KPMG

MT. WASHINGTON PEDIATRIC HOSPITAL, INC.
AND SUBSIDIARY

Consolidated Financial Statements and Schedules

June 30, 2013 and 2012

(With Independent Auditors' Report Thereon)

MT. WASHINGTON PEDIATRIC HOSPITAL, INC.
AND SUBSIDIARY

Table of Contents

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

Independent Auditors' Report

The Board of Trustees
Mt. Washington Pediatric Hospital, Inc. and Subsidiary:

We have audited the accompanying consolidated financial statements of Mt. Washington Pediatric Hospital, Inc. and Subsidiary (the Corporation), which comprise the consolidated balance sheets as of June 30, 2013 and 2012, and the related consolidated statements of operations and changes in net assets, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Mt. Washington Pediatric Hospital, Inc. and Subsidiary as of June 30, 2013 and 2012, and the results of their operations and their cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

Emphasis of Matter

As discussed in note 2(r) to the consolidated financial statements, in 2013, the Corporation adopted new accounting guidance, Accounting Standards Update (ASU) 2011-07, *Health Care Entities (Topic 954), Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts, and the Allowance for Doubtful Accounts for Certain Health Care Entities.* Our opinion is not modified with respect to this matter.

Other Matter

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying supplementary information in Schedules 1 – 4 is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the 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 information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

KPMG LLP

October 25, 2013

MT. WASHINGTON PEDIATRIC HOSPITAL, INC.
AND SUBSIDIARY

Consolidated Balance Sheets

June 30, 2013 and 2012

Assets		2013	2012
Current assets:			
Cash and cash equivalents	$	17,867,653	19,813,274
Current portion of assets limited as to use		87,640	87,640
Patient accounts receivable, less allowance for doubtful accounts of $2,165,892 and $2,069,746, respectively		5,252,896	5,722,579
Other accounts receivable		663,114	94,749
Inventories of supplies		137,219	138,991
Prepaid expenses and other current assets		371,146	641,710
Total current assets		24,379,668	26,498,943
Investments		25,726,294	16,864,950
Assets limited as to use, less current portion:			
Board-designated funds		4,012,991	4,009,991
Eliasberg Construction Fund		2,135,291	2,485,994
Funds restricted by donor		7,479,137	6,069,613
Self-insurance trust funds		2,623,648	1,813,759
		16,251,067	14,379,357
Property and equipment, net		22,617,776	20,540,200
Other assets		899,290	1,049,576
Total assets	$	89,874,095	79,333,026
Liabilities and Net Assets			
Current liabilities:			
Current portion of long-term debt	$	285,000	280,000
Trade accounts payable		4,070,859	2,317,352
Accrued payroll benefits		4,051,394	3,610,619
Advances from third-party payors		4,174,970	4,579,909
Current portion of malpractice liabilities		87,640	87,640
Deferred revenue		—	1,996,105
Due to affiliates		485,600	247,947
Total current liabilities		13,155,463	13,119,572
Malpractice liabilities		1,611,088	1,510,283
Accrued pension obligations		800,865	1,406,432
Other long-term liabilities		208,000	199,887
Long-term debt, less current portion		6,005,000	6,290,000
Total liabilities		21,780,416	22,526,174
Commitments and contingencies			
Net assets:			
Unrestricted		58,467,394	48,099,030
Temporarily restricted		8,801,114	7,882,651
Permanently restricted		825,171	825,171
Total net assets		68,093,679	56,806,852
Total liabilities and net assets	$	89,874,095	79,333,026

See accompanying notes to consolidated financial statements.

MT. WASHINGTON PEDIATRIC HOSPITAL, INC.
AND SUBSIDIARY

Consolidated Statements of Operations and Changes in Net Assets

Years ended June 30, 2013 and 2012

	2013	2012
Unrestricted revenue, gains and other support:		
Patient service revenue (net of contractual adjustments)	$ 52,120,071	48,091,824
Provision for bad debts	(533,268)	(495,836)
Net patient service revenue	51,586,803	47,595,988
Other revenue	2,432,381	445,534
Total unrestricted revenue, gains and other support	54,019,184	48,041,522
Operating expenses:		
Salaries, wages, and benefits	34,068,482	32,855,597
Purchased services	12,448,259	11,499,405
Interest expense	83,488	61,785
Depreciation	2,024,766	1,777,490
Total operating expenses	48,624,995	46,194,277
Operating income	5,394,189	1,847,245
Nonoperating income and expenses, net:		
Contributions	195,982	193,775
Investment income	973,822	768,093
Change in fair value of trading securities	1,018,210	(761,680)
Excess of revenues over expenses	7,582,203	2,047,433
Net unrealized gains (losses) on other-than-trading securities	864,631	(265,749)
Net assets released from restrictions used for the purchase of property and equipment upon donor request	1,372,801	3,120,322
Change in funded status of defined benefit plan	548,729	(957,962)
Increase in unrestricted net assets	10,368,364	3,944,044
Changes in temporarily restricted net assets:		
Contributions	1,267,866	1,334,291
Investment income, net	805,826	554,802
Net unrealized gains (losses) on temporarily restricted investments	254,431	(388,880)
Net assets released from restrictions used for the purchase of property and equipment	(1,372,801)	(3,120,322)
Net assets released from restrictions used for operations	(36,859)	(178,986)
Increase (decrease) in temporarily restricted net assets	918,463	(1,799,095)
Total increase in net assets	11,286,827	2,144,949
Net assets, beginning of year	56,806,852	54,661,903
Net assets, end of year	$ 68,093,679	56,806,852

See accompanying notes to consolidated financial statements.

MT. WASHINGTON PEDIATRIC HOSPITAL, INC.
AND SUBSIDIARY

Consolidated Statements of Cash Flows

Years ended June 30, 2013 and 2012

	2013	2012
Cash flows from operating activities:		
Increase in net assets	$ 11,286,827	2,144,949
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation	2,024,766	1,777,490
Amortization of debt issue costs	5,131	5,131
Provision for bad debts	533,268	495,836
Net realized gains and change in value of trading securities	(2,455,854)	(970,748)
Restricted contributions and investment income	(2,073,692)	(1,889,093)
Net unrealized (gains) losses on other-than-trading securities	(1,119,062)	654,629
(Increase)/decrease in funded status of defined benefit plan	(548,729)	957,962
Changes in operating assets and liabilities:		
Net patient accounts receivable	(63,585)	(536,398)
Other accounts receivable	(568,365)	(38,548)
Inventories of supplies	1,772	(16,826)
Prepaid expenses and other current assets	270,564	(180,729)
Other long-term assets	145,155	(800,536)
Amounts due to affiliates	237,653	(115,814)
Trade accounts payable	1,753,507	22,944
Accrued payroll benefits	440,775	512,402
Advances from third-party payors	(404,939)	1,040,924
Other liabilities	(1,944,025)	2,623,821
Net cash provided by operating activities	7,521,167	5,687,396
Cash flows from investing activities:		
Purchases of property and equipment	(4,102,342)	(4,466,894)
Purchases and sales of investments and assets limited to use, net (trading)	(8,288,892)	(3,009,263)
Purchases of investments and assets limited to use (other-than-trading)	(8,731,927)	(5,459,020)
Sales of investments and assets limited to use (other-than-trading)	9,862,681	7,703,015
Net cash used in investing activities	(11,260,480)	(5,232,162)
Cash flows from financing activities:		
Repayment of long-term debt	(280,000)	(260,000)
Restricted contributions and investment income	2,073,692	1,889,093
Net cash provided by financing activities	1,793,692	1,629,093
Decrease (increase) in cash and cash equivalents	(1,945,621)	2,084,327
Cash and cash equivalents at beginning of year	19,813,274	17,728,947
Cash and cash equivalents at end of year	$ 17,867,653	19,813,274
Supplemental disclosure of cash flow information:		
Cash paid during the year for interest	$ 69,857	56,654

See accompanying notes to consolidated financial statements.

(1) Organization

The consolidated financial statements of Mt. Washington Pediatric Hospital, Inc. and Subsidiary (the Corporation) include the accounts of Mt. Washington Pediatric Hospital, Inc. (the Hospital) and its wholly owned subsidiary, Mt. Washington Pediatric Foundation, Inc. (the Foundation). The Corporation is structured as a joint venture with a 50% ownership interest by the University of Maryland Medical System Corporation (UMMS) and a 50% ownership interest by Johns Hopkins Health System Corporation (JHHS).

The Hospital is a not-for-profit, nonstock corporation formed under the laws of the State of Maryland. Its purpose is to operate a pediatric rehabilitation and specialty hospital while providing the highest quality services and programs to meet the individualized needs of infants, children, and adolescents in a nurturing environment. The Hospital has 102 licensed beds. The Foundation uses its funds and investment income to solely support the Hospital and its programs.

The Corporation incurred expenses of $466,384 and $446,366 for the years ended June 30, 2013 and 2012, respectively, for administrative services provided by UMMS. The Corporation is managed by UMMS, and accordingly, the results of the Corporation's operations and its financial condition could be different if it were autonomous.

(2) Summary of Significant Accounting Policies

(a) Basis of Presentation

The consolidated financial statements are prepared on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles.

(b) Cash and Cash Equivalents

Cash and cash equivalents consist of cash and interest-bearing deposits with maturities of three months or less from date of purchase.

(c) Inventories

Inventories, consisting primarily of drugs and medical/surgical supplies, are carried at the lower of cost or market, on a first-in, first-out basis.

(d) Investments and Assets Limited as to Use

The Hospital participates in an investment pool of one of its owners, UMMS. The UMMS investment pool (investment pool) is classified as a trading portfolio. Each participating member of the investment pool has an undivided interest in the investment pool. The Hospital's percentage interest in the assets of the investment pool was approximately 5% and 4% at June 30, 2013 and 2012, respectively. Investment income and administrative expenses relating to the investment pool are allocated to the individual members based on this percentage.

The Hospital's investment portfolio is classified as trading, and is reported in the consolidated balance sheets at its fair value, based on quoted market prices, at June 30, 2013 and 2012. Unrealized holding gains and losses on trading securities with readily determinable market value are included in the change in fair value of investments, which is a component of nonoperating income in the accompanying consolidated statement of operations. Investment income, including realized gains and losses, is included in nonoperating income in the accompanying consolidated statements of operations.

The Foundation's investment portfolio is classified as other-than-trading and is reported in the consolidated balance sheets at its fair value, based on quoted market prices. Changes in fair value of securities with readily determinable market values below their recorded basis are recognized in the consolidated statements of operations and changes in net assets as realized losses as investment income, which is included in nonoperating income in the accompanying consolidated statements of operations. Unrealized gains on investments in securities with readily determinable market values are recognized as a component of net assets.

The Foundation does not have any alternative investments in its investment portfolio. However, the Hospital has alternative investments in assets limited as to use for self-insurance and the investment pool. Alternative investments are recorded under the equity method of accounting. Underlying securities of these alternative investments may include certain debt and equity securities that are not readily marketable. Because certain investments are not readily marketable, their fair value is subject to additional uncertainty, and therefore, values realized upon disposition may vary significantly from current reported values.

Assets limited as to use include investments set aside at the discretion of the board of trustees for the replacement or acquisition of property and equipment over which the board of trustees retains control and may at its discretion use for other purposes, self-insurance trust arrangements, and assets whose use is restricted by donors. Such investments are stated at fair value. Amounts required to meet current liabilities have been included in current assets in the consolidated balance sheets. Declines in fair value of these unrestricted investments below their cost basis are recognized in nonoperating income and expense. Changes in fair value of these unrestricted investments above their cost basis are recognized as unrealized gains on investments and are included in other changes in net assets. Changes in fair values of donor-restricted investments are recorded in unrestricted net assets unless otherwise required by the donor or state law to be included in the restricted fund balance.

Investments are exposed to certain risks, such as interest rate, credit, and overall market volatility. Due to the level of risk associated with certain investment securities, changes in the value of investment securities could occur in the near term, and these changes could materially differ from amounts reported in the accompanying consolidated financial statements.

(e) Fair Value Measurements

The following methods and assumptions were used by the Corporation in estimating the fair value of its financial instruments:

Cash and cash equivalents, accounts receivable, assets limited as to use, investments, trade accounts payable, accrued payroll benefits, current and long-term debt, and advances from third-party payors

– The carrying amounts reported in the consolidated balance sheets approximate the related fair values.

The Corporation has implemented the provisions of Accounting Standards Codification (ASC) Topic 820 in relation to fair value measurements of financial assets and financial liabilities and for fair value measurements of nonfinancial items that are recognized or disclosed at fair value in the consolidated financial statements on a recurring basis. This guidance established a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted market prices in active markets for identical assets or liabilities (Level I measurement) and the lowest priority to measurements involving significant unobservable inputs (Level III measurements). The three levels of the fair value hierarchy are as follows:

- Level I inputs are quoted market prices (unadjusted) in active markets for identical assets or liabilities that the Corporation has the ability to access at the measurement date.
- Level II inputs are inputs other than quoted market prices including within Level I that are observable for the asset or liability, either directly or indirectly. If the asset or liability has a specified (contractual) term, a Level II input must be observable for substantially the full term of the asset or liability.
- Level III inputs are unobservable inputs for the asset or liability.

Assets and liabilities classified as Level I are valued using unadjusted quoted market prices for identical assets or liabilities in active markets. The Corporation uses techniques consistent with the market approach and the income approach for measuring fair value of its Level II and Level III assets and liabilities. The market approach is a valuation technique that uses prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities. The income approach generally converts future amounts (cash flows or earnings) to a single present value amount (discounted).

The level in the fair value hierarchy within which a fair value measurement in its entirety falls is based on the lowest level input that is significant to the fair value measurement in its entirety.

As of June 30, 2013 and 2012, the Level II assets and liabilities listed in the fair value hierarchy tables below utilize the following valuation techniques and inputs:

(i) Cash Equivalents

The fair value of investments in cash equivalent securities, with maturities within three months of the date of purchase, are determined using techniques that are consistent with the market approach. Significant observable inputs include reported trades and observable broker/dealer quotes.

(ii) U.S. Government and Agency Securities

The fair value of investments in U.S. government, state, and municipal obligations is primarily determined using techniques consistent with the income approach. Significant observable inputs to the income approach include data points for benchmark constant maturity curves and spreads.

(iii) Corporate Bonds

The fair value of investments in U.S. and international corporate bonds, including commingled funds that invest primarily in such bonds, and foreign government bonds is primarily determined using techniques that are consistent with the market approach. Significant observable inputs include benchmark yields, reported trades, observable broker/dealer quotes, issuer spreads, and security specific characteristics, such as early redemption options.

(iv) Collateralized Corporate Obligations

The fair value of collateralized corporate obligations is primarily determined using techniques consistent with the income approach, such as a discounted cash flow model. Significant observable inputs include prepayment speeds and spreads, benchmark yield curves, volatility measures, and quotes.

(f) Self-Insurance

Under the Corporation's self-insurance programs (general and professional liability and employee health benefits), claims are reflected as a present value liability based upon actuarial estimates, including both reported and incurred but not reported claims taking into consideration the severity of incidents and the expected timing of claim payments.

(g) Property and Equipment

Property and equipment are stated at cost or estimated fair value at date of contribution, less accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of the related assets. The estimated useful lives of the assets are as follows:

Building and leasehold improvements	25 to 40 years
Land improvements	5 to 20 years
Equipment	3 to 15 years

Interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets.

(h) Deferred Financing Costs

Costs incurred related to the issuance of long-term debt are deferred and are amortized over the life of the related debt using the straight-line method, which approximates the effective-interest method. Accumulated amortization of such costs amounted to $29,075 and $23,944 for the years ended June 30, 2013 and 2012, respectively.

 (Continued)

(i) Impairment of Long-Lived Assets

Management regularly evaluates whether events or changes in circumstances have occurred that could indicate impairment in the value of long-lived assets. In accordance with the provisions of ASC Topic 360, *Property, Plant, and Equipment*, if there is an indication that the carrying amount of an asset is not recoverable, management estimates the projected undiscounted cash flows, excluding interest, to determine if an impairment loss should be recognized. The amount of impairment loss is determined by comparing the historical carrying value of the asset to its estimated fair value. Estimated fair value is determined through an evaluation of recent and projected financial performance using standard industry valuation techniques.

In addition to consideration of impairment upon the events or changes in circumstances described above, management regularly evaluates the remaining lives of its long-lived assets. If estimates are changed, the carrying value of affected assets is allocated over the remaining lives.

In estimating the future cash flows for determining whether an asset is impaired, the Corporation groups its assets at the lowest level for which there are identifiable cash flows independent of other groups of assets. If such costs are impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the estimated fair value of the assets.

(j) Meaningful Use

The Health Information Technology for Economic and Clinical Health (HITECH) Act was signed into law in February 2009. In the context of the HITECH Act, certain healthcare entities must implement a certified Electronic Health Record (EHR) in an effort to promote the adoption and "meaningful use" of health information technology (HIT). The HITECH Act includes significant monetary incentives meant to encourage the adaptation of an EHR system. During the year ended June 30, 2012, the Hospital received a Medicaid incentive payment in the amount of $1,996,105, which was recorded as deferred revenue on the consolidated balance sheets. During the year ended June 30, 2013, the Hospital successfully demonstrated compliance with the specified meaningful use criteria and accordingly recognized as other revenue.

(k) Net Assets

The Corporation classifies net assets based on the existence or absence of donor-imposed restrictions. Unrestricted net assets represent contributions, gifts, and grants, which have no donor-imposed restrictions or which arise as a result of operations. Temporarily restricted net assets are subject to donor-imposed restrictions that must or will be met either by satisfying a specific purpose and/or passage of time. Permanently restricted net assets are subject to donor-imposed restrictions that must be maintained in perpetuity. Generally, the donors of these assets permit the use of all or part of the income earned on related investments for specific purposes. The restrictions associated with these net assets generally pertain to patient care, specific capital projects, and funding of specific hospital operations and community outreach programs.

(l) Net Patient Service Revenue and Provision for Uncollectible Accounts

Net patient service revenue reflects actual charges to patients based on rates established by the State of Maryland Health Services Cost Review Commission (HSCRC) in effect during the period in which the services are rendered, net of contractual adjustments. Contractual adjustments represent the difference between amounts billed as patient service revenue and amounts allowed by third-party payors. Such adjustments include discounts on charges as permitted by the HSCRC.

The Hospital records revenues and accounts receivable from patients and third-party payors at their estimated net realizable value. Revenue is reduced for anticipated discounts under contractual arrangements and for charity care. An estimated provision for bad debts is recorded in the period the related services are provided based upon anticipated uncompensated care, and is adjusted as additional information becomes available.

The provision for bad debts is based upon management's assessment of historical and expected net collections considering historical business and economic conditions, trends in healthcare coverage, and other collection indicators. Periodically throughout the year, management assesses the adequacy of the allowance for uncollectible accounts based upon historical collection and write-off experience by payor category. The results of this review are then used to make modifications to the provision for bad debts and to establish an allowance for uncollectible receivables. After collection of amounts due from insurers, the Hospital follows internal guidelines for placing certain past-due balances with collection agencies.

For receivables associated with services provided to patients who have third-party coverage, the Hospital analyzes contractually due amounts and provides an allowance for bad debts, allowance for contractual adjustments, provision for bad debts, and contractual adjustments on accounts for which the third-party payor has not yet paid or for payors who are known to be having financial difficulties that make the realization of amounts due unlikely. For receivables associated with self-pay patients or with balances remaining after the third-party coverage has already paid, the Hospital records a significant provision for bad debts in the period of service on the basis of its historical collections, which indicates that many patients ultimately do not pay the portion of their bill for which they are financially responsible. The difference between the discounted rates and the amounts collected after all reasonable collection efforts have been exhausted is charged off against the allowance for bad debts. The change in the allowance for bad debts was as follows during the years ended June 30:

		2013	2012
Beginning bad debt allowance	$	2,069,746	1,865,402
Plus: provision for bad debt		533,268	495,836
Less: Bad debt write-offs		(437,122)	(291,492)
Ending bad debt allowance	$	2,165,892	2,069,746

The change in the allowance for bad debts during 2013 is attributable to increased patient volumes in 2013, and trends experienced in the collection of the related patient receivables.

(m) Charity Care

The Hospital provides charity care to patients who are unable to pay or who meet certain criteria under its charity care policy. Such patients are identified based on information obtained from the patient and subsequent analysis. Because the Hospital does not expect collection of amounts determined to qualify as charity care, such amounts are not reported as revenue. Costs incurred are estimated based on the cost-to-charge ratio for each hospital and applied to charity care charges. Since the Hospital does not pursue collection of amounts determined to meet the criteria under the charity care policy, such amounts are not reported as net patient service revenue. The amounts reported as charity care represent the cost of rendering such services. The Hospital estimates the total direct and indirect costs to provide charity care were to $106,878 and $54,594 in the years ended June 30, 2013 and 2012, respectively.

(n) Nonoperating Income and Expenses, Net

Other activities that are largely unrelated to the Corporation's primary mission are recorded as nonoperating income and expenses, and include investment income, change in fair value of investments and general donations and fund-raising activities.

(o) Excess of Revenues over Expenses

The consolidated statement of operations includes a performance indicator, the excess of revenues over expenses. Changes in unrestricted net assets that are excluded from the excess of revenues over expenses, consistent with industry practice, include the change in unrealized gains on investments (other-than-trading securities), 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), pension-related changes other than net periodic pension costs and other items which are required by generally accepted accounting principles to be reported separately.

(p) Income Tax Status

The Hospital is a not-for-profit corporation as described under Section 501(c)(3) of the Internal Revenue Code (the Code) and is exempt from federal income taxes on related income pursuant to Section 501(a) of the Code. The Foundation is a not-for-profit corporation formed under the laws of the State of Maryland, organized for charitable purposes and recognized by the Internal Revenue Service as a tax-exempt organization under Section 501(c)(3) of the Code.

The Corporation follows a threshold of more likely than not for recognition and derecognition of tax positions taken or expected to be taken in a tax return. Management does not believe that there are any unrecognized tax benefits that should be recognized.

(q) Donor-Restricted Gifts

Unconditional promises to give cash and other assets to the Corporation are reported at fair value at the date the promise is received. Conditional promises to give and indications of intentions to give

 (Continued)

are reported at fair value at the date the promise becomes unconditional. 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 is satisfied, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the consolidated statements of operations as net assets released from restrictions. Such amounts are classified as other revenue or transfers and additions to property and equipment. Donor-restricted contributions for operations whose restrictions are met within the same year as received are reported as unrestricted contributions in the accompanying consolidated financial statements. Revenue earned from contributed assets is considered unrestricted unless specifically restricted by the donor.

Contributions to be received after one year are discounted at an appropriate discount rate commensurate with the risks involved. An allowance for uncollectible contributions receivable is provided based upon management's judgment including such factors as prior collection history, type of contributions, and nature of fund-raising activity.

The Corporation follows accounting guidance for classifying the net assets associated with donor-restricted endowment funds held by organizations that are subject to an enacted version of the Uniform Prudent Management Institutional Funds Act of 2006 (UPMIFA).

(r) New Accounting Pronouncements

In July 2011, the Financial Accounting Standards Board (FASB) issued ASU No. 2011-07, *Health Care Entities* (Topic 954): *Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debt, and the Allowance for Doubtful Accounts*). The ASU requires health care entities that recognize significant amounts of patient service revenue to present the provision for bad debts related to patient service revenue as a deduction from patient service revenue (net of contractual allowances and discounts) on their statement of operations. Additionally, enhanced disclosures about an entity's policies for recognizing, assessing bad debts, as well as qualitative and quantitative information about changes in the allowance for doubtful accounts are required. This ASU was effective for the Corporation on July 1, 2012. The adoption of this guidance will not have a material impact on its financial position or it results of operations.

(s) Use of Estimates

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

(t) Reclassifications

Certain prior year amounts in note 7, Functional Expenses, have been reclassified to reflect the effects of the Accounting Pronouncement discussed in note 2(r). The reclassification reduced the 2012 Healthcare Services expenses by the provision for bad debts of $495,836.

(3) Investments and Assets Limited as to Use

The carrying value of assets limited or restricted as to use is summarized as follows at June 30:

		2013	2012
Cash and cash equivalents	$	722,426	97,131
U.S. government and agency securities		—	364,144
Corporate obligations		2,115,826	1,763,135
Foreign bonds		126,451	—
Common stocks		6,662,716	6,341,188
UMMS Investment Pool		4,000,000	4,000,000
Self insurance trust funds – MMCIP		2,711,288	1,901,399
Total assets limited or restricted as to use		16,338,707	14,466,997
Less amounts available for current liabilities		(87,640)	(87,640)
Total assets limited as to use, less current portion	$	16,251,067	14,379,357

Board-designated assets represent assets designated by the Hospital's board of trustees for future capital improvements and expansion. The board retains control of these assets and may, at its discretion, subsequently use them for other purposes. The assets consist primarily of cash and cash equivalents, fixed-income securities, and equity instruments.

The Corporation's self-insurance trust funds are held by the Maryland Medicine Comprehensive Insurance Program (MMCIP) for payment of malpractice claims. These assets consist primarily of stocks, fixed-income corporate obligations, and alternative investments. MMCIP is a funding mechanism for the Corporation's malpractice insurance. As MMCIP is not an insurance provider, transactions with MMCIP are recorded under the deposit method of accounting. Accordingly, the Corporation accounts for its participation in MMCIP by carrying limited-use assets representing the amount of funds contributed to MMCIP and recording a liability for claims, which is included in malpractice liabilities in the accompanying consolidated balance sheets.

The composition and carrying value of investments were as follows at June 30:

		2013	2012
U.S. government and agency securities	$	—	135,381
Corporate obligations		1,283,858	655,497
Foreign bonds		76,729	—
Common stocks		4,042,857	2,357,523
UMMS Investment Pool		20,322,850	13,716,549
	$	25,726,294	16,864,950

The composition and carrying value of total cash and investments held in the investment pool as of June 30 are as follows:

		2013	2012
Cash and cash equivalents	$	5,509,409	15,346,744
Corporate bonds		40,200,822	33,642,444
Collateralized corporate obligations		12,593,349	75,999,613
U.S. government and agency securities		20,574,909	30,973,480
Common stocks		211,433,209	187,225,614
Alternative investments		228,177,273	142,679,310
	$	518,488,971	485,867,205
Hospital's allocation (investments)	$	20,322,850	13,716,549
Hospital's allocation (assets limited as to use)	$	4,000,000	4,000,000

Investment income and realized and unrealized gains (losses) for investments limited or restricted as to use and other long-term investments are summarized as follows for the years ended June 30:

		2013	2012
Interest and dividend income, net of fees	$	342,004	352,147
Net realized gains on investments and assets limited to use		1,437,644	970,748
Change in fair value of trading securities		1,018,210	(761,680)
Net unrealized (losses) gains on temporarily restricted investments		254,431	(388,880)
Net unrealized losses on other-than-trading securities		864,631	(265,749)
	$	3,916,920	(93,414)

Total investment return is classified in the consolidated statements of operations and changes in net assets, for the years ended June 30, as follows:

		2013	2012
Nonoperating investment income	$	973,822	768,093
Investment gains on restricted net assets		1,060,257	165,922
Change in fair value of trading securities		1,018,210	(761,680)
Net unrealized losses on other-than-trading securities		864,631	(265,749)
	$	3,916,920	(93,414)

(Continued)

The following table presents assets and liabilities that are measured at fair value on a recurring basis, excluding alternative investments in the amount of $8,943,705 for investments and $1,760,325 for assets limited as to use which are accounted for under the equity method, as of June 30, 2013:

	Level I	Level II	Level III	Total
Investments:				
U.S. government and agency securities	$ —	—	—	—
Corporate obligations	1,260,623	—	—	1,260,623
Common stocks	4,067,173	—	—	4,067,173
Foreign bonds	—	75,648	—	75,648
UMMS investment pool	9,932,584	1,446,561	—	11,379,145
Subtotal	15,260,380	1,522,209	—	16,782,589
Assets limited as to use:				
Cash and cash equivalents	722,426	—	—	722,426
U.S. government and agency securities	—	—	—	—
Corporate obligations	2,115,826	—	—	2,115,826
Common stocks	6,662,716	—	—	6,662,716
Foreign bonds	—	126,451	—	126,451
UMMS investment pool	1,954,959	284,716	—	2,239,675
Self insurance trust funds – MMCIP	—	2,711,288	—	2,711,288
Subtotal	11,455,927	3,122,455	—	14,578,382
	$ 26,716,307	4,644,664	—	31,360,971

The following table presents assets and liabilities that are measured at fair value on a recurring basis, excluding alternative investments in the amount of $5,632,014 for investments and $1,642,400 for assets limited as to use, which are accounted for under the equity method, as of June 30, 2012:

	Level I	Level II	Level III	Total
Investments:				
U.S. government and agency securities	$ 135,381	—	—	135,381
Corporate obligations	655,497	—	—	655,497
Common stocks	2,357,523	—	—	2,357,523
UMMS investment pool	6,469,728	1,614,807	—	8,084,535
Subtotal	9,618,129	1,614,807	—	11,232,936
Assets limited as to use:				
Cash and cash equivalents	97,131	—	—	97,131
U.S. government and agency securities	364,144	—	—	364,144
Corporate obligations	1,763,135	—	—	1,763,135
Common stocks	6,341,188	—	—	6,341,188
UMMS investment pool	1,886,692	470,908	—	2,357,600
Self insurance trust funds – MMCIP	—	1,901,399	—	1,901,399
Subtotal	10,452,290	2,372,307	—	12,824,597
	$ 20,070,419	3,987,114	—	24,057,533

(4) Property and Equipment

A summary of property and equipment and related accumulated depreciation is as follows at June 30:

	2013	2012
Land and land improvements	$ 601,327	499,870
Buildings and fixed equipment	34,860,795	27,843,279
Leasehold improvements	796,576	625,037
Major moveable equipment	11,292,289	10,321,733
Minor equipment	4,026,324	3,321,818
Construction in progress	721,190	5,584,422
	52,298,501	48,196,159
Less accumulated depreciation	(29,680,725)	(27,655,959)
Property and equipment, net	$ 22,617,776	20,540,200

Construction in progress includes building and renovation costs for assets that have not yet been placed into service. These costs relate to major construction projects as well as routine renovations under way at the Hospital's facilities.

Depreciation expense for the years ended June 30, 2013 and 2012 amounted to $2,024,766 and $1,777,490, respectively.

The Hospital entered into a construction contract for the expansion and renovation of its hospital building. The Hospital had unspent commitments under the construction contract of approximately $2,700,000 as of June 30, 2013.

(5) Retirement Plans

Employees of the Corporation became eligible to participate in the Baltimore Washington Medical System, Inc.'s (BWMS) noncontributory defined benefit pension plan (the Plan) effective July 1, 1997. In connection with BWMS' sale of 50% interest in the Hospital, this Plan was amended effective July 1, 2006 to become a multiple employer plan whereby the assets and liabilities of this Plan related to the Corporation's participants have been transferred to the Corporation. The Plan covers employees who have completed one year of eligibility service and have reached 21 years of age.

Under the Plan, upon normal retirement, participants shall be eligible to receive benefits based on the value of their vested accrued benefit. Vested accrued benefits are calculated as the sum of: (a) the present value of a participant's accrued benefit under the previous plan as of June 30, 1989, plus (b) a percentage (3.0% for less than 15 years, 4.0% for years 15 to 19, 5.6% for years 20 to 24, and 7.2% for 25 years and higher) of the participant's annual compensation and compensation in excess of the Social Security Wage Base, as defined, plus (c) annual interest credited at a rate equal to the average yield of six-month U.S. Treasury Bills at the beginning of the plan year.

Vesting begins after three years of participation in the Plan. The funding policy is to make annual contributions to the Plan in amounts sufficient to satisfy the funding standards of the Employee Retirement Income Security Act of 1974. Pension expense for the defined benefit pension plan was approximately $592,000 and $372,000 for the years ended June 30, 2013 and 2012, respectively.

The Corporation also has a 403(b) retirement plan (Retirement Plan) covering substantially all employees. Employees are immediately eligible for elective deferrals of compensation as contributions to the Retirement Plan. The Retirement Plan currently has a discretionary provision for employer matching contributions.

The following table sets forth the change in the benefit obligation and plan assets as of and for the years ended June 30, the measurement date:

		2013	2012
Change in projected benefit obligations:			
Benefit obligations at beginning of year	$	6,123,829	4,932,297
Service cost		591,125	444,982
Interest cost		269,629	253,365
Actuarial loss		(371,461)	589,083
Benefits paid		(31,789)	(95,898)
Projected benefit obligations at end of year	$	6,581,333	6,123,829
Change in plan assets:			
Fair value of plan assets at beginning of year	$	4,717,397	4,136,562
Actual return on plan assets		445,566	(42,042)
Employer contributions		649,294	718,775
Benefits paid		(31,789)	(95,898)
Fair value of plan assets at end of year	$	5,780,468	4,717,397
Accumulated benefit obligation at end of year	$	5,929,183	5,552,980

The funded status of the Plan and amounts recognized as other long-term liabilities in the consolidated balance sheets at June 30 are as follows:

		2013	2012
Funded status, end of period:			
Fair value of plan assets	$	5,780,468	4,717,397
Projected benefit obligations		6,581,333	6,123,829
Funded status	$	(800,865)	(1,406,432)
Amounts recognized in unrestricted net assets as of June 30:			
Net actuarial loss	$	(1,386,253)	(1,932,340)
Unamortized prior service cost		(27,100)	(29,742)
	$	(1,413,353)	(1,962,082)

The estimated amounts that will be amortized from unrestricted net assets into net periodic pension cost in fiscal 2014 are as follows:

Net actuarial gain	$	6,187
Prior service cost		86,821
	$	93,008

(Continued)

The components of net periodic pension cost for the years ended June 30 are as follows:

		2013	2012
Service cost	$	591,125	444,982
Interest cost		269,629	253,365
Expected return on plan assets		(373,305)	(357,198)
Amortization of prior service cost		2,641	2,641
Amortization of actuarial loss		102,365	27,720
Net periodic pension cost	$	592,455	371,510

The information below related to the assumptions relates to the entire Plan. Certain information related to the Corporation is not separately identifiable.

The following table presents the weighted average assumptions used to determine benefit obligations for the Plan at June 30:

	2013	2012
Discount rate	4.97%	4.32%
Rate of compensation increase	4.50	4.50

The following table presents the weighted average assumptions used to determine net periodic benefit cost for the Plan for the years ended June 30:

	2013	2012
Discount rate	4.32%	5.25%
Expected long-term return on plan assets	7.50	7.75
Rate of compensation increase	4.50	4.50

All of the Plan's assets are held in the UMMS Master Pension Trust (the Master Trust), which was established during the year ended June 30, 2011 for the investment assets of multiple-sponsored retirement plans. Each participating plan has an undivided interest in the Master Trust. The Plan's percentage interest in the net assets of the Master Trust was approximately 5% and 4% at June 30, 2013 and 2012, respectively. Investment income and administrative expenses relating to the Master Trust are allocated to the individual plans based on this percentage.

The fair values of total cash and investments held in the Master Trust are as follows as of June 30:

		2013	2012
Cash and cash equivalents	$	7,230,008	4,867,252
Common and preferred stocks		9,391,717	7,639,825
Equity mutual funds		31,417,183	27,485,563
Fixed-income mutual funds		27,741,348	27,045,860
Other mutual funds		11,193,057	10,583,740
Alternative investments		33,271,085	30,379,100
Total Master Trust cash and investments	$	120,244,398	108,001,340
Plan’s interest in Master Trust	$	5,780,468	4,717,397

The investment policies of the Master Trust incorporate asset allocation and investment strategies designed to earn superior returns on plan assets consistent with reasonable and prudent levels of risk. Investments are diversified across classes, sectors, and manager style to minimize the risk of loss. The Master Trust uses investment managers specializing in each asset category, and regularly monitors performance and compliance with investment guidelines. In developing the expected long-term rate of return on assets assumption, the Master Trust considered the current level of expected returns on risk-free investments, the historical level of the risk premium associated with the other asset classes in which the portfolio is invested, and the expectations for future returns of each asset class. The expected return for each asset class was then weighted based on the target allocation to develop the expected long-term rate of return on assets assumption for the portfolio.

The Plan’s target allocation and weighted average asset allocations at the measurement date of June 30, by asset category, are as follows:

		Percentage of plan assets as of June 30	
Asset category	**Target allocation**	**2013**	**2012**
Cash and cash equivalents	0–10%	6%	4%
Equity securities	30–50%	28	40
Fixed-income securities	25–45%	41	30
Global asset allocation	10–20%	15	16
Hedge funds	5–15%	10	10
		100%	100%

Equity and fixed-income securities include investments in hedge fund of funds that are categorized in accordance with the fund’s respective investment holdings. At both June 30, 2013 and 2012, the Corporation was in the process of implementing changes to its investment classification, which required the liquidation of certain assets, resulting in more cash on hand than targeted. This cash was used to purchase additional securities in subsequent periods in order to restore compliance with the target allocation.

The table below presents the Master Trust's and the Plan's allocated share of investments as of June 30, 2013 aggregated by the three level valuation hierarchies as described in note 4:

		Level I	Level II	Level III	Total
Cash and cash equivalents	$	—	7,230,008	—	7,230,008
Common and preferred stocks		9,391,717	—	—	9,391,717
Equity mutual funds		31,417,183	—	—	31,417,183
Fixed-income mutual funds		27,741,348	—	—	27,741,348
Other mutual funds		11,193,057	—	—	11,193,057
Alternative investments		—	14,636,995	18,634,090	33,271,085
	$	79,743,305	21,867,003	18,634,090	120,244,398
The Plan's allocation	$	3,827,841	1,056,661	895,966	5,780,468

The table below presents the Master Trust's and the Plan's allocated share of investments as of June 30, 2012 aggregated by the three level valuation hierarchies as described in note 4:

		Level I	Level II	Level III	Total
Cash and cash equivalents	$	—	4,867,252	—	4,867,252
Common and preferred stocks		7,639,825	—	—	7,639,825
Equity mutual funds		27,485,563	—	—	27,485,563
Fixed-income mutual funds		27,045,860	—	—	27,045,860
Other mutual funds		10,583,740	—	—	10,583,740
Alternative investments		—	19,763,903	10,615,197	30,379,100
	$	72,754,988	24,631,155	10,615,197	108,001,340
The Plan's allocation	$	3,177,872	1,075,864	463,661	4,717,397

Changes to Level I and Level II inputs between June 30, 2012 and June 30, 2013 were the result of strategic investments and reinvestments, interest income earnings, and changes in the fair value of investments.

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

	Hedge funds
Balance as of June 30, 2011	$ 10,309,073
Additions/purchases	2,011,506
Withdrawals/sales	(779,289)
Net change in value	(926,093)
Balance as of June 30, 2012	10,615,197
Additions/purchases	8,047,126
Withdrawals/sales	(390,489)
Net change in value	362,256
Balance as of June 30, 2013	$ 18,634,090

The following summarizes the redemption terms for the hedge fund-of-funds vehicles held as of June 30, 2013:

	Fund 1	Fund 2
Redemption timing:		
Redemption frequency	Monthly	Quarterly
Required notice	20 days	70 days
Audit reserve:		
Percentage held back for audit reserve	—	—
Gates:		
Potential gate holdback	None	None
Potential gate release timeframe	N/A	N/A

The Corporation expects to contribute approximately $650,000 to its defined benefit pension plans for the fiscal year ending June 30, 2014.

The following benefit payments, which reflect expected future employee service, as appropriate, are expected to be paid from plan assets in the following years ending June 30:

2014	$ 149,861
2015	194,361
2016	164,041
2017	266,265
2018	273,723
2019–2023	1,400,756

The expected benefits to be paid are based on the same assumptions used to measure the Corporation's benefit obligation at June 30, 2013 and 2012.

(6) Leases

The Corporation rents office and clinical space from Prince George's County Hospital. Total rent expense for the years ended June 30, 2013 and 2012 was $81,864 and $70,792, respectively. The lease is month to month, and therefore, there are no future obligations on the lease.

(7) Functional Expenses

The Corporation considers healthcare services and management and general to be its primary functional categories for purposes of expense classification. Depreciation and interest costs are allocated ratably to each classification. The Hospital's operating expenses by functional classification for the years ended June 30 is as follows:

		2013	2012
Healthcare services	$	41,331,246	39,190,760
Management and general		7,293,749	7,003,517
	$	48,624,995	46,194,277

(8) Maryland Health Services Cost Review Commission (HSCRC)

Most of the Corporation's revenues are subject to review and approval by the Maryland Health Services Cost Review Commission (HSCRC). Hospital management has filed the required forms with the HSCRC and believes the Hospital to be in compliance with the HSCRC's requirements.

The current rate of reimbursement for services to patients under the Medicare and Medicaid programs is based on an agreement between the Center for Medicare and Medicaid Services (CMS) and the HSCRC. This agreement is based upon a waiver from Medicare reimbursement principles under Section 1814(b) of the Social Security Act and will continue as long as third-party payors elect to be reimbursed under this program and the rate of increase for costs per hospital inpatient admission is below the national average. Management believes that this program will remain in effect at least through June 30, 2014.

Patient service revenue is recorded at established rates regulated by the HSCRC. Such rates are adjusted prospectively giving effect to, among other things, the projected impact of inflation, and variances between actual unit rates and previously approved unit rates (price variances) during the previous year.

The timing of the HSCRC's adjustment for the Hospital could result in an increase or reduction in rates (revenue) due to the variances described above in a year subsequent to the year in which the variances occur. The Corporation's policy is to accrue revenue based on actual charges for services to patients in the year in which the services are performed.

(9) Long-Term Debt

Long-term debt, including current maturities of Maryland Health and Higher Education Facilities Authority Series D Revenue Bonds, totaled $6,290,000 and $6,570,000 at June 30, 2013 and 2012, respectively. The bonds were issued on November 1, 2007, interest payable monthly at a variable rate

(Continued)

payable in fiscal years 2010 through 2029. Interest rates during fiscal year 2013 ranged from 0.11% to 0.40%.

The annual future maturities of long-term debt according to the original terms of the Loan Agreement are as follows for the years ending June 30:

2014	$	285,000
2015		305,000
2016		315,000
2017		325,000
2018		345,000
Thereafter		4,715,000
	$	6,290,000

The Corporation's Series D Revenue Bonds are variable rate demand bonds requiring remarketing agents to purchase and remarket any bonds tendered before the stated maturity date. To provide liquidity support for the timely payment of any bonds that are not successfully remarketed, the Corporation has entered into a Security Agreement and obtained an irrevocable letter of credit for $7,668,740. If the bonds are not successfully remarketed, the Corporation is required to pay an interest rate specified in the letter of credit agreement, and the principal repayment of bonds may be accelerated, at the sole discretion of the bank, to require full repayment of the outstanding balance on the mandatory prepayment date, which is on or after November 1, 2015, as defined in the Amendment to Loan Agreement. The Corporation has reflected the current portion of its long-term debt that is subject to these remarketing arrangements as a component of current liabilities. As of June 30, 2013, the Corporation did not have any amounts outstanding on the letter of credit.

The following table for the years ended June 30 reflects the approximate required repayment terms of the Corporation's debt obligations in the event that the put options associated with variable rate demand bonds subject to the remarketing agreement were exercised, but the related bonds were not successfully remarketed:

2014	$	285,000
2015		305,000
2016		5,700,000
	$	6,290,000

The Loan Agreement contains certain restrictive covenants, including requirements that rates and charges be set at certain levels, that incurrence of additional debt be limited, and that compliance with certain operating ratios be maintained. As further security under the Loan Agreement, the Foundation has guaranteed the Corporation's repayment of principal and interest due on the bonds.

(10) Insurance

(a) Professional Liability Insurance

In connection with the affiliation agreement with UMMS and effective July 1, 2006, the Corporation became self-insured with respect to professional and general liability through its participation in the Maryland Medicine Comprehensive Insurance Program Self Insurance Trust (the Trust). The Corporation is self-insured for claims up to the limits of $1,000,000 on individual claims and $3,000,000 in the aggregate on an annual basis. For amounts in excess of these limits, the risk of loss has been transferred to the Terrapin Insurance Company (Terrapin), an unconsolidated joint venture of UMMS. For the year ended June 30, 2013, Terrapin provided insurance for claims related to UMMS and the Corporation for claims in excess of $1,000,000 on individual claims and $3,000,000 in the aggregate up to $90,000,000 individually and $90,000,000 in the aggregate under modified claims made policies between the aforementioned entities and Terrapin. For claims in excess of Terrapin's coverage limits, if any, the Corporation retains the risk of loss.

The Corporation provides for and funds the present value of the costs for professional and general liability claims and insurance coverage related to the projected liability from asserted and unasserted incidents, which the Corporation believes may ultimately result in a loss. These accrued malpractice losses are discounted using a discount rate of 2.5%. In management's opinion, these accruals provide an adequate and appropriate loss reserve. Malpractice liabilities include $822,327 and $721,522 as of June 30, 2013 and 2012, respectively, for which related insurance receivables have been recorded within other assets.

The Corporation may become involved in claims and litigation on malpractice matters that arise in the normal course of business, none of which, in the opinion of management, is expected to result in losses in excess of insurance limits or have a materially adverse effect on the Corporation's financial position.

Total malpractice insurance expense for the Corporation in 2013 and 2012 was $401,425 and $259,340, respectively.

(b) Workers' Compensation

The Corporation is insured against workers' compensation claims through membership in the Maryland Hospital Association Workers' Compensation Self-Insurance Group. Premiums are paid quarterly and adjusted yearly based on the group's actual experience.

(c) Health Insurance

The Corporation maintains a self-insurance plan for employee health insurance. The Corporation has accrued $425,000 and $508,821 as of June 30, 2013 and 2012, respectively, for estimated claims incurred but not reported, which are included in accrued payroll benefits.

(11) Business and Credit Concentrations

The Corporation provides services to patients in the Baltimore Metropolitan area, the majority of whom are under the age of 18 and are covered by third-party health insurance or state Medicaid programs. Insurance coverage and credit information is obtained from patients upon admission when available. The Corporation bills the insurer directly for services provided. No collateral is obtained for accounts receivable.

The Corporation maintains cash accounts with highly rated financial institutions which generally exceed federally insured limits. The Corporation has not experienced any losses from maintaining cash accounts in excess of federally insured limits, and as such, management does not believe the Corporation is subject to any significant credit risks related to this practice.

Gross receivables from patients and third-party payors consisted of the following at June 30:

	2013	2012
Medicaid	60%	59%
Blue Cross	17	19
Commercial insurance and HMO	20	20
Self-pay and others	3	2
	100%	100%

Gross patient service revenue, by payor class, consisted of the following at June 30:

	2013	2012
Medicaid	71%	70%
Blue Cross	13	12
Commercial insurance and HMO	15	17
Self-pay and others	1	1
	100%	100%

(12) Endowment

The Corporation's endowment consists of four individual funds established based on donor-imposed restrictions. Net assets associated with endowment funds are classified and reported based on the existence of donor-imposed restrictions.

(a) Interpretation of Relevant Law

The board of trustees has interpreted UPMIFA as requiring that donor-restricted endowment funds be managed with the long-term objective of at least maintaining the real value (after inflation) of the funds. The Corporation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the directions of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the board of trustees in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Corporation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. The duration and preservation of the fund
2. The purposes of the Corporation and the donor-restricted endowment fund
3. General economic conditions
4. The possible effect of inflation and deflation
5. The expected total return from income and the appreciation of investments
6. The other resources of the Corporation
7. The investment policies of the Corporation

Endowment net assets consist of the following as of June 30, 2013:

		Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor-restricted endowment funds	$	—	5,918,148	825,171	6,743,319
Board-designated endowment funds		—	2,135,291	—	2,135,291
Total endowed net assets	$	—	8,053,439	825,171	8,878,610

Endowment net assets consist of the following as of June 30, 2012:

		Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor-restricted endowment funds	$	—	5,130,918	825,171	5,956,089
Board-designated endowment funds		—	2,485,995	—	2,485,995
Total endowed net assets	$	—	7,616,913	825,171	8,442,084

(Continued)

Changes in endowment net assets for the year ended June 30, 2013 are as follows:

		Unrestricted	Temporarily restricted	Permanently restricted	Total
Endowment net assets, June 30, 2012	$	—	7,616,913	825,171	8,442,084
Released for purchases of equipment and construction costs		—	(623,731)	—	(623,731)
Investment return		—	1,060,257	—	1,060,257
Endowment net assets, June 30, 2013	$	—	8,053,439	825,171	8,878,610

(b) Funds with Deficiencies

From time to time, the fair value of assets associated with an individual donor-restricted endowment fund may fall below the original value of the fund. As of June 30, 2013, there have been no deficiencies of this nature. Subsequent gains that restore the fair value of the assets of the endowment fund to the required level will be classified as an increase in unrestricted net assets, as appropriate.

(c) Return Objectives and Risk Parameters

The Foundation has adopted investment and funding policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Under the investment policy, as approved by the board of trustees, the endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results of a benchmark that includes the S&P 500, Barclays Government/Credit, and T-Bill Index while assuming a moderate level of investment risk. The Foundation expects its endowment funds, over three to five years, to provide an average annual real rate of return of at least 5%. Actual returns in any given year may vary from this amount.

(d) Strategies Employed for Achieving Objectives

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

(e) Funding Policy and How the Investment Objectives Relates to Funding Policy

The Foundation has historically distributed to the Hospital an amount equal to approximately 5% after investment expenses of the average assets of the Foundation. The terms and provisions of the original endowment subfunds must be honored in considering the Hospital's requests. Funding requests are submitted to the Foundation for approval by the Hospital annually. In determining distributions, the Foundation considered the expected and actual return on the endowment.

(13) Temporarily and Permanently Restricted Net Assets

The Corporation classifies net assets based on the existence or absence of donor-imposed restrictions.

Temporarily and permanently restricted net assets consisted of the following at June 30:

		2013	2012
Temporarily restricted net assets:			
Funds to be used for programs and outdoor area	$	721,292	239,355
Callaway Fund		26,383	26,383
Endowment funds to be used for renovations		2,135,291	2,485,995
Endowment funds, other		5,918,148	5,130,918
Total	$	8,801,114	7,882,651
Permanently restricted net assets:			
Eliasberg Fund	$	5,000	5,000
White Fund		150,576	150,576
Williams Fund		86,829	86,829
Redman Fund		582,766	582,766
Total	$	825,171	825,171

(14) Certain Significant Risks and Uncertainties

The Corporation provides pediatric rehabilitation and specialty services in the state of Maryland. The Corporation and other healthcare providers in Maryland are subject to certain inherent risks, including the following:

- Dependence on revenues derived from reimbursement by the state Medicaid programs;
- Regulation of hospital rates by the State of Maryland Health Services Cost Review Commission;
- Government regulation, government budgetary constraints, and proposed legislative and regulatory changes; and
- Lawsuits alleging malpractice and related claims.

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

The state Medicaid reimbursement programs represent a substantial portion of the Corporation's revenues and the Corporation's operations are subject to a variety of other federal, state, and local regulatory requirements. Failure to maintain required regulatory approvals and licenses and/or changes in such regulatory requirements could have a significant adverse effect on the Corporation.

Changes in federal and state reimbursement funding mechanisms and related government budgetary constraints could have a significant adverse effect on the Corporation.

The healthcare industry is subject to numerous laws and regulations from federal, state, and local governments. The Corporation's compliance with these laws and regulations can be subject to periodic governmental review and interpretation, which can result in regulatory action unknown or unasserted at this time. Management is aware of certain asserted and unasserted legal claims and regulatory matters arising in the ordinary course of business, none of which, in the opinion of management, is expected to result in losses in excess of insurance limits or have a materially adverse effect on the Corporation's financial position.

The federal government and many states have aggressively increased enforcement under Medicaid anti-fraud and abuse laws and physician self-referral laws (STARK law and regulation). Recent federal initiatives have prompted a national review of federally funded healthcare programs. In addition, the federal government and many states have implemented programs to audit and recover potential overpayments to providers from the Medicaid program. The Corporation has implemented a compliance program to monitor conformance with applicable laws and regulations, but the possibility of future government review and enforcement action exists.

The general healthcare industry environment is increasingly uncertain, especially with respect to the impact of Federal healthcare reform legislation, which was passed in 2010 and largely upheld by the U.S. Supreme Court in June 2012. Potential impacts of ongoing healthcare industry transformation include, but are not limited to (1) significant capital investments in healthcare information technology, (2) continuing volatility in the state and federal government reimbursement programs, (3) lack of clarity related to the health benefit exchange framework mandated by reform legislation, including important open questions regarding exchange reimbursement levels, and impact on the healthcare "demand curve" as the previously uninsured enter the insurance system, and (4) effective management of multiple major regulatory mandates, including the transition to ICD-10. This Federal healthcare reform legislation does not affect the consolidated financial statements for the year ended June 30, 2013.

(15) Subsequent Events

The Corporation evaluated all events and transaction that occurred after June 30, 2013 and through October 25, 2013. The Corporation did not have any material recognizable subsequent events during the period.

Schedule 1

MT. WASHINGTON PEDIATRIC HOSPITAL, INC.
AND SUBSIDIARY

Consolidating Balance Sheet Information

June 30, 2013

Assets		Mt. Washington Pediatric Hospital, Inc.	Mt. Washington Pediatric Foundation, Inc.	Elimination entries	Consolidated total
Current assets:					
Cash and cash equivalents	$	17,215,446	652,207	—	17,867,653
Current portion of assets limited as to use		87,640	—	—	87,640
Patient accounts receivable, less allowance for doubtful accounts of $2,165,892		5,252,896	—	—	5,252,896
Other accounts receivable		663,114	—	—	663,114
Inventories of supplies		137,219	—	—	137,219
Prepaid expenses and other current assets		337,682	33,464	—	371,146
Total current assets		23,693,997	685,671	—	24,379,668
Investments		20,322,850	5,403,444	—	25,726,294
Assets limited as to use, less current portion:					
Board-designated funds		4,012,991	—	—	4,012,991
Eliasberg Construction Fund		—	2,135,291	—	2,135,291
Funds restricted by donor		709,435	6,769,702	—	7,479,137
Self-insurance trust funds		2,623,648	—	—	2,623,648
		7,346,074	8,904,993	—	16,251,067
Property and equipment, net		22,617,776	—	—	22,617,776
Economic interest in net assets of the Foundation		14,994,108	—	(14,994,108)	—
Other assets		899,290	—	—	899,290
Total assets	$	89,874,095	14,994,108	(14,994,108)	89,874,095
Liabilities and Net Assets					
Current liabilities:					
Current portion of long-term debt	$	285,000	—	—	285,000
Trade accounts payable		4,070,859	—	—	4,070,859
Accrued payroll benefits		4,051,394	—	—	4,051,394
Advances from third-party payors		4,174,970	—	—	4,174,970
Current portion of malpractice liabilities		87,640	—	—	87,640
Due to affiliates		485,600	—	—	485,600
Total current liabilities		13,155,463	—	—	13,155,463
Malpractice liabilities		1,611,088	—	—	1,611,088
Accrued pension obligations		800,865	—	—	800,865
Other long-term liabilities		208,000	—	—	208,000
Long-term debt, less current portion		6,005,000	—	—	6,005,000
Total liabilities		21,780,416	—	—	21,780,416
Net assets:					
Unrestricted		58,467,394	6,089,115	(6,089,115)	58,467,394
Temporarily restricted		8,801,114	8,079,822	(8,079,822)	8,801,114
Permanently restricted		825,171	825,171	(825,171)	825,171
Total net assets		68,093,679	14,994,108	(14,994,108)	68,093,679
Total liabilities and net assets	$	89,874,095	14,994,108	(14,994,108)	89,874,095

See accompanying independent auditors' report.

Schedule 2

MT. WASHINGTON PEDIATRIC HOSPITAL, INC.
AND SUBSIDIARY

Consolidating Balance Sheet Information

June 30, 2012

Assets	Mt. Washington Pediatric Hospital, Inc.	Mt. Washington Pediatric Foundation, Inc.	Elimination entries	Consolidated total
Current assets:				
Cash and cash equivalents	$ 17,653,537	2,159,737	—	19,813,274
Current portion of assets limited as to use	87,640	—	—	87,640
Patient accounts receivable, less allowance for doubtful accounts of $2,069,746	5,722,579	—	—	5,722,579
Other accounts receivable	94,749	—	—	94,749
Inventories of supplies	138,991	—	—	138,991
Prepaid expenses and other current assets	620,338	21,372	—	641,710
Total current assets	24,317,834	2,181,109	—	26,498,943
Investments	13,716,549	3,148,401	—	16,864,950
Assets limited as to use, less current portion:				
Board-designated funds	4,009,991	—	—	4,009,991
Eliasberg Construction Fund	—	2,485,994	—	2,485,994
Funds restricted by donor	87,140	5,982,473	—	6,069,613
Self-insurance trust funds	1,813,759	—	—	1,813,759
	5,910,890	8,468,467	—	14,379,357
Property and equipment, net	20,540,200	—	—	20,540,200
Economic interest in net assets of the Foundation	13,797,977	—	(13,797,977)	—
Other assets	1,049,576	—	—	1,049,576
Total assets	$ 79,333,026	13,797,977	(13,797,977)	79,333,026
Liabilities and Net Assets				
Current liabilities:				
Current portion of long-term debt	$ 280,000	—	—	280,000
Trade accounts payable	2,317,352	—	—	2,317,352
Accrued payroll benefits	3,610,619	—	—	3,610,619
Advances from third-party payors	4,579,909	—	—	4,579,909
Current portion of malpractice liabilities	87,640	—	—	87,640
Deferred revenue	1,996,105	—	—	1,996,105
Due to affiliates	247,947	—	—	247,947
Total current liabilities	13,119,572	—	—	13,119,572
Malpractice liabilities	1,510,283	—	—	1,510,283
Accrued pension obligations	1,406,432	—	—	1,406,432
Other long-term liabilities	199,887	—	—	199,887
Long-term debt, less current portion	6,290,000	—	—	6,290,000
Total liabilities	22,526,174	—	—	22,526,174
Net assets:				
Unrestricted	48,099,030	5,329,510	(5,329,510)	48,099,030
Temporarily restricted	7,882,651	7,643,296	(7,643,296)	7,882,651
Permanently restricted	825,171	825,171	(825,171)	825,171
Total net assets	56,806,852	13,797,977	(13,797,977)	56,806,852
Total liabilities and net assets	$ 79,333,026	13,797,977	(13,797,977)	79,333,026

See accompanying independent auditors' report.

Schedule 3

MT. WASHINGTON PEDIATRIC HOSPITAL, INC.
AND SUBSIDIARY

Consolidating Statement of Operations and Changes in Net Assets Information

Year ended June 30, 2013

	Mt. Washington Pediatric Hospital, Inc.	Mt. Washington Pediatric Foundation, Inc.	Elimination entries	Consolidated total
Unrestricted revenue, gains and other support:				
Patient service revenue (net of contractual adjustments)	$ 52,120,071	—	—	52,120,071
Provision for bad debts	(533,268)	—	—	(533,268)
Net patient service revenue	51,586,803	—	—	51,586,803
Other revenue	2,912,297	—	(479,916)	2,432,381
Total unrestricted revenue, gains and other support	54,499,100	—	(479,916)	54,019,184
Operating expenses:				
Salaries, wages, and benefits	34,068,482	—	—	34,068,482
Purchased services	12,448,259	—	—	12,448,259
Interest expense	83,488	—	—	83,488
Depreciation	2,024,766	—	—	2,024,766
Total operating expenses	48,624,995	—	—	48,624,995
Operating income	5,874,105	—	(479,916)	5,394,189
Nonoperating income and expenses, net:				
Contributions	195,982	—	—	195,982
Investment income	598,932	374,890	—	973,822
Change in fair value of investments	1,018,210	—	—	1,018,210
Support from Mt. Washington Pediatric Foundation, Inc.	—	(1,103,647)	1,103,647	—
Total nonoperating income and expense	1,813,124	(728,757)	1,103,647	2,188,014
Excess (deficiency) of revenues over expenses	7,687,229	(728,757)	623,731	7,582,203
Net unrealized gains on other-than-trading securities	—	864,631	—	864,631
Net assets released from restrictions used for the purchase of property and equipment upon donor request	1,372,801	623,731	(623,731)	1,372,801
Change in funded status of defined benefit plan	548,729	—		548,729
Change in economic interest in the Foundation	759,605	—	(759,605)	—
Increase in unrestricted net assets	10,368,364	759,605	(759,605)	10,368,364
Changes in temporarily restricted net assets:				
Contributions	2,371,513	—	(1,103,647)	1,267,866
Investment income, net	—	805,826	—	805,826
Net unrealized gains on temporarily restricted investments	—	254,431	—	254,431
Change in economic interest in the Foundation	436,526	—	(436,526)	—
Net assets released from restrictions used for the purchase of property and equipment	(1,372,801)	(623,731)	623,731	(1,372,801)
Net assets released from restrictions used for operations	(516,775)	—	479,916	(36,859)
Increase in temporarily restricted net assets	918,463	436,526	(436,526)	918,463
Total increase in net assets	11,286,827	1,196,131	(1,196,131)	11,286,827
Net assets, beginning of year	56,806,852	13,797,977	(13,797,977)	56,806,852
Net assets, end of year	$ 68,093,679	14,994,108	(14,994,108)	68,093,679

See accompanying independent auditors’ report.

Schedule 4

**MT. WASHINGTON PEDIATRIC HOSPITAL, INC.
AND SUBSIDIARY**

Consolidating Statement of Operations and Changes in Net Assets Information

Year ended June 30, 2012

	Mt. Washington Pediatric Hospital, Inc.	Mt. Washington Pediatric Foundation, Inc.	Elimination entries	Consolidated total
Unrestricted revenue, gains and other support:				
Patient service revenue (net of contractual adjustments)	$ 48,091,824	—	—	48,091,824
Provision for bad debts	(495,836)	—	—	(495,836)
Net patient service revenue	47,595,988	—	—	47,595,988
Other revenue	713,729	—	(268,195)	445,534
Total unrestricted revenue, gains and other support	48,309,717	—	(268,195)	48,041,522
Operating expenses:				
Salaries, wages, and benefits	32,855,597	—	—	32,855,597
Purchased services	11,499,405	—	—	11,499,405
Interest expense	61,785	—	—	61,785
Depreciation	1,777,490	—	—	1,777,490
Total operating expenses	46,194,277	—	—	46,194,277
Operating income	2,115,440	—	(268,195)	1,847,245
Nonoperating income and expenses, net:				
Contributions	193,775	—	—	193,775
Investment income	456,993	311,100	—	768,093
Change in fair value of investments	(761,680)	—	—	(761,680)
Support from Mt. Washington Pediatric Foundation, Inc.	—	(2,219,494)	2,219,494	—
Total nonoperating income and expense	(110,912)	(1,908,394)	2,219,494	200,188
Excess (deficiency) of revenues over expenses	2,004,528	(1,908,394)	1,951,299	2,047,433
Net unrealized losses on other-than-trading securities	—	(265,749)	—	(265,749)
Net assets released from restrictions used for the purchase of property and equipment upon donor request	3,120,322	2,026,820	(2,026,820)	3,120,322
Change in funded status of defined benefit plan	(957,962)	—	—	(957,962)
Change in economic interest in the Foundation	(147,323)	—	147,323	—
Increase (decrease) in unrestricted net assets	4,019,565	(147,323)	71,802	3,944,044
Changes in temporarily restricted net assets:				
Contributions	3,553,785	—	(2,219,494)	1,334,291
Investment income, net	—	554,802	—	554,802
Net unrealized losses on temporarily restricted investments	—	(388,880)	—	(388,880)
Change in economic interest in the Foundation	(1,860,898)	—	1,860,898	—
Net assets released from restrictions used for the purchase of property and equipment	(3,120,322)	(2,026,820)	2,026,820	(3,120,322)
Net assets released from restrictions used for operations	(447,181)	—	268,195	(178,986)
Decrease in temporarily restricted net assets	(1,874,616)	(1,860,898)	1,936,419	(1,799,095)
Total increase (decrease) in net assets	2,144,949	(2,008,221)	2,008,221	2,144,949
Net assets, beginning of year	54,661,903	15,806,198	(15,806,198)	54,661,903
Net assets, end of year	$ 56,806,852	13,797,977	(13,797,977)	56,806,852

See accompanying independent auditors' report.