

Narrative of Material Differences Between Proforma and Actual
For the Fiscal Year Ending June 30, 2019

Effective June 30, 2014, Mercy Community Health and its Affiliates became part of Trinity Health. This consolidation resulted in the transition of several financial systems from the ones Mercy Community Health had been using to the enterprise systems used by Trinity Health.

The McAuley Center's actual performance for FY 2019 did differ slightly from the projected 2019 Proforma statements. The material differences for the FY 2019 period are:

- The McAuley Center purchased land in 2019 that it was previously leasing. This was not anticipated in the Proforma financial statements, resulting in an increase in fixed assets and a reduction in equity for the acquisition. Land rental expenses reduced as a result, but this was offset by property tax expense increases.
- Trinity Health made available additional capital improvement funds, which were devoted to the completion of a campus enhancement project. This increased the expense associated with depreciation, as well as a balance sheet impact increasing fixed assets and accounts payable to Trinity Health.
- A review of the services being provided by the administrative offices of Mercy Community and Trinity Health to the individual communities. This review resulted in an increase in the management fees being charged to The McAuley Center, and an unfavorable variance in purchased services from proforma 2019.
- Trinity Health performed an evaluation of current wage rates in 2019. This resulted in a living wage rate adjustment for some employees of The McAuley Center and an unanticipated increase in wage expenses.
- With the transition to the Trinity Health chart of accounts, some expenses that were previously reported as "other expenses" were reflected in 2019 actual expenses as "purchased services."

See attached schedules for the details.

McAuley Center, Inc.
Balance Sheet and Changes in Net Assets
6/30/2019
(000s)

<u>ASSETS</u>	<u>Proforma 2019</u>	<u>Actual 2019</u>	<u>Comments</u>
Current Assets:			
Cash and Cash Equivalents	\$ 13,206	\$ 13,771	
Accounts Receivable, Net	76	122	
Prepaid Expenses and Other Current Assets	579	198	
Total Current Assets	13,861	14,091	
Assets Whose Use Is Limited - Non-Current	1,532	1,857	
Property, Plant and Equipment, Net	15,988	22,309	Purchase of land and campus enhancement project
Other Assets	41	41	
TOTAL ASSETS	\$ 31,422	\$ 38,298	
 <u>LIABILITIES AND NET ASSETS</u>			
Current Liabilities:			
Current Maturities of Debt	\$ 301	\$ 276	
Accounts Payable and Accrued Expenses	5,989	9,776	Costs due to affiliate due to campus enhancement project
Other Accrued Liabilities	880	933	
Total Current Liabilities	7,170	10,985	
Long-Term Debt, Less Current Portion	11,576	11,674	
Other Long-Term Liabilities	19,516	18,323	
Total Liabilities	38,262	40,982	
Net Assets			
Unrestricted Net Assets	(6,893)	(2,746)	Equity distribution to affiliate for land purchase
Temporarily Restricted Fund Balance	53	62	
Permanently Restricted Net Assets	-	-	
Total Net Assets	(6,840)	(2,684)	
TOTAL LIABILITIES & NET ASSETS	31,422	38,298	
 CHANGES IN NET ASSETS			
Unrestricted Net Assets			
Beginning Unrestricted Net Assets	(7,284)	(7,284)	
Equity Transfer to Parent	-	5,024	Land purchase
Change in Controlling Interest			
Excess of Revenues over Expenses	391	(486)	
Total Unrestricted Net Assets	(6,893)	(2,746)	
Temporarily Restricted Net Assets			
Beginning Temporarily Restricted Net Assets	53	62	
Use of Temporarily Restricted Funds			
Ending Temporarily Restricted Net Assets	53	62	
Permanently Restricted Net Assets			
Beginning Permanently Restricted Net Assets	-	-	
Ending Permanently Restricted Net Assets	-	-	
TOTAL NET ASSETS	\$ (6,840)	\$ (2,684)	

McAuley Center, Inc.
Statement of Operations
For the Fiscal Year Ended June 30, 2019
(000s)

	Proforma 2019	Actual 2019	Comments
Revenue			
Operating Revenue	\$ 12,418	\$ 12,498	
Operating Expenses			
Salaries and Wages	2,677	2,968	A living wage rate adjustment was conducted, resulting in higher wages than projected in Proforma 2019.
Employee Benefits	652	735	
Professional Fees	3	4	
Supplies	615	704	
Purchased Services	2,547	2,954	Shift of expenses from other to purchased services, offset by increased management expenses
Depreciation & Amortization	1,785	2,008	Unanticipated capital acquisitions increasing depreciation expense
Interest	427	583	
Other	3,321	3,034	Shift of expenses from other to purchased services
Total Operating Expenses	<u>12,027</u>	<u>12,990</u>	
Operating Income	391	(492)	
Non-Operating Revenue	-	6	
Increase (Decrease) in Unrestricted Net Assets	<u>\$ 391</u>	<u>\$ (486)</u>	

McAuley Center, Inc.
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2019
(000s)

	Proforma 2019	Actual 2019	Comments
Sources of Cash			
Excess of Revenues over Expenses from Operations	391	(486)	
Items Not Affecting Working Capital			
Depreciation	1,785	2,008	Higher than anticipated depreciation expense due to campus enhancement project useful lives
Other			
Total Sources of Cash	2,176	1,522	
Uses of Cash			
Change in Working Capital, excluding current portion of debt	36	60	
Additions to Plant, Property and Equipment, net	1,458	8,004	Capital acquisitions for campus enhancement project
Transfers from Affiliate	-	(5,024)	Funding for land acquisition
Accounts Payable & Accrued Expense	12	(3,918)	Increase in funds due to affiliates for reimbursement of capital acquisitions
Long-term Debt Principal Repayments	301	273	
Other Long Term Liabilities	(22)	1,171	Increase in deferred entrance fees
Total Uses of Cash	1,785	566	
 Net increase in cash	 391	 956	
 Cash Balance, Beginning of Period	 12,815	 12,815	
Cash Balance, End of Period	13,206	13,771	