Grant Thornton

Consolidated Financial Statements, Supplementary Information, and Report of Independent Certified Public Accountants

Meritus Medical Center, Inc.

June 30, 2015 and 2014

C O N T E N T S

Grant Thornton LLP
Two Commerce Square
2001 Market St., Suite 700
Philadelphia, PA 19103

T 215.561.4200
F 215.561.1066
GrantThornton.com
linkd.in/GrantThorntonUS
twitter.com/GrantThorntonUS

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Directors
Meritus Medical Center, Inc.

We have audited the accompanying consolidated financial statements of Meritus Medical Center, Inc. ("Meritus"), which comprise the consolidated balance sheets as of June 30, 2015 and 2014, and the related consolidated statements of operations and change 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 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.

Auditor's 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 entity'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 entity'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.

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Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Meritus Medical Center, Inc. as of June 30, 2015 and 2014, and the results of its operations and changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Supplementary Information

The accompanying consolidating balance sheet as of June 30, 2015 and consolidating statement of operations and changes in net assets for the years then ended is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures. These additional procedures included comparing and reconciling the 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, the supplementary information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Grant Thornton LLP

Philadelphia, Pennsylvania
October 27, 2015

CONSOLIDATED FINANCIAL STATEMENTS

Meritus Medical Center, Inc.

CONSOLIDATED BALANCE SHEETS

June 30,

ASSETS	2015	2014
CURRENT ASSETS		
Cash and cash equivalents	$ 24,034,617	$ 23,028,552
Restricted cash	3,023,086	3,334,609
Short-term investments	28,425,025	13,546,738
Current portion of assets whose use is limited	10,335,937	10,269,752
Accounts receivable, net	49,511,754	60,374,652
Supplies	7,050,658	7,140,311
Prepaid and other current assets	7,653,951	7,837,111
Total current assets	130,035,028	125,531,725
EQUITY INVESTMENTS IN AFFILIATES	28,303,872	22,296,346
ASSETS WHOSE USE IS LIMITED		
Board designated funds	134,788,815	119,276,606
Supplemental retirement benefit investments	4,518,043	4,502,797
Temporarily and permanently restricted donor funds	1,166,185	1,165,290
	140,473,043	124,944,693
Assets held by trustee under bond indenture agreement	18,379,683	18,431,372
Funds designated for insurance purposes	12,816,468	11,122,821
	171,669,194	154,498,886
PROPERTY, PLANT AND EQUIPMENT, net	246,577,344	254,417,012
PLEDGES RECEIVABLE, net	839,090	904,833
DEFERRED FINANCING COSTS, net	2,265,380	2,390,299
OTHER ASSETS	4,683,495	2,149,163
Total assets	$ 584,373,403	$ 562,188,264

The accompanying notes are an integral part of these financial statements.

Meritus Medical Center, Inc.

CONSOLIDATED BALANCE SHEETS - CONTINUED

June 30,

LIABILITIES AND NET ASSETS	2015	2014
CURRENT LIABILITIES		
Accounts payable and accrued expenses	$ 16,770,436	$ 13,966,990
Accrued salaries, wages and withholdings	9,014,273	8,785,577
Accrued compensation benefit	9,935,385	11,286,870
Advances from third-party payors	8,484,876	6,741,663
Accrued interest payable	7,190,831	7,267,031
Current portion of long-term debt	6,066,095	4,802,704
Total current liabilities	57,461,896	52,850,835
LONG-TERM DEBT, net of current portion	252,407,850	250,014,108
ACCRUED RETIREMENT BENEFITS	5,047,094	5,006,646
OTHER LONG-TERM LIABILITIES	6,204,406	7,184,860
Total liabilities	321,121,246	315,056,449
NET ASSETS		
Unrestricted		
Meritus	257,401,492	240,478,231
Non-controlling interest	(68,235)	532,145
Total unrestricted net assets	257,333,257	241,010,376
Temporarily restricted	4,890,282	5,092,821
Permanently restricted	1,028,618	1,028,618
Total net assets	263,252,157	247,131,815
Total liabilities and net assets	$ 584,373,403	$ 562,188,264

The accompanying notes are an integral part of these financial statements.

Meritus Medical Center, Inc.

CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS

Years ended June 30,

	2015	2014
Unrestricted revenue, gains and other support		
Net patient service revenue	$ 367,095,451	$ 361,575,439
Less provision for bad debts	(13,204,082)	(14,554,244)
Net patient service revenue less provision for bad debts	353,891,369	347,021,195
Other revenue	11,906,890	10,415,853
Equity earnings in affiliates	4,603,197	1,692,686
Net assets released from restriction used for operations	1,807,852	1,309,061
	372,209,308	360,438,795
Expenses		
Salaries and wages	120,502,852	142,181,627
Employee benefits	34,838,220	39,280,455
Professional fees	11,605,438	11,196,748
Supplies and other	153,784,284	129,462,523
Interest	14,748,194	14,617,136
Depreciation and amortization	21,746,432	21,694,019
	357,225,420	358,432,508
Operating income	14,983,888	2,006,287
Non-operating gains (losses), net		
Investment returns, net	2,994,694	15,736,822
Other, net	(1,907,775)	(48,605)
Income tax benefit	2,191,600	1,497,360
Excess of revenue over expenses	18,262,407	19,191,864
Deficiency in revenue over expenses attributable to non-controlling interest	600,380	369,381
Excess of revenue over expenses attributable to Meritus	$ 18,862,787	$ 19,561,245

The accompanying notes are an integral part of these financial statements.

Meritus Medical Center, Inc.

CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS - CONTINUED

Years ended June 30,

	2015	2014
Other changes in unrestricted net assets		
Change in non-controlling interests	$ (600,380)	$ (369,381)
Other	(3,089,581)	—
Net assets released from restriction for property, plant, and equipment	1,150,055	629,769
Increase in unrestricted net assets	16,322,881	19,821,633
Temporarily restricted net assets		
Contributions	901,715	739,679
Net assets released from restriction for property, plant, and equipment	(1,150,055)	(629,769)
Other	1,881,319	—
Net realized and unrealized gain and losses on Investments	(27,666)	—
Net assets released from restrictions for operations	(1,807,852)	(1,308,961)
Decrease in temporarily restricted net assets	(202,539)	(1,199,051)
INCREASE IN NET ASSETS	16,120,342	18,622,582
Net assets		
Beginning of year	247,131,815	228,509,233
End of year	$ 263,252,157	$ 247,131,815

The accompanying notes are an integral part of these financial statements.

Meritus Medical Center, Inc.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended June 30,

	2015	2014
Cash flows from operating activities		
Increase in net assets	$ 16,120,342	$ 18,622,582
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation and amortization	21,746,432	21,694,019
Provision for bad debts	(13,204,082)	14,554,244
Change in non-controlling interest	(600,380)	369,381
Net realized and unrealized gains on investments	(469,748)	(12,617,505)
Gain (loss) on disposal of assets	1,778,485	(17,628)
Equity earnings in affiliates	(4,603,197)	(1,692,686)
Changes in assets and liabilities		
Accounts receivable	24,066,980	(11,898,113)
Supplies, prepaid, and other current assets	272,813	1,158,229
Other assets	(2,534,332)	2,780,094
Accounts payable, accrued expenses and long-term liabilities	1,822,992	1,141,312
Accrued salaries, wages and withholdings	228,696	646,914
Accrued compensation benefit	(1,351,485)	(805,772)
Advances from third-party payors	1,743,213	(768,351)
Interest payable	(76,200)	(375,600)
Accrued retirement benefits	40,448	(526,193)
Net cash provided by operating activities	44,980,977	32,264,927
Cash flows from investing activities		
Purchase of property, plant and equipment	(9,246,862)	(8,276,383)
Proceeds from the disposal of assets	460,920	1,628,620
Purchase of restricted cash, short-term investments, and assets whose use is limited	(153,448,408)	(147,918,420)
Sale of restricted cash, short-term investments, and assets whose use is limited	123,086,629	130,799,144
Equity contributions to/distributions from affiliates, net	(627,685)	2,317,626
Net cash used in investing activities	(39,775,406)	(21,449,413)

The accompanying notes are an integral part of these financial statements.

Meritus Medical Center, Inc.

CONSOLIDATED STATEMENTS OF CASH FLOWS - CONTINUED

Years ended June 30,

	2015	2014
Cash flows from financing activities		
Payments on long-term debt	(4,199,506)	(6,595,525)
Net cash used in financing activities	(4,199,506)	(6,595,525)
NET INCREASE IN CASH AND CASH EQUIVALENTS	1,006,065	4,219,989
Cash and cash equivalents		
Beginning of year	23,028,552	18,808,563
End of year	$ 24,034,617	$ 23,028,552
Supplemental disclosure of cash flow information:		
Cash paid for interest, net of amounts capitalized	$ 14,748,194	$ 14,810,632
Supplemental disclosure of non-cash investing and financing activities:		
Assets acquired under capital leases	$ 9,000,000	$ 50,220

The accompanying notes are an integral part of these financial statements.

1. DESCRIPTION OF ORGANIZATION

Organization

Meritus Medical Center, Inc. ("Hospital") is the parent corporation of the Meritus Healthcare Foundation, Inc. ("Foundation"), the Meritus Insurance Company, Ltd. ("MIC") and Meritus Holdings, LLC ("Holdings"), which owns Meritus Enterprises ("MEI"). These entities are collectively referred to as "Meritus".

The Hospital is a not-for-profit acute care hospital located in Hagerstown, Maryland and serves the residents of western Maryland, southern Pennsylvania, and the panhandle of West Virginia. The Hospital currently offers acute general hospital inpatient services including adult medical/surgical care, obstetrics and newborn care, including a family birthing center, cardiac catheterizations, comprehensive inpatient rehabilitation, radiology and diagnostic services, inpatient and outpatient mental health services, a regional Level III Trauma Center, an intensive care unit, a progressive care unit, a coronary care unit, and a pediatric unit. The Hospital also manages gifts, donations or bequests given for the benefit of Meritus and acquires real estate properties for rental to medical provider entities and development opportunities.

The Foundation is a not-for-profit corporation whose purpose is to raise philanthropic support for the capital and endowment campaigns of the Hospital. The Foundation also raises money for the Hospital's medical programs, healthcare objectives, scientific research, educational programs, and related community activities. Resources for the Foundation's activities are primarily provided by donors.

MIC is a Cayman Island captive insurance company, wholly-owned by the Hospital that provides primary limits of insurance to Meritus for professional liability, employed physicians professional liability, comprehensive general liability, deductible, and stop loss coverage for health insurance.

As of June 30, 2014, MEI a for-profit corporation, held ownership interests in the following joint ventures:

- General Surgery Real Estate, LLC ("GSRE")
- GI Real Estate Company, LLC ("GI REC")
- Diagnostic Imaging Services, LLC ("DIS")
- Western Maryland Medical Supply, LLC ("WMMS")

MEI also owned and operated The Learning Center, a child care center located in Washington County, Maryland (the "Learning Center") and Equipped for Life, a durable medical equipment company ("EFL").

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Hospital, Holdings, MEI, the Foundation, and MIC. MEI owned a 60% interest in Robinwood Surgery Center, LLC, at June 30, 2015 and 2014, which is included in the consolidated financial statements with the related non-controlling interest reported as a component of net assets. All material inter-company balances and transactions have been eliminated in consolidation. Certain prior year amounts have been reclassified to conform with the current year presentation.

Use of Estimates

The preparation of consolidated financial statements, in conformity with accounting principles generally accepted in the United States of America, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates. The most significant management estimates and assumptions related to the determination of allowance for doubtful accounts and contractual allowances for patient accounts receivable, tax accruals, useful lives of property, plant and equipment, self-insured reserves, including professional and general liabilities and the reported fair values of certain assets and liabilities.

Fair Value Measurements

Meritus measures fair value as the price that would be received to sell an asset or paid to transfer a liability (the exit price) in an orderly transaction between market participants at the measurement date. The accounting guidance outlines a valuation framework and creates a fair value hierarchy in order to increase the consistency and comparability of fair value measurements and the related disclosures. The fair value hierarchy is broken down into three levels based on the source of inputs as follows:

Level I - Quoted prices are available in active markets for identical assets or liabilities as of the report date. A quoted price for an identical asset or liability in an active market provides the most reliable fair value measurement because it is directly observable to the market.

Level II - Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable as of the report date. The nature of these securities include investments for which quoted prices are available but traded less frequently and investments that are fair valued using other securities, the parameters of which can be directly observed.

Level III - Securities that have little to no pricing observability as of the report date. These securities are measured using management's best estimate of fair value, where the inputs into the determination of fair value are not observable and require significant management judgment or estimation.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Fair Value Measurements - continued

Financial instruments consist of cash equivalents, patient accounts receivable, investments, excluding those accounted for by the equity method, accounts payable and accrued expenses and long-term debt. The carrying amounts reported in the consolidated balance sheets for cash equivalents, patient accounts receivable, and accounts payable and accrued expenses approximate fair value. Management's estimates of other financial instruments are described elsewhere in the notes to the consolidated financial statements.

Patient Accounts Receivable / Allowance for Doubtful Accounts

Patient accounts receivable result from the healthcare services provided by Meritus. Meritus provides an allowance for doubtful accounts for estimated losses resulting from the unwillingness or inability of patients or third-party payors to make payments for services. The allowance is determined by analyzing specific accounts and historical data and trends. Patient accounts receivable are charged off against the allowance for doubtful accounts when management determines that recovery is unlikely and Meritus ceases collection efforts. Losses have been consistent with management's expectations.

Cash and Cash Equivalents

Cash and cash equivalents consist of short-term, highly liquid investments that are readily convertible to cash and have original maturities of three months or less. Cash and cash equivalents are carried at cost which approximates fair value.

Assets Whose Use is Limited

Assets whose use is limited include assets set aside by the Board of Directors for specific purposes, for supplemental retirement benefit investments, to fulfill donor purposes, assets held by trustees under bond indenture agreement, and funds designated for insurance purposes. Amounts required to meet current liabilities are shown as current assets in the consolidated balance sheets.

Investments and Investment Income

Investments in equity securities (i.e., investments that have readily determinable fair values and are not accounted for by the equity method) and all investments in debt securities are reported at fair value on the consolidated balance sheets, under the fair value option.

Investment income, which includes interest and dividends, on proceeds of borrowings that are held by a trustee are reported as other revenue. Other investment income, which includes interest, dividends and realized and unrealized gains and losses on assets limited as to use by Board of Directors and funds designated for insurance purposes are recorded as non-operating gains (losses), net, unless the income or loss is restricted by donor or law.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Investments and Investment Income - continued

Meritus' investments are managed by investment managers. Investment securities, in general, are exposed to various risks, such as interest rate, credit and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term and that such change could materially affect the amounts reported in the consolidated financial statements.

Supplies

Supplies for the Hospital are carried at cost on a weighted average basis.

Supplies for Holdings and MEI are valued at the lower of cost or market, with the cost being recorded on the first-in, first-out method.

Major classes of supplies as of June 30, are as follows:

	2015	2014
Hospital		
Surgical and medical supplies	$ 5,361,811	$ 5,009,480
Other supplies	920,967	881,403
	6,282,778	5,890,883
Holdings and MEI		
Durable medical equipment	345,335	403,379
Surgical and medical supplies	—	414,652
Medical laboratory	422,545	431,398
	767,880	1,249,429
	$ 7,050,658	$ 7,140,312

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Property, Plant and Equipment

Property, plant and equipment acquisitions are recorded at cost. Those assets acquired by gift are carried at amounts established as fair value at the time of acquisition. Depreciation is provided over the estimated useful life of each class of depreciable assets and is computed using the straight-line method. Equipment under capital lease is amortized by the straight-line method over the shorter of the lease term or the estimated useful life of the equipment. Such amortization is included in depreciation and amortization in the consolidated financial statements. Interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets. No interest was capitalized during the years ended June 30, 2015 and 2014. Durable medical equipment held for resale is included in supplies. The remainder of durable medical equipment is rented to patients and is included in property, plant and equipment. Assets are retired or disposed of at book value and related gains or losses are recorded for assets sold. Useful lives range as follows:

Land improvements	5 - 25 years
Buildings	10 - 40 years
Equipment	5 - 20 years
Leasehold improvements	5 - 15 years

Gifts of long-lived assets such as land, buildings, or equipment are reported as other changes in unrestricted net assets unless explicit donor stipulations specify how the donated assets must be used. When applicable, 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. Absent explicit donor stipulations about how long-lived assets must be maintained, expirations of donor restrictions, occur when the donated or acquired long-lived assets are placed into service.

Meritus continually evaluates whether events and circumstances have occurred that indicate the remaining estimated useful life of long-lived assets is appropriate, or whether the remaining balance may not be recoverable. When factors indicate that long-lived assets should be evaluated for possible impairment, Meritus uses an estimate of the related undiscounted operating income over the remaining life of the long-lived asset in measuring whether the long-lived asset is recoverable. The impairment loss on these assets is measured as the excess of the carrying amount of the asset over its fair value. Fair value is based upon market prices, where available, or discounted cash flows. Management believes that no revision to the remaining useful lives or write-down of long-lived assets is required at June 30, 2015.

Deferred Financing Costs

Financing costs incurred in issuing debt have been capitalized and are being amortized over the life of the debt using the effective interest method.

Advertising Costs

Advertising costs for the years ended June 30, 2015 and 2014 were $1,261,192 and $1,254,536, respectively, and are recorded within supplies and other expenses.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Compensated Absences

Meritus records a liability for amounts due to employees for future absences which are attributable to services performed in the current and prior periods. This liability is included in accrued salaries, wages and withholdings on the consolidated balance sheets.

Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are those whose use by Meritus have been limited by donors to a specific time period or purpose. When donor restrictions expire, that is, when a time restriction ends or a purpose restriction is accomplished, temporarily restricted net assets are reclassified into unrestricted net assets and reported as net assets released from restrictions.

Donor-restricted contributions whose restrictions are met within the same year as received are reported as unrestricted contributions if for operating purposes and as other changes in unrestricted net assets if for capital purposes in the consolidated statements of operations and changes in net assets. Permanently restricted net assets have been restricted by donors to be maintained by Meritus in perpetuity.

Excess of Revenue over Expenses

The consolidated statements of operations include the excess of revenue over expenses. Changes in unrestricted net assets that are excluded from the excess of revenues over expenses, consistent with industry practice, include net assets released from restrictions for property, plant and equipment, the change in retirement benefit obligation and change in non-controlling interest.

Net Patient Service Revenue

For services provided at the Hospital campus, all payors are required to pay the Maryland Health Services Cost Review Commission ("HSCRC") approved rates. The major third-party payors, as recognized by the HSCRC, are allowed discounts of up to 6% on approved rates. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered.

The Hospital's charges are subject to review and approval by the HSCRC. The Hospital management has filed the required forms with the HSCRC and believes the Hospital to be in compliance with HSCRC requirements. The total rate of reimbursement for services to patients under the Medicare and Medicaid programs is based on an arrangement between the Centers for Medicare and Medicaid Service and the HSCRC. Management believes that this program will remain in effect at least through June 30, 2016. The Hospital has an agreement with the HSCRC under a rate regulation concept called Total Patient Revenue ("TPR") which was renewed until June 30, 2016. TPR is a revenue constraint methodology which provides for inflation, bad debt, payor differential and adjustments for population growth, but excludes case mix and volume changes. For the years ended June 30, 2015 and 2014, the regulated revenue cap was $313,184,783 and $304,582,766 respectively. For the year ending June 30, 2016, the expected regulated revenue cap is $319,814,855.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Net Patient Service Revenue - continued

Services not located on the Hospital campus are not regulated by the HSCRC. Medicare and Medicaid pay the revenues associated with these services based upon established fee schedules. Commercial payors pay at negotiated rates for these services.

Net patient service revenue is reported as estimated net realizable amounts from patients, third-party payors, and others for services rendered and include estimated retroactive revenue adjustments due to future audits, reviews, and investigations. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered, and such amounts are adjusted in future periods as adjustments become known or as years are no longer subject to such audits, reviews, and investigations.

Net revenues from the Medicare and Medicaid programs collectively constitute approximately 48% of Meritus' net patient service revenue for the years ended June 30, 2015 and 2014. Laws and regulations governing the HSCRC, Medicare and Medicaid programs are complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. Meritus believes that it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing. While no such regulatory inquiries have been made, compliance with such laws and regulations can be subject to future government review and interpretation as well as significant regulatory action.

Accounts receivable are reduced by an allowance for doubtful accounts. Meritus' allowance for doubtful accounts totaled $8,788,545 and $9,337,133 at June 30, 2015 and 2014, respectively. In evaluating the collectability of accounts receivable, Meritus analyzes its past history and identifies trends for each of its major payor sources of revenue to estimate the appropriate allowance for doubtful accounts and provision for bad debts. Management reviews data about these major payor sources of revenue in evaluating the sufficiency of the allowance for doubtful accounts. For receivables associated with services provided to patients who have third-party coverage, Meritus analyzes contractually due amounts and provides an allowance for doubtful accounts and a provision for bad debts, if necessary (for example, for expected uncollectible deductibles and copayments on accounts for which the third-party payor has not yet paid, or for payors who are known to be having financial difficulties that make the realization of amounts due unlikely). For receivables associated with self-pay patients, Meritus records a significant provision for bad debts on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. Meritus has not experienced significant changes in write-off trends and has not changed its charity care policy for the year ended June 30, 2015.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Net Patient Service Revenue - continued

Patient service revenue as a percentage for the year ended June 30, 2015 and 2014, net of contractual allowances and discounts (but before the provision for bad debts), recognized in the period from these major payor sources based on primary insurance designation, is as follows:

Net Patient Service Revenue:

2015	**Third-Party Payors**	**Self-Pay**	**Total all Payors**
Patient service revenue, net of contractual allowances and discounts	96%	4%	100%
2014			
Patient service revenue, net of contractual allowances and discounts	93%	7%	100%

Deductibles and copayments under third-party payment programs within the third-party payor amount above are the patients' responsibility and Meritus considers these amounts in its determination of the provision for bad debts based on collection experience.

Charity Care

Meritus provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Meritus does not pursue collection on amounts deemed to qualify as charity. Meritus also estimates that the direct and indirect cost of services and supplies furnished to patients eligible for charity care using a ratio of cost to gross charges based on internal data is $11,904,459 and $18,893,415 for the years ended June 30, 2015 and 2014, respectively.

Meritus' patient acceptance policy is based upon its mission statement and its charitable purposes. This policy results in Meritus' assumption of higher-than-normal credit risk from its patients. To the extent that Meritus realizes additional losses resulting from such higher credit risks and clients are not identified or do not meet Meritus' defined charity care policy, such additional losses are included in the provision for bad debt.

Meritus also sponsors certain other charitable programs, which provide substantial benefit to the broader community. Such programs include services to needy and elderly populations that require special support, as well as health and education for the general community welfare. In addition, all other uncollectable amounts resulting from the patients' inability to pay are recorded as a reduction to net patient service, consistent with Meritus' policy.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

Other Revenue

Other revenue is comprised of rental income, gains and losses on disposal of assets, incentive payments related to the implementation and meaningful use of certified electronic health records and other miscellaneous items.

The American Recovery and Reinvestment Act of 2009 provides for Medicare and Medicaid incentive payments for eligible hospitals and professionals that implement and achieve meaningful use of certified electronic health record ("EHR") technology. For Medicare and Medicaid EHR incentive payments Meritus utilizes a grant accounting model to recognize these revenues. Under this accounting policy, EHR incentive payments were recognized as revenues when attestation that the EHR meaningful use criteria for the required period of time was demonstrated. Accordingly, Meritus recognized $2,229,890 and $2,040,210 of EHR revenues for the years ended June 30, 2015 and 2014. These amounts are included in other revenue in the consolidated statements of operations and changes in net assets. Meritus' attestation of compliance with the meaningful use criteria is subject to audit by the federal government or its designee. Additionally, Medicare EHR incentive payments received are subject to retrospective adjustment upon final settlement of the applicable cost report from which payments were calculated.

Income Taxes

The Internal Revenue Service has ruled that the Hospital, and the Foundation qualify under Section 501(c)(3) of the Internal Revenue Code and are, therefore, not subject to tax under present income tax regulations.

Holdings is considered a disregarded entity for tax purposes and is reported through the Hospital.

MEI accounts for income taxes through the current recognition of deferred tax liabilities and assets for the expected future tax consequences of temporary differences between tax bases and financial reporting bases of other assets and liabilities.

At present, no income, profit or capital gain taxes are levied in the Cayman Islands and accordingly, no provision for taxation has been made for MIC. In the event that such taxes are levied, MIC has been granted an exemption until September 9, 2023 for any such taxes that might be introduced. MIC intends to conduct its affairs so as not to be liable for taxes in any other jurisdiction.

Meritus follows the accounting guidance for uncertainties in income tax positions, which requires that a tax position be recognized or derecognized based on a "more likely than not" threshold. This applies to positions taken or expected to be taken in a tax return. Meritus does not believe its consolidated financial statements include any material uncertain tax positions. As of June 30, 2015, the Meritus tax years ended June 30, 2012 through June 30, 2015 for federal tax jurisdiction remain open to examination.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Concentration of Credit Risk

Meritus invests its excess cash, investments, and assets in financial institutions which are federally insured under the Federal Deposit Insurance Act ("FDIA"). Deposits in certain accounts exceed federally insured deposit limits. Meritus has experienced no losses on its deposits.

Meritus grants credit without collateral to the patients it serves who primarily live in the tristate area. The majority of these patients have either insurance through Blue Cross, another insurance company or a health maintenance organization, or qualify for the Maryland Medical Assistance or the Centers for Medicare and Medicaid Services ("CMS") programs.

At June 30, Meritus' patient accounts receivable were made up of the following:

	2015	2014
Health maintenance organizations	1%	4%
Medical assistance HMO	23%	20%
Medicare	28%	26%
Commercial insurance and other	19%	22%
Blue Cross/Blue Shield	16%	13%
Self-pay	13%	15%
	100%	100%

457(b) Deferred Compensation Plan

The Hospital is party to a 457(b) deferred compensation plan intended to provide retirement benefits to certain eligible employees. Assets are deposited with the plan managers, pursuant to this agreement, such that the value of the assets determined by the fair value approximately equals the related accrued deferred compensation liability. The funds are placed into a range of investment strategies from conservative to aggressive. The liability associated with this plan is included in accrued retirement benefits on the consolidated balance sheets.

3. INVESTMENTS AND INVESTMENT INCOME

Investments at June 30 consisted of the following:

	2015	2014
Short-Term Investments		
Fixed income	$ 28,425,025	$ 13,546,738
Asset whose use is limited		
Cash and cash equivalents	$ 3,389,432	$ 3,223,154
Fixed income	44,488,652	46,113,177
Common stock and equity funds	89,646,804	72,623,671
Mutual funds	2,948,155	2,984,691
	$ 140,473,043	$ 124,944,693
Assets held by trustee under debt agreement		
U.S. government securities	$ 28,715,620	$ 28,701,124
Funds designated for insurance		
Fixed income	$ 12,816,468	$ 11,122,821

Meritus had restricted cash of $3,023,086 and $3,334,609 as of June 20, 2015 and 2014, respectively, for unemployment insurance collateral and workers' compensation collateral, in compliance with the self-insurance requirement under the regulations of the State of Maryland Employment Security Administration and Workers' Compensation Administration.

Investment returns, net of investments included in the consolidated statements of operations and changes in net assets are comprised of the following for the years ended June 30:

	2015	2014
Investment returns, net:		
Interest and dividends, net of investment fees of $276,222 and $309,001 in 2015 and 2014, respectively	$ 2,524,946	$ 3,119,317
Net realized gains on investments	1,964,363	2,527,373
Change in unrealized gains and losses on investments	(1,494,615)	10,090,132
	$ 2,994,694	$ 15,736,822

4. FAIR VALUE MEASUREMENTS

The following table presents Meritus' assets measured at fair value on a recurring basis using the market approach, as of June 30:

Meritus does not have any Level 3 financial instruments as of June 30, 2015 and 2014.

Investments are valued using a market approach as follows:

Cash and cash equivalents - Cash and cash equivalents are classified as Level 1 inputs and represent short-term, highly liquid investments that are readily convertible to cash and have original maturities of three months or less.

Common stock - Common stock are Level 1 inputs and consist of stock of U.S. companies and are valued based upon unadjusted quoted prices in the market.

Fixed income and equity funds - Valued at the closing price reported in the active market in which the bond is traded.

Cash surrender value of life insurance - Cash surrender value of life insurance represents the face value of the contract discounted at a specified rate of interest according to the insured's life expectancy.

Mutual Funds -Valued at the closing price reported in the active market in which the mutual fund is traded.

4. FAIR VALUE MEASUREMENTS - Continued

U.S. government securities - Government obligations are classified as Level 2 inputs and represent bonds issued by the government and are valued based upon unadjusted quoted prices in a non-active market.

2015

	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	$ 24,034,617	$ —	$ —	$ 24,034,617
Restricted cash	3,023,086	—	—	3,023,086
Short-term investments:				
Fixed income	28,425,025	—	—	28,425,025
Assets whose use is limited:				
Cash and cash equivalents	3,389,432	—	—	3,389,432
Fixed income	53,264,070	4,041,050	—	57,305,120
Common stock and equity funds	67,777,351	21,869,453	—	89,646,804
Cash surrender value of life insurance	—	2,948,155	—	2,948,155
U.S. government securities	—	28,715,620	—	28,715,620
Total Assets	**$ 179,913,581**	**$ 57,574,278**	**$ —**	**$ 237,487,859**

2014

	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	$ 23,028,552	$ —	$ —	$ 23,028,552
Restricted cash	3,334,609	—	—	3,334,609
Short-term investments:				
Fixed income	13,546,738	—	—	13,546,738
Assets whose use is limited:				
Cash and cash equivalents	3,223,154	—	—	3,223,154
Fixed income	53,642,912	3,593,086	—	57,235,998
Common stock and equity funds	54,403,905	18,219,766	—	72,623,671
Cash surrender value of life insurance	—	2,984,691	—	2,984,691
U.S. government securities	—	28,701,124	—	28,701,124
Total Assets	**$ 151,179,870**	**$ 53,498,667**	**$ —**	**$ 204,678,537**

5. ACCOUNTS RECEIVABLE

Accounts receivable at June 30 consist of the following:

	2015	2014
Patient accounts receivable	$ 62,272,489	$ 73,605,713
Less: Contractual allowance	(7,940,282)	(10,816,631)
Less: Allowance for doubtful accounts	(8,788,545)	(9,337,133)
	45,543,662	53,451,949
Other receivables	3,968,092	6,922,703
	$ 49,511,754	$ 60,374,652

Pledges receivable at June 30 consist of the following:

	2015	2014
Capital campaign	$ 920,852	$ 2,673,949
Other	2,241,027	2,473,641
Total unconditional promises to give	$ 3,161,879	$ 5,147,590
Receivable in less than one year	$ 1,856,134	$ 3,740,065
Receivable in one to five years	1,063,504	1,313,268
Receivable in more than five years	242,241	94,257
Total unconditional promises to give	3,161,879	5,147,590
Less discounts to net present value	(179,450)	(192,983)
Less allowance for uncollectible promises	(429,894)	(692,970)
Net unconditional promises to give	$ 2,552,535	$ 4,261,637
Pledges receivable, current portion included in other receivables	$ 1,713,445	$ 3,356,804
Pledges receivable, net of current portion	839,090	904,833
	$ 2,552,535	$ 4,261,637

Discount rates utilized were derived utilizing the unsecured borrowing rate and ranged from 3.98% to 5.52%.

6. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment at June 30 is comprised of the following:

	2015	2014
Land	$ 25,784,129	$ 25,755,594
Buildings, and improvements used in operations	205,227,102	206,079,978
Equipment	191,651,528	190,781,808
	422,662,759	422,617,380
Less accumulated depreciation and amortization	(180,957,128)	(168,301,998)
	241,705,631	254,315,382
Construction in progress	4,871,713	101,630
Property, plant and equipment, net	$ 246,577,344	$ 254,417,012

Equipment Under Capital Leases	2015	2014
Equipment	$ 9,325,196	$ 5,682,497
Less: accumulated amortization	(2,084,176)	(4,286,948)
	$ 7,241,020	$ 1,395,549

Total depreciation and amortization expense for property, plant and equipment for the years ended June 30, 2015 and 2014 was $21,746,432 and $21,694,019, respectively.

7. EQUITY INVESTMENTS IN AFFILIATES

The following investments, recorded under the equity method of accounting, are included in the consolidated balance sheets.

The Hospital holds a 20% equity interest in Maryland Care, Inc. Maryland Care, Inc. is a managed care organization ("MCO") that was established to serve Maryland's Medicaid population as a result of the State's requirement for Medicaid patients to be a member of an MCO.

7. EQUITY INVESTMENTS IN AFFILIATES - Continued

The Hospital holds a 50% equity interest in Tri-State Health Partners. Tri-State Health Partners is a physician hospital organization ("PHO") established to organize, assemble and facilitate the provision of cost effective healthcare services.

MEI, has a 50% interest in GRI Real Estate and General Surgery Real Estate, both are real estate holding companies. MEI also has a 50% interest in Diagnostic Imaging, which provides radiology imaging services, and a 33.33% interest in Western Maryland Supply, LLC, which provides durable medical equipment for rental or purchase.

Summary financial information as of June 30, 2015 and 2014 and for the years then ended appears below for the significant equity investments:

	Hospital Maryland Care, Inc.		Hospital Tri-State Health Partners	
	2015	2014	2015	2014
Assets	$ 253,700,989	$ 283,277,561	$ 603,880	$ 2,804,577
Liabilities	150,931,496	200,799,676	45,841	39,010
Equity	$ 102,769,493	$ 82,477,885	$ 558,039	$ 2,765,567
Net income	$ 20,291,605	$ (460,631)	$ (1,339,538)	$ (213,900)

	MEI Diagnostic Imaging Services, LLC		MEI General Surgery Real Estate, LLC	
	2015	2014	2015	2014
Assets	$ 9,774,390	$ 10,559,194	$ 557,483	$ 566,334
Liabilities	2,395,689	3,560,322	430,469	457,424
Equity	$ 7,378,701	$ 6,998,872	$ 127,014	$ 108,910
Net income	$ 3,379,828	$ 2,632,875	$ 18,104	$ 16,925

7. EQUITY INVESTMENTS IN AFFILIATES - Continued

	MEI GI Real Estate		MEI - Western Maryland Medical Supply, LLC	
	2015	2014	2015	2014
Assets	$ 510,050	$ 527,769	$ 652,361	$ 953,172
Liabilities	166,420	239,377	502,471	833,090
Equity	$ 343,630	$ 288,392	$ 149,890	$ 120,082
Net income (loss)	$ 55,238	$ 53,815	$ 29,808	$ 18,833

8. LONG-TERM DEBT

Long-term debt at June 30 consists of the following:

	2015	2014
MHHEFA Revenue Bonds		
Series 2008 4.00% - 6.00% serial bonds, net of original issue discounts $1,214,539 and $1,273,796, respectively	$ 248,959,418	$ 252,712,036
City of Hagerstown note	102,522	121,826
Mortgages and equipment loans with banks, with interest rates ranging from 2.3% to 7.75%	651,645	1,021,847
Capital lease obligations, with interest rates ranging from 2.9%to 5.0%	8,760,360	961,103
	258,473,945	254,816,812
Less current portion of long-term debt	(6,066,095)	(4,802,704)
	$ 252,407,850	$ 250,014,108

Meritus uses current market prices in determining the fair value of its Revenue Bonds. The carrying value of other long-term debt approximates fair value. The fair value of total long-term debt, excluding capital lease obligations, was approximately $271,536,807 and $263,802,000 at June 30, 2015 and 2014, respectively.

8. LONG-TERM DEBT - Continued

In February 2008, Meritus issued Maryland Health and Higher Educational Facilities Authority ("MHHEFA") Revenue Bonds Washington County Hospital Issue Series 2008 for the construction of a replacement hospital, funding of the debt service reserve and capitalized interest funds, and to refinance various previously outstanding debts. The Series 2008 Bonds are due in annual principal installments through January 2043. Interest is due semi-annually in January and July.

The long-term debt related to the Series 2008 Bonds is reflected in the consolidated financial statements net of the unamortized original issue bond discounts. The original issue bond discounts are being amortized over the life of the debt and are included in interest expense in the consolidated statements of operations and changes in net assets.

All bonds are collateralized by a first lien and claims on all receipts of Meritus, except restricted donations and contributions. In connection with the Series 2008 Bonds, MHHEFA has a security interest in existing facilities of Meritus. All bonds require the Hospital to maintain certain financial ratios and stipulated insurance coverage as defined. Meritus was in compliance with these covenants at June 30, 2015 and 2014.

The 2001 Taxable Note B to Bank of America was issued for the construction of the Robinwood Medical Center III. The taxable portion of the debt required monthly principal payments of $82,701 through February 1, 2014 with remaining principal due at that time. The interest was calculated and payable monthly based upon the outstanding principal balance at the time. The variable interest rates was 1.19% as of June 30, 2013. The bond note has been paid-in full as of June 30, 2014.

Scheduled principal repayments on long-term debt including payments on capital lease obligations are as follows for the next five years as of June 30:

	Long-term Debt	Capital Lease Obligations
2016	$ 6,066,095	$ 2,157,472
2017	5,967,763	1,777,347
2018	6,208,192	1,807,376
2019	6,466,605	1,850,375
2020	6,196,346	1,349,695
Thereafter	227,568,944	—
	$ 258,473,945	8,942,265
Less: amount representing interest		(181,905)
		$ 8,760,360

8. LONG-TERM DEBT - Continued

The Hospital maintains a line of credit with a financial institution which is automatically renewed annually in the amount of $1,000,000, bearing interest on the drawn portion at the bank's prime interest rate. The line was not in use at June 30, 2015 and 2014.

MEI maintains a line of credit with a financial institution which is automatically renewed annually in the amount of $500,000, bearing interest on the drawn portion at the bank's prime interest rate plus 2%. The line was not in use at June 30, 2015 and 2014.

9. INCOME TAXES

MEI and its subsidiaries file a consolidated federal return and separate state returns. The income tax benefit (expense) for the years ended June 30, consists of:

	2015	2014
Current:		
Federal	$ (240,278)	$ 1,191,661
State	-	389,169
	(240,278)	1,580,830
Deferred:		
Federal	$ 2,095,480	$ (71,903)
State	336,398	(11,567)
	2,431,878	(83,470)
	$ 2,191,600	$ 1,497,360

On July 1, 2011, MEI completed a structural realignment to include the formation of Holdings. The realignment included the conversion of taxable subsidiaries of MEI resulting in a net federal and state conversion tax of $4,000,000. The above conversion tax was repeated for both book and tax for the years ended June 30, 2015 and 2014.

9. INCOME TAXES - Continued

The significant components of the deferred tax assets and deferred tax liabilities, which are included in prepaid and other current assets and other assets at June 30, are as follows:

	2015	2014
Deferred tax asset		
Accrued vacation	$ 515,556	$ 504,897
Deferred compensation	1,463,997	1,379,792
Allowance for bad debts	206,467	437,229
Unrealized gain	1,541	—
NOL carryover	2,519,661	—
Other	135,092	183,241
	4,842,314	2,505,159
Deferred tax liabilities		
Fixed assets and intangible assets	(1,298,434)	(1,301,325)
Captive insurance premiums	(2,800)	(48,760)
Partnership basis	—	(45,872)
	(1,301,234)	(1,395,957)
	$ 3,541,080	$ 1,109,202

10. POST RETIREMENT BENEFIT PLANS

Defined Contribution Plans

Meritus has a 401(k) Savings Plan. The plan is available to all Meritus employees. Meritus matches employee contributions for an amount up to 6% of each employee's base salary, subject to limitations. During 2014, the plan was amended as a safe harbor 401(k) plan.

Amounts charged to expense for the years ended June 30, 2015 and 2014 were $4,634,187 and $5,691,638, respectively.

The Hospital has frozen a 403(b) plan. Effective July 1, 2011, the plan was frozen to future contributions.

The Hospital and MEI each maintain an employee funded supplemental non-qualified retirement plan for certain employees. The plan requires the benefits be paid upon termination, retirement or death. The related liability is $1,855,086 and $4,502,797 at June 30, 2015 and 2014, respectively. Management has designated investments for the intended purpose of funding the liability when payable.

11. INSURANCE COVERAGE

Meritus has a wholly-owned insurance captive, MIC, to provide primary limits of insurance of $1,000,000 per occurrence/$3,000,000 aggregate for professional and general liability. The professional liability coverage is provided on a claims-made basis. In addition, MIC purchased reinsurance from an A rated re-insurer in the amount of $25,000,000 to cover any potential liabilities above the $1,000,000/$3,00,000 primary limits, which were covered by MIC. The self-insured liabilities determined by an actuary for professional and general are discounted at 4%, and are included in other long-term liabilities in the consolidated balance sheets.

11. INSURANCE COVERAGE - Continued

Consistent with most companies with similar insurance operations, the liability for losses is ultimately based on management's reasonable expectations of future events. It is reasonably possible that the expectations associated with these amounts could change in the near term (i.e., within one year) and that the effect of such changes could be material to the consolidated financial statements.

	2015	2014
Reserves for losses and loss adjustment expenses at beginning of year	$ 5,377,539	$ 5,545,046
Less: reinsurance recoverable on upaid claims	(942,639)	(1,075,976)
Net provision for losses and loss adjustment expenses at beginning of year	4,434,900	4,469,070
Incurred related to:		
Current fiscal year	2,246,676	1,635,601
Prior fiscal years - change in estimates	(1,361,860)	(607,520)
Total losses and loss adjustment expenses incurred, net of reinsurance recoverable	884,816	1,028,081
Paid related to:		
Current fiscal year	(373,578)	(69,332)
Prior fiscal years	(314,535)	(992,919)
Total losses and loss adjustment expenses paid, net of reinsurance reco	(688,113)	(1,062,251)
Net provision for losses and loss adjustment expenses at end of year	4,631,603	4,434,900
Add: reinsurance recoverable on upaid claims	948,153	942,639
Reserves for losses and loss adjustment expenses at end of year	$ 5,579,756	$ 5,377,539

In addition, MIC provides stop loss health insurance coverage to Meritus for the medical expenses of its employees. Coverage is for expenses in excess of the deductible amount of 300,000 per individual. MIC purchased reinsurance for amounts in excess of $600,000 per individual to fully reinsure this exposure. The reimbursement maximum under this reimbursement is unlimited per individual with no lifetime maximum per individual.

12. COMMITMENTS AND CONTINGENCIES

Operating Lease Obligations

Meritus leases equipment under non-cancelable lease arrangements. In addition, Meritus leases office space in several locations under operating leases. Some of the leases provide for renewal options. Rent expense under all operating leases was $5,829,377 and $5,031,558 for the years ended June 30, 2015 and 2014, respectively.

Future minimum lease payments under these non-cancelable operating leases as of June 30 are as follows:

2016	$ 2,555,396
2017	1,355,188
2018	691,241
2019	164,755
2020	77,045
Total minimum payments	$ 4,843,625

Litigation

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

13. TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS

Temporarily and permanently restricted net assets at June 30 are restricted for the following purposes:

	2015	2014
Temporarily restricted for financial support of patients and hospital programs	$ 3,969,429	$ 2,081,136
Capital campaign	920,853	3,011,685
	$ 4,890,282	$ 5,092,821
Permanently restricted investments are to be held in perpetuity, the income of which is expendable to support charity care and health care education	$ 1,028,618	$ 1,028,618

14. FUNCTIONAL EXPENSES

Meritus provides general healthcare services to residents within its geographic location. Expenses related to providing these services for the years ended June 30 are as follows:

	2015	2014
Health care services	$ 335,729,640	$ 336,942,301
Fundraising	680,325	674,382
Administration	20,815,455	20,815,825
	$ 357,225,420	$ 358,432,508

15. SUBSEQUENT EVENTS

Meritus evaluated subsequent events through October 27, 2015, the date these consolidated financial statements were available to be issued. All material matters are disclosed in the footnotes to the consolidated financial statements.

On July 9, 2015, Meritus issued Series 2015 Bonds to (i) refund all of the Maryland Health and Higher Educational Facilities Authority's Revenue Bonds, Washington County Hospital Issue, Series 2008 (Series 2008 Bonds), and (ii) finance and refinance the cost of construction, renovation and equipping of certain additional facilities for Meritus (the "2015 Project"). The Series 2015 Bonds were issued in the principal amount of $257,300,000 plus a premium of $15,418,190. The Series 2015 Bonds proceeds, together with the outstanding Series 2008 Bonds escrow fund balance totaled $22,067,501, and Meritus' internal cash of $7,407,353 were used to pay the cost of issuance, make an escrow deposit to repay debt services and refund Series 2008 Bonds (which is callable on January 1, 2018), and establish a 2015 Project escrow account in the amount of $2,383,567, $279,809,476, and $20,000,000, respectively. The Series 2015 Bonds are due in annual principal installments through 2045, and bear interest at 3.5% to 5% due semiannually in January and July. A loss of approximately $33,115,000 was recognized at the time of the bond issue.

As of July 1, 2015, MEI transferred its membership interests in Robinwood, MPA, GSRE, GI REC, and WMMS to Holdings. MEI continues to operate EFL and hold a 50% membership interest in DIS. A small management board oversees the operations of EFL, DIS, and TLC until such time as such the business affairs can be discontinued and/or merged with Holdings. In Addition, as of July 1, 2015, the Hospital replaced MEI as the manager of Holdings.

SUPPLEMENTARY INFORMATION

Meritus Medical Center, Inc.

CONSOLIDATING BALANCE SHEET

June 30, 2015

ASSETS	Meritus Medical Center	Meritus Holdings Consolidated	Meritus Insurance Company	Meritus Healthcare Foundation	Consolidating Total	Consolidating Entries	Consolidated Total
Current Assets							
Cash and Cash Equivalents	$ 16,506,660	$ 5,917,861	$ 811,560	$ 798,536	$ 24,034,617	$ —	$ 24,034,617
Restricted Cash	3,023,086	—	—	—	3,023,086	—	3,023,086
Investments, Short Term	28,425,025	—	—	—	28,425,025	—	28,425,025
Current Portion of Assets Held by Trustee	9,385,937	—	950,000	—	10,335,937	—	10,335,937
Accounts receivable, net	60,137,402	13,612,677	53,726	1,713,445	75,517,250	(9,276,670)	66,240,580
Allowance for Uncollectibles	(9,416,579)	(7,312,247)	—	—	(16,728,826)	—	(16,728,826)
Net Patient Accounts Receivable	50,720,823	6,300,430	53,726	1,713,445	58,788,424	(9,276,670)	49,511,754
Supplies	6,282,779	767,879	—	—	7,050,658	—	7,050,658
Prepaid and other current assets	9,715,481	4,333,211	227,552	(19,762)	14,256,482	(6,602,531)	7,653,951
Total Current Assets	124,059,791	17,319,381	2,042,838	2,492,219	145,914,229	(15,879,201)	130,035,028
Equity Investments in Affiliates	45,672,975	3,861,089	—	—	49,534,064	(21,230,192)	28,303,872
Assets Limited as to Use							
Board Designated Investments	128,192,766	—	—	6,596,049	134,788,815	—	134,788,815
Supplemental Retirement Benefit Invest	1,326,035	3,192,008	—	-	4,518,043	—	4,518,043
Temp & Perm Restricted Donor Funds	1,166,185	—	—	-	1,166,185	—	1,166,185
	130,684,986	3,192,008	—	6,596,049	140,473,043	—	140,473,043
Trusteed Assets	18,379,683	—	—	—	18,379,683	—	18,379,683
Funds Designated for Insurance Purposes	—	—	12,816,468	—	12,816,468	—	12,816,468
Total Assets Limited as to Use	149,064,669	3,192,008	12,816,468	6,596,049	171,669,194	—	171,669,194
Property, Plant and Equipment, net	237,168,078	9,402,675	—	6,591	246,577,344	—	246,577,344
Pledges Receivable, net	—	—	—	839,090	839,090	—	839,090
Deferred Financing, net	2,265,380	—	—	—	2,265,380	—	2,265,380
Other Assets	6,278,156	4,048,186	948,153	—	11,274,495	(6,591,000)	4,683,495
Total Assets	**$ 564,509,049**	**$ 37,823,339**	**$ 15,807,459**	**$ 9,933,949**	**$ 628,073,796**	**$ (43,700,393)**	**$ 584,373,403**

Meritus Medical Center, Inc.

CONSOLIDATING BALANCE SHEET - CONTINUED

June 30, 2015

LIABILITIES AND NET ASSETS	Meritus Medical Center	Meritus Holdings Consolidated	Meritus Insurance Company	Meritus Healthcare Foundation	Consolidating Total	Consolidating Entries	Consolidated Total
Current Liabilities							
Accounts Payable and accrued expenses	$ 13,529,603	$ 8,331,062	$ 1,462,356	$ 90,524	$ 23,413,545	$ (6,643,109)	$ 16,770,436
Accrued salaries, wages and withholdings	7,946,781	1,067,492	—	—	9,014,273	—	9,014,273
Accrued Compensation Benefit	7,310,385	2,612,772	—	12,228	9,935,385	—	9,935,385
Advances from Third Party Payors	8,322,825	162,051	—	—	8,484,876	—	8,484,876
Accrued Interest Payable	7,190,831	—	—	—	7,190,831	—	7,190,831
Current Maturity of Long-Term Debt	5,999,136	66,959	—	—	6,066,095	—	6,066,095
Total Current Liabilities	50,299,561	12,240,336	1,462,356	102,752	64,105,005	(6,643,109)	57,461,896
Long Term Debt, net of current portion	252,124,125	283,725	—	—	252,407,850	—	252,407,850
Accrued Retirement Benefits	1,326,035	3,721,059	—	—	5,047,094	—	5,047,094
Other Long Term Liabilities	-	1,301,234	14,074,042	—	15,375,276	(9,170,870)	6,204,406
Total Liabilities	303,749,721	17,546,354	15,536,398	102,752	336,935,225	(15,813,979)	321,121,246
Stockholder's Equity							
Common Stock	—	700,000	120,000	—	820,000	(820,000)	—
Paid-In Capital	—	1,150,080	—	—	1,150,080	(1,150,080)	—
Retained Earnings	—	19,599,912	151,061	—	19,750,973	(19,750,973)	—
Total Stockholders' Equity	—	21,449,992	271,061	—	21,721,053	(21,721,053)	—
Net Assets							
Unrestricted:							
Meritus	253,721,081	(1,104,773)	—	3,680,413	256,296,721	1,104,770	257,401,492
Non-Controlling Negative Equity	—	(68,235)	—	-	(68,235)	—	(68,235)
Total unrestricted net assets	253,721,081	(1,173,008)	—	3,680,413	256,228,486	1,104,770	257,333,257
Restricted Net Assets - Temporary	6,009,629	—	—	6,150,784	12,160,413	(7,270,131)	4,890,282
Restricted Net Assets - Permanent	1,028,618	—	—	—	1,028,618	-	1,028,618
Total Net Assets	260,759,328	(1,173,008)	—	9,831,197	269,417,517	(6,165,361)	263,252,157
Total Liabilities and Net Assets	**$ 564,509,049**	**$ 37,823,339**	**$ 15,807,459**	**$ 9,933,949**	**$ 628,073,796**	**$ (43,700,393)**	**$ 584,373,403**

Meritus Medical Center, Inc.

CONSOLIDATING STATEMENT OF OPERATIONS AND CHANGE IN NET ASSETS

Year end June 30, 2015

Fiscal period ending: June 30, 2015	Meritus Medical Center	Meritus Holdings Consolidated	Meritus Insurance Company	Meritus Healthcare Foundation	Consolidating Total	Consolidating Entries	Consolidated Total
Unrestricted revenue, gains and other support							
Net Patient Revenue	$ 310,024,592	$ 68,226,133	$ —	$ —	$ 378,250,725	$ (11,155,274)	$ 367,095,451
Less: provisions for bad debts	(10,739,845)	(2,464,237)	—	—	(13,204,082)	—	(13,204,082)
Net Patient Revenue less provisions							—
for bad debts	299,284,747	65,761,896	—	—	365,046,643	(11,155,274)	353,891,369
Other Revenue	13,556,081	1,015,471	2,362,773	425,042	17,359,367	(5,452,477)	11,906,890
Equity Earnings in Affiliates	1,833,917	1,664,507	—	—	3,498,424	1,104,773	4,603,197
Net Assets Released from Rest for Operations	419,815	—	—	1,727,256	2,147,071	(339,219)	1,807,852
	315,094,560	68,441,874	2,362,773	2,152,298	388,051,505	(15,842,197)	372,209,308
Operating Expenses							
Salaries and Wages	91,903,037	28,336,570	—	263,245	120,502,852	—	120,502,852
Benefits	29,695,470	6,175,017	—	97,316	35,967,803	(1,129,583)	34,838,220
Professional Fees	11,605,438	—	—	—	11,605,438	—	11,605,438
Supplies and Other	130,507,348	36,084,664	2,598,645	321,791	169,512,448	(15,728,164)	153,784,284
Interest	14,735,069	13,125	—	—	14,748,194	—	14,748,194
Depreciation and Amortization	20,388,153	1,353,434	—	4,845	21,746,432	—	21,746,432
	298,834,515	71,962,810	2,598,645	687,197	374,083,167	(16,857,747)	357,225,420
Operating income	16,260,045	(3,520,936)	(235,872)	1,465,101	13,968,338	1,015,550	14,983,888
Non-operating gains (losses), net							
Investment returns, net	2,203,799	(228,545)	235,872	783,568	2,994,694	—	2,994,694
Other, net	(135,060)	(147,272)	—	(1,714,666)	(1,996,998)	89,223	(1,907,775)
Income tax benefit	—	2,191,600	—	—	2,191,600	—	2,191,600
Excess of Revenue Over Expenses	18,328,784	(1,705,153)	—	534,003	17,157,634	1,104,773	18,262,407
Deficiency in revenue over expenses attributable							
to non-controlling interest	—	600,380	—	—	600,380	—	600,380
Excess of Revenue Over Expenses							
attributable to Meritus	18,328,784	(1,104,773)	—	534,003	17,758,014	1,104,773	18,862,787

Meritus Medical Center, Inc.

CONSOLIDATING STATEMENT OF OPERATIONS AND CHANGE IN NET ASSETS - CONTINUED

Year end June 30, 2015

	Meritus Medical Center	Meritus Holdings Consolidated	Meritus Insurance Company	Meritus Healthcare Foundation	Consolidating Total	Consolidating Entries	Consolidated Total
Other Changes in Unrestr. Net Assets							
Change in Non-Controlling Interest	—	(600,380)	—	—	(600,380)	—	(600,380)
Other	—	0	—	(641,026)	(641,026)	—	(641,026)
Transfer from temporarily restricted Net Assets	1,150,055	—	—	—	1,150,055	—	1,150,055
Increase in Unrestricted Net Assets	19,478,839	(1,705,153)	—	(107,023)	17,666,663	1,104,773	18,771,436
Temp. Restricted Net Assets							
Contributions	1,592,584	—	—	(351,649)	1,240,935	(339,220)	901,715
Net Realized and Unrealized gain and losses on Investments	(64,107)	—	—	36,441	(27,666)	—	(27,666)
Other	(1,458,196)	(369,381)	—	641,026	(1,186,551)	3,067,870	1,881,319
Net Assets Released from restriction for PP&E	(1,150,055)	—	—	—	(1,150,055)	—	(1,150,055)
Net Assets Held by MHF	(648,741)	—	—	—	(648,741)	648,741	—
Net Assets Released from restriction for Operations	(419,815)	—	—	(1,727,256)	(2,147,071)	339,219	(1,807,852)
Decrease in Temp. Restricted Net Assets	(2,148,330)	(369,381)	—	(1,401,438)	(3,919,149)	3,716,610	(202,539)
Increase (Decrease) in Net Assets	**17,330,509**	**(2,074,534)**	—	**(1,508,461)**	**13,747,514**	**4,821,383**	**18,568,897**
Net Assets							
Beginning of Year	243,178,883	23,321,617	271,061	11,339,658	278,111,219	(30,979,404)	247,131,815
End of Year	**$ 260,509,392**	**$ 21,247,083**	**$ 271,061**	**$ 9,831,197**	**$ 291,858,733**	**$ (26,158,021)**	**$ 265,700,712**

Grant Thornton