Holy Cross Hospital

(A Member of Trinity Health)

Consolidated Financial Statements as of and
for the Years Ended June 30, 2010 and 2009,
Supplemental Information as of and for the
Year Ended June 30, 2010, and
Independent Auditors' Report

HOLY CROSS HOSPITAL
(A Member of Trinity Health)

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INDEPENDENT AUDITORS' REPORT

To Trinity Health and the Board of Trustees of
Holy Cross Hospital:

We have audited the accompanying consolidated balance sheets of Holy Cross Hospital (the "Hospital"), a wholly-controlled member organization of Trinity Health, as of June 30, 2010 and 2009, and the related consolidated statements of operations and changes in net assets and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of the Hospital as of June 30, 2010 and 2009, and the results of its operations and changes in net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audits were conducted for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The supplemental information for 2010 listed in the table of contents is presented for the purpose of additional analysis of the basic consolidated financial statements, rather than to present the financial position, results of operations and changes in net assets of the individual entities, and is not a required part of the basic consolidated financial statements. This supplemental information is the responsibility of the Hospital's management. Such information has been subjected to the auditing procedures applied in our audit of the basic 2010 consolidated financial statements and, in our opinion, is fairly stated, in all material respects, when considered in relation to the basic 2010 consolidated financial statements taken as a whole.

Deloitte & Touche LLP

September 24, 2010

HOLY CROSS HOSPITAL
(A Member of Trinity Health)

CONSOLIDATED BALANCE SHEETS
AS OF JUNE 30, 2010 AND 2009
(In thousands)

	2010	2009
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 18,747	$ 29,731
Investment in Trinity Health corporate pooled investment program	133,327	83,870
Patient accounts receivable — net of allowance for doubtful accounts of $8.3 million and $10.7 million in 2010 and 2009, respectively	50,103	54,517
Inventories	5,663	6,338
Prepaid expenses and other current assets	3,964	3,329
Total current assets	211,804	177,785
ASSETS LIMITED OR RESTRICTED AS TO USE — By:		
Deferred compensation	46	47
Donors	2,438	2,629
Total assets limited or restricted as to use	2,484	2,676
PROPERTY AND EQUIPMENT — Net	132,701	139,615
INVESTMENTS IN UNCONSOLIDATED AFFILIATES	1,393	1,035
PREPAID CHARGES FOR SHARED INFORMATION SERVICES	18,899	20,294
OTHER ASSETS	530	682
TOTAL ASSETS	$ 367,811	$ 342,087
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Current portion of long-term debt	$ 485	$ 639
Current portion of notes payable to Trinity Health	1,927	2,077
Accounts payable and accrued expenses	13,202	13,695
Salaries, wages, and related liabilities	19,604	19,472
Estimated payables to third-party payors	16,113	16,410
Total current liabilities	51,331	52,293
LONG-TERM DEBT — Net of current portion	671	1,156
NOTES PAYABLE TO TRINITY HEALTH, NET OF CURRENT PORTION	99,350	101,212
OTHER LONG-TERM LIABILITIES	994	1,087
Total liabilities	152,346	155,748
NET ASSETS:		
Unrestricted	213,027	183,710
Temporarily restricted	2,412	2,606
Permanently restricted	26	23
Total net assets	215,465	186,339
TOTAL LIABILITIES AND NET ASSETS	$ 367,811	$ 342,087

See notes to consolidated financial statements.

HOLY CROSS HOSPITAL
(A Member of Trinity Health)

CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2010 AND 2009
(In thousands)

	2010	2009
UNRESTRICTED REVENUE:		
Net patient service revenue	$ 381,735	$ 372,814
Net assets released from restrictions	833	1,572
Other revenue	11,629	11,447
Total unrestricted revenue	394,197	385,833
EXPENSES:		
Salaries and wages	151,858	150,638
Employee benefits	34,086	28,609
Contract labor	6,347	11,495
Total labor expenses	192,291	190,742
Supplies	65,124	65,255
Purchased services	50,762	48,254
Depreciation and amortization	21,862	21,365
Provision for bad debts	18,127	17,812
Occupancy	13,636	12,648
Interest	3,836	4,259
Other	6,282	7,009
Total expenses	371,920	367,344
OPERATING INCOME BEFORE REDUCTION IN INSURANCE EXPENSE	22,277	18,489
REDUCTION IN INSURANCE EXPENSE		512
OPERATING INCOME	22,277	19,001
NONOPERATING ITEMS:		
Net gains (losses) on investments in Trinity Health corporate pooled investment program:		
Investments held at fair value	7,817	(10,479)
Equity method investments	2,375	(7,697)
Other	(717)	(664)
Total nonoperating items	9,475	(18,840)
EXCESS OF REVENUE OVER EXPENSES	$ 31,752	$ 161

(Continued)

HOLY CROSS HOSPITAL
(A Member of Trinity Health)

CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2010 AND 2009
(In thousands)

	2010	2009
UNRESTRICTED NET ASSETS:		
Excess of revenue over expenses	$ 31,752	$ 161
Net assets released from restrictions for capital acquisitions	636	577
Unrestricted contributions of long lived assets	530	
Transfers to affiliates	(3,601)	(5,123)
Increase (decrease) in unrestricted net assets	29,317	(4,385)
TEMPORARILY RESTRICTED NET ASSETS:		
Contributions	1,275	1,413
Net assets released from restrictions	(1,469)	(2,148)
Decrease in temporarily restricted net assets	(194)	(735)
PERMANENTLY RESTRICTED NET ASSETS:		
Net investment income (loss)	4	(8)
Other	(1)	(1)
Increase (decrease) in permanently restricted net assets	3	(9)
INCREASE (DECREASE) IN NET ASSETS	29,126	(5,129)
NET ASSETS — Beginning of year	186,339	191,468
NET ASSETS — End of year	$ 215,465	$ 186,339

See notes to consolidated financial statements. (Concluded)

HOLY CROSS HOSPITAL
(A Member of Trinity Health)

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2010 AND 2009
(In thousands)

	2010	2009
OPERATING ACTIVITIES:		
Increase (decrease) in net assets	$ 29,126	$ (5,129)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Transfers to affiliates	3,601	5,123
Net realized (gains) losses on investment in Trinity Health corporate pooled investment program	(1,533)	7,072
Change in net unrealized (gain) losses on investments in Trinity Health corporate pooled investment program	(6,088)	13,222
Restricted contributions and investment (income) losses received	(3)	5
Depreciation and amortization	21,862	21,365
Provision for bad debts	18,127	17,812
Undistributed equity loss (earnings) in unconsolidated affiliates	(358)	125
(Gain) loss on sale of property and equipment	43	(19)
Changes in:		
Patient accounts receivable	(13,714)	(22,280)
Pledges receivable included in assets limited as to use	173	768
Other assets	(2,883)	(5,119)
Accounts payable and other liabilities	(559)	(1,260)
Estimated payables to third-party payors	(297)	1,060
Total adjustments	18,371	37,874
Net cash provided by operating activities	47,497	32,745
INVESTING ACTIVITIES:		
Purchases of property and equipment	(10,415)	(16,673)
Proceeds from sale of property and equipment		36
Purchases of locally held investments	(9)	(24)
Proceeds from sales of locally held investments	28	
Change in investments in Trinity Health corporate pooled investment program	(41,835)	809
Net cash used in investing activities	(52,231)	(15,852)
FINANCING ACTIVITIES:		
Transfers to affiliates	(3,601)	(5,123)
Proceeds from restricted contributions and restricted investment income	2	(5)
Repayments of long-term debt and notes payable to Trinity Health	(2,651)	(3,016)
Net cash used in financing activities	(6,250)	(8,144)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(10,984)	8,749
CASH AND CASH EQUIVALENTS — Beginning of year	29,731	20,982
CASH AND CASH EQUIVALENTS — End of year	$ 18,747	$ 29,731
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid during the year for interest	$ 3,801	$ 4,255
Accrued property, plant and equipment	$ 1,775	$ 1,669

See notes to consolidated financial statements.

1. ORGANIZATION AND COMMUNITY BENEFIT MINISTRY

Holy Cross Hospital (the "Hospital"), a Maryland not-for-profit corporation, owns and operates a 450-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 Hospital, and Maryland Care Group, Inc., a taxable corporation that owns an outpatient surgery center and private home service agency. The Hospital provides services to patients who reside primarily in the local geographic region. The Hospital is 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. There are significant related-party transactions with Trinity Health and its ministry organizations.

The mission and role statement for the Hospital is as follows:

We serve together in Trinity Health
In the spirit of the Gospel
To heal body, mind and spirit
To improve the health of our communities
And to steward the resources entrusted to us

The Hospital exists to support the health ministry of Trinity Health 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 Hospital provides medical care to all patients regardless of their ability to pay. In addition, the Hospital provides services intended to benefit the poor and underserved, including those persons who cannot afford health insurance 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, 2010 and 2009, the following summary has been prepared in accordance with the requirements and reflects the amount of the Hospital's community benefit ministry (in thousands):

	2010	2009
Charity care	$ 16,430	$ 12,359
Community health services	6,097	5,501
Health professions education	2,954	2,504
Mission driven health services	9,426	7,634
Research	338	467
Financial contributions	284	183
Community building activities	57	82
Community benefit operations	1,481	1,347
Community benefit ministry	$ 37,067	$ 30,077

The Hospital 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, 2010 and 2009, the Hospital reported bad debt at cost (determined using a cost to charge ratio applied to the provision for bad debts) of $13.0 million and $13.6 million, respectively. Bad debt at cost is included in the bad debt expense in the consolidated statements of operations.

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 Hospital's established policies and when no payment for such services is anticipated. Services provided to these patients are not reported as revenue in the consolidated statements of operations and changes in net assets.

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 Hospital 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 Hospital. 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 Hospital 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, and 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 Hospital, and all wholly owned, majority-owned, and controlled organizations. Investments where the Hospital holds less than 20% of the ownership interest are accounted for using the cost method. All other investments, which are not controlled by the Hospital, are accounted for using the equity method of accounting. For equity method investments, the Hospital 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 Hospital 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 Hospital 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 Hospital 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 Hospital 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; recorded value of investments; provisions for bad debts; estimated third party payor settlements; and reserves for losses and expenses related to health care professional and general liability. 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 locally held highly liquid debt instruments with original maturities of three months or less. The Hospital investments in the Trinity Health corporate pooled investment program are excluded from cash equivalents for the purpose of the consolidated cash flow statements.

Investments and Investment Earnings – Investments, inclusive of assets limited or restricted as to use, include marketable debt and equity securities. Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value and are classified as trading securities. Investments also include investments in commingled funds and absolute return strategy funds structured as limited liability corporations or partnerships. Commingled funds that hold securities directly are stated at the fair value of the underlying securities, as determined by the administrator, based on readily determined market values. The absolute return strategy investments are accounted for under the equity method. Redemptions may be made with written notice ranging from one month to one year.

Investment earnings (including equity earnings, realized gains and losses on investments, holding gains and losses on trading securities, interest and dividends) are included in excess of revenue over expenses as nonoperating items, unless the income or loss is restricted by donor or law.

Investment in Trinity Health Corporate Pooled Investment Program - The Hospital 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, marketable equity securities (domestic and international), government bonds and notes, corporate bonds and notes (domestic and international), mutual funds, mortgage-backed securities, investments in commingled funds and absolute return strategy funds structured as limited liability corporations or partnerships. 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.

Derivative Financial Instruments - Trinity Health periodically utilizes various financial instruments (e.g., options, foreign currency futures, caps, swaps, and convertible bonds and stocks) to hedge interest rate, equity downside risk and other exposures. In fiscal 2010 and 2009 Trinity Health used index futures in conjunction with a portfolio of fixed income securities to replicate the S&P 500 index on an unleveraged basis. The index futures were marked-to-market and net-settled daily with any related realized gains or losses reported in investment income in the consolidated statements of operations and changes in net assets. Trinity Health's policies prohibit trading in derivative financial instruments on a speculative basis.

Assets Limited or Restricted as to Use — Assets set aside by the Board for future capital improvements, retirement of debt, and other purposes over which the Board retains control and may at its discretion subsequently use for other purposes, assets held by trustees under bond indenture and certain other agreements, and self-insurance trust and benefit plan arrangements are included in assets limited as to use.

Donor-Restricted Gifts — Unconditional promises to give cash and other assets to the Hospital are reported at fair value at the date the promise is received. Conditional promises to give and indications of intentions to give are reported at fair value at the date the gift is received. The gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the 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 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.

Prepaid Charges for Shared Information Services — The Hospital invests in information systems that are shared by all ministry organizations 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.

Asset Impairment — The Hospital evaluates the carrying value of its long-lived assets for impairment when a triggering event occurs as required by FASB Accounting Standards Codification ("ASC") 360, "*Property, Plant, and Equipment*" (formerly known as FASB Statement No. 144, "*Accounting for the Impairment or Disposal of Long-Lived Assets"*). These evaluations are primarily based on the estimated recoverability of the assets' carrying value. No adjustments were required for the years ended June 30, 2010 and 2009.

Inventories — The Hospital values inventories at the lower of cost or market basis. The cost of inventories is determined principally by the weighted average cost method.

Intercompany Loan Program — The Hospital 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 Hospital 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 Hospital in perpetuity.

Patient Accounts Receivable, Estimated Payables to Third-Party Payors, and Net Patient Service Revenue — The Hospital has agreements with third-party payors that provide for payments to the Hospital 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.

Allowance for Doubtful Accounts — Substantially all of the Hospital's receivables are related to providing health care services to patients. Accounts receivable are reduced by an allowance for amounts that could become uncollectible in the future. The Hospital's estimate for its allowance for doubtful accounts is based upon management's assessment of historical and expected net collections by payor.

Income Taxes — The Hospital and Holy Cross Hospital Foundation have been recognized as tax-exempt pursuant to Section 501(a) of the Internal Revenue Code. The Hospital 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 Hospital and its subsidiaries includes penalties and interest, if any, with its provision for income taxes. The Hospital has no uncertain tax positions.

Excess of Revenue Over Expenses – The consolidated statements of operations and changes in net assets includes excess of revenue over expenses. Changes in unrestricted net assets which are excluded from excess of revenue over expenses, consistent with industry practice, include the permanent transfers of assets to and from affiliates for other than goods and services and 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).

Adopted Accounting Pronouncements – In June 2009, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Codification ("ASC") Topic 105, *Generally Accepted Accounting Principles* ("ASC 105") (formerly known as Financial Accounting Standards No. 168 – "*The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles - a replacement of FASB Statement No. 162")*. This standard establishes the ASC as the single source of authoritative U.S. Generally Accepted Accounting Principles ("GAAP"), superseding all previously issued authoritative guidance. All references to pre-Codification GAAP in the Corporation's consolidated financial statements have been replaced with descriptive titles.

Forthcoming Accounting Pronouncements – In April 2009, the FASB issued new ASC guidance for not-for-profit entities regarding mergers and acquisitions. This guidance defines a combination of one or more other not-for-profit entities, business or nonprofit activities as either a merger or acquisition. It also establishes principles and requirements in determining whether a not-for-profit entity combination is a merger or acquisition, applies the carryover method in accounting for mergers, applies the acquisition method in accounting for acquisitions, including which of the combining entities is the acquirer, and requires enhanced disclosures about the merger or acquisition. In addition, it amends existing FASB ASC Guidance on goodwill and other intangible assets and noncontrolling interests in consolidated financial statements to make previous guidance that was only applicable to for-profit entities applicable to not-for-profit entities. In January 2010, the FASB issued ASC guidance to clarify the scope of noncontrolling interests in consolidated financial statements related to decrease in ownership provisions. This guidance is effective for the Hospital beginning July 1, 2010 as it relates to acquisitions and is effective for the Hospital as it relates to mergers. The Hospital is still assessing the impact of this guidance on the consolidated financial statements as it relates to acquisitions. The guidance related to acquisitions did not have any impact during 2010.

In June 2009, the FASB issued ASC guidance on accounting for transfers of financial assets. This guidance clarifies that the objective is to determine whether a transferor and all of the entities included in the transferor's financial statements being presented have surrendered control over transferred financial assets. That determination must consider the transferor's continuing involvements in the transferred financial asset, including all arrangements or agreements made contemporaneously with, or in contemplation of, the transfer, even if they were not entered into at the time of the transfer. This guidance is effective for the year beginning July 1, 2010. The Hospital is still assessing the impact of this guidance on the consolidated financial statements.

In January 2010, the FASB issued ASC guidance that amends current disclosure requirements under the existing fair value accounting standard. It requires entities to disclose separately the amounts of significant transfers into and out of Level 1 and Level 2 fair value measurements along with the reasons for those transfers. In addition, it also requires entities to present separately information about purchases, sales, issuances, and settlements on a gross basis rather than as one net number in the reconciliation for fair value measurements using significant unobservable inputs (Level 3). This guidance is effective for the Hospital beginning on July 1, 2010 except for Level 3 fair value measurement disclosure that is effective July 1, 2011.

In July 2010, the Emerging Issues Task Force ("EITF") reached a consensus-for-exposure on ASU 2010-24, which requires a Healthcare Organization ("HCO") to present a liability related to medical malpractice claims (and other contingent claims) gross; such a liability would not be offset against related insurance recoveries unless the criteria in ASC 210-20 for offsetting were met. In addition, the industry specific guidance for the accrual of legal fees associated with resolving contingent claims would be eliminated and HCO's should follow the guidance for such fees in ASC 450-20-S99-2. This guidance is effective for annual reporting periods beginning after December 15, 2010. The Hospital is currently assessing the impact of adopting this guidance on its combined financial statements.

In July 2010, the EITF reached a consensus-for-exposure on ASU 2010-23, which requires a HCO to disclose its policy for providing charity care and the amount of charity care provided. In addition, the ASU would require that the amount of charity care be based on the direct and indirect costs of providing charity care, eliminating the other measurement attributes available under ASC 954-605-50-3, and also require disclosure of cost reimbursements associated with providing charity care. This guidance is effective for annual reporting periods beginning after December 15, 2010, and must be applied retrospectively. The Hospital is currently assessing the impact of adopting this guidance on its combined financial statements.

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

Investments in Unconsolidated Affiliates — The Hospital and certain of its subsidiaries have investments in entities that are recorded under the cost or equity method of accounting. At June 30, 2010, the Hospital maintained investments in unconsolidated affiliates with ownership interests ranging up to 25%. The Hospital's share of equity (losses) earnings from entities accounted for under the equity method was $358,000 and $ (125,000) for the years ended June 30, 2010 and 2009, respectively, which is included in other revenue in the consolidated statements of operations and changes in net assets. The Hospital also recorded $113,000 and $397,000 for the years ended June 30, 2010 and 2009, 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 a radiation therapy center, 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 Hospital as more fully described in Note 10, Commitments and Contingencies.

Investments in unconsolidated affiliates as of June 30, 2010 and 2009 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 Hospital reinvested $384,000 for a direct 20% ownership in CPRCC. The Hospital 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 Hospital received a direct distribution from the gain on sale and reinvested $506,000 for a direct 20% ownership in DRCC. The Hospital accounts for the investment using the equity method of accounting.

Surgery Center of Maryland (SCM) — Effective March 1, 2008, the Hospital reduced its ownership in Surgery Center of Maryland from 35% to 12.5%, for which the Hospital received $210,000 in cash. The Hospital now accounts for the reduced ownership with the cost method of accounting.

Clinical Imaging — In May 2008, the Hospital acquired a 25% ownership in a Radiology Center in Silver Spring, Maryland for $125,000. The Hospital accounts for the investment using the equity method of accounting.

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, 2010 and 2009, are as follows (in thousands):

	2010 (in thousands)		
	Clinical Imaging	CPRCC	DRCC
Total assets	$ 517	$ 8,005	$ 8,483
Total liabilities	834	5,027	4,957
Net assets	(317)	2,978	3,526
Revenue — net	830	7,134	5,745
Excess (deficiency) of revenue over expenses	(264)	618	(403)

	2009 (in thousands)		
	Clinical Imaging	CPRCC	DRCC
Total assets	$ 633	$ 8,233	$ 9,642
Total liabilities	686	5,872	5,713
Net assets	(53)	2,361	3,929

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 Hospital's charges are subject to review and approval by the Maryland Health Services Cost Review Commission (the "Commission"). The Hospital's management has filed the required forms with the Commission and believes the Hospital 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 Hospital 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. Management believes that this program will remain in effect at least through June 30, 2011.

Under the Commission's reimbursement methodology, a target average charge per case was established for the Hospital based on past actual charges and case mix indices and is adjusted each year for inflation. The actual average charge per case 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, 2010 and 2009, the Hospital was in compliance with its average charge per case target.

The Commission's rate setting methodology for Hospital 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 Hospital 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 Hospital'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.

In 2007, the Hospital reduced its revenue by $2.0 million for the retroactive application of a Commission policy directive on ancillary service pricing covering the period from April 2006 through June 2007. The Commission has reduced the Hospital's revenue payments prospectively for approximately two years for this adjustment, and consequently, $2.0 million in deferred revenue was recorded. The Hospital amortized $1.0 million of this amount into revenue for the years ended June 30, 2010 and 2009. As of June 30, 2010, the balance of the liability is zero.

Kaiser Permanente — In accordance with the rate review system established by the Commission, the Hospital 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 Hospital generally is paid 94% of allowable charges for covered services under these programs. The Hospital is paid for outpatient dialysis, home health, and hospice services at prospectively determined rates. These rates vary according to clinical, diagnostic, and other factors.

During both 2010 and 2009, 44% of net patient service revenue was received under the Medicare and state Medicaid programs, and 56% under contracts with Blue Cross and Kaiser Permanente and other contracts with health maintenance organizations, preferred provider organizations, and insurance company arrangements, respectively.

A summary of net patient service revenue for the years ended June 30, 2010 and 2009, is as follows (in thousands):

	2010	2009
Gross charges:		
Acute inpatient	$ 303,886	$ 291,747
Outpatient, nonacute inpatient, and other	143,855	138,354
Gross patient revenue	447,741	430,101
Less:		
Contractual and other allowances	(49,576)	(44,928)
Charity care charges	(16,430)	(12,359)
Net patient service revenue	$ 381,735	$ 372,814

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, 2010 and 2009, is as follows (in thousands):

	2010	2009
Land	$ 493	$ 493
Buildings and improvements	179,236	179,121
Equipment	144,935	187,477
Total	324,664	367,091
Less accumulated depreciation and amortization	(198,386)	(232,270)
Construction in progress	6,423	4,794
Property and equipment — net	$ 132,701	$ 139,615

Equipment includes assets recorded under capital leases of $2.8 million with accumulated amortization for such assets of $1.0 million as of June 30, 2010 and $0.6 million as of June 30, 2009. The associated charges to income are recorded in depreciation and amortization expense. In June 2010, the Hospital completed an inventory of all fixed and movable equipment capitalized in the fixed asset system. The inventory resulted in the removal of $51 million of retired assets with the majority being fully depreciated.

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, 2010 and 2009, is as follows (in thousands):

	2010	2009
Notes payable to Trinity Health, 1.95% to 5.50% payable in varying monthly installments — due through 2040	$ 101,277	$ 103,289
Capital lease obligations, at varying rates of imputed interest, 6.9% to 6.4%	1,156	1,795
	102,433	105,084
Less current portion of long-term debt	(2,412)	(2,716)
Long-term debt	$ 100,021	$ 102,368

Scheduled principal repayments on long-term debt at June 30, 2010, are as follows (in thousands):

Years Ending June 30:	
2011	$ 2,412
2012	2,524
2013	2,254
2014	2,193
2015	2,293
Thereafter	90,757
Total	$ 102,433

Obligated Group and Other Requirements - Trinity Health 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 the 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. The

Hospital is a designated affiliate 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 $2,546 million and $2,286 million at June 30, 2010 and June 30, 2009, respectively.

The interest paid to Trinity Health is based on Trinity's Health borrowings under the Master Trust Indenture. The borrowings by Trinity Health are both at fixed and variable rates. See Note 12 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 of 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). Trinity Health is in compliance with these conditions and covenants as of June 30, 2010. Long-term debt outstanding as of June 30, 2010 and June 30, 2009, excluding amounts issued under the ARMI, is generally collateralized by certain property and equipment.

Issuance of Long-Term Debt — Notes Payable to Trinity Health — There were no additional borrowings in fiscal year 2010 and 2009.

7. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

A summary of accounts payable and accrued expenses at June 30, 2010 and 2009, is as follows (in thousands):

	2010	2009
Accounts payable	$ 12,868	$ 13,306
Other	334	389
Total	$ 13,202	$ 13,695

8. PROFESSIONAL AND GENERAL LIABILITY PROGRAMS

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

For 2010 and 2009, Trinity Health's self-insured limit for the first layers of professional liability was $20 million per occurrence. 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.

The Hospital has contributed an amount to Trinity Health, representing its share of the expected losses under the aforementioned programs, and charged its contributions to expense. Trinity Health has recorded a liability in an amount necessary to provide for expected losses of the entities as determined by an independent actuary. The reserves include estimates of future trends in claim severity and frequency.

Although considerable variability is inherent in such estimates, management believes that the liability for unpaid claims and related adjustment expenses is adequate based on the loss experience of Trinity Health. The estimates are continually reviewed and adjusted as necessary. Such adjustments are reflected in current operations and resulted in an increase to operating income of $0.5 million for the year ended June 30, 2009. The amount of the changes to the estimated self-insurance reserves were determined based upon the annual, independent actuarial analyses During 2010, the frequency of claims moderated while severity began to rise. The Corporation believes the upward trend in severity is primarily due to economic conditions and increasing long-term survivability, life-care medical costs and defense costs.

Claims in excess of certain insurance coverage and the recorded self-insurance liability have been asserted against the Hospital 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, 2010, 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 Hospital 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 Hospital.

9. PENSION AND OTHER BENEFIT PLANS

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

Deferred Compensation — The Hospital 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 interest accruing based on investment selections of the participant. During 2010 and 2009, employee contributions were $0 and $2,800, respectively, under the plan. At June 30, 2010 and 2009, the assets and liabilities under the plan totaled $46,183 and $47,000, respectively.

Noncontributory Defined Benefit Pension Plans ("Pension Plans") — Substantially all of the Hospital's employees participate in noncontributory defined benefit pension plans of Trinity Health. The plans' assets are invested in equity securities, fixed income securities, money market investments, absolute return strategy funds, commingled funds directly holding securities, long/short equity, private equity funds and real estate. The plan is accounted for as a multiemployer plan. As a multiemployer plan, the Hospital contributes an amount equal to its proportionate share of the annual expense of Trinity Health. For the years ended June 30, 2010 and 2009, net pension cost was $10 million and $3.6 million, respectively.

Plan Amendment of the Pension Plans – Through June 30, 2010, benefits were based on years of service and employees' highest five years of compensation. 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. 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 will be provided to participants who are vested as of June 30, 2010 whose age and service meet certain requirements. The transition adjustment applies to the pension benefit earned through June 30, 2010.

Defined Contribution Benefits – Trinity Health sponsors defined contribution pension plans covering substantially all of its employees. The plans include discretionary employer matching contributions of up to 3% of compensation that are deposited in a cash balance arrangement in the pension plan for non-profit entities. Employer contributions for 401(k) plan participants are self-directed. Employee contributions are self-directed by plan participants in defined contribution plans. The Corporation suspended the majority of employer matching contributions for the fiscal year 2010. Contribution expense under the plans totaled approximately zero and $2.0 million in 2010 and 2009, respectively.

Postretirement Health Care and Life Insurance Benefits ("Postretirement Plans") — The Hospital 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. The plan's assets are invested in equity securities, fixed income funds, and money market investments. The plan is accounted for as a multiemployer plan. As a multiemployer plan, the Hospital contributes an amount equal to its proportionate share of the annual expense of Trinity Health. For the years ended June 30, 2010 and 2009, retiree medical plan income (expense) was $1.1 million and $(0.4) million, respectively. In June 2010, the Trinity Health approved an amendment to restructure the funded plans as Health Reimbursement Account arrangements for Medicare eligible participants effective January 1, 2011.

10. COMMITMENTS AND CONTINGENCIES

Operating Leases — The Hospital leases various land, equipment, and facilities under operating leases. Total rental expense, which includes provisions for maintenance in some cases, in 2010 and 2009, was $2.2 million and $2.3 million, respectively.

The following is a schedule of future minimum lease payments under operating leases as of June 30, 2010, that have initial or remaining lease terms in excess of one year (in thousands):

Years Ending June 30:	
2011	$ 1,238
2012	1,277
2013	1,289
2014	938
2015	430
Thereafter	1,762
Total	$ 6,934

Guarantees — The Hospital entered into debt guarantees of Surgery Center of Maryland, its unconsolidated affiliate, that are excluded from the consolidated balance sheets. The Hospital has guaranteed 18.75% of the debt of Surgery Center. The maximum guarantee is for $435,000 and relates to Surgery Center's $2,120,000 of term loan and $200,000 of revolving credit. The guarantee debt was used to finance equipment purchases and working capital. The Hospital has also entered into debt guarantees of Clinical Imaging, another of its unconsolidated affiliates. The Hospital has guaranteed

25.0% of Clinical Imaging's note payable to Sun Trust. The maximum guarantee for Clinical Imaging as of June 30, 2010 is for $130,326.

Asset Retirement Obligations — The Hospital 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 discounted asset retirement obligation at June 30, 2010 and 2009, is as follows (in thousands):

	2010	2009
Asset retirement obligation — beginning of year	$ 648	$ 614
Accretion of discount	35	34
Asset retirement obligation — end of year	$ 683	$ 648

Litigation — The Hospital 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 affect on Hospital's consolidated financial position or results of operations.

11. RELATED-PARTY TRANSACTIONS

The Hospital is allocated the cost of central-administered services from the corporate office of Trinity Health. The Hospital also shares certain services with affiliates and other ministry organizations of Trinity Health. These services include treasury management, information systems, benefits administration, clinical engineering and professional liability insurance. The composition of the related-party transactions with Trinity Health and other ministry organizations at June 30, 2010 and 2009, was as follows (in thousands):

	2010	2009
Amounts recorded in the consolidated balance sheets:		
Investments in corporate pooled investment funds:		
Investments in Trinity Health corporate pooled investment program	$ 133,327	$ 83,870
Assets restricted as to use	1,323	1,324
Investments in corporate pooled investment funds	134,650	85,194
Prepaid expenses and other current assets	92	94
Prepaid charges for shared information systems	18,899	20,294
Property and equipment	118	156
Accounts and other payables	1,613	1,890
Deferred compensation liability	46	47
Note payable to Trinity Health, including current portion	101,277	103,289
Amounts recorded in the consolidated statements of operations and changes in net assets:		
Operating expenses:		
Other revenue	106	102
Employee benefits	11,550	5,524
Contract labor	3,443	3,237
Information services — included in purchased services	16,499	15,675
Management services — included in purchased services	7,017	6,267
Repairs and maintenance - included in occupancy	2,087	1,678
Amortization	4,320	3,345
Interest expense	3,955	4,080
Insurance — included in other expenses	3,650	3,455
Reduction in insurance expense		(512)
Gain (losses) on investments in corporate pooled investment program and fees	10,192	(18,180)
Other - Included in nonoperating items	(717)	(664)
Transfers to affiliates	(3,601)	(5,123)

Trinity Health has purchased or constructed fixed assets, mainly computer hardware and software, that are utilized by the ministry organizations of Trinity Health. The Hospital 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 Hospital records amortization expense as allocated by Trinity Health.

12. FAIR VALUE MEASUREMENTS

The Hospital'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 Hospital'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 Hospital 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.

Additional Fair Value Disclosures under ASC 820 - On July 1, 2008 the Hospital adopted ASC 820, "*Fair Value Measurements and Disclosures*" (formerly known as FASB Statement No. 157, "*Fair Value Measurements*"). This standard defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. 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 Hospital classifies these securities as Level 2 within the fair value hierarchy.

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

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

Cash and Cash Equivalents, Investment in Trinity Health Corporate Pooled Investment Program, and Assets Limited as to Use — The carrying amounts reported in the consolidated balance sheets approximate their fair value.

Marketable Securities — The fair value amounts of marketable securities, included in investments and assets limited or restricted as to use in the consolidated balance sheets, are based on quoted market prices, if available, or are estimated using quoted market prices for similar securities.

Other Investments — Trinity Health invests in various commingled and other investments, both of which are included in investments and assets limited or restricted as to use in the consolidated balance sheets. Commingled funds are recorded at fair value as the underlying investments consist of securities that have a readily determinable market value.

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 positive investment returns regardless of market activity. These investments utilize a "fund-of-funds" approach resulting in diversified multi-strategy, multi-manager investments. Generally, redemption may be made with written notice ranging from one month to one year. 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. Trinity Health management's estimates of the fair values of alternative investments are based on information provided by the external investment and fund managers or the general partners. Trinity Health's 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, Trinity Health management's internal procedures include such things as review of returns against benchmarks and discussions with fund managers on performance, changes in personnel and changes in process, along with evaluations of current market conditions for these investments. Fund-of-funds managers also 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 from the values that would have been used had a ready market existed.

The Hospital classifies its marketable securities as trading securities. As a result, all holding gains and losses at June 30, 2010 and 2009 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, 2010 and 2009 were approximately $6.1 million and ($13.2) million, respectively.

The composition of cash, cash equivalents, investment in corporate pooled investment program, and investments at June 30, 2010 and 2009, is set forth below (in thousands):

	2010	**2009**
Cash and cash equivalents	$ 18,747	$ 29,731
Total investments in corporate pooled investment program — including amounts classified as assets limited or restricted as to use	134,650	85,194
Marketable securities and other investments	1,145	1,163
Total cash, cash equivalents, investment in corporate pooled investment program, and investments	$ 154,542	$ 116,088

The following table presents information about the fair value of the Hospital's financial assets at June 30, 2010 and June 30, 2009, respectively, according to the valuation techniques the Hospital used to determine their fair values.

	2010			
	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	$ 18,747			$ 18,747
Marketable securities	1,120	$	$ 0	1,120
U.S. Equity securities and mutual funds	25			25
Total	$ 19,892	$ 0	$ 0	$ 19,892

	2009			
	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	$ 29,731			$ 29,731
Marketable securities	1,140	$ 0	$ 0	1,140
U.S. Equity securities and mutual funds	23			23
Total	$ 30,894	$ 0	$ 0	$ 30,894

The aggregate cost of the Hospital's cost method investments totaled $0.2 million at June 30, 2010. Investments with an aggregate cost of $0.2 million were not evaluated for impairment because a) the Hospital did not estimate the fair value of those investments in accordance with ASC 825 (formerly known as) paragraphs 14 and 15 of FASB Statement No. 107, "Disclosures about Fair Value of Financial Instruments" and b) the Hospital did not identify any events or changes in circumstances that may have had a significant adverse effect on their fair value of those investments.

The following table presents information about the fair value of the Hospital's financial assets in the investment in the Trinity Health corporate pooled investment program at June 30, 2010, according to asset category and the valuation techniques used to determine their fair values. Other investments accounted for under the equity method of accounting represent 15% and 10% of the investment in the Trinity Health corporate pooled investment program at June 30, 2010 and 2009, and are excluded from the table below.

	(in thousands) 2010			
	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	12 %	3 %	0 %	15 %
U.S. Government and government agency obligatioı	0 %	4 %	0 %	4 %
U.S. and non U.S. fixed income and mutual funds	14 %	12 %	0 %	26 %
U.S. equity securities and mutual funds	14 %	0 %	0 %	14 %
Non-U.S. equity securities and mutual funds	7 %	0 %	0 %	7 %
Other investments —				
Commingled funds directly holding securities	0 %	19 %	0 %	19 %
Total investment in Trinity Health corporate pooled investment program	47 %	38 %	0 %	85 %

	(in thousands) 2009			
	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	21 %	4 %	0 %	25 %
U.S. Government and government agency obligatioı	0 %	2 %	0 %	2 %
U.S. and non U.S. fixed income and mutual funds	0 %	3 %	0 %	3 %
U.S. equity securities and mutual funds	16 %	0 %	0 %	16 %
Non-U.S. equity securities and mutual funds	9 %	0 %	0 %	9 %
Other investments —				
Commingled funds directly holding securities	0 %	35 %	0 %	35 %
Investment Collar	0 %	(0)%	0 %	(0)%
Absolute Return	0 %	0 %	0 %	0 %
Total investment in Trinity Health corporate pooled investment program	46 %	44 %	0 %	90 %

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 are as follows:

	2010	2009
	(in thousands)	
Dividend, interest income, and other	$ 2,574	$ 2,186
Net realized losses	1,533	(7,072)
Change in net unrealized gains (losses) on investments	6,088	(13,222)
Total investment (loss) return	$ 10,195	$ (18,108)
Included in:		
Operating (loss) income	$	$ 76
Nonoperating items	10,192	(18,176)
Permanetly restricted net assets	3	(8)
Total investment (loss) return	$ 10,195	$ (18,108)

Unconditional promises to give at June 30, 2010 and 2009, consist of the following (in thousands):

	2010	2009
Amount expected to be collected in:		
Less than one year	$ 64	$ 80
One to five years	24	200
Total contributions receivable	88	280
Discount to present value of future cash flows	(2)	(2)
Allowance for uncollectible amounts	(43)	(53)
Total unconditional promises to give — net	$ 43	$ 225

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 Hospital'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 fair value of Trinity Health's fixed and variable rate bonds issued under its master indenture was $2,618 million and $2,311 million for 2010 and 2009, respectively. The related carrying value of Trinity Health's fixed and variable rate bonds issued under its master indenture was $2,546 million and $2,286 million for 2010 and 2009, respectively.

The carrying amounts of the Trinity Health's variable-rate long-term debt approximate its fair values. 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 $1,473 million and $1,251 million for 2010 and

2009, respectively. The related carrying value of the fixed-rate long-term debt was $1,402 million and $1,226 million for 2010 and 2009, respectively.

13. SUBSEQUENT EVENTS

Management has evaluated subsequent events through September 24, 2010, the date the financial statements were available to be issued.

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SUPPLEMENTAL INFORMATION

HOLY CROSS HOSPITAL
(A Member of Trinity Health)

CONSOLIDATING SCHEDULE — BALANCE SHEET INFORMATION
AS OF JUNE 30, 2010
(In thousands)

	Holy Cross Hospital	Holy Cross Foundation	Maryland Care Group	Total
ASSETS				
CURRENT ASSETS:				
Cash and cash equivalents	$ 17,012	$ 720	$ 1,015	$ 18,747
Investments in Trinity Health corporate pooled investment program	133,367	(40)		133,327
Inventories	5,663			5,663
Prepaid expenses and other current assets	3,953	11		3,964
	159,995	691	1,015	161,701
Receivables:				
Patient accounts receivable	64,606		327	64,933
Allowance for doubtful accounts	(14,830)			(14,830)
Patient accounts receivable — net	49,776		327	50,103
Total current assets	209,771	691	1,342	211,804
ASSETS LIMITED OR RESTRICTED AS TO USE BY:				
Deferred compensation	46			46
Donors	169	2,269		2,438
Total assets limited or restricted as to use	215	2,269		2,484
OTHER ASSETS:				
Property and equipment — net	132,691		10	132,701
Investments in unconsolidated affiliates	1,243		150	1,393
Prepaid charges for shared information services	18,899			18,899
Other assets	530			530
Total other assets	153,363		160	153,523
TOTAL	$ 363,349	$ 2,960	$ 1,502	$ 367,811
LIABILITIES AND NET ASSETS				
CURRENT LIABILITIES:				
Current portion of long-term debt and notes payable to Trinity Health	$ 2,412	$	$	$ 2,412
Accounts payable and accrued expenses	13,070		132	13,202
Salary, wages, and related liabilities	19,542		62	19,604
Estimated payables to third-party payors	16,113			16,113
Total current liabilities	51,137		194	51,331
NONCURRENT LIABILITIES:				
Long-term debt — net of current portions	671			671
Notes Payable to Trinity Health, Net of Current Portion	99,350			99,350
Other long-term liabilities	994			994
Total noncurrent liabilities	101,015			101,015
Total liabilities	152,152		194	152,346
NET ASSETS:				
Unrestricted	211,028	691	1,308	213,027
Temporarily restricted	143	2,269		2,412
Permanently restricted	26			26
Total net assets	211,197	2,960	1,308	215,465
TOTAL	$ 363,349	$ 2,960	$ 1,502	$ 367,811

HOLY CROSS HOSPITAL
(A Member of Trinity Health)

CONSOLIDATING SCHEDULE — OPERATNG RESULTS AND CHANGES IN NET ASSETS INFORMATION
FOR THE YEAR ENDED JUNE 30, 2010
(In thousands)

	Holy Cross Hospital	Holy Cross Foundation	Maryland Care Group	Total
UNRESTRICTED REVENUE:				
Net patient service revenue	$ 378,299	$	$3,436	$ 381,735
Net assets released from restrictions	321	512		833
Other revenue	11,160	263	206	11,629
Total unrestricted revenue	389,780	775	3,642	394,197
EXPENSES:				
Labor:				
Salaries and wages	150,816		1,042	151,858
Employee benefits	33,945		141	34,086
Contract labor	6,347			6,347
Total labor expense	191,108		1,183	192,291
Supplies	65,034	86	4	65,124
Purchased services	48,043	294	2,425	50,762
Depreciation and amortization	21,859		3	21,862
Occupancy	13,609		27	13,636
Provisions for bad debt	18,127			18,127
Interest	3,836			3,836
Other	6,275		7	6,282
Total expenses	367,891	380	3,649	371,920
OPERATING INCOME (LOSS) BEFORE IN INSURANCE EXPENSE	21,889	395	(7)	22,277
REDUCTION IN INSURANCE EXPENSE				
OPERATING INCOME (LOSS)	21,889	395	(7)	22,277
NONOPERATING ITEMS:				
Net losses on investments in corporate pooled investment program:				
Investments held at fair value	7,735	82		7,817
Equity method investments	2,349	26		2,375
Other	(717)			(717)
Total nonoperating items	9,367	108		9,475
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENSES	$ 31,256	$ 503	$ (7)	$ 31,752

HOLY CROSS HOSPITAL
(A Member of Trinity Health)

CONSOLIDATING SCHEDULE — OPERATNG RESULTS AND CHANGES IN NET ASSETS INFORMATION
FOR THE YEAR ENDED JUNE 30, 2010
(In thousands)

	Holy Cross Hospital	Holy Cross Foundation	Maryland Care Group	Total
UNRESTRICTED NET ASSETS:				
Excess (deficiency) of revenue over expenses	$ 31,256	$ 503	$ (7)	$ 31,752
Net assets released from restrictions for capital acquisitions	636			636
Unrestricted contributions of Long Lived Assets	530			530
Transfers to affiliates	(3,601)			(3,601)
Increase (decrease) in unrestricted net assets	28,821	503	(7)	29,317
TEMPORARILY RESTRICTED NET ASSETS:				
Contributions	309	966		1,275
Net assets released from restrictions	(621)	(848)		(1,469)
(Decrease) increase in temporarily restricted net assets	(312)	118		(194)
PERMANENTLY RESTRICTED NET ASSETS				
Investment income	4			4
Other	(1)			(1)
Increase in permanently restricted net assets	3			3
DECREASE IN NET ASSETS	28,512	621	(7)	29,126
NET ASSETS — Beginning of year	182,685	2,339	1,315	186,339
NET ASSETS — End of year	$ 211,197	$ 2,960	$ 1,308	$ 215,465

(Concluded)