Holy Cross Hospital

(A Member of Trinity Health)

Consolidated Financial Statements as of and for the Years Ended June 30, 2012 and 2011, Supplemental Information as of and for the Year Ended June 30, 2012, and Independent Auditors' Report

HOLY CROSS HOSPITAL
(A Member of Trinity Health)

TABLE OF CONTENTS

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated balance sheets of Holy Cross Hospital (the "Hospital"), a wholly-controlled member organization of Trinity Health, as of June 30, 2012 and 2011, and the related consolidated statements of operations and changes in net assets and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of the Hospital as of June 30, 2012 and 2011, and the results of its operations and changes in net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplementary information listed in the table of contents is presented for the purpose of additional analysis and is not a required part of the consolidated financial statements. This supplementary information is the responsibility of the Hospital's management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. Such information has been subjected to the auditing procedures applied in our audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion such information is fairly stated in all material respects in relation to the financial statements as a whole.

October 18, 2012

HOLY CROSS HOSPITAL
(A Member of Trinity Health)

CONSOLIDATED BALANCE SHEETS
AS OF JUNE 30, 2012 AND 2011
(In thousands)

	2012	2011
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 46,304	$ 18,044
Investment in Trinity Health corporate pooled investment program	173,585	176,394
Patient accounts receivable — net of allowance for doubtful accounts of $14.1 million and $11.6 million in 2012 and 2011, respectively	54,520	52,155
Inventories	5,907	6,346
Prepaid expenses and other current assets	5,542	5,530
Total current assets	285,858	258,469
ASSETS LIMITED OR RESTRICTED AS TO USE :		
Deferred compensation	49	48
Donors	3,427	2,848
Total assets limited or restricted as to use	3,476	2,896
PROPERTY AND EQUIPMENT — Net	147,802	130,081
INVESTMENTS IN UNCONSOLIDATED AFFILIATES	2,214	1,837
PREPAID CHARGES FOR SHARED INFORMATION SERVICES	19,305	17,890
OTHER ASSETS	7,686	85
TOTAL ASSETS	$ 466,341	$ 411,258
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Current portion of long-term debt	$ 154	$ 517
Current portion of notes payable to Trinity Health	2,244	1,991
Accounts payable	21,982	20,622
Accrued expenses	240	265
Salaries, wages, and related liabilities	25,280	23,451
Estimated payables to third-party payors	18,836	16,893
Total current liabilities	68,736	63,739
LONG-TERM DEBT — Net of current portion		154
NOTES PAYABLE TO TRINITY HEALTH, NET OF CURRENT PORTION	125,574	97,402
OTHER LONG-TERM LIABILITIES	651	792
Total liabilities	194,961	162,087
NET ASSETS:		
Unrestricted	267,948	246,323
Temporarily restricted	3,401	2,815
Permanently restricted	31	33
Total net assets	271,380	249,171
TOTAL LIABILITIES AND NET ASSETS	$ 466,341	$ 411,258

See notes to consolidated financial statements.

HOLY CROSS HOSPITAL
(A Member of Trinity Health)

CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011
(In thousands)

	2012	2011
UNRESTRICTED REVENUE:		
Net patient service revenue	$ 397,911	$ 401,837
Net assets released from restrictions	1,120	1,266
Other revenue	14,978	13,218
Total unrestricted revenue	414,009	416,321
EXPENSES:		
Salaries and wages	165,419	162,163
Employee benefits	32,968	35,989
Contract labor	4,655	5,284
Total labor expenses	203,042	203,436
Supplies	62,190	65,705
Purchased services	53,376	53,384
Depreciation and amortization	22,615	23,019
Provision for bad debts	22,529	20,041
Occupancy	12,722	14,287
Interest	3,586	3,570
Other	7,291	6,545
Total expenses	387,351	389,987
OPERATING INCOME	26,658	26,334
NONOPERATING ITEMS:		
Earnings in Trinity Health corporate pooled investment program	34	18,010
Other	(614)	(652)
Total nonoperating items	(580)	17,358
EXCESS OF REVENUE OVER EXPENSES	$ 26,078	$ 43,692

(Continued)

HOLY CROSS HOSPITAL
(A Member of Trinity Health)

CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011
(In thousands)

	2012	2011
UNRESTRICTED NET ASSETS:		
Excess of revenue over expenses	$ 26,078	$ 43,692
Cumulative effect of change in accounting principal		(372)
Unrestricted contributions of long lived assets	34	20
Transfers to affiliates	(4,487)	(10,044)
Increase in unrestricted net assets	21,625	33,296
TEMPORARILY RESTRICTED NET ASSETS:		
Contributions	1,706	1,669
Net assets released from restrictions	(1,120)	(1,266)
Increase in temporarily restricted net assets	586	403
PERMANENTLY RESTRICTED NET ASSETS:		
Net investment income	(1)	8
Other	(1)	(1)
(Decrease) increase in permanently restricted net assets	(2)	7
INCREASE IN NET ASSETS	22,209	33,706
NET ASSETS — Beginning of year	249,171	215,465
NET ASSETS — End of year	$ 271,380	$ 249,171

See notes to consolidated financial statements.

HOLY CROSS HOSPITAL
(A Member of Trinity Health)

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011
(In thousands)

	2012	2011
OPERATING ACTIVITIES:		
Increase in net assets	$ 22,209	$ 33,706
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Transfers to Trinity Health and affiliates	4,487	10,044
Cummulative effect of change in accounting principles		372
Net realized gains on investment in Trinity Health corporate pooled investment program	(2,677)	(5,459)
Change in net unrealized gains on investments in Trinity Health corporate pooled investment program	5,097	(10,131)
Restricted contributions and investment income	1	(8)
Depreciation and amortization	22,615	23,019
Provision for bad debts	22,529	20,041
Equity earnings in unconsolidated affiliates	(527)	(299)
Unrestricted contributions of long-lived assets	(34)	(20)
Loss on sale of property and equipment	101	37
Changes in:		
Patient accounts receivable	(24,893)	(22,094)
Pledges receivable included in assets limited as to use		3
Other assets	(13,761)	(3,923)
Accounts payable and other liabilities	2,625	12,489
Estimated payables to third-party payors	2,530	(1,020)
Total adjustments	18,093	23,051
Net cash provided by operating activities	40,302	56,757
INVESTING ACTIVITIES:		
Purchases of property and equipment	(35,270)	(17,019)
Purchases of locally held investments	(1,895)	(1,911)
Proceeds from sales of locally held investments	1,311	1,498
Change in investments in Trinity Health corporate pooled investment program	387	(27,622)
Net cash used in investing activities	(35,467)	(45,054)
FINANCING ACTIVITIES:		
Transfers to affiliates	(4,487)	(10,044)
Proceeds from restricted contributions and restricted investment income	1	8
Proceeds from issuance of intercompany long-term debt	30,528	
Repayments of long-term debt and notes payable to Trinity Health	(2,617)	(2,370)
Net cash provided by (used in) financing activities	23,425	(12,406)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	28,260	(703)
CASH AND CASH EQUIVALENTS — Beginning of year	18,044	18,747
CASH AND CASH EQUIVALENTS — End of year	$ 46,304	$ 18,044
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid during the year for interest	$ 4,458	$ 3,570
Accrued property, plant and equipment	$ 855	$ 617

See notes to consolidated financial statements.

1. ORGANIZATION AND COMMUNITY BENEFIT MINISTRY

Holy Cross Hospital (the "Hospital"), a Maryland not-for-profit corporation, owns and operates a 425-bed acute care hospital and is the parent corporation for Holy Cross Hospital Foundation, a not-for-profit corporation established in 2007 supporting the charitable mission of the Hospital, and Maryland Care Group, Inc., a taxable corporation that owns an outpatient surgery center and private home service agency. The Hospital provides services to patients who reside primarily in the local geographic region. The Hospital is a member of Trinity Health, an Indiana not-for-profit corporation, sponsored by Catholic Health Ministries (CHM), a Public Juridic Person of the Holy Roman Catholic Church. There are significant related-party transactions with Trinity Health and its ministry organizations.

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

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

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

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

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

The State of Maryland requires all not-for-profit hospitals to compile and make public an annual report of community benefit activities according to Community Benefit Reporting Requirements and Standard Definitions established by the Maryland Health Services Cost Review Commission. For the years ended June 30, 2012 and 2011, the following summary has been prepared in accordance with the requirements and reflects the amount of the Hospital's community benefit ministry (in thousands):

	2012	2011
Charity care (Charges)	$ 23,692	$ 19,236
Unpaid costs of Medicaid - Medicaid Assessment	1,725	1,045
Community health services	5,031	5,113
Health professions education	4,097	4,286
Mission driven health services	10,001	7,470
Research	366	291
Financial contributions	162	205
Community building activities	56	63
Community benefit operations	1,873	1,825
Community benefit ministry	$ 47,003	$ 39,534

The Hospital provides a significant amount of care to patients not paid for by or on behalf of those receiving it, that is reported as bad debt at cost and not included in the amounts reported above. During the years ended June 30, 2012 and 2011, the Hospital reported bad debt at cost (determined using a cost to charge ratio applied to the provision for bad debts) of $15.4 million and $14.3 million, respectively. Bad debt at cost is included in the bad debt expense in the consolidated statement of operations and changes in net assets.

Charity Care — Services provided to patients who cannot afford health care services due to inadequate resources and/or are uninsured or underinsured. A patient is classified as a charity patient in accordance with the Hospital's established policies and when no payment for such services is anticipated. Services provided to these patients are not reported as revenue in the consolidated statements of operations and changes in net assets. The amounts of direct and indirect costs for services and supplies furnished under the Hospital's charity care policy totaled approximately $16.1 million and $13.7 million for the years ended June 30, 2012 and 2011, respectively and is based on a ratio of the Hospital's operational costs to its gross charges.

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

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

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

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

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

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

Community Building Activities — Community building activities include the costs of programs that improve the physical environment, promote economic development, enhance other community support systems, develop leadership skills training, and build community coalitions.

Community Benefit Operations — Community benefit operations include costs associated with dedicated staff, community health needs, and/or asset assessments, and other costs associated with community benefit strategy and operations.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

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

Investment earnings and losses (including realized gains and losses on investments, holding gains and losses on trading securities, interest and dividends) are included in nonoperating items in the consolidated statement of operations and changes in net assets. See Note 11.

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

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

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

Assets Limited or Restricted as to Use — Assets set aside over which the Board retains control and may at its discretion subsequently use for other purposes, and donor restricted assets are included in assets limited as to use.

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

Property and Equipment — Property and equipment including internally used software, are recorded at cost, if purchased, or at fair value at the date of donation, if donated. Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed using the straight-line method. The useful lives of these assets range from 3 to 40 years. Interest costs incurred during the period of construction of capital assets are capitalized as a component of the cost of acquiring those assets.

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

Long-lived Assets Impairment —The Hospital evaluates the carrying value of its long-lived assets for impairment when a triggering event occurs as required by Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 360, *Property, Plant and Equipment.* These evaluations are primarily based on the estimated recoverability of the assets' carrying value. No adjustments were required for the years ended June 30, 2012 and 2011.

Prepaid Charges for Shared Information Services — The Hospital invests in information systems that are shared by all ministry organizations of Trinity Health. Prepaid charges represent the prorated portion of the net book value of shared information systems and include hardware, software, and other capital expenses, net of accumulated depreciation on these assets. Shared information systems are recorded at cost and depreciated over the estimated useful life of the assets using the straight-line method. Useful lives range from 4 to 10 years.

Intercompany Loan Program — The Hospital has the ability to borrow funds through the Trinity Health intercompany loan program. Loans under this program accrue interest at a variable rate determined quarterly. Interest and principal are paid monthly to Trinity Health under provisions of the loan agreement.

Temporarily and Permanently Restricted Net Assets — Temporarily restricted net assets are those whose use by the Hospital has been limited by donors to a specific time period or purpose. Permanently restricted net assets have been restricted by donors to be maintained by the Hospital in perpetuity.

Patient Accounts Receivable, Estimated Payables to Third-Party Payors, and Net Patient Service Revenue — The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from established rates. Patient accounts receivable and net patient service revenue are reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered. Estimated retroactive adjustments under reimbursement agreements with third-party payors are included in net patient service revenue and estimated receivables from and payables to third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods, as final settlements are determined.

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

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

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

Adopted Accounting Pronouncements – On July 1, 2010, the Hospital adopted guidance for not-for-profit entities regarding mergers and acquisitions. This guidance defines a combination of one or more other not-for-profit entities, business or nonprofit activities as either a merger or acquisition. It also establishes principles and requirements in determining whether a not-for-profit entity combination is a merger or acquisition, applies the carryover method in accounting for mergers, applies the acquisition method in accounting for acquisitions, including which of the combining entities is the acquirer, and requires enhanced disclosures about the merger or acquisition. In addition, it amends existing FASB ASC guidance on goodwill and other intangible assets and noncontrolling interests in consolidated financial statements to make previous guidance that was only applicable to for-profit entities fully applicable to not-for-profit entities. In accordance with the guidance the Hospital performed a transitional impairment test on goodwill. As a result of the impairment test, a $372,000 charge was recorded as the effect of a cumulative change in accounting principle in the consolidated statement of operations and changes in net assets for the year ended June 30, 2011.

Effective July 1, 2011, the Hospital adopted ASU 2010-23, *Health Care Entities (Topic 954): Measuring Charity Care for Disclosure*, which prescribes a specific measurement basis of charity care for disclosure. The adoption had no impact on financial condition, results of operations or cash flows.

Forthcoming Accounting Pronouncements –

In May 2011, the FASB issued ASU 2011-04, "*Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs.*" This guidance amends the fair value disclosure requirements regarding transfers between Level 1 and Level 2 of the fair value hierarchy and also the categorization by level of the fair value hierarchy for items that are not measured at fair value in the financial statements but for which the fair value is required to be disclosed. This guidance is effective for the Hospital beginning July 1, 2012. The adoption of this guidance will have no impact on the Hospital's consolidated statement of financial position and results of operations, but may result in additional disclosures to be presented in Note 11.

In July 2011, the FASB issued ASU 2011-07, "*Health Care Entities (Topic 954): Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts, and the Allowance for Doubtful Accounts for Certain Health Care Entities.*" This guidance requires certain health care entities to present the provision for bad debts related to patient service revenues as a deduction from revenue, net of contractual allowances and discounts, versus as an expense in the statement of operations and changes in net assets. In addition, it also requires enhanced disclosures regarding revenue recognition policies and the assessment of bad debt. This guidance is effective for the Hospital beginning July 1, 2012, with early adoption permitted, and must be retrospectively applied. This statement will result in a reduction of net patient service revenue, operating revenue and operating expense but will have no impact on operating income in the statement of operations and changes in net assets and will also result in additional disclosures.

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

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

Investments in Unconsolidated Affiliates — The Hospital has investments in entities that are recorded under the cost or equity method of accounting. At June 30, 2012 and 2011, the Hospital maintained investments in unconsolidated affiliates with ownership interests ranging from 3.7% to 25%. The Hospital's share of equity earnings from entities accounted for under the equity method was $527,459 and $298,583 for the years ended June 30, 2012 and 2011, respectively, which is included in other revenue in the consolidated statements of operations and changes in net assets. The Hospital also recorded $0 and $80,626 for the years ended June 30, 2012 and 2011, respectively, in dividends from entities accounted for under the cost method, which is included in other revenue in the consolidated statements of operations and changes in net assets.

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

Investments in unconsolidated affiliates as of June 30, 2012 and 2011 include the following:

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

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

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

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

The unaudited summarized financial position and results of operations of these entities accounted for under the equity method as of and for the years ended June 30, 2012 and 2011 are as follows:

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

	2011 (in thousands)		
	Clinical Imaging	CPRCC	DRCC
Total assets	$ 445	$ 7,955	$ 7,742
Total liabilities	610	4,014	3,679
Net assets	(165)	3,942	4,063
Revenue — net	349	3,580	6,786
Excess (deficiency) of revenue over expenses	(188)	662	508

4. NET PATIENT SERVICE REVENUE

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

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

The current rate of reimbursement for services to patients under the Medicare and Medicaid programs is based on an agreement between the Center for Medicare and Medicaid Services ("CMS") and the Commission. The agreement provides that the program reimburse the Hospital at set discounts from approved rates for services provided to program beneficiaries. This agreement is based upon a waiver from Medicare reimbursement principles under Section 1814(b) of the Social Security Act and will continue as long as all hospitals elect to be reimbursed under this program and the cumulative rate of increase for costs per hospital inpatient admission in Maryland is below the national cumulative rate. Management believes that this program will remain in effect at least through June 30, 2013.

Under the Commission's reimbursement methodology, a target average charge per case was established for the Hospital based on past actual charges and case mix indices and is adjusted each year for inflation. The actual average charge per case is compared with the target average charge per case, and to the extent that the actual average exceeds or is less than the target, the overcharge or undercharge plus applicable penalties will reduce (in the case of overcharges) or increase (in the case of undercharges) the approved target for future rate years. At June 30, 2012 and 2011, the Hospital was in compliance with its average charge per case target.

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

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

Kaiser Permanente — In accordance with the rate review system established by the Commission, the Hospital and Kaiser Permanente have agreed that those charges subject to the rate review system and covered by Kaiser Permanente are generally paid at 95% of billed charges.

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

During 2012 and 2011, net patient service revenue was received as follows:

	2012	2011
Medicare and state Medicaid programs	53%	51%
Blue Cross	16%	15%
Other	31%	34%

A summary of net patient service revenue for the years ended June 30, 2012 and 2011, is as follows (in thousands):

	2012	2011
Gross charges:		
Acute inpatient	$ 323,406	$ 319,520
Outpatient, nonacute inpatient, and other	157,067	151,443
Gross patient revenue	480,473	470,963
Less:		
Contractual and other allowances	(58,871)	(49,890)
Charity care charges	(23,691)	(19,236)
Net patient service revenue	$ 397,911	$ 401,837

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

5. PROPERTY AND EQUIPMENT

A summary of property and equipment at June 30, 2012 and 2011, is as follows (in thousands):

	2012	2011
Land	$ 493	$ 493
Buildings and improvements	209,136	183,614
Equipment	128,370	145,517
Total	337,999	329,624
Less accumulated depreciation and amortization	(222,316)	(208,391)
Construction in progress	32,119	8,848
Property and equipment — net	$ 147,802	$ 130,081

Equipment includes assets recorded under capital leases of $2.9 million with accumulated amortization for such assets of $1.8 million as of June 30, 2012 and $1.4 million as of June 30, 2011. The associated charges to income are recorded in depreciation and amortization expense. In June 2012 and 2011, the Hospital completed an inventory of all fixed and movable equipment capitalized in the fixed asset system. The inventory resulted in the removal of $4.1 million and $8.6 million for the years ended June 30, 2012 and 2011, respectively, of retired assets with the majority being fully depreciated.

On January 20, 2011 Maryland Health Care Commission granted two certificates of need for the Hospital. These two certificates of need relate to the construction of a 93-bed hospital in Germantown, Maryland and the construction of a Silver Spring Tower to augment the patient care at the existing 455 licensed bed facility in Silver Spring, Maryland. The total budgets for the projects are $206.9 million and $207.9 million, respectively. Construction was partially contracted with a third party for a total committed amount of $53.2 million. As of June 30, 2012, $5.3 million has been incurred to date under the construction agreement with $30.2 incurred for the total projects.

Funding will be provided from cash, investment in Trinity Health corporate pooled investment program, philanthropy, and bond issue through Trinity Health. The total amount of estimated borrowings from Trinity Health is $345.8 million. Of this amount, $30.5 million has been borrowed as of June 30, 2012 with an estimated amount of $80 million to be borrowed in fiscal year 2013.

The total amount of interest capitalized was $0.7 million and $0.2 million for the year ended June 30, 2012 and 2011, respectively.

6. LONG-TERM DEBT AND OTHER FINANCING ARRANGEMENTS

A summary of long-term debt and capital lease obligations, including amounts owed to Trinity Health, at June 30, 2012 and 2011, is as follows (in thousands):

	2012	2011
Notes payable to Trinity Health, 2.00% to 4.95% payable in varying monthly installments — due through 2048	$ 127,818	$ 99,393
Capital lease obligations, at varying rates of imputed interest, 6.9% to 6.4%	154	671
	127,972	100,064
Less current portion of long-term debt	(2,398)	(2,508)
Long-term debt	$ 125,574	$ 97,556

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

Years Ending June 30:	
2013	2,398
2014	2,320
2015	2,402
2016	2,490
2017	2,600
Thereafter	115,762
Total	$ 127,972

Obligated Group and Other Requirements - Trinity Health has debt outstanding under a Master Trust Indenture dated July 1, 1998, as amended and supplemented thereto, the Amended and Restated Master Indenture ("ARMI"). The ARMI permits Trinity Health to issue obligations to finance certain activities. Obligations issued under the ARMI are general, direct obligations of Trinity Health and any future members of the Trinity Health Obligated Group. Proceeds from the tax-exempt bonds and refunding bonds are to be used to finance the construction, acquisition and equipping of capital improvements. Since the implementation of the ARMI, Trinity Health is the sole member of the Trinity Health Obligated Group. Certain ministry organizations of Trinity Health constitute Designated Affiliates and Trinity Health covenants to cause each Designated Affiliate to pay, loan or otherwise transfer to Trinity Health such amounts necessary to pay the amounts due on all obligations issued under the ARMI. Trinity Health, the Designated Affiliates and all other controlled affiliates are referred to as the Credit Group. Trinity Health has granted a security interest in certain pledged property and has caused not less than 85% of the Designated Affiliates representing, when combined with Trinity Health and any future members, not less than 85% of the consolidated net revenue of the Credit Group to grant to Trinity Health security interests in certain pledged property in order to secure all obligations issued under the ARMI. The aggregate amount of obligations outstanding using the ARMI (other than obligations that have been advance refunded) are $3,055 million and $2,630 million at June 30, 2012 and June 30, 2011, respectively.

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

There are several conditions and covenants required by the ARMI with which Trinity Health must comply, including covenants that require Trinity Health to maintain a minimum debt service coverage and limitations on liens or security interests in property, except for certain permitted encumbrances, affecting the property of Trinity Health or any Material Designated Affiliate (a Designated Affiliate whose total revenues for the most recent fiscal year exceed 5% of the total revenues of the Credit Group for the most recent fiscal year). Long-term debt outstanding as of June 30, 2012 and June 30, 2011, excluding amounts issued under the ARMI, is generally collateralized by certain property and equipment.

7. PROFESSIONAL AND GENERAL LIABILITY PROGRAMS

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

For the years ended June 30, 2012 and 2011, Trinity Health's self-insurance program includes $20 million per occurrence for the first layers of professional liability, as well as $1 million per occurrence for directors and officers liability and $1 million per occurrence for the insured auto liability program. Additional layers of professional liability insurance were available with coverage provided through other insurance carriers and various reinsurance arrangements. The total amount available for these subsequent layers is $100 million in aggregate. Trinity Health also insures $500,000 in property damage liability with commercial insurance providing coverage up to $1 billion.

The Hospital has contributed an amount to Trinity Health, representing its share of the expected losses under the aforementioned programs, and charged its contributions to expense. The liability for self-insurance reserves represents estimates of the ultimate net cost of all losses and loss adjustment expenses which are incurred but unpaid. The reserves are based on the loss and loss adjustment expense factors inherent in Trinity Health's premium structure. Independent consulting actuaries determined these factors from estimates of Trinity Health's expenses and available industry-wide data. The reserves include estimates of future trends in claim severity and frequency. Although considerable variability is inherent in such estimates, management believes that the liability for unpaid claims and related adjustment expenses is adequate based on the loss experience of Trinity Health. The estimates are continually reviewed and adjusted as necessary. The amount of the changes to the estimated self-insurance reserves were determined based upon the annual, independent actuarial analyses.

Claims in excess of certain insurance coverage and the recorded self-insurance liability have been asserted against the Hospital by various claimants. The claims are in various stages of processing, and some may ultimately be brought to trial. There are known incidents occurring through June 30, 2012, that may result in the assertion of additional claims, and other claims may be asserted arising from services provided in the past. While it is possible that settlement of asserted claims and claims which may be asserted in the future could result in liabilities in excess of amounts for which the Hospital has provided, management, based upon the advice of counsel, believes that the excess liability, if any, should not materially affect the consolidated financial position, operations, or cash flows of the Hospital.

8. PENSION AND OTHER BENEFIT PLANS

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

Defined Compensation Benefits — The Hospital sponsors defined contribution pension plans covering substantially all of its employees. The plans include discretionary employer matching contributions of up to 3% of compensation. Employer and employee contributions are self-directed by plan participants in defined contribution plans. Contribution expense under the plans totaled approximately $3.2 million and $3.4 million in 2012 and 2011, respectively.

Deferred Compensation — The Hospital has a nonqualified deferred compensation plan, which permits eligible employees to defer a portion of their compensation. The plan is funded and is distributable in cash after retirement or termination of employment. The plan allows participants to defer up to a maximum of $15,000 of salary with investment income accruing based on investment selections of the participant. At June 30, 2012 and 2011, the assets and liabilities under the plan totaled $49,137 and $47,567, respectively.

Noncontributory Defined Benefit Pension Plans — Substantially all of the Hospital's employees participate in noncontributory defined benefit pension plans of Trinity Health. The plans' assets are invested in equity securities, debt securities, mutual funds, hedge funds, commingled funds directly holding securities, long/short equity, private equity funds and real estate. The plan is accounted for as a multi-employer plan. As a multi-employer plan, the Hospital contributes an amount equal to its proportionate share of the annual expense of Trinity Health. For the years ended June 30, 2012 and 2011, net pension cost was $5.8 million and $9.0 million, respectively.

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

Postretirement Health Care and Life Insurance Benefits ("Postretirement Plans") — The Hospital participates in a contributory plan established to provide uniform, defined postretirement health benefits, and life insurance ("retiree medical plan") to certain retirees of organizations affiliated with Trinity Health. Medical benefits for these retirees are subject to deductibles and co-payment provisions. All of the Postretirment Plans are closed to new participants. The plan's assets are invested in equity securities, fixed income funds, and money market investments. The plan is accounted for as a multi-employer plan. As a multi-employer plan, the Hospital contributes an amount equal to its proportionate share of the annual expense of Trinity Health. In June 2010, Trinity Health approved an amendment to restructure the funded plans as Health Reimbursement Account arrangements for Medicare eligible participants effective January 1, 2011. For the years ended June 30, 2012 and 2011, retiree medical plan income was $1.7 million and $1.2 million, respectively.

9. COMMITMENTS AND CONTINGENCIES

Operating Leases — The Hospital leases various land, equipment, and facilities under operating leases. Total rental expense, which includes provisions for maintenance in some cases, in 2012 and 2011, was $2.4 million and $2.3 million, respectively.

The following is a schedule of future minimum lease payments under operating leases as of June 30, 2012, that have initial or remaining lease terms in excess of one year (in thousands):

Years Ending June 30:	
2013	$ 1,690
2014	1,604
2015	1,327
2016	1,283
2017	675
Thereafter	1,705
Total	$ 8,284

Guarantees — The Hospital entered into debt guarantees of Surgery Center of Maryland, an unconsolidated affiliate, that are excluded from the consolidated balance sheets. The Hospital has guaranteed 18.75% of the debt of Surgery Center. The maximum guarantee is for $435,000 and relates to Surgery Center's $1,374,644 of term loan and $200,000 of revolving credit. The guaranteed debt was used to finance equipment purchases and working capital. The Hospital has also entered into debt guarantees of Clinical Imaging, another of its unconsolidated affiliates. The Hospital has guaranteed 25.0% of Clinical Imaging's note payable to Sun Trust. The maximum guarantee for Clinical Imaging as of June 30, 2012 is for $487,091.

Asset Retirement Obligations — The Hospital has conditional asset retirement obligations for certain fixed assets mainly related to the removal of asbestos, lead paint, and a lead-lined room. A reconciliation of the asset retirement obligation at June 30, 2012 and 2011, is as follows (in thousands):

	2012	2011
Asset retirement obligation — beginning of year	$ 714	$ 683
Accretion of discount	40	38
Additions	44	0
Change in estimate	(225)	(7)
Asset retirement obligation — end of year	$ 573	$ 714

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

10. RELATED-PARTY TRANSACTIONS

The Hospital is allocated the cost of central-administered services from the corporate office of Trinity Health. The Hospital also shares certain services with affiliates and other ministry organizations of Trinity Health. These services include treasury management, information systems, benefits administration, clinical engineering, accounts payable, patient financial services and professional liability insurance. The composition of the related-party transactions with Trinity Health and other ministry organizations at June 30, 2012 and 2011, was as follows (in thousands):

	2012	2011
Amounts recorded in the consolidated balance sheets:		
Investments in corporate pooled investment funds:		
Investments in Trinity Health corporate pooled investment program	$ 173,585	$ 176,394
Assets restricted as to use	1,326	1,325
Investments in corporate pooled investment funds	174,911	177,719
Prepaid expenses and other current assets	51	764
Prepaid charges for shared information systems	19,305	17,890
Accounts and other payables	7,930	6,323
Deferred compensation liability	49	48
Note payable to Trinity Health, including current portion	127,818	99,393
Amounts recorded in the consolidated statements of operations and changes in net assets:		
Operating expenses:		
Other revenue	57	51
Employee benefits	5,310	7,883
Contract labor	3,339	3,199
Purchased Services:		
Information services	19,003	17,926
Management services	4,468	4,509
Revenue management services	1,191	1,225
Supply chain & accounts payable services	685	681
Repairs and maintenance - included in occupancy	2,980	2,952
Amortization	4,702	4,556
Interest expense	4,493	3,830
Insurance — included in other expenses	3,934	3,380
Gain on investments in corporate pooled investment program and fees	34	18,010
Other - Included in nonoperating items	(614)	(652)
Transfers to affiliates	(4,487)	(10,044)

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

11. FAIR VALUE MEASUREMENTS

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

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

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

Additional Fair Value Disclosures under ASC 820 **-** On July 1, 2008 the Hospital adopted ASC 820, "*Fair Value Measurements and Disclosures*". This standard defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. The fair value hierarchy is as follows:

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

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

- Quoted prices for similar instruments in active markets;
- Quoted prices for identical or similar instruments in non-active markets (few transactions, limited information, non-current prices, high variability over time, etc.);
- Inputs other than quoted prices that are observable for the instrument (interest rates, yield curves, volatilities, default rates, etc.); and
- Inputs that are derived principally from or corroborated by other observable market data.

Level 3 – Unobservable inputs that cannot be corroborated by observable market data.

Valuation Methodologies

Exchange-traded securities whose fair value is derived using quoted prices in active markets are classified as Level 1. In instances where quoted market prices are not readily available, fair value is estimated using quoted market prices and/or other market data for the same or comparable instruments and transactions in establishing the prices, discounted cash flow models and other pricing models. These models are primarily industry-standard models that consider various assumptions, including time value and yield curve as well as other relevant economic measures. The Hospital classifies these securities as Level 2 within the fair value hierarchy.

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

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

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

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

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

Commingled Funds —These funds are developed for investment by institutional investors only and therefore do not require registration with the Securities and Exchange Commission. Commingled funds are recorded at fair value based on either the underlying investments that have a readily determinable market value or based on net asset value, which is calculated using the most recent fund financial statements.

Other Investments — Trinity Health accounts for certain other investments using the equity method. These investments are structured as limited liability corporations and partnerships and are designed to produce stable investment returns regardless of market activity. These investments utilize a combination of "fund-of-funds" and direct fund investment resulting in diversified multi-strategy, multi-manager investments approach. Some of these are developed by investment mangers specifically for Trinity Health's use and are similar to mutual funds, but are not traded on a public exchange. Underlying investments in these funds may include other funds, equities, fixed income securities, commodities, currencies and derivatives. Audited information is only available annually based on the limited liability corporations, partnerships or funds' year-end. Management's estimates of the fair values of these investments are based on information provided by the third-party administrators and fund managers or the general partners. Management obtains and considers the audited financial statements of these investments when evaluating the overall reasonableness of the recorded value. In addition to a review of external information provided, management's internal procedures include such things as review of returns against benchmarks and discussions with fund managers on performance, changes in personnel or process, along with evaluations of current market conditions for these investments. Investment managers meet with Trinity Health's Investment Subcommittee of the Finance and Stewardship Committee of the Board of Directors on a periodic basis. Because of the inherent uncertainty of valuations, values may differ materially from the values that would have been used had a ready market existed.

The Hospital classifies its marketable securities as trading securities. As a result, all holding gains and losses at June 30, 2012 and 2011 are included in excess of revenue over expenses. Net holding gains (losses) recorded for trading securities in the consolidated statements of operations for the years ended June 30, 2012 and 2011 were approximately ($5.1) million and $10.1 million, respectively.

The following tables summarize the fair values, by input hierarchy, of financial instruments measured at fair value on a recurring basis at June 30, 2012 and June 30, 2011, respectively, according to the valuation techniques the Hospital used to determine their fair values.

	2012			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
Cash and cash equivalents	$ 48,414			$ 48,414
U.S. Equity securities and mutual funds	31			31
Total	$ 48,445	$ 0	$ 0	$ 48,445

	2011			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
Cash and cash equivalents	$ 18,044			$ 18,044
Marketable securities	1,525			1,525
U.S. Equity securities and mutual funds	33			33
Total	$ 19,602	$ 0	$ 0	$ 19,602

There were no transfers to or from Levels 1 and 2 during the years ended June 30, 2012 or 2011.

The following tables summarize information about the fair value of the Hospital's financial assets in the investment in the Trinity Health corporate pooled investment program at June 30, 2012 and 2011, respectively, according to asset category and the valuation techniques used to determine their fair values. Other investments accounted for under the equity method of accounting represent 27% and 25% of the investment in the Trinity Health corporate pooled investment program at June 30, 2012 and 2011 and are excluded from the table below.

	2012			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
Assets:				
Cash and cash equivalents	12 %	0 %	0 %	12 %
Marketable Securities:				
Equity Securities	11 %	0 %	0 %	11 %
Debt Securities				
U.S. and non-U.S. Government and government agency obligations	0 %	6 %	0 %	6 %
U.S. and non U.S. Corporate Debt Securities	0 %	5 %	0 %	5 %
Asset backed Securities	0 %	2 %	0 %	2 %
Mutual Funds				
Equity Mutual Fund	2 %	0 %	0 %	2 %
Fixed Income Mutual Fund	0 %	0 %	0 %	0 %
Total marketable Securities	13 %	13 %	0 %	26 %
Commingled Funds	0 %	32 %	3 %	35 %
Total investment in Trinity Health Corporate pooled investment program	25 %	45 %	3 %	73 %
Equity method investments not included in Fair Value table				27 %
			Total %	100 %

	2011			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
Assets:				
Cash and cash equivalents	19 %	1 %	0 %	20 %
Marketable Securities:				
Equity Securities	12 %	0 %	0 %	12 %
Debt Securities				
U.S. and non-U.S. Government and government agency obligations	0 %	4 %	0 %	4 %
U.S. and non U.S. Corporate Debt Securities	0 %	5 %	0 %	5 %
Asset backed Securities	0 %	2 %	0 %	2 %
Mutual Funds				
Equity Mutual Fund	3 %	0 %	0 %	3 %
Total marketable Securities	15 %	11 %	0 %	26 %
Investment Funds				
Bond Funds	0 %	22 %	0 %	22 %
Commingled Funds	0 %	7 %	0 %	7 %
Total investment in Trinity Health Corporate pooled investment program	34 %	41 %	0 %	75 %
Equity method investments not included in Fair Value table				25 %
			Total %	100 %

The Corporation holds shares or interests in investment companies at year-end, included in commingled funds, where the fair value of the investment held is estimated based on the net asset value per share (or its equivalent) of the investment company. The redemption periods range from monthly to semi-annually, and the redemption notice periods range from 5 days to 95 days. There were no unfunded commitments as of June 30, 2012 or 2011.

The composition of investment returns, including earnings on investments in the Trinity Health corporate pooled investment program, included in the consolidated statements of operations and changes in net assets for the years ending June 30, 2012 and 2011 are as follows:

	2012	2011
	(in thousands)	
Dividend, interest income, and other	$ 2,454	$ 2,434
Net realized gains	2,677	5,459
Change in net unrealized gains on investments	(5,097)	10,131
Total investment return	$ 34	$ 18,024
Included in:		
Nonoperating items	$ 35	$ 18,016
Permanetly restricted net assets	(1)	8
Total investment return	$ 34	$ 18,024

Unconditional promises to give at June 30, 2012 and 2011, consist of the following (in thousands):

	2012	2011
Amount expected to be collected in:		
Less than one year	$ 15	$ 62
One to five years	8	21
Total contributions receivable	23	83
Discount to present value of future cash flows		(1)
Allowance for uncollectible amounts		(43)
Total unconditional promises to give — net	$ 23	$ 39

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

Long-term Debt - The fair value of the Hospital's intercompany debt under the Trinity Health intercompany loan program is based on its proportionate share of Trinity Health's fair value for its fixed and variable rate bonds issued under its master indenture. The carrying amounts of the Trinity Health's variable-rate long-term debt approximate its fair values. The fair value of the Trinity Health's fixed-rate long-term debt is estimated using discounted cash flow analyses, based on current incremental borrowing rates for similar types of borrowing arrangements. The fair value of the fixed-rate long-term debt was $2,389 million and $1.576 million for 2012 and 2011, respectively. The related carrying value of the fixed-rate long-term debt was $2,162 million and $1.509 million for 2012 and 2011, respectively.

12. SUBSEQUENT EVENTS

Management has evaluated subsequent events through October 18, 2012 the date the financial statements were available to be issued.

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SUPPLEMENTAL INFORMATION

HOLY CROSS HOSPITAL
(A Member of Trinity Health)
CONSOLIDATING SCHEDULE — BALANCE SHEET INFORMATION
AS OF JUNE 30, 2012
(In thousands)

	Holy Cross Hospital	Holy Cross Foundation	Maryland Care Group	Total
ASSETS				
CURRENT ASSETS:				
Cash and cash equivalents	$ 38,912	$ 1,251	$ 6,141	$ 46,304
Investments in Trinity Health corporate pooled investment program	173,473	112		173,585
Inventories	5,907			5,907
Prepaid expenses and other current assets	10,566	11	(5,035)	5,542
	228,858	1,374	1,106	231,338
Receivables:				
Patient accounts receivable	64,586		275	64,861
Allowance for charity	(3,849)			(3,849)
Allowance for doubtful accounts	(6,492)			(6,492)
Patient accounts receivable — net	54,245		275	54,520
Total current assets	283,103	1,374	1,381	285,858
ASSETS LIMITED OR RESTRICTED AS TO USE BY:				
Deferred compensation	49			49
Donors	240	3,187		3,427
Total assets limited or restricted as to use	289	3,187		3,476
OTHER ASSETS:				
Property and equipment — net	147,795		7	147,802
Investments in unconsolidated affiliates	2,214			2,214
Prepaid charges for shared information services	19,305			19,305
Other assets	7,686			7,686
Total other assets	177,000		7	177,007
TOTAL ASSETS	$ 460,392	$ 4,561	$ 1,388	$ 466,341
LIABILITIES AND NET ASSETS				
CURRENT LIABILITIES:				
Current portion of long-term debt	$ 154	$	$	154
Current portion of notes payable to Trinity Health	2,244			2,244
Accounts payable and accrued expenses	22,157		65	22,222
Salary, wages, and related liabilities	25,245		35	25,280
Estimated payables to third-party payors	18,836			18,836
Total current liabilities	68,636		100	68,736
NONCURRENT LIABILITIES:				
Notes Payable to Trinity Health, net of current portion	125,574			125,574
Other long-term liabilities	651			651
Total noncurrent liabilities	126,225			126,225
Total liabilities	194,861		100	194,961
NET ASSETS:				
Unrestricted	265,289	1,371	1,288	267,948
Temporarily restricted	211	3,190		3,401
Permanently restricted	31			31
Total net assets	265,531	4,561	1,288	271,380
TOTAL LIABILITIES AND NET ASSETS	$ 460,392	$ 4,561	$ 1,388	$ 466,341

HOLY CROSS HOSPITAL
(A Member of Trinity Health)

CONSOLIDATING SCHEDULE — STATEMENT OF OPERATIONS AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2012
(In thousands)

	Holy Cross Hospital	Holy Cross Foundation	Maryland Care Group	Total
UNRESTRICTED REVENUE:				
Net patient service revenue	$ 396,609	$	$ 1,302	$ 397,911
Net assets released from restrictions	766	354		1,120
Other revenue	14,794	184		14,978
Total unrestricted revenue	412,169	538	1,302	414,009
EXPENSES:				
Labor:				
Salaries and wages	164,574		845	165,419
Employee benefits	32,841		127	32,968
Contract labor	4,655			4,655
Total labor expense	202,070		972	203,042
Supplies	61,899	288	3	62,190
Purchased services	52,995	57	324	53,376
Depreciation and amortization	22,615			22,615
Provisions for bad debt	22,529			22,529
Occupancy	12,689		33	12,722
Interest	3,586			3,586
Other	7,177	9	105	7,291
Total expenses	385,560	354	1,437	387,351
OPERATING INCOME (EXPENSE)	26,609	184	(135)	26,658
NONOPERATING ITEMS:				
Earnings on Trinity Health corporate pooled investment program	45	(11)		34
Other	(614)			(614)
Total nonoperating items	(569)	(11)		(580)
EXCESS OF (DEFICIENCY) REVENUE OVER EXPENSES	$ 26,040	$ 173	$ (135)	$ 26,078

(Continued)

HOLY CROSS HOSPITAL
(A Member of Trinity Health)

CONSOLIDATING SCHEDULE — STATEMENT OF OPERATIONS AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2012
(In thousands)

	Holy Cross Hospital	Holy Cross Foundation	Maryland Care Group	Total
UNRESTRICTED NET ASSETS:				
Excess of (deficiency) revenue over expenses	$ 26,040	$ 173	$ (135)	$ 26,078
Unrestricted contributions of long lived assets	34			34
Transfers to affiliates	(4,487)			(4,487)
Increase (decrease) in unrestricted net assets	21,587	173	(135)	21,625
TEMPORARILY RESTRICTED NET ASSETS:				
Contributions	370	1,336		1,706
Net assets released from restrictions	(300)	(820)		(1,120)
Increase in temporarily restricted net assets	70	516		586
PERMANENTLY RESTRICTED NET ASSETS				
Investment income	(1)			(1)
Other	(1)			(1)
Decrease in permanently restricted net assets	(2)			(2)
INCREASE (DECREASE) IN NET ASSETS	21,655	689	(135)	22,209
NET ASSETS — Beginning of year	243,876	3,872	1,423	249,171
NET ASSETS — End of year	$ 265,531	$ 4,561	$ 1,288	$ 271,380

(Concluded)