Christiana Care Health System and Affiliates

Report on Federal Awards in Accordance with OMB Circular A-133

June 30, 2014

Federal Entity Identification Number 52-1479538

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Independent Auditor's Report

To the Board of Directors of
Christiana Care Health System and Affiliates

Report on the Consolidated Financial Statements

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

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on the consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 our 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, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the System as of June 30, 2014 and 2013, and the results of its operations, changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedule of expenditures of federal awards for the year ended June 30, 2014 is presented for purposes of additional analysis as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 3, 2014 on our consideration of the System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters for the year ended June 30, 2014. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the System's internal control over financial reporting and compliance.

PricewaterhouseCoopers LLP

September 3, 2014

Christiana Care Health System and Affiliates
Consolidated Balance Sheets
June 30, 2014 and 2013

	2014	2013
Assets		
Current assets		
Cash and cash equivalents	$ 95,282,204	$ 92,804,499
Short-term investments	181,643,342	181,626,471
Patient accounts receivable, net of allowance for doubtful accounts of $23,331,264 in 2014 and $24,198,777 in 2013	239,600,837	252,570,967
Other current assets	44,538,187	37,544,043
Assets limited as to use	-	3,721,003
Total current assets	561,064,570	568,266,983
Assets limited as to use	35,300,817	63,834,186
Long-term investments	1,099,406,122	942,527,710
Property and equipment, net	830,797,026	789,357,838
Other assets	26,984,383	27,414,929
Total assets	$ 2,553,552,918	$ 2,391,401,646
Liabilities and Net Assets		
Current liabilities		
Current portion of long-term debt	$ 185,859,608	$ 189,721,099
Accounts payable and accrued expenses	197,551,614	191,735,943
Estimated third-party payor settlements	4,981,703	7,613,565
Total current liabilities	388,392,925	389,070,607
Long-term debt, net of current portion	113,037,110	128,183,735
Pension and postretirement benefits	181,016,131	260,064,038
Other liabilities	61,406,958	57,732,551
Total liabilities	743,853,124	835,050,931
Net assets		
Unrestricted	1,746,870,205	1,483,551,399
Temporarily restricted	38,882,018	49,513,016
Permanently restricted	23,947,571	23,286,300
Total net assets	1,809,699,794	1,556,350,715
Total liabilities and net assets	$ 2,553,552,918	$ 2,391,401,646

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

Christiana Care Health System and Affiliates
Consolidated Statements of Operations and Changes in Net Assets
Years Ended June 30, 2014 and 2013

	2014	2013
Unrestricted operating revenues and other support		
Net patient service revenue	$ 1,573,889,337	$ 1,458,061,315
Provision for bad debts	(35,728,971)	(34,979,612)
Net patient service revenue less provision for bad debts	1,538,160,366	1,423,081,703
Other revenue	65,117,403	63,577,520
Net assets released from restrictions	3,364,344	2,809,886
	1,606,642,113	1,489,469,109
Operating expenses		
Salaries and employee benefits	965,344,545	890,925,554
Supplies and other expenses	460,546,786	431,353,412
Interest expense	2,003,401	2,030,367
Depreciation and amortization	82,375,083	76,931,877
	1,510,269,815	1,401,241,210
Operating gain before settlement charge	96,372,298	88,227,899
Settlement charge (see note 11)	-	9,660,973
Operating gain	96,372,298	78,566,926
Nonoperating revenues, gains, and losses		
Investment income	137,639,868	98,894,499
Other gains, net	1,866,052	6,952,087
Total nonoperating revenues, gains, and losses	139,505,920	105,846,586
Excess of revenues over expenses	$ 235,878,218	$ 184,413,512

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

Christiana Care Health System and Affiliates
Consolidated Statements of Operations and Changes in Net Assets
Years Ended June 30, 2014 and 2013

	2014	2013
Unrestricted net assets		
Excess of revenues over expenses	$ 235,878,218	$ 184,413,512
Net assets released from restrictions used for purchase of property and equipment	11,129,534	1,281,750
Minority interest distribution	-	(32,577)
Other changes in pension and postretirement liabilities	16,739,543	72,297,411
Increase in unrestricted net assets before discontinued operations	263,747,295	257,960,096
Effect of discontinued operations	(428,489)	(991,496)
Increase in unrestricted net assets	263,318,806	256,968,600
Temporarily restricted net assets		
Contributions	3,354,251	4,154,149
Interest and dividend income	305,996	4,544
Net realized gains	202,633	119,162
Net assets released from restrictions	(14,493,878)	(4,091,636)
(Decrease) increase in temporarily restricted net assets	(10,630,998)	186,219
Permanently restricted net assets		
Change in net realized gains (losses)	661,271	374,612
Increase in permanently restricted net assets	661,271	374,612
Increase in net assets	253,349,079	257,529,431
Net assets		
Beginning of year	1,556,350,715	1,298,821,284
End of year	$ 1,809,699,794	$ 1,556,350,715

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

Christiana Care Health System and Affiliates
Consolidated Statements of Cash Flows
Years Ended June 30, 2014 and 2013

	2014	2013
Cash flows from operating activities		
Change in net assets	$ 253,349,079	$ 257,529,431
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Effect of discontinued operations	428,489	991,496
Depreciation and amortization	82,375,083	76,931,877
Net realized and unrealized gains on investments	(122,475,212)	(84,486,343)
Provision for bad debts	35,728,971	34,979,612
Restricted contributions and investment income received	(4,189,546)	(4,437,421)
Minority interest distribution	(53,693)	33,763
(Increase) decrease in		
Patient accounts receivable	(22,758,841)	(94,446,138)
Other current assets	(6,994,144)	10,357,964
Other assets	(183,032)	646,229
Increase (decrease) in		
Accounts payable and accrued expenses	11,007,973	13,517,955
Estimated third-party payor settlements	(2,631,862)	(7,273,215)
Pension and postretirement benefits	(79,367,055)	(38,366,123)
Other liabilities	3,426,486	(5,303,119)
Net cash provided by operating activities	147,662,696	160,675,968
Cash flows from investing activities		
Purchase of property and equipment, net	(128,333,919)	(179,785,597)
Proceeds from sale of investments and assets limited as to use	545,415,820	1,565,879,749
Purchase of investments and assets limited as to use	(547,581,519)	(1,568,032,064)
Net cash used in investing activities	(130,499,618)	(181,937,912)
Cash flows from financing activities		
Repayment of long-term debt	(18,760,193)	(9,262,809)
Restricted contributions and investment income received	4,189,546	4,437,421
Securities lending	(168,418)	(1,151,667)
Net joint venture activity	53,692	(22,813)
Net cash used in financing activities	(14,685,373)	(5,999,868)
Net increase (decrease) in cash and cash equivalents	2,477,705	(27,261,812)
Cash and cash equivalents		
Beginning of year	92,804,499	120,066,311
End of year	$ 95,282,204	$ 92,804,499
Supplemental disclosure of cash flow information		
Cash paid for interest, net of amounts capitalized	$ 2,090,706	$ 1,954,422

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

1. Description of the Organization

Christiana Care Health System (the "System") is the parent organization of Christiana Care Health Services, Inc. ("Health Services"), Christiana Care Health Initiatives ("Health Initiatives"), Christiana Care Home Health and Community Services, Inc. ("CCHHCS") and Christiana Care Health Plans, Inc. ("Health Plans").

The System is a not-for-profit Delaware corporation whose primary activity is to accept gifts and bequests and engage in fund raising activities for the benefit of the Christiana Care affiliates.

Health Services, a Delaware not-for-profit corporation, owns and operates: Christiana Hospital, Wilmington Hospital, Eugene duPont Preventive Medicine and Rehabilitation Institute, a physician network, and residency training programs. Health Services' primary activity is to provide healthcare services to the residents of Delaware and the surrounding counties in Maryland, Pennsylvania, and New Jersey.

Health Initiatives, a nonprofit corporation, provides health services primarily in the areas of imaging, physical therapy, and oversight of joint-ventures.

CCHHCS is a nonprofit health care agency which provides professional health-care and other services in the home and community.

Health Plans, a Delaware not-for-profit corporation, offered managed care products for the Medicaid and commercial markets, until its exit from the insurance business in 2005. Although Health Plans continues to maintain its status as a licensed insurance company it remains an inactive subsidiary.

2. Summary of Significant Accounting Policies

Basis of Accounting
The System's financial statements have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America.

Principles of Consolidation
The consolidated financial statements include the accounts of the System and its controlled affiliates identified above. All significant intercompany accounts and transactions have been eliminated.

Basis of Presentation
The System reports its net assets by classifying net assets into three categories according to donor imposed restrictions. A description of these categories is as follows:

Unrestricted net assets are free of donor imposed restrictions; all revenues, expenses, gains and losses that are not changes in temporarily or permanently restricted net assets.

Temporarily restricted net assets include gifts for which donor imposed restrictions have not been met and pledges receivable for which the ultimate purpose of the proceeds is not permanently restricted.

Permanently restricted net assets include gifts, trusts and pledges which require, by donor restriction, that the corpus be invested in perpetuity and only the income be made available for program operations in accordance with donor restrictions.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Net Patient Service Revenue and Patient Accounts Receivable

The System has agreements with third-party payors that provide for payments to the System at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per-diem payments. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered and includes estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

The System recognizes patient service revenue associated with services provided to patients who have third-party payor coverage on the basis of contractual rates for the services rendered.

For uninsured patients who do not qualify for charity care, the System recognizes revenue based on established rates, subject to certain discounts as determined by the System. An estimated provision for bad debts is recorded that results in net patient service revenue being reported at the net amount expected to be received. The System has determined that patient service revenue is primarily recorded prior to assessing the patient’s ability to pay and as such, the entire provision for bad debts related to patient revenue is recorded as a deduction from patient service revenue in the accompanying statements of operations and changes in net assets. Patient service revenue, net of contractual allowances and discounts (but before the provision for bad debts), for the year ended June 30, 2014 from these two payor sources are as follows:

	Third-Party Payors	Self-Pay	Total
Patient service revenue (net of contractual allowances and discounts)	96.7 %	3.3 %	100.0 %

Revenue from the Medicare and Medicaid programs accounted for approximately 32% and 12%, respectively, of the System’s net patient service revenue for the year ended June 30, 2014 and 31% and 13%, respectively, for the year ended June 30, 2013. 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 in the near term. The 2014 and 2013 net patient service revenue increased approximately $5,190,563 and $5,043,390, respectively, because of tentative settlements and final settlements for years that are no longer subject to audits, reviews, and investigations, as well as other changes in estimates.

Patient accounts receivable are reduced by an allowance for doubtful accounts. The allowance for doubtful accounts is based upon management's assessment of historical and expected net collections considering historical business and economic conditions, trends in healthcare coverage, major payor sources, and other collection indicators. Periodically throughout the year, management assesses the adequacy of the allowance for doubtful accounts based upon historical write-off experience by payor category. The results of this review are then used to make modifications to the provision for bad debts to establish an appropriate allowance for doubtful accounts. The increase in the allowance for doubtful accounts from June 30, 2013 to June 30, 2014 is the result of the mix of patient receivables by payor category.

For patient accounts receivable associated with self-pay patients, which includes patients that fail to make payment for services rendered or insured patients who fail to remit co-payments and deductibles as required under the applicable health insurance arrangement, the System records an estimated provision for bad debts in the year of service. The System has experienced an increase in the provision for bad debts as a result of current economic conditions and rising patient responsibility balances.

Charity Care

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

Electronic Health Record Incentive Program

The Centers for Medicare & Medicaid Services (CMS) have implemented provisions of the American Recovery and Reinvestment Act of 2009 that provide incentive payments for the meaningful use of certified electronic health record (EHR) technology. CMS has defined meaningful use as meeting certain objectives and clinical quality measures based on current and updated technology capabilities over predetermined reporting periods as established by CMS. The Medicare EHR incentive program provides annual incentive payments to eligible professionals, eligible hospitals, and critical access hospitals, as defined, that are meaningful users of certified EHR technology. The Medicaid EHR incentive program provides annual incentive payments to eligible professionals and hospitals for efforts to adopt, implement, and meaningfully use certified EHR technology. Health Services records payments using the gain contingency accounting model. Accordingly, when all contingencies have been met and the funds have been received, Health Services recognizes these incentives as "other gains, net" within the nonoperating revenue section in the Statement of Operations and Changes in Net Assets. Health Services received and recorded approximately $1.5 million and $6 million in Fiscal 2014 and 2013, respectively, as all contingencies met.

Cash and Cash Equivalents

Cash and cash equivalents include investments in highly liquid debt instruments with original maturities of three months or less. At June 30, 2014 and 2013, the System had cash balances in financial institutions which exceed federal depository insurance limits. Management believes that the credit risk related to these deposits is minimal.

Inventories

Inventories are stated at the lower of cost (determined by the first-in, first-out method) or market.

Investments and Assets Limited as to Use
Investments and assets limited as to use are measured at fair value in the balance sheets based on the methodology described in Note 3. Managed funds represent subscriptions in funds-of-funds utilized to diversify the portfolio of Health Services. As a practical expedient, Health Services estimates the fair value of managed funds using the reported net asset value (NAV). If the NAV is not calculated on the measurement date Health Services utilizes valuation techniques to determine if adjustment is necessary for consistent reporting. Health Services has assessed factors such as the managed funds' compliance with fair value reporting standards, price transparencies and valuation procedures, the ability to redeem at NAV at the measurement date, and existence of redemption restrictions at the measurement dates. Health Services is required to provide written notice of at least 90 calendar days prior to a calendar quarter-end to redeem managed funds. There are no lock-up provisions. Investment income or loss (consisting of realized and unrealized gains and losses on investments, interest, and dividends) are included in the excess of revenues over expenses unless the income or loss is restricted by donor.

Assets limited as to use primarily include (i) assets held by trustees under indenture agreements, and (ii) designated assets set aside by the Board of Directors ("Board"). Assets limited as to use classified as current in the balance sheets represent bond proceeds to pay unpaid construction associated with the Wilmington Hospital project (Note 8).

Investments classified as current in the balance sheets are for amounts required to meet current liabilities and other operating needs of the organization.

Health Services classifies investments as trading securities. Investment income or loss generated by trading securities is classified within nonoperating revenues, gains, and losses within the statement of operations and changes in net assets. Health Services considers the activity of the investment portfolio and the associated cash receipts and cash purchases resulting from purchases and sales of investments classified as trading securities as an investing activity and classifies this activity accordingly within the statements of cash flows.

Property, Equipment, and Depreciation
Property and equipment acquisitions are recorded at cost. Expenditures which substantially increase the useful lives of existing assets are capitalized. Routine maintenance and repairs are expensed as incurred. Depreciation is computed using the straight-line method based on the following estimated useful lives: Buildings and building improvements 5-40 years; Equipment 3-20 years. Gains and losses from retirement or disposition of fixed assets are recognized in the statement of operations as nonoperating activity. 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.

Gifts of long-lived assets such as land, buildings, or equipment are reported as unrestricted contributions at fair value as of the date of the gift, 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.

Securities Lending
The System is an investor in a mutual fund that engages in securities lending whereby certain securities in its portfolio are loaned to othe parties for a short period of time. The mutual fund

receives collateral equal to, at a minimum, 100% of the market value of securities borrowed. The System records the estimated fair value of the securities loaned as both other current assets and other current liabilities, which was $353,525 and $521,943 at June 30, 2014 and 2013, respectively.

Deferred Financing Costs
Deferred financing costs are recorded within other assets and represent the cost of issuing long-term debt. Such costs are being amortized over the life of the applicable indebtedness using the interest method. Deferred financing costs totaled $1,975,904 and $2,140,900 at June 30, 2014 and 2013, respectively.

Investments Held in Trust
Health Services is entitled to beneficial interests in perpetual trusts at various percentages, which are maintained by outside trustees. Health Services' share of the market value of the trusts are recorded in permanently restricted net assets. Unrealized gains and losses are also recorded as permanently restricted. The periodic income distributions received from the trustees are recorded as increases in unrestricted or temporarily restricted net assets, based on the donors' intentions.

Excess of Revenue Over Expenses
The statement of operations includes excess of revenues over expenses. Changes in unrestricted net assets which are excluded from excess of revenues over expenses, consistent with industry practice, include contributions of long-lived assets (including assets acquired using contributions which by donor restriction were to be used for the purposes of acquiring such assets), other changes in pension and postretirement liabilities, and the effect of discontinued operations.

Donor-Restricted Gifts
Unconditional promises to give cash and other assets to the System are reported at fair value at the date the promise is received. The contributions 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 statement of operations as net assets released from restrictions. Donor restricted contributions whose restrictions are met within the same year as received are reported as unrestricted contributions in the accompanying financial statements.

Compensated Paid Leave
The System records a liability for amounts due to employees for future paid leave which are attributable to services performed in the current and prior periods.

Tax Status
The System and its affiliates, except for Health Plans, are exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code. In 1999, Health Plans reorganized, forming a taxable entity under the Internal Revenue Code.

In March 2010, the Internal Revenue Service (IRS) announced that for periods ending before April 1, 2005, medical residents would be eligible for the student exemption of Federal Insurance Contributions Act (FICA) taxes. As a result, organizations that had filed timely FICA refund claims covering periods up through that date are eligible for refunds of both the employer and employee portions of FICA taxes paid, plus statutory interest. Health Services completed the claim filing process in December 2010. During the 2013 fiscal year Health Services received a $9.6 million net refund.

Subsequent Events

The System has performed an evaluation of subsequent events through September 3, 2014, which is the date the financial statements were available to be issued.

3. Investments, Assets Limited as to Use, and Investment Income

The composition of investments and assets limited as to use at June 30, 2014 and 2013 is set forth in the following table. Investments and assets limited to use are stated at fair value.

	2014	2013
Short-term investments	$ 181,643,342	$ 181,626,471
Assets limited as to use		
Externally designated by bond trustee		
Construction funds	10	36,023,950
Escrow funds	-	23,428
Total externally designated	10	36,047,378
Internally designated by board of directors		
Cancer program	35,300,807	31,507,811
Total assets limited as to use	35,300,817	67,555,189
Long-term investments		
Unrestricted	1,040,888,055	873,901,568
Temporarily restricted	40,021,529	50,792,085
Permanently restricted	18,496,538	17,834,057
Total long-term investments	1,099,406,122	942,527,710
Total investments and assets limited as to use	$ 1,316,350,281	$ 1,191,709,370

Within the Statement of Operations, investment income is comprised of the following:

	Year Ended June 30,	
	2014	2013
Interest and dividend income	$ 15,164,656	$ 14,408,156
Net realized gains	28,332,053	40,683,622
Change in net unrealized gains (losses)	94,143,159	43,802,721
	$ 137,639,868	$ 98,894,499

The System adheres to applicable accounting guidance for fair value measurements and defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date.

The System applies the following fair value hierarchy:

Level 1 Quoted prices in active markets for identical assets or liabilities. Level 1 assets include money market funds, debt and equity securities that are traded in an active exchange market, as well as certain U.S. Treasury and other U.S. Governments and agency securities that are highly liquid and are actively traded in over-the counter markets.

Level 2 Observable inputs other than Level 1 such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the same term of the assets or liabilities. Level 2 assets include equity, and fixed income managed funds, and swap arrangements with quoted prices that are traded less frequently than exchange-traded instruments whose value is determined using a pricing model with inputs that are observable in the market or can be derived principally from or corroborated by observable market data.

Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets include equity managed funds and investments held in trust by others whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

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.

Transfers between leveled assets are based on the actual date of the event which caused the transfer. As of June 30, 2014 and 2013 there were no transfers between Levels 1, 2, and 3.

The following table presents the financial instruments carried at fair value as of June 30, 2014 in accordance with the fair value hierarchy:

	Level 1	Level 2	Level 3	Total
Investments and assets limited as to use				
Money market funds	$ 232,359,340	$ -	$ -	$ 232,359,340
U.S. Government and agency securities	35,801,841	3,690,537	-	39,492,378
Corporate and other debt securities	-	203,624,065	-	203,624,065
Equity securities	538,131,103	187,773,124	-	725,904,227
Equity managed funds	-	-	106,915,076	106,915,076
Investments held in trust by others	-	-	8,055,195	8,055,195
Total investments and assets limited as to use	806,292,284	395,087,726	114,970,271	1,316,350,281
Total assets at fair value	$ 806,292,284	$ 395,087,726	$ 114,970,271	$ 1,316,350,281

The following table illustrates the change in Level 3 assets:

	Investments Held by Others	Equity Managed Funds
Fair value at June 30, 2013	$ 7,393,924	$ 90,456,382
Purchases	-	18,014,875
Realized (losses) gains	160,818	(114,876)
Net change in unrealized losses	500,453	(1,441,305)
Fair value at June 30, 2014	$ 8,055,195	$ 106,915,076

The following table presents the financial instruments carried at fair value as of June 30, 2013 in accordance with the fair value hierarchy:

	Level 1	Level 2	Level 3	Total
Investments and assets limited as to use				
Money market funds	$ 277,369,447	$ -	$ -	$ 277,369,447
U.S. Government and agency securities	36,181,060	34,570,356	-	70,751,416
Corporate and other debt securities	-	168,961,838	-	168,961,838
Equity securities	437,506,563	139,269,800	-	576,776,363
Equity managed funds	-	-	90,456,382	90,456,382
Investments held in trust by others	-	-	7,393,924	7,393,924
Total investments and assets limited as to use	751,057,070	342,801,994	97,850,306	1,191,709,370
Total assets at fair value	$ 751,057,070	$ 342,801,994	$ 97,850,306	$ 1,191,709,370

The following table illustrates the change in Level 3 assets:

	Investments Held by Others	Equity Managed Funds
Fair value at June 30, 2012	$ 7,019,312	$ 68,594,812
Purchases	-	17,015,388
Realized gains	182,120	102,472
Net change in unrealized gains	192,492	4,743,710
Fair value at June 30, 2013	$ 7,393,924	$ 90,456,382

4. Property and Equipment

A summary of property and equipment at June 30, 2014 and 2013 is as follows:

	2014	2013
Land and land improvements	$ 63,592,973	$ 62,807,034
Buildings and building improvements	881,039,380	844,748,790
Equipment	585,447,051	603,928,040
Leasehold improvements	2,101,659	2,756,838
	1,532,181,063	1,514,240,702
Accumulated depreciation	(942,172,251)	(929,352,742)
	590,008,812	584,887,960
Construction-in-progress	240,788,214	204,469,878
	$ 830,797,026	$ 789,357,838

Depreciation expense amounted to $81,986,459 and $76,282,734 in 2014 and 2013, respectively. In 2014 and 2013, the System incurred total interest costs of $6,103,447 and $6,897,089, respectively, of which $4,100,046 in 2014 and $4,866,722 in 2013 has been capitalized. At June 30, 2014 construction contracts of $235,182,402 exist primarily for various expansion and other facility improvements. The remaining commitment on these contracts was $28,429,177. Included in the remaining commitment is $21,169,218 for the Wilmington Hospital Campus expansion. Wilmington Hospital construction is expected to be completed in Fiscal 2015. At June 30, 2014 and 2013, $4,591,946 and $9,296,683, respectively, of property and equipment purchases had not been paid and accordingly, were accrued in other accrued expenses and current liabilities.

5. Other Assets

Other Assets at June 30, 2014 and 2013 consist of the following:

	2014	2013
Deferred financing costs	$ 1,975,904	$ 2,140,900
Goodwill	1,015,805	1,035,898
Other	22,234,468	22,479,925
Assets held for sale	1,758,206	1,758,206
	$ 26,984,383	$ 27,414,929

During the 2010 fiscal year Health Services committed to a plan to sell the property and equipment at the Riverside Health Care Center (Note 16). The carrying value of this property and equipment, which approximates its fair value less costs to sell, is separately presented within other assets in the balance sheet.

6. Temporarily and Permanently Restricted Net Assets

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

	2014	2013
Health care services	$ 5,686,328	$ 5,910,192
Purchases of buildings and equipment	19,417,280	28,754,646
Education, research and other operational needs	13,778,410	14,848,178
	$ 38,882,018	$ 49,513,016

Permanently restricted net assets consist of the following at June 30, 2014 and 2013:

	2014	2013
Investments held in perpetuity	$ 15,892,376	$ 15,892,376
Investments held in trust by others	8,055,195	7,393,924
	$ 23,947,571	$ 23,286,300

7. Endowments

The Systems' endowment consists of approximately twelve individual donor restricted endowment funds and one board-designated endowment fund for a variety of purposes. The endowment includes both donor-restricted endowment funds and funds designated by the Board of Directors to function as endowments. The net assets associated with endowment funds including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor imposed restrictions.

The System has interpreted the Uniform Prudent Management of Institutional Funds Act ("UPMIFA") as requiring the preservation 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 System 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 on an annual basis by the Board of Directors of the System in a manner consistent with the standard of prudence prescribed by UPMIFA.

Endowment net asset composition by type of fund as of June 30, 2014 and 2013:

	2014			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment funds				
Donor-restricted	$ -	$ 14,431,395	$ 15,892,376	$ 30,323,771
Board-designated	35,300,807	-	-	35,300,807
Total endowment funds	$ 35,300,807	$ 14,431,395	$ 15,892,376	$ 65,624,578

	2013			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment funds				
Donor-restricted	$ -	$ 14,489,180	$ 15,892,376	$ 30,381,556
Board-designated	31,507,811	-	-	31,507,811
Total endowment funds	$ 31,507,811	$ 14,489,180	$ 15,892,376	$ 61,889,367

Changes in endowment net assets for the year ended June 30, 2014 and 2013:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets at June 30, 2013	$ 31,507,811	$ 14,489,180	$ 15,892,376	$ 61,889,367
Investment income	3,792,996	507,792	-	4,300,788
Appropriation of endowment assets for expenditure	-	(565,577)	-	(565,577)
Endowment net assets at June 30, 2014	$ 35,300,807	$ 14,431,395	$ 15,892,376	$ 65,624,578

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets at June 30, 2012	$ 26,187,314	$ 15,250,450	$ 15,892,376	$ 57,330,140
Investment income	5,320,497	36,598	-	5,357,095
Appropriation of endowment assets for expenditure	-	(797,868)	-	(797,868)
Endowment net assets at June 30, 2013	$ 31,507,811	$ 14,489,180	$ 15,892,376	$ 61,889,367

Description of Amounts Classified as Permanently Restricted Net Assets and Temporarily Restricted Net Assets (Endowments Only)

	2014	2013
Temporarily restricted net assets		
Restricted for indigent care	$ 4,916,219	$ 5,272,309
Restricted for building and maintenance	4,990,813	5,113,739
Restricted for program support	4,524,363	4,103,132
Total temporarily restricted net assets	$ 14,431,395	$ 14,489,180
Permanently restricted net assets		
Restricted for salary support	$ 5,540,298	$ 5,540,298
Restricted for program support	10,352,078	10,352,078
Total permanently restricted net assets	$ 15,892,376	$ 15,892,376

Endowment Funds With Deficits

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the value of the initial and subsequent donor gift amounts (deficit). When donor-restricted endowment deficits exist, they are classified as a reduction of unrestricted net assets. There were no deficits of this nature reported in unrestricted net assets as of June 30, 2014 and June 30, 2013.

Strategies Employed for Achieving Investment Objectives

To achieve its long-term rate of return objectives, the System relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized gains) and current yield (interest and dividends). The System targets a diversified asset allocation that places greater emphasis on equity-based investments to achieve its long-term objectives within prudent risk constraints.

8. Debt

Long-term debt at June 30, 2014 and 2013 consisted of the following:

	Interest Rates	Final Maturity	2014	2013
Series 2010 Revenue Bonds				
2010A	4.00% to 5.00%	2040	$ 73,000,000	$ 73,000,000
2010B	variable	2040	75,000,000	75,000,000
2010C	variable	2040	25,000,000	25,000,000
2010D	2.44%	2020	10,335,000	10,335,000
2010E	3.01%	2025	16,860,000	16,860,000
Series 2009 Revenue Bonds	2.95%	2015	10,830,000	15,995,000
Series 2008 Revenue Bonds				
2008A	variable	2038	55,000,000	55,000,000
2008B	variable	2038	25,000,000	25,000,000
Series 2003 Revenue Bonds	3.80% to 5.25%	2015	-	13,180,000
Mortgage payable	5.80%	2015	6,703,410	7,106,332
Line of credit and other loans	2.75% to 6.40%	2015	8,624	20,897
			297,737,034	316,497,229
Unamortized premium			1,159,684	1,407,605
Current maturities			(5,859,608)	(9,721,099)
Long-term variable rate debt classified as current			(180,000,000)	(180,000,000)
			$ 113,037,110	$ 128,183,735

The Series 2010 Revenue Bonds consist of $73,000,000 of fixed rate revenue bonds (Series 2010A Bonds), $75,000,000 of variable rate revenue bonds (Series 2010B Bonds), and $25,000,000 of variable rate revenue bonds (Series 2010C Bonds), collectively the Series 2010A/B/C Bonds, $10,335,000 of fixed rate revenue bonds (Series 2010D Bonds) and $16,860,000 of fixed rate revenue bonds (Series 2010E Bonds). The Series 2010A/B/C Bonds along with the Series 2010D Bonds and the Series 2010E Bonds are referred to as the “2010 bond issuance”.

The proceeds from the 2010 bond issuance is primarily used to finance or reimburse Health Services for the construction and expansion of the Wilmington Hospital. The proceeds were deposited into a construction fund as designated by the Bond Trustee (Note 3).

The 2010B Bonds and 2010C Bonds bear interest at a variable rate as determined by a remarketing agent, reset on a weekly and monthly basis, respectively. Interest rates ranged from .02% to .12% and .05% to .24% during 2014 and 2013, respectively, for the Series 2010B Bonds and from .06% to .13% and .13% to .23% during 2014 and 2013, respectively, for the Series 2010C Bonds.

The Series 2009 Revenue Bonds were issued through a direct placement with a bank and consist of $30,000,000 of fixed rate bonds.

The Series 2008A Bonds bear interest at a variable rate, as determined by a remarketing agent, reset on a daily basis. The Series 2008B Bonds bear interest at a variable rate, as determined by a remarketing agent, reset on a weekly basis. The rates for the Series 2008 Bonds ranged from .03% to .11% during 2014 and .02% to .24% during 2013.

On January 14, 2014, Health Services exercised the optional, early redemption of the then currently outstanding Series 2003 Revenue Bonds at par. The total principal and interest paid was $9,015,000 and $127,618, respectively. The remaining unamortized deferred financing costs and bond premium associated with the Series 2003 Revenue Bonds resulted in a net gain of $126,999 and is recorded as a component of nonoperating income in the Statement of Operations.

Health Services is obligated to purchase any Series 2010B Bonds, Series 2010C Bonds and Series 2008 Bonds not remarketed. The Series 2010B Bonds, Series 2010C Bonds and Series 2008 Bonds are classified as a current liability on the June 30, 2014 and June 30, 2013 balance sheets. In the event the Series 2010B Bonds, Series 2010C Bonds and Series 2008 Bonds are not remarketed, Health Services would use available cash and investments to meet the obligations. Assuming the remarketing of the Series 2010B Bonds, Series 2010C Bonds and Series 2008 Bonds scheduled maturities are as follows:

2015	$ 5,859,608
2016	5,589,103
2017	13,828,323
2018	7,945,000
2019	8,150,000
Thereafter	256,365,000
	$ 297,737,034

The Mortgage Payable, Line of Credit, and other loans have been guaranteed by Health Initiatives.

Long-Term Debt Obligations

The fair value of long-term debt is based on quoted market prices or estimated using discounted cash flow analyses, based on Health Services' incremental borrowing rates for similar types of borrowing arrangements (Level 2). The fair value of Health Services long-term debt is $300,407,735 and $311,250,872 at June 30, 2014 and 2013, respectively.

Defeasance

As of June 30, 2014 and 2013, $5,456,000 and $6,630,000, respectively, of advance refunded bonds, which are considered defeased, remain outstanding. The defeasances were accomplished by depositing sufficient funds in an irrevocable escrow account held by a bank trustee. The escrowed account will be used to satisfy all principal and interest requirements relating to the defeasance of the bonds. Health Services was legally released as the primary obligor of the defeased bonds and, accordingly, the obligation to repay these bonds is no longer included in the balance sheets.

9. Interest Rate Swap Agreement

In conjunction with the issuance of the Series 2008 Bonds, Health Services entered into an interest rate swap agreement for a notional amount of $25,000,000 with a financial institution to reduce Health Services' overall interest expense. Under the interest rate swap agreement, Health Services receives payments from the financial institution in the amount of 67% of one month LIBOR. In exchange, Health Services will pay the financial institution a fixed rate. The fair value of the interest rate swap represented a liability of $1,141,339 and $863,080 at June 30, 2014 and 2013, respectively, recorded within other liabilities. The change in the fair value of the interest rate swap of $278,259 is recorded as a component of other gains, net within the statement of operations.

10. Commitments and Contingencies

Leases

The System has various leases for office facilities and other equipment under both cancelable and noncancelable operating leases, with initial terms in excess of one year. Total related lease expense amounted to $12,248,591 and $12,143,037 in 2014 and 2013, respectively. Future minimum lease payments under noncancelable operating leases are as follows:

2015	$	9,766,661
2016		8,896,714
2017		8,032,774
2018		5,637,034
2019		4,040,303
Thereafter		5,932,009

Litigation

Health Services and CCHHCS are defendants in several matters of litigation all in the ordinary course of conducting business. Management believes the ultimate outcome of these matters will not have a material effect on Health Services or CCHHCS's financial position or the results of operations.

Commitment
In June, 2010 Health Services entered into a ten-year agreement with a vendor to provide information technology remote hosting services. Payments under this commitment will total $34,259,592. At June 30, 2014 the remaining commitment is $18,796,859, of which $3,132,125 will be paid in 2015.

11. Employee Benefit Plans

Pension Plan
Health Services sponsors a noncontributory defined benefit pension plan covering substantially all eligible employees hired on or before August 13, 2006. Employees hired after that date are participants in a defined contribution plan. Contributions to the pension plan are based on the minimum amount required by the Employee Retirement Income Security Act of 1974.

Retirement benefits are paid based principally on years of service and salary. Pension plan assets consist primarily of corporate bonds, notes, U.S. government obligations, and common stocks.

During the 2013 fiscal year Health Services amended the defined benefit pension plan to modify the benefit design and to allow terminated, vested participants a one-time option to take immediate benefits in place of a deferred annuity. This resulted in approximately a $66 million reduction of the benefit obligation. As a result of the lump-sum benefits paid in 2013, Health Services recognized a settlement charge of $9,660,973. The settlement charge is included as a component of excess of revenues over expenses in the Statements of Operations and Changes in Net Assets.

Postretirement Benefits
Health Services provides postretirement health care benefits to eligible employees and their dependents.

The following table sets forth the components of the benefit obligations, plan assets, and funding status of the plan based on actuarial valuations performed as of June 30, 2014 and June 30, 2013:

	Pension Benefits		Postretirement Benefits	
	2014	2013	2014	2013
Change in benefit obligation				
Benefit obligation at beginning of year	$ 702,764,042	$ 770,410,974	$ 97,274,424	$ 99,320,041
Service cost	27,136,075	29,151,438	2,260,895	2,615,488
Interest cost	30,690,004	28,570,272	4,270,917	3,766,559
Plan amendments	-	(303,162)	-	-
Actuarial (gain) loss	50,915,494	(42,510,779)	(2,808,318)	(5,343,096)
Settlements	-	(77,356,577)	-	-
Retiree contributions	-	-	809,339	428,072
Benefits paid	(47,626,463)	(5,198,124)	(3,998,489)	(3,512,640)
Benefit obligation at end of year	$ 763,879,152	$ 702,764,042	$ 97,808,768	$ 97,274,424
Change in Plan assets				
Fair value of Plan assets at beginning of year	$ 541,735,265	$ 575,138,913	$ -	$ -
Actual return on Plan assets (net of expenses)	87,478,878	24,451,053	-	-
Employer contributions	100,000,000	24,700,000	3,189,150	3,084,568
Settlements	-	(77,356,577)	-	-
Retiree contributions	-	-	809,339	428,072
Benefits paid	(47,626,463)	(5,198,124)	(3,998,489)	(3,512,640)
Fair value of Plan assets at end of year	$ 681,587,680	$ 541,735,265	$ -	$ -
Reconciliation of funded status to net amount recognized in the balance sheet				
Amounts recorded as accrued liabilities				
Funded status	$ (82,291,472)	$ (161,028,777)	$ (97,808,768)	$ (97,274,424)
Current liabilities	-	-	(4,411,186)	(4,730,335)
Noncurrent liabilities	(82,291,472)	(161,028,777)	(93,397,582)	(92,544,089)
Accrued liability	(82,291,472)	(161,028,777)	(97,808,768)	(97,274,424)
Amounts recorded within unrestricted net assets				
Unrecognized prior service cost (credit)	217,671	374,269	(419,664)	(534,176)
Unassigned actuarial loss or (gain)	75,529,911	88,869,944	4,630,822	7,439,140
Net amount recognized at year end	$ (6,543,890)	$ (71,784,564)	$ (93,597,610)	$ (90,369,460)
Accumulated benefit obligation	$ 660,417,922	$ 614,234,921	$ -	$ -

	Pension Benefits		Postretirement Benefits	
	2014	2013	2014	2013
Weighted-average assumptions used to determine benefit obligations at June 30				
Discount rate	4.125 %	4.500 %	4.000 %	4.500 %
Rate of compensation increase	3.500 %	3.500 %	-	-

	Pension Benefits		Postretirement Benefits	
	2014	2013	2014	2013
Components of net periodic benefit cost				
Service cost	$ 27,136,075	$ 29,151,438	$ 2,260,895	$ 2,615,488
Interest cost	30,690,004	28,570,272	4,270,917	3,766,559
Expected return on plan assets	(31,094,120)	(30,226,604)	-	-
Amortization of prior service cost (credit)	156,598	283,444	(114,512)	(155,727)
Recognized actuarial loss (gain)	7,870,769	15,540,152	-	515,413
Settlement charge	-	9,660,973	-	-
Net periodic benefit cost	34,759,326	52,979,675	6,417,300	6,741,733
Other changes in pension liability recognized in unrestricted net assets				
Net actuarial (gain) loss	(5,469,264)	(36,735,228)	(2,808,318)	(5,343,096)
Amortization of (gain) loss	(7,870,769)	(15,540,152)	-	(515,413)
Amortization of prior service (cost) credit	(156,598)	(283,444)	114,512	155,727
Newly established prior service (cost) credit	-	(303,162)	-	-
Recognition due to Settlement	-	(9,660,973)	-	-
Total recognized in unrestricted net assets	(13,496,631)	(62,522,959)	(2,693,806)	(5,702,782)
Total recognized in net benefit cost and unrestricted net assets	$ 21,262,695	$ (9,543,284)	$ 3,723,494	$ 1,038,951

	Pension Benefits		Postretirement Benefits	
	2014	2013	2014	2013
Weighted-average assumptions used to determine net periodic benefit cost at beginning of fiscal year				
Discount rate	4.500 %	3.875 %	4.500 %	3.875 %
Expected return on plan assets	6.500 %	6.500 %	-	-
Rate of compensation increase	3.500 %	2.500 %	-	-

Health Services expects to recognize approximately $8,362,111 of expense for pension benefits and approximately $0 of expense for postretirement benefits during the year ending June 30, 2015 related to amortization of net losses and prior service cost.

The expected rate of return on plan assets assumption was developed based on historical returns for the major asset classes. This review also considered both current market conditions and projected future contributions.

Health Services utilizes published long-term high quality corporate bond indices to determine the discount rate at measurement date. Where commonly available, Health Services considers indices of various durations to reflect the timing of future benefit payments.

Plan Assets

Pension plan weighted average asset allocations at June 30, 2014 and 2013 by asset category are as follows:

Asset Category	2014	2013
Equities	25 %	38 %
Fixed income	75 %	62 %
	100 %	100 %

The plan assets are invested among and within various asset classes in order to achieve sufficient diversification in accordance with Health Services risk tolerance. This is achieved through the utilization of asset managers and systematic allocation to investment management styles, providing exposure to different segments of the fixed income and equity markets.

The following table represents the Plan's financial instruments as of June 30, 2014, measured at fair value on a recurring basis using the fair value hierarchy defined in Note 3:

	Level 1	Level 2	Level 3	Total
Money market funds	$ 11,593,276	$ -	$ -	$ 11,593,276
U.S.Government and agency securities	110,448,485	-	-	110,448,485
Corporate and other debt securities	-	356,484,229	-	356,484,229
Equity securities	103,143,654	67,260,985	-	170,404,639
Equity managed funds	-	-	32,657,051	32,657,051
	$ 225,185,415	$ 423,745,214	$ 32,657,051	$ 681,587,680

The following table illustrates the change in Level 3 assets:

	Equity Managed Funds
Fair value July 1, 2013	$ 30,632,658
Purchases	3,374,181
Realized gains	-
Net change in unrealized (loss)	(1,349,788)
Fair value June 30, 2014	$ 32,657,051

The following table represents the Plan's financial instruments as of June 30, 2013, measured at fair value on a recurring basis using the fair value hierarchy defined in Note 3:

	Level 1	Level 2	Level 3	Total
Money market funds	$ 6,665,881	$ -	$ -	$ 6,665,881
U.S. Government and agency securities	44,868,929	-	-	44,868,929
Corporate and other debt securities	-	260,340,715	-	260,340,715
Equity securities	117,614,602	81,612,480	-	199,227,082
Equity managed funds	-	-	30,632,658	30,632,658
	$ 169,149,412	$ 341,953,195	$ 30,632,658	$ 541,735,265

The following table illustrates the change in Level 3 assets:

	Equity Managed Funds
Fair value at June 30, 2012	$ 27,487,966
Purchases	1,514,371
Net change in unrealized gains/losses	1,630,321
Fair value at June 30, 2013	$ 30,632,658

Contributions
In May 2014, Health Services contributed $100,000,000 to the pension plan in advance of the expected September, 2014 required contribution. Health Services expects to contribute approximately $31,400,000 to the pension plan and $ 4,411,186 to the postretirement benefit plan during the fiscal year ending June 30, 2015. The actual pension plan contribution may be higher or lower depending on interest rates, pension plan asset values, and legislated funding requirements.

Estimated Future Benefit Payments
The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid:

	Pension Benefits	Postretirement Benefits
2015	$ 43,261,815	$ 4,411,186
2016	43,314,019	4,807,635
2017	45,310,228	5,146,928
2018	47,386,072	5,346,037
2019	48,697,056	5,553,224
Thereafter	257,142,582	29,496,138

The annual rate of increase assumed in the per capita cost of covered health care benefits was 7% and 6.75% for the Pre 65 and Post 64 participants, respectively, for June 30, 2014; the rates are assumed to decrease gradually to 5% for the fiscal year 2021 and remain at that level thereafter.

	1-Percentage Point Increase	1-Percentage Point Decrease
Effect on total service and interest cost	$ 1,069,447	$ (867,815)
Effect on postretirement benefit obligation	13,301,270	(11,032,920)

Defined Contribution Retirement Plan

Health Services sponsors a defined contribution retirement plan for all employees hired after August 13, 2006. Under the plan, Health Services contributes a percent of compensation quarterly based on an employee's years of vesting service. The employees vest in the employer contributions over a three-year period beginning on the employee's hire date. The expense incurred by Health Services for the year ended June 30, 2014 and 2013 was $9,072,797 and $7,520,240, respectively.

Deferred Compensation Plan

Health Services maintains a Tax-Deferred Annuity Plan for all employees. Under the Plan, Health Services accumulates employee contributions which are transferred to and invested by various trustees. Health Services contributes 50% of the employee contributions up to a maximum of 3% of an employee's salary. Contributions for the years ended June 30, 2014 and 2013 were $11,537,920 and $10,774,043, respectively.

CCHHCS Pension Plan

CCHHCS sponsors a noncontributory defined benefit pension plan covering substantially all eligible employees (the "Plan"). Generally, benefits under the Plan are based on the employee's compensation and years of service. Contributions to the Plan are designed to meet the minimum funding requirements of the Employee Retirement Income Security Act of 1974. Employees are on a graduated vesting scale and become fully vested after seven years of service.

The following tables set forth the components of the benefit obligation, plan assets, and funding status of the plan based on actuarial valuations performed as of June 30, 2014 and June 30, 2013:

	2014	2013
Change in benefit obligation		
Benefit obligation at beginning of year	$ 28,776,636	$ 34,433,120
Service cost	1,087,749	1,305,414
Interest cost	1,216,138	1,294,249
Plan amendments	-	(1,628,743)
Actuarial loss (gain)	2,053,075	(2,819,388)
Benefits paid	(1,016,272)	(630,404)
Settlements	-	(3,177,612)
Benefit obligation at end of year	$ 32,117,326	$ 28,776,636
Change in plan assets		
Fair value of plan assets at beginning of year	$ 22,285,465	$ 25,864,727
Actual return on plan assets (net of expenses)	3,521,056	(1,071,246)
Employer contributions	2,000,000	1,300,000
Settlements	-	(3,177,612)
Benefits paid	(1,016,272)	(630,404)
Fair value of plan assets at end of year	$ 26,790,249	$ 22,285,465
Reconciliation of funded status to net amount recognized in the balance sheet		
Amounts recorded as accrued liabilities		
Funded status	$ (5,327,077)	$ (6,491,171)
Accrued liability	(5,327,077)	(6,491,171)
Amounts recorded within unrestricted net assets		
Unassigned actuarial loss	6,352,565	6,901,671
Net amount recognized at year end	$ 1,025,488	$ 410,500
Accumulated benefit obligation	$ 29,238,154	$ 26,277,672

	2014	2013
Weighted-average assumptions used to determine benefit obligations at June 30		
Discount rate	4.000 %	4.375 %
Rate of compensation increase	3.500 %	3.500 %

	2014	2013
Components of net periodic benefit cost		
Service cost	$ 1,087,749	$ 1,305,414
Interest cost	1,216,138	1,294,249
Expected return on plan assets	(1,429,173)	(1,455,872)
Recognized actuarial loss	753,394	1,245,603
Amortization of prior service (credit)	(243,096)	-
Settlement charge	-	905,054
Net periodic benefit cost	1,385,012	3,294,448
Other changes in pension liability recognized in unrestricted net assets		
Net actuarial (gain) loss	(38,808)	(292,270)
Amortization of (gain)	(753,394)	(1,245,603)
Amortization of prior service credit (cost)	243,096	(1,628,743)
Recognition due to Settlement	-	(905,054)
Total recognized in unrestricted net assets	(549,106)	(4,071,670)
Total recognized in net benefit cost and unrestricted net assets	$ 835,906	$ (777,222)

	2014	2013
Weighted-average assumptions used to determine net periodic benefit cost at beginning of fiscal year		
Discount rate	4.375 %	4.000 %
Expected return on plan assets	6.500 %	6.500 %
Rate of compensation increase	3.500 %	2.500 %

CCHHCS expects to recognize approximately $753,394 of expense for pension benefits during the year ending June 30, 2014 related to amortization of net losses and prior service cost.

The expected rate of return on plan assets assumption was developed based on historical returns for the major asset classes. This review also considered both current market conditions and projected future contributions.

CCHHCS utilizes published long-term high quality corporate bond indices to determine the discount rate at measurement date. Where commonly available, CCHHCS considers indices of various durations to reflect the timing of future benefit payments.

Plan Assets

Pension plan weighted average asset allocations at June 30, 2014 and June 30, 2013 by asset category are as follows:

	2014	2013
Asset category		
Equities	25 %	27 %
Fixed income	75 %	73 %
	100 %	100 %

The plans assets are invested among and within various asset classes in order to achieve sufficient diversification in accordance with CCHHCS risk tolerance. This is achieved through the utilization of asset managers and systematic allocation to investment management styles, providing exposure to different segments of the fixed income and equity markets.

The following table represents the Plan's financial instruments as of June 30, 2014, measured at fair value on a recurring basis using the fair value hierarchy defined in Note 3:

	Level 1	Level 2	Level 3	Total
Money market funds	$ 183,899	$ -	$ -	$ 183,899
U.S. Government and agency securities	3,732,166	-	-	3,732,166
Corporate and other debt securities	16,097,868	-	-	16,097,868
Equity securities	4,176,549	-	-	4,176,549
Equity managed funds	-	-	2,599,767	2,599,767
	$ 24,190,482	$ -	$ 2,599,767	$ 26,790,249

	Equity Managed Funds
Fair value at June 30, 2013	$ 2,156,759
Purchases	400,000
Net change in unrealized gains	43,008
Fair value at June 30, 2014	$ 2,599,767

The following table represents the Plan's financial instruments as of June 30, 2013, measured at fair value on a recurring basis using the fair value hierarchy defined in Note 3:

	Level 1	Level 2	Level 3	Total
Money market funds	$ 548,105	$ -	$ -	$ 548,105
U.S. Government and agency securities	2,128,679	-	-	2,128,679
Corporate and other debt securities	13,488,777	-	-	13,488,777
Equity securities	3,963,145	-	-	3,963,145
Equity managed funds	-	-	2,156,759	2,156,759
	$ 20,128,706	$ -	$ 2,156,759	$ 22,285,465

The following table illustrates the change in Level 3 assets:

	Equity Managed Funds
Fair value at June 30, 2012	$ 1,500,000
Purchases	550,000
Net change in unrealized (loss)	106,759
Fair value at June 30, 2013	$ 2,156,759

Contributions
In May 2014, CCHHCS contributed approximately $2,000,000 to the pension plan in advance of the expected September 2014 required contribution. CCHHCS expects to contribute approximately $1,300,000 to the pension plan during the fiscal year ending June 30, 2015. The actual pension plan contribution may be higher or lower depending on interest rates, pension plan asset values, and legislated funding requirements.

Estimated Future Benefit Payments
The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid:

2015	$ 2,122,436
2016	2,006,059
2017	2,002,442
2018	2,019,451
2019	2,071,949
Thereafter	11,482,167

Defined Contribution Retirement Plan
CCHHCS began a defined contribution plan for all employees hired on or after August 26, 2007. Eligible employees in CCHHCS's noncontributory defined benefit pension plan also had the one-time choice to switch to the defined contribution retirement plan effective January 1, 2008. Under the plan, CCHHCS contributes a percent of compensation quarterly based on an employee's years of vesting service. The employees vest in the employer contributions over a three-year period beginning on the employee's hire date. The expense incurred by CCHHCS for the year ended June 30, 2014 and 2013 was $381,822 and $325,830, respectively.

Deferred Compensation Plan
CCHHCS maintains a Tax-Deferred Annuity Plan (the "Plan") for all employees. Under the Plan, CCHHCS accumulates employee contributions which are transferred to and invested by the trustee. CCHHCS is not required to make additional contributions on behalf of employees and did not make any contributions in 2014 or 2013.

12. Self Insurance Liabilities

The System maintains self-insurance programs for medical malpractice and worker's compensation claims. The medical malpractice program provides for a self insured retention of $3,500,000 per claim and $14,000,000 annual aggregate. The limit of excess coverage is $50,000,000 per year for the System and all subsidiaries.

Health Initiatives is insured for medical malpractice claims under a claims-made policy. Should the policy not be renewed or replaced with equivalent insurance, claims arising out of incidents during its term, but reported subsequently, will be uninsured. The policy includes a deductible of $25,000 per claim and $75,000 annual aggregate limits of $2,000,000 per claim and $6,000,000 annual aggregate.

Actuarially determined accruals for asserted and unasserted medical malpractice and worker's compensation claims at June 30, 2014 and 2013 amounted to $47,511,786 and $41,383,340, respectively. This liability represents the undiscounted estimated value of malpractice and worker's compensation claims that will be settled in the future based on anticipated payout patterns. The current portion of the accruals of $11,317,474 and $11,298,584 at June 30, 2014 and 2013, respectively, is recorded as a component of other accrued expenses and current liabilities on the balance sheets. Total expense incurred for medical malpractice and worker's compensation costs was $15,814,669 in 2014 and $15,601,337 in 2013.

13. Charity Care, Government Discounts, and Provision for Bad Debts

The System provides services to patients who meet the criteria of its charity service policy without charge or at amounts less than the established rates. Criteria for charity care consider the patient's family income, net worth, and other factors. Direct and indirect costs for these services amounted to $27.1 million and $26.9 million in 2014 and 2013, respectively. The costs of providing charity care services are based on a calculation which applies a ratio of costs to charges to the gross uncompensated charges associated with providing care to charity patients.

In addition, to charity services, the Medicaid program reimburses the System for services at amounts that are substantially less than the cost to provide such services. The difference between the cost to provide those services and the reimbursement from the Medicaid program was approximately $14.8 million and $16.8 million in 2014 and 2013, respectively.

The System also records a provision for bad debts, which represents management's estimate of patient accounts receivable that will not be collected even though the patient does not meet the charity care criteria. The provision for bad debts was $35,728,971 and $34,979,612 in 2014 and 2013, respectively.

14. Concentrations of Credit Risk

Financial instruments which potentially subject the System to concentrations of credit risk consist principally of cash, cash equivalents, investments, and accounts receivable.

Management periodically evaluates the credit standing of the financial institutions with whom they maintain their cash, cash equivalents, and investments. Amounts held in its accounts often exceed the federally insured levels.

Included in accounts receivable are amounts related to the services performed for individuals, as well as under various contractual agreements with several third-party payors. Management believes its concentration of credit risk, with respect to accounts receivable, is limited by a large customer base.

15. Functional Expenses

The System provides general health care services to residents within its geographic location. Expenses related to providing these services are as follows:

	2014	2013
Health care services	$ 1,315,841,741	$ 1,246,769,387
General and administrative	194,428,074	164,132,796
	$ 1,510,269,815	$ 1,410,902,183

16. Discontinued Operations

During 2008, Health Services executed a definitive agreement to sell the ownership and management of the skilled nursing service at the Riverside Health Care Center to a third party. On August 1, 2008, Health Services sold the ownership and management of the skilled nursing service at the Riverside Health Care Center. The buyer operated the skilled nursing service at the Riverside Health Care Center location until the construction of a new facility was completed in November, 2009. At this time Health Services committed to a plan to sell the associated assets of the Riverside Health Center (Note 5). During 2014 Health Services incurred costs of $428,489 to improve the marketability of the Riverside Health Center and is recorded as a component of discontinued operations.

Delaware Sleep Disorder Center, a joint venture which Health Initiatives ownership interest is 51%, elected in May 2013 to discontinue operations. The company ceased operations in May 2013. No proceeds resulted from the sale of assets, since most of the property, plant and equipment was comprised of build out costs and the equipment was leased. The effective date of closure coincided with the end of the space lease term in May 2013.

Below is a summary of the discontinued operations for the years ended June 30, 2014 and 2013:

	2014	2013
Unrestricted revenues, gains, and other support	$ -	$ 4,519,348
Expenses	428,489	5,510,844
Effect of discontinued operations	$ (428,489)	$ (991,496)

Schedule of Expenditures of Federal Awards

Christiana Care Health System and Affiliates
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2014

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Pass Through Entity Identifying Number	Federal CFDA#	Federal Expenditures
Research and Development Cluster			
U.S. Department of Health & Human Services			
Direct Awards			
Cancer Treatment Research		93.395	$ 1,232,791
Cancer Treatment Research		93.395	125,860
Cancer Control		93.399	171,437
Child Health and Human Development Extramural Research		93.865	104,171
Child Health and Human Development Extramural Research		93.865	753,794
Total Direct Awards			2,388,053
Pass-Through Awards			
Columbia University/Sleep Disturbance & Risk	1 (GG006783-02)	93.233	16,312
NSABP Foundation/Colorectal Cancer	U10CA12027 CCHS-YR41ext U10CA12027 CCHS-YR41ext II	93.395	33,106
University of Delaware/Intensive Longitudinal Study of Fear	32973	93.395	21,921
Wistar Institute/Consolidated Basic Cancer Research Program	24104-02-199	93.397	60,599
Thomas Jefferson University/Tailored Navigation	080-27000-R84401	93.399	(6,739)
University of Maryland/PAPI - 2 - Clinical Site	SR00002428	93.837	(141)
Johns Hopkins University/LV Structural Predictors	2001184188	93.837	4,384
Mount Sinai School of Medicine/CTSN – Surgical Ablation	0255-3104-4605	93.837	410
Thomas Jefferson University/Heart Failure Network	080-18014-S05502	93.837	26,954
Duke University/Rapid Start Network Studies: EXACT-HF	00006557 - 177494	93.837	6,346
University of Delaware/Vascular Effects of Dietary Salt	27353	93.837	229
Duke University/Rapid Start Network Studies: ROSE & RED ROSE	00006557 - 177494	93.837	4,623
University of Virginia/MD-RADL HCMR Novel Markers	GC 12239 144232 GC 12239 145998	93.837	85,737
Duke University/Rapid Start Network Studies: FIGHT - HF	00006557 - 193603	93.837	7,000
Columbia University/Pregnancy as a Window to Future CV Health	1 (GG010078)	93.837	16,049
New England Research Institutes, Inc./PITCH	U01HL105463	93.837	2,500
Washington University/Attract	WU-09-227-MOD-7	93.839	37,000
ARRA - American College of Cardiology Foundation /ASCERT	1027CCOR	93.701	1
ARRA - Columbia University/Fetal Growth	1 (GG005710)	93.701	50,349
ARRA - Columbia University/Twin Data Recovery Fetal Growth	N01-HD-8-0013	93.701	5,824
ARRA - Wake Forest University/SPRINT	WFUHS 330158	93.701	9,814
Columbia University/MFMU-TSH-Thyroid	1 (GG001346) U10HD036801 & U01HL098354	93.838	8,432
Columbia University/MFMU-ALPS	1 (GG001346) U10HD036801 & U01HL098354	93.838	5,491
Columbia University/MFMU-STANRCT	1 (GG001346) U10HD036801 & U01HL098354	93.838	129,498
Columbia University/MFMU-CMV	1 (GG001346) U10HD036801 & U01HL098354	93.838	184,586
Columbia University/MFMU-GDM	1 (GG001346) U10HD036801 & U01HL098354	93.838	5,022
Columbia University/MFMU-HCV	1 (GG001346) U10HD036801 & U01HL098354	93.838	27,828
University of Pennsylvania/POINT	POINT Task Order 3	93.853	35,700
University of Delaware /Delaware INBRE	31701-Bauer	93.859	126,568
University of Delaware /Delaware INBRE	31701-Ehrenthal	93.859	63,518
University of Delaware /Delaware - CTR	34425 & 36373	93.859	555,088
Columbia University/NuMom 2B - Outcomes	1 (GG003357)	93.865	34,784
Columbia University/NuMom 2B - Sleep Disordered Breathing	1 (GG003357)	93.865	3,932
Columbia University/Nulliparous Network	1 (GG006367-02) 2 (GG006367-04)	93.865	169,276
Columbia University/NUMOM2B Fetal Adrenal	1 (GG006282)	93.865	15,609
Columbia University/TELOMERES NUMOM2B	2 (GG006723)	93.865	11,549
Columbia University/Fetal Growth	1 (GG004957)	93.865	23,994
Penn State University/Parenting Program for Couples	4334-CCHS-DHHS-8529	93.865	1,323
University of Delaware/Intervention in Infants With Nervous System Injury	34902	93.865	903
University of Delaware / Chronic Lower Back Pain in Older Adults	31778	93.866	13,184
Total Pass-Through Awards			1,798,563
Total U.S. Department of Health & Human Services Awards			4,186,616

See accompanying notes to the Schedule of Expenditures of Federal Awards.

Christiana Care Health System and Affiliates
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2014

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Pass Through Entity Identifying Number	Federal CFDA#	Federal Expenditures
U.S. Department of Defense			
Pass-Through Awards			
National Trauma Institute / The Platelet Study	NTI-NCH-10-011	12.420	12,483
University of Delaware/The BADER Consortium	27814	12.420	11,680
Total Pass-Through Awards			24,163
Total U.S. Department of Defense			24,163
Total Research and Development Cluster			4,210,779
Other Programs			
U.S. Department of Health & Human Services			
Direct Awards			
Coordinated Services and Access to Research for Women, Infants, Children, and Youth		93.153	372,886
Health Care Innovation Awards (HCIA)		93.610	4,031,039
Grants for Primary Care Training and Enhancement		93.884	1,150
Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease		93.918	801,390
Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease		93.918	111,203
Subtotal Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease			912,593
Total Direct Awards			5,317,668
Pass-Through Awards			
National Association of County and City Health Officials (NACCHO)	MRC-13-0057 & MRC-14-0057	93.008	3,823
University of Pittsburgh/AIDS Education and Training Center	0019469 (123461-1)	93.145	294,592
Brandywine Counseling/SAMSHA	1H79TI024454-01	93.243	89,314
DHSS DPH/Health Ambassador Zone Project	14-115	93.505	364,779
DHSS DMMA/Market Assister Entity	RFP: HHS-13-015 PO STATE-0000190447	93.525	451,138
DHSS DPH/HIV Care Formula Grants	13-316 & 14-418	93.917	3,900,487
Thomas Jefferson University/Geriatric Education Center	080-36000-M05907	93.969	35,985
DHSS DPH/Birth Defects Active Surveillance Registry	12-190	93.994	48,166
DHSS DPH/Birth Defects Active Surveillance Registry	14-180	93.994	123,096
Subtotal DHSS DPH/Birth Defects Active Surveillance Registry			171,262
Total Pass-Through Awards			5,311,380
Total U.S. Department of Health and Human Services			10,629,048
U.S. Department of Justice			
Pass-Through Awards			
DE Criminal Justice Council/SANE Coordinator-13th Year	VW12-200 & VW13-203	16.588	30,983
Total Pass-Through Awards			30,983
Total U.S. Department of Justice			30,983
U.S. Department of Agriculture			
Pass-Through Awards			
DHSS DPH/WIC Breastfeeding Peer Counselor Program	13-157 & 14-153	10.578	110,070
Total Pass-Through Awards			110,070
Total U.S. Department of Agriculture			110,070
U.S. Federal Contracts			
Pass-Through Awards			
Children’s Hospital of Philadelphia/National Children's Study	950038RSUB	93.UNKNOWN	2,928
Total Pass-Through Awards			2,928
Total U.S. Federal Contracts			2,928
Total Other Programs			10,773,029
Total Expenditures of Federal Awards			$ 14,983,808

See accompanying notes to the Schedule of Expenditures of Federal Awards.

1. General

The accompanying Schedule of Expenditures of Federal Awards (the “Schedule”) includes the federal grant activity of Christiana Care Health System and Affiliates (the “System”). The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audit of States, Local Governments, and Non Profit Organizations*. Therefore, some information presented in this schedule may differ from amounts presented in, or used in the preparation of the financial statements. Negative amounts represent adjustments or credits to amounts reported as expenditures in prior years. CFDA numbers and pass-through numbers are provided when available.

2. Basis of Accounting

The accompanying Schedule of Expenditures of Federal Awards has been prepared on an accrual basis of accounting.

3. Subrecipients

Of the federal expenditures presented in the Schedule, the System provided federal awards to subrecipients as follows:

Program Title	Federal CFDA#	Amount Provided to Subrecipients
Cancer Treatment Research	93.395	$ 71,625
Child Health and Human Development Extramural Research	93.865	88,525
Child Health and Human Development Extramural Research	93.865	609,958
Health Care Innovation Awards (HCIA)	93.610	22,215
		$ 792,323

Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

To the Board of Directors of
Christiana Care Health System and Affiliates

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of Christiana Care Health System and Affiliates (the "System"), which comprise the consolidated balance sheet as of June 30, 2014, and the related consolidated statement of operations and changes in net assets and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated September 3, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the System's internal control over financial reporting ("internal control") to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control. Accordingly, we do not express an opinion on the effectiveness of the System's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the System's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the System's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the System's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

PricewaterhouseCoopers LLP

September 3, 2014

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Independent Auditor's Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133

To the Board of Directors
Christiana Care Health System and Affiliates

Report on Compliance for Each Major Federal Program

We have audited Christiana Care Health System and Affiliates' (the "System's") compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the System's major federal programs for the year ended June 30, 2014. The System's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the System's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the System's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the System's compliance.

Opinion on Each Major Federal Program

In our opinion, the System complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2014.

Report on Internal Control Over Compliance

Management of the System is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the System's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the System's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

PricewaterhouseCoopers LLP

November 17, 2014

Section I - Summary of Auditor's Results

Financial Statements

(i) Type of auditor's report issued	Unmodified
(ii) Internal control over financial reporting:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified that are not considered to be material weaknesses?	None reported
(iii) Noncompliance material to financial statements noted?	No

Federal Awards

(iv) Internal control over major programs:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified that are not considered to be material weaknesses?	None reported
(v) Type of auditor's report issued on compliance for major programs:	Unmodified
(vi) Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133?	No

(vii) Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
93.525	DHSS DMMA/Market Assister Entity
93.145	University of Pittsburgh/AIDS Education and Training Center
93.994	DHSS DPH/Birth Defects Active Surveillance Registry
93.610	Health Care Innovation Awards (HCIA)

Dollar threshold used to distinguish between type A and type B programs:	$449,514
Auditee qualified as low-risk auditee?	Yes

Section II - Financial Statement Findings and Responses

No matters to report.

Section III - Federal Award Findings and Questioned Costs

No matters to report.

Summary Schedule of Prior Audit Findings

Finding 2013-001: Inadequate policies and procedures around inventory management of equipment

Federal Agency: U.S. Department of Health & Human Services
Program: Health Care Innovation Award (HCIA)
CFDA #: 93.610
Award Year: July 1, 2012 to June 30, 2013

Condition

During fiscal year 2013, we noted that management did not comply with the certain requirements contained in the Electronic Code of Federal Regulation Part 74.34, *Equipment*, including, performing a physical inventory of equipment, and maintaining separate records to track information about equipment acquired under Federal awards.

Status

As of June 30, 2014, management developed and implemented both policies and procedures to comply with CFR 74.34, *Equipment*, in order to ensure periodic physical inventories are performed in accordance with Federal regulations, fixed asset records are maintained in accordance with Federal Regulations, and fixed asset records are reconciled to the physical inventory.

In order to ensure that federally owned equipment physical inventory is tracked in accordance with CFR 74.34 Equipment, management developed a formal process flow to ensure fixed asset records are maintained in accordance with Federal Regulations. This Process Flow for Tagging Federal Equipment purchases includes tracking the asset against a Master Microsoft Excel Based Federal Equipment Register that itemizes Federal Equipment acquired with Federal Funds by Program Cost Center; at physical inspection of the equipment the completion of a Federally Owned Usage Activity Log to track the equipment's condition, Operator(s), & frequency of use, which is to be updated annually by Director Finance with the Department Management; Creation of Federal Ownership Asset Tags (Stickers) by Clinical Engineering with Numeric identifiers that are supported with a Photo of Tagged Asset; Supporting Purchase Order validating Unit Cost of Equipment Purchased; Microsoft Word Form titled *Clinical Engineering Patient Care Equipment Inventory Record* to establish an electronic record of inventory in CCHS Clinical Engineering TMS Application. A full physical inventory was performed over fixed assets by management from May 5, 2014 through June 17, 2014.