Holy Cross Health

(A Member of CHE Trinity, Inc.)

Consolidated Financial Statements as of and for the Years Ended June 30, 2013 and 2012, Supplemental Information as of and for the Year Ended June 30, 2013, and Independent Auditors' Report

HOLY CROSS HEALTH (FORMERLY KNOWN AS HOLY CROSS HOSPITAL)
(A Member of CHE Trinity, Inc.)

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Deloitte & Touche LLP
1700 Market Street
Philadelphia, PA 19103-3984
USA

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

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated financial statements of Holy Cross Health (the "Corporation") (formerly known as Holy Cross Hospital), a wholly-controlled member organization of CHE Trinity, Inc., which comprise the consolidated balance sheets as of June 30, 2013 and 2012, and the related consolidated statements of operations and changes in net assets and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Corporation's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corportion'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 (formerly known as Holy Cross Hospital) as of June 30, 2013 and 2012, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis-of-Matter

As discussed in Note 2 to the consolidated financial statements, the Corporation adopted the presentation and disclosure requirements of Accounting Standards Update No. 2011-07, *Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts, and the Allowance for Doubtful Accounts for Certain Health Care Entities,* and changed its presentation of the provision for bad debts in the consolidated statements of operations and changes in net assets. Our opinion is not modified with respect to this matter.

Deloitte & Touche LLP

October 17, 2013

HOLY CROSS HEALTH (formerly known as Holy Cross Hospital)
(A Member of CHE Trinity, Inc.)

CONSOLIDATED BALANCE SHEETS
AS OF JUNE 30, 2013 AND 2012
(In thousands)

	2013	2012
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 21,806	$ 46,304
Investment in Trinity Health corporate pooled investment program	243,439	173,585
Patient accounts receivable — net of allowance for doubtful accounts of $14.1 million and $14.1 million in 2013 and 2012, respectively	53,692	54,520
Inventories	5,470	5,907
Prepaid expenses and other current assets	6,171	5,542
Total current assets	330,578	285,858
ASSETS LIMITED OR RESTRICTED AS TO USE :		
Deferred compensation	49	49
Donors	11,797	3,427
Total assets limited or restricted as to use	11,846	3,476
PROPERTY AND EQUIPMENT — Net	232,463	147,802
INVESTMENTS IN UNCONSOLIDATED AFFILIATES	2,100	2,214
PREPAID CHARGES FOR SHARED INFORMATION SERVICES	20,859	19,305
OTHER ASSETS	7,600	7,686
TOTAL ASSETS	$ 605,446	$466,341
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Current portion of long-term debt		$ 154
Current portion of notes payable to Trinity Health	3,778	2,244
Accounts payable	44,224	21,982
Accrued expenses	344	240
Salaries, wages, and related liabilities	24,266	25,280
Estimated payables to third-party payors	19,055	18,836
Total current liabilities	91,667	68,736
NOTES PAYABLE TO TRINITY HEALTH, NET OF CURRENT PORTION	201,221	125,574
OTHER LONG-TERM LIABILITIES	671	651
Total liabilities	293,559	194,961
NET ASSETS:		
Unrestricted	300,002	267,948
Temporarily restricted	11,846	3,401
Permanently restricted	39	31
Total net assets	311,887	271,380
TOTAL LIABILITIES AND NET ASSETS	$ 605,446	$466,341

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

HOLY CROSS HEALTH (formerly known as Holy Cross Hospital)
(A Member of CHE Trinity, Inc.)

CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012
(In thousands)

	2013	2012
UNRESTRICTED REVENUE:		
Patient service revenue, net of contractual and other allowances	$ 406,244	$ 397,911
Provision for bad debts	19,454	22,529
Net patient service revenue	386,790	375,382
Net assets released from restrictions	1,065	1,120
Other revenue	16,190	14,978
Total unrestricted revenue	404,045	391,480
EXPENSES:		
Salaries and wages	169,266	165,419
Employee benefits	34,332	32,968
Contract labor	5,573	4,655
Total labor expenses	209,171	203,042
Supplies	65,498	62,190
Purchased services	57,490	53,376
Depreciation and amortization	22,588	22,615
Occupancy	13,184	12,722
Interest	3,905	3,586
Other	8,059	7,291
Total expenses	379,895	364,822
OPERATING INCOME	24,150	26,658
NONOPERATING ITEMS:		
Earnings in Trinity Health corporate pooled investment program	14,414	34
Other	(1,136)	(614)
Total nonoperating items	13,278	(580)
EXCESS OF REVENUE OVER EXPENSES	37,428	26,078

HOLY CROSS HEALTH (formerly known as Holy Cross Hospital)
(A Member of CHE Trinity, Inc.)

CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012
(In thousands)

	2013	2012
UNRESTRICTED NET ASSETS:		
Excess of revenue over expenses	$ 37,428	$ 26,078
Unrestricted contributions of long lived assets		34
Transfers to affiliates	(5,374)	(4,487)
Increase in unrestricted net assets	32,054	21,625
TEMPORARILY RESTRICTED NET ASSETS:		
Contributions	9,510	1,706
Net assets released from restrictions	(1,065)	(1,120)
Increase in temporarily restricted net assets	8,445	586
PERMANENTLY RESTRICTED NET ASSETS:		
Net investment income	8	(1)
Other		(1)
Increase (decrease) in permanently restricted net assets	8	(2)
INCREASE IN NET ASSETS	40,507	22,209
NET ASSETS — Beginning of year	271,380	249,171
NET ASSETS — End of year	$ 311,887	$ 271,380

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

HOLY CROSS HEALTH (formerly known as Holy Cross Hospital)
(A Member of CHE Trinity, Inc.)

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012
(In thousands)

	2013	2012
OPERATING ACTIVITIES:		
Increase in net assets	$ 40,507	$ 22,209
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Transfers to Trinity Health and affiliates	5,374	4,487
Net realized gains on investments	(8,184)	(2,677)
Change in net unrealized gains on investments	(3,588)	5,097
Restricted contributions and investment income	(9,518)	1
Depreciation and amortization	22,588	22,615
Provision for bad debts	19,454	22,529
Equity earnings in unconsolidated affiliates	(356)	(527)
Unrestricted contributions of long-lived assets		(34)
Loss on sale of property and equipment	56	101
Changes in:		
Patient accounts receivable	(18,626)	(24,893)
Other assets	(6,035)	(13,761)
Accounts payable and other liabilities	(2,282)	2,625
Estimated payables to third-party payors	219	2,530
Total adjustments	(898)	18,093
Net cash provided by operating activities	39,609	40,302
INVESTING ACTIVITIES:		
Purchases of property and equipment	(78,624)	(35,270)
Proceeds from disposal of property and equipment	25	
Purchases of locally held investments	(3,300)	(1,895)
Proceeds from sales of locally held investments	1,394	1,311
Distributions received from unconsolidated affiliates	470	
Change in investments in Trinity Health corporate pooled investment program	(58,082)	387
Net cash used in investing activities	(138,117)	(35,467)
FINANCING ACTIVITIES:		
Transfers to affiliates	(5,374)	(4,487)
Proceeds from restricted contributions and restricted investment income	2,357	1
Proceeds from issuance of intercompany long-term debt	80,000	30,528
Repayments of long-term debt and notes payable to Trinity Health	(2,973)	(2,617)
Net cash provided by financing activities	74,010	23,425
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(24,498)	28,260
CASH AND CASH EQUIVALENTS — Beginning of year	46,304	18,044
CASH AND CASH EQUIVALENTS — End of year	$ 21,806	$ 46,304
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid during the year for interest	$ 6,294	$ 4,458
Accrued property, plant and equipment	$ 24,489	$ 855

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

1. ORGANIZATION AND COMMUNITY BENEFIT MINISTRY

Holy Cross Health, (the "Corporation"), a Maryland not-for-profit corporation, owns and operates a 425-bed acute care hospital and is the parent corporation for Holy Cross Hospital 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 private home service agency. The Corporation (formerly known as Holy Cross Hospital) changed its name to Holy Cross Health effective December 3, 2012. The Corporation provides services to patients who reside primarily in the local geographic region. Until April 30, 2013, the Corporation was a member of Trinity Health, an Indiana not-for-profit corporation, sponsored by Catholic Health Ministries (CHM), a Public Juridic Person of the Holy Roman Catholic Church. Effective May 1, 2013, Trinity Health and Catholic Health East, a Pennsylvania nonprofit corporation, consolidated to form CHE Trinity, Inc., a unified Catholic national health system that enhances the mission of service to people and communities across the United States. Beginning on May 1, 2013, the Corporation is a member of CHE Trinity, Inc. There are significant related-party transactions with Trinity Health, CHE Trinity, Inc. and its ministry organizations.

The mission statement for CHE Trinity, Inc. is as follows:

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

The Corporation exists to support the health ministry of CHE Trinity, Inc. and to be the most trusted provider of health care services in our area. Our health care team will achieve this trust through:

- High quality, efficient and safe health care services for all, in partnership with our physicians and others
- Accessibility of services to our most vulnerable and underserved populations
- Community outreach that improves health status
- Ongoing learning and sharing of new knowledge and
- Our friendly, caring spirit

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 Community Benefit Reporting Requirements and Standard Definitions established by the Maryland Health Services Cost Review Commission. For the years ended June 30, 2013 and 2012, the following summary has been prepared in accordance with the requirements and reflects the amount of the Corporation's community benefit ministry (in thousands):

	2013	2012
Charity care (charges)	$ 26,813	$ 23,692
Unpaid costs of Medicaid — Medicaid assessment	1,745	1,725
Community health services	4,714	5,031
Health professions education	4,742	4,097
Mission driven health services	9,049	10,001
Research	289	366
Financial contributions	190	162
Community building activities	62	56
Community benefit operations	1,138	1,873
Community benefit ministry	$ 48,742	$ 47,003

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, 2013 and 2012, the Corporation reported bad debt at cost (determined using a cost to charge ratio applied to the provision for bad debts) of $11.2 million and $15.4 million, respectively. Bad debt at cost is included in the provision for bad debts (a component of net patient service revenue) in the consolidated statement of operations and changes in net assets.

Charity Care — 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 $18.9 million and $16.1 million for the years ended June 30, 2013 and 2012, 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 zero. 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 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 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; recorded value of investments; and estimated third party payor settlements. 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 statement of operations and changes in net assets. See Note 11.

Investment in Trinity Health Corporate Pooled Investment Program — The Corporation invests certain of its funds in Trinity Health corporate pooled investment program. The corporate pooled investment program primarily invests in the following types of financial instruments: cash and cash equivalents, debt and equity securities, mutual funds, commingled funds, hedge funds and other investments structured as limited liability corporations or partnerships. Commingled funds and hedge funds that hold securities 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 find financial statements. Limited liability corporations and partnerships are accounted for under the equity method. Earnings, including interest and dividends, equity earnings and realized and unrealized gains and losses on investment in the corporate pooled investment program, are allocated to the participants based upon each participant's weighted average percentage of the corporate pooled investment fund in which they are participating; and are included in nonoperating earnings in Trinity Health corporate pooled investment program unless the income or loss is restricted by donor or law.

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 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 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 3 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 the carrying value of its long-lived assets for impairment when a triggering event occurs as required by Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 360, *Property, Plant and Equipment*. These evaluations are primarily based on the estimated recoverability of the assets' carrying value. No adjustments were required for the years ended June 30, 2013 and 2012.

Prepaid Charges for Shared Information Services — The Corporation invests in information systems that are shared by all 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 4 to 10 years.

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 Payors, and Net Patient Service Revenue — The Corporation has agreements with third-party payors that provide for payments to the Corporation 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 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 Medicaid meaningful use programs.

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 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 53% and 50%, respectively.

Income Taxes — The Corporation and Holy Cross Hospital 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.

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

Adopted Accounting Pronouncements – On July 1, 2012 the Corporation adopted Accounting Standard Update ("ASU") 2011-04, "*Fair ValueMeasurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs*." This guidance amends the fair value disclosure requirements regarding transfers between Level 1 and Level 2 of the fair value hierarchy and also the categorization by level of the fair value hierarchy for items that are not measured at fair value in the financial statements but for which the fair value is required to be disclosed. The adoption of this guidance resulted in additional disclosures in the Corporation's consolidated financial statements.

On July 1, 2012, the Corporation adopted ASU 2011-07, "*Health Care Entities (Topic 954): Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts, and Allowance for Doubtful Accounts for Certain Health Care Entities*." This guidance requires certain health care entities to present the provision for bad debts related to patient service revenues as a deduction from revenue, net of contractual allowances and discounts, versus as an expense in the statement of operations. In addition, it also requires enhanced disclosures regarding revenue recognition policies and the assessment of bad debt. The adoption of this guidance resulted in a reduction of net patient service revenue, operating revenue and operating expense but had no impact on operating income in the statement of operations and changes in net assets. All periods presented have been reclassified in accordance with the provisions of ASU 2011-07. The adoption of this guidance also resulted in additional disclosures as presented in the allowance for doubtful accounts policy within Note 2.

Forthcoming Accounting Pronouncements – In December 2011, the FASB issued ASU 2011-11, "*Disclosures About Offsetting Assets and Liabilities*." This guidance contains new disclosure requirements regarding the nature of an entity's rights of setoff and related arrangements associated with its financial instruments and derivative instruments. This guidance is effective for the Corporation beginning July 1, 2013 and retrospective application is required. The Corporation does not expect this guidance to have an impact on its consolidated financial statements.

In October 2012, the FASB issued ASU 2012-05, "*Statement of Cash Flows (Topic 230): Not-for-Profit Entities: Classification of the Sale Proceeds of Donated Financial Assets in the Statement of Cash Flows*." This guidance provides clarification on how entities classify cash receipts arising from the sale of certain donated financial assets in the statement of cash flows. This guidance is effective for the Corporation beginning July 1, 2013 with early adoption permitted. The Corporation does not expect this guidance to have a material impact on its consolidated statement of cash flows.

In January 2013, the FASB issued ASU 2013-01, "*Clarifying the Scope of Disclosures About Offsetting Assets and Liabilities*." This guidance provides clarification on the scope of the offsetting disclosure requirements in ASU 2011-11. This guidance is effective for the Corporation beginning July 1, 2013 with early adoption permitted. The Corporation does not expect this guidance to have a material impact on its consolidated balance sheets.

In February 2013, the FASB issued ASU 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. This guidance is effective for the Corporation beginning July 1, 2014 with early adoption permitted. The Corporation has not yet evaluated the impact this guidance may have on its consolidated financial statements.

In April 2013, the FASB issued ASU 2013-06, "Services Received From Personnel of an Affiliate." This guidance requires that contributed services be recognized at fair value if employees of separately governed affiliated entities regularly perform services (in other than an advisory capacity) for and under the direction of the donee. In addition, this guidance indicates that those contributed services should be recognized only if they (1) create or enhance nonfinancial assets or (2) require specialized skills, are provided by individuals possessing those skills, and typically would need to be purchased if not provided by donation. This guidance is effective for the Corporation beginning July 1, 2014 with early adoption permitted. The Corporation does not expect this guidance to have an impact on its consolidated financial statements.

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

Investments in Unconsolidated Affiliates — The Corporation has investments in entities that are recorded under the cost or equity method of accounting. At June 30, 2013 and 2012, the Corporation maintained investments in unconsolidated affiliates with ownership interests of 20% at June 30, 2013 and ranging from 12.5% to 25% at June 30, 2012. The Corporation's share of equity earnings from entities accounted for under the equity method was $562,200 and $527,459 for the years ended June 30, 2013 and 2012, respectively, which is included in other revenue in the consolidated statements of operations and changes in net assets. The Corporation also recorded $308,648 and $0 for the years ended June 30, 2013 and 2012, respectively, in dividends from entities accounted for under the cost method, which is included in other revenue in the consolidated statements of operations and changes in net assets.

Unconsolidated affiliates include two radiation therapy centers, an ambulatory surgery center, and a clinical imaging center. Two of these unconsolidated affiliates maintain their own indebtedness, some of which is partially guaranteed by the Corporation as more fully described in Note 9, Commitments and Contingencies.

Investments in unconsolidated affiliates as of June 30, 2013 and 2012, include the following:

Chesapeake Potomac Regional Cancer Center (CPRCC) — Effective July 1, 2007, Maryland Regional Cancer Center (MRCC) divested 100% of the Chesapeake Potomac Regional Cancer Center. The Corporation acquired a 20% ownership in CPRCC. The Corporation accounts for the investment using the equity method of accounting.

Doctor's Regional Cancer Center (DRCC) — Effective July 1, 2007, MRCC divested 100% of the Doctor's Regional Cancer Center. The Corporation received a direct distribution from the gain on sale and acquired a 20% ownership in DRCC. The Corporation accounts for the investment using the equity method of accounting.

Surgery Center of Maryland (SCM) — In fiscal year 2012 and 2013, the Corporation had a 12.5% ownership in Surgery Center of Maryland. The Corporation had accounted for the reduced ownership with the cost method of accounting. In the year ended June 30, 2013, operations ceased and the Corporation was released from its loan guarantee in payment of their share of $135,102 to the Bank of America on February 16, 2013.

Clinical Imaging — In fiscal year 2012 and 2013, the Corporation had a 25% ownership in a Radiology Center in Silver Spring, Maryland. The Corporation accounts for the investment using the equity method of accounting. Corporation's 25% investment share was sold in December 2012 for the amount of $296,995.

The unaudited summarized financial position and results of operations of these entities accounted for under the equity method as of and for the years ended June 30, 2013 and 2012, are as follows (in thousands):

	2013	
	CPRCC	**DRCC**
Total assets	$ 7,351	$ 8,048
Total liabilities	1,633	3,362
Net assets	5,718	4,686
Revenue — net	8,068	7,044
Excess (deficiency) of revenue over expenses	790	772

	2012		
	Clinical Imaging	**CPRCC**	**DRCC**
Total assets	$ 190	$ 7,963	$ 9,043
Total liabilities	508	3,034	3,385
Net assets	(318)	4,929	5,658
Revenue — net	420	8,693	8,620
Excess (deficiency) of revenue over expenses	(181)	1,148	1,456

4. NET PATIENT SERVICE REVENUE

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

Maryland Health Services Cost Review Commission — Certain of the Corporation's charges are subject to review and approval by the Maryland Health Services Cost Review Commission (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 current rate of reimbursement for services to patients under the Medicare and Medicaid programs is based on an agreement between the Center for Medicare and Medicaid Services ("CMS") and the Commission. The agreement provides that the program reimburse the Corporation at set discounts from approved rates for services provided to program beneficiaries. This agreement is based upon a waiver from Medicare reimbursement principles under Section 1814(b) of the Social Security Act and will continue as long as all hospitals elect to be reimbursed under this program and the cumulative rate of increase for costs per hospital inpatient admission in Maryland is below the national cumulative rate. CMS and the Commission are currently in negotiations to develop and implement a revised waiver to replace the current waiver which is projected to take effect January 1, 2014. Until the new waiver is approved, the current system will remain in effect.

Under the Commission's current reimbursement methodology, a target average charge per episode was established for the Corporation based on past actual charges and case mix indices and is adjusted each year for inflation. The actual average charge per episode is compared with the target average charge per case, and to the extent that the actual average exceeds or is less than the target, the overcharge or undercharge plus applicable penalties will reduce (in the case of overcharges) or increase (in the case of undercharges) the approved target for future rate years. At June 30, 2013 and 2012, the Corporation was in compliance with its average charge per episode target.

The Commission's rate setting methodology for Corporation service centers that provide both 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 are generally paid at 95% 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 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 (in thousands) is as follows:

	2013	2012
Blue Cross	$ 64,980	$ 62,376
Commercial and Other	122,946	124,667
Medicaid	66,341	61,887
Medicare	136,419	134,115
Uninsured	15,558	14,866
	$ 406,244	$ 397,911

A summary of net patient service revenue before provision for bad debts for the years ended June 30, 2013 and 2012, is as follows (in thousands):

	2013	**2012**
Gross charges:		
Acute inpatient	$ 320,612	$ 323,406
Outpatient, nonacute inpatient, and other	169,159	157,067
Gross patient revenue	489,771	480,473
Less:		
Contractual and other allowances	(56,714)	(58,871)
Charity care charges	(26,813)	(23,691)
Net patient service revenue before provision for bad debts	$ 406,244	$ 397,911

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. PROPERTY AND EQUIPMENT

A summary of property and equipment at June 30, 2013 and 2012, is as follows (in thousands):

	2013	**2012**
Land	$ 493	$ 493
Buildings and improvements	213,630	209,136
Equipment	119,676	128,370
Total	333,799	337,999
Less accumulated depreciation and amortization	(220,511)	(222,316)
Construction in progress	119,175	32,119
Property and equipment — net	$ 232,463	$ 147,802

Equipment includes assets recorded under capital leases of $ 2.8 million with accumulated amortization for such assets of $2.2 million as of June 30, 2013, and $1.8 million as of June 30, 2012. The associated charges to income are recorded in depreciation and amortization expense. In June 2013 and 2012, the Corporation completed an inventory of all fixed and movable equipment capitalized in the fixed asset system. The inventory resulted in the removal of $19.3 million and $4.1 million for the years ended June 30, 2013 and 2012, respectively, of retired assets with the majority being fully depreciated.

On January 20, 2011, Maryland Health Care Commission granted two certificates of need for the Corporation. These two certificates of need relate to the construction of a 93-bed hospital in Germantown, Maryland and the construction of a Silver Spring Tower to augment the patient care at the existing 442 licensed bed facility in Silver Spring, Maryland. The total budgets for the projects are $206.9 million and $207.9 million, respectively. As of June 30, 2013, $118.4 million has been incurred to date under the construction projects with $414.8 million for the total projects.

Funding will be provided from cash, investment in Trinity Health corporate pooled investment program, philanthropy, and bond issue through Trinity Health. The total amount of estimated borrowings from Trinity Health is $345.8 million. Of this amount, $110.5 million has been borrowed as of June 30, 2013, with an estimated amount of $163.2 million to be borrowed in fiscal year 2014.

The total amount of interest capitalized was $2.4 million and $0.7 million for the years ended June 30, 2013 and 2012, respectively.

6. LONG-TERM DEBT AND OTHER FINANCING ARRANGEMENTS

A summary of long-term debt and capital lease obligations, including amounts owed to Trinity Health, at June 30, 2013 and 2012, is as follows (in thousands):

	2013	2012
Notes payable to Trinity Health, 0.1% to 4.90% during 2013 and 2.0% to 4.85% during 2012 payable in varying monthly installments — due through 2048	$ 204,999	$ 127,818
Capital lease obligations, at varying rates of imputed interest, 6.9% to 6.4%	-	154
	204,999	127,972
Less current portion of long-term debt	(3,778)	(2,398)
Long-term debt	$ 201,221	$ 125,574

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

Years Ending June 30	
2014	$ 3,778
2015	3,909
2016	4,050
2017	4,228
2018	4,393
Thereafter	184,641
Total	$ 204,999

Obligated Group and Other Requirements —TrinityHealth has debt outstanding under a Master Trust Indenture dated July 1, 1998, 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 general, direct obligations of Trinity Health and any future members of the Trinity Health Obligated Group. Proceeds from the tax-exempt bonds and refunding bonds are to be used to finance the construction, acquisition and equipping of capital improvements. Since the implementation of the ARMI Trinity Health is the sole member of Trinity Health Obligated Group. Certain ministry organizations of Trinity Health constitute Designated Affiliates and Trinity Health covenants to cause each Designated Affiliate to pay, loan or otherwise transfer to Trinity Health such amounts necessary to pay the amounts due on all obligations issued under the ARMI. Trinity Health, the Designated Affiliates and all other controlled affiliates are referred to as the Credit Group Trinity Health has granted a security interest in certain pledged property and has caused not less than 85% of the Designated Affiliates representing, when combined with Trinity Health and any future members, not less than 85% of the consolidated net revenue of the Credit Group to grant to Trinity Health security interests in certain pledged property in order to secure all obligations issued under the ARMI. The aggregate amount of obligations outstanding using the ARMI (other than obligations that have been advance refunded) are $3,002 million and $3,055 million at June 30, 2013 and June 30, 2012, respectively.

The interest paid to Trinity Health is based on Trinity Health's borrowings under the Master Trust Indenture. The borrowings by Trinity Health are both at fixed and variable rates. See Note 11 regarding the amount of outstanding debt by Trinity Health that is fixed and variable.

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 Trinity Health or any Material Designated Affiliate (a Designated Affiliate whose total revenues for the most recent fiscal year exceed 5% of the total revenues of the Credit Group for the most recent fiscal year). Long-term debt outstanding as of June 30, 2013 and June 30, 2012, excluding amounts issued under the ARMI, is generally collateralized by certain property and equipment.

7. 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, 2013 and 2012, 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 and the insured auto liability program. 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. Trinity Health also self-insures $500,000 in property damage liability with commercial insurance providing coverage up to $1 billion.

The Corporation has contributed an amount toTrinity 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. 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. Beginning in fiscal year 2013, Trinity Health began discounting the reserves to their present value. As of June 30, 2013, a discount rate of 3% was used. The impact of this change in assumption resulted in a reduction of $2 million in insurance expense for fiscal year 2013. 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.

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, 2013, 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.

8. 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 programs. The provisions of the plans permit employees and their dependents to elect to receive medical care at either the Corporation's member organizations 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 pension plans covering substantially all of its employees. The plans include discretionary employer matching contributions of up to 3% of compensation. Effective January 1, 2013, the Corporation suspended the majority of employer matching contributions for the calendar year 2013. Employer and employee contributions are self-directed by plan participants in defined contribution plans. Contribution expense under the plans totaled approximately $1.5 million and $3.2 million in 2013 and 2012, respectively.

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 $49,137 at June 30, 2013 and 2012.

Noncontributory Defined Benefit Pension Plans — Substantially all of the Corporation's employees participate in noncontributory defined benefit pension plans of Trinity Health. The plans' assets are invested in equity securities, debt securities, mutual funds, hedge funds, commingled funds directly holding securities, long/short equity, private equity funds and real estate. The plan is accounted for as a multi-employer plan. As a multi-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, 2013 and 2012, net pension cost was $9.0 million and $5.8 million, respectively.

In September 2009, Trinity Health amended substantially all of its defined benefit pension plans to modify the benefit formula from a final average pay formula to a cash balance formula effective July 1, 2010, and the plans' liabilities and assets were remeasured as of September 30, 2009. Through June 30, 2010, benefits were based on years of service and employees' highest five years of compensation. Benefits accrued through June 30, 2010, under the final average pay formula were frozen. Beginning July 1, 2010, participants accrue benefits based on the cash balance formula, which credits participants annually with percentage of eligible compensation based on age and years of service, as well as an interest credit based on a benchmark interest rate. A transition adjustment is provided to participants who were vested as of June 30, 2010, whose age and service met certain requirements at that date. The transition adjustment applies to the pension benefit earned through June 30, 2010, and increases compensation under the final average pay formula over a 5-year period.

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 plan's assets are invested in equity securities, fixed income funds, and money market investments. The plan is accounted for as a multi-employer plan. As a multi-employer 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, 2013 and 2012, retiree medical plan income was $1.7 million and $1.7 million, respectively.

9. 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, in 2013 and 2012, was $2.7 million and $2.4 million, respectively.

The following is a schedule of future minimum lease payments under operating leases as of June 30, 2013, that have initial or remaining lease terms in excess of one year (in thousands):

Years Ending June 30	
2014	$ 1,596
2015	1,246
2016	1,257
2017	675
2018	640
Thereafter	1,065
Total	$ 6,479

Guarantees — The Corporation entered into debt guarantees of Surgery Center of Maryland, an unconsolidated affiliate. The debt guarantee was released February 16, 2013 with the payment to Bank of America of $135,102. The Corporation also entered into debt guarantees of Clinical Imaging, another of its unconsolidated affiliates. The guarantee debt for Clinical Imaging was released in the sale of the Corporation's interest in December 2012.

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, 2013 and 2012, is as follows (in thousands):

	2013	2012
Asset retirement obligation — beginning of year	$ 573	$ 714
Accretion of discount	20	40
Additions	-	44
Change in estimate	-	(225)
Asset retirement obligation — end of year	$ 593	$ 573

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.

10. 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 ministry organizations 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 ministry organizations at June 30, 2013 and 2012, was as follows (in thousands):

	2013	2012
Amounts recorded in the consolidated balance sheets:		
Investments in corporate pooled investment funds:		
Investments in Trinity Health corporate pooled investment program	$ 243,439	$ 173,585
Assets restricted as to use	1,326	1,326
Investments in corporate pooled investment funds	244,765	174,911
Prepaid expenses and other current assets	430	51
Prepaid charges for shared information systems	20,859	19,305
Accounts and other payables	4,477	7,930
Deferred compensation liability	49	49
Note payable to Trinity Health, including current portion	204,999	127,818
Amounts recorded in the consolidated statements of operations and changes in net assets:		
Operating expenses:		
Other revenue	136	57
Employee benefits	7,160	5,310
Contract labor	4,124	3,339
Purchased Services:		
Information services	19,250	19,003
Management services	5,045	4,468
Revenue management services	1,289	1,191
Supply chain and accounts payable services	435	685
Repairs and maintenance — included in occupancy	3,047	2,980
Amortization	5,072	4,702
Interest expense (incuding amounts capitalized)	6,305	4,493
Insurance — included in other expenses	4,777	3,934
Other	317	
Gain on investments in corporate pooled investment program and fees	14,414	34
Other — included in nonoperating items	(1,136)	(614)
Transfers to affiliates	(5,374)	(4,487)

Trinity Health has purchased or constructed fixed assets, mainly computer hardware and software that are utilized by the ministry organizations 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.

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, marketable securities, equity securities and mutual funds. 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 non-performance 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 non-active markets (few transactions, limited information, non-current 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, respectively. The Corporation classifies these securities as Level 2 within the fair value hierarchy.

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.

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 by a third-party pricing service; however, in some cases they are obtained directly from the investment fund manager. We have not adjusted the prices we have 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, we believe 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 at June 30, 2013 and 2012, respectively.

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

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

Debt Securities - 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.

Mutual Funds - 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 Corporate Pooled Investment Program — Trinity Health invests in various investment vehicles of which the Corporation has included in investment in corporate pooled investment program and assets limited or restricted as to use in the consolidated balance sheets including cash, cash equivalents and marketable securities described above. In addition, the following is a description of the other instruments along with the related valuation methodologies Trinity Health uses:

Commingled Funds and Hedge Funds — These funds are recorded at fair value as the underlying investments consist of securities that have a readily determinable market value or based on net asset value which is calculated using the most recent fund financial statements.

Equity Method Investments — Trinity Health accounts for certain other investments 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 multi-strategy, multi-manager 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, equities, fixed income 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. Investment managers meet with Trinity Health's Investment Subcommittee of the Finance and Stewardship Committee of the Board of Directors on a periodic basis. Because of the inherent uncertainty of valuations, values may differ materially from the values that would have been used had a ready market existed.

The Corporation classifies its marketable securities and commingled funds as trading securities. As a result, all holding gains and losses at June 30, 2013 and 2012, are included in excess of revenue over expenses. Net holding gains (losses) recorded for trading securities in the consolidated statements of operations for the years ended June 30, 2013 and 2012, were approximately $7.3 million and ($5.1) million, respectively.

The following tables summarize the fair values, by input hierarchy, of financial instruments measured at fair value on a recurring basis at June 30, 2013 and 2012, respectively, according to the valuation techniques the Corporation used to determine their fair values.

	2013			
	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	$ 25,854	$	$	$ 25,854
U.S. equity securities and mutual funds	39			39
Total	$ 25,893	$	$	$ 25,893

	2012			
	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	$ 48,414	$ -	$ -	$ 48,414
U.S. equity securities and mutual funds	31			31
Total	$ 48,445	$ -	$ -	$ 48,445

The Corporation's policy is to recognize transfers in and transfers out between all levels as of the beginning of the reporting period. There were no transfers to or from Levels 1, 2 or 3 during the years ended June 30, 2013 or 2012.

The following tables summarize information about the fair value of the Corporation's financial assets in the investment in the Trinity Health corporate pooled investment program at June 30, 2013 and 2012, respectively, according to asset category and the valuation techniques used to determine their fair values. Investments accounted for under the equity method of accounting represent 18% and 27% of the investment in the Trinity Health corporate pooled investment program at June 30, 2013 and 2012, which are excluded from the tables below.

	2013			
	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	17 %	%	%	17 %
Marketable securities:				
Equity securities	8			8
Debt securities:				
U.S. and non-U.S. government and government agency obligations		2		2
Corporate Bonds		3		3
Asset backed securities				
Mutual funds:				
Equity mutual fund	8			8
Fixed income mutual fund	13			13
Total marketable securities	29	5		34
Commingled funds		15		15
Hedge Funds		7	9	16
Total investment in Trinity Health Corporate pooled investment program	46 %	27 %	9 %	82 %
Equity method investments not included in fair value table				18%
Total %				100%

	2012			
	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	12 %	- %	- %	12 %
Marketable securities:				
Equity securities	11			11
Debt securities:				
U.S. and non-U.S. government and government agency obligations		6		6
U.S. and non U.S. corporate debt securities		5		5
Asset backed securities		2		2
Mutual funds:				
Equity mutual fund	2			2
Fixed income mutual fund				-
Total marketable securities	13	13	-	26
Commingled funds and hedge funds		32	3	35
Total investment in Trinity Health Corporate pooled investment program	25 %	45 %	3 %	73
Equity method investments not included in fair value table				27
Total %				100 %

Trinity Health 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. The redemption periods range from daily to semi-annually, and the redemption notice periods range from 0 days to 95 days. There were no unfunded commitments as of June 30, 2013 or 2012.

The composition of investment returns, including earnings on investments in the Trinity Health corporate pooled investment program, included in the consolidated statements of operations and changes in net assets for the years ending June 30, 2013 and 2012, are as follows (in thousands):

	2013	2012
Dividend, interest income, and other	$ 2,650	$ 2,454
Net realized gains	8,184	2,677
Change in net unrealized gains on investments	3,588	(5,097)
Total investment return	$ 14,422	$ 34
Included in:		
Nonoperating items	$ 14,414	$ 35
Permanently restricted net assets	8	(1)
Total investment return	$ 14,422	$ 34

Unconditional promises to give at June 30, 2013 and 2012, consist of the following (in thousands):

	2013	2012
Amount expected to be collected in:		
Less than one year	$ 3,341	$ 15
One to five years	3,843	8
Total contributions receivable	7,184	23
Discount to present value of future cash flows	(457)	
Allowance for uncollectible amounts	(167)	
Total unconditional promises to give — net	$ 6,560	$ 23

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 fixed and variable rate bonds issued under its master indenture. The carrying amounts of the Trinity Health's variable-rate long-term debt approximate its fair values and is $867M and $892M for 2013 and 2012, respectively. The fair value of the Trinity Health's fixed-rate long-term debt is estimated using discounted cash flow analyses, based on current incremental borrowing rates for similar types of borrowing arrangements. The fair value of the fixed-rate long-term debt was $2,247 million and $2,389 million for 2013 and 2012, respectively. Under the fair value hierarchy, these financial instruments are valued primarily using level 2 inputs. The related carrying value of the fixed-rate long-term debt was $2,135 million and $2,162 million for 2013 and 2012, respectively.

12. SUBSEQUENT EVENTS

Management has evaluated subsequent events through October 17, 2013, the date the financial statements were available to be issued.

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Deloitte.

Deloitte & Touche LLP
1700 Market Street
Philadelphia, PA 19103-3984
USA

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

INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTAL CONSOLIDATING SCHEDULES

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

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplemental consolidating schedules (the “Schedules”) listed in the table of contents are presented for the purpose of additional analysis and are not a required part of the consolidated financial statements. These Schedules are the responsibility of Holy Cross Health’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

October 17, 2013

Member of
Deloitte Touche Tohmatsu

SUPPLEMENTAL INFORMATION

HOLY CROSS HEALTH
(A Member of CHE Trinity, Inc.)

CONSOLIDATING SCHEDULE — BALANCE SHEET INFORMATION
AS OF JUNE 30, 2013
(In thousands)

	Holy Cross Hospital	Holy Cross Foundation	Maryland Care Group	Total
ASSETS				
CURRENT ASSETS:				
Cash and cash equivalents	$ 15,131	$ 749	$ 5,926	$ 21,806
Investments in Trinity Health corporate pooled investment program	243,221	218		243,439
Inventories	5,470			5,470
Prepaid expenses and other current assets	10,496	587	(4,912)	6,171
	274,318	1,554	1,014	276,886
Receivables:				
Patient accounts receivable	71,802		250	72,052
Allowance for charity	(4,253)			(4,253)
Allowance for doubtful accounts	(14,068)		(39)	(14,107)
Patient accounts receivable — net	53,481		211	53,692
Total current assets	327,799	1,554	1,225	330,578
ASSETS LIMITED OR RESTRICTED AS TO USE BY:				
Deferred compensation	49			49
Donors	259	11,538		11,797
Total assets limited or restricted as to use	308	11,538		11,846
OTHER ASSETS:				
Property and equipment — net	232,463			232,463
Investments in unconsolidated affiliates	2,100			2,100
Prepaid charges for shared information services	20,859			20,859
Other assets	7,600			7,600
Total other assets	263,022			263,022
TOTAL ASSETS	$ 591,129	$ 13,092	$ 1,225	$605,446
LIABILITIES AND NET ASSETS				
CURRENT LIABILITIES:				
Current portion of long-term debt		$	$	$
Current portion of notes payable to Trinity Health	3,778			3,778
Accounts payable and accrued expenses	44,541		27	44,568
Salary, wages, and related liabilities	24,229		37	24,266
Estimated payables to third-party payors	19,055			19,055
Total current liabilities	91,603		64	91,667
NONCURRENT LIABILITIES:				
Notes payable to Trinity Health, net of current portion	201,221			201,221
Other long-term liabilities	671			671
Total noncurrent liabilities	201,892			201,892
Total liabilities	293,495		64	293,559
NET ASSETS:				
Unrestricted	297,375	1,466	1,161	300,002
Temporarily restricted	220	11,626		11,846
Permanently restricted	39			39
Total net assets	297,634	13,092	1,161	311,887
TOTAL LIABILITIES AND NET ASSETS	$ 591,129	$ 13,092	$ 1,225	$605,446

HOLY CROSS HEALTH
(A Member of CHE Trinity, Inc.)

CONSOLIDATING SCHEDULE — STATEMENT OF OPERATIONS AND CHANGES IN NET ASSETS FOR THE YEAR ENDED JUNE 30, 2013
(In thousands)

	Holy Cross Hospital	Holy Cross Foundation	Maryland Care Group	Total
UNRESTRICTED REVENUE:				
Patient service revenue, net of contractual and other allowances	$405,178	$	$ 1,066	$406,244
Provision for bad debts	19,454			19,454
Net patient service revenue	385,724		1,066	386,790
Net assets released from restrictions	637	428		1,065
Other revenue	16,198	(8)		16,190
Total unrestricted revenue	402,559	420	1,066	404,045
EXPENSES:				
Labor:				
Salaries and wages	168,490		776	169,266
Employee benefits	34,219		113	34,332
Contract labor	5,572		1	5,573
Total labor expense	208,281		890	209,171
Supplies	65,162	333	3	65,498
Purchased services	57,364	95	31	57,490
Depreciation and amortization	22,588			22,588
Occupancy	13,186		(2)	13,184
Interest	3,905			3,905
Other	7,787	1	271	8,059
Total expenses	378,273	429	1,193	379,895
OPERATING INCOME (EXPENSE)	24,286	(9)	(127)	24,150
NONOPERATING ITEMS:				
Earnings on Trinity Health corporate pooled investment program	14,309	105		14,414
Other	(1,136)			(1,136)
Total nonoperating items	13,173	105		13,278
EXCESS OF (DEFICIENCY) REVENUE OVER EXPENSES	37,459	96	(127)	37,428

HOLY CROSS HEALTH
(A Member of CHE Trinity, Inc.)

CONSOLIDATING SCHEDULE — STATEMENT OF OPERATIONS AND CHANGES IN NET ASSETS FOR THE YEAR ENDED JUNE 30, 2013
(In thousands)

	Holy Cross Hospital	Holy Cross Foundation	Maryland Care Group	Total
UNRESTRICTED NET ASSETS:				
Excess of (deficiency) revenue over expenses	$ 37,459	$ 96	$ (127)	$ 37,428
Unrestricted contributions of long lived assets				
Transfers to affiliates	(5,374)			(5,374)
Increase (decrease) in unrestricted net assets	32,085	96	(127)	32,054
TEMPORARILY RESTRICTED NET ASSETS:				
Contributions	268	9,242		9,510
Net assets released from restrictions	(258)	(807)		(1,065)
Increase in temporarily restricted net assets	10	8,435		8,445
PERMANENTLY RESTRICTED NET ASSETS				
Investment income	8			8
Other				
Decrease in permanently restricted net assets	8			8
INCREASE (DECREASE) IN NET ASSETS	32,103	8,531	(127)	40,507
NET ASSETS — Beginning of year	265,531	4,561	1,288	271,380
NET ASSETS — End of year	$297,634	$ 13,092	$ 1,161	$311,887

(Concluded)