year ended September 30 are as follows (in thousands):

	<u>2016</u>
<b>Ministry for the poor and underserved:</b>	
Charity care at cost	\$ 6,161
Unpaid cost of Medicaid and other public programs	93,154
Programs for the poor and underserved:	
Community health services	2,324
Health professions education	7,567
Subsidized health services	850
Research	89
Financial contributions	4
Community benefit operations	13
Total programs for the poor and underserved	<u>10,847</u>
Ministry for the poor and underserved	<u>110,162</u>
 <b>Ministry for the broader community:</b>	
Community health services	838
Health professions education	22,831
Subsidized health services	942
Financial contributions	12
Community-building activities	38
Community benefit operations	548
Ministry for the broader community	<u>25,209</u>
 <b>Community benefit ministry</b>	 <u><u>\$ 135,371</u></u>

The Corporation provides a significant amount of uncompensated care to its uninsured and underinsured patients, which is reported as bad debt at cost and not included in the amounts reported above. During the year ended September 30, 2016, the Corporation reported bad debt at cost (determined using a cost-to-charge ratio applied to the provision for bad debts) of \$10 million.

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

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

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

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

**Community health services** are activities and services for which no patient bill exists. These services are not expected to be financially self-supporting, although some may be supported by outside grants or funding. Some examples include community health education, community health screenings, 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.

**Financial contributions** are made by the Corporation on behalf of the poor and underserved to community agencies. These amounts include special systemwide funds used for charitable activities 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 the costs of programs that improve the physical environment, promote economic development, enhance other community support systems, develop leadership-skills training, and build community coalitions.

**Community benefit operations** include costs associated with dedicated staff, community health needs, and/or assets 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.

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 consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management of the Corporation to make assumptions, estimates, and judgments that affect the amounts reported in the 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 and the provision of bad debts and charity care; recorded values of investments, derivatives, and goodwill; reserves for losses and expenses related to health care professional and general liabilities; and risks and assumptions for measurement of pension and retiree medical liabilities. Management relies on historical experience and other assumptions believed to be reasonable in making its judgment and estimates. Actual results could differ materially from those estimates.

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

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

***Investment Earnings*** – Investment earnings include interest, dividends, realized gains and losses, unrealized gains and losses, and equity earnings. Investment earnings from investments and board-designated funds are included in nonoperating investment income unless the income or loss is restricted by donor or law.

***Investment in Trinity Health Pooled Investment Program and Related Earnings*** – The Corporation invests certain of its funds in Trinity Health pooled investment programs. See Note 11, 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, realized gains and losses, 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*** – The Corporation periodically utilizes various financial instruments (e.g., options and swaps) to hedge interest rate, equity downside risk, and other exposures. The Corporation 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.

***Assets Limited as to Use*** – Assets set aside by the board for future capital improvements, future funding of insurance claims, deferred compensation agreements, and other purposes over which the board retains control and may at its discretion subsequently use for other purposes, are included in assets limited as to use.

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

***Inventories*** – Inventories are stated at the lower of cost or market. The cost of inventories is determined principally by first-in, first-out 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. Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed using either the straight-line or an accelerated method and includes capital lease and internal use software amortization. The useful lives of these assets range from 1 to 39 years. Interest costs incurred during the period of construction of capital assets are capitalized as a component of the cost of acquiring those assets.

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

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

***Investment in Unconsolidated Affiliates*** – Investment in unconsolidated affiliates represents the Corporation's investments in joint ventures or partnerships. The equity method is used to account for these investments.

***Intangible Assets*** – Intangible assets include tradename and medical records – both definite and indefinite-lived intangible assets. The definite-lived intangibles are medical records with finite lives amortized using the straight-line method over the estimated useful life of 10 years. Indefinite lived intangible assets include trade names.

***Other Assets*** – Other assets include reinsurance recovery receivables, deferred life insurance, prepaid charges for shared information services, deposits, and advances.

***Asset Impairment:***

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



**Goodwill** – Goodwill is tested for impairment on an annual basis or when an event or change in circumstance indicates the value of a reporting unit may have changed. Testing is conducted at the reporting unit level. There is a two-step process for determining goodwill impairment. Step one compares the carrying value of each reporting unit with its fair value. If this test indicates the fair value is less than the carrying value, then step two is required. Step two compares the implied fair value of the reporting unit’s goodwill with the carrying value of reporting unit’s goodwill. The Corporation estimates the fair value of its reporting units using a discounted cash flow analysis.

**Intangible Assets:**

**Definite-Lived** – Impairment testing is performed if events or changes in circumstances indicate that the asset might be impaired. The impairment test consists of a comparison of the fair value of an intangible asset with its carrying amount. The Corporation estimates the fair value of its intangible assets using an undiscounted cash flow analysis.

**Indefinite-Lived** – Impairment testing is performed on an annual basis or more frequently if events or changes in circumstance indicate the asset may be impaired. The impairment test consists of a comparison of the fair value of an intangible asset with its carrying amount. The Corporation estimates the fair value of its intangible assets using a discounted cash flow analysis, including the use of net revenue associated with the trade names.

The following table provides information regarding other intangible assets, including goodwill that is included in the accompanying consolidated balance sheets of the Corporation as of September 30, 2016 (in thousands):

	<u>Gross Carrying Amount</u>	<u>Accumulated Amortization</u>	<u>Net Book Value</u>
As of September 30, 2016:			
Definite-lived intangible assets:			
Medical records	\$ 1,000	\$ (25)	\$ 975
Total definite-lived intangible assets	<u>1,000</u>	<u>(25)</u>	<u>975</u>
Indefinite-lived intangible assets:			
Goodwill	6,462	-	6,462
Trade names	7,050	-	7,050
Total indefinite-lived intangible assets	<u>13,512</u>	<u>-</u>	<u>13,512</u>
Total intangible assets	<u>\$ 14,512</u>	<u>\$ (25)</u>	<u>\$ 14,487</u>

The following is a schedule of estimated future amortization of definite-lived intangible assets as of September 30, 2016 (in thousands):

Years ending September 30:	
2017	\$ 100
2018	100
2019	100
2020	100
2021	100
Thereafter	<u>475</u>
Total	<u>\$ 975</u>

***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 prorated 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 ten years. As the assets are depreciated, the Corporation records amortization expense as allocated by Trinity Health. Information services expenses are recorded in purchased services in the consolidated statements of operations. Infrastructure charges are recorded in other assets in the consolidated balance sheets in the amount of \$9.9 million at September 30, 2016.

***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 determined quarterly. Interest and principal are paid monthly to Trinity Health under provisions of the loan agreement.

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

***Patient Accounts Receivable, Estimated Receivables from and Payables to Third-Party Payors, and Net Patient Service Revenue*** – The Corporation has agreements with third-party payors that provide for payments at amounts different from established rates. Patient accounts receivable and net patient service revenue are reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered. Estimated retroactive adjustments under reimbursement agreements with third-party payors and other changes in estimates are included in net patient service revenue and estimated receivables from and payables to third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined. Estimated receivables from third-party payors include amounts receivable from Medicare and state Medicaid meaningful use programs.

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

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

***Other Long-Term Liabilities*** – Other long-term liabilities include deferred compensation and asset retirement obligations.

**Capitation Revenue** – The Corporation has entered into capitation arrangements whereby it has accepted the risk for the provision of certain health care services to health plan members. Under these agreements, the Corporation is 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 Corporation is obligated to provide services to health plan enrollees under capitation contracts. Capitation receivables are included in other receivables in the consolidated balance sheet.

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

**Excess of Revenue Over Expenses** – The consolidated statement of operations and changes in net assets includes excess of revenue over expenses. Changes in unrestricted net assets, which are excluded from excess of revenue over expenses, consistent with industry practice, include 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 net change in postretirement plan-related items.

***Adopted Accounting Pronouncements:***

On October 1, 2015, the Corporation adopted ASU 2014-08, “*Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity.*” This guidance amends the definition of a discontinued operation and requires additional disclosures about discontinued operations, as well as disposal transactions that do not meet the discontinued operations criteria on a prospective basis. The adoption of this guidance had no impact on the Corporation’s consolidated financial statements.

***Forthcoming Accounting Pronouncements:***

In August 2016, the Financial Accounting Standards Board (FASB) issued ASU No. 2016-15, “*Classification of Certain Cash Receipts and Cash Payments.*” This guidance adds or clarifies guidance on the classification of certain cash receipts and payments in the consolidated statements of cash flows. This guidance is effective for the Corporation beginning October 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. This guidance is effective for the Corporation beginning October 1, 2018. The Corporation is still evaluating the impact this guidance may have on its consolidated financial statements.

In May 2016, the FASB issued ASU 2016-12, *“Revenue From Contracts with Customers: Narrow-Scope Improvements and Practical Expedients,”* which amends certain aspects for the FASB’s revenue standard ASU 2014-09, *“Revenue From Contracts with Customers”*. In March 2016, the FASB issued ASU 2016-08, *“Revenue From Contracts With Customers: Principal Versus Agent Considerations (Reporting Revenue Gross Versus Net)”*. This guidance amends the principal versus agent implementation guidance and illustrations in the FASB’s revenue standard ASU 2014-09. In July 2015, the FASB issued ASU 2015-14, *“Revenue From Contracts With Customers (Topic 606): Deferral of the Effective Date,”* which defers the effective date of the FASB’s revenue standard, ASU 2014-09, by one year for all entities and permits early adoption on a limited basis. In May 2014, the FASB issued ASU 2014-09. This guidance outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. After the deferral of the effective date, this guidance is effective for the Corporation beginning October 1, 2018. The Corporation is still evaluating the impact this guidance may have on its consolidated financial statements.

In March 2016, the FASB issued ASU 2016-07, *“Investments – Equity Method and Joint Ventures: Simplifying the Transition to the Equity Method of Accounting.”* This guidance eliminates the requirement to retrospectively apply the equity method to an investment that subsequently qualifies for such accounting as a result of an increase in the level of ownership interest or degree of influence. This guidance is effective for the Corporation beginning October 1, 2016. The Corporation does not expect this guidance to have a material impact on its consolidated financial statements.

In March 2016, the FASB issued ASU 2016-06, *“Derivatives & Hedging: Contingent Put & Call Options in Debt Instruments.”* This guidance clarifies that in assessing whether an embedded contingent put or call option is clearly and closely related to the debt host, an entity is required to perform only the four-step sequence in Accounting Standards Codification 815-15-25-42. This guidance is effective for the Corporation beginning October 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 2016-02, *“Leases.”* This guidance introduces a lessee model that brings substantially all leases on the consolidated balance sheet. This guidance is effective for the Corporation beginning October 1, 2019. Retrospective application is required. The Corporation is still evaluating the impact this guidance may have on its consolidated financial statements.

In January 2016, the FASB issued ASU 2016-01, *“Recognition and Measurement of Financial Assets and Financial Liabilities.”* This guidance revises accounting related to (1) the classification and measurement of investments in equity securities and (2) the presentation of certain fair value changes for financial liabilities measured at fair value. It also amends certain disclosure requirements associated with the fair value of financial instruments. This guidance is effective for the Corporation beginning October 1, 2019. The Corporation has not yet evaluated the impact this guidance may have on its consolidated financial statements.

In September 2015, the FASB issued ASU 2015-16, *“Simplifying the Accounting for Measurement-Period Adjustments.”* This guidance requires an acquirer in a business combination to recognize adjustments to provisional amounts that are identified during the measurement period in the reporting period in which the adjustment amounts are determined. The effect on earnings of changes in depreciation in amortization, or other income effects (if any) as a result of change to the provisional amounts, calculated as if the accounting had been completed as of the acquisition date, must be recorded in the reporting period in which the adjustment amounts are determined rather than retrospectively. Also, the acquirer must present separately on the face of the income statement, or disclose in the notes, the portion of the amount recorded in current-period earnings by line item that would have been recorded in previous reporting periods if the adjustment to the provisional amounts had been recognized as of the acquisition date. 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 July 2015, the FASB issued ASU 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 October 1, 2017. The Corporation does not expect this guidance to have a material impact on its consolidated financial statements.

In February 2015, the FASB issued ASU 2015-02, “*Amendments to the Consolidation Analysis.*” This guidance significantly changes the consolidation analysis required under U.S. GAAP. This guidance is effective for the Corporation beginning October 1, 2017. The Corporation does not expect this guidance to have a material impact on its consolidated financial statements.

In August 2014, the FASB issued ASU 2014-15, “*Disclosure of Uncertainties About an Entity’s Ability to Continue as a Going Concern,*” which provides guidance on determining when and how reporting entities must disclose going-concern uncertainties in their financial statements. This guidance is effective for the Corporation beginning October 1, 2017. The Corporation does not expect this guidance to have an impact on its consolidated financial statements.

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

**Investments in Unconsolidated Affiliates** – The Corporation and certain of its subsidiaries have investments in entities that are recorded under the cost and equity methods of accounting. At September 30, 2016, the Corporation maintained investments in unconsolidated affiliates with ownership interests ranging from 20% to 50%. The Corporation’s share of equity earnings from these entities accounted for under the equity method was \$0.4 million for the year ended September 30, 2016, of which \$2.3 million is included in other revenue and a loss of \$1.9 million included in nonoperating items in the consolidated statements of operations and changes in net assets.

Unconsolidated affiliates include investments in joint ventures with an ambulatory surgery centers, home care, outpatient cancer treatment center, and physician hospital organizations. These unconsolidated affiliates maintain their own indebtedness, none of which is guaranteed by the Corporation. The unaudited summarized financial position and results of operations of entities accounted for under the equity method, as of and for the years ended September 30, 2016, are as follows (in thousands):

	<b>2016</b>				
	Outpatient and Diagnostic Services	Ambulatory Surgery Centers	Physician Hospital Organizations	Other Investees	Total
Total assets	\$ 33,385	\$ 2,937	\$ 2,766	\$ 4,348	\$ 43,436
Total liabilities	\$ 2,187	\$ 513	\$ 3,450	\$ 2,109	\$ 8,259
Revenue, net	\$ 9,471	\$ 7,762	\$ 6,975	\$ 15,552	\$ 39,760
Excess (deficiency) of revenue over (under) expenses	\$ 1,430	\$ 1,424	\$ (1,714)	\$ 618	\$ 1,758

#### **Business Acquisitions:**

**Johnson Memorial Medical Center, Inc.** – On January 1, 2016, the Corporation acquired certain assets and liabilities of Old Johnson as described in Note 1. For the nine month period ended September 30, 2016, Johnson reported revenue of \$49.3 million and deficiency of revenue over expenses of \$4.0 million in the consolidated statements of operations. As a result of the acquisition, the Corporation recognized an inherent contribution of \$4.0 million in the consolidated statement of operations and changes in net assets. The Corporation is still in the process of assessing the economic characteristics of certain assets acquired and liabilities assumed. The Corporation expects to substantially complete this assessment during the period ending December 31, 2016, and may adjust the amounts recorded as of January 1, 2016, to reflect revised evaluations.

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

Patient accounts receivable, net	\$ 9,330	Current portion of long-term debt	\$ 801
Other receivables	777	Accounts payable and accrued expenses	11,765
Inventories	1,577	Other current liabilities	2,682
Other current assets	1,585	Long term debt	22,749
Property and equipment	26,010	Other long-term liabilities	141
Other assets	3,472	Total liabilities acquired	<u>38,138</u>
Total assets acquired	<u>\$42,751</u>	Unrestricted net assets	4,073
		Temporarily restricted net assets	<u>540</u>
		Total net assets	<u>\$ 4,613</u>

**Riverbend Medical Group, Inc. (“Riverbend”)** – On July 1, 2016, the Corporation, through its subsidiary, Sisters of Providence Health System, Inc., acquired substantially all of the operations and certain assets of MWA, P.C. and Physician Practice Partners, L.L.C. and formed Riverbend Medical Group, Inc., a physician practice located in Springfield, Massachusetts. As a result of this transaction, the Corporation recognized goodwill of \$6.1 million in the consolidated balance sheet. The Corporation is still in the process of assessing the economic characteristics of certain assets acquired and liabilities assumed. The Corporation expects to substantially complete this assessment within 12 months following the acquisition date and may adjust the amounts recorded as of July 1, 2016, to reflect revised evaluations. Summarized consolidated balance sheet information for Riverbend at July 1, 2016, is shown below (in thousands):

Cash, cash equivalents, and investments	\$ 430	Current portion of long term debt	\$ 144
Patient accounts receivable, net	4,439	Accounts payable and accrued expenses	2,074
Other current assets	1,771	Salaries, wages, and related liabilities	3,911
Property and equipment	10,757	Estimated payable to third parties	999
Goodwill	6,144	Long-term debt, net of current portion	172
Other assets	1,000	Total liabilities acquired	<u>7,300</u>
Total assets acquired	<u>\$24,541</u>	Unrestricted net assets	17,241
		Total net assets	<u>\$ 17,241</u>

For the three-month period ended September 30, 2016, Riverbend Medical Group, Inc. reported revenue of \$16.7 million and deficiency of revenue over expenses of \$2.3 million in the consolidated statements of operations.

**Saint Mary’s Hospital, Inc. and Saint Mary’s Health System, Inc. (“Saint Mary’s”)** – On August 1, 2016, the Corporation became the sole corporate member of Saint Mary’s Hospital, Inc. as part of a member substitution. Saint Mary’s Hospital, Inc. and its subsidiaries are a regional health care system located in Waterbury, Connecticut. As a result of this transaction, the Corporation recognized an inherent contribution of \$56 million for the two months ended September 30, 2016, in the consolidated statement of operations and changes in net assets. The Corporation is still in the process of assessing the economic characteristics of certain assets acquired and liabilities assumed. The Corporation expects to substantially complete this assessment within 12 months following the acquisition date and may adjust the amounts recorded as of August 1, 2016, to reflect revised evaluations. Summarized consolidated balance sheet information for Saint Mary’s Hospital, Inc. and its subsidiaries at August 1, 2016, is shown below (in thousands):

Cash, cash equivalents, and investments	\$ 18,252	Accounts payable and accrued expenses	\$ 41,737
Patient accounts receivable, net	33,029	Accrued pension and retiree health costs	89,167
Other current assets	10,662	Other long-term liabilities	26,203
Assets limited or restricted as to use, current portion	3,465	Total liabilities acquired	<u>157,107</u>
Property and equipment	100,686	Unrestricted net assets	55,992
Assets limited or restricted as to use, noncurrent portion	62,150	Unrestricted noncontrolling interest	<u>2,500</u>
Other assets	<u>5,859</u>	Total unrestricted net assets	58,492
Total assets acquired	<u>\$ 234,103</u>	Temporarily restricted net assets	1,978
		Permanently restricted net assets	<u>16,526</u>
		Total net assets	<u>\$ 76,996</u>

For the two-month period ended September 30, 2016, Saint Mary’s Hospital, Inc. and its subsidiaries reported revenue of \$51.6 million and deficiency of revenue over expenses of \$0.2 million in the consolidated statements of operations.

#### 4. NET PATIENT SERVICE REVENUE

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

The Corporation recorded changes in estimates and removed estimated receivables from and/or payables to third-party payors that are no longer necessary as a result of final settlements and years that are no longer subject to audits, reviews, and investigations. These adjustments resulted in increases in net patient service revenue of \$9.7 million.

Final settlements have not been received from Medicare for 2014 through 2016, and from Blue Cross for 2016. The Corporation is appealing various elements of final settlements dating to 2002.

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

**Charity Care** – The Corporation provides services to all patients regardless of ability to pay. In accordance with the Corporation’s policy, a patient is classified as a charity patient based on income eligibility criteria as established by the *Federal Poverty Guidelines*. Charges for services to patients who meet the Corporation’s guidelines for charity care are not reflected in the accompanying consolidated financial statements.

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

	<u>2016</u>
Medicare	\$ 522,026
Blue Cross	206,427
Medicaid	241,920
Uninsured	27,797
Commercial and other	363,724
Total	<u>\$ 1,361,894</u>

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

	<u>2016</u>
<b>Gross charges:</b>	
Acute inpatient	\$ 1,659,273
Outpatient, nonacute inpatient, and other	<u>2,051,075</u>
Gross patient service revenue	3,710,348
<b>Less:</b>	
Contractual and other allowances	2,331,043
Charity care charges	<u>17,411</u>
Net patient service revenue before provision for bad debts	<u>\$ 1,361,894</u>



## 5. PROPERTY AND EQUIPMENT

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

	<u>2016</u>
Land	\$ 15,716
Buildings and improvements	574,854
Equipment	278,070
Capital leased assets	10,475
Total	<u>879,115</u>
Accumulated depreciation and amortization	(268,028)
Construction in progress	<u>30,556</u>
Property and equipment, net	<u><u>\$ 641,643</u></u>

At September 30, 2016, commitments to purchase property and equipment of approximately \$5.5 million were outstanding. At September 30, 2016, the Corporation had facilities, infrastructure, and electronic medical record projects in progress with costs of \$30.6 million incurred and recorded in the accompanying consolidated balance sheets. At September 30, 2016, the remaining commitment to complete these projects approximated \$46.3 million.

## 6. LONG-TERM DEBT

A summary of long-term debt as of September 30 is as follows (in thousands):

	<u>2016</u>
<b>Notes payable to Trinity Health and affiliates</b>	
Notes payable to Trinity Health and affiliates, interest payable at a weighted-average interest rate of 3.23% during 2016, payable in varying monthly installments, due through 2048	
Total notes payable to Trinity Health and affiliates	\$ 378,971
Less current portion	(7,451)
Notes payable to Trinity Health and affiliates, net of current portion	<u><u>\$ 371,520</u></u>
<b>Long-term debt:</b>	
Note payable to bank; interest payable at 3.75%, fixed, payable in varying monthly installments through 2021	\$ 370
Capital lease obligations (excluding imputed interest of \$.1 million at September 30, 2016)	3,864
Health First loans	395
Total long-term debt	<u>\$ 4,629</u>
Less current portion, net of current discounts	<u>(2,965)</u>
Long-term debt, net of current portion	<u><u>\$ 1,664</u></u>

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

	<b>Notes Payable to Trinity Health and Affiliates</b>	<b>Long-term Debt</b>
Years ending September 30:		
2017	\$ 7,451	\$ 2,965
2018	7,915	910
2019	8,254	511
2020	8,637	180
2021	9,057	63
Thereafter	337,657	
Total	<u>\$ 378,971</u>	<u>\$ 4,629</u>

A summary of interest costs on borrowed funds during the years ended September 30 is as follows (in thousands):

	<b>2016</b>
Interest costs incurred	<u>\$ 13,193</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 corporation purposes. Certain regional health 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 and certain of its subsidiaries are designated affiliates under the ARMI. The Corporation has granted a security interest in their pledged property to secure obligations under the ARMI.

***Long-Term Debt Notes Payable to Trinity Health*** – During the year ended September 30, 2016, the Corporation borrowed \$323 million under the Trinity Health intercompany loan program. The details of the borrowings are as follows:

On October 1, 2015, the Corporation defeased \$246 million of State of Connecticut health and educational facilities authority revenue bonds (Series E through M) by borrowing \$248 million under the Trinity Health Intercompany Loan Program (ICLP). Additionally, a Series F fixed-pay LIBOR swap was novated to Trinity Health as part of the asset purchase agreement on October 1, 2015.

On December 1, 2015, the Corporation borrowed \$20 million under the ICLP. The proceeds of this borrowing were used for renovations of a cancer center in Springfield, Massachusetts.

On January 1, 2016, the Corporation borrowed \$18 million under the ICLP. The proceeds of this borrowing were used for the purchase certain assets of Old Johnson in Stafford Springs, Connecticut (see Note 3).

On May 1, 2016, the Corporation borrowed \$20 million under the ICLP. The proceeds of this borrowing were used for cash flow needs.

On July 1, 2016, the Corporation borrowed \$17 million under the ICLP. The proceeds of this borrowing were used for the purchase of certain assets of MWA, P.C. and Physician Practice Partners, L.L.C. (see Note 3).

**Line of credit** – Saint Francis Hospital and Medical Center has a line of credit with a bank with a total line available of \$5 million, which expires in May 2017. The rate is LIBOR plus 1.5%. There were no amounts outstanding as of September 30, 2016. Saint Francis Hospital and Medical Center entered into a letter of credit arrangement with Johnson for \$1.3 million that expires on June 30, 2017. As of September 30, 2016, Johnson has not drawn down any amounts. Due to this arrangement the available line of credit to Saint Francis Hospital and Medical Center is \$3.7 million.

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

Prior to October 1, 2015, the Corporation was self-insured for a portion of its professional and comprehensive general liability claims. The Corporation included the accruals for the outstanding claims within self-insurance reserves in the consolidated financial statements.

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

Effective August 1, 2016, TAL policies include the facilities and individuals that were previously insured with Saint Mary's Indemnity Company, LLC (SMICL), a captive insurance company domiciled in the State of Vermont, whose sole member is Saint Mary's Hospital. Policies issued and reinsurance purchased by SMICL prior to August 1, 2016, will remain in effect. SMICL did not, nor does it intend to, write or renew any insurance business after July 31, 2016, but will effectively run off its existing business. Management intends to fully merge SMICL into TAL by March 1, 2017, at which time all losses previous to August 1, 2016, for SMICL will be assumed by TAL.

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. In 2016, Trinity Health assumed the Corporation's workers compensation liabilities as further described in Note 10.

Trinity Health's current self-insurance program was \$20 million per occurrence for the primary layers of professional liability, as well as \$10 million per occurrence for hospital government liability, \$5 million per occurrence for miscellaneous errors and omission liability, and \$1 million per occurrence for management liability (directors' and officers' and employment practices), network security and privacy liability and certain other coverages. In addition, through TAL and its various commercial reinsurers, the Corporation maintains integrated excess liability coverage with separate annual limits of \$100 million for professional/general liability, and management liability, network security and privacy liability. The Corporation self-insures \$750,000 per occurrence for workers' compensation in most states, with commercial insurance providing coverage up to the statutory limits, and self-insures up to \$500,000 in property values per occurrence with commercial insurance providing coverage up to \$1 billion.

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 determined these factors from estimates of Trinity Health's expenses and available industrywide data. Trinity Health discounts the reserves to their present value using a discount rate of 3.0%. 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 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 September 30, 2016, that may result in the assertion of additional claims, and other claims may be asserted arising from services provided in the past. While it is possible that settlement of asserted claims and claims that may be asserted in the future could result in liabilities in excess of amounts for which the Corporation has provided, management, based upon the advice of counsel, believes that the excess liability, if any, should not materially affect the consolidated financial position, operations or cash flows of the Corporation.

## 8. PENSION AND OTHER BENEFIT PLANS

***Deferred Compensation*** – The Corporation has nonqualified deferred compensation plans that permit eligible employees to defer a portion of their compensation. The plans are funded and are distributable in cash after retirement or termination of employment. The plan allows participants to defer up to the dollar limits as set forth in the IRS Code for each applicable plan year of salary with interest accruing based on the investment selections of the participant. The deferred amounts are distributable in cash after retirement or termination of employment. At September 30, 2016, the assets and liabilities under these plans totaled \$6.5 million.

***Defined Contribution Benefits*** – The Corporation sponsors defined contribution plans covering substantially all of its employees. The plans are funded by employee voluntary contributions, subject to legal limitations. Effective January 1, 2016, employer contributions to the plans include nonelective contributions of 2% to 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 \$21.8 million during the year ended September 30, 2016.

***Defined Benefit Pension Plan*** – A portion of the Corporation's employees, Sisters of Providence, participate in a qualified noncontributory single employer defined benefit pension plan sponsored by Trinity Health. 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, and private equity funds). The plan is accounted for as a multiple-employer plan for participating subsidiaries of Trinity Health and has church plan status as defined in the Employee Retirement Income Security Act of 1974 (ERISA). The Corporation has been allocated its share of pension costs, contributions and liabilities based on actuarial valuation of the Corporation's plan participants.

***Noncontributory Defined Benefit Pension Plans*** – The Corporation maintains two frozen, nonqualified noncontributory defined benefit pension plans. One of the plans has church plan status as determined by the Internal Revenue Service (IRS) and is not governed by ERISA. One of the plans is subject to the provisions of ERISA.

**Saint Francis Hospital Defined Benefit Plan** – This plan has church plan status and has historically funded amounts equal to annual pension expense. Benefits are based on years of service and the employee’s compensation and include a cash balance account for each employee. Effective March 1, 2006, the Saint Francis Hospital and Medical Center amended the plan to close the plans to new participants on September 30, 2006, and to freeze accruals as of October 1, 2006, for participants whose age plus years of service (a minimum of 10 years) total less than 55. As of October 1, 2006, the Saint Francis Hospital and Medical Center established a defined contribution plan for all eligible nongrandfathered employees. The defined benefit plan became fully frozen effective October 1, 2009. The plan sponsor is Trinity Health.

**Collaborative Laboratory Services Retirement Plan** – This plan is subject to the provisions of the ERISA. The Corporation makes contributions in amounts sufficient to meet ERISA’s minimum funding requirements. Effective May 1, 2009, the plan was frozen for all grandfathered employees. The plan sponsor is Collaborative Laboratory Services, LLC.

**Plan Acquisitions** – As discussed in Note 3, the Corporation acquired Saint Mary’s on August 1, 2016, to include all related benefit plans. Saint Mary’s maintains a noncontributory, defined benefit pension plan for most employees, which are historically funded with available cash flow. This plan has church plan status as determined by the IRS and is therefore exempt from a majority of ERISA regulations. The plan was frozen to new entrants in 1997. In 2004, the plan’s benefits were curtailed to eliminate participants’ earnings of additional benefits for future services.

**Postretirement Health Care Benefit Plan (“Postretirement Plan”)** – The Corporation sponsors unfunded, noncontributory plans to provide health care benefits to certain of its retirees. The plan provides health insurance to retirees and spouses who have met certain eligibility and length of service requirements. The plan is closed to new participants. Medical benefits for these retirees are subject to deductibles and copayment provisions. Effective September 30, 2014, a plan amendment permanently capped the subsidy for the grandfathered participants to the 2014 funding level.

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

	<u>2016</u>	<u>2016</u>
	<u>Pension Plans</u>	<u>Postretirement Plans</u>
Change in benefit obligation		
Benefit obligation, beginning of year	\$ 467,096	\$ 6,841
Acquisition valuation adjustment	(19,155)	277
Interest cost	22,849	295
Actuarial (Loss)	47,471	526
Benefits paid	(20,488)	(855)
Medicare Part D reimbursement	-	-
Plan acquisition	155,010	-
Benefit obligation, end of year	<u>652,783</u>	<u>7,084</u>
Change in plan assets		
Fair value of plan assets, beginning of year	257,496	-
Actual return on plan assets	29,414	-
Employer contributions	12,601	-
Plan acquisition	66,800	-
Benefits paid	(20,488)	-
Fair value of plan assets, end of year	<u>345,823</u>	<u>-</u>
Net amount recognized in accrued pension and retiree health costs	<u>\$ (306,960)</u>	<u>\$ (7,084)</u>

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

	<u>2016</u>	<u>2016</u>
	<u>Pension Plans</u>	<u>Postretirement Plans</u>
Interest cost	\$ 22,849	\$ 295
Expected return on assets	<u>(18,549)</u>	<u>-</u>
Net periodic benefit cost	<u>\$ 4,300</u>	<u>\$ 295</u>

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

	<u>Pension Plans</u>	<u>Postretirement Plans</u>	<u>All Plans</u>
	<u>Net</u>	<u>Net</u>	<u>Total</u>
	<u>(Gain) Loss</u>	<u>(Gain) Loss</u>	<u>Total</u>
Balance at October 1, 2015	\$ 210,866	\$ (2,145)	\$ 208,721
Acquisition valuation adjustment	(210,866)	2,145	(208,721)
Arising during the year	<u>36,607</u>	<u>526</u>	<u>37,133</u>
Balance at September 30, 2016	<u>\$ 36,607</u>	<u>\$ 526</u>	<u>\$ 37,133</u>

Assumptions used to determine benefit obligations and net periodic benefit cost for the years ended September 30 were as follows (in thousands):

	<u>2016</u>	<u>2016</u>
	<u>Pension Plans</u>	<u>Postretirement Plan</u>
<b>Benefit Obligations:</b>		
Discount rate	4.1%-4.25%	3.6%
<b>Net Periodic Benefit Cost:</b>		
Discount rate	3.9%-5.20%	4.4%
Expected long-term return on plan assets	7.00%	N/A
Rate of compensation increase	N/A	N/A

The following table summarizes the pension and Postretirement Plans' assets measured at fair value as of September 30 (in thousands):

	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
<b>Pension plans:</b>				
Cash and cash equivalents	\$ 13,644	\$ -	\$ -	\$ 13,644
Equity securities	790	-	-	790
Debt securities	-	-	-	-
Government and government agency obligations	-	33,952	-	33,952
Corporate bonds	-	28,129	-	28,129
Asset backed securities	-	12,997	-	12,997
Exchange traded/mutual funds:	-	-	-	-
Equity funds	56,715	-	-	56,715
Fixed income funds	96,645	-	-	96,645
<b>Other</b>	<b>538</b>	<b>-</b>	<b>-</b>	<b>538</b>
Subtotal	<u>\$ 168,332</u>	<u>\$ 75,078</u>	<u>\$ -</u>	<u>\$ 243,410</u>
<b>Investments measured at net asset value:</b>				
Commingled funds:				
Equity funds				102,413
Total pension plans' assets at fair value				<u>\$ 345,823</u>

**Expected Contributions** – The Corporation expects to contribute \$25 million to its pension plans and \$.8 million to its Postretirement Plans during the year ended 2017 under the Corporation's stated funding policies.

**Expected Benefit Payments** – The Corporation expects to pay the following pension benefits and expected postretirement benefits for the year ended (in thousands):

	<u>Pension Plans</u>	<u>Postretirement Plans</u>
2017	\$ 31,862	\$ 810
2018	32,706	767
2019	34,860	722
2020	36,288	677
2021	37,368	634
Years 2022 - 2026	197,012	2,538

## 9. COMMITMENTS AND CONTINGENCIES

**Operating Leases** – The Corporation leases various land, equipment, and facilities under operating leases. The total rental expense was \$20.1 million, which includes provisions for maintenance in some cases, for the year ended September 30, 2016.

The following is a schedule of future minimum lease payments under operating leases as of September 30, 2016, that have initial or remaining lease terms in excess of one year (in thousands):

Years ending September 30:	
2017	\$ 13,644
2018	11,707
2019	10,249
2020	8,858
2021	8,051
Thereafter	<u>39,064</u>
Total	<u><u>\$ 91,573</u></u>

**Asset Retirement Obligations** – The Corporation has conditional asset retirement obligations for certain fixed assets mainly related to removal of asbestos contained within facilities. This liability is included in other long-term liabilities.

A reconciliation of asset retirement obligations at September 30 is as follows (in thousands):

	<u><b>2016</b></u>
<b>Asset retirement obligation, beginning of period</b>	\$ 6,677
Accretion	408
Liabilities assumed through acquisitions	1,564
Liabilities settled	<u>(46)</u>
<b>Asset retirement obligation, end of period</b>	<u><u>\$ 8,603</u></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.

On July 21, 2015, Saint Francis Hospital and Medical Center in Hartford, Connecticut, was notified that it was a defendant in a class action lawsuit filed in the US Court for the District of Connecticut challenging the church plan status of its employee pension plan. A final approval order was issued by the court on November 3, 2016, and became final on December 3, 2016. The settlement requires the Corporation to make a one-time contribution to the plan of \$17 million by February 1, 2017, and, for every year after, for nine years, make a \$10 million contribution on an annual basis. These amounts are included in the accrued pension and retiree health costs as of September 30, 2016.



***Health Care Regulatory Environment*** – The health care industry is subject to numerous and complex laws and regulations of federal, state, and local governments. These laws and regulations include, but are not limited to, matters such as licensure, accreditation, privacy, government health care program participation requirements and government reimbursement for patient services, fraud and abuse, and requirements for tax exemption for tax-exempt organizations. Compliance with such laws and regulations is complex and can be subject to future government interpretation as well as regulatory enforcement actions, including fines, penalties, and exclusion from government health care programs, such as Medicare and Medicaid. The Corporation and its subsidiaries periodically receive notices from governmental agencies requesting information regarding billing, payment, or other reimbursement matters or notices of the initiation of government investigations. 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. RELATED-PARTY TRANSACTIONS**

Trinity Health allocates the cost of centrally administered services to the Corporation. The Corporation also shares certain services with affiliates and other regional health ministries of Trinity Health. These services include information systems, benefits administration, treasury management, accounts payable, professional liability, worker’s compensation, pension, administration, supply chain, internal audit and corporate compliance, external audit, decision support, and corporate service allocation.

The composition of the related party transactions with Trinity Health and other regional health ministries for the years ended September 30 was as follows (in thousands):

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	<u>2016</u>
Amounts recorded in the consolidated balance sheets:	
Investment in Trinity Health pooled investment program	\$ 60,125
Assets limited or restricted as to use (less current portion):	
By board	26,661
By donors	2,734
Total investment in Trinity Health pooled investment program	<u>\$ 89,520</u>
Accounts and other receivables	
Prepaid charges for shared information systems	\$ 9,909
Other long-term assets	12,229
Accounts payable	4,095
Current portion of notes payable to Trinity Health and affiliates	7,451
Other long-term liabilities:	
Notes payable to Trinity Health and affiliates - net of current portion	371,520
Amounts recorded in the consolidated statements of operations and changes in net assets:	
Other revenue	876
Operating expenses:	
Employee benefits	3,291
Contract labor	427
Purchased services:	
Information services	16,436
Management services	6,897
Revenue management services	880
Supply chain and accounts payable services	765
Repairs and maintenance included in occupancy	814
Amortization	1,111
Interest	11,244
Insurance, included in other expenses	16,422
Nonoperating earnings in Trinity Health corporate pooled investment program	2,939
Cash payments under interest	(1,341)
Trinity Health corporate pooled investment program fees	(16)
Equity transfers of funds	(1,070)
Equity transfers—Push-down accounting	70,996

During the year ended September 30, 2016, the Corporation identified adjustments to the fair value of fixed assets, certain receivable and third-party payor reserves as of the date of acquisition. These adjustments, totaling approximately \$70.9 million, were recorded as a change to opening unrestricted net assets and are reflected in the table above as equity transfers to Trinity Health.

## 11. 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 on the Corporation's consolidated balance sheets include cash, cash equivalents, equity securities, debt securities, mutual funds, commingled funds, hedge funds, and interest rate swaps. 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 depends 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 insolation would result in a significantly different fair value measurement. The Corporation classifies these securities as Level 2 within the fair value hierarchy.

The Corporation maintains policies and procedures to value instruments using the best and most relevant data available. The Corporation has not adjusted the prices we have 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 at September 30, 2016.

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 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 sheets. This category includes 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.

***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 either the underlying investments that have a readily determinable market value or 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 multi-strategy, multi-manager 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 a diversified multistrategy, multimanager investments approach. Some of these funds 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 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.

**Interest Rate Swaps** – 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 the 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 following table present information about the fair values of financial instruments measured at fair value on a recurring basis and recorded at September 30 (in thousands):

	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
Assets:				
Cash and cash equivalents	\$ 117,102	\$ 1,068	\$ -	\$ 118,170
Equity securities	15,710	-	-	15,710
Debt securities:				
Government and government agency obligations	-	10,951	-	10,951
Corporate bonds	-	10,049	-	10,049
Asset backed securities	-	2,082	-	2,082
Mutual funds:				
Equity mutual funds	61,188	-	-	61,188
Fixed income mutual funds	14,362	-	-	14,362
Real estate investment funds	2,482	-	-	2,482
Other	1,677	-	-	1,677
Interest rate swaps	-	-	-	-
Total assets at fair value	<u>\$ 212,521</u>	<u>\$ 24,150</u>	<u>\$ -</u>	<u>\$ 236,671</u>
Investments measured at net asset value:				
Commingled funds				-
Hedge funds				1,627
Equity method investments				<u>2,000</u>
Total assets				<u><u>\$ 240,298</u></u>

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

	<u>2016</u>
<b>Assets:</b>	
Cash and cash equivalents	\$ 92,355
Investments	74,937
Assets limited or restricted as to use—Current portion	6,853
Assets limited or restricted as to use - Noncurrent portion:	
Held by trustees under bond indenture agreements	-
Self-insurance, benefit plans, and other	26,064
By board	39,825
By donor	110,059
Total	<u>\$ 350,093</u>
<b>Less:</b>	
Total unconditional promises to give, net	(13,743)
Investments in Trinity Health's pooled investment program	(89,520)
Centrally managed deferred compensation	(6,532)
Total assets	<u><u>\$ 240,298</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 September 30, 2016. The fair value and redemption rules of these investments are as follows (in thousands):

	<u>Investments Held at September 30, 2016</u>		
	<u>Fair Value</u>	<u>Redemption Frequency</u>	<u>Redemption Notice Period</u>
Commingled funds	\$ -		
Hedge funds	<u>1,627</u>	Monthly, quarterly, semi-annually, bi-annually	15-95 days
Total	<u><u>\$ 1,627</u></u>		

The following table summarizes information about the fair value of the Corporation's financial assets in the investment in the Trinity Health's pooled investment program at September 30, 2016, according to the asset category and the valuation techniques used to determine their fair values:

	<b>2016</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>
Cash and cash equivalents	11%	0%	0%	11%
Equity securities	19%	0%	0%	19%
Debt securities:				
Government and government agency obligations	0%	5%	0%	5%
Corporate debt securities	0%	9%	0%	9%
Asset backed securities	0%	2%	0%	2%
Bank loans	0%	1%	0%	1%
Other	0%	0%	0%	0%
Mutual funds:				
Equity mutual funds	4%	0%	0%	4%
Fixed income mutual funds	1%	0%	0%	1%
Real estate investment funds	0%	0%	0%	0%
Other	0%	0%	0%	0%
Interest rate swaps	0%	0%	0%	0%
 Total investments at fair value in Trinity Health corporate pooled investment program	 35%	 17%	 0%	 <u>52%</u>
Investments measured at net asset value:				
Commingled funds				20%
Hedge funds				12%
Equity method investments				16%
 Total investments 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 September 30 are as follows (in thousands):

	<b>2016</b>
Dividend, interest income and other	\$ 2,494
Realized gains net	2,132
Realized equity gains, other investments	1,754
Change in net unrealized gains on investments	5,032
Total investment return	<u>\$ 11,412</u>
 <b>Included in:</b>	
Operating income	\$ 1,384
Nonoperating items	7,114
Changes in restricted net assets	2,914
Total investment return	<u>\$ 11,412</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 at September 30 (in thousands):

	<u>2016</u>
<b>Amounts expected to be collected in:</b>	
Less than one year	\$ 4,413
One to five years	8,397
More than five years	<u>3,390</u>
	16,200
Discount to present value of future cash flows	(1,529)
Allowance for uncollectible amounts	<u>(928)</u>
Total unconditional promises to give, net	<u><u>\$ 13,743</u></u>

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

***Long-term Debt*** – The 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 values. 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 \$379 million September 30, 2016. The fair values of the remaining fixed rate capital leases and notes payable to banks are not materially different from their carrying values.

## 12. TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS

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

	<u>2016</u>
<b>Temporarily Restricted Net Assets</b>	
Education and research	\$ 3,494
Building and equipment	19,394
Patient care	2,376
Cancer Center/research	1,485
Services for elderly care	439
Other	11,974
Total	<u><u>\$ 39,162</u></u>
<b>Permanently Restricted Net Assets:</b>	
Hospital operations	<u><u>\$ 74,177</u></u>



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

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

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

	<b>2016</b>			
	<b>Unrestricted Net Assets</b>	<b>Temporarily Restricted Net Assets</b>	<b>Permanently Restricted Net Assets</b>	<b>Total</b>
Donor-restricted endowment funds	\$ 10,945	\$ 3,789	\$ 74,177	\$ 88,911
Board-designated endowment funds	-	-	-	-
<b>Total endowment funds</b>	<b>\$ 10,945</b>	<b>\$ 3,789</b>	<b>\$ 74,177</b>	<b>\$ 88,911</b>

Changes in endowment net assets for the year ended September 30 include (in thousands):

	<b>Unrestricted Net Assets</b>	<b>Temporarily Restricted Net Assets</b>	<b>Permanently Restricted Net Assets</b>	<b>Total</b>
Endowment net assets, October 1, 2015	\$ -	\$ 3,200	\$ 55,404	\$ 58,604
Investment return:				
Investment gains	184	23	-	207
Change in net realized and unrealized gains	1,175	157	2,277	3,609
Total investment return	1,359	180	2,277	3,816
Acquisition of Saint Mary's	-	409	16,526	16,935
Equity transfer	9,586	-	-	9,586
Appropriation of endowment assets for expenditures	-	-	(30)	(30)
Other	-	-	-	-
<b>Endowment net assets, September 30, 2016</b>	<b>\$ 10,945</b>	<b>\$ 3,789</b>	<b>\$ 74,177</b>	<b>\$ 88,911</b>

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

	<u>2016</u>
<b>Temporarily restricted net assets:</b>	
The portion of perpetual endowment funds subject to a purpose restriction:	
Total endowment funds classified as temporarily restricted net assets	<u>\$ 3,789</u>
<b>Permanently restricted net assets</b>	
Investment to be held in perpetuity, the income from which is expendable to support health care services	<u>\$ 74,177</u>

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

### 13. INCOME TAXES

At September 30, 2016, the Corporation's taxable subsidiaries have unused net operating loss carry forwards for tax purposes of approximately \$159 million, respectively, available to offset future taxable income. These loss carry forwards begin to expire in 2018. The Corporation has recognized a valuation allowance for the entire amount of the deferred tax asset related to net operating loss carry forwards. Deferred tax liabilities are immaterial.

### 14. SUBSEQUENT EVENTS

Management has evaluated subsequent events through January 25, 2017, the date the financial statements were issued.

**Trinity Health - New England, Inc.**  
(A Member of Trinity Health)

**Consolidated Balance Sheet**  
**As of September 30, 2016**  
*(In Thousands)*

	Saint Francis Hospital and Medical Center, Inc.	One Thousand Corporation	Saint Francis Indemnity Co.	Collaborative Laboratory Services	Medworks	Total Laundry Collaborative	Saint Francis Care Medical Group	Saint Francis Behavioral Health Group	Intercompany Eliminations	Consolidated Saint Francis Hospital and Medical Center	Mount Sinai Rehabilitation Hospital, Inc.	Saint Francis Hospital and Medical Center Foundation, Inc.	Saint Francis Medical Group and Subsidiary	Asylum Hill Family Medicine Center, Inc.	Intercompany Eliminations	Saint Francis Consolidated
<b>ASSETS</b>																
<b>CURRENT ASSETS:</b>																
Cash and cash equivalents	\$ 17,282	\$ 7,525	\$ -	\$ 979	\$ 207	\$ 158	\$ 243	\$ 543	\$ -	\$ 26,937	\$ 10,502	\$ -	\$ 6,530	\$ 967	\$ -	\$ 44,936
Investments	4,288	-	-	-	-	-	-	-	-	4,288	10,309	38	-	-	-	14,635
Investments in Trinity Health pooled investment program	33,338	-	-	-	-	-	-	-	-	33,338	-	-	-	-	-	33,338
Assets limited or restricted as to use—Current portion	-	-	-	-	-	-	-	-	-	-	-	2,303	-	-	-	2,303
Patient accounts receivable, net of allowance for doubtful accounts of \$ 34.9 million as of September 30, 2016	64,589	-	-	1,174	14	-	721	221	-	66,719	1,965	-	5,672	365	-	74,721
Estimated receivables from third-party payors	5,513	-	-	-	-	-	-	-	-	5,513	-	-	-	-	-	5,513
Other receivables	3,498	1	-	2	222	183	-	33	-	3,939	13	-	1,356	487	-	5,795
Receivables from affiliates	47,486	12,457	-	1,798	-	-	-	-	(9,734)	52,007	2,988	-	-	-	(23,303)	31,692
Inventories	8,913	-	-	-	-	-	-	-	-	8,913	-	-	-	-	-	8,913
Prepaid expenses and other current assets	3,861	-	-	147	2	10	7	8	-	4,035	81	14	174	-	-	4,304
Total current assets	188,768	19,983	-	4,100	445	351	971	805	(9,734)	205,689	25,858	2,355	13,732	1,819	(23,303)	226,150
<b>ASSETS LIMITED OR RESTRICTED AS TO USE—Noncurrent portion:</b>																
Self-insurance, benefit plans, and other	2,118	-	-	-	-	-	-	-	-	2,118	-	-	3,068	-	-	5,186
By board	23,504	-	-	-	-	-	-	-	-	23,504	-	-	-	-	-	23,504
By donors	74,738	-	-	-	-	-	-	-	-	74,738	-	9,315	-	-	-	84,053
Total assets limited or restricted as to use—Noncurrent portion	100,360	-	-	-	-	-	-	-	-	100,360	-	9,315	3,068	-	-	112,743
PROPERTY AND EQUIPMENT—Net	389,982	5,636	-	730	55	45	274	22	-	396,744	997	11	1,537	93	-	399,382
INVESTMENTS IN UNCONSOLIDATED AFFILIATES	13,266	-	-	-	-	-	-	-	-	13,266	350	-	-	-	(11,681)	1,935
INTANGIBLE ASSETS	7,050	-	-	-	-	-	-	-	-	7,050	-	-	-	-	-	7,050
OTHER ASSETS	48,717	-	-	-	-	-	-	-	-	48,717	-	-	5	-	-	48,722
<b>TOTAL ASSETS</b>	<b>\$ 748,143</b>	<b>\$ 25,619</b>	<b>\$ -</b>	<b>\$ 4,830</b>	<b>\$ 500</b>	<b>\$ 396</b>	<b>\$ 1,245</b>	<b>\$ 827</b>	<b>\$ (9,734)</b>	<b>\$ 771,826</b>	<b>\$ 27,205</b>	<b>\$ 11,681</b>	<b>\$ 18,342</b>	<b>\$ 1,912</b>	<b>\$ (34,984)</b>	<b>\$ 795,982</b>

**Trinity Health - New England, Inc.**  
(A Member of Trinity Health)

**Consolidated Balance Sheet (Continued)**  
As of September 30, 2016  
(In Thousands)

	Johnson Memorial Hospital	Johnson Home & Community Health Services	Johnson Memorial Medical Center	Johnson Health Care	Intercompany Eliminations	Johnson Consolidated	Saint Mary's Hospital	Saint Mary's Indemnity Co LLC	Diagnostic Imaging of Southbury	Naugatuck Valley MRI LLC	Saint Mary's Phys Partners	Franklin Medical Group PC	Saint Mary's Foundation	Intercompany Eliminations	Saint Mary's Consolidated	Trinity Health New England	Connecticut Eliminations	Connecticut Total	Sisters of Providence Consolidated	Trinity Health NE - Eliminations	Trinity Health New England, Inc.
<b>ASSETS</b>																					
<b>CURRENT ASSETS:</b>																					
Cash and cash equivalents	\$ 86	\$ (73)	\$ -	\$ 160	\$ -	\$ 173	\$ 19,731	\$ -	\$ 460	\$ 87	\$ 53	\$ 507	\$ 1,170	\$ -	\$ 22,008	\$ 5,199	\$ -	\$ 72,316	\$ 20,039	\$ -	\$ 92,355
Investments	-	-	-	-	-	-	177	-	-	-	-	-	-	-	177	-	-	-	14,812	-	14,812
Investments in Trinity Health pooled investment program	1,068	130	53	-	-	1,251	-	-	-	-	-	-	-	-	-	-	-	-	34,589	25,536	60,125
Assets limited or restricted as to use—Current portion	-	-	-	-	-	-	-	3,418	-	-	-	-	-	33	3,451	-	-	5,754	1,099	-	6,853
Patient accounts receivable, net of allowance for doubtful accounts of \$ 34.9 million as of September 30, 2016	17,417	1,865	-	70	-	19,352	26,179	-	388	218	-	3,310	-	-	30,095	-	-	124,168	46,912	-	171,080
Estimated receivables from third-party payors	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	5,513	2,107	7,620
Other receivables	3,525	80	55	-	-	3,660	3,212	9,773	-	-	-	488	-	(9,773)	3,700	-	-	-	13,155	7,175	20,330
Receivables from affiliates	-	-	3,157	-	(2,732)	425	-	-	-	-	-	-	-	-	-	-	(28,970)	3,147	-	-	3,147
Inventories	1,513	-	-	-	-	1,513	3,889	-	-	-	-	-	1	-	3,890	-	-	14,316	5,479	-	19,795
Prepaid expenses and other current assets	677	58	15	-	-	750	2,930	261	34	223	-	58	9	-	3,515	-	-	8,569	2,818	-	11,387
Total current assets	24,286	2,060	3,280	230	(2,732)	27,124	56,118	13,452	882	528	53	4,363	1,213	(9,773)	66,836	5,199	(28,970)	296,339	111,165	-	407,504
<b>ASSETS LIMITED OR RESTRICTED AS TO USE—Noncurrent portion:</b>																					
Self-insurance, benefit plans, and other	-	-	-	-	-	-	-	19,531	-	-	-	-	-	-	19,531	-	-	24,717	1,347	-	26,064
By Board	-	-	-	-	-	-	10,849	-	-	-	-	-	-	-	12,295	-	-	35,799	4,026	-	39,825
By Donors	542	94	-	-	-	636	19,329	-	-	-	-	-	2,974	(2,978)	19,325	-	-	104,014	6,045	-	110,059
Total assets limited or restricted as to use—Non-current portion	542	94	-	-	-	636	30,178	19,531	-	-	-	-	4,420	(2,978)	51,151	-	-	164,530	11,418	-	175,948
PROPERTY AND EQUIPMENT—Net	20,756	12	4,440	-	-	25,208	96,482	-	1,747	383	-	2,400	-	-	101,012	-	-	525,602	116,041	-	641,643
INVESTMENTS IN UNCONSOLIDATED AFFILIATES	3,202	-	-	-	-	3,202	28,259	-	-	-	-	-	-	(22,048)	6,211	14,967	(14,847)	11,468	830	-	12,298
INTANGIBLE ASSETS	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	7,050	-	7,437	-	-	14,487
OTHER ASSETS	806	-	-	-	-	806	3,221	-	-	-	-	-	-	-	3,221	18,000	(18,000)	52,749	32,946	-	85,695
<b>TOTAL ASSETS</b>	<b>\$ 49,592</b>	<b>\$ 2,166</b>	<b>\$ 7,720</b>	<b>\$ 230</b>	<b>\$ (2,732)</b>	<b>\$ 56,976</b>	<b>\$ 214,258</b>	<b>\$ 32,983</b>	<b>\$ 2,629</b>	<b>\$ 911</b>	<b>\$ 53</b>	<b>\$ 6,763</b>	<b>\$ 5,633</b>	<b>\$ (34,799)</b>	<b>\$ 228,431</b>	<b>\$ 38,166</b>	<b>\$ (61,817)</b>	<b>\$ 1,057,738</b>	<b>\$ 279,837</b>	<b>\$ -</b>	<b>\$ 1,337,575</b>

Trinity Health - New England, Inc.  
(A Member of Trinity Health)

Consolidated Balance Sheet (Continued)

As of September 30, 2016

(In Thousands)

	Saint Francis Hospital and Medical Center, Inc.	One Thousand Corporation	Saint Francis Indemnity Co.	Collaborative Laboratory Services	Medworks	Total Laundry Collaborative	Saint Francis Care Medical Group	Saint Francis Behavioral Health Group	Intercompany Eliminations	Consolidated Saint Francis Hospital and Medical Center	Mount Sinai Rehabilitation Hospital, Inc.	Saint Francis Hospital and Medical Center Foundation, Inc.	Saint Francis Medical Group and Subsidiary	Asylum Hill Family Medicine Center, Inc.	Intercompany Eliminations	Saint Francis Consolidated
<b>LIABILITIES AND NET ASSETS</b>																
<b>CURRENT LIABILITIES:</b>																
Current portion of long-term debt	\$ 6,925	\$ -	\$ -	\$ 3	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 6,928	\$ 1	\$ -	\$ 10	\$ -	\$ (197)	\$ 6,742
Current portion of notes payable to Trinity Health and affiliates	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Accounts payable	33,443	8	-	1,282	251	459	(26)	21	(62)	35,376	43	166	990	1,791	-	38,366
Accounts payable affiliates	-	-	-	-	186	152	1,463	7,933	(9,734)	-	-	826	16,473	1,931	(19,230)	-
Accrued expenses	720	23	-	-	-	-	1	-	-	744	-	9	-	-	-	753
Salary, wages, and related liabilities	38,144	-	-	1,749	47	-	456	653	-	41,049	2,132	-	15,641	230	-	59,052
Current portion of self-insurance reserves	9,045	-	-	-	-	-	-	-	-	9,045	-	-	-	-	-	9,045
Estimated payables to third-party payors	8,953	-	-	-	-	-	-	-	-	8,953	868	-	1,316	-	-	11,137
Total current liabilities	97,230	31	-	3,034	484	611	1,894	8,607	(9,796)	102,095	3,044	1,001	34,430	3,952	(19,427)	125,095
LONG-TERM DEBT - Net of current portion	237,732	-	-	-	-	-	-	-	-	237,732	-	-	5	-	(4,073)	233,664
NOTES PAYABLE TO TRINITY HEALTH AND AFFILIATES - Net of current portion	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
SELF-INSURANCE RESERVES - Net of current portion	40,654	-	-	-	-	-	-	-	-	40,654	-	-	-	-	-	40,654
ACCRUED PENSION AND RETIREE HEALTH COSTS	227,408	-	-	4,207	-	-	-	-	-	231,615	-	-	-	-	-	231,615
OTHER LONG-TERM LIABILITIES	11,214	-	-	-	-	-	-	-	-	11,214	-	151	3,068	-	197	14,630
Total liabilities	614,238	31	-	7,241	484	611	1,894	8,607	(9,796)	623,310	3,044	1,152	37,503	3,952	(23,303)	645,658
<b>NET ASSETS:</b>																
Unrestricted net assets	49,222	25,588	-	(2,411)	16	(215)	(649)	(7,780)	62	63,833	22,498	(1,151)	(19,161)	(2,040)	-	63,979
Noncontrolling ownership interest in subsidiaries	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total unrestricted net assets	49,222	25,588	-	(2,411)	16	(215)	(649)	(7,780)	62	63,833	22,498	(1,151)	(19,161)	(2,040)	-	63,979
Temporarily restricted net assets	29,372	-	-	-	-	-	-	-	-	29,372	1,663	11,467	-	-	(11,467)	31,035
Permanently restricted net assets	55,311	-	-	-	-	-	-	-	-	55,311	-	213	-	-	(213)	55,311
Total net assets	133,905	25,588	-	(2,411)	16	(215)	(649)	(7,780)	62	148,516	24,161	10,529	(19,161)	(2,040)	(11,680)	150,325
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 748,143</b>	<b>\$ 25,619</b>	<b>\$ -</b>	<b>\$ 4,830</b>	<b>\$ 500</b>	<b>\$ 396</b>	<b>\$ 1,245</b>	<b>\$ 827</b>	<b>\$ (9,734)</b>	<b>\$ 771,826</b>	<b>\$ 27,205</b>	<b>\$ 11,681</b>	<b>\$ 18,342</b>	<b>\$ 1,912</b>	<b>\$ (34,983)</b>	<b>\$ 795,983</b>

**Trinity Health - New England, Inc.**  
(A member of Trinity Health)

**Consolidated Balance Sheet (Continued)**

As of September 30, 2016

(In Thousands)

	Johnson Memorial Hospital	Home & Community Health Services	Johnson Memorial Medical Center	Johnson Health Care	Intercompany Elimination	Johnson Consolidated	Saint Mary's Hospital	Saint Mary's Indemnity Co LLC	Diagnostic Imaging of Southbury	Naugatuck Valley MRI LLC	Saint Mary's Phys Partners	Franklin Medical Group PC	Saint Mary's Foundation	Intercompany Eliminations	Saint Mary's Consolidated	Trinity Health New England	Connecticut Eliminations	Connecticut Total	Sisters of Providence Consolidated	Trinity Health NE- Eliminations	Trinity Health New England, Inc.
<b>LIABILITIES AND NET ASSETS</b>																					
<b>CURRENT LIABILITIES:</b>																					
Current portion of long-term debt	\$ 389	\$ -	\$ -	\$ -	\$ -	\$ 389	\$ 89	\$ -	\$ 83	\$ 165	\$ -	\$ -	\$ -	\$ -	\$ 337	\$ (4,756)	\$ -	\$ 2,712	\$ 253	\$ -	\$ 2,965
Current portion of notes payable to Trinity Health and affiliates	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	5,108	-	5,108	2,343	-	7,451
Accounts payable	4,482	382	37	61	-	4,962	19,979	40	209	177	12	835	64	-	21,316	897	-	65,541	16,553	-	82,094
Accounts payable affiliates	23,269	2,701	-	31	(2,732)	23,269	1,994	-	-	-	164	3,354	20	(5,532)	-	5,701	(28,970)	-	-	-	-
Accrued expenses	-	113	19	-	-	132	1,888	-	-	-	-	-	-	-	1,888	-	-	2,773	2,664	-	5,437
Salary, wages, and related liabilities	2,490	273	-	25	-	2,788	9,183	-	329	19	-	3,242	-	-	12,773	1,000	-	75,613	24,982	-	100,595
Current portion of self-insurance reserves	532	96	-	2	-	630	2,324	-	-	-	-	-	-	-	2,324	-	-	11,999	5,607	-	17,606
Estimated payables to third-party payors	844	31	-	-	-	875	2,990	-	-	-	-	901	-	-	3,891	-	-	15,903	4,732	-	20,635
Total current liabilities	32,006	3,596	56	119	(2,732)	33,045	38,447	40	621	361	176	8,332	84	(5,532)	42,529	7,950	(28,970)	179,649	57,134	-	236,783
LONG-TERM DEBT - Net of current portion	4,367	-	-	-	-	4,367	-	-	287	299	-	-	-	-	586	(237,165)	-	1,452	212	-	1,664
NOTES PAYABLE TO TRINITY HEALTH AND AFFILIATES - Net of current portion	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	254,704	-	254,704	116,816	-	371,520
SELF-INSURANCE RESERVES - Net of current portion	806	-	-	-	-	806	10,376	14,572	-	-	-	-	-	(4,241)	20,707	-	-	62,167	16,775	-	78,942
ACCRUED PENSION AND RETIREE HEALTH COSTS	-	-	-	-	-	-	82,429	-	-	-	-	-	-	-	82,429	-	-	314,044	-	-	314,044
OTHER LONG-TERM LIABILITIES	18,039	-	-	-	-	18,039	2,326	-	-	-	-	-	-	-	2,326	-	(18,000)	16,995	2,145	-	19,140
Total liabilities	55,218	3,596	56	119	(2,732)	56,257	133,578	14,612	908	660	176	8,332	84	(9,773)	148,577	25,489	(46,970)	829,011	193,082	-	1,022,093
<b>NET ASSETS:</b>																					
Unrestricted net assets	(6,169)	(1,495)	7,635	111	-	82	62,162	18,371	1,721	251	(123)	(1,569)	2,572	(24,637)	58,748	12,677	(14,848)	120,638	78,917	-	199,555
Noncontrolling ownership interest in subsidiaries	-	-	-	-	-	-	-	-	-	-	-	-	-	2,588	2,588	-	-	2,588	-	-	2,588
Total unrestricted net assets	(6,169)	(1,495)	7,635	111	-	82	62,162	18,371	1,721	251	(123)	(1,569)	2,572	(22,049)	61,336	12,677	(14,848)	123,226	78,917	-	202,143
Temporarily restricted net assets	543	65	29	-	-	637	1,970	-	-	-	-	-	1,927	(1,927)	1,970	-	-	33,642	5,520	-	39,162
Permanently restricted net assets	-	-	-	-	-	-	16,548	-	-	-	-	-	1,050	(1,050)	16,548	-	-	71,859	2,318	-	74,177
Total net assets	(5,626)	(1,430)	7,664	111	-	719	80,680	18,371	1,721	251	(123)	(1,569)	5,549	(25,026)	79,854	12,677	(14,848)	228,727	86,755	-	315,482
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 49,592</b>	<b>\$ 2,166</b>	<b>\$ 7,720</b>	<b>\$ 230</b>	<b>\$ (2,732)</b>	<b>\$ 56,976</b>	<b>\$ 214,258</b>	<b>\$ 32,983</b>	<b>\$ 2,629</b>	<b>\$ 911</b>	<b>\$ 53</b>	<b>\$ 6,763</b>	<b>\$ 5,633</b>	<b>\$ (34,799)</b>	<b>\$ 228,431</b>	<b>\$ 38,166</b>	<b>\$ (61,818)</b>	<b>\$ 1,057,738</b>	<b>\$ 279,837</b>	<b>\$ -</b>	<b>\$ 1,337,575</b>

**Trinity Health - New England, Inc.**  
(A member of Trinity Health)

**Consolidated Statement of Operations and Changes in Net Assets**  
**For The Year Ended September 30, 2016**  
*(In Thousands)*

	Saint Francis Hospital and Medical Center, Inc.	One Thousand Corporation	Saint Francis Indemnity Co.	Collaborative Laboratory Services	Medworks	Total Laundry Collaborative	Saint Francis Care Medical Group	Saint Francis Behavioral Health Group	Intercompany Eliminations	Consolidated Saint Francis Hospital and Medical Center	Mount Sinai Rehabilitation Hospital, Inc.	Saint Francis Hospital and Medical Center Foundation, Inc.	Saint Francis Medical Group and Subsidiary	Asylum Hill Family Medicine Center, Inc.	Intercompany Eliminations	Saint Francis Consolidated
UNRESTRICTED REVENUE:																
Patient service revenue, net of contractual and other allowances	\$ 745,036	\$ -	\$ -	\$ 14,190	\$ -	\$ -	\$ 4,435	\$ 3,404	\$ -	\$ 767,065	\$ 49,307	\$ -	\$ 64,494	\$ 3,528	\$ -	\$ 884,394
Provision for bad debts	(14,575)	-	-	(350)	(224)	(122)	(409)	(180)	-	(15,860)	(268)	-	(2,106)	(101)	-	(18,335)
Net patient service revenue less provision for bad debts	730,461	-	-	13,840	(224)	(122)	4,026	3,224	-	751,205	49,039	-	62,388	3,427	-	866,059
Capitation revenue	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net assets released from restrictions	3,396	-	-	-	-	-	-	-	-	3,396	505	4,050	-	-	-	7,951
Other revenue	37,245	3,184	-	22,088	1,047	5,077	1,088	3,095	(31,473)	41,351	2,839	362	50,745	1,054	(55,092)	41,259
Total unrestricted revenue	771,102	3,184	-	35,928	823	4,955	5,114	6,319	(31,473)	795,952	52,383	4,412	113,133	4,481	(55,092)	915,269
EXPENSES:																
Salaries and wages	257,995	-	-	13,975	427	-	4,052	6,023	-	282,472	14,716	-	103,713	2,458	-	403,359
Employee benefits	64,724	-	-	3,791	33	347	549	1,060	(3,639)	66,865	3,480	-	13,542	388	(84)	84,191
Contract labor	37,529	163	-	473	34	2,589	264	155	(9,347)	31,860	2,202	956	4,170	31	(8,500)	30,719
Total labor expenses	360,248	163	-	18,239	494	2,936	4,865	7,238	(12,986)	381,197	20,398	956	121,425	2,877	(8,584)	518,269
Supplies	121,088	1	-	7,212	43	568	31	11	-	128,954	14,368	146	1,970	321	-	145,759
Purchased services	40,381	4	-	6,482	136	504	438	58	(4,149)	43,854	724	832	3,824	226	(2,060)	47,400
Depreciation and amortization	43,827	549	-	63	19	7	82	8	-	44,555	386	1	174	21	-	45,137
Occupancy	34,035	130	-	3,215	92	916	512	279	(961)	38,218	514	15	3,620	505	(2,468)	40,404
Interest	8,464	-	-	-	-	-	-	-	-	8,464	-	-	1	-	-	8,465
Other	152,655	105	-	688	99	30	153	262	(13,407)	140,585	718	421	5,697	1,710	(41,980)	107,151
Total expenses	760,698	952	-	35,899	883	4,961	6,081	7,856	(31,503)	785,827	37,108	2,371	136,711	5,660	(55,092)	912,585
OPERATING INCOME (LOSS)	10,404	2,232	-	29	(60)	(6)	(967)	(1,537)	30	10,125	15,275	2,041	(23,578)	(1,179)	-	2,684
NONOPERATING ITEMS:																
Earnings in Trinity Health pooled investment program	2,168	-	-	-	-	-	-	-	-	2,168	-	-	-	-	-	2,168
Investment income	4,716	-	-	-	-	-	-	-	-	4,716	19	3	2	-	-	4,740
Loss from early extinguishment of debt	(4,034)	-	-	-	-	-	-	-	-	(4,034)	-	-	-	-	-	(4,034)
Inherent contribution related to acquisitions	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Loss on earnings of unconsolidated affiliates	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Interest cost on interest rate swaps	(925)	-	-	-	-	-	-	-	-	(925)	-	-	-	-	-	(925)
Other	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total nonoperating items	1,925	-	-	-	-	-	-	-	-	1,925	19	3	2	-	-	1,949
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENSES-net	\$ 12,329	\$ 2,232	\$ -	\$ 29	\$ (60)	\$ (6)	\$ (967)	\$ (1,537)	\$ 30	\$ 12,050	\$ 15,294	\$ 2,044	\$ (23,576)	\$ (1,179)	\$ -	\$ 4,633

Trinity Health - New England, Inc.  
(A member of Trinity Health)

Consolidated Statement of Operations and Changes in Net Assets (Continued)  
For The Year Ended September 30, 2016  
(In Thousands)

	Johnson Memorial Hospital	Home & Community Health Services	Johnson Memorial Medical Center	Johnson Health Care	Intercompany Elimination	Johnson Consolidated	Saint Mary's Hospital	Saint Mary's Indemnity Co LLC	Diagnostic Imaging of Southbury	Naugatuck Valley MRI LLC	Saint Mary's Phys Partners	Franklin Medical Group PC	Saint Mary's Foundation	Intercompany Eliminations	Saint Mary's Consolidated	Trinity Health New England	Connecticut Eliminations	Connecticut Total	Sisters of Providence Consolidated	Trinity Health NE- Eliminations	Trinity Health New England, Inc.
UNRESTRICTED REVENUE:																					
Patient service revenue, net of contractual and other allowances	\$ 44,739	\$ 2,667	\$ -	\$ 358	\$ (11)	\$ 47,753	\$ 44,946	\$ -	\$ 994	\$ 328	\$ -	\$ 5,472	\$ -	\$ -	\$ 51,740	\$ -	\$ -	\$ 983,887	\$ 378,007	\$ -	\$ 1,361,894
Provision for bad debts	(1,262)	(341)	-	(2)	-	(1,605)	(935)	-	-	-	-	(504)	(3)	-	(1,442)	-	-	(21,382)	(6,196)	-	(27,578)
Net patient service revenue less provision for bad debts	43,477	2,326	-	356	(11)	46,148	44,011	-	994	328	-	4,968	(3)	-	50,298	-	-	962,505	371,811	-	1,334,316
Capitation revenue	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	18,695
Net assets released from restrictions	9	1	-	-	-	10	30	-	-	-	-	-	-	-	30	-	-	7,991	287	-	8,278
Other revenue	2,433	11	831	-	(169)	3,106	892	35	1	-	-	523	161	(382)	1,230	19,885	(16,490)	48,990	37,003	(7,580)	78,413
Total unrestricted revenue	45,919	2,338	831	356	(180)	49,264	44,933	35	995	328	-	5,491	158	(382)	51,558	19,885	(16,490)	1,019,486	427,796	(7,580)	1,439,702
EXPENSES:																					
Salaries and wages	20,029	1,873	-	189	-	22,091	15,392	-	209	70	39	6,653	39	-	22,402	-	-	447,852	193,831	-	641,683
Employee benefits	4,257	389	-	30	-	4,676	4,065	-	41	9	-	640	10	-	4,765	1,298	-	94,930	43,983	-	138,913
Contract labor	922	4	1	23	(57)	893	2,967	-	(28)	105	55	551	38	-	3,688	4,188	-	39,488	6,060	(878)	44,670
Total labor expenses	25,208	2,266	1	242	(57)	27,660	22,424	-	222	184	94	7,844	87	-	30,855	5,486	-	582,270	243,874	(878)	825,266
Supplies	8,215	198	-	27	-	8,440	7,346	-	70	37	-	360	8	-	7,821	89	-	162,109	60,809	-	222,918
Purchased services	3,433	310	3	39	-	3,785	1,907	-	82	30	26	111	11	-	2,167	14,681	-	68,033	68,219	(6,419)	129,833
Depreciation and amortization	2,385	19	77	-	-	2,481	2,659	-	50	8	-	117	-	-	2,834	283	-	50,735	15,307	(283)	65,759
Occupancy	3,018	131	228	49	(112)	3,314	1,862	-	112	34	-	515	2	(23)	2,502	107	-	46,327	16,879	-	63,206
Interest	582	-	-	-	-	582	5	-	3	1	-	-	-	-	9	-	-	9,056	2,838	-	11,894
Other	6,292	369	28	55	(11)	6,733	5,058	208	351	10	1	493	16	(599)	5,538	1,397	(16,490)	104,329	28,211	-	132,540
Total expenses	49,133	3,293	337	412	(180)	52,995	41,261	208	890	304	121	9,440	124	(622)	51,726	22,043	(16,490)	1,022,859	436,137	(7,580)	1,451,416
OPERATING INCOME (LOSS)	(3,214)	(955)	494	(56)	-	(3,731)	3,672	(173)	105	24	(121)	(3,949)	34	240	(168)	(2,158)	-	(3,373)	(8,341)	-	(11,714)
NONOPERATING ITEMS:																					
Earnings in Trinity Health pooled investment program	104	-	-	-	-	104	-	-	-	-	-	-	-	-	-	-	-	2,272	667	-	2,939
Investment income	(159)	-	-	-	-	(159)	45	(4)	-	1	-	-	25	-	67	(1,003)	-	3,645	530	-	4,175
Loss from early extinguishment of debt	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(4,034)
Inherent contribution related to acquisitions	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	60,065	-	60,065	-	-	60,065
Loss on earnings of unconsolidated affiliates	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(1,875)	(1,875)
Interest cost on interest rate swaps	(13)	-	-	-	-	(13)	-	-	-	-	-	-	-	-	-	-	-	(938)	(361)	-	(1,299)
Other	(192)	-	-	-	-	(192)	-	-	-	-	-	-	-	-	-	-	-	(192)	(131)	-	(323)
Total nonoperating items	(260)	-	-	-	-	(260)	45	(4)	-	1	-	-	25	-	67	59,062	-	60,818	(1,170)	-	59,648
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENSES-net	\$ (3,474)	\$ (955)	\$ 494	\$ (56)	\$ -	\$ (3,991)	\$ 3,717	\$ (177)	\$ 105	\$ 25	\$ (121)	\$ (3,949)	\$ 59	\$ 240	\$ (101)	\$ 56,904	\$ -	\$ 57,445	\$ (9,511)	\$ -	\$ 47,934



**Trinity Health - New England, Inc.**  
(A member of Trinity Health)

**Consolidated Statement of Operations and Changes in Net Assets (Continued)**  
**For The Year Ended September 30, 2016**  
*(In Thousands)*

	Saint Francis Hospital and Medical Center, Inc.	One Thousand Corporation	Saint Francis Indemnity Co.	Collaborative Laboratory Services	Medworks	Total Laundry Collaborative	Saint Francis Care Medical Group	Saint Francis Behavioral Health Group	Intercompany Eliminations	Consolidated Saint Francis Hospital and Medical Center	Mount Sinai Rehabilitation Hospital, Inc.	Saint Francis Hospital and Medical Center Foundation, Inc.	Saint Francis Medical Group and Subsidiary	Asylum Hill Family Medicine Center, Inc.	Intercompany Eliminations	Saint Francis Consolidated
<b>UNRESTRICTED NET ASSETS:</b>																
Unrestricted net assets attributable to the Corporation:																
Excess (deficiency) of revenue over expenses	\$ 12,329	\$ 2,232	\$ -	\$ 29	\$ (60)	\$ (6)	\$ (967)	\$ (1,537)	\$ 30	\$ 12,050	\$ 15,294	\$ 2,044	\$ (23,576)	\$ (1,179)	\$ -	\$ 4,633
Net assets released from restrictions for capital acquisitions	284	-	-	-	-	-	-	-	-	284	-	-	-	-	-	284
Transfers to Trinity Health and affiliates	(6,130)	-	-	-	76	1,505	-	-	32	(4,517)	(10,000)	(156)	15,000	-	-	327
Transfer to Trinity Assurance, Ltd.	-	-	(11,359)	-	-	-	-	-	-	(11,359)	-	-	-	-	-	(11,359)
Transfer from Trinity Health	43,992	-	-	-	-	-	-	-	-	43,992	-	-	-	-	-	43,992
Acquisitions—Saint Mary's	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Acquisitions—Riverbend	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net change in retirement plan-related items	(38,499)	-	-	(1,663)	-	-	-	-	-	(40,162)	-	-	-	-	-	(40,162)
Partnership dividends	12,484	-	(12,484)	-	-	-	-	-	-	-	-	-	-	-	-	-
Other	(317)	-	-	-	-	-	-	-	-	(317)	-	(2,700)	-	-	-	(3,017)
Increase (decrease) in unrestricted net assets	24,143	2,232	(23,843)	(1,634)	16	1,499	(967)	(1,537)	62	(29)	5,294	(812)	(8,576)	(1,179)	-	(5,302)
Excess of revenue over expenses attributable to noncontrolling interests:																
Net investment gain	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Acquisitions	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Increase in unrestricted net assets attributable to noncontrolling interests	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>TEMPORARILY RESTRICTED NET ASSETS:</b>																
Contributions	2,919	-	-	-	-	-	-	-	-	2,919	336	6,258	-	-	-	9,513
Net investment gain	513	-	-	-	-	-	-	-	-	513	-	78	-	-	-	591
Net assets released from restrictions	(2,600)	-	-	-	-	-	-	-	-	(2,600)	(505)	(4,050)	-	-	(1,093)	(8,248)
Acquisitions	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other	4,123	-	-	-	-	-	-	-	-	4,123	70	-	-	-	(1,194)	2,999
Increase (decrease) in temporarily restricted net assets	4,955	-	-	-	-	-	-	-	-	4,955	(99)	2,286	-	-	(2,287)	4,855
<b>PERMANENTLY RESTRICTED NET ASSETS:</b>																
Net investment gain	2,131	-	-	-	-	-	-	-	-	2,131	-	-	-	-	-	2,131
Acquisitions	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Increase (decrease) in permanently restricted net assets	2,131	-	-	-	-	-	-	-	-	2,131	-	-	-	-	-	2,131
<b>INCREASE (DECREASE) IN NET ASSETS</b>	<b>31,229</b>	<b>2,232</b>	<b>(23,843)</b>	<b>(1,634)</b>	<b>16</b>	<b>1,499</b>	<b>(967)</b>	<b>(1,537)</b>	<b>62</b>	<b>7,057</b>	<b>5,195</b>	<b>1,474</b>	<b>(8,576)</b>	<b>(1,179)</b>	<b>(2,287)</b>	<b>1,684</b>
<b>NET ASSETS—BEGINNING OF YEAR</b>	<b>102,676</b>	<b>23,356</b>	<b>23,843</b>	<b>(777)</b>	<b>-</b>	<b>(1,714)</b>	<b>318</b>	<b>(6,243)</b>	<b>-</b>	<b>141,459</b>	<b>18,966</b>	<b>9,055</b>	<b>(10,585)</b>	<b>(861)</b>	<b>(9,393)</b>	<b>148,641</b>
<b>NET ASSETS—END OF YEAR</b>	<b>\$ 133,905</b>	<b>\$ 25,588</b>	<b>\$ -</b>	<b>(2,411)</b>	<b>\$ 16</b>	<b>\$ (215)</b>	<b>\$ (649)</b>	<b>\$ (7,780)</b>	<b>\$ 62</b>	<b>\$ 148,516</b>	<b>\$ 24,161</b>	<b>\$ 10,529</b>	<b>\$ (19,161)</b>	<b>\$ (2,040)</b>	<b>\$ (11,680)</b>	<b>\$ 150,325</b>

**Trinity Health - New England, Inc.**  
(A member of Trinity Health)

**Consolidated Statement of Operations and Changes in Net Assets (Continued)**

For The Year Ended September 30, 2016

(In Thousands)

	Johnson Memorial Hospital	Home & Community Health Services	Johnson Memorial Medical Center	Johnson Health Care	Intercompany Elimination	Johnson Consolidated	Saint Mary's Hospital	Saint Mary's Indemnity Co LLC	Diagnostic Imaging of Southbury	Naugatuck Valley MRI LLC	Saint Mary's Phys Partners	Franklin Medical Group PC	Saint Mary's Foundation	Intercompany Eliminations	Saint Mary's Consolidated	Trinity Health New England	Connecticut Eliminations	Connecticut Total	Sisters of Providence Consolidated	Trinity Health NE - Eliminations	Trinity Health New England, Inc.
UNRESTRICTED NET ASSETS:																					
Unrestricted net assets attributable to the Corporation:																					
Excess (deficiency) of revenue over expenses	\$ (3,474)	\$ (955)	\$ 494	\$ (56)	\$ -	\$ (3,991)	\$ 3,717	\$ (177)	\$ 105	\$ 25	\$ (121)	\$ (3,949)	\$ 59	\$ 240	\$ (101)	\$ 56,904	\$ -	\$ 57,445	\$ (9,511)	\$ -	\$ 47,934
Net assets released from restrictions for capital acquisitions	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	284	2,604	-	2,888
Transfers to Trinity Health and affiliates	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	327	(3,868)	-	(3,541)
Transfer to Trinity Assurance, Ltd.	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(724)	-	(12,083)	-	-	(12,083)
Transfer from Trinity Health	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	43,992	-	-	43,992
Acquisitions—Saint Mary's	(2,695)	(540)	7,141	167	-	4,073	55,417	18,548	1,616	226	(102)	2,380	2,521	(24,712)	55,894	(60,065)	-	(98)	-	-	(98)
Acquisitions—Riverbend	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(5,158)	-	(5,158)
Net change in retirement plan-related items	-	-	-	-	-	-	3,028	-	-	-	-	-	-	-	3,028	-	-	(37,134)	-	-	(37,134)
Partnership dividends	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	100	-	-	(8)	(165)	(73)	-	-	(3,090)	-	-	(3,090)
Increase (decrease) in unrestricted net assets	(6,169)	(1,495)	7,635	111	-	82	62,162	18,371	1,721	251	(123)	(1,569)	2,572	(24,637)	58,748	(3,885)	-	49,643	(15,933)	-	33,710
Excess of revenue over expenses attributable to noncontrolling interests:																					
Net investment gain	-	-	-	-	-	-	-	-	-	-	-	-	-	88	88	-	-	88	-	-	88
Acquisitions	-	-	-	-	-	-	-	-	-	-	-	-	-	2,500	2,500	-	-	2,500	-	-	2,500
Increase in unrestricted net assets attributable to noncontrolling interests	-	-	-	-	-	-	-	-	-	-	-	-	-	2,588	2,588	-	-	2,588	-	-	2,588
TEMPORARILY RESTRICTED NET ASSETS:																					
Contributions	83	-	-	-	-	83	-	-	-	-	-	-	-	-	-	-	-	9,596	3,857	-	13,453
Net investment gain	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	591	75	-	666
Net assets released from restrictions	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(8,248)	(2,917)	-	(11,165)
Acquisitions	460	65	29	-	-	554	1,970	-	-	-	-	-	1,927	(1,927)	1,970	-	-	2,524	-	-	2,524
Other	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	2,999	-	-	2,999
Increase (decrease) in temporarily restricted net assets	543	65	29	-	-	637	1,970	-	-	-	-	-	1,927	(1,927)	1,970	-	-	7,462	1,015	-	8,477
PERMANENTLY RESTRICTED NET ASSETS:																					
Net investment gain	-	-	-	-	-	-	22	-	-	-	-	-	-	-	22	-	-	2,153	94	-	2,247
Acquisitions	-	-	-	-	-	-	16,526	-	-	-	-	-	1,050	(1,050)	16,526	-	-	16,526	-	-	16,526
Increase (decrease) in permanently restricted net assets	-	-	-	-	-	-	16,548	-	-	-	-	-	1,050	(1,050)	16,548	-	-	18,679	94	-	18,773
INCREASE (DECREASE) IN NET ASSETS	(5,626)	(1,430)	7,664	111	-	719	80,680	18,371	1,721	251	(123)	(1,569)	5,549	(25,026)	79,854	(3,885)	-	78,372	(14,824)	-	63,548
NET ASSETS—BEGINNING OF YEAR	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	16,562	(14,848)	150,355	101,579	-	251,934
NET ASSETS—END OF YEAR	\$ (5,626)	\$ (1,430)	\$ 7,664	\$ 111	\$ -	\$ 719	\$ 80,680	\$ 18,371	\$ 1,721	\$ 251	\$ (123)	\$ (1,569)	\$ 5,549	\$ (25,026)	\$ 79,854	\$ 12,677	\$ (14,848)	\$ 228,727	\$ 86,755	\$ -	\$ 315,482