ATTACHMENT 7

MEDSTAR AUDITED FINANCIAL STATEMENTS

KPMG

MEDSTAR HEALTH, INC.

Consolidated Financial Statements

June 30, 2016 and 2015

(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, 2016 and 2015, 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.

KPMG

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, 2016 and 2015, and the results of their operations and their cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

KPMG LLP

October 7, 2016

MEDSTAR HEALTH, INC.

Consolidated Balance Sheets

June 30, 2016 and 2015

(Dollars in millions)

Assets		**2016**	**2015**
Current assets:			
Cash and cash equivalents	$	572.1	572.3
Investments		122.0	74.9
Assets whose use is limited or restricted		60.2	61.3
Receivables:			
From patient services (less allowances for uncollectible accounts of $183.0 in 2016 and $191.3 in 2015)		653.6	584.1
Other		92.0	93.0
		745.6	677.1
Inventories		60.3	60.4
Prepaids and other current assets		41.6	33.1
Total current assets		1,601.8	1,479.1
Investments, net of current portion		921.0	1,002.2
Assets whose use is limited or restricted, net of current portion		487.7	554.7
Property and equipment, net		1,272.7	1,197.4
Interest in net assets of foundation		54.6	63.0
Goodwill and other intangible assets, net		253.0	258.2
Other assets		128.0	136.3
Total assets	$	4,718.8	4,690.9

MEDSTAR HEALTH, INC.

Consolidated Balance Sheets

June 30, 2016 and 2015

(Dollars in millions)

Liabilities and Net Assets		**2016**	**2015**
Current liabilities:			
Accounts payable and accrued expenses	$	499.8	433.8
Accrued salaries, benefits, and payroll taxes		376.7	348.2
Amounts due to third-party payors, net		94.7	83.5
Current portion of long-term debt		103.3	19.5
Current portion of self insurance liabilities		89.8	88.4
Other current liabilities		103.5	147.9
Total current liabilities		1,267.8	1,121.3
Long-term debt, net of current portion		1,214.3	1,323.0
Self insurance liabilities, net of current portion		307.4	310.6
Pension liabilities		495.9	293.0
Other long-term liabilities, net of current portion		132.5	137.3
Total liabilities		3,417.9	3,185.2
Net assets:			
Unrestricted net assets:			
MedStar Health, Inc.		1,118.2	1,319.0
Noncontrolling interests		17.6	15.3
Total unrestricted net assets		1,135.8	1,334.3
Temporarily restricted		124.9	131.9
Permanently restricted		40.2	39.5
Total net assets		1,300.9	1,505.7
Total liabilities and net assets	$	4,718.8	4,690.9

See accompanying notes to consolidated financial statements.

MEDSTAR HEALTH, INC.

Consolidated Statements of Operations and Changes in Net Assets

Years ended June 30, 2016 and 2015

(Dollars in millions)

		2016	2015
Operating revenues:			
Net patient service revenue	$	4,611.3	4,437.6
Provision for bad debts		(225.3)	(206.7)
Total net patient service revenue, net of provision for bad debts		4,386.0	4,230.9
Premium revenue		666.4	561.3
Other operating revenue		213.6	235.0
Net operating revenues		5,266.0	5,027.2
Operating expenses:			
Personnel		2,752.5	2,591.5
Supplies		779.0	741.5
Purchased services		911.9	844.0
Other operating		466.7	452.6
Interest expense		44.2	47.9
Depreciation and amortization		186.0	188.9
Total operating expenses		5,140.3	4,866.4
Earnings from operations		125.7	160.8
Nonoperating gains (losses):			
Investment income		11.7	16.1
Net realized gains on investments		11.9	43.2
Change in unrealized (losses) gains on derivative instrument		(1.5)	1.1
Change in unrealized losses on investments, net		(92.9)	(75.9)
Loss on extinguishment of debt		—	(25.2)
Income tax provision		(3.6)	(8.2)
Other nonoperating losses		(5.2)	(0.6)
Total nonoperating losses		(79.6)	(49.5)
Excess of revenues over expenses	$	46.1	111.3

(Continued)

MEDSTAR HEALTH, INC.

Consolidated Statements of Operations and Changes in Net Assets

Years ended June 30, 2016 and 2015

(Dollars in millions)

		2016	2015
Unrestricted net assets:			
Excess of revenues over expenses	$	46.1	111.3
Acquired noncontrolling interests		—	10.8
Change in funded status of defined benefit plans		(255.3)	(118.5)
Distributions to noncontrolling interests		(0.4)	(2.9)
Net assets released from restrictions used for purchase of property and equipment		11.1	6.2
(Decrease) increase in unrestricted net assets		(198.5)	6.9
Temporarily restricted net assets:			
Contributions		20.8	25.6
Realized net gains on restricted investments		0.8	2.0
Change in unrealized losses on restricted investments, net		(2.5)	(2.4)
Decrease in net assets of foundation		(8.4)	(1.9)
Net assets released from restrictions		(17.7)	(13.2)
(Decrease) increase in temporarily restricted net assets		(7.0)	10.1
Permanently restricted net assets:			
Contributions		1.0	—
Realized net gains on restricted investments		0.1	0.3
Change in unrealized losses on restricted investments, net		(0.4)	(0.2)
Increase in permanently restricted net assets		0.7	0.1
(Decrease) increase in net assets		(204.8)	17.1
Net assets, beginning of year		1,505.7	1,488.6
Net assets, end of year	$	1,300.9	1,505.7

See accompanying notes to consolidated financial statements.

MEDSTAR HEALTH, INC.

Consolidated Statements of Cash Flows

Years ended June 30, 2016 and 2015

(Dollars in millions)

		2016	2015
Cash flows from operating activities:			
Change in net assets	$	(204.8)	17.1
Adjustments to reconcile change in net assets to net cash provided by operating activities:			
Depreciation and amortization		186.0	188.9
Gain on sale of property and equipment		(6.1)	(0.1)
Change in funded status of defined benefit plans		255.3	118.5
Realized net gains on marketable investments		(12.8)	(45.5)
Change in unrealized losses of marketable investments		95.8	78.5
Decrease in net assets of foundation		8.4	1.9
Unrealized loss (gain) on derivative instrument		1.5	(1.1)
Net settlement payment on derivative instrument		3.3	3.6
Loss on extinguishment of debt		—	25.2
Distributions to noncontrolling interests		0.4	2.9
Deferred income tax provision		3.4	6.1
Provision for bad debts		225.3	206.7
Temporarily and permanently restricted contributions		(21.8)	(25.6)
Acquired noncontrolling interests		—	(10.8)
Changes in operating assets and liabilities:			
Receivables		(293.8)	(255.9)
Inventories and other assets		(0.7)	(10.3)
Accounts payable and accrued expenses		110.0	71.8
Amounts due to third-party payors		11.2	(2.2)
Other liabilities		(104.8)	(44.8)
Net cash provided by operations		255.8	324.9
Cash flows from investing activities:			
Proceeds (purchases) of investments and assets whose use is limited or restricted, net		64.1	(111.2)
Purchases of alternative investments		(48.1)	(109.6)
Proceeds from sales of alternative investments		3.0	35.9
Net settlement payment on derivative instrument		(3.3)	(3.6)
Purchases of property and equipment, and other		(268.0)	(252.4)
Net cash used in investing activities		(252.3)	(440.9)
Cash flows from financing activities:			
Proceeds from long-term borrowings		—	511.6
Repayments of long-term borrowings		(24.9)	(21.9)
Repayments of refinanced bonds and other borrowings		—	(420.2)
Payment of deferred issuance costs		(0.2)	(3.8)
Temporarily and permanently restricted contributions		21.8	25.6
Distributions to noncontrolling interests		(0.4)	(2.9)
Net cash (used in) provided by financing activities		(3.7)	88.4
Decrease in cash and cash equivalents		(0.2)	(27.6)
Cash and cash equivalents at beginning of year		572.3	599.9
Cash and cash equivalents at end of year	$	572.1	572.3
Supplemental disclosure of cash flow information:			
Cash paid for interest	$	50.8	50.8
Noncash investing and financing activities:			
Noncash purchases of property, plant and equipment	$	21.2	19.5

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
- RadAmerica II, LLC

(b) 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.

(c) 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. Future results could differ from current estimates.

(d) Cash and Cash Equivalents

All highly liquid investments with an original maturity date of three months or less are considered to be cash equivalents.

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

The Corporation's investment portfolio is considered trading and is classified as current or noncurrent 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 indentures, 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), realized gains and losses on investment sales, and unrealized gains and losses 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 are 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.

(f) 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.

(g) 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. 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 significant impairment charges were recorded against the carrying value of the Corporation's long-lived assets during the years ended June 30, 2016 and 2015.

(h) 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.

(i) 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, 2016 and 2015, the Corporation had one reporting unit, which included all subsidiaries of the Corporation and held goodwill, net on its balance sheet of $218.0 and $219.2, 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 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, 2016 and 2015.

Other intangible assets are recorded at fair value and amortized over their estimated useful lives. Other intangible assets were $48.2 as of June 30, 2016 and 2015, gross of accumulated amortization of $13.2 and $9.2, respectively. The Corporation recognized amortization expense of $4.0 and $3.1 for the years ended June 30, 2016 and 2015, respectively, related to identifiable intangible assets.

(j) 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 $4.8 and $4.0 as of June 30, 2016 and 2015, respectively.

(k) 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 and are included in other assets in the accompanying consolidated balance sheets.

(l) 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.

(m) 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 within other long-term liabilities. 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).

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

Net patient service revenue, which includes hospital inpatient services, hospital outpatient services, physician services, and other patient service revenues, 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. Net patient service revenue is recognized when 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.

(o) 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.

(p) Premium Revenue and Medical Claims Expense

Premium revenue consists of amounts received from the State of Maryland, the District of Columbia and the Centers for Medicare and Medicaid Services (CMS) 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 and Medicare beneficiaries. This revenue is recognized ratably over the contractual period for the provision of services. Medical expenses of the managed care organization include actuarially determined estimates of the ultimate costs for both reported claims and claims incurred but unreported and are included in purchased services on the consolidated statements of operations and changes in net assets.

(q) 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.

(r) 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 are reported at fair value at the date the condition is met. The gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified 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.

(s) 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 are 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, 2016 and 2015, certain hospitals and physicians satisfied the meaningful use criteria. As a result, the Corporation recognized \$15.1 and \$28.1 of EHR incentives during the years ended June 30, 2016 and 2015, respectively, in other operating revenue.

(t) ***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 acquisitions of and distributions to noncontrolling interests, and defined benefit obligations in excess of recognized pension cost, among others.

(u) ***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*.

(v) ***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.

(w) ***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.

(x) *New Accounting Pronouncements*

In April and August 2015, the FASB issued Accounting Standards Update (ASU) 2015-03 and ASU 2015-15, *Interest-Imputation of Interest*, respectively, to simplify the presentation of debt issuance costs. The standard requires debt issuance costs be presented in the consolidated balance sheet as a direct deduction from the carrying value of the debt liability. The FASB clarified that debt issuance costs related to line-of-credit arrangements should be presented as an asset and amortized over the term of the arrangement. This guidance, which will be applied on a retrospective basis, is effective for annual fiscal periods beginning after December 15, 2015. The Corporation expects to record a decrease in other assets and a corresponding decrease in long-term debt upon adoption of the standard.

In May 2014 and March 2016, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, and *Revenue from Contracts with Customers: Principal versus Agent Considerations*, respectively. This guidance 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, the standard requires 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. The FASB updated the new revenue standard by clarifying the principal versus agent implementation guidance, but does not change the core principle of the new standard. ASU 2014-09 is effective for fiscal year 2019. 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.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*, which requires lessees to recognize the assets and liabilities arising from all leases on the consolidated balance sheet and to disclose key qualitative and quantitative information about the entity's leasing arrangements. This guidance is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years, and a modified retrospective approach is required. The Corporation in the process of assessing the impact the adoption of this standard will have on the consolidated financial statements.

In August 2016, the FASB issued ASU 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*, to improve the current net asset classification requirements and information presented in financial statements and notes about a not-for-profit entity's liquidity, financial performance, and cash flows. This update requires not-for-profit entities to present two classes of net assets (net assets with donor restrictions and net assets without donor restrictions), rather than the three classes of net assets currently required, and other qualitative information regarding the entity's liquidity, financial performance, and cash flows. The amendments in this update are effective for annual financial statements issued for fiscal years beginning after December 15, 2017 and for interim periods within fiscal years beginning after December 15, 2018. Early adoption is permitted. The Corporation is in the process of assessing the impact the adoption of this standard will have on the consolidated financial statements.

(Dollars in millions)

From time to time, new accounting guidance is issued by the FASB or other standard setting bodies that is adopted by the Corporation as of the effective date or, in some cases where early adoption is permitted, in advance of the effective date. The Corporation has assessed the recently issued guidance that is not yet effective and, unless otherwise indicated above, believes the new guidance will not have a material impact on our consolidated financial position, results of operations, or cash flows.

(y) Reclassifications

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

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

Investments and assets whose use is limited or restricted as of June 30, 2016 and 2015, at fair value consist of the following:

		2016	2015
Cash and cash equivalents	$	70.5	87.6
Fixed income securities and funds		353.7	393.1
Equity securities		578.6	604.1
Alternative investments:			
Commingled equity funds		200.9	243.6
Inflation hedging equity, commodity, fixed income fund		67.6	58.8
Hedge fund of funds and private equity		319.6	305.9
Total investments and assets whose use is limited or restricted		1,590.9	1,693.1
Less short-term investments and assets whose use is limited or restricted		(182.2)	(136.2)
Long-term investments and assets whose use is limited or restricted	$	1,408.7	1,556.9

(Dollars in millions)

Assets whose use is limited or restricted as of June 30, 2016 and 2015, included in the table above, consist of the following:

		2016	2015
Funds held by trustees	$	7.9	30.7
Self-insurance funds		280.7	293.4
Funds restricted by donors for specific purposes and endowment		80.8	80.5
Funds designated by board		178.5	211.4
Total assets whose use is limited or restricted		547.9	616.0
Less assets required for current obligations		(60.2)	(61.3)
Long-term assets whose use limited or restricted	$	487.7	554.7

Investment income and realized and unrealized gains (losses) for assets whose use is limited or restricted, cash equivalents and investments are comprised of the following for the years ended June 30, 2016 and 2015:

		2016	2015
Other operating revenue:			
Investment income and realized gains	$	4.4	18.5
Nonoperating (losses) gains:			
Investment income		11.7	16.1
Net realized gains on investments		11.9	43.2
Change in unrealized losses on investments, net		(92.9)	(75.9)
		(69.3)	(16.6)
Other changes in net assets:			
Realized net gains on temporarily and permanently restricted net assets		0.9	2.3
Change in unrealized losses on temporarily and permanently restricted net assets, net		(2.9)	(2.6)
Total investment (loss) return	$	(66.9)	1.6

(Dollars in millions)

(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 Corporation's 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. As of June 30, 2016 and 2015, management believes that all investments were being managed in a manner consistent with the IPS.

The following table illustrates the actual allocations of the Corporation's primary long-term investment portfolio as of June 30:

	Actual allocation June 30, 2016	Actual allocation June 30, 2015
Publicly traded equities – domestic	26%	29%
Publicly traded equities – international	15	14
Fixed income securities	16	14
Alternative investments:		
Commingled equity funds	12	13
Inflation hedging equity, commodity, fixed income fund	5	5
Hedge funds	23	21
Private equities	1	1
Cash	2	3
Total	100%	100%

(Dollars in millions)

The table below presents the Corporation's investable assets and liabilities as of June 30, 2016, aggregated by the three level valuation hierarchy:

	Level 1	Level 2	Level 3	Total
Assets:				
Cash and cash equivalents	$ 642.6	—	—	642.6
U.S. Treasury bonds	85.3	—	—	85.3
U.S. agency mortgage backed securities	100.1	—	—	100.1
Corporate bonds	—	135.4	—	135.4
Fixed income mutual funds	0.3	—	—	0.3
All other fixed income securities	6.5	26.1	—	32.6
Equity mutual funds & ETF's	201.6	—	—	201.6
Common stocks	377.0	—	—	377.0
Alternative investments:				
Commingled funds	—	200.9	—	200.9
Inflation hedging equity, commodity, fixed income fund	—	67.6	—	67.6
Private equity	—	—	15.7	15.7
Hedge funds:				
Custom hedge fund	—	—	56.8	56.8
Other hedge funds	—	—	247.1	247.1
Total assets	$ 1,413.4	430.0	319.6	2,163.0

	Level 1	Level 2	Level 3	Total
Liabilities:				
Interest rate swap	$ —	15.3	—	15.3
Total liabilities	$ —	15.3	—	15.3

(Dollars in millions)

The table below presents the Corporation's investable assets and liabilities as of June 30, 2015, aggregated by the three level valuation hierarchy:

	Level 1	Level 2	Level 3	Total
Assets:				
Cash and cash equivalents	$ 659.9	—	—	659.9
U.S. Treasury bonds	75.6	—	—	75.6
U.S. agency mortgage backed securities	151.8	—	—	151.8
Corporate bonds	—	132.8	—	132.8
Fixed income mutual funds	0.4	—	—	0.4
All other fixed income securities	3.2	29.3	—	32.5
Equity mutual funds & ETF's	147.4	—	—	147.4
Common stocks	456.7	—	—	456.7
Alternative investments:				
Commingled funds	—	243.6	—	243.6
Inflation hedging equity, commodity, fixed income fund	—	58.8	—	58.8
Private equity	—	—	16.6	16.6
Hedge funds:				
Custom hedge fund	—	—	59.7	59.7
Other hedge funds	—	—	229.6	229.6
Total assets	$ 1,495.0	464.5	305.9	2,265.4

	Level 1	Level 2	Level 3	Total
Liabilities:				
Interest rate swap	$ —	13.8	—	13.8
Total liabilities	$ —	13.8	—	13.8

For the years ended June 30, 2016 and 2015, 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, 2014	$	17.0	259.2	276.2
Additions:				
Contributions/purchases		2.9	21.6	24.5
Disbursements:				
Withdrawals/sales		(4.8)	—	(4.8)
Net change in value		1.5	8.5	10.0
Balance as of June 30, 2015		16.6	289.3	305.9
Additions:				
Contributions/purchases		1.6	33.0	34.6
Disbursements:				
Withdrawals/sales		(3.0)	—	(3.0)
Net change in value		0.5	(18.4)	(17.9)
Balance as of June 30, 2016	$	15.7	303.9	319.6

The following summarizes redemption terms for the hedge fund-of-funds vehicles held as of June 30, 2016:

	Fund 1	Custom Hedge Fund Fund 2	Fund 3	Fund 4
Redemption timing:				
Redemption frequency	Quarterly	70% monthly – quarterly 30% quarterly – annually	Quarterly	Quarterly
Required notice	70 days	within 90 days	90 days	65 days
Audit reserve:				
Percentage held back for audit reserve	10%	up to 10%	10%	10%
Gates:				
Potential gate holdback	—	—	—	—
Potential gate release timeframe	—	—	—	—

The hedge funds include three hedge funds-of-funds and one custom hedge fund. The custom fund is structured as a multi-strategy hedge fund with the Corporation as the sole investor. The investment objective and strategies used by the hedge funds-of-funds and custom hedge fund are similar. The investment objective is to achieve positive absolute returns with low volatility, achieved through investments with multiple underlying managers who are investing across various strategies. Strategies utilized within these hedge funds include, but are not limited to:

(Dollars in millions)

- *Credit/Distressed* includes investment companies that focus mainly on opportunities in corporate fixed income securities of companies that are in financial distress, or perceived financial distress, or going through a restructuring or re-organization.
- *Event Driven* includes investment companies that focus on identifying securities that would benefit from the occurrence of a major corporate event.
- *Global Macro* includes investment companies that employ broad mandates to invest globally across all asset classes, including interest rates, currencies, commodities, and equities, in order to benefit from market movements within various countries.
- *Equity Long/Short* includes investment companies that maintain long and short positions in publicly traded equities in order to capture opportunities driven by their perception of securities or industries being overvalued or undervalued.
- *Relative Value* includes investment companies that seek to identify valuation discrepancies between related securities, utilizing fundamental and quantitative techniques to establish equities, fixed income, and derivative positions.

Investments in hedge funds are carried at estimated fair value. Fair value is based on the 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.

The following summarizes the status of contributions to the private equity fund-of-funds vehicles held as of June 30, 2016:

	Total commitment	Percentage of commitment contributed	Percentage of commitment remaining
Fund 1	$ 11.0	95.0%	5.0%
Fund 2	7.1	95.7	4.3
Fund 3	7.1	91.4	8.6
Fund 4	10.0	21.3	78.7
Fund 5	5.0	39.0	61.0
Total	$ 40.2		

(Dollars in millions)

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.

(4) Property and Equipment

Property and equipment as of June 30, 2016 and 2015 is as follows:

		2016	2015
Land	$	85.0	84.1
Buildings and improvements		1,440.1	1,346.9
Equipment		1,814.1	1,801.2
		3,339.2	3,232.2
Less accumulated depreciation and amortization		(2,253.9)	(2,139.2)
		1,085.3	1,093.0
Construction-in-progress		187.4	104.4
	$	1,272.7	1,197.4

Construction-in-progress includes a variety of ongoing capital projects at the Corporation as of June 30, 2016 and 2015. Depreciation and amortization expense related to property and equipment amounted to $182.0 and $185.7 for the years ended June 30, 2016 and 2015, respectively.

(Dollars in millions)

On April 1, 2015, the Corporation and Shah Associates, M.D, P.A. (Shah Associates or the Practice) closed on an asset purchase agreement, whereby the Corporation purchased substantially all of the assets and assumed certain obligations of the Practice and invested in certain real estate and management services joint ventures with Shah Associates. The Practice is a multispecialty medical group serving Southern Maryland and has joined the Corporation under the name MedStar Shah Medical Group (included within MedStar Medical Group, LLC). Through this agreement, the Corporation added more than 85 providers in 17 medical specialties with offices throughout Southern Maryland. As a result of the transaction, the Corporation recognized approximately $26.8 of goodwill and other intangible assets, approximately $25.0 of property, plant and equipment and approximately $8.0 of other liabilities. The consolidated financial statements include the operations of the Practice since the closing date.

(5) Other Assets

Other assets as of June 30, 2016 and 2015 consist of the following:

		2016	2015
Deferred financing costs, net	$	10.3	10.8
Investments in unconsolidated entities		15.6	14.9
Reinsurance receivables		31.9	33.1
Deferred tax asset		18.4	21.7
Other assets		51.8	55.8
	$	128.0	136.3

The Corporation has investments in other healthcare related organizations that are accounted for under the equity method which total $15.6 and $14.9 at June 30, 2016 and 2015, 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 $2.6 for the years ended June 30, 2016 and 2015, 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, 2016 and 2015, the Corporation's outstanding borrowings include the following:

		2016	2015
Maryland Health and Higher Educational Facilities:			
Authority fixed rate revenue bonds:			
Series 1998A 5.25% Term bonds due 2038	$	82.0	82.0
Series 1998B 5.25% Term bonds due 2038		57.0	57.0
Series 2004 4.25%–5.75% Serial bonds due 2009-2025		—	4.6
Series 2011 2.00%–5.00% Serial bonds due 2012-2023		30.0	37.4
Series 2011 5.00% Term bonds due 2031		5.6	5.6
Series 2011 5.00% Term bonds due 2041		35.4	35.4
Series 2012 2.19% Direct Purchase due 2017–2022		38.6	38.6
Series 2013A 3.00%–5.00% Serial bonds due 2016-2028		60.9	60.9
Series 2013A 5.00% Term bonds due 2038		17.3	17.3
Series 2013A 5.00% Term bonds due 2041		25.0	25.0
Series 2013A 4.00% Term bonds due 2041		14.6	14.6
Series 2013B 3.00%–5.00% Serial bonds due 2025-2033		60.8	60.8
Series 2013B 4.00% Term bonds due 2038		45.0	45.0
Series 2013B 5.00% Term bonds due 2038		44.0	44.0
Series 2015 2.00%-5.00% Serial bonds due 2016-2033		180.4	180.4
Series 2015 5.00% Term bonds due 2038		35.2	35.2
Series 2015 5.00% Term bonds due 2042		75.2	75.2
Series 2015 4.00% Term bonds due 2045		66.4	66.4
Plus unamortized net premium		70.4	75.8
		943.8	961.2
District of Columbia Hospital Revenue Bonds:			
Multimodal revenue bonds at variable rates:			
Series 1998A 0.27%–0.45% at June 30, 2016 Serial bonds due 2008-2038 (0.02%–0.11% at June 30, 2015)		119.7	122.9
District of Columbia Hospital Revenue Bonds:			
Multimodal revenue bonds at fixed rates:			
Series 1998B 2.75%–5.00% Serial bonds due 2008-2019		4.9	6.4
Series 1998C 2.75%–5.00% Serial bonds due 2008-2019		4.9	6.4
		129.5	135.7
MedStar Health, Inc. Taxable Fixed Rate Revenue Bonds: Series 2015 0.80%-3.70% Serial bonds due 2016-2031		100.9	100.9
Notes payable to financial institutions or state agencies under mortgages (floating rates ranging between 2.3%–6.2%) and other		13.6	14.9
Line of credit due August 2019 (0.14%–1.00% at June 30, 2016 and 0.18%–0.84% at June 30, 2015)		129.8	129.8
		244.3	245.6
Total debt		1,317.6	1,342.5
Less current portion of long-term debt		(103.3)	(19.5)
Long-term debt, net	$	1,214.3	1,323.0

(Dollars in millions)

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

2017	$	103.3
2018		26.7
2019		157.3
2020		28.4
2021		29.4
Thereafter		902.1
	$	1,247.2

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 Master Trust Indenture requires that certain Material System Affiliates, which is defined therein as any system affiliate that generates in excess of 5.0% of the system's revenues, execute the guaranty agreement unless otherwise exempt pursuant to the provisions of the Master Trust Indenture. Parties to the guaranty agreement currently include: HH MedStar Health, Inc., MedStar Enterprises, MedStar Georgetown University Hospital, MedStar National Rehabilitation Hospital, MedStar Washington Hospital Center, MedStar Franklin Square Medical Center, MedStar Good Samaritan Hospital, MedStar Harbor Hospital, MedStar Montgomery Medical Center, MedStar Southern Maryland Hospital Center, MedStar St. Mary's Hospital, MedStar Union Memorial Hospital, Parkway Ventures, and VNA. 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. As of June 30, 2016, all of the Corporation's Maryland Health and Higher Educational Facilities Authority Revenue Bonds, District of Columbia Hospital Revenue Bonds, and MedStar Health Taxable Revenue Bonds are secured by obligations issued under the Master Trust Indenture.

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 (defined below), 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, 2016 and 2015, there were no funds required to be held in the debt service reserve fund for the Series 1998 Bonds.

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. MHHEFA issued $283.5 of Revenue Bonds. Principal and interest under the Series 1998 MHHEFA bonds are insured under municipal insurance policies with Assured and Ambac. The District issued $300.0 of Multimodal Revenue Bonds, including $150.0 Series 1998A, $75.0 Series 1998B, and $75.0 Series 1998C. The District Series 1998A bonds, which consist of three tranches totaling $116.3 at August 2016, trade as uninsured Variable Rate Demand Obligations backed by bank letters of credit. The Series 1998A Tranche I bonds which remained outstanding in August 2016 consisted of approximately $38.8 bonds trading in a daily mode backed by a letter of credit issued by Wells Fargo 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 $38.8 in August 2016. These bonds trade in a weekly mode and are remarketed by TD Securities. The letter of credit backing these bonds was issued by TD Bank, National Association and expires in April 2018. In the event of a failed remarketing, the Tranche II bonds would be tendered to the bank and repaid over a five-year period, beginning 367 days following the failed remarketing. The Series 1998A Tranche III bonds totaled $38.7 in August 2016. 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, 2016 and 2015, respectively. The $3.3 Series 1998B and $3.4 Series 1998C bonds (as of August 2016) are at a fixed rate and insured by Assured Guaranty, Ltd. 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.

Related to the District Series 1998A bonds, the Corporation entered into an interest rate swap with Wells Fargo Bank, National Association in a notional amount totaling $150.0 (reduced to $84.8 at August 2016). The swap agreement expires in fiscal year 2027. 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, 2016 and 2015, the variable interest rate under these agreements was 0.30% and 0.12%, respectively. The fixed rate was 3.6875% as of June 30, 2016 and 2015. The variable rates are capped at 14.0%. The interest rate swap was secured by obligations issued under the Master Trust Indenture.

Certain of the Corporation's bonds are subject to optional redemption or purchase, as follows: (i) 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; (ii) 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; and (iii) the Series 2015 MHHEFA Bonds maturing on or after August 2025 are subject to redemption or purchase at the option of the Corporation prior to maturity beginning in 2025.

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.

The Corporation maintains a $250.0 revolving credit agreement provided by a group of banks. The facility has a three-year term expiring in April 2019. 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, 2016 and 2015. 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 or its equivalent from at least two of Moody's Investor's Service, 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 April 2019. However, the standby letters of credit issued under the facility can be canceled at the bank's option each year. As of June 30, 2016 and 2015, standby letters of credit issued pursuant to the facility were $21.2. 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 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, 2016 and 2015, 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 Corporation's primary pension plans' investment portfolio as of June 30:

	Actual allocation June 30, 2016	Actual allocation June 30, 2015
Publicly traded equities – domestic	26%	29%
Publicly traded equities – international	12	11
Fixed income securities	17	15
Alternative investments:		
Commingled equity funds	16	15
Inflation hedging equity, commodity, fixed income fund	5	4
Hedge funds	21	20
Private equities	2	2
Cash	1	4
Total	100%	100%

(Dollars in millions)

The table below presents the Corporation's pension plans' investable assets as of June 30, 2016 aggregated by the three level valuation hierarchy:

	Level 1	Level 2	Level 3	Total
Assets:				
Cash and cash equivalents	$ 21.5	—	—	21.5
U.S. Treasury bonds	56.0	—	—	56.0
U.S. agency mortgage backed securities	28.1	—	—	28.1
Corporate bonds	—	68.5	—	68.5
All other fixed income securities	2.9	13.1	—	16.0
Equity mutual funds and ETF's	125.3	—	—	125.3
Common stocks	255.6	—	—	255.6
Alternative investments:				
Commingled funds	—	149.5	—	149.5
Inflation hedging equity, commodity, fixed income fund	—	42.7	—	42.7
Private equity	—	—	18.8	18.8
Hedge funds:				
Custom hedge fund	—	—	45.3	45.3
Other hedge funds	—	—	157.5	157.5
Total assets	$ 489.4	273.8	221.6	984.8

(Dollars in millions)

The table below presents the Corporation's pension plans' investable assets as of June 30, 2015 aggregated by the three level valuation hierarchy:

	Level 1	Level 2	Level 3	Total
Assets:				
Cash and cash equivalents	$ 47.1	—	—	47.1
U.S. Treasury bonds	50.5	—	—	50.5
U.S. agency mortgage backed securities	24.7	—	—	24.7
Corporate bonds	—	67.0	—	67.0
All other fixed income securities	1.0	14.2	—	15.2
Equity mutual funds and ETF's	73.8	—	—	73.8
Common stocks	344.5	—	—	344.5
Alternative investments:				
Commingled funds	—	155.2	—	155.2
Inflation hedging equity, commodity, fixed income fund	—	43.3	—	43.3
Private equity	—	—	18.5	18.5
Hedge funds:				
Custom hedge fund	—	—	47.6	47.6
Other hedge funds	—	—	156.4	156.4
Total assets	$ 541.6	279.7	222.5	1,043.8

For the years ended June 30, 2016 and 2015, 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, 2014	$	17.0	193.0	210.0
Additions:				
Contributions/purchases		4.2	6.0	10.2
Disbursements:				
Withdrawals/sales		(4.9)	—	(4.9)
Net change in value		2.2	5.0	7.2
Balance as of June 30, 2015		18.5	204.0	222.5
Additions:				
Contributions/purchases		2.4	11.0	13.4
Disbursements:				
Withdrawals/sales		(3.1)	—	(3.1)
Net change in value		1.0	(12.2)	(11.2)
Balance as of June 30, 2016	$	18.8	202.8	221.6

The general investment strategies, fund structures, and valuation methods related to the pension plans' hedge funds and private equities are largely the same as those included in the Corporation's primary investment portfolio and discussed further in footnote 3. The following summarizes redemption terms for the hedge fund of funds vehicles held as of June 30, 2016:

	Fund 1	Custom Hedge Fund Fund 2	Fund 3	Fund 4
Redemption timing:				
Redemption frequency	Quarterly	70% monthly – quarterly 30% quarterly – annually	Quarterly	Quarterly
Required notice	70 days	within 90 days	90 days	65 days
Audit reserve:				
Percentage held back for audit reserve	10%	up to 10%	10%	10%
Gates:				
Potential gate holdback	—	—	—	—
Potential gate release timeframe	—	—	—	—

(Dollars in millions)

The following summarizes the status of contributions to the private equity fund-of-funds vehicles held as of June 30, 2016:

	Total commitment	Percentage of commitment contributed	Percentage of commitment remaining
Fund 1	$ 9.0	95.0%	5.0%
Fund 2	8.5	95.7	4.3
Fund 3	8.5	91.4	8.6
Fund 4	5.0	20.2	79.8
Fund 5	5.0	39.0	61.0
Fund 6	5.0	58.0	42.0
Total	$ 41.0		

The Corporation has established a long-term investment return target of 7.75% for both the PEP and CBRP in 2016 and 2015, respectively. These assumptions are based on historical returns achieved in the investment portfolios 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.

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, 2016 and 2015. 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, 2016	Amounts recognized in unrestricted net assets as of June 30, 2015
Net actuarial loss	$ 22.9	923.1	667.8

(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, 2016 and 2015:

		2016	2015
Change in benefit obligation:			
Benefit obligation at beginning of year	$	1,334.4	1,278.8
Interest cost		59.8	57.0
Actuarial loss		134.0	53.7
Benefits paid		(47.5)	(55.1)
Benefit obligation at end of year		1,480.7	1,334.4
Change in plan assets:			
Plan assets at fair value at beginning of year		1,043.8	1,046.9
Actual return on plan assets		(54.9)	(3.7)
Company contributions		43.4	55.7
Benefits paid		(47.5)	(55.1)
Plan assets at fair value at end of year		984.8	1,043.8
Funded status/net amount recognized	$	(495.9)	(290.6)

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

		2016	2015
Pension assets (included in other assets)	$	—	2.4
Pension liabilities		(495.9)	(293.0)

The Corporation has estimated $53.7 for its defined benefit contributions for the fiscal year ending June 30, 2017. The accumulated benefit obligation is $1,480.7 and $1,334.4 at June 30, 2016 and 2015, respectively.

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

2017	$	65.3
2018		67.7
2019		70.6
2020		75.9
2021		78.6
2022–2026		420.2
	$	778.3

(Dollars in millions)

Net periodic pension income for the years ended June 30, 2016 and 2015 is as follows:

		2016	2015
Interest cost on projected benefit obligation	$	59.8	57.0
Return on plan assets		(83.9)	(77.7)
Recognized actuarial loss		17.5	16.4
Net periodic pension income	$	(6.6)	(4.3)

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

	2016	2015
Discount rates for obligations at year end:		
MedStar Health, Inc. Pension Equity Plan	3.95%	4.70%
MedStar Health, Inc. Cash Balance Retirement Plan	3.85	4.50
MedStar St. Mary's Hospital Pension Plan	3.50	4.35
Discount rates for pension cost:		
MedStar Health, Inc. Pension Equity Plan – July 1 – June 30	4.70%	4.65%
MedStar Health, Inc. Cash Balance Retirement Plan – July 1 – June 30	4.50	4.50
MedStar St. Mary's Hospital Pension Plan – July 1 – June 30	4.35	4.25
Expected long-term rate of return on plan assets – PEP and CBRP	7.75%	7.75%
Expected long-term rate of return on plan assets – MedStar St. Mary's Hospital	7.50	7.50

In 2015, the mortality assumption for the plans was updated to reflect recently published general industry mortality tables. Those tables were adjusted to reflect a slightly lower level of long-term improvement in life expectancy.

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 $34.8 and $29.1 during the years ended June 30, 2016 and 2015, respectively.

(Dollars in millions)

(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).

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, 2016 and 2015:

		2016	2015
Beginning balance	$	191.3	189.5
Provision for bad debts		225.3	206.7
Write-offs, net of recoveries		(233.6)	(204.9)
Ending balance	$	183.0	191.3

As of June 30, 2016 and 2015, the Corporation's allowance for uncollectible accounts was approximately 21.9% and 24.7%, respectively, as a percentage of gross patient service receivables. The Corporation's provision for bad debts represents 4.9% and 4.7% of net patient service revenue for the years ended June 30, 2016 and 2015, respectively.

(Dollars in millions)

A summary of net patient service revenue by major category of payor for the years ended June 30, 2016 and 2015 is as follows:

		2016	2015
Medicare and Medicare HMO	$	35%	34%
Medicaid and Medicaid HMO		14	13
Carefirst Blue Cross Blue Shield		19	23
Other commercial and managed care payors		24	23
Self-pay		8	7
	$	100%	100%

A summary of net patient receivables by major category of payor as of June 30, 2016 and 2015 is as follows:

		2016	2015
Medicare and Medicare HMO	$	24%	27%
Medicaid and Medicaid HMO		21	19
Carefirst Blue Cross Blue Shield		14	15
Other commercial and managed care payors		34	33
Self-pay		7	6
	$	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 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 2016 and 2015 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 waiver for a five-year period beginning January 1, 2014 for inpatient and outpatient hospital services. The waiver ties hospital per capita revenue growth to the state's economic growth of 3.58% and will require growth in Medicare spending per beneficiary 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 waiver also imposes quality measures and encourages population health management.

(Dollars in millions)

In connection with the waiver, the HSCRC introduced the Global Budget Revenue (GBR) model, which covers the Corporation's seven Maryland hospitals. This model moves payments 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. The model removes the financial incentive from increasing volume and provides incentive to work with partners to provide care in the appropriate setting. Additionally, the GBR model has the potential of including both prospective and retrospective rate adjustments. Management believes the impact of such adjustments would not be material to the consolidated financial statements. The GBR arrangement is expected to be in place through December 31, 2018 and it will be renewed annually unless terminated by either party with 180 days prior notice.

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. This subsidiary, which provides Medicare and Medicaid services, participates in an annual rate setting program with the State of Maryland and the District of Columbia. During the process, the revenues and expenses for all members are evaluated to ensure adequate funding is provided to deliver contracted services. Premium revenue primarily consists of the following:

		2016	2015
Maryland Medicaid	$	319.9	309.5
District of Columbia Medicaid		250.3	212.4
Total Medicaid	$	570.2	521.9
Maryland Medicare	$	91.5	36.4
District of Columbia Medicare		4.1	2.6
Total Medicare	$	95.6	39.0

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 of $86.7 and $62.3 as of June 30, 2016 and 2015, respectively, are based on management's analysis of historical claims paid reports and 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 2016 and 2015, certain of the Corporation's prior year third-party cost reports were audited and settled, or tentatively settled, by third-party payors, which resulted in gains of approximately $3.9 and $22.1, respectively. 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 the physician self referral law (Stark Law). The Corporation's compliance with these laws and regulations is subject to periodic governmental inquiries, and the Corporation has responded appropriately to any such inquiries. The Corporation is aware of certain asserted and unasserted legal claims by the government, and from time to time, the Corporation may agree to resolve certain legal claims asserted by the government. The Corporation will continue to monitor all government inquiries and respond appropriately. 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 and Medicaid 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. In October 2014, in response to a global settlement offer made by CMS, the Corporation's hospitals submitted requests to settle certain outstanding appeals of claims denied by the RAC and other Medicare contractors on the basis of patient status. The hospitals entered into settlements with CMS and received settlement payments of approximately $11.0, which were reflected as an adjustment to revenue in the fiscal year ended June 30, 2015.

As a result of 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.

Effective January 1, 2016, MedStar Accountable Care, LLC (ACO) became active as a Medicare Shared Savings Program Track 3 ACO to improve the quality of care for Medicare Fee-For-Service (FFS) beneficiaries and reduce unnecessary costs. Under this three-year agreement with CMS, the ACO is eligible for annual bonus payments from CMS if it is able to achieve certain quality and savings benchmarks. Conversely, the ACO is at financial risk to the extent that costs exceed the CMS established benchmarks. The agreement includes a provision allowing cancellation with 60 days written notification. The ACO currently has approximately 38,000 attributed members tied to the Corporation's primary care network. The results of the ACO's operations did not have a material impact on the Corporation's financial results for the year ended June 30, 2016.

The Corporation, in the normal course of business, is a party to a number of other 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.

In June 2011 and April 2014, two lawsuits were filed by several employees alleging violations by the Corporation of wage-hour laws. The plaintiffs in each of these actions seek certification of a class that would include hourly employees at several of the Corporation's hospitals. The Corporation will continue to oppose class certification and otherwise defend itself and the hospitals in these matters. The final outcome this litigation cannot be determined at this time.

(Dollars in millions)

In March 2016, the Corporation's information technology systems were subject to a malware attack. All systems were returned to normal operating conditions within a short period of time and the operational impact was nominal. In addition, the Corporation has no evidence that patient or associate data was compromised due to the malware attack after a third party review. This event did not have a material adverse impact on the Corporation's consolidated financial statements.

(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, 2016 and 2015 were as follows:

		2016	2015
Professional and general liability	$	342.3	344.6
Employee health		22.0	20.2
Workers' compensation		32.9	34.2
Total self-insurance liabilities		397.2	399.0
Less current portion		(89.8)	(88.4)
Total self-insurance liabilities, net of current portion	$	307.4	310.6

The Corporation's self-insurance program for professional and general liability is responsible for the following exposures as of June 30, 2016:

(a) For professional liability during the periods of July 1, 2014 to June 30, 2015 and July 1, 2015 to June 30, 2016, 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 first $5.0 self-insured retention referred to as an "inner aggregate."

For the period July 1, 2014 to December 31, 2015, the inner aggregate exposes the Corporation to up to $3.0 per claim with an aggregate of $6.0 above the $5.0 per claim self-insured retention for all claims incurred for each 12-month period ended December 31.

For the period January 1, 2016 to June 30, 2016, the applicable inner aggregate was in effect for the 12 month period of January 1, 2016 to December 31, 2016. 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, 2016 to December 31, 2016.

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 January 1, 2013 through December 31, 2015, 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. Effective January 1, 2016, the Corporation purchased additional layers of commercial excess re-insurance above the aforementioned $125.0 per claim and $125.0 annual aggregate. During the period of January 1, 2016 to December 31, 2016, each tower has 10 layers of excess re-insurance which provides coverage of up to $175.0 per claim and $175.0 annual aggregate. The Corporation maintains reinsurance contracts with various "A" rated commercial insurance companies.

The professional and general liabilities as of June 30, 2016 and 2015 have been discounted at a rate of 1.75%. The workers' compensation liabilities as of June 30, 2016 and 2015 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, LTD (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, 2016 and 2015:

		MedStar Health, Inc.	Noncontrolling interests	Total unrestricted net assets
Balance as of June 30, 2014	$	1,322.2	5.2	1,327.4
Excess of revenues over expenses		109.1	2.2	111.3
Change in funded status of defined benefit plans		(118.5)	—	(118.5)
Net assets released for property and equipment and other		6.2	10.8	17.0
Distributions to noncontrolling interests		—	(2.9)	(2.9)
Increase (decrease) in unrestricted net assets		(3.2)	10.1	6.9
Balance as of June 30, 2015		1,319.0	15.3	1,334.3
Excess of revenues over expenses	$	43.4	2.7	46.1
Change in funded status of defined benefit plans		(255.3)	—	(255.3)
Net assets released for property and equipment		11.1	—	11.1
Distributions to noncontrolling interests		—	(0.4)	(0.4)
(Decrease) increase in unrestricted net assets		(200.8)	2.3	(198.5)
Balance as of June 30, 2016	$	1,118.2	17.6	1,135.8

(Dollars in millions)

(12) Temporarily and Permanently Restricted Net Assets

Temporarily and permanently restricted net assets as of June 30, 2016 and 2015 are available for the following purposes:

		2016	2015
Temporary restrictions:			
Interest in net assets of foundation	$	54.6	63.0
Other		70.3	68.9
	$	124.9	131.9
Permanent restrictions:			
Investments to be held in perpetuity, the income from which is available to support healthcare services	$	40.2	39.5

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

(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) Donor-restricted endowment funds within temporarily restricted net assets were $3.1 and $5.2 as of June 30, 2016 and 2015, respectively. Donor-restricted endowment funds within permanently restricted net assets were $40.2 and $39.5 as of June 30, 2016 and 2015, respectively.

(c) ***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, 2016 and 2015.

(d) ***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.

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 $245.0 of net operating loss (NOL) carryforwards as of June 30, 2016, which expire in varying periods through 2036, available to offset future taxable income. This NOL carryforward represents $93.1 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, 2016 and 2015, the Corporation decreased its net deferred tax asset by $3.4 and $6.1, respectively, which was recorded in nonoperating income. The remaining amount of the deferred tax asset considered realizable, $18.4 as of June 30, 2016, 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, 2016 and 2015 were immaterial.

(15) Charity Care and Other Community Benefits

MedStar Health is committed to ensuring that patients within the communities it serves who lack financial resources have access to necessary hospital services. MedStar Health and its healthcare facilities serve the emergency health care needs of everyone who visits the facilities regardless of a patient's ability to pay for care; and assist those patients who are admitted through the admissions process for non-urgent and urgent, medically necessary care who cannot pay for the care they receive.

In meeting this commitment, MedStar Health's facilities work with uninsured patients to gain an understanding of each patient's financial resources prior to admission (for scheduled services) or prior to billing (for emergency services). Based on this information and patient eligibility, the Corporation's facilities assist uninsured and certain underinsured patients that meet medical hardship criteria who reside within the communities served. This assistance is provided in one or more of the following ways:

- Assist with enrollment in publicly-funded entitlement programs (e.g. Medicaid and Medicare programs).
- Assist with consideration of funding that may be available from other charitable organizations.
- Provide charity care and financial assistance according to applicable guidelines, including considerations for patients that may be underinsured and for those that may be suffering from a medical hardship.
- Provide financial assistance for payment of facility charges using a sliding scale based on patient family income and financial resources.
- Offer periodic payment plans to assist patients with financing their healthcare services.

Eligibility criteria for financial assistance consider patient's household income in relation to the federal poverty guidelines and the equity value of real property and/or other assets. By definition, free care is available to uninsured patients in households between 0% and 200% of the federal poverty line. Reduced cost-care is based on a sliding-scale and is available to uninsured patients in households between 200% and 400% of the federal poverty line. 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 $23.9 and $26.1 of charity care at cost during the years ended June 30, 2016 and 2015, respectively, based on the cost to charge ratio. The reduction in charity care is a result of expanded coverage under the Affordable Care Act (ACA), contributing to a shift from self-pay to Medicaid and Medicaid managed care. In addition, the ACA contains a number of provisions intended to improve quality and reduce spending related to the Medicare program. The reduction in spending on the Medicare program, which includes readmission penalties, a reduction in disproportionate share payments, and reduction in payment rates, is intended to offset the cost of expanding coverage under the ACA.

(Dollars in millions)

In addition to charity care, the Corporation also funds costs of services provided to persons covered by publicly-funded programs and numerous programs designed to benefit the healthcare interests of the communities it serves. Examples of these programs are health professions education, community health services, and research to advance care. The costs associated with these programs are recorded in the appropriate operating expense categories. In 2015, the most current period for which the Corporation's community benefits report is available, the total cost of these programs, including charity care services provided and the cost of bad debt, was approximately $312.7.

(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, 2016 are as follows:

2017	$	67.7
2018		60.0
2019		53.1
2020		46.0
2021		37.9
2022 and Thereafter		160.1
	$	424.8

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 $79.6 and $72.7 during the years ended June 30, 2016 and 2015, 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 expired in 2016 when the Corporation paid $17.0 and cumulative payments reached $70.0.

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 $12.9 of tuition revenue during the years ended June 30, 2016 and 2015, 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. The Corporation has paid $5.0 to the University as of June 30, 2016.

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 $2.9 and $2.8 for the years ended June 30, 2016 and 2015, 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 $12.4 and $14.3 for the years ended June 30, 2016 and 2015, respectively.

(Dollars in millions)

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.

(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, 2016 and 2015 are as follows:

		2016	2015
Integrated health services	$	4,107.8	3,885.9
Management and general		990.0	941.2
Research		31.8	30.0
Fundraising		10.7	9.3
	$	5,140.3	4,866.4

(19) Subsequent Events

Management evaluated all events and transactions that occurred after June 30, 2016 and through October 7, 2016. The Corporation did not have any events that were required to be recognized or disclosed.