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MEDSTAR HEALTH, INC.

Consolidated Financial Statements and Supplementary Schedules

June 30, 2014 and 2013

(With Independent Auditors’ Report Thereon)

MEDSTAR HEALTH, INC.

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KPMG LLP
1 East Pratt Street
Baltimore, MD 21202-1128

Independent Auditors' Report

The Board of Directors
MedStar Health, Inc.:

We have audited the accompanying consolidated financial statements of MedStar Health, Inc. (the Corporation), which comprise the consolidated balance sheets as of June 30, 2014 and 2013, and the related consolidated statements of operations and changes in net assets and cash flows for the years then ended and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' 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.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly in all material respects, the financial position of MedStar Health, Inc. as of June 30, 2014 and 2013, and the results of their operations and their cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

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Other Matter

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplementary information included in Schedules 1 and 2 is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such 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 audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such 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 information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

KPMG LLP

October 6, 2014

MEDSTAR HEALTH, INC.

Consolidated Balance Sheets

June 30, 2014 and 2013

(Dollars in millions)

Assets		**2014**	**2013**
Current assets:			
Cash and cash equivalents	$	599.9	445.4
Investments		61.4	61.6
Assets whose use is limited or restricted		61.3	64.7
Receivables:			
From patient services (less allowances for uncollectible accounts of $188.8 in 2014 and $204.3 in 2013)		558.0	546.3
Other		69.6	51.2
		627.6	597.5
Inventories		56.3	57.0
Prepaids and other current assets		31.8	38.4
Total current assets		1,438.3	1,264.6
Investments		869.5	733.6
Assets whose use is limited or restricted		548.9	483.9
Property and equipment, net		1,152.9	1,137.1
Interest in net assets of foundation		64.9	54.8
Goodwill and other intangible assets, net		226.5	202.0
Other assets		146.8	135.8
Total assets	$	4,447.8	4,011.8

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MEDSTAR HEALTH, INC.

Consolidated Balance Sheets

June 30, 2014 and 2013

(Dollars in millions)

Liabilities and Net Assets		**2014**	**2013**
Current liabilities:			
Accounts payable and accrued expenses	$	419.6	357.4
Accrued salaries, benefits, and payroll taxes		304.9	281.5
Amounts due to third-party payors, net		85.7	66.7
Current portion of long-term debt		60.5	61.2
Current portion of self insurance liabilities		86.3	87.5
Other current liabilities		125.3	87.3
Total current liabilities		1,082.3	941.6
Long-term debt, net of current portion		1,192.6	1,207.2
Self insurance liabilities, net of current portion		312.4	253.2
Pension liabilities		234.3	304.9
Other long-term liabilities, net of current portion		137.6	140.0
Total liabilities		2,959.2	2,846.9
Net assets:			
Unrestricted net assets:			
MedStar Health, Inc.		1,322.2	1,017.4
Noncontrolling interests		5.2	9.4
Total unrestricted net assets		1,327.4	1,026.8
Temporarily restricted		121.8	99.0
Permanently restricted		39.4	39.1
Total net assets		1,488.6	1,164.9
Total liabilities and net assets	$	4,447.8	4,011.8

See accompanying notes to consolidated financial statements.

MEDSTAR HEALTH, INC.

Consolidated Statements of Operations and Changes in Net Assets

Years ended June 30, 2014 and 2013

(Dollars in millions)

		2014	2013
Operating revenues:			
Net patient service revenue:			
Hospital inpatient services	$	2,240.1	2,240.8
Hospital outpatient services		1,558.7	1,444.1
Physician services		315.1	290.5
Other patient service revenue		114.8	124.5
Total net patient service revenue		4,228.7	4,099.9
Provision for bad debts		193.2	214.5
Total net patient service revenue, net of provision for bad debts		4,035.5	3,885.4
Premium revenue		357.9	138.2
Other operating revenue		234.7	193.6
Net operating revenues		4,628.1	4,217.2
Operating expenses:			
Personnel		2,455.3	2,310.7
Supplies		696.7	658.9
Purchased services		682.6	562.1
Other operating		426.3	393.9
Interest expense		50.1	45.7
Depreciation and amortization		181.4	167.1
Total operating expenses		4,492.4	4,138.4
Earnings from operations		135.7	78.8
Nonoperating gains (losses):			
Investment income		13.3	15.5
Net realized gains on investments		68.6	24.9
Unrealized gains on derivative instrument		1.4	6.7
Unrealized gains on investments, net		91.6	64.0
Income tax (provision) benefit		(3.9)	1.9
Other nonoperating losses		(2.0)	(6.1)
Total nonoperating gains		169.0	106.9
Excess of revenues over expenses	$	304.7	185.7

(Continued)

MEDSTAR HEALTH, INC.

Consolidated Statements of Operations and Changes in Net Assets

Years ended June 30, 2014 and 2013

(Dollars in millions)

		2014	2013
Unrestricted net assets:			
Excess of revenues over expenses	$	304.7	185.7
Change in funded status of defined benefit plans		(2.1)	106.9
Distributions to noncontrolling interests		(3.7)	(6.3)
Net assets released from restrictions used for purchase of property and equipment and other		1.7	4.9
Increase in unrestricted net assets		300.6	291.2
Temporarily restricted net assets:			
Contributions		17.1	17.4
Realized net gains on restricted investments		3.1	1.8
Change in unrealized gains on restricted investments		3.4	1.9
Increase in net assets of foundation		10.1	6.3
Net assets released from restrictions		(10.9)	(8.9)
Increase in temporarily restricted net assets		22.8	18.5
Permanently restricted net assets:			
Contributions		—	1.5
Realized net gains on marketable restricted investments		0.1	0.1
Change in unrealized gains on restricted investments		0.2	0.1
Increase in permanently restricted net assets		0.3	1.7
Increase in net assets		323.7	311.4
Net assets, beginning of year		1,164.9	853.5
Net assets, end of year	$	1,488.6	1,164.9

See accompanying notes to consolidated financial statements.

MEDSTAR HEALTH, INC.

Consolidated Statements of Cash Flows

Years ended June 30, 2014 and 2013

(Dollars in millions)

		2014	2013
Cash flows from operating activities:			
Change in net assets	$	323.7	311.4
Adjustments to reconcile change in net assets to net cash provided by operating activities:			
Depreciation and amortization		181.4	167.1
Amortization of bond financing costs, premiums and discounts		(1.2)	(0.3)
Loss (gain) on sale of property and equipment		0.2	(0.1)
Change in funded status of defined benefit plans		2.1	(106.9)
Realized net gains on marketable investments		(71.8)	(26.8)
Change in unrealized gains of marketable investments		(95.2)	(66.1)
Increase in net assets of foundation		(10.1)	(6.3)
Unrealized gain on derivative instrument		(1.4)	(6.7)
Net settlement payment on derivative instrument		3.7	3.9
Loss on extinguishment of debt		—	2.5
Distributions to noncontrolling interests		3.7	6.3
Deferred income tax provision (benefit)		3.6	(1.8)
Provision for bad debts		193.2	214.5
Temporarily and permanently restricted contributions		(17.1)	(18.9)
Gain on sale of consolidated joint venture, net of noncontrolling interests		(1.2)	—
Changes in operating assets and liabilities:			
Receivables		(224.3)	(188.5)
Inventories and other assets		(28.5)	(44.5)
Accounts payable and accrued expenses		107.0	50.2
Amounts due to third-party payors		19.0	(4.9)
Other liabilities		25.0	(45.5)
Net cash provided by operations		411.8	238.6
Cash flows from investing activities:			
Proceeds (purchases) of investments and assets whose use is limited or restricted, net		81.5	(106.0)
Purchases of alternative investments		(240.7)	(77.0)
Proceeds from sales of alternative investments		128.8	2.8
Proceeds from sale of consolidated joint venture		5.4	—
Net settlement payment on derivative instrument		(3.7)	(3.9)
Purchases of property and equipment, acquisition of Southern Maryland Hospital Center and other		(221.3)	(427.1)
Net cash used in investing activities		(250.0)	(611.2)
Cash flows from financing activities:			
Proceeds from long-term borrowings		—	498.9
Repayments of long-term borrowings		(20.5)	(18.5)
Repayments of refinanced bonds and other borrowings		—	(240.6)
Payment of deferred issuance costs		(0.2)	(3.0)
Temporarily and permanently restricted contributions and other		17.1	18.9
Distributions to noncontrolling interests		(3.7)	(6.3)
Net cash (used in) provided by financing activities		(7.3)	249.4
Increase (decrease) in cash and cash equivalents		154.5	(123.2)
Cash and cash equivalents at beginning of year		445.4	568.6
Cash and cash equivalents at end of year	$	599.9	445.4
Supplemental disclosure of cash flow information:			
Interest paid	$	50.8	44.8
Noncash investing and financing activities:			
Accounts payable for fixed asset purchases	$	17.0	19.2

See accompanying notes to consolidated financial statements.

(1) Description of Organization and Summary of Significant Accounting Policies

(a) Organization

MedStar Health, Inc. (MedStar or the Corporation) is a tax-exempt, Maryland membership corporation which, through its controlled entities and other affiliates, provides and manages healthcare services in the region encompassing Maryland, Washington D.C. and Northern Virginia. The Corporation became operational on June 30, 1998 by the transfer of the membership interests of Helix Health, Inc. (Helix – a not-for-profit Maryland Corporation) and Medlantic Healthcare Group, Inc. (Medlantic – a not-for-profit Delaware Corporation) in exchange for the guarantee of the debt of both Helix and Medlantic by the Corporation. The trade names of the principal tax-exempt and taxable entities of the Corporation are:

Tax-Exempt

- MedStar Ambulatory Services (formerly known as Bay Development Corporation)
- MedStar Franklin Square Medical Center
- MedStar Georgetown University Hospital
- MedStar Good Samaritan Hospital
- MedStar Harbor Hospital
- MedStar Health Research Institute
- MedStar Health Visiting Nurse Association, Inc.
- MedStar Medical Group, LLC
- MedStar Montgomery Medical Center
- MedStar National Rehabilitation Network
- MedStar Southern Maryland Hospital Center
- MedStar St. Mary's Hospital
- MedStar Surgery Center, Inc.
- MedStar Union Memorial Hospital
- MedStar Washington Hospital Center
- Church Home and Hospital of the City of Baltimore, Inc.
- HH MedStar Health, Inc.

Taxable

- Greenspring Financial Insurance, LTD.
- MedStar Enterprises, Inc. and Subsidiaries

- MedStar Family Choice, Inc.
- MedStar Physician Partners, Inc.
- Parkway Ventures, Inc. and Subsidiaries

(b) Acquisition of Southern Maryland Hospital, Inc.

On December 10, 2012, the Corporation and Southern Maryland Hospital, Inc. (the Hospital) closed on an asset purchase agreement, whereby the Corporation purchased substantially all of the assets and assumed certain obligations of the Hospital. The Hospital is a 263-bed acute care hospital located in Clinton, Maryland in Prince George's County. As a result of the transaction, the Corporation recognized approximately $80.0 of property, plant and equipment, approximately $150.0 of goodwill and other intangible assets, and working capital amounts. In December 2012, the Corporation entered into a $180.0 bridge loan, that was replaced by permanent financing in May 2013 (see note 6), and used the proceeds to fund the acquisition. The asset purchase agreement provided for certain adjustments to the purchase price and net working capital calculations, which were settled and recorded during fiscal 2014. The consolidated financial statements include the operations of the Hospital since the closing date.

Due to significant changes in the legal, organizational and reporting structure of the Hospital subsequent to the purchase, the Corporation determined that the presentation of supplemental pro forma results for the year ended June 30, 2013 was impracticable. The net operating revenues and total operating expenses of the Hospital are less than 3% of consolidated operating revenues and expenses for the year ended June 30, 2013, which are not considered significant to the Corporation's operations for the year ended June 30, 2013.

(c) Basis of Presentation

The consolidated financial statements are prepared on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles (U.S. GAAP). All majority owned subsidiaries, direct member entities and controlled affiliates are consolidated. All entities where the Corporation exercises significant influence but for which it does not have control are accounted for under the equity method. All other entities are accounted for under the cost method. All significant intercompany accounts and transactions have been eliminated.

(d) Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, 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. Significant changes to estimates resulting from the above referenced settlement associated with the purchase of the Hospital and amounts related to settled, or tentatively settled, prior year third party cost reports (see note 9) resulted in gains of approximately $20.0 and $16.0 during the years ended June 30, 2014 and 2013, respectively. Future results could differ from those estimates.

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(e) Cash Equivalents

All highly liquid investments with a maturity date of three months or less when purchased are considered to be cash equivalents.

(f) Investments and Assets whose use is Limited or Restricted

The Corporation's investment portfolio is considered trading, with the exception of the alternative investments, and is classified as current or noncurrent assets based on management's intention as to use. All securities are reported at fair value principally based on quoted market prices in the consolidated balance sheets. The Corporation has elected to use the fair value option to account for its alternative investments. The fair value of alternative investments is determined based on the Net Asset Value (NAV) of the shares in each investment company or partnership. Purchases and sales of securities are recorded on a trade-date basis.

Investments in unconsolidated affiliates are accounted for under the cost or equity method of accounting, as appropriate, and are included in other assets in the consolidated balance sheets. The Corporation utilizes the equity method of accounting for its investments in entities over which it exercises significant influence. The Corporation's equity income or loss is recognized in other operating revenue on the consolidated statements of operations and changes in net assets.

Assets whose use is limited or restricted include assets held by trustees under bond indenture, self-insurance trust arrangements, assets restricted by donor, and assets designated by the Board of Directors for future capital improvements and other purposes over which it retains control and may, at its discretion, use for other purposes. Amounts from these funds required to meet current liabilities have been classified in the consolidated balance sheets as current assets.

Investment income (interest and dividends) and realized gains and losses on investment sales are reported as nonoperating gains and losses in the excess of revenues over expenses in the accompanying consolidated statements of operations and changes in net assets unless the income or loss is restricted by the donor or law. Investment income and realized gains and losses on funds held in trust for self-insurance purposes is included in other operating revenue. Investment income and net gains and losses that are restricted by the donor are recorded as a component of changes in temporarily or permanently restricted net assets, in accordance with donor imposed restrictions. Realized gains and losses are determined based on the specific security's original purchase price or adjusted cost if the investment was previously determined to be other-than-temporarily impaired. Unrealized gains and losses are included in nonoperating gains and losses within the excess of revenue over expenses.

(g) Inventories

Inventories, which primarily consist of medical supplies and pharmaceuticals at many of the operating entities, are stated at the lower of cost or market, with cost being determined primarily under the average cost or first-in, first-out methods.

(Dollars in millions)

(h) Property and Equipment

Property and equipment acquisitions are recorded at cost and are depreciated or amortized over the estimated useful lives of the assets. Estimated useful lives range from three to forty years. Amortization of assets held under capital leases is computed using the shorter of the lease term or the estimated useful life of the leased asset and is included in depreciation and amortization expense. 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. Depreciation is computed on a straight-line basis. Major classes and estimated useful lives of property and equipment are as follows:

Leasehold improvements	Lease term
Buildings and improvements	10–40 years
Equipment	3–20 years

Gifts of long-lived assets such as land, buildings, or equipment are reported as unrestricted support, and are excluded from the excess of revenues 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. Absent explicit donor stipulations about how long those long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

Management routinely evaluates the carrying value of its long-lived assets for impairment. No impairment charges were recorded against the carrying value of the Corporation's long-lived assets during the years ended June 30, 2014 and 2013.

(i) Interest in Net Assets of Foundation

The Corporation recognizes its rights to assets held by a recipient organization, which accepts cash or other financial assets from a donor and agrees to use those assets on behalf of or transfer those assets, the return on investment of those assets, or both, to the Corporation. Changes in the Corporation's economic interests in the financially interrelated organization are recognized in the consolidated statements of operations and changes in net assets as a component of changes in temporarily restricted net assets.

(j) Goodwill and Other Intangible Assets

Goodwill is an asset representing the future economic benefits arising from other assets acquired in a business combination that are not individually identified and separately recognized. As of June 30, 2014 and 2013, the Corporation had one reporting unit, which included all subsidiaries of the Corporation and held goodwill, net on its balance sheet of $190.2 and $163.8, respectively. Goodwill is evaluated for impairment annually using a qualitative assessment to determine whether there are events or circumstances that indicate it is more likely than not that the reporting unit's fair value is

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less than its carrying amount. Based on this qualitative assessment, the Corporation determined that there was no goodwill impairment for the years ended June 30, 2014 and 2013.

Other intangible assets recorded at fair value and amortized over their estimated useful lives. Other intangible assets were $42.4 and $41.9 as of June 30, 2014 and 2013, respectively, and related accumulated amortization was $6.1 and $3.7, respectively. The Corporation recognized amortization expense of $2.4 and $2.0 for the years ended June 30, 2014 and 2013, respectively, related to identifiable intangible assets.

(k) Internal-Use Software

The Corporation capitalizes the direct costs, including internal personnel costs, associated with the implementation of new information systems for internal use. The Corporation capitalized $0.9 and $4.6 during the years ended June 30, 2014 and 2013, respectively. Capitalized amounts are amortized over the estimated lives of the software, which is generally three to five years.

(l) Financing Costs

Financing costs incurred in issuing bonds have been capitalized and are included in other assets on the consolidated balance sheets. These costs are being amortized over the estimated duration of the related debt using the effective interest method. Accumulated amortization totaled $5.6 and $4.7 as of June 30, 2014 and 2013, respectively.

(m) Estimated Professional Liability Costs

The provision for estimated self-insured professional liability claims includes estimates of the ultimate costs for both reported claims and claims incurred but not reported. These estimates are based on actuarial analysis of historical trends, claims asserted and reported incidents. The receivables related to such claims are recorded at their net realizable value.

(n) Leases

Lease arrangements, including assets under construction, are capitalized when such leases convey substantially all the risks and benefits incidental to ownership. Capital leases are amortized over either the lease term or the life of the related assets, depending upon available purchase options and lease renewal features. Amortization related to capital leases is included in the consolidated statements of operations and changes in net assets within depreciation and amortization expense.

(o) Derivative

The Corporation utilizes a derivative financial instrument to manage its interest rate risks associated with tax-exempt debt. The Corporation does not hold or issue derivative financial instruments for trading purposes. The derivative instrument is recorded on the consolidated balance sheets at its fair value. The Corporation's current derivative investment does not qualify for hedge accounting; therefore, the changes in fair value have been recognized in the accompanying consolidated statements of operations and changes in net assets as mark-to-market adjustments in nonoperating gains (losses). The fair market value of the derivative instrument is included in other long-term liabilities in the accompanying consolidated balance sheets.

(p) Net Patient Service Revenue and Net Patient Accounts Receivable

Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments due to future audits, reviews and investigations. The differences between the estimated and actual amounts are recorded as part of net patient service revenue in future periods as the amounts become known, or as years are no longer subject to audit, review or investigation. Payment arrangements include prospectively determined rates per discharge, fee-for-service, discounted charges, and per diem payments. Hospital inpatient services, hospital outpatient services, the physician component of physician/managed care networks, and other patient service revenues are recognized when the services are rendered based on billable charges. Other patient service revenue primarily consists of home care, long-term care and other non-hospital patient services.

The Corporation's policy is to write-off all patient receivables which are identified as uncollectible. Patient accounts receivable are reduced by an allowance for uncollectible accounts to reserve for accounts which are expected to become uncollectible in future years. In evaluating the collectability of accounts receivable, the Corporation analyzes historical collections and write-offs and identifies trends for each of its major payor sources of revenue and amounts due from patients to estimate the appropriate allowance for uncollectible accounts and provision for bad debts.

Premium revenue consists of amounts received from the State of Maryland and the District of Columbia by the Corporation's managed care organization for providing medical services to subscribing participants, regardless of services actually performed. The managed care organization provides services primarily to enrolled Medicaid beneficiaries. This revenue is recognized ratably over the contractual period for the provision of services. Medical expenses of the managed care organization include a provision for incurred but unreported claims and are included in purchased services on the consolidated statements of operations.

(q) Charity Care

The Corporation provides care to patients who meet certain criteria under its charity care policies without charge or at amounts less than established rates. Because the Corporation does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue.

(r) Grants

Federal grants are accounted for as either an exchange transaction or as a contribution based on terms and conditions of the grant. If the grant is accounted for as an exchange transaction, revenue is recognized as other operating revenue when earned. If the grant is accounted for as a contribution, the revenues are recognized as either other operating revenue, or as temporarily restricted contributions depending on the restrictions within the grant.

(s) Contributions

Unconditional promises to give cash and other assets to the Corporation are reported at fair value at the date the promise is received. Conditional promises to give and indications of intentions to give are reported at fair value at the date the gift is received. 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 as unrestricted net assets and reported in the consolidated statements of operations and changes in net assets as net assets released from restrictions in other operating revenue. Donor-restricted contributions whose restrictions are met within the same year as received are reported as unrestricted net assets and reported within other operating revenue in the accompanying consolidated financial statements.

(t) Meaningful Use Incentives

Under certain provisions of the American Recovery and Reinvestment Act of 2009 (ARRA), federal incentive payments are available to hospitals, physicians and certain other professionals (Providers) when they adopt, implement or upgrade certified electronic health record (EHR) technology and become "meaningful users," as defined under ARRA, of EHR technology in ways that demonstrate improved quality, safety and effectiveness of care. Incentive payments will be paid out over varying transitional schedules depending on the type of incentive (Medicare and Medicaid) and recipient (hospital or eligible provider). Eligible hospitals can attest for both Medicare and Medicaid incentives, while physicians must select to attest for either Medicare or Medicaid incentives. For Medicare incentives, eligible hospitals receive payments over four years while eligible physicians receive payments over five years. For Medicaid incentives, eligible hospitals receive payments based on the relevant State adopted payment structure and physicians receive payments over six years.

The Corporation recognizes EHR incentives when it is reasonably assured that the Corporation will successfully demonstrate compliance with the meaningful use criteria. During the years ended June 30, 2014 and 2013, certain hospitals and physicians satisfied the meaningful use criteria. As a result, the Corporation recognized $23.4 and $16.6 of EHR incentives during fiscal year 2014 and 2013, respectively, in other operating revenue.

(u) Excess of Revenues over Expenses

The consolidated statements of operations and changes in net assets include a performance indicator, which is the excess of revenues over expenses. Changes in unrestricted net assets that are excluded from excess of revenues over expenses, include contributions of long-lived assets (including assets acquired using contributions that by donor restriction were to be used for the purpose of acquiring such assets), contributions from and distributions to noncontrolling interests, and defined benefit obligations in excess of recognized pension cost, among others.

(v) Income Taxes

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the period that includes the enactment date. Any changes to the valuation allowance on the deferred tax asset are reflected in the year of the change. The Corporation accounts for uncertain tax positions in accordance with the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 740, *Income Taxes*.

(w) Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are those whose use by the Corporation or individual operating units has been limited by donors to a specific time period or purpose. Permanently restricted net assets have been restricted by donors to be maintained by the Corporation or individual operating units in perpetuity.

(x) Fair Value of Financial Instruments

The following methods and assumptions were used to estimate the fair value of financial instruments:

Cash and cash equivalents, receivables, other current assets, other assets, current liabilities and long-term liabilities: The carrying amount reported in the consolidated balance sheets for each of these assets and liabilities approximates their fair value.

The fair value of investments, assets whose use is limited or restricted and the interest rate swap is discussed in note 3. The fair value of long term debt is discussed in note 6.

(y) New Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) issued *Accounting Standards update (ASU) 2014-09, Revenue from Contracts with Customers (Topic 606)*. This ASU establishes principles for reporting useful information to users of financial statements about the nature, amount, timing, and uncertainty of revenue and cash flows arising from the entity’s contracts with customers. Particularly, that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. ASU 2014-09 is effective for fiscal year 2018. The Corporation expects to record a decrease in net patient service revenue and a corresponding decrease in bad debt expense upon adoption of the standard.

(z) Reclassifications

Certain prior year amounts have been reclassified to conform with current period presentation, the effect of which is not material.

(Dollars in millions)

(2) Investments and Assets Whose Use is Limited or Restricted

Investments and assets whose use is limited or restricted as of June 30, 2014 and 2013, at fair value consist of the following:

	2014	2013
Cash and cash equivalents	$ 82.8	98.5
Fixed income securities and funds	356.2	393.1
Equity securities	559.3	509.8
Alternative investments:		
Commingled equity funds	194.2	103.3
Inflation hedging equity, commodity, fixed income fund	72.4	62.6
Hedge fund of funds and private equity	276.2	176.5
Total investments and assets whose use is limited or restricted	1,541.1	1,343.8
Less short-term investments and assets whose use is limited or restricted	(122.7)	(126.3)
Long-term investments and assets whose use is limited or restricted	$ 1,418.4	1,217.5

Assets whose use is limited or restricted as of June 30, 2014 and 2013, included in the table above, consist of the following:

	2014	2013
Funds held by trustees	$ 60.5	71.1
Self-insurance funds	256.6	216.8
Funds restricted by donors for specific purposes and endowment	86.1	69.7
Funds designated by board and management	207.0	191.0
Total assets whose use is limited or restricted	610.2	548.6
Less assets required for current obligations	(61.3)	(64.7)
Long-term assets whose use limited or restricted	$ 548.9	483.9

(Dollars in millions)

Investment income and realized and unrealized gains for assets whose use is limited, cash equivalents and investments are comprised of the following for the years ended June 30, 2014 and 2013:

		2014	2013
Other operating revenue:			
Investment income and realized gains	$	8.5	4.9
Nonoperating gains:			
Investment income		13.3	15.5
Net realized gains on investments		68.6	24.9
Unrealized gains on investments		91.6	64.0
		173.5	104.4
Other changes in net assets:			
Realized net gains on temporarily and permanently restricted net assets		3.2	1.9
Change in unrealized gains on temporarily and permanently restricted net assets		3.6	2.0
Total investment return	$	188.8	113.2

(3) Fair Value of Financial Instruments

The Corporation follows the guidance within FASB ASC Topic 820, *Fair Value Measurement (ASC 820)*, which defines fair value and establishes methods used to measure fair value. The fair value hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. The three levels of the fair value hierarchy under ASC 820 are described below:

- Level 1 – Quoted prices in active markets for identical assets or liabilities at the measurement date;
- Level 2 – Observable inputs other than quoted prices for the asset, either directly or indirectly observable, that reflect assumptions market participants would use to price the asset based on market data obtained from sources independent of the Corporation.
- Level 3 – Unobservable inputs that reflect the Corporations own assumptions about the assumptions market participants would use to price an asset based on the best information available in the circumstances.

The Corporation has incorporated an Investment Policy Statement (IPS) into the investment program. The IPS, which has been formally adopted by the Corporation's Board of Directors, contains numerous standards designed to ensure adequate diversification by asset class and geography. The IPS also limits all investments by manager and position size, and limits fixed income position size based on credit ratings, which serves to further mitigate the risks associated with the investment program. At June 30, 2014 and 2013, management believes that all investments were being managed in a manner consistent with the IPS.

(Dollars in millions)

The following table illustrates the actual allocations of the investment portfolio as of June 30:

	Actual allocation June 30, 2014	Actual allocation June 30, 2013
Publicly traded equities – domestic	26%	29%
Publicly traded equities – international	14	14
Fixed income securities	16	22
Alternative investments:		
Commingled equity funds	12	9
Inflation hedging equity, commodity, fixed income fund	9	9
Hedge funds	20	13
Private equities	1	2
Cash	2	2
Total	100%	100%

The table below presents the Corporation's investable assets and liabilities as of June 30, 2014, aggregated by the three level valuation hierarchy:

	Level 1	Level 2	Level 3	Total
Assets:				
Cash and cash equivalents	$ 682.7	—	—	682.7
U.S. Treasury bonds	71.1	—	—	71.1
U.S. agency mortgage backed securities	92.8	—	—	92.8
Corporate bonds	—	82.1	—	82.1
Fixed income mutual funds	0.8	76.9	—	77.7
All other fixed income securities	5.4	27.1	—	32.5
Equity mutual funds & ETF's	121.8	—	—	121.8
Common stocks	437.5	—	—	437.5
Alternative investments:				
Commingled equity funds	—	194.2	—	194.2
Inflation hedging equity, commodity, fixed income fund	—	72.4	—	72.4
Private equity	—	—	17.0	17.0
Hedge funds	—	—	259.2	259.2
Total assets	$ 1,412.1	452.7	276.2	2,141.0
Liabilities:				
Interest rate swap	$ —	15.0	—	15.0
Total liabilities	$ —	15.0	—	15.0

(Continued)

(Dollars in millions)

The table below presents the Corporation's investable assets and liabilities as of June 30, 2013, aggregated by the three level valuation hierarchy:

	Level 1	Level 2	Level 3	Total
Assets:				
Cash and cash equivalents	$ 543.9	—	—	543.9
U.S. Treasury bonds	60.6	—	—	60.6
U.S. agency mortgage backed securities	124.2	—	—	124.2
Corporate bonds	—	90.7	—	90.7
Fixed income mutual funds	0.7	78.2	—	78.9
All other fixed income securities	4.8	33.9	—	38.7
Equity mutual funds & ETF's	101.8	—	—	101.8
Common stocks	408.0	—	—	408.0
Alternative investments:				
Commingled equity funds	—	103.3	—	103.3
Inflation hedging equity, commodity, fixed income fund	—	62.6	—	62.6
Private equity	—	—	16.4	16.4
Hedge funds	—	—	160.1	160.1
Total assets	$ 1,244.0	368.7	176.5	1,789.2
Liabilities:				
Interest rate swap	$ —	16.4	—	16.4
Total liabilities	$ —	16.4	—	16.4

For the years ended June 30, 2014 and 2013, there were no significant transfers between Levels 1, 2 or 3.

(Dollars in millions)

Changes to the fair values based on the Level 3 inputs are summarized as follows:

		Private equity	Hedge funds	Total
Balance as of June 30, 2012	$	19.4	117.6	137.0
Additions:				
Contributions/purchases		0.9	26.7	27.6
Disbursements:				
Withdrawals/sales		(2.8)	—	(2.8)
Net change in value		(1.1)	15.8	14.7
Balance as of June 30, 2013		16.4	160.1	176.5
Additions:				
Contributions/purchases		1.4	204.3	205.7
Disbursements:				
Withdrawals/sales		(3.4)	(125.4)	(128.8)
Net change in value		2.6	20.2	22.8
Balance as of June 30, 2014	$	17.0	259.2	276.2

The following summarizes redemption terms for the hedge fund-of-funds vehicles held as of June 30, 2014:

	Fund 1	Fund 2	Fund 3	Fund 4
Redemption timing:				
Redemption frequency	Quarterly	95% within 1 year (1) 5% in 1 year or longer	Quarterly	Quarterly
Required notice	70 days	up to 90 days	90 days	65 days
Audit reserve:				
Percentage held back for audit reserve	10%	up to 10%	10%	10%
Gates:				
Potential gate holdback	—	up to 7.5%	—	—
Potential gate release timeframe	—	—	—	—

(1) One-third of this fund is redeemable within 90 days and the remainder of the investment is redeemable within one year.

Investments in hedge fund-of-funds are typically carried at estimated fair value. Fair value is based on the Net Asset Value (NAV) of the shares in each investment company or partnership. Such investment companies or partnerships mark-to-market or mark-to-fair value the underlying assets and liabilities in accordance with U.S. GAAP. Realized and unrealized gains and losses of the investment companies and partnerships are included in their respective operations in the current year. Changes in unrealized gains or losses on investments, including those for which partial liquidations were effected in the course of the year, are calculated as the difference between the NAV of the investment at year-end less the NAV of the investment at the beginning of the year, as adjusted for contributions and redemptions made during the year and certain lock-up provisions. Generally, no dividends or other distributions are paid.

(Dollars in millions)

The following summarizes the status of contributions to the private equity fund-of-funds vehicles held as of June 30, 2014:

	Total commitment	Percentage of commitment contributed	Percentage of commitment remaining
Fund 1	$ 11.0	92.7%	7.3%
Fund 2	7.1	95.0	5.0
Fund 3	7.1	81.5	18.5
Fund 4	10.0	6.3	93.7
Total	$ 35.2		

Investments in private equity funds, typically structured as limited partnership interests, are carried at fair value using NAV or equivalent as determined by the General Partner in the absence of readily ascertainable market values. Distributions under this investment structure are made to investors through the liquidation of the underlying assets. It is expected to take up to ten years to fully distribute the proceeds of those assets. The fair value of limited partnership interests is generally based on fair value capital balances reported by the underlying partnerships, subject to management review and adjustment. Security values of companies traded on exchanges, or quoted on NASDAQ, are based upon the last reported sales price on the valuation date. Security values of companies traded over the counter, but not quoted on NASDAQ, and securities for which no sale occurred on the valuation date are based upon the last quoted bid price. The value of any security for which a market quotation is not readily available may be its cost, provided however, that the General Partner adjusts such cost value to reflect any bona fide third party transactions in such a security between knowledgeable investors, of which the General Partner has knowledge. In the absence of any such third party transactions, the General Partner may use other information to develop a good faith determination of value. Examples include, but are not limited to, discounted cash flow models, absolute value models, and price multiple models. Inputs for these models may include, but are not limited to, financial statement information, discount rates, and salvage value assumptions.

The valuation of both marketable and nonmarketable securities may include discounts to reflect a lack of liquidity or extraordinary risks, which may be associated with the investment. Determination of fair value is performed on a quarterly basis by the General Partner. Because of the inherent uncertainty of valuation, the determined values may differ significantly from the values that would have been used had a ready market for those investments existed.

(Dollars in millions)

(4) Property and Equipment

Property and equipment as of June 30, 2014 and 2013 is as follows:

		2014	2013
Land	$	83.8	70.4
Buildings and improvements		1,281.9	1,249.4
Equipment		1,746.4	1,646.3
		3,112.1	2,966.1
Less accumulated depreciation and amortization		(2,025.6)	(1,914.1)
		1,086.5	1,052.0
Construction-in-progress		66.4	85.1
	$	1,152.9	1,137.1

Construction-in-progress includes a variety of ongoing capital projects at the Corporation as of June 30, 2014 and 2013. Depreciation and amortization expense related to property and equipment amounted to $178.5 and $165.1 for the years ended June 30, 2014 and 2013, respectively.

(5) Other Assets

Other assets as of June 30, 2014 and 2013 consist of the following:

		2014	2013
Deferred financing costs, net	$	13.1	13.8
Investments in unconsolidated entities		15.2	15.0
Reinsurance receivables		47.3	44.6
Deferred tax asset		26.3	28.4
Other assets		44.9	34.0
	$	146.8	135.8

The Corporation has investments in other healthcare related organizations that are accounted for under the equity method which total $15.2 and $15.0 at June 30, 2014 and 2013, respectively. Under the equity method, original investments are recorded at cost and adjusted by the Corporation’s share of the undistributed earnings or losses of these organizations. The related ownership interest in these organizations ranges from 8% to 50%. The Corporation’s share of earnings in these organizations was $3.1 and $4.2 for the years ended June 30, 2014 and 2013, respectively, and are recognized in other operating revenue in the consolidated statements of operations and changes in net assets. Certain other nonconsolidated entities are recorded under the cost method.

(Dollars in millions)

(6) Debt

As of June 30, 2014 and 2013, the Corporation's outstanding borrowings include the following:

		2014	2013
Maryland Health and Higher Educational Facilities:			
Authority revenue bonds:			
5.25% Term bonds (Series 1998A, due 2038)	$	82.0	82.0
5.25% Term bonds (Series 1998B, due 2038)		57.0	57.0
4.25% – 5.75% Serial bonds (Series 2004, due 2009 – 2025)		21.6	25.8
5.375% Term bonds (Series 2004, due 2024)		49.7	49.7
5.50% Term bonds (Series 2004, due 2033)		80.1	80.1
4.75% Term bonds (Series 2007, due 2042)		56.0	56.0
5.25% Term bonds (Series 2007, due 2046)		89.0	89.0
2.00% – 5.00% Serial bonds (Series 2011, due 2012 – 2023)		44.7	51.8
5.00% Term bonds (Series 2011, due 2031)		5.6	5.6
5.00% Term bonds (Series 2011, due 2041)		35.4	35.4
2.19% Direct Purchase (Series 2012, due 2017 – 2022)		38.6	38.6
3.00% – 5.00% Serial bonds (Series 2013A, due 2016 – 2028)		60.9	60.9
5.00% Term bonds (Series 2013A, due 2038)		17.3	17.3
5.00% Term bonds (Series 2013A, due 2041)		25.0	25.0
4.00% Term bonds (Series 2013A, due 2041)		14.6	14.6
3.00% – 5.00% Serial bonds (Series 2013B, due 2025 – 2033)		60.8	60.8
4.00% Term bonds (Series 2013B, due 2038)		45.0	45.0
5.00% Term bonds (Series 2013B, due 2038)		44.0	44.0
Plus unamortized net premium		28.0	30.0
		855.3	868.6
District of Columbia Hospital Revenue Bonds:			
Multimodal revenue bonds:			
0.03% – 0.08% at June 30, 2014 Serial bonds (Series 1998A due 2008-2038) (and 0.04% – 0.12% at June 30, 2013)		125.9	128.9
2.75% – 5.00% Serial bonds (Series 1998B, due 2008 – 2019)		9.6	11.0
5.00% Term bonds (Series 1998B, due 2028)		20.2	20.2
5.00% Term bonds (Series 1998B, due 2038)		33.9	33.9
2.75% – 5.00% Serial bonds (Series 1998C, due 2008 – 2019)		9.7	11.0

(Dollars in millions)

		2014	2013
5.50% Term bonds (Series 1998C, due 2028)	$	20.1	20.1
5.00% Term bonds (Series 1998C, due 2038)		34.0	34.0
Less unamortized net discount		(1.3)	(1.2)
		252.1	257.9
Other:			
Notes payable to financial institutions or state agencies under mortgages (floating rates ranging between 0.9% – 6.2%) and other		15.9	12.1
Line of credit due August 2016 (0.18% – 0.80% at June 30, 2014 and 0.25% – 0.90% at June 30, 2013)		129.8	129.8
		145.7	141.9
Total debt		1,253.1	1,268.4
Less current portion of long-term debt		(60.5)	(61.2)
Long-term debt, net	$	1,192.6	1,207.2

Scheduled maturities on borrowings, for the next five fiscal years and thereafter are as follows:

2015	$	60.5
2016		19.3
2017		151.1
2018		22.3
2019		23.4
Thereafter		949.8
	$	1,226.4

The fair value of outstanding tax exempt bonds is estimated to be $1,145.4 and $1,122.4 as of June 30, 2014 and 2013, respectively. The fair value of other long-term debt approximates its carrying value.

In December 1998, the Maryland Health and Higher Education Facilities Authority (MHHEFA) and the District of Columbia (District) issued bonds (Series 1998 Bonds) on behalf of the Corporation. Bond proceeds of approximately $588.6 were loaned to the Corporation under separate loan agreements with MHHEFA and the District upon execution of obligations pursuant to the Master Trust Indenture. The District issued $300.0 of Multimodal Revenue Bonds, including $150.0 Series 1998A ($27.2 repaid through August 2014), $75.0 Series 1998B ($12.7 repaid through August 2014), and $75.0 Series 1998C ($12.7 repaid through August 2014).

The District Series 1998A bonds, which consist of three tranches totaling $122.9 at August 2014, trade as uninsured Variable Rate Demand Obligations backed by bank letters of credit. The Series 1998A Tranche I bonds which remained outstanding in August 2014 consisted of approximately $41.0 bonds trading in a daily mode backed by a letter of credit issued by Wells Fargo Bank, National Association (formerly Wachovia Bank, National Association) and remarketed by J.P. Morgan Securities Inc. The letter of credit expires in March 2017. In the event of a failed remarketing, the Tranche I bonds would be tendered to the bank and repaid over a four-year period, beginning 367 days following the date of the failed remarketing. The Series 1998A Tranche II bonds totaled $41.0 in August 2014. These bonds trade in a weekly mode and are remarketed by Citigroup Global Markets Inc. The letter of credit backing these bonds was issued by JPMorgan Chase Bank, N.A. and expires in May 2015 and accordingly is included in the current portion of long-term debt. In the event of a failed remarketing, the Tranche II bonds would be tendered to the bank and repaid over a four-year period, beginning 367 days following the failed remarketing. The Series 1998A Tranche III bonds totaled $41.0 in August 2014. These bonds trade in a weekly mode and are remarketed by Citigroup Global Markets Inc. The letter of credit backing these bonds was issued by PNC Bank, National Association. The term of the letter of credit is five years, and expires in May 2017. In the event of a failed remarketing, the Tranche III bonds would be tendered to the bank and repaid over a four-year period, beginning 367 days following the failed remarketing. No portion of the Series 1998A bonds has been put at June 30, 2014 and 2013, respectively. The $62.3 Series 1998B and $62.3 Series 1998C bonds (as of August 2014) are at a fixed rate, insured by Assured Guaranty, Ltd. (Assured; formerly Financial Security Assurance, Inc.). The reimbursement obligation with respect to the letters of credit are evidenced and secured by obligations issued by the Corporation under the Master Trust Indenture.

MHHEFA issued $283.5 of Revenue Bonds, including the $166.6 Series 1998A ($82.0 outstanding after August 2014) and $116.9 Series 1998B ($57.0 outstanding after August 2014). All Series 1998 MHHEFA bonds were issued at fixed rates. Principal and interest under the Series 1998 MHHEFA bonds are insured under municipal insurance policies with Assured and Ambac. Of the original Series 1998 MHHEFA bonds, $51.7 was refinanced in March 2013 in conjunction with the MHHEFA Series 2013A financing described below.

Related to the District borrowings, the Corporation entered into an interest rate swap with Wells Fargo Bank, National Association in a notional amount totaling $150.0 (reduced to $97.5 at August 2014). The swap agreement expires in fiscal year 2027. The interest rate swap is part of a comprehensive and long-term capital structure strategy. The purpose of the swap is to mitigate the effect of potential interest rate volatility and minimize the variability of the Corporation's average cost of capital. Under the terms of the swap, the Corporation pays a fixed rate and receives a variable rate. Collateral is only required to be posted under the swap in the event that the Corporation's credit ratings are downgraded by two rating agencies below the BBB – or Baa2 – level. To date, no collateral postings have been required. As of June 30, 2014 and 2013, the variable interest rate under these agreements was 0.10% and 0.13%, respectively. The fixed rate was 3.6875% as of June 30, 2014 and 2013. The variable rates are capped at 14.0%. The change in fair value of the swap is reported in nonoperating gains (losses) in the statements of operations and changes in net assets.

In February 2004, MHHEFA issued $170.3 in bonds (Series 2004 Bonds) on behalf of the Corporation. The proceeds of the Series 2004 Bonds were loaned to the Corporation pursuant to a loan agreement with MHHEFA upon execution of an obligation pursuant to the Master Trust Indenture. The Series 2004 Bonds were issued as $40.5 serial bonds maturing 2009 through 2025 ($23.3 repaid through August 2014), $49.7 term bonds maturing 2024, and $80.1 term bonds maturing 2033. Such bonds were issued at fixed rates.

Series 2004 Bonds maturing on or after August 2015 are subject to redemption or purchase at the option of the Corporation.

In January 2007, MHHEFA issued $145.0 in bonds (Series 2007 Bonds) on behalf of the Corporation. The Series 2007 Bonds were issued at a premium, resulting in total proceeds of $148.6. The proceeds of the Series 2007 Bonds were loaned to the Corporation pursuant to a loan agreement with MHHEFA upon execution of an obligation pursuant to the Master Trust Indenture. The Series 2007 Bonds were issued as $56.0 term bonds maturing 2042 and $89.0 term bonds maturing 2046. Such bonds were issued at fixed rates. Series 2007 Bonds maturing on or after May 2042 are subject to redemption or purchase at the option of the Corporation prior to maturity beginning in 2016.

In November 2011, MHHEFA issued $94.9 in bonds (Series 2011 Bonds) on behalf of the Corporation. The proceeds of the Series 2011 Bonds were loaned to the Corporation pursuant to a loan agreement with MHHEFA upon execution of an obligation pursuant to the Master Trust Indenture. The Series 2011 Bonds were issued as $53.9 serial bonds maturing 2012 through 2023 ($16.5 repaid through August 2014), $5.6 term bonds maturing 2031, and $35.4 term bonds maturing 2041. The Series 2011 Bonds maturing on or after August 2022 are subject to redemption or purchase at the option of the Corporation prior to maturity beginning in 2021. The Series 2011 Bonds were issued at fixed rates. The proceeds from the transaction were used to refund $20.2 of the Series 1998 A&B bonds, to refund debt outstanding on the Corporation's Revolving Credit Facility, and to refund certain debt associated with MedStar St. Mary's Hospital.

In June 2012, the Corporation entered into a $38.6 MHHEFA Direct Purchase financing transaction with JP Morgan Chase Bank, N.A. (the Series 2012 Bond). The proceeds from the transaction were used to redeem certain outstanding MHHEFA Series 1998A bonds that were due to mature in 2018 as well as a portion of the outstanding MHHEFA Series 1998 A&B bonds due to mature in 2028. The repayment of the Series 2012 Bond is evidenced by an obligation issued under the Master Trust Indenture. The term of the Series 2012 Bond is ten years and the repayment terms approximate the previous repayment terms of the Series 1998 bonds that were refunded. Covenants, conditions, and security for the Series 2012 Bond is similar to the revolving credit agreement.

In March 2013, MHHEFA issued $117.8 in bonds (Series 2013A Bonds) on behalf of the Corporation. The Series 2013A Bonds were issued at a premium, resulting in total proceeds of $128.7. The proceeds of the Series 2013A Bonds were loaned to the Corporation pursuant to a loan agreement with MHHEFA upon execution of an obligation pursuant to the Master Trust Indenture. The Series 2013A Bonds were issued as $60.9 serial bonds maturing 2016 through 2028, $17.3 term bonds maturing 2038, $25.0 term bonds due 2041, and $14.6 term bonds maturing 2041. The Series 2013A Bonds maturing on or after August 2024 are subject to redemption or purchase at the option of the Corporation prior to maturity beginning in 2023. The Series 2013A Bonds were issued at fixed rates. The proceeds from the transaction were used to refund $51.7 of the Series 1998 A&B bonds, to fund various capital projects and capitalized interest on those projects.

In May 2013, MHHEFA issued $149.8 in bonds (Series 2013B Bonds) on behalf of the Corporation. The Series 2013B Bonds were issued at a premium, resulting in total proceeds of $159.4. The proceeds of the Series 2013B Bonds were loaned to the Corporation pursuant to a loan agreement with MHHEFA upon execution of an obligation pursuant to the Master Trust Indenture. The Series 2013B Bonds were issued as

$60.8 serial bonds maturing 2025 through 2033, $45.0 term bonds maturing 2038, and $44.0 term bonds maturing 2038. The Series 2013B Bonds maturing on or after August 2024 are subject to redemption or purchase at the option of the Corporation prior to maturity beginning in 2023. The Series 2013B Bonds were issued at fixed rates. The proceeds from the transaction were used to refinance a portion of the bridge loan put in place when MedStar acquired the assets of Southern Maryland Hospital Center in December 2012.

The Corporation, which is currently the sole member of an "obligated group" as defined in the Master Trust Indenture, is bound by the provisions of the Master Trust Indenture for payment of any outstanding obligations under existing loan agreements. All of the hospitals and certain other affiliates (the guarantors) of the Corporation are parties to a guaranty agreement pursuant to which they jointly and severally guaranty the payment and performance of the obligations under the Master Trust Indenture. The obligations of the guarantors under the Guaranty Agreement are collateralized by deeds of trust granted by the hospitals. Under the Master Trust Indenture and the deeds of trust, as collateral for the payments due thereunder, the Corporation and its hospital affiliates, have granted a security interest in their revenues subject to permitted encumbrances.

Under the Master Trust Indenture, the Corporation is required to maintain, among other covenants, a maximum annual debt service coverage ratio of not less than 1.10. Under the loan agreements relating to the Series 1998 Bonds, the Corporation is required to maintain a historical debt service coverage ratio of not less than 2.0 and to maintain at least 65 days cash on hand. In the event the Corporation does not meet either of these requirements, it is required to fund a trustee-held debt service reserve fund securing the Series 1998 Bonds. The amount to be deposited shall equal the lesser of: 10% of the principal amount of such outstanding bonds, or the largest annual debt service with respect to such bonds in any future year, or 125% of the average annual debt service of future years. As of June 30, 2014 and 2013, there were no funds required to be held in the debt service reserve fund for the Series 1998 Bonds.

The Corporation maintains a $250.0 revolving credit agreement provided by a group of banks. The facility has a three-year term expiring in August 2016. The facility is evidenced by an obligation issued under the Master Trust Indenture. The outstanding balance on the facility was $129.8 at June 30, 2014 and 2013. The facility includes certain covenants, including a requirement to maintain Days Cash on Hand of 70 days, measured semi-annually at each June 30 and December 31, and a Debt Service Coverage ratio of 1.25, measured quarterly on a rolling four quarters basis. In addition, the Corporation is required to maintain a minimum credit rating of Baa2 from Moody's Investor's Service, and BBB from Standard & Poor's and Fitch Ratings. In addition, the Corporation maintains a $30.0 letter of credit facility, provided by a single lender, which is also evidenced by an obligation issued under the Master Trust Indenture. This facility is principally used to securitize certain regulatory obligations under various insurance programs, and has terms and conditions similar to the revolving credit agreement. The facility has a three-year term expiring in August 2016. However, the standby letters of credit issued under the facility can be canceled at the bank's option each year. As of June 30, 2014 and 2013, standby letters of credit issued pursuant to the facility were $18.2. No amounts have been drawn by the beneficiaries under the standby letters of credit.

(7) Retirement Plans

The Corporation has two qualified defined benefit pension plans (MedStar Health, Inc. Pension Equity Plan (PEP) and MedStar Health, Inc. Cash Balance Retirement Plan (CBRP)) covering substantially all full-time employees hired before 2005. MedStar St. Mary's Hospital also has a defined benefit plan that substantially covers all employees of MedStar St. Mary's Hospital. Participation in all plans has been closed to new entrants and all plans are frozen to future benefit accruals.

Benefits under the plans are substantially based on years of service and the employees' career earnings. The Corporation contributes to the plans based on actuarially determined amounts necessary to provide assets sufficient to meet benefits to be paid to plan participants and to meet the minimum funding requirements of the Employee Retirement Income Security Act of 1974, as amended by the Pension Protection Act of 2006, and Internal Revenue Service regulations. Effective July 1, 2000, employees of the Transferred Businesses (note 17) became participants in one of the Corporation's pension plans and are reflected in the pension information provided below.

The Corporation's investment policies are established by the MedStar Health, Inc.'s Investment Committee, which is comprised of members of the Board of Directors, other community leaders, and management. Among its responsibilities, the Investment Committee is charged with establishing and reviewing asset allocation strategies, monitoring investment manager performance, and making decisions to retain and terminate investment managers. Assets of each of the Corporation's pension plans are managed in a similar fashion by the same group of investment managers. The Corporation has incorporated an Investment Policy Statement (IPS) into the investment program. The IPS, which has been formally adopted by the Corporation's Board of Directors, contains numerous standards designed to ensure adequate diversification by asset class and geography. The IPS also limits all investments by manager and position size, and limits fixed income position size based on credit ratings, which serves to further mitigate the risks associated with the investment program. As of June 30, 2014 and 2013, management believes that all investments were being managed in a manner consistent with the IPS.

(Dollars in millions)

The following table illustrates the actual allocations as of June 30:

	Actual allocation June 30, 2014	Actual allocation June 30, 2013
Publicly traded equities – domestic	30%	34%
Publicly traded equities – international	10	12
Fixed income securities	16	21
Alternative investments:		
Commingled equity funds	14	9
Inflation hedging equity, commodity, fixed income fund	5	5
Hedge funds	18	13
Private equities	2	2
Cash	5	4
Total	100%	100%

The table below presents the Corporation's pension plans' investable assets as of June 30, 2014 aggregated by the three level valuation hierarchy:

	Level 1	Level 2	Level 3	Total
Assets:				
Cash and cash equivalents	$ 50.1	—	—	50.1
U.S. Treasury bonds	42.8	—	—	42.8
U.S. agency mortgage backed securities	24.0	—	—	24.0
Corporate bonds	—	37.2	—	37.2
Fixed income mutual funds	—	47.2	—	47.2
All other fixed income securities	1.2	13.2	—	14.4
Equity mutual funds and ETF's	74.5	—	—	74.5
Common stocks	346.1	—	—	346.1
Alternative investments:				
Commingled equity funds	—	145.2	—	145.2
Inflation hedging equity, commodity, fixed income fund	—	55.4	—	55.4
Private equity	—	—	17.0	17.0
Hedge funds	—	—	193.0	193.0
Total assets	$ 538.7	298.2	210.0	1,046.9

(Dollars in millions)

The table below presents the Corporation's pension plans' investable assets as of June 30, 2013 aggregated by the three level valuation hierarchy:

	Level 1	Level 2	Level 3	Total
Assets:				
Cash and cash equivalents	$ 36.2	—	—	36.2
U.S. Treasury bonds	34.3	—	—	34.3
U.S. agency mortgage backed securities	31.5	—	—	31.5
Corporate bonds	—	43.8	—	43.8
Fixed income mutual funds	—	60.1	—	60.1
All other fixed income securities	0.6	16.4	—	17.0
Equity mutual funds and ETF's	80.5	—	—	80.5
Common stocks	326.1	—	—	326.1
Alternative investments:				
Commingled equity funds	—	75.2	—	75.2
Inflation hedging equity, commodity, fixed income fund	—	47.9	—	47.9
Private equity	—	—	17.0	17.0
Hedge funds	—	—	111.4	111.4
Total assets	$ 509.2	243.4	128.4	881.0

For the years ended June 30, 2014 and 2013, there were no significant transfers between Levels 1, 2 or 3.

(Dollars in millions)

Changes to the fair values based on the Level 3 inputs are summarized as follows:

		Private equity	Hedge funds	Total
Balance as of June 30, 2012	$	17.1	82.4	99.5
Additions:				
Contributions/purchases		0.9	20.2	21.1
Disbursements:				
Withdrawals/sales		(2.6)	(0.3)	(2.9)
Net change in value		1.6	9.1	10.7
Balance as of June 30, 2013		17.0	111.4	128.4
Additions:				
Contributions/purchases		1.3	149.3	150.6
Disbursements:				
Withdrawals/sales		(3.4)	(83.2)	(86.6)
Net change in value		2.1	15.5	17.6
Balance as of June 30, 2014	$	17.0	193.0	210.0

The following summarizes redemption terms for the hedge fund-of-funds vehicles held as of June 30, 2014:

	Fund 1	Fund 2	Fund 3	Fund 4
Redemption timing:				
Redemption frequency	Quarterly	95% within 1 year (1) 5% in 1 year or longer	Quarterly	Quarterly
Required notice	70 days	up to 90 days	90 days	65 days
Audit reserve:				
Percentage held back for audit reserve	10%	up to 10%	10%	10%
Gates:				
Potential gate holdback	—	up to 7.5%	—	—
Potential gate release timeframe	—	—	—	—

(1) One-third of this fund is redeemable within 90 days and the remainder of the investment is redeemable within one year.

Investments in hedge fund-of-funds are typically carried at estimated fair value. Fair value is based on the Net Asset Value (NAV) of the shares in each investment company or partnership. Such investment companies or partnerships mark-to-market or mark-to-fair value the underlying assets and liabilities in accordance with U.S. GAAP. Realized and unrealized gains and losses of the investment companies and partnerships are included in their respective operations in the current year. Changes in unrealized gains or losses on investments, including those for which partial liquidations were effected in the course of the year, are calculated as the difference between the NAV of the investment at year-end less the NAV of the investment at the beginning of the year, as adjusted for contributions and redemptions made during the year and certain lock-up provisions. Generally, no dividends or other distributions are paid.

(Dollars in millions)

The following summarizes the status of contributions to the private equity fund-of-funds vehicles held as of June 30, 2014:

	Total commitment	Percentage of commitment contributed	Percentage of commitment remaining
Fund 1	$ 9.0	92.9%	7.1%
Fund 2	8.5	95.0	5.0
Fund 3	8.5	81.5	18.5
Fund 4	5.0	8.0	92.0
Fund 5	5.0	—	100.0
Total	$ 36.0		

Investments in private equity funds, typically structured as limited partnership interests are carried at fair value using NAV or equivalent as determined by the General Partner in the absence of readily ascertainable market values. Distributions under this investment structure are made to investors through the liquidation of the underlying assets. It is expected to take up to ten years to fully distribute the proceeds of those assets. The fair value of limited partnership interests is generally based on fair value capital balances reported by the underlying partnerships, subject to management review and adjustment. Security values of companies traded on exchanges, or quoted on NASDAQ, are based upon the last reported sales price on the valuation date. Security values of companies traded over the counter, but not quoted on NASDAQ, and securities for which no sale occurred on the valuation date are based upon the last quoted bid price. The value of any security for which a market quotation is not readily available may be its cost, provided however, that the General Partner adjusts such cost value to reflect any bona fide third party transactions in such a security between knowledgeable investors, of which the General Partner has knowledge. In the absence of any such third party transactions, the General Partner may use other information to develop a good faith determination of value. Examples include, but are not limited to, discounted cash flow models, absolute value models, and price multiple models. Inputs for these models may include, but are not limited to, financial statement information, discount rates, and salvage value assumptions.

The valuation of both marketable and nonmarketable securities may include discounts to reflect a lack of liquidity or extraordinary risks, which may be associated with the investment. Determination of fair value is performed on a quarterly basis by the General Partner. Because of the inherent uncertainty of valuation, the determined values may differ significantly from the values that would have been used had a ready market for those investments existed.

(Dollars in millions)

The Corporation has established a long-term investment return target of 7.75% and 8.00% for both PEP and CBRP in 2014 and 2013, respectively. These assumptions are based on historical returns achieved in the investment portfolios over the last ten years and represent the return that can reasonably be expected to be generated on a similarly structured portfolio in the future.

The Corporation recognizes the funded status of defined benefit pension plans in the consolidated balance sheets and the recognition in unrestricted net assets of unrecognized gains or losses, prior service costs or credits and transition assets or obligations. The funded status is measured as the difference between the fair value of the plan's assets and the projected benefit obligation of the plan. The measurement date for the plans is June 30.

By letter dated March 12, 2012, the Internal Revenue Service (IRS) notified the plan administrator that it had selected the plans for a routine examination. The examination initially covered the plan year ended December 31, 2010. During the examination, the IRS extended the examination to include additional years for some of the plans. By letter dated October 31, 2013, the IRS notified the plan administrator that it had completed the examination and had found that the plans were in compliance and that it had accepted all of its returns as filed.

The following are deferred pension costs which have not yet been recognized in periodic pension expense but instead are accrued in unrestricted net assets, as of June 30, 2014 and 2013. Unrecognized actuarial losses represent unexpected changes in the projected benefit obligation and plan assets over time, primarily due to changes in assumed discount rates and investment experience. Unrecognized prior service cost is the impact of changes in plan benefits applied retrospectively to employee service previously rendered. Deferred pension costs are amortized into annual pension expense over the expected future lifetime for active employees with frozen benefits.

	Amounts in unrestricted net assets to be recognized during the next fiscal year	Amounts recognized in unrestricted net assets as of June 30, 2014	Amounts recognized in unrestricted net assets as of June 30, 2013
Net actuarial loss	$ 16.4	549.4	547.2

(Dollars in millions)

The following table sets forth the plans' funded status and amounts recognized in the accompanying consolidated financial statements as of June 30, 2014 and 2013:

		2014	**2013**
Change in benefit obligation:			
Benefit obligation at beginning of year	$	1,183.0	1,244.1
Interest cost		59.1	55.9
Actuarial loss (gain)		89.9	(74.2)
Benefits paid		(53.2)	(42.8)
Benefit obligation at end of year		1,278.8	1,183.0
Change in plan assets:			
Plan assets at fair value at beginning of year		881.0	773.8
Actual return on plan assets		143.2	81.4
Company contributions		75.9	68.6
Benefits paid		(53.2)	(42.8)
Plan assets at fair value at end of year		1,046.9	881.0
Funded status/net amount recognized	$	(231.9)	(302.0)

The amounts recognized in the consolidated financial statements consist of the following as of June 30:

		2014	**2013**
Pension assets (included in other assets)	$	2.4	2.9
Pension liabilities		(234.3)	(304.9)

The Corporation has estimated $55.7 for its defined benefit contributions for the fiscal year ending June 30, 2015. The accumulated benefit obligation is $1,278.8 and $1,183.0 at June 30, 2014 and 2013, respectively.

Expected fiscal year benefit payments for all defined benefit plans is as follows:

2015	$	59.5
2016		58.0
2017		61.7
2018		65.9
2019		68.6
2020–2024		392.5
Total	$	706.2

(Dollars in millions)

Net periodic pension expense for the years ended June 30, 2014 and 2013 is as follows:

		2014	2013
Interest cost on projected benefit obligation	$	59.1	55.9
Return on plan assets		(69.6)	(65.3)
Recognized actuarial loss		14.2	16.7
Net periodic pension expense	$	3.7	7.3

The assumptions used in determining net periodic pension expense and accrued pension costs shown above are as follows:

	2014	2013
Discount rates for obligations at year end:		
MedStar Health, Inc. Pension Equity Plan	4.65%	5.20%
MedStar Health, Inc. Cash Balance Retirement Plan	4.50	5.05
MedStar St. Mary's Hospital Pension Plan	4.25	5.00
Discount rates for pension cost:		
MedStar Health, Inc. Pension Equity Plan – July 1 – June 30	5.20%	4.60%
MedStar Health, Inc. Cash Balance Retirement Plan – July 1 – June 30	5.05	4.55
MedStar St. Mary's Hospital Pension Plan – July 1 – June 30	5.00	4.35
Expected long-term rate of return on plan assets – PEP and CBRP	7.75%	8.00%
Expected long-term rate of return on plan assets – MedStar St. Mary's Hospital	7.50	7.50

The Corporation also has various contributory, tax deferred annuity and savings plans with participation available to certain employees. The Corporation matches employee contributions up to 3.0% of compensation in certain plans. The Corporation contributed approximately $27.3 and $26.1 during the years ended June 30, 2014 and 2013, respectively.

(8) Business and Credit Concentrations

The Corporation provides healthcare services through its inpatient and outpatient care facilities located in the State of Maryland, the District of Columbia and Northern Virginia. The Corporation generally does not require collateral or other security in extending credit; however it routinely obtains assignment of (or is otherwise entitled to receive) patients' benefits receivable under their health insurance programs, plans or policies (e.g., Medicare, Medicaid, Blue Cross, Workers' Compensation, health maintenance organizations (HMOs) and commercial insurance policies).

(Dollars in millions)

The Corporation estimates the allowance for uncollectible accounts based on the aging of accounts receivable, historical collection experience, payor mix and other relevant factors. A significant portion of the allowance for uncollectible accounts relates to self-pay patients, as well as co-payments and deductibles owed by patients with insurance. There are various factors that can impact collection trends, such as changes in the economy, which in turn have an impact on unemployment rates and the number of uninsured and underinsured patients. Other factors include the volume of patients through the emergency departments and the increased level of co-payments and deductibles due from patients with insurance. These factors continuously change and can have an impact on collection trends and the estimation process.

The activity in the allowance for uncollectible accounts is summarized as follows for the years ended June 30, 2014 and 2013:

		2014	2013
Beginning balance	$	204.3	189.7
Provision for bad debts		193.2	214.5
Write-offs, net of recoveries		(208.7)	(199.9)
Ending balance	$	188.8	204.3

As of June 30, 2014 and 2013, the Corporation's allowance for uncollectible accounts was approximately 25.3% and 27.2%, respectively, as a percentage of patient service receivables. The Corporation's provision for bad debts represents 4.6% and 5.2% of net patient service revenue for the years ended June 30, 2014 and 2013, respectively.

A summary of net patient service revenue by major category of payor for the years ended June 30, 2014 and 2013 is as follows:

	2014	2013
Medicare and Medicare HMO	37%	36%
Medicaid and Medicaid HMO	11	10
Carefirst Blue Cross Blue Shield	19	19
Other commercial and managed care payors	24	26
Self-pay	9	9
	100%	100%

(Dollars in millions)

A summary of net patient receivables by major category of payor as of June 30, 2014 and 2013 is as follows:

	2014	2013
Medicare and Medicare HMO	28%	27%
Medicaid and Medicaid HMO	20	19
Carefirst Blue Cross Blue Shield	13	13
Other commercial and managed care payors	30	29
Self-pay	9	12
	100%	100%

Certain Maryland-based hospital charges are subject to review and approval by the Health Services Cost Review Commission (HSCRC). The HSCRC has jurisdiction over hospital reimbursement in Maryland by agreement with the Centers for Medicare and Medicaid Services (CMS). This agreement is based on a waiver from the Medicare Prospective Payment System reimbursement principles granted under Section 1814(b) of the Social Security Act.

Under the Maryland HSCRC rate methodology, amounts payable for services in 2014 and 2013 to Maryland hospital patients under the Medicare and Medicaid insurance programs are computed at 94% of regulated charges. This discount amount does not include MCO granted discounts for medical education. Hospital patients under the Blue Cross and approved health maintenance organization insurance programs are computed at 98% of regulated charges. Maryland accounts receivable from these third-party payors have been adjusted to reflect the difference between charges and the payable amounts.

In January 2014, CMS approved Maryland’s new waiver for a five-year period beginning January 1, 2014 for inpatient and outpatient hospital services. The new waiver ties hospital per capita revenue growth to the state’s economic growth of 3.58% and requires Medicare spending in Maryland to be 0.5% below the national average. CMS can require the State to submit a corrective action plan if targets for a given performance year are not met. The new waiver also imposes quality measures and encourages population health management.

In connection with the new waiver, the HSCRC introduced new revenue arrangements, including the Global Budget Revenue (GBR) model. This new model for Maryland Hospitals moves payment to hospitals from each individual service to a total revenue for each hospital or a combination of hospitals to provide hospitals flexibility in the objectives of better care for individuals, higher levels of overall population health, and improved health care affordability. It removes the financial incentive from increasing volume and provides incentive to work with partners to provide care in the appropriate setting. The Company entered into a GBR arrangement covering five of its seven Maryland hospitals during the year ended June 30, 2014. In August 2014, the Company also entered into GBR arrangements for its remaining two Maryland hospitals. The GBR arrangement is expected to be in place at least three years, but will be renewed annually unless terminated by either party with 180 days prior notice. The Company recognized hospital inpatient and outpatient revenue under the new arrangement for the year ended June 30, 2014. For the fiscal year ended June 30, 2013, the Company recognized hospital inpatient and outpatient revenue under its previous agreements with the HSCRC. These agreements included reimbursement on a charge per episode target, defining episode as inpatient care provided within 30 days.

The Budget Control Act of 2011 (the Budget Control Act) mandated significant reductions and spending caps on the federal budget for fiscal years 2012 through 2021. As part of this legislation, a 2% reduction in Medicare spending, known as Sequestration, was implemented beginning April 1, 2013 and the Corporation's Medicare payments subsequent to that date were reduced by the mandatory 2%. It is not possible to determine how future congressional actions to reduce the federal deficit in order to end Sequestration will impact the Corporation's revenues.

Through its MedStar Family Choice, Inc. subsidiary, the Corporation enters into fee-for-service and capitation agreements with independent health professionals and organizations to provide covered services to eligible enrollees where such services cannot be provided by its employed physicians or controlled entities. Medical and clinical expenses from these agreements include claim payments, capitation payments, and estimates of outstanding claims liabilities for services provided prior to the balance sheet date. The estimates of outstanding claims liabilities ($52.2 and $17.0 as of June 30, 2014 and 2013, respectively), are based on management's analysis of historical claims paid reports and as well as review of health services utilization during the period and are included in accounts payable and accrued expenses on the consolidated balance sheets. Changes in these estimates are recorded in the period of change. Claims payments and capitation payments are expensed in the period services are provided to eligible enrollees.

(9) Certain Significant Risks and Uncertainties

The Corporation provides general healthcare services in the State of Maryland, the District of Columbia and Northern Virginia. As a healthcare provider, the Corporation is subject to certain significant inherent risks, including the following:

- Dependence on revenues derived from reimbursement by the federal Medicare and state Medicaid programs;
- Regulation of hospital rates by the State of Maryland HSCRC;
- Government regulation, government budgetary constraints and proposed legislative and regulatory changes, and;
- Lawsuits alleging malpractice or other claims.

Such inherent risks require the use of certain management estimates in the preparation of the Corporation's consolidated financial statements and it is reasonably possible that a change in such estimates may occur.

The Medicare and state Medicaid reimbursement programs represent a substantial portion of the Corporation's revenues and the Corporation's operations are subject to a variety of other federal, state and local regulatory requirements. In addition, changes in federal and state reimbursement funding mechanisms and related government budgetary constraints could have a significant adverse effect on the Corporation. Similarly, failure by the Corporation to maintain required regulatory approvals and licenses and/or changes in related regulatory requirements could have a significant adverse effect.

Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount. Management periodically reviews recorded amounts receivable from or payable to third-party payors and may adjust these balances as new information becomes available. In addition, revenue received under certain third-party agreements is subject to audit. During 2014 and 2013, certain of the Corporation's prior year third-party cost reports were audited and settled, or tentatively settled, by third-party payors. Adjustments resulting from such audits and management reviews of unaudited years and open claims are reflected as adjustments to revenue in the year that the adjustment becomes known. Although certain other prior year cost reports submitted to third-party payors remain subject to audit and retroactive adjustment, management does not expect any material adverse settlements.

The healthcare industry is subject to numerous laws and regulations from federal, state and local governments, and the government has increased enforcement of Medicare and Medicaid anti-fraud and abuse laws, as well as physician self referral laws (STARK laws and regulation). The Corporation's compliance with these laws and regulations is subject to periodic governmental review, which could result in enforcement actions unknown or unasserted at this time. The Corporation is aware of certain asserted and unasserted legal claims by the government, and has provided requested information. The final outcomes of these government investigations cannot be determined at this time.

Recent federal initiatives have prompted a national review of federally funded healthcare programs. To this end, the federal government, and many states, implemented programs to audit and recover potential overpayments to providers from the Medicare and Medicaid programs. Since June 2010, the Corporation's hospitals have received audit requests from the Medicare Recovery Audit Contractor (RAC) program. These RAC audit requests have focused on medical necessity of inpatient admissions and hospital coding practices. In addition, the hospitals have continued to receive routine audit requests from other Medicare contractors and the Office of Inspector General. The Corporation's hospitals have cooperated with each of these audit requests and implemented a program to track and manage their effect.

As a result of recently enacted and pending federal healthcare reform legislation, rules and regulations, substantial changes are occurring in the United States healthcare system. These include numerous provisions affecting the delivery of healthcare services, the financing of healthcare costs, reimbursement to healthcare providers and the legal obligations of health insurers, providers and employers. These provisions are currently slated to take effect at specified times over the next decade. This federal healthcare reform legislation did not significantly affect the 2014 or 2013 consolidated financial statements.

The Corporation, in the normal course of business, is a party to legal and regulatory proceedings. These include a lawsuit filed in June 2011 by several MedStar Washington Hospital Center (MWHC) employees alleging violations by the Corporation of wage-hour laws. The plaintiffs in this action are seeking certification of a class that would include hourly employees at all of the Corporation's hospitals. The Corporation is opposing class certification and taking other steps to defend itself and the hospitals in this litigation. The final outcome of this litigation cannot be determined at this time. In April 2014, another lawsuit was filed in federal court alleging similar wage-hour violations as the 2011 action. This lawsuit seeks to certify a class to include hourly employees at six of the Company's hospitals. The Company will oppose class certification and otherwise defend itself and the hospitals in this matter.

(Dollars in millions)

In June 2014, MWHC agreed on a new collective bargaining agreement with the union that represents its service employees, SEIU, Local 722. In September 2014, MWHC began negotiations with National Nurses United, the union that represents the hospital's nurses. The existing collective bargaining agreement will expire on November 15, 2014.

The Corporation, in the normal course of business, is a party to a number of legal and regulatory proceedings. Management does not expect that the results of these proceedings will have a material adverse effect on the consolidated financial position or results of operations of the Corporation.

(10) Self-Insurance Programs

The Corporation maintains self-insurance programs for professional and general liability risks, employee health and workers' compensation. Estimated liabilities have been recorded based on actuarial estimation of reported and incurred but not reported claims. The combined accrued liabilities for these programs at June 30, 2014 and 2013 were as follows:

		2014	2013
Professional and general liability	$	345.4	285.9
Employee health		18.9	21.9
Workers' compensation		34.4	32.9
Total liabilities		398.7	340.7
Less current portion		(86.3)	(87.5)
	$	312.4	253.2

The Corporation's self insurance program for professional and general liability is responsible for the following exposures as of June 30, 2014:

(a) For professional liability during the periods of July 1, 2012 to June 30, 2013 and July 1, 2013 to June 30, 2014, for all MedStar entities except MedStar Montgomery Medical Center (MMMC) and MedStar St. Mary's Hospital (MSMH), the Corporation is responsible for the first $5.0 exposure for each and every claim plus an additional exposure above the $5.0 self-insured retention referred to as an "inner aggregate."

For the period July 1, 2011 to December 31, 2012, the applicable inner aggregate was an inner aggregate that was in effect for the 24 month period January 1, 2010 through December 31, 2012. This inner aggregate exposes the Corporation to up to $2.5 per claim with an aggregate for the 24 month period of $5.0 above the $5.0 per claim self-insured retention for all claims incurred during the period January 1, 2011 through December 31, 2012.

For the period January 1, 2013 to June 30, 2013, the applicable inner aggregate was the inner aggregate in effect for the 12 month period January 1, 2013 through December 31, 2013. This inner aggregate exposes the Corporation to up to $3.0 per claim with an annual aggregate of $6.0 above the Corporation's $5.0 per claim self-insured retention for all claims incurred during the period January 1, 2013 through December 31, 2013.

For the period January 1, 2014 to June 30, 2014, the applicable inner aggregate was in effect for the 12 month period of January 1, 2014 to December 31, 2014. This inner aggregate exposes the Corporation to up to $3.0 per claim with a $6.0 annual aggregate above the Corporation's $5.0 per claim self-insured retention for all claims incurred during the period January 1, 2014 to December 31, 2014.

Effective December 10, 2012, Southern Maryland Hospital joined the Corporation as MedStar Southern Maryland Hospital Center (MSMHC). MSMHC is covered for all professional liability exposure for activities on or after December 10, 2012 under the same program of coverage described above. The Corporation did not assume responsibility for MSMHC exposure or any tail claims that might arise in future years related to activities that occurred prior to the acquisition by the Corporation.

For MMMC and MSMH, the Corporation is responsible for the first $2.0 exposure for each claim (not subject to the inner aggregate structures noted above).

(b) For general liability, the Corporation is responsible for the first $3.0 exposure for each claim (for MMMC and MSMH, the first $2.0 exposure for each claim). General liability claims are not subject to the inner aggregate excess retention as described above. MSMHC is covered for general liability exposure for activities on or after December 10, 2012 under the Corporation's general liability program.

(c) Commercial excess re-insurance has been purchased above the self-insured retentions described above in multiple layers and in twin towers; one for professional and one for general liability. During the period of July 1, 2011 to December 31, 2012, each tower has seven layers of excess re-insurance coverage which provides coverage of up to $100.0 per claim and $100.0 in the annual aggregate. Effective January 1, 2013, the Corporation purchased an additional layer of commercial excess re-insurance. During the period of January 1, 2013 through June 30, 2014, each tower has eight layers of excess re-insurance which provides coverage of up to $125.0 per claim and $125.0 in the annual aggregate. The Corporation maintains reinsurance contracts with various "A" rated commercial insurance companies.

The professional and general liabilities as of June 30, 2014 and 2013 have been discounted at a rate of 1.75%. The workers' compensation liabilities as of June 30, 2014 and 2013 have been discounted at a rate of 1.50%.

Assets available to fund these liabilities are held in separate accounts (see note 2). Contributions required to fund professional and general liability, employee health benefits and workers' compensation programs are determined by the plans' administrators based on appropriate actuarial assumptions. The professional and general liability programs are administered through an offshore wholly owned captive insurance company, Greenspring Financial Insurance Limited (GFIL), which is domiciled in the Grand Cayman Islands.

(Dollars in millions)

(11) Unrestricted Net Assets

The Corporation accounts for and presents noncontrolling interests in a consolidated subsidiary as a separate component of the appropriate class of consolidated net assets. The income attributable to noncontrolling interests is included within operating income on the consolidated statements of operations and changes in net assets. The following table presents a reconciliation of the changes in consolidated unrestricted net assets attributable to the Corporation's controlling interest and noncontrolling interest, including amounts such as the performance indicator and other changes in unrestricted net assets as of and for the years ended June 30, 2014 and 2013:

		MedStar Health, Inc.	Noncontrolling interests	Total unrestricted net assets
Balance as of June 30, 2012	$	726.9	8.7	735.6
Excess of revenues over expenses		180.6	5.1	185.7
Change in funded status of defined benefit plans		106.9	—	106.9
Net assets released for property and equipment and other		3.0	1.9	4.9
Distributions to noncontrolling interests		—	(6.3)	(6.3)
Increase in unrestricted net assets		290.5	0.7	291.2
Balance as of June 30, 2013		1,017.4	9.4	1,026.8
Excess of revenues over expenses		302.4	2.3	304.7
Change in funded status of defined benefit plans		(2.1)	—	(2.1)
Net assets released for property and equipment and other		4.5	(2.8)	1.7
Distributions to noncontrolling interests		—	(3.7)	(3.7)
Increase (decrease) in unrestricted net assets		304.8	(4.2)	300.6
Balance as of June 30, 2014	$	1,322.2	5.2	1,327.4

(Dollars in millions)

(12) Temporarily and Permanently Restricted Net Assets

Temporarily and permanently restricted net assets as of June 30, 2014 and 2013 are available for the following purposes:

		2014	2013
Temporary restrictions:			
Interest in net assets of foundation	$	64.9	54.8
Other		56.9	44.2
	$	121.8	99.0
Permanent restrictions:			
Investments to be held in perpetuity, the income from which is available to support healthcare services	$	39.4	39.1

Temporarily restricted net assets are available for the purposes of purchasing property and equipment, providing health education, research and other healthcare services.

(13) Endowment Net Assets

The Corporation's endowments consist of individual donor-restricted funds established for a variety of purposes. Net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

(a) Interpretation of Relevant Law

The Corporation has interpreted the State Prudent Management of Institutional Funds Act (SPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Corporation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the organization in a manner consistent with the standard of prudence prescribed by SPMIFA. In accordance with SPMIFA, the Corporation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

(1) The duration and preservation of the fund

(2) The purposes of the Corporation and the donor-restricted endowment fund

(3) General economic conditions

(Dollars in millions)

(4) The possible effect of inflation and deflation

(5) The expected total return from income and the appreciation of investments

(6) Other resources of the Corporation

(7) The investment policies of the Corporation

(b) Endowment Net Assets Consist of the Following as of June 30, 2014

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor-restricted endowment funds	$ —	6.6	39.4	46.0
Total endowed net assets	$ —	6.6	39.4	46.0

(c) Endowment Net Assets Consist of the Following as of June 30, 2013

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor-restricted endowment funds	$ —	3.6	39.1	42.7
Total endowed net assets	$ —	3.6	39.1	42.7

(d) Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or SPMIFA requires the Corporation to retain as a fund of perpetual duration. In accordance with U.S. GAAP, there were no deficiencies of this nature that are reported in unrestricted net assets as of June 30, 2014 and 2013.

(e) Investment Strategies

The Corporation has adopted policies for corporate investments, including endowment assets, that seek to maximize risk-adjusted returns with preservation of principal. Endowment assets include those assets of donor-restricted funds that the Corporation must hold in perpetuity or for a donor-specified period(s). The endowment assets are invested in a manner that is intended to hold a mix of investment assets designed to meet the objectives of the account. The Corporation expects its endowment funds, over time, to provide an average rate of return that generates earnings to achieve the endowment purpose.

(Continued)

To satisfy its long-term rate-of-return objectives, the Corporation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Corporation employs a diversified asset allocation structure to achieve its long-term return objectives within prudent risk constraints.

The Corporation monitors the endowment funds returns and appropriates average returns for use. In establishing this practice, the Corporation considered the long-term expected return on its endowment. This is consistent with the Corporation's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

(14) Income Taxes

The Corporation and the majority of its subsidiaries are not-for-profit corporations as defined in Section 501(c)(3) of the Internal Revenue Code (the Code) and are exempt from federal income taxes under Section 501(a) of the Code. The Corporation's tax-exempt businesses generate nominal amounts of unrelated business income subject to income tax. For corporate income tax purposes, the Corporation has two consolidated groups of for-profit, taxable entities. The parent companies of these groups are Parkway Ventures, Inc. and MedStar Enterprises, Inc.

The Corporation's taxable subsidiaries have approximately $221.5 of net operating loss (NOL) carryforwards as of June 30, 2014, which expire in varying periods through 2034, available to offset future taxable income. This NOL carryforward represents $84.2 of gross deferred tax assets. In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. During the years ended June 30, 2014 and 2013, the Corporation decreased and increased its net deferred tax asset by $3.6 and $1.8 respectively, which was recorded in nonoperating income. The remaining amount of the deferred tax asset considered realizable, $27.9 as of June 30, 2014, could be reduced if estimates of future taxable income during the carry forward period are reduced. The current tax provisions for the years ended June 30, 2014 and 2013 were immaterial.

(15) Charity Care

The Corporation's hospitals utilize a cost to charge ratio methodology to convert charity care to cost. The estimated cost of services provided is determined based on the relationship of total operating costs to gross charges. Total operating costs for purposes of this ratio exclude bad debt expense as well as costs associated with community benefit activities. Total gross patient charges are then offset with any related reimbursements. The Corporation provided $45.5 and $51.5 of charity care at cost during the years ended June 30, 2014 and 2013, respectively, based on the cost to charge ratio.

In addition to charity care, the Corporation funds numerous programs designed to benefit the healthcare interests of the communities it serves, examples of which are: health education programs and services, health information and referral services, school-based clinics, public health screenings and home care. The costs associated with these programs are recorded in the appropriate operating expense categories.

(Dollars in millions)

(16) Leases

The Corporation is obligated under various operating leases with initial terms of one year or more. Aggregate future minimum payments as of June 30, 2014 are as follows:

2015	$	53.2
2016		44.9
2017		36.6
2018		28.2
2019		22.4
2020 and Thereafter		41.8
Total minimum lease payments	$	227.1

Certain leases include provisions allowing the minimum rental payments to be adjusted annually for increases in operating costs and, in some cases, real estate taxes attributable to leased property. Total rental expense for all operating leases amounted to approximately $65.9 and $56.0 during the years ended June 30, 2014 and 2013, respectively.

(17) Commitments and Contingencies

In February 2000 and on June 30, 2000, the Corporation and Georgetown University (the University) signed certain definitive agreements whereby the Corporation would receive through purchase or capital lease substantially all of the assets (including working capital) owned by the University that constitutes the MedStar Georgetown University Hospital, the Community Practice Network, the Faculty Practice Group and certain office buildings and a parking lot on the campus (collectively referred to as the Transferred Businesses). These agreements became effective July 1, 2000 and transferred control of the identified physical plant and other real property assets of the Transferred Businesses to the Corporation for use as an academic medical center for a minimum of ninety-eight years. At the end of the one hundred and fifty year lease term (including a fifty-two year renewal), the University shall convey all leased assets, excluding the underlying land, to the Corporation for a nominal amount and enter into a rent-free ground lease for the Corporation’s use. This transaction was accounted for under the purchase method of accounting effective July 1, 2000.

In recognition of the value of the transaction, the Corporation shall annually pay the University 50% of the amount by which the combined operating earnings before interest, taxes, depreciation and amortization (EBITDA), as defined in the asset purchase agreement, of certain entities of the Corporation in the Washington D.C. area (collectively referred to as the Washington Clinical Enterprises) exceeds $60.0, subject to certain adjustments. These additional payments expire when cumulative payments reach $70.0. The Corporation has paid $36.7 to the University as of June 30, 2014.

The Corporation also entered into an Academic Affiliation and Operations Agreement (Affiliation Agreement) with the University. The purpose of this agreement is to make available to the University the facilities of the Transferred Businesses and provide the Corporation with a first-class University medical center. The University shall make payments to the Corporation determined by multiplying the University School of Medicine's total undergraduate tuition revenue by 36% for providing teaching services. The Corporation recognized $12.3 and $12.8 of tuition revenue during the years ended June 30, 2014 and 2013, respectively. In support of academic programs at the University, for each fiscal year following the termination of the additional payment terms in the asset purchase agreement described above, the Corporation shall pay to the University 17.5% of the operating EBITDA of the Washington Clinical Enterprises in excess of $60.0, subject to certain adjustments. No amounts have been paid under this Affiliation Agreement through June 30, 2014.

The Corporation and the University also entered into a Research Agreement to sustain and advance a program of health-related University research at the Transferred Business facilities. Under this agreement the University is required to reimburse the Corporation for certain costs incurred by the Corporation in support of University sponsored research. Amounts reimbursed to the Corporation were $2.7 and $3.1 for the years ended June 30, 2014 and 2013, respectively.

MedStar Georgetown University Hospital and the University are parties to a fixed fee shared services agreement. Georgetown University provided to MedStar Georgetown University Hospital the following services: utilities, telephone/IT services, transportation services and library services. Expenses charged for such services were $13.6 and $12.2 for the years ended June 30, 2014 and 2013, respectively.

The MedStar Washington Hospital Center campus is subject to the lien of a Permitted Encumbrance in the amount of $21.5 to the United States government. This encumbrance was created in the deed of the hospital property from the United States government to MedStar Washington Hospital Center in February 1960. There is no repayment date for this lien stated in the deed. Under enabling legislation, repayment could be required after a determination that the property is no longer required for hospital services or the property is disposed of, in which event all or a portion of the lien may be payable to the government. This lien is subordinated to the Deed of Trust on the MedStar Washington Hospital Center campus.

(Dollars in millions)

(18) Functional Expenses

The Corporation considers integrated health services, research and management and general to be its primary functional categories for purposes of expense classification. Management and general include information systems, general corporate management, advertising and marketing. Functional categories of expenses for the years ended June 30, 2014 and 2013 are as follows:

		2014	2013
Integrated health services	$	3,532.4	3,319.9
Management and general		924.7	782.9
Research		30.4	31.0
Fundraising		4.9	4.6
	$	4,492.4	4,138.4

(19) Subsequent Events

Management evaluated all events and transactions that occurred after June 30, 2014 and through October 6, 2014. The Corporation did not have any events that were required to be recognized or disclosed.

SUPPLEMENTARY SCHEDULES

MEDSTAR HEALTH, INC.

Consolidating Balance Sheet Information

June 30, 2014

(Dollars in millions)

Assets	MedStar Franklin Square Medical Center	MedStar Good Samaritan Hospital	MedStar Harbor Hospital	MedStar Montgomery Medical Center	MedStar Southern Maryland Hospital	MedStar St. Mary's Hospital	MedStar Union Memorial Hospital	Helix Resource Management	MedStar Family Choice	Church Home Corp.	All other MedStar entities	Eliminations	Consolidated totals
Current assets:													
Cash and cash equivalents	$ 1.3	—	—	35.1	41.1	18.4	—	(0.1)	102.9	0.5	400.7	—	599.9
Investments	—	—	—	—	—	0.2	—	—	0.3	—	60.9	—	61.4
Assets whose use is limited or restricted	—	—	—	—	—	0.1	—	—	—	—	61.2	—	61.3
Receivables:													
From patient services (less allowance for uncollectible accounts of $188.8)	59.7	39.3	25.1	16.7	36.5	14.6	51.1	—	4.8	—	326.9	(16.7)	558.0
Other	1.6	2.1	1.3	0.9	—	0.6	1.3	—	5.9	—	59.1	(3.2)	69.6
Intercompany receivables	—	—	—	—	—	—	—	—	—	—	1.7	(1.7)	—
	61.3	41.4	26.4	17.6	36.5	15.2	52.4	—	10.7	—	387.7	(21.6)	627.6
Inventories	6.3	2.8	2.4	2.3	4.1	2.6	6.4	—	—	—	29.4	—	56.3
Prepaids and other current assets	1.1	0.7	0.4	1.5	2.0	1.2	1.7	—	0.2	—	23.0	—	31.8
Total current assets	70.0	44.9	29.2	56.5	83.7	37.7	60.5	(0.1)	114.1	0.5	962.9	(21.6)	1,438.3
Investments	—	—	—	—	—	—	—	—	9.4	—	860.1	—	869.5
Assets whose use is limited or restricted	1.6	0.5	0.2	—	—	1.7	63.4	—	—	10.9	470.6	—	548.9
Property and equipment, net	220.7	77.0	38.2	89.1	61.0	74.4	93.0	—	2.4	—	497.1	—	1,152.9
Interest in net assets of foundation	—	64.9	—	—	—	—	—	—	—	—	—	—	64.9
Goodwill and other intangible assets, net	—	—	—	—	33.8	—	—	—	—	—	192.7	—	226.5
Other assets	1.1	0.8	0.4	0.1	—	11.2	1.6	—	1.6	—	638.5	(508.5)	146.8
Total assets	$ 293.4	188.1	68.0	145.7	178.5	125.0	218.5	(0.1)	127.5	11.4	3,621.9	(530.1)	4,447.8

(Continued)

Schedule 1

MEDSTAR HEALTH, INC.

Consolidating Balance Sheet Information

June 30, 2014

(Dollars in millions)

Liabilities and Net Assets	MedStar Franklin Square Medical Center	MedStar Good Samaritan Hospital	MedStar Harbor Hospital	MedStar Montgomery Medical Center	MedStar Southern Maryland Hospital	MedStar St. Mary's Hospital	MedStar Union Memorial Hospital	Helix Resource Management	MedStar Family Choice	Church Home Corp.	All other MedStar entities	Eliminations	Consolidated totals
Current liabilities:													
Accounts payable and accrued expenses	$ 10.7	11.1	6.1	6.9	3.6	4.7	12.3	0.3	62.1	—	318.1	(16.3)	419.6
Accrued salaries, benefits, and payroll taxes	23.6	14.1	10.5	7.0	7.3	4.7	17.8	—	1.0	—	218.9	—	304.9
Amounts due to third-party payors, net	13.9	6.7	8.1	4.5	9.8	4.3	11.8	—	—	—	26.6	—	85.7
Intercompany payables	2.9	0.2	(0.1)	9.8	70.1	(0.2)	0.4	—	0.1	(0.6)	(188.7)	106.1	—
Current portion of long-term debt	—	—	—	—	—	0.2	0.3	—	—	—	60.0	—	60.5
Current portion of self insurance liabilities	1.4	0.6	0.3	0.3	—	—	0.5	—	—	—	83.2	—	86.3
Other current liabilities	3.8	5.2	4.2	0.3	18.5	4.9	8.6	—	33.0	0.2	70.4	(23.8)	125.3
Total current liabilities	56.3	37.9	29.1	28.8	109.3	18.6	51.7	0.3	96.2	(0.4)	588.5	66.0	1,082.3
Long-term debt, net of current portion	—	—	—	7.9	—	0.3	0.3	—	—	—	1,184.1	—	1,192.6
Self insurance liabilities, net of current portion	4.3	2.0	0.9	1.0	—	—	1.5	—	—	—	302.7	—	312.4
Pension liabilities	—	—	—	—	—	—	—	—	—	—	234.3	—	234.3
Other long-term liabilities, net of current portion	4.9	7.4	7.3	1.3	—	1.4	10.6	—	0.3	0.1	193.6	(89.3)	137.6
Total liabilities	65.5	47.3	37.3	39.0	109.3	20.3	64.1	0.3	96.5	(0.3)	2,503.2	(23.3)	2,959.2
Net assets:													
Common stock	—	—	—	—	—	—	—	0.1	—	1.7	8.7	(10.5)	—
Additional paid in capital	0.5	—	—	—	—	—	—	—	22.5	—	279.7	(302.7)	—
Unrestricted MedStar Health, Inc.	227.0	75.4	30.5	106.6	69.2	104.1	120.3	(0.5)	8.5	9.3	765.4	(193.6)	1,322.2
Unrestricted noncontrolling interests	—	—	—	—	—	—	—	—	—	—	5.2	—	5.2
Temporarily restricted	0.4	65.4	0.2	0.1	—	0.5	7.8	—	—	0.5	46.9	—	121.8
Permanently restricted	—	—	—	—	—	0.1	26.3	—	—	0.2	12.8	—	39.4
Total net assets (deficit)	227.9	140.8	30.7	106.7	69.2	104.7	154.4	(0.4)	31.0	11.7	1,118.7	(506.8)	1,488.6
Total liabilities and net assets	$ 293.4	188.1	68.0	145.7	178.5	125.0	218.5	(0.1)	127.5	11.4	3,621.9	(530.1)	4,447.8

See accompanying independent auditors' report.

Schedule 2

MEDSTAR HEALTH, INC.

Consolidating Statements of Operations and Summary Changes in Net Assets Information

Year ended June 30, 2014

(Dollars in millions)

	MedStar Franklin Square Medical Center	MedStar Good Samaritan Hospital	MedStar Harbor Hospital	MedStar Montgomery Medical Center	MedStar Southern Maryland Hospital	MedStar St. Mary's Hospital	MedStar Union Memorial Hospital	Helix Resource Management	MedStar Family Choice	Church Home Corp.	All other MedStar entities	Eliminations	Consolidated totals
Operating revenues:													
Net patient service revenue:													
Hospital inpatient services	$ 278.1	165.8	112.6	81.7	140.3	58.5	218.4	—	—	—	1,289.9	(105.2)	2,240.1
Hospital outpatient services	217.3	138.6	90.0	68.6	90.3	83.2	188.6	—	—	—	714.9	(32.8)	1,558.7
Physician services	—	—	—	—	—	—	—	1.5	—	—	315.2	(1.6)	315.1
Other patient service revenue	—	—	—	—	—	2.1	—	—	—	—	129.1	(16.4)	114.8
Total net patient service revenue	495.4	304.4	202.6	150.3	230.6	143.8	407.0	1.5	—	—	2,449.1	(156.0)	4,228.7
Provision for bad debts	18.5	12.0	6.6	4.7	18.0	5.5	12.4	—	—	—	115.5	—	193.2
Total net patient service revenue, net of provision for bad debts	476.9	292.4	196.0	145.6	212.6	138.3	394.6	1.5	—	—	2,333.6	(156.0)	4,035.5
Premium revenue	—	—	—	—	—	—	—	—	357.4	—	0.5	—	357.9
Other operating revenue	13.2	15.4	13.9	3.1	1.3	4.9	16.5	—	—	—	451.0	(284.6)	234.7
Net operating revenues	490.1	307.8	209.9	148.7	213.9	143.2	411.1	1.5	357.4	—	2,785.1	(440.6)	4,628.1
Operating expenses:													
Personnel	252.2	151.9	94.7	67.6	111.1	69.8	188.1	—	10.3	—	1,504.4	5.2	2,455.3
Supplies	76.0	50.6	28.6	26.2	38.4	24.5	78.8	—	0.6	—	377.6	(4.6)	696.7
Purchased services	45.1	43.1	25.3	23.2	35.3	15.7	52.9	1.5	321.3	—	306.7	(187.5)	682.6
Other operating	61.5	42.0	31.4	12.8	15.7	14.2	54.2	—	18.2	—	430.0	(253.7)	426.3
Interest expense	9.6	2.7	2.1	2.2	7.7	1.2	3.5	—	—	—	21.1	—	50.1
Depreciation and amortization	24.3	13.5	7.2	9.6	11.3	6.3	18.0	—	0.4	—	90.8	—	181.4
Total operating expenses	468.7	303.8	189.3	141.6	219.5	131.7	395.5	1.5	350.8	—	2,730.6	(440.6)	4,492.4
Earnings (loss) from operations	21.4	4.0	20.6	7.1	(5.6)	11.5	15.6	—	6.6	—	54.5	—	135.7
Nonoperating gains (losses):													
Investment income	—	—	0.1	—	—	—	0.1	—	—	0.1	13.0	—	13.3
Net realized gains on investments	0.1	—	—	—	—	—	1.9	—	—	0.6	66.0	—	68.6
Unrealized gains on derivative instrument	—	—	—	—	—	—	—	—	—	—	1.4	—	1.4
Unrealized gains on investments, net	0.1	—	—	—	—	—	2.8	—	—	0.9	87.8	—	91.6
Income tax provision	—	—	—	—	—	—	—	—	(0.9)	—	(3.0)	—	(3.9)
Other nonoperating gains (losses)	—	—	—	—	—	0.7	—	—	—	—	(2.7)	—	(2.0)
Total nonoperating gains (losses)	0.2	—	0.1	—	—	0.7	4.8	—	(0.9)	1.6	162.5	—	169.0
Excess (deficiency) of revenue over expenses	21.6	4.0	20.7	7.1	(5.6)	12.2	20.4	—	5.7	1.6	217.0	—	304.7
Change in funded status of defined benefit plans	—	—	—	—	—	(1.2)	—	—	—	—	(0.9)	—	(2.1)
Change in restricted investments	—	—	—	—	—	—	4.0	—	—	0.1	2.7	—	6.8
Increase in net assets of foundation	—	10.1	—	—	—	—	—	—	—	—	—	—	10.1
Restricted contributions, net assets released from restrictions and other	0.2	0.3	0.2	1.9	—	0.2	(0.7)	—	—	—	2.1	—	4.2
Transfer from (to) parent, net	(10.1)	5.0	(12.5)	—	—	(16.5)	(4.4)	—	(0.6)	—	39.1	—	—
Total changes in net assets	$ 11.7	19.4	8.4	9.0	(5.6)	(5.3)	19.3	—	5.1	1.7	260.0	—	323.7

See accompanying independent auditors' report.