Holy Cross Health, Inc.

(A Member of Trinity Health)

Consolidated Financial Statements as of and for the Years Ended June 30, 2015 and 2014, Supplemental Consolidating Information as of and for the Year Ended June 30, 2015, and Independent Auditors' Report

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

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Deloitte.

Deloitte & Touche LLP
1700 Market Street
Philadelphia, PA 19103
USA

Tel: +1 215 246 2300
Fax: +1 215 569 2441
www.deloitte.com

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated financial statements of Holy Cross Health, Inc. (the "Corporation"), a wholly controlled member organization of Trinity Health, which comprise the consolidated balance sheets as of June 30, 2015 and 2014, and the related consolidated statements of operations and changes in net assets and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of 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 Holy Cross Health, Inc. as of June 30, 2015 and 2014, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

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

Deloitte & Touche LLP

October 15, 2015

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

CONSOLIDATED BALANCE SHEETS
AS OF JUNE 30, 2015 AND 2014
(In thousands)

	2015	2014
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 30,505	$ 21,262
Investment in Trinity Health pooled investment program	206,212	281,864
Patient accounts receivable—net of allowance for doubtful accounts of $10.0 million and $9.9 million in 2015 and 2014, respectively	82,379	55,475
Inventories	9,747	5,562
Prepaid expenses and other current assets	3,890	5,625
Total current assets	332,733	369,788
ASSETS LIMITED OR RESTRICTED AS TO USE:		
Deferred compensation	41	51
By donors	6,634	9,369
Total assets limited or restricted as to use	6,675	9,420
PROPERTY AND EQUIPMENT—Net	472,950	369,937
INVESTMENTS IN UNCONSOLIDATED AFFILIATES	24,370	19,996
PREPAID CHARGES FOR SHARED INFORMATION SERVICES	20,177	20,819
OTHER ASSETS	12,763	8,914
TOTAL ASSETS	$ 869,668	$ 798,874
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Current portion of notes payable to Trinity Health and affiliates	$ 9,230	$ 7,476
Accounts payable	36,376	40,037
Accrued expenses	3,908	555
Salaries, wages, and related liabilities	23,949	19,869
Estimated payables to third-party payers	17,095	16,961
Total current liabilities	90,558	84,898
NOTES PAYABLE TO TRINITY HEALTH AND AFFILIATES—Net of current portion	415,826	355,781
OTHER LONG-TERM LIABILITIES	4,397	3,396
Total liabilities	510,781	444,075
NET ASSETS:		
Unrestricted	352,252	345,430
Temporarily restricted	6,590	9,323
Permanently restricted	45	46
Total net assets	358,887	354,799
TOTAL LIABILITIES AND NET ASSETS	$ 869,668	$ 798,874

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

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

CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2015 AND 2014
(In thousands)

	2015	2014
UNRESTRICTED REVENUE:		
Patient service revenue—net of contractual and other allowances	$ 466,567	$ 412,681
Provision for bad debts	15,694	15,487
Net patient service revenue	450,873	397,194
Net assets released from restrictions	1,328	928
Other revenue	19,332	16,076
Total unrestricted revenue	471,533	414,198
EXPENSES:		
Salaries and wages	200,359	169,087
Employee benefits	39,645	36,000
Contract labor	6,768	6,554
Total labor expenses	246,772	211,641
Supplies	76,212	66,182
Purchased services	74,168	60,559
Depreciation and amortization	30,200	23,747
Occupancy	15,917	14,149
Interest	8,011	3,723
Other	9,288	10,902
Total expenses	460,568	390,903
OPERATING INCOME	10,965	23,295
NONOPERATING ITEMS:		
Earnings in Trinity Health pooled investment program	2,894	24,812
Other	(1,487)	(1,549)
Total nonoperating items	1,407	23,263
EXCESS OF REVENUE OVER EXPENSES	12,372	46,558

(Continued)

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

CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2015 AND 2014
(In thousands)

	2015	2014
UNRESTRICTED NET ASSETS:		
Excess of revenue over expenses	$ 12,372	$ 46,558
Net assets released from restrictions for capital	3,512	4,000
Transfers to affiliates	(9,062)	(5,130)
Increase in unrestricted net assets	6,822	45,428
TEMPORARILY RESTRICTED NET ASSETS:		
Contributions	2,107	2,405
Net assets released from restrictions	(4,840)	(4,928)
Decrease in temporarily restricted net assets	(2,733)	(2,523)
PERMANENTLY RESTRICTED NET ASSETS:		
Net investment income	-	9
Other	(1)	(2)
(Decrease) increase in permanently restricted net assets	(1)	7
INCREASE IN NET ASSETS	4,088	42,912
NET ASSETS—Beginning of year	354,799	311,887
NET ASSETS—End of year	$ 358,887	$ 354,799

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

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

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2015 AND 2014
(In thousands)

	2015	2014
OPERATING ACTIVITIES:		
Increase in net assets	$ 4,088	$ 42,912
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Transfers to affiliates	9,062	5,130
Net realized gains on investments	(7,861)	(9,386)
Change in net unrealized gains on investments	6,703	(12,807)
Restricted contributions and investment income	(2,107)	(2,415)
Depreciation and amortization	30,200	23,747
Provision for bad debts	15,694	15,487
Equity earnings in unconsolidated affiliates	(4,362)	(553)
Loss on sale of property and equipment	178	72
Changes in:		
Patient accounts receivable	(42,598)	(17,270)
Other assets	(9,407)	(4,988)
Accounts payable and other liabilities	814	4,958
Estimated payables to third-party payers	134	(2,094)
Total adjustments	(3,550)	(119)
Net cash provided by operating activities	538	42,793
INVESTING ACTIVITIES:		
Purchases of property and equipment	(125,743)	(167,865)
Proceeds from disposal of property and equipment	72	41
Disbursements of restricted cash	(2,715)	(5,958)
Receipts of restricted cash	5,025	7,356
Distributions received from unconsolidated affiliates	-	157
Investment in unconsolidated affiliate	(12)	(17,500)
Change in investments in Trinity Health pooled investment program	76,810	(16,232)
Net cash used in investing activities	(46,563)	(200,001)
FINANCING ACTIVITIES:		
Transfers to affiliates	(9,062)	(5,130)
Proceeds from restricted contributions and restricted investment income	2,531	3,536
Proceeds from issuance of intercompany notes payable	70,000	163,200
Repayments of notes payable to Trinity Health and affiliates	(8,201)	(4,942)
Net cash provided by financing activities	55,268	156,664
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	9,243	(544)
CASH AND CASH EQUIVALENTS—Beginning of year	21,262	21,806
CASH AND CASH EQUIVALENTS—End of year	$ 30,505	$ 21,262
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid during the year for interest	$ 13,240	$ 10,660
Accrued property and equipment	$ 14,523	$ 12,481
Guarantees	$ 190	$ 1,400
New capital lease obligation	$ 328	$ -

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

1. ORGANIZATION AND COMMUNITY BENEFIT MINISTRY

Holy Cross Health, Inc. (the "Corporation"), a Maryland not-for-profit corporation, owns and operates Holy Cross Hospital (HCH), a 425-bed acute care hospital, and Holy Cross Germantown Hospital (HCGH), a 93-bed acute care hospital that opened on October 1, 2014. Additionally, the Corporation is the parent of Holy Cross Health Foundation, a not-for-profit corporation established in 2007 supporting the charitable mission of the Corporation, and Maryland Care Group, Inc., a taxable corporation that owns a private home service agency. The Corporation provides services to patients who reside primarily in the local geographic region. The Corporation is a member of Trinity Health Corporation ("Trinity Health"), an Indiana not-for-profit corporation, sponsored by Catholic Health Ministries, a Public Juridic Person of the Holy Roman Catholic Church. It is the result of the consolidation of Catholic health systems over the last 15 years, most recently the merger of Trinity Health and Catholic Health East (CHE) effective May 1, 2013. There are significant related-party transactions with Trinity Health and its Regional Health Ministries.

The mission statement for the Corporation is as follows:

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

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

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

	2015	2014
Charity care (charges)	$ 32,033	$ 30,739
Unpaid costs of Medicaid—Medicaid assessment	1,692	1,688
Community health services	5,748	4,745
Health professions education	4,524	4,835
Mission-driven health services	16,385	12,829
Research	301	266
Financial contributions	126	16
Community building activities	57	56
Community benefit operations	754	682
Total community benefit ministry	$ 61,620	$ 55,856

The Corporation provides a significant amount of care to patients not paid for by or on behalf of those receiving it, that is reported as bad debt at cost, and not included in the amounts reported above. During the years ended June 30, 2015 and 2014, the Corporation reported bad debt at cost (determined using a cost-to-charge ratio applied to the provision for bad debts) adjusted by support received through the state's Uncompensated Care Fund of $7.2 million and $7.9 million, respectively. Total support received through the state's Uncompensated Care Fund for both bad debts and charity care was $10.3 million and $6 million for the years ended June 30, 2015 and 2014, respectively.

Charity Care (Charges)—This represents services provided to patients who cannot afford health care services due to inadequate resources and/or are uninsured or underinsured. A patient is classified as a charity patient in accordance with the Corporation's established policies and when no payment for such services is anticipated. The amounts of direct and indirect costs for services and supplies furnished under the Corporation's charity care policy totaled approximately $26.8 million and $22.7 million for the years ended June 30, 2015 and 2014, respectively, and is based on a ratio of the Corporation's operational costs to its gross charges.

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

Community Health Services—Community health services are activities and services for which no patient bill exists. These services are not expected to be financially self-supporting, although some may be supported by outside grants or funding. Amounts reported are net of any outside funding. Some examples include health screenings, senior exercise classes, and support groups. The Corporation actively collaborates with community groups and agencies to assist those in need in providing such services.

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

Mission-Driven Health Services—Mission-driven health services are net costs for billed services that are subsidized by the Corporation. These include services offered despite a financial loss because they are needed in the community and either other providers are unwilling to provide the services or the services would otherwise not be available in sufficient amount. Examples of services include adult day care, palliative care, and pharmacy programs.

Research—Research includes unreimbursed clinical and community health research and studies on health care delivery.

Financial Contributions—Financial contributions are made by the Corporation on behalf of the poor and underserved to community agencies. These amounts include special system-wide funds used for charitable activities as well as resources contributed directly to programs, organizations, and foundations for efforts on behalf of the poor and the underserved. Amounts included here also represent certain in-kind donations.

Community Building Activities—Community building activities include 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—Community benefit operations include costs associated with dedicated staff, community health needs, and/or asset assessments and other costs associated with community benefit strategy and operations.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation—The consolidated financial statements include the accounts of the Corporation, and all wholly owned, majority-owned, and controlled organizations. Investments where the Corporation holds less than 20% of the ownership interest are accounted for using the cost method. All other investments, which are not controlled by the Corporation, are accounted for using either the equity or the cost method of accounting. For equity-method investments, the Corporation has included its equity share of income or losses from investments in unconsolidated affiliates in other revenue in the consolidated statements of operations and changes in net assets. All material intercompany transactions and account balances have been eliminated in consolidation.

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

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

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

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

Investment earnings and losses (including realized gains and losses on investments, holding gains and losses on trading securities, interest, and dividends) are included in nonoperating items in the consolidated statements of operations and changes in net assets (see Note 12).

Investment in Trinity Health Pooled Investment Program—The Corporation invests certain of its funds in the Trinity Health pooled investment program. 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, and realized and unrealized gains and losses on investment in the pooled investment program, are allocated to the participants based upon each participant's weighted-average percentage of the pooled investment fund in which they are participating.

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

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

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

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

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

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

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

Prepaid Charges for Shared Information Services—The Corporation invests in information systems that are shared by other Regional Health Ministries of Trinity Health. Prepaid charges represent the 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 10 years. As the assets are depreciated, the Corporation records amortization expense as allocated by Trinity Health.

Other Assets—Other assets includes physician support agreements recorded at fair value and amortized over the contract period. Physician support agreements were $5.8 million at June 30, 2015, and related accumulated amortization was $2.1 million. No physician support guarantees were recorded at June 30, 2014. See Note 10, *Commitments and Contingencies*.

Intercompany Loan Program—The Corporation has the ability to borrow funds through the Trinity Health intercompany loan program. Loans under this program accrue interest at a variable rate 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 Payables to Third-Party Payers, and Net Patient Service Revenue—The Corporation has agreements with third-party payers that provide for payments at amounts different from established rates. Patient accounts receivable and net patient service revenue are reported at the estimated net realizable amounts from patients, third-party payers, and others for services rendered. Estimated retroactive adjustments under reimbursement agreements with third-party payers and other changes in estimates are included in net patient service revenue and estimated receivables from and payables to third-party payers. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined. Estimated receivables from third-party payers, including amounts receivable from Medicare and Medicaid meaningful use programs, are included in prepaid expenses and other current assets in the consolidated balance sheets.

Allowance for Doubtful Accounts—The Corporation recognizes a significant amount of patient service revenue at the time the services are rendered even though the Corporation does not assess the patient's ability to pay at that time. As a result, the provision for bad debts is presented as a deduction from patient service revenue (net of contractual provisions and discounts). For uninsured and underinsured patients that do not qualify for charity care, the Corporation establishes an allowance to reduce the carrying value of such receivables to their estimated net realizable value. This allowance is established based on the aging of accounts receivable and the historical collection experience and for each type of payer. A significant portion of the Corporation's provision for doubtful accounts relates to self-pay patients, as well as co-payments and deductibles owed to the Corporation by patients with insurance. The Corporation's allowance for doubtful accounts for self-pay was 50% and 60% of total self-pay patient receivables at June 30, 2015 and 2014, respectively.

Income Taxes—The Corporation and Holy Cross Health Foundation have been recognized as tax exempt pursuant to Section 501(a) of the Internal Revenue Code. The Corporation also has a taxable subsidiary, Maryland Care Group, Inc., which is included in the consolidated financial statements. Maryland Care Group, Inc. has entered into a tax-sharing agreement and files consolidated federal income tax returns with other corporate taxable subsidiaries. The Corporation and its subsidiaries include penalties and interest, if any, with its provision for income taxes. The Corporation has no uncertain tax positions at June 30, 2015 and 2014.

Excess of Revenue over Expenses—The consolidated statements of operations and changes in net assets include excess of revenue over expenses. Changes in unrestricted net assets, which are excluded from excess of revenue over expenses, consistent with industry practice, include the permanent transfers of assets to and from affiliates for other than goods and services, contributions of long-lived assets received or gifted (including assets acquired using contributions which that by donor restriction were to be used for the purposes of acquiring such assets), and cumulative effect of changes in accounting principles.

Adopted Accounting Pronouncements

On May 1, 2015, the Corporation adopted Accounting Standards Update (ASU) No. 2015-07, *Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*. This guidance removes the requirement to categorize within the fair value hierarchy all investments for which the fair value is measured using the net asset value per share practical expedient. This guidance also removes the requirement to make certain disclosures for all investments that are eligible to be measured at fair value using the net asset value per share practical expedient. The adoption of this guidance, which was retrospectively applied, impacted the disclosures presented in Note 12.

On July 1, 2014, the Corporation adopted ASU No. 2013-11, *Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists*. This guidance requires entities to present an unrecognized tax benefit, or a portion of an unrecognized tax benefit, in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit, with some exceptions. The adoption of this guidance had no impact on the Corporation's consolidated financial statements.

On July 1, 2014, the Corporation adopted ASU No. 2013-04, *Obligations Resulting From Joint and Several Liability Arrangements for Which the Total Amount of the Obligation is Fixed at the Reporting Date*. This guidance requires entities to measure obligations resulting from the joint and several liability arrangements for which the total amount of the obligation within the scope of this guidance is fixed at the reporting date. The adoption of this guidance had no impact on the Corporation's consolidated financial statements.

Forthcoming Accounting Pronouncements

In July 2015, the Financial Accounting Standards Board (FASB) issued ASU No. 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 No. 2014-09, *Revenue From Contracts with Customers,* by one year for all entities and permits early adoption on a limited basis. In May 2014, the FASB issued ASU No. 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, this guidance is now effective for the Corporation beginning July 1, 2018. The Corporation is still evaluating the impact this guidance may have on its consolidated financial statements.

In February 2015, the FASB issued ASU No. 2015-02, *Amendments to the Consolidation Analysis*. This guidance significantly changes the consolidation analysis required under accounting principles generally accepted in the United States of America. This guidance is effective for the Corporation beginning July 1, 2016. The Corporation has not yet evaluated the impact this guidance may have on its consolidated financial statements.

In January 2015, the FASB issued ASU No. 2015-01, *Simplifying Income Statement Presentation by Eliminating the Concept of Extraordinary Items*. This guidance eliminates the concept for an extraordinary item. This guidance is effective for the Corporation beginning July 1, 2016. The Corporation does not expect this guidance to have an impact on its consolidated financial statements.

In April 2014, the FASB issued ASU No. 2014-8, *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. This guidance is effective for the Corporation for all disposal transactions that occur after July 1, 2015. The Corporation expects that the adoption of this guidance will have an impact on classification and disclosures related to prospective disposals.

3. INVESTMENTS IN UNCONSOLIDATED AFFILIATES

Investments in Unconsolidated Affiliates—The Corporation has investments in entities that are recorded under the cost or equity method of accounting. The Corporation maintained investments in unconsolidated affiliates with ownership interests of 20% at both June 30, 2015 and 2014. The Corporation's share of equity earnings from entities accounted for under the equity method was $4,543,819 and $552,888 for the years ended June 30, 2015 and 2014, respectively, which is included in other revenue in the consolidated statements of operations and changes in net assets. Investments in unconsolidated affiliates accounted for using the equity method of accounting as of June 30, 2015 and 2014, include the following:

Maryland Physicians Care (MPC)—Effective April 7, 2014, the Corporation acquired a 20% ownership in MPC, a Medicaid managed care organization.

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

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

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

	2015		
	CPRCC	DRCC	MPC
Total assets	$7,160	$5,889	$253,701
Total liabilities	976	1,596	150,931
Net assets	6,184	4,293	102,770
Revenue—net	7,728	7,695	898,320
Excess of revenue over expenses	662	512	20,292

	2014		
	CPRCC	DRCC	MPC
Total assets	$7,482	$6,744	$283,205
Total liabilities	1,019	2,695	200,727
Net assets	6,463	4,049	82,478
Revenue—net	8,329	6,627	409,357
Excess of revenue over expenses	745	127	1,538

4. NET PATIENT SERVICE REVENUE

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

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

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

Under the Commission's new reimbursement methodology, HCH entered a global budget revenue arrangement and a gross revenue target was established for HCH based on the year ended June 30, 2013, charges adjusted for inflation and other statewide allocation adjustments. The actual revenue charged was compared to the revenue target and to the extent that the actual revenue exceeded or was less than the target, the overcharge or undercharge, plus applicable penalties reduced (in the case of overcharges) or increased (in the case of undercharges) the approved target for future rate years. At June 30, 2015 and 2014, the Corporation was in compliance with its revenue target.

With the opening of HCGH in October 2014, the Commission established rates for the new facility at HCH effective with the July 1, 2014, rate order. The approved rates for HCGH will be linked to HCH approved unit rates, and updated annually, until such time as volumes stabilize at HCGH. This is expected to happen by June 30, 2017. The Commission will not limit revenue growth as volumes grow at HCGH until such volume stabilization occurs. Finally, the Corporation has agreed to work with the Commission to establish a global budget arrangement similar to that between HCH and the Commission, or a similar population-based health reimbursement model then in effect, no later than July 1, 2017.

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

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

Kaiser Permanente—In accordance with the rate review system established by the Commission, the Corporation and Kaiser Permanente have agreed that those charges subject to the rate review system and covered by Kaiser Permanente were generally paid at 95% of billed charges through February 1, 2015, when the rate changed to approximately 98% of billed charges.

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

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

	2015	2014
Blue Cross	$ 71,614	$ 61,848
Commercial and other	125,616	121,132
Medicaid	89,608	70,022
Medicare	164,919	149,352
Uninsured	14,810	10,327
Net patient service revenue before provision for bad debts	$466,567	$412,681

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

	2015	2014
Gross charges:		
Acute inpatient	$374,643	$327,834
Outpatient, nonacute inpatient, and other	178,477	170,021
Gross patient revenue	553,120	497,855
Less—Contractual and other allowances	(86,553)	(85,174)
Net patient service revenue before provision for bad debts	$466,567	$412,681

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

5. OTHER ASSETS

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

	2015	2014
Physician support agreements	$ 3,745	$ -
Guarantees	1,590	1,400
Prepaid land lease	7,351	7,437
Other	77	77
Other assets	$ 12,763	$ 8,914

6. PROPERTY AND EQUIPMENT

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

	2015	2014
Land	$ 493	$ 493
Buildings and improvements	414,926	230,968
Equipment	154,687	121,283
Total	570,106	352,744
Less accumulated depreciation and amortization	(246,864)	(228,329)
Construction in progress	149,708	245,522
Property and equipment—net	$ 472,950	$ 369,937

Equipment includes assets recorded under capital leases of $3.2 million and $2.8 million with accumulated amortization for such assets of $2.9 million and $2.6 million as of June 30, 2015 and 2014, respectively. The associated charges to income are recorded in depreciation and amortization expense. In June 2015 and 2014, the Corporation completed an inventory of all fixed and movable equipment capitalized in the fixed asset system. The inventory resulted in the removal of $6.6 million and $10.5 million for the years ended June 30, 2015 and 2014, respectively, of retired assets with the majority being fully depreciated.

On January 20, 2011, the Maryland Health Care Commission granted two certificates of need for the Corporation. These two certificates of need relate to the construction of HCGH and the construction of a Silver Spring Tower to augment the patient care at the existing licensed bed facility in Silver Spring, Maryland. Construction of HCGH was completed with total costs of $200.7 million and the facility was opened on October 1, 2014. The total budget for the Silver Spring Tower project is $207.9 million. As of June 30, 2015, $138.6 million has been incurred to date under the Silver Spring Tower construction project.

Funding will be provided from cash, investment in the Trinity Health pooled investment program, philanthropy, and bond issuances through Trinity Health. The total amount of actual borrowings from Trinity Health is $343.7 million. Of this amount, $273.7 million was borrowed as of June 30, 2014, and an additional $70 million was borrowed as of June 30, 2015.

The total amount of interest capitalized was $5.4 million and $7.2 million for the years ended June 30, 2015 and 2014, respectively.

7. LONG-TERM DEBT AND OTHER FINANCING ARRANGEMENTS

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

	2015	2014
Notes payable to Trinity Health and affiliates, weighted-average interest rate of 3.4% and 3.8% during 2015 and 2014, respectively, payable in varying monthly installments—due through 2048	$425,056	$363,257
Less current portion of notes payable	(9,230)	(7,476)
Notes payable to Trinity Health and affiliates, net of current portion	$415,826	$355,781

Scheduled principal repayments on long-term debt as of June 30, 2015, are as follows (in thousands):

Years Ending June 30	
2016	$ 9,230
2017	9,711
2018	10,269
2019	10,712
2020	11,143
Thereafter	373,991
Total	$425,056

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

	2015	2014
Interest costs incurred	$13,238	$10,658
Less capitalized interest	(5,433)	(7,227)
Interest expense included in operations	$ 7,805	$ 3,431

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 is a designated affiliate under the ARMI. The Obligated Group and the designated affiliates are referred to as the Credit Group.

Pursuant to the ARMI, the Obligated Group Agent has caused the combination of Designated Affiliates and Obligated Group Members representing at least 85% of the consolidated net revenues of the Credit Group to grant to the Master Trust security interests in their Pledged Property. Security interests in this Pledged Property secure all obligations issued under the Master Indenture. The aggregate amount of obligations outstanding using the ARMI (other than obligations that have been advance refunded) are $5,165 million and $4,264 million at June 30, 2015 and 2014, respectively.

There are several conditions and covenants required by the ARMI with which Trinity Health must comply, including covenants that require Trinity Health to maintain a minimum debt service coverage and limitations on liens or security interests in property, except for certain permitted encumbrances, affecting the property of Trinity Health or any material designated affiliate (a designated affiliate whose total revenues for the year ended June 30, 2015, exceed 5% of the combined total revenues of Trinity Health for the same period). Long-term debt outstanding as of June 30, 2015 and 2014, that has not been secured under the ARMI, is generally collateralized by certain property and equipment.

8. PROFESSIONAL AND GENERAL LIABILITY PROGRAMS

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

For the years ended June 30, 2015 and 2014, Trinity Health's self-insurance program includes $20 million per occurrence for the first layers of professional liability, as well as $10 million per occurrence for hospital government liability, $5 million per occurrence for errors and omission liability, and $1 million per occurrence for directors' and officers' liability. Additional layers of professional liability insurance are available with coverage provided through other insurance carriers and various reinsurance arrangements. The total amount available for these subsequent layers is $100 million in aggregate for the period of July 1, 2014, through July 1, 2017. The Corporation self-insures $750,000 per occurrence for worker's compensation, with commercial insurance providing coverage up to the statutory limits, and also self-insures $500,000 in property damage liability 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 industry-wide data. Trinity Health discounts the reserves to their present value using a discount rate of 3%. The reserves include estimates of future trends in claim severity and frequency. Although considerable variability is inherent in such estimates, management believes that the liability for unpaid claims and related allocated loss adjustment expenses is adequate based on the loss experience of Trinity Health. The estimates are continually reviewed and adjusted as necessary. The amount of the changes to the estimated self-insurance reserves was determined based upon the annual independent actuarial analyses. Favorable loss development in the aggregate for all lines of coverage combined, as well as investment earnings on accumulated surplus in the captive, resulted in an overall reduction in liabilities of $35 million. This adjustment is reflected in current operations for the year ended June 30, 2015.

Claims in excess of certain insurance coverage and the recorded self-insurance liability have been asserted against the Corporation by various claimants. The claims are in various stages of processing and some may ultimately be brought to trial. There are known incidents occurring through June 30, 2015, that may result in the assertion of additional claims and other claims may be asserted arising from services provided in the past. While it is possible that settlement of asserted claims and claims, which may be asserted in the future, could result in liabilities in excess of amounts for which the Corporation has provided, management, based upon the advice of counsel, believes that the excess liability, if any, should not materially affect the consolidated financial position, operations, or cash flows of the Corporation.

9. PENSION AND OTHER BENEFIT PLANS

Self-Insured Employee Health Benefits—Trinity Health administers a self-insured employee health benefits plans for its employees. The majority of the Corporation's employees participate in the plans. The provisions of the plans permit employees and their dependents to elect to receive medical care at either the Corporation's Regional Health Ministries or other health care providers. The Corporation provides for reported claims and claims incurred, but not reported from other health care providers.

Defined Compensation 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, 2015, employer contributions to the plans include nonelective contributions of 3% of eligible compensation, and varying levels of matching contributions based on employee service. The employees direct their voluntary contributions and employer contributions among a variety of investment options. The Corporation suspended the majority of employer matching contributions for 2014 and the six months ended December 2014. Contribution expense under the plans totaled $4.6 million during the year ended June 30, 2015, and there were no employer contributions during the year ended June 30, 2014.

Deferred Compensation—The Corporation has a nonqualified deferred compensation plan, which permits eligible employees to defer a portion of their compensation. The plan is funded and is distributable in cash after retirement or termination of employment. The plan allows participants to defer up to a maximum of $15,000 of salary with investment income accruing based on investment selections of the participant. The assets and liabilities under the plan totaled $40,575 and $51,348 at June 30, 2015 and 2014, respectively.

Noncontributory Defined Benefit Pension Plans ("Pension Plans")—Substantially, all of the Corporation's employees participate in frozen, qualified noncontributory defined benefit pension plans. Effective June 2014, the plan was amended to freeze all future benefit accruals as of December 31, 2014. The plans' assets are invested in equity securities, fixed-income securities, money market investments, hedge funds, commingled funds directly holding securities, long/short equity, private equity funds, and real estate. The plan is accounted for as a multiple-employer plan and has Church Plan status as defined in the Employee Retirement Income Security Act of 1974 (ERISA). As a multiple-employer plan, the Corporation contributes an amount equal to its proportionate share of the annual expense of Trinity Health. For the years ended June 30, 2015 and 2014, net pension costs were $1.4 million and $8.4 million, respectively.

Postretirement Health Care and Life Insurance Benefits ("Postretirement Plans")—The Corporation participates in a contributory plan established to provide uniform, defined postretirement health benefits, and life insurance ("retiree medical plan") to certain retirees of organizations affiliated with Trinity Health. Medical benefits for these retirees are subject to deductibles and co-payment provisions. All of the Postretirement Plans are closed to new participants. The Postretirement Plans' assets are invested in equity securities, fixed-income funds, and money market investments. The Postretirement Plans' are accounted for as a multiemployer plan. As a multiemployer plan, the Corporation contributes an amount equal to its proportionate share of the annual expense of Trinity Health. In June 2010, Trinity Health approved an amendment to restructure the funded plans as health reimbursement account arrangements for Medicare eligible participants effective January 1, 2011. For the years ended June 30, 2015 and 2014, retiree medical plan income was $0.2 million and $1.5 million, respectively.

10. COMMITMENTS AND CONTINGENCIES

Operating Leases—The Corporation leases various land, equipment, and facilities under operating leases. Total rental expense, which includes provisions for maintenance in some cases, for the years ended June 30, 2015 and 2014, was $2.8 million and $2.6 million, respectively.

A schedule of future minimum lease payments under operating leases as of June 30, 2015, that have initial or remaining lease terms in excess of one year is as follows (in thousands):

Years Ending June 30	
2016	$ 2,184
2017	2,203
2018	2,484
2019	2,421
2020	1,892
Thereafter	8,058
Total	$ 19,242

Guarantee—In November 2013, the Corporation entered into an agreement with HCH MOB, LLC (which, in turn, is owned by NexCore Development LLC and its affiliates), the developer of a medical office building (MOB), to provide support, so that the developer could obtain financing to start the construction of a MOB at the site of the Corporation's new hospital, HCGH. The Corporation's obligation associated with the support agreement is for 20% of the rental space and will end once the space rented exceeds 80% or five years. Monthly support payments will be made once the construction is completed and the building is ready for occupancy. A liability of $1.5 million and $1.4 million has been recorded as the estimated fair value of the guarantee at June 30, 2015 and 2014, respectively. This guarantee is included in accrued expenses and other liabilities in the consolidated balance sheets.

Physician Support Agreements—Support agreements were entered into during the year ended June 30, 2015, at HCGH with various third-party physician practices. Support payments from the Corporation to physician practices represent a maximum monthly or quarterly amount equal to mutual agreed-upon costs of the physician practice payable net of physician practice cash collections. The majority of support payments began in the first month of physician practice operations and will end the earlier of September 30, 2016, or when physician practice cash collections equal the maximum support payment. The total maximum support payments per the physician practice agreements, assuming no physician practice cash collections, were $8.1 million as of June 30, 2015. The physician support payment liabilities recorded as of June 30, 2015, were $3.3 million and are included in accrued expenses and other liabilities in the consolidated balance sheet.

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

	2015	2014
Asset retirement obligation—beginning of year	$ 815	$ 593
Accretion of expense	204	289
Remediation costs	(389)	(67)
Asset retirement obligation—end of year	$ 630	$ 815

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.

11. RELATED-PARTY TRANSACTIONS

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

	2015	2014
Amounts recorded in the consolidated balance sheets:		
Investments in corporate pooled investment funds:		
Investments in Trinity Health pooled investment program	$206,212	$281,864
Assets limited or restricted as to use	1,318	1,329
Total investments in corporate pooled investment funds	207,530	283,193
Prepaid expenses and other current assets	287	63
Prepaid charges for shared information systems	20,177	20,819
Accounts and other payables	4,179	3,049
Deferred compensation liability	41	51
Notes payable to Trinity Health, including current portion	425,056	363,257
Amounts recorded in the consolidated statements of operations and changes in net assets:		
Other revenue	213	63
Operating expenses:		
Employee benefits	2,158	7,862
Contract labor	5,369	5,546
Purchased services:		
Information services	24,824	19,929
Management services	5,284	4,917
Revenue management services	1,319	1,077
Supply chain and accounts payable services	700	382
Repairs and maintenance—included in occupancy	3,439	2,912
Amortization	5,351	5,477
Interest expense (including amounts capitalized)	13,238	10,658
Insurance—included in other expenses	5,118	7,186
Other	445	355
Nonoperating items:		
Earnings in Trinity Health pooled investment program	2,894	24,812
Other—included in nonoperating items	(1,487)	(1,549)
Transfers to affiliates	(9,062)	(5,130)

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

12. FAIR VALUE MEASUREMENTS

The Corporation's consolidated financial statements reflect certain assets and liabilities recorded at fair value. Assets and liabilities measured at fair value on a recurring basis in the Corporation's consolidated balance sheets include cash, cash equivalents, equity securities, debt securities, mutual funds, commingled funds, hedge funds, securities lending collateral, and derivatives. Liabilities measured at fair value on a recurring basis for disclosure only include debt.

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

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

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

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

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

- Quoted prices for similar instruments in active markets;
- Quoted prices for identical or similar instruments in nonactive markets (few transactions, limited information, noncurrent prices, high variability over time, etc.);
- Inputs other than quoted prices that are observable for the instrument (interest rates, yield curves, volatilities, default rates, etc.); and
- 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 isolation would result in a significantly different fair value measurement. The Corporation classifies these securities as Level 2 within the fair value hierarchy. The Corporation also has certain investments that are classified as Level 3. These investments are primarily valued using competitive bid evaluations or cost, if it approximates fair value.

Trinity Health maintains policies and procedures to value instruments using the best and most relevant data available. Trinity Health's Level 3 securities are primarily investments in hedge funds. The fair values of Level 3 investments in these securities are predominately provided using a net asset value per share, which is provided by third-party administrators; however, in some cases, they are obtained directly from the investment fund manager. The Corporation did not adjust the prices obtained. Third-party pricing services do not provide access to their proprietary valuation models, inputs, and assumptions. Accordingly, Trinity Health reviews the independent reports of internal controls for these service providers. In addition, on a quarterly basis, Trinity Health performs reviews of investment consultant industry peer group benchmarking and supporting relevant market data. Finally, all of the fund managers of the Corporation's Level 3 securities have an annual independent audit performed by an accredited accounting firm. Trinity Health reviews these audited financials for ongoing validation of pricing used. Based on the information available, the Corporation believes that the fair values provided by the third-party pricing services and investment fund managers are representative of prices that would be received to sell the assets.

In instances where the inputs used to measure fair value fall into different levels of the fair value hierarchy, the fair value measurement has been determined based on the lowest-level input that is significant to the fair value measurement in its entirety. The Corporation's assessment of the significance of a particular item to the fair value measurement in its entirety requires judgment, including the consideration of inputs specific to the asset.

Following is a description of the valuation methodologies the Corporation uses for instruments recorded at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy:

Cash and Cash Equivalents and Assets Limited or Restricted as to Use—The carrying amounts reported in the consolidated balance sheets approximate their fair value. Certain cash and cash equivalents are included in assets limited or restricted as to use in the consolidated balance sheets. Included in this category is commercial papers. 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. Commercial paper is classified as either cash and cash equivalents or investments in the consolidated balance sheets depending upon the length to maturity when purchased and are included in cash and cash equivalents or debt securities in the fair value table.

Security Lending Collateral—The security lending collateral is invested in a Northern Trust-sponsored commingled collateral fund, which is composed primarily of short-term securities. The fair value amounts of the commingled collateral fund are determined using the calculated net asset value per share (or its equivalent) for the fund with the underlying investments valued using techniques similar to those used for instruments noted below.

Equity Securities—Equity securities are valued at the closing price reported on the applicable exchange on which the security is traded, or are estimated using quoted market prices for similar securities.

Debt Securities—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.

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, and 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 multistrategy, multimanager investments. Underlying investments in these funds may include equity securities, debt securities, commodities, currencies, and derivatives. These funds are valued at net asset value, which is calculated using the most recent fund financial statements.

Equity Method Investments—Certain other investments are accounted for using the equity method. These investments are structured as limited liability corporations and partnerships and are designed to produce stable investment returns regardless of market activity. These investments utilize a combination of "fund-of-funds" and direct fund investment resulting in diversified multistrategy, multimanager investments approach. Some of these are developed by investment managers specifically for Trinity Health's use and are similar to mutual funds, but are not traded on a public exchange. Underlying investments in these funds may include other funds, equity securities, debt securities, commodities, currencies, and derivatives. Audited information is only available annually based on the limited liability corporations, partnerships, or funds' year-end. Management's estimates of the fair values of these investments are based on information provided by the third-party administrators and fund managers or the general partners. Management obtains and considers the audited financial statements of these investments when evaluating the overall reasonableness of the recorded value. In addition to a review of external information provided, management's internal procedures include 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.

As a result of the adoption of ASU No. 2015-07, *Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)* as discussed in Note 2, investments for which the fair value is measured using the net asset value per share practical expedient are not categorized within the fair value hierarchy.

The fair values, by input hierarchy, of financial instruments measured at fair value on a recurring basis at June 30 according to the valuation techniques the Corporation used to determine their fair values are as follows (in thousands):

	2015			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**	**Total Fair Value**
Cash and cash equivalents	$ 30,802	$ -	$ -	$ 30,802
U.S. equity securities and mutual funds	45	-	-	45
Total	$ 30,847	$ -	$ -	$ 30,847

	2014			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**	**Total Fair Value**
Cash and cash equivalents	$ 23,868	$ -	$ -	$ 23,868
U.S. equity securities and mutual funds	46	-	-	46
Total	$ 23,914	$ -	$ -	$ 23,914

The Corporation's policy is to recognize transfers between all levels as of the beginning of the reporting period. There were no transfers to or from Level 1, Level 2, or Level 3 during the years ended June 30, 2015 or 2014.

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

	2015			
	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	11 %	- %	- %	11 %
Equity securities	15	-	-	15
Debt securities:				
Government and government agency obligations	-	5	-	5
Corporate bonds	-	5	-	5
Asset-backed securities	-	2	-	2
Bank loans	-	1	-	1
Exchange-traded/mutual funds:				
Equity funds	6	-	-	6
Fixed-income funds	5	-	-	5
Total investments measured at fair value in Trinity Health pooled investment program	37 %	13 %	- %	50
Investments measured at net asset value:				
Commingled funds				14
Hedge funds				17
Equity method investments				19
Total investment in Trinity Health pooled investment program				100 %

	2014			
	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	15 %	- %	- %	15 %
Equity securities	13	-	-	13
Debt securities:				
Government and government agency obligations	-	4	-	4
Corporate bonds	-	3	-	3
Asset-backed securities	-	1	-	1
Bank loans	-	1	-	1
Exchange-traded/mutual funds:				
Equity funds	9	-	-	9
Fixed-income funds	7	-	-	7
Total investments measured at fair value in Trinity Health pooled investment program	44 %	9 %	- %	53
Investments measured at net asset value:				
Commingled funds				10
Hedge funds				15
Equity method investments				22
Total investment in Trinity Health pooled investment program				100 %

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

	2015	2014
Dividend, interest income, and other	$ 1,736	$ 2,628
Net realized gains	7,861	9,386
Change in net unrealized gains on investments	(6,703)	12,807
Total investment return	$ 2,894	$ 24,821
Included in:		
Nonoperating items	$ 2,894	$ 24,812
Permanently restricted net assets	-	9
Total investment return	$ 2,894	$ 24,821

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

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

	2015	2014
Amount expected to be collected in:		
Less than one year	$ 4,248	$ 2,767
One to five years	1,064	3,018
Total contributions receivable	5,312	5,785
Discount to present value of future cash flows	(228)	(228)
Allowance for uncollectible amounts	(69)	(118)
Total unconditional promises to give—net	$ 5,015	$ 5,439

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

Long-Term Debt—The fair value of the Corporation's intercompany debt under the Trinity Health intercompany loan program is based on its proportionate share of Trinity Health's fair value for its tax-exempt fixed and variable rate bonds issued under its master indenture. The carrying amounts of Trinity Health's variable rate debt approximate its fair 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 $3,467 million and $2,941 million as of June 30, 2015 and 2014, respectively. The related carrying value of the tax-exempt fixed rate long-term revenue and refunding bonds was $3,164 million and $2,690 million as of June 30, 2015 and 2014, respectively. The fair value and carrying value of the taxable fixed rate long-term revenue bonds was $320 million and $350 million, respectively, as of June 30, 2015.

13. TEMPORARILY RESTRICTED NET ASSETS

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

	2015	2014
Education and research	$ 219	$ 788
Building and equipment	5,062	6,481
Cancer Center/research	617	618
Other	692	1,436
Total	$ 6,590	$ 9,323

14. SUBSEQUENT EVENTS

Management has evaluated subsequent events through October 15, 2015, the date the consolidated financial statements were available to be issued.

* * * * * *

Deloitte.

Deloitte & Touche LLP
1700 Market Street
Philadelphia, PA 19103
USA

Tel: +1 215 246 2300
Fax: +1 215 569 2441
www.deloitte.com

INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTAL CONSOLIDATING INFORMATION

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

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplemental consolidating information on pages 31-34 are presented for the purpose of additional analysis of the consolidated financial statements, rather than to present the financial position, results of operations, and cash flows of the individual entities and are not a required part of the consolidated financial statements. This supplemental consolidating information is the responsibility of Holy Cross Health, Inc.'s management, was derived from, and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. Such supplemental consolidating information has been subjected to the auditing procedures applied in our audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such supplemental consolidating information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, such supplemental consolidating information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Deloitte & Touche LLP

October 15, 2015

SUPPLEMENTAL CONSOLIDATING INFORMATION

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

CONSOLIDATING SCHEDULE—BALANCE SHEET INFORMATION
AS OF JUNE 30, 2015
(In thousands)

ASSETS	Holy Cross Hospital	Holy Cross Germantown Hospital	Holy Cross Health Network	Holy Cross Foundation	Maryland Care Group	Intercompany Elimination	Total
CURRENT ASSETS:							
Cash and cash equivalents	$ 15,612	$ 6,344	$ 1,674	$ 768	$6,107	$ -	$ 30,505
Investment in Trinity Health pooled investment program	183,081	22,210	-	921	-	-	206,212
Patient accounts receivable—net of allowance for doubtful accounts of $10.0 million and $9.9 million in 2015 and 2014, respectively	66,255	15,748	266	-	110	-	82,379
Inventories	6,669	3,078	-	-	-	-	9,747
Due from intercompany affiliates	293,050	-	-	-	-	(293,050)	-
Prepaid expenses and other current assets	3,534	33	316	1	6	-	3,890
Total current assets	568,201	47,413	2,256	1,690	6,223	(293,050)	332,733
ASSETS LIMITED OR RESTRICTED AS TO USE:							
Deferred compensation	41	-	-	-	-	-	41
By donors	281	-	-	6,353	-	-	6,634
Total assets limited or restricted as to use	322	-	-	6,353	-	-	6,675
PROPERTY AND EQUIPMENT—Net	278,298	193,164	1,488	-	-	-	472,950
INVESTMENTS IN UNCONSOLIDATED AFFILIATES	2,209	-	22,161	-	-	-	24,370
PREPAID CHARGES FOR SHARED INFORMATION SERVICES	20,177	-	-	-	-	-	20,177
OTHER ASSETS	9,018	3,745	-	-	-	-	12,763
TOTAL ASSETS	$878,225	$244,322	$25,905	$8,043	$6,223	$(293,050)	$869,668
LIABILITIES AND NET ASSETS							
CURRENT LIABILITIES:							
Current portion of notes payable to Trinity Health and affiliates	$ 9,230	$ -	$ -	$ -	$ -	$ -	$ 9,230
Accounts payable	33,172	2,890	220	-	94	-	36,376
Accrued expenses	1,311	2,569	28	-	-	-	3,908
Due to intercompany affiliates	-	121,730	29,690	954	4,904	(157,278)	-
Salaries, wages, and related liabilities	19,345	3,671	900	11	22	-	23,949
Estimated payables to third-party payers	16,595	500	-	-	-	-	17,095
Total current liabilities	79,653	131,360	30,838	965	5,020	(157,278)	90,558
NOTES PAYABLE TO TRINITY HEALTH AND AFFILIATES—Net of current portion	415,826	135,772	-	-	-	(135,772)	415,826
OTHER LONG-TERM LIABILITIES	3,599	765	33	-	-	-	4,397
Total liabilities	499,078	267,897	30,871	965	5,020	(293,050)	510,781
NET ASSETS (DEFICIENCY):							
Unrestricted	378,867	(23,575)	(4,966)	723	1,203	-	352,252
Temporarily restricted	235	-	-	6,355	-	-	6,590
Permanently restricted	45	-	-	-	-	-	45
Total net assets (deficiency)	379,147	(23,575)	(4,966)	7,078	1,203	-	358,887
TOTAL LIABILITIES AND NET ASSETS	$878,225	$244,322	$25,905	$8,043	$6,223	$(293,050)	$869,668

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

CONSOLIDATING SCHEDULE—STATEMENT OF OPERATIONS AND CHANGES IN NET ASSETS INFORMATION
FOR THE YEAR ENDED JUNE 30, 2015
(In thousands)

	Holy Cross Hospital	Holy Cross Germantown Hospital	Holy Cross Health Network	Holy Cross Foundation	Maryland Care Group	Total
UNRESTRICTED REVENUE:						
Patient service revenue—net of contractual and other allowances	$425,636	$ 38,194	$ 1,902	$ -	$835	$466,567
Provision for bad debts	13,660	2,034	-	-	-	15,694
Net patient service revenue	411,976	36,160	1,902	-	835	450,873
Net assets released from restrictions	210	-	881	237	-	1,328
Other revenue	12,244	775	6,287	-	26	19,332
Total unrestricted revenue	424,430	36,935	9,070	237	861	471,533
EXPENSES:						
Labor:						
Salaries and wages	170,039	23,290	6,131	392	507	200,359
Employee benefits	34,180	4,236	1,107	57	65	39,645
Contract labor	6,409	341	5	13	-	6,768
Total labor expense	210,628	27,867	7,243	462	572	246,772
Supplies	68,997	6,724	372	118	1	76,212
Purchased services	58,285	12,577	2,537	582	187	74,168
Depreciation and amortization	21,933	8,107	160	-	-	30,200
Occupancy	13,452	1,832	601	-	32	15,917
Interest	3,095	4,906	10	-	-	8,011
Other	9,021	110	92	58	7	9,288
Total expenses	385,411	62,123	11,015	1,220	799	460,568
OPERATING INCOME	39,019	(25,188)	(1,945)	(983)	62	10,965
NONOPERATING ITEMS:						
Earnings on Trinity Health pooled investment program	2,696	160	-	38	-	2,894
Other	(1,182)	(303)	(2)	-	-	(1,487)
Total nonoperating items	1,514	(143)	(2)	38	-	1,407
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENSES	40,533	(25,331)	(1,947)	(945)	62	12,372

(Continued)

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

CONSOLIDATING SCHEDULE—STATEMENT OF OPERATIONS AND CHANGES IN NET ASSETS INFORMATION
FOR THE YEAR ENDED JUNE 30, 2015
(In thousands)

	Holy Cross Hospital	Holy Cross Germantown Hospital	Holy Cross Health Network	Holy Cross Foundation	Maryland Care Group	Total
UNRESTRICTED NET ASSETS:						
Excess (deficiency) of revenue over expenses	$ 40,533	$(25,331)	$ (1,947)	$ (945)	$ 62	$ 12,372
Net assets released from restrictions for capital	-	-	-	3,512	-	3,512
Transfers to affiliates	(7,306)	1,756	-	(3,512)	-	(9,062)
Increase (decrease) in unrestricted net assets	33,227	(23,575)	(1,947)	(945)	62	6,822
TEMPORARILY RESTRICTED NET ASSETS:						
Contributions	131	-	-	1,976	-	2,107
Net assets released from restrictions	(123)	-	-	(4,717)	-	(4,840)
Increase (decrease) in temporarily restricted net assets	8	-	-	(2,741)	-	(2,733)
PERMANENTLY RESTRICTED NET ASSETS—Other	(1)	-	-	-	-	(1)
Decrease in permanently restricted net assets	(1)	-	-	-	-	(1)
INCREASE (DECREASE) IN NET ASSETS	33,234	(23,575)	(1,947)	(3,686)	62	4,088
NET ASSETS—Beginning of year	345,913	-	(3,019)	10,764	1,141	354,799
NET ASSETS (DEFICIENCY)—End of year	$379,147	$(23,575)	$ (4,966)	$ 7,078	$1,203	$358,887

(Concluded)