Johns Hopkins Bayview Medical Center, Inc.

Financial Statements
June 30, 2014 and 2013

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Independent Auditor's Report

To the Board of Trustees of
Johns Hopkins Bayview Medical Center, Inc.

We have audited the accompanying financial statements of Johns Hopkins Bayview Medical Center, Inc. ("JHBMC"), which comprise the balance sheets as of June 30, 2014 and 2013, and the related statements of operations and changes in net assets, and cash flows for the years then ended.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of the 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 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 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to JHBMC's preparation and fair presentation of the 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 JHBMC'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 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 financial statements referred to above present fairly, in all material respects, the financial position of JHBMC at June 30, 2014 and 2013, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

PricewaterhouseCoopers LLP

September 25, 2014

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Johns Hopkins Bayview Medical Center, Inc.
Balance Sheets
June 30, 2014 and 2013

(in thousands)		2014		2013
Assets				
Current assets				
Cash and cash equivalents	$	13,911	$	23,450
Short-term investments		11,519		9,050
Patient accounts receivable, net of estimated uncollectibles of $16,688 and $15,575 as of June 30, 2014 and 2013, respectively		60,007		62,412
Due from others - current portion		4,425		6,332
Due from affiliates - current portion		713		701
Inventories of supplies		7,534		7,360
Prepaid expenses and other current assets		5,590		4,580
Total current assets		103,699		113,885
Assets whose use is limited				
By long-term debt agreement for construction fund		25,555		-
By donors or grantors		6,997		7,950
By board of trustees		4,279		4,205
Other		1,171		1,289
Total assets whose use is limited		38,002		13,444
Investments		76,823		56,176
Property, plant and equipment		467,830		440,949
Less: allowance for depreciation and amortization		(275,140)		(277,765)
Total property, plant and equipment, net		192,690		163,184
Due from others, net of current portion		2,796		3,796
Due from affiliate, net of current portion		1,004		1,313
Estimated malpractice recoveries, net of current portion		4,096		5,249
Other assets		56		64
Total assets	$	419,166	$	357,111

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

Johns Hopkins Bayview Medical Center, Inc.
Balance Sheets
June 30, 2014 and 2013

(in thousands)	2014	2013
Liabilities and Net Assets		
Current liabilities		
Current portion of long-term debt	$ 6,604	$ 5,218
Accounts payable and accrued liabilities	53,012	38,940
Due to affiliates	5,872	6,216
Accrued vacation	6,225	6,399
Advances from third-party payors	16,847	18,097
Current portion of estimated malpractice costs	3,834	3,148
Total current liabilities	92,394	78,018
Long-term debt, net of current portion	69,510	76,114
Long-term notes payable - affiliate	59,612	12,480
Estimated malpractice costs, net of current portion	10,488	12,237
Net pension liability	119,535	106,552
Other long-term liabilities	12,320	12,978
Total liabilities	363,859	298,379
Net assets		
Unrestricted	48,310	50,782
Temporarily restricted	3,472	4,425
Permanently restricted	3,525	3,525
Total net assets	55,307	58,732
Total liabilities and net assets	$ 419,166	$ 357,111

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

Johns Hopkins Bayview Medical Center, Inc.
Statements of Operations and Changes in Net Assets
Years Ended June 30, 2014 and 2013

(in thousands)	**2014**	**2013**
Operating revenues		
Patient service revenue before bad debts expense	$ 523,812	$ 518,583
Provision for bad debts	31,390	29,289
Net patient service revenue	492,422	489,294
Other revenue	46,830	43,411
Investment income	1,687	1,258
Net assets released from restrictions used for operations	769	554
Total operating revenues	541,708	534,517
Operating expenses		
Salaries, wages and benefits	243,882	254,390
Purchased services	169,718	174,553
Supplies and other	90,667	84,091
Interest	277	299
Depreciation and amortization	23,326	25,128
Total operating expenses	527,870	538,461
Income (loss) from operations	13,838	(3,944)
Nonoperating revenues and expenses		
Interest expense on swap agreements	(2,733)	(2,852)
Change in market value of swap agreements	875	4,768
Realized and unrealized gains on investments	3,115	1,179
Loss on advance refunding of debt	-	(311)
Excess (deficiency) of revenues over expenses	15,095	(1,160)
Change in funded status of defined benefit plans	(17,376)	30,599
Contributions to affiliates	(191)	-
(Decrease) increase in unrestricted net assets	(2,472)	29,439
Changes in temporarily restricted net assets		
Gifts, grants and bequests	737	848
Net assets released from restrictions used for operations	(769)	(554)
Other net assets released from restrictions	(921)	-
(Decrease) increase in temporarily restricted net assets	(953)	294
Changes in permanently restricted net assets		
Gifts, grants and bequests	-	(49)
Decrease in permanently restricted net assets	-	(49)
(Decrease) increase in net assets	(3,425)	29,684
Net assets		
Beginning of year	58,732	29,048
End of year	$ 55,307	$ 58,732

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

Johns Hopkins Bayview Medical Center, Inc.
Statements of Cash Flows
Years Ended June 30, 2014 and 2013

(in thousands)	2014	2013
Operating activities		
Change in net assets	$ (3,425)	$ 29,684
Adjustments to reconcile change in net assets to net cash and cash equivalents provided by operating activities		
Depreciation and amortization	23,326	25,128
Provision for bad debts	31,390	29,289
Loss on retirement of property, plant, and equipment	414	370
Net realized and unrealized gains on investments	(3,115)	(1,179)
Change in market value of swap agreements	(875)	(4,768)
Loss on advance refunding of debt	-	311
Change in funded status of defined benefit plans	17,376	(30,599)
Proceeds from restricted contributions and investment income received	(639)	(799)
Contributions to affiliates	191	-
Changes in assets and liabilities		
Patient accounts receivable	(28,985)	(24,686)
Inventories of supplies, prepaid expenses, and other current assets	1,436	4,148
Due to affiliates, net	(723)	134
Other assets	10	46
Accounts payable, accrued liabilities and accrued vacation	8,541	(1,470)
Advances from third-party payors	(1,250)	(201)
Accrued pension benefit costs	(4,393)	9,444
Malpractice funding arrangement and estimated malpractice costs	(589)	(377)
Other long-term liabilities	217	(181)
Net cash and cash equivalents provided by operating activities	38,907	34,294
Investing activities		
Purchases of property, plant, and equipment	(47,925)	(19,222)
Purchases of investment securities	(204,227)	(93,919)
Sales of investment securities	159,668	75,998
Net cash and cash equivalents used in investing activities	(92,484)	(37,143)
Financing activities		
Proceeds from / payments received on affiliate notes	48,353	13,682
Repayment of affiliate notes	(545)	-
Repayment of long-term debt	(5,218)	(15,558)
Proceeds from restricted contributions and investment income received	639	799
Contributions to affiliates	(191)	-
Other financing activities	1,000	1,000
Net cash and cash equivalents provided by (used in) financing activities	44,038	(77)
Decrease in cash and cash equivalents	(9,539)	(2,926)
Cash and cash equivalents		
Beginning of year	23,450	26,376
End of year	$ 13,911	$ 23,450

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

1. Organization and Summary of Significant Accounting Policies

Organization

The Johns Hopkins Health System Corporation ("JHHS") is the sole member of Johns Hopkins Bayview Medical Center (the "Hospital" or "JHBMC"). JHHS is a not-for-profit organization incorporated in the State of Maryland to formulate policy among and provide centralized management for JHHS and its Affiliates. In addition, JHHS provides certain shared services, including purchasing, legal services, coordination of advertising and other functions for which JHBMC is charged separately (Note 12).

JHHS appoints JHBMC's Board of Trustees. JHBMC's Articles of Incorporation provide that JHHS's Board of Trustees will approve JHBMC's annual operating and capital budgets, significant programmatic changes at JHBMC, and other significant changes to JHBMC including amendments to its Articles of Incorporation or Bylaws, mergers, or dissolutions.

The mission of JHBMC is to deliver cost effective acute, chronic and preventive health care services consistent with Johns Hopkins' standards of excellence. Additionally, JHBMC functions as an integral component of JHHS, operating interdependently with the faculty of The Johns Hopkins University ("JHU") in support of education and research in accordance with the Johns Hopkins mission. JHBMC also provides an environment that attracts and supports outstanding health care professionals dedicated to patient service.

The financial statements include the accounts of various JHBMC activities, including the acute care hospital, restricted gifts and grants programs, and other specialty programs.

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 amounts could differ from those estimates.

Basis of Presentation

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Cash and Cash Equivalents

Cash and cash equivalents include amounts invested in accounts with depository institutions which are readily convertible to cash, with original maturities of three months or less. Total deposits maintained at these institutions at times exceed the amount insured by federal agencies and therefore, bear a risk of loss. JHBMC has not experienced any such losses on these funds.

Through arrangements with banks, excess operating cash is invested daily. This investment is considered a cash equivalent in the accompanying Balance Sheets. JHBMC earns interest on these funds at a rate that is based upon the bank's Federal Funds rate. The interest is recorded in the Statements of Operations and Changes in Net Assets as investment income.

Inventories of Supplies

Inventories of supplies are composed of medical supplies, drugs, linen, and parts inventory for repairs. Inventories of supplies are recorded at the lower of cost or market using a first in, first out method.

Assets Whose Use is Limited

Assets whose use is limited or restricted by donors or grantors are recorded at fair value at the date of donation. Investment income or losses on investments of temporarily or permanently restricted assets is recorded as an increase or decrease in temporarily or permanently restricted net assets to the extent restricted by the donor or law. The cost of securities sold is based on the specific identification method.

Assets whose use is limited include assets set aside for campus construction, assets set aside for the purchase of equipment and program support, and assets restricted by the Board of Trustees for development. These assets consist primarily of cash and short-term investments, interest and pledges receivable. The carrying amounts reported in the Balance Sheets approximate fair value.

Valuation of Investments

Investments in equity securities with readily determinable fair values and all investments in debt securities are recorded at fair value in the Balance Sheets. Debt and equity securities traded on a national securities or international exchange are valued as of the last reported sales price on the last business day of the fiscal year; investments traded on the over-the-counter market and listed securities for which no sale was reported on that date are valued at the average of the last reported bid and ask prices.

Investments include equity method investments in managed funds, which include hedge funds, private partnerships and other investments which do not have readily ascertainable fair values and may be subject to withdrawal restrictions. Investments in hedge funds, private partnerships, and other investments in managed funds (collectively “alternative investments”), are accounted for under the equity method. The equity method income or loss from these alternative investments is included in the Statement of Operations and Changes in Net Assets as an unrealized gain or loss within excess (deficiency) of revenues over expenses.

Alternative investments are less liquid than other types of investments held by JHBMC. These instruments may contain elements of both credit and market risk. Such risks include, but are not limited to, limited liquidity, absence of oversight, dependence upon key individuals, emphasis on speculative investments, and nondisclosure of portfolio composition.

Investment income earned on cash balances (interest and dividends) is reported in the operating income section of the Consolidated Statement of Operations and Changes in Net Assets under ‘investment income’. Realized and unrealized gains or losses related to the sale of investments (including alternative investments) are included in the non-operating section of the Statements of Operations and Changes in Net Assets, and are included in excess (deficiency) of revenues over expenses unless the income or loss is restricted by donor or law.

Property, Plant and Equipment

Property, plant and equipment acquisitions are recorded at cost. Depreciation is provided over the estimated useful life of assets, using as a guideline the American Hospital Association publication, “Estimated Useful Lives of Depreciable Hospital Assets,” and is computed using the straight-line method. Estimated useful lives assigned by JHBMC range from 5 to 25 years for land improvements, 5 to 40 years for buildings and improvements, 3 to 25 years for fixed and movable equipment, and the shorter of the remaining life of the lease or life of the asset for leasehold improvements. Interest costs incurred on borrowed funds, net of income earned, during the period of construction of capital assets are capitalized as a component of the cost of acquiring those assets. Repair and maintenance costs are expensed as incurred. When property, plant and equipment are retired, sold or otherwise disposed of, the asset's carrying amount and related accumulated depreciation are removed from the accounts and any gain or loss is included in operations.

The cost of software is capitalized provided the cost of the project is at least $30 thousand and the expected life is at least two years. Costs include payment to vendors for the purchase of software and its installation, payroll costs of employees directly involved in the software installation, and any interest costs. Preliminary costs to document system requirements, vendor selection, and any costs incurred before the software purchase are expensed. Capitalization of costs will generally end when the project is completed and is ready to be used. Where implementation of the project is in phases, only those costs incurred which further the development of the project will be capitalized. Costs incurred to maintain the system are expensed.

Impairment of Long-Lived Assets
Long-lived assets are reviewed for impairment when events and circumstances indicate that the carrying amount of an asset may not be recoverable. JHBMC's policy is to record an impairment loss when it is determined that the carrying amount of the asset exceeds the sum of expected undiscounted future cash flows resulting from the use of the asset and its eventual disposition. Impairment losses are measured as the amount by which the carrying amount of the asset exceeds its fair value. Long-lived assets to be disposed of are reported as the lower of the carrying amount or fair value less cost to sell. There were no impairment charges recorded for the years ended June 30, 2014 and 2013.

Financing Expenses
Financing expenses incurred in connection with the issuance of debt by the Maryland Health and Higher Educational Facilities Authority ("MHHEFA") have been capitalized and are included in other assets in the Balance Sheet. Unamortized financing expenses were $55 thousand and $65 thousand for the years ended June 30, 2014 and 2013, respectively. These expenses are being amortized over the term of the bond issues using the effective interest method. Amortization expense for the years ended June 30, 2014 and 2013 was $10 thousand and $46 thousand, respectively. In connection with a May 2013 debt refinancing, JHBMC wrote off $311 thousand of unamortized financing expenses, recorded in the non-operating section of the Statement of Operations and Changes in Net Assets.

Accrued Vacation
JHBMC records a liability for amounts due to employees for future absences which are attributable to services performed in the current and prior periods.

Advances from third-party payors
JHBMC receives advances from some of its third-party payors so that those payors can receive the stated prompt pay discount allowed in the State of Maryland. Advances are recorded as a liability in the Balance Sheets.

Estimated Malpractice Costs
The provision for estimated medical malpractice claims includes estimates of the ultimate gross costs for both reported claims and claims incurred but not reported. Additionally, an insurance recovery has been recorded representing the amount expected to be recovered from the self-insured captive insurance company.

Temporarily and Permanently Restricted Net Assets
Temporarily restricted net assets are those whose use has been limited by donors or law to a specific time period or purpose. Permanently restricted net assets have been restricted by donors to be maintained in perpetuity. Income generated from these assets is available as restricted by the donor or for general program support.

Donor Restricted Gifts
Unconditional promises to give cash and other assets are reported at fair value at the date the promise is received. Unconditional promises to give cash to JHBMC over periods exceeding one year are discounted using a rate of return that a market participant would expect to receive over such periods, which will vary based on the pledge, at the date the pledge is received. Conditional promises to give and indications of intentions to give are reported at fair value at the date the gift is received. The gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose for the restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statements of Operations and Changes in Net Assets as net assets released from restrictions. Donor restricted contributions whose restrictions are met within the same year as received are reported as unrestricted contributions in the accompanying financial statements.

Grants
JHBMC receives various grants from the Federal and State Governments for the purpose of furthering its mission of providing patient care. Grants are recognized as support and the related project costs are recorded as expenses when services related to grants are incurred. Grants receivable are included in due from others and grant income is included in other revenue in the accompanying financial statements.

Excess (Deficiency) of Revenues Over Expenses
The Statements of Operations and Changes in Net Assets include the excess (deficiency) of revenues over expenses. Changes in unrestricted net assets which are excluded from excess (deficiency) of revenues over expenses, consistent with industry practice, can include, among other items, changes in unrealized gains and losses on investments other than trading securities, change in funded status of defined benefit plans, cumulative effect of changes in accounting principle, permanent transfers of assets to and from affiliates for other than goods and services, and contributions of long-lived assets (including assets acquired using contributions, which by donor restriction were to be used for the purpose of acquiring such assets).

Income Taxes
JHBMC qualifies under Section 501(c)(3) of the Internal Revenue Code and is therefore not subject to tax under current income tax regulations.

FASB's guidance on accounting for uncertainty in income taxes clarifies the accounting for uncertainty of income tax positions. This guidance defines the threshold for recognizing tax return positions in the financial statements as "more likely than not" that the position is sustainable, based on its technical merits. This guidance also provides guidance on the measurement, classification and disclosure of tax return positions in the financial statements. There was no impact on JHBMC's financial statements during the years ended June 30, 2014 and 2013.

2. Net Patient Service Revenue

JHBMC has agreements with third-party payors that provide for payments to JHBMC 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, including estimated retroactive adjustments under reimbursement arrangements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the services are rendered and adjusted in future periods as final settlements are determined. Adjustments mandated by the Health Services Cost Review Commission are also included in contractual adjustments, a portion of which are also included in established rates.

JHBMC provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Such patients are identified based on information obtained from the patient and subsequent analysis. Because JHBMC does not pursue collection of amounts determined to qualify as charity care, the charges are not reported as revenue. Direct and indirect costs for charity care amounted to $18.9 million and $22.9 million for the years ended June 30, 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. The ratio of cost to charges is calculated based on JHBMC's total expenses divided by gross patient service revenue.

Patient accounts receivable are reported net of estimated allowances for uncollectible accounts and contractual adjustments in the accompanying financial statements. The provision for bad debts is based upon a combination of the payor source, the aging of receivables and management's assessment of historical and expected net collections, trends in health insurance coverage, and other collection indicators. The provision for bad debts related to patient service revenue is presented as a deduction from patient service revenue on the face of the Statements of Operations and Changes in Net Assets. For uninsured patients that do not qualify for charity care, the Hospital recognizes revenue on the basis of its standard rates for services provided. On the basis of historical experience, a significant portion of the Hospital's uninsured patients will be unable or unwilling to pay for the services provided. Thus, a significant provision for bad debts is recorded related to uninsured patients in the period services are provided. Management continuously assesses the adequacy of the allowance for uncollectible accounts based upon historical write-off experience and payment trends by payor classification.

Patient service revenue, net of contractual allowances (but before the provision for bad debts), recognized in the year ended June 30, 2014 from these major payor sources is as follows:

FY14

(in thousands)	Third-Party Payors	Self-pay	Total All Payors
Patient service revenue (net of contractual allowances)	505,291	18,521	523,812

Patient service revenue, net of contractual allowances (but before the provision for bad debts), recognized in the year ended June 30, 2013 from these major payor sources is as follows:

FY13

(in thousands)	Third-Party Payors	Self-pay	Total All Payors
Patient service revenue (net of contractual allowances)	492,998	25,585	518,583

Patient accounts receivable as of June 30 consisted of the following:

	2014	**2013**
Medicare	30.29 %	29.80 %
Medicaid	8.32	8.16
Blue Cross and Blue Shield of Maryland	5.48	7.52
Health maintenance organizations	9.41	10.14
Medicaid managed care organizations	12.74	8.32
Self-pay and other third-party payors	33.76	36.06
	100.00	100.00

3. Investments and Assets Whose Use is Limited

Investments (short and long-term) are pooled together with other JHHS affiliates and consisted of the following as of June 30:

	Carrying Amount	
(in thousands)	**2014**	**2013**
U.S. Treasury notes	$ 29,570	$ 17,507
Corporate bonds	27,766	19,730
Asset backed securities	5,063	5,357
Equities and equity funds	10,344	8,758
Fixed income funds	6,573	3,407
Commercial paper	335	3,513
Alternative investments	8,691	6,954
	$ 88,342	$ 65,226

Assets whose use is limited as of June 30 consisted of the following:

(in thousands)	Carrying Amount 2014	Carrying Amount 2013
Cash and cash equivalents	$ 8,950	$ 5,494
Asset backed securities	18,759	881
U.S. Treasury notes	5,756	3,177
Equities and equity funds	2,283	-
Corporate bonds	1,956	3,554
Pledges receivable	298	338
	$ 38,002	$ 13,444

Realized and unrealized gains on investments for the years ended June 30, included in nonoperating revenues and expenses section of the Statements of Operations consisted of the following:

	2014	2013
Realized gains on investments	$ 655	$ 742
Unrealized gains on investments	2,460	437
	$ 3,115	$ 1,179

4. Fair Value Measurements

FASB's guidance on the fair value option for financial assets and financial liabilities permits companies to choose to measure many financial assets and liabilities, and certain other items at fair value. This guidance requires a company to record unrealized gains and losses on items for which the fair value option has been elected in its excess (deficiency) of revenues over expenses. The fair value option may be applied on an instrument by instrument basis. Once elected, the fair value option is irrevocable for that instrument. The fair value option can be applied only to entire instruments and not to portions thereof. JHBMC did not elect fair value accounting for any asset or liability that was not currently required to be measured at fair value.

JHBMC follows FASB guidance on fair value measurements, which defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, establishes a framework for measuring fair value, and expands disclosures about such fair value measurements. This guidance applies to other accounting pronouncements that require or permit fair value measurements and, accordingly, this guidance does not require any new fair value measurements.

This guidance discusses valuation techniques such as the market approach, cost approach and income approach. This guidance establishes a three-tier level hierarchy for fair value measurements based upon the transparency of inputs used to value an asset or liability as of the measurement date. The three-tier hierarchy prioritizes the inputs used in measuring fair value as follows:

Level 1 Observable inputs such as quoted market prices for identical assets or liabilities in active markets;

Level 2 Observable inputs for similar assets or liabilities in an active market, or other than quoted prices in an active market that are observable either directly or indirectly; and;

Level 3 Unobservable inputs in which there is little or no market data that require the reporting entity to develop its own assumptions. For the years ended June 30, 2014 and 2013, there are not any financial instruments requiring Level 3 classification.

The financial instrument's categorization within the hierarchy is based upon the lowest level of input that is significant to the fair value measurement. Each of the financial instruments below have been valued utilizing the market approach.

The following table presents the financial instruments carried at fair value as of June 30, 2014 grouped by hierarchy level (in thousands):

	Level 1	Level 2	Total Fair Value
Assets			
Cash equivalents (1)	$ 22,861	$ -	$ 22,861
Commercial paper (1)	335	-	335
U.S. treasury notes (2)	-	35,326	35,326
Corporate bonds (2)	-	29,722	29,722
Asset backed securities (2)	-	23,822	23,822
Equities and equity funds (3)	3,063	9,564	12,627
Fixed income funds (4)	6,221	352	6,573
	$ 32,480	$ 98,786	$ 131,266
Liabilities			
Interest rate swap agreements (5)	$ -	$ 9,314	$ 9,314

The following table presents the financial instruments carried at fair value as of June 30, 2013 grouped by hierarchy level (in thousands):

	Level 1	Level 2	Total Fair Value
Assets			
Cash equivalents (1)	$ 28,944	$ -	$ 28,944
Commercial paper (1)	3,513	-	3,513
U.S. treasury notes (2)	-	20,684	20,684
Corporate bonds (2)	-	23,284	23,284
Asset backed securities (2)	-	6,238	6,238
Equities and equity funds (3)	2,619	6,139	8,758
Fixed income funds (4)	2,611	796	3,407
	$ 37,687	$ 57,141	$ 94,828
Liabilities			
Interest rate swap agreements (5)	$ -	$ 10,188	$ 10,188

(1) Cash and cash equivalents, commercial paper, money market funds, and overnight investments include investments with original maturities of three months or less. Commercial paper that has original maturities greater than three months are considered short-term investments. Cash and cash equivalents, commercial paper, money market funds, and overnight investments are rendered Level 1 due to their frequent pricing and ease of converting to cash.

(2) For investments in U.S. Treasuries (notes, bonds, and bills), corporate bonds, and asset backed securities, fair value is based upon quotes for similar securities; therefore these investments are rendered Level 2. These investments fluctuate in value based upon changes in interest rates.

(3) Equities include individual equities and investments in mutual funds, commingled trusts and hedge funds. The individual equities and mutual funds are valued based on the closing price on the primary market and are rendered Level 1. The commingled trusts and hedge funds are valued regularly within each month utilizing NAV per unit and are rendered Level 2.

(4) Fixed income funds are investments in mutual funds and commingled trusts investing in fixed income instruments. The underlying fixed investments are principally U.S. Treasuries, corporate bonds, commercial paper, and mortgage backed securities. The mutual funds are valued based on the closing price on the primary market and are rendered Level 1. The commingled trusts are valued regularly within each month utilizing NAV per unit and are rendered Level 2.

(5) The interest rate swap agreements, discussed further in footnote 7, are valued using a swap valuation model that utilizes an income approach using observable market inputs including credit default swap rates and are rendered Level 2.

During 2014 and 2013, there were no transfers between Level 1 and 2.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair value. Furthermore, while JHBMC believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value as of the reporting date.

JHBMC holds alternative investments, which are accounted for on the equity method of accounting, that are not traded on national exchanges or over-the counter markets. JHBMC is provided a net asset value per share for these alternative investments that has been calculated in accordance investment company rules, which among other requirements, indicate that the underlying investments be measured at fair value. There are no unfunded commitments related to JHBMC's alternative investments. The following table displays information by major alternative investment category as of June 30, 2014 and 2013:

(in thousands)

June 30, 2014					
Description		**Value**	**Liquidity**	**Notice Period**	**Receipt of Proceeds**
Global asset allocation	$	5,152	Daily or monthly	Same day or 5 days	Day after trade, or within 15 to 30 days, 95% in 5 days of redemption, 5% in 30 days after withdrawal
Fund of funds		3,133	Monthly or quarterly	25–70 days	Within 30 days, or 90% in 30 to 60 days, 10% after annual audit
Hedge funds		406	Quarterly	60 days	95% within 30 days of redemption date; 5% within 120 days of redemption date
	$	8,691			

(in thousands)

June 30, 2013					
Description		**Value**	**Liquidity**	**Notice Period**	**Receipt of Proceeds**
Global asset allocation	$	4,182	Monthly	5 days	Within 15 to 30 days, 95% in 5 days of redemption, 5% in 30 days after withdrawal
Fund of funds		2,521	Monthly or quarterly	25–70 days	Within 30 days, or 90% in 30 to 60 days, 10% after annual audit
Hedge funds		251	Quarterly	60 days	95% within 30 days of redemption date; 5% within 120 days of redemption date
	$	6,954			

Financial instruments are reflected in the Balance Sheets as of June 30, 2014 and 2013 as follows:

(in thousands)		2014		2013
Cash and cash equivalents measured at fair value	$	22,861	$	28,944
Cash and cash equivalents included in AWUIL		(8,950)		(5,494)
Total cash and cash equivalents	$	13,911	$	23,450
Short and long-term investments measured at fair value	$	79,651	$	58,272
Investments accounted for under equity method		8,691		6,954
Total short and long term investments	$	88,342	$	65,226
Assets whose use is limited measured at fair value	$	28,754	$	7,612
Cash in AWUIL reported as cash and cash equivalents in leveling table		8,950		5,494
Pledges receivable		298		338
Total assets whose use is limited	$	38,002	$	13,444

The estimated total fair value of long-term debt, rendered Level 2, based on quoted market prices for the same or similar issues, was approximately $76.1 million and $81.3 million as of June 30, 2014 and 2013, respectively.

5. Property, Plant and Equipment

Property, plant and equipment and accumulated depreciation consisted of the following as of June 30:

	2014				2013			
(in thousands)		Cost		Accumulated Depreciation		Cost		Accumulated Depreciation
Land and land improvements	$	4,624	$	285	$	3,850	$	356
Building and improvements		235,956		149,334		235,371		142,622
Information systems		22,066		21,009		22,120		20,182
Fixed and moveable equipment		160,199		104,512		165,237		114,605
Construction work-in-progress		44,985		-		14,371		-
	$	467,830	$	275,140	$	440,949	$	277,765

Accruals for the purchases of property, plant and equipment amounted to $9.5 million and $3.8 million as of June 30, 2014 and 2013, respectively, and are included in accounts payable and accrued liabilities in the Balance Sheets. Depreciation expense for the years ended June 30, 2014 and 2013 amounted to $23.3 million and $25.1 million, respectively. During the years ended June 30, 2014, and June 30, 2013, JHBMC retired long-lived assets determined to have no future value. The original cost and accumulated depreciation of the long-lived assets retired in 2014 was $26.8 million and $26.4 million, respectively. The original cost and accumulated depreciation of the long-lived assets retired in 2013 was $5.5 million and $5.1 million, respectively. No proceeds from retirement were received in 2014 and 2013.

6. Debt

Debt as of June 30 is summarized as follows:

(in thousands)	2014 Current Portion	2014 Long-Term Portion	2013 Current Portion	2013 Long-Term Portion
MHHEFA Bonds and Notes				
Pooled Loan Program Issue, Series 1985A and Series 1985B	$ 2,184	$ -	$ 1,008	$ 2,184
2004 Commercial Paper Series B	4,420	69,510	4,210	73,930
	$ 6,604	$ 69,510	$ 5,218	$ 76,114

Obligated Group
The Johns Hopkins Health System Obligated Group ("JHHS Obligated Group") consists of the Johns Hopkins Hospital (JHH), JHBMC, Suburban Hospital Healthcare System, Inc. ("SHHS"), Suburban Hospital, Inc. ("SHI"), Howard County General Hospital ("HCGH"), Sibley Memorial Hospital (SMH), and the Johns Hopkins Health System Corp. ("JHHSC"). JHBMC was admitted into the JHHS Obligated Group in 2004 as part of a debt refinancing. JHHSC and SMH were admitted in May 2013 and August 2013, respectively, as part of JHHSC debt issuances. All of the debt of these entities are parity debt, and as such are collateralized equally and ratably by a claim on and a security interest in all of the entities' receipts as defined in the Master Loan Agreement with MHHEFA. JHH, JHBMC, HCGH, SHI, SHHS, and SMH, are required to achieve a defined minimum debt service coverage ratio each year, maintain adequate insurance coverage, and comply with certain restrictions on its ability to incur additional debt. As of June 30, 2014, JHHS Obligated Group members were in compliance with these requirements. As of June 30, 2014, the outstanding JHHS Obligated Group parity debt was $1.5 billion. As of June 30, 2013, the outstanding JHHS Obligated Group parity debt was $1.2 billion.

1985A and B Pooled Loan Program Issue
JHBMC entered into a $12.1 million loan agreement that funded the purchase and installation of a comprehensive integrated information system by borrowing through draws from the $175.0 million MHHEFA Revenue Bonds, Pooled Loan Program Issue, Series 1985A and Series 1985B. This debt bears interest at a variable rate. The interest rates in effect for the years ended June 30, 2014 and 2013 were 1.5% and 1.0%, respectively. The loan is being repaid in equal monthly payments of principal over a twelve year period that began September 1, 2005. The Program was supported by a letter of credit agreement provided by JPMorgan Chase Bank, N.A. ("JPM"), which had an expiration date of December 31, 2014. The letter of credit agreement provider established a maturity date for the loan of September 30, 2014, at which time the outstanding principal amount of the loan becomes due. Effective August 27, 2014, MHHEFA replaced the JPM letter of credit with a letter of credit provided by TD Bank ("the replacement facility"). The effect is that principal payments are payable monthly based on a pro forma level debt service amortization schedule that runs through June 15, 2015.

2004 Commercial Paper Revenue Notes – Series B
The Commercial Paper Revenue Notes - Series B pay interest monthly at a variable rate based on the commercial paper sold by a designated re-marketing agent for terms ranging from 1 to 270 days. The rates for the years ended June 30, 2014 and 2013 were approximately .10% and .17%, respectively. Annual payments of principal began July 1, 2004 and range in amount from $425.0 thousand on July 1, 2004 to $8.3 million on July 1, 2025.

In connection with the 2004 Commercial Paper Revenue Notes – Series B, JHBMC entered into a $89.6 million line of credit agreement (365 day repayment terms) with Wells Fargo to provide for payment of such commercial paper at maturity, subject to certain conditions described therein. This agreement expires on October 31, 2016 subject to extension or earlier termination. No amounts were outstanding as of June 30, 2014 or 2013.

Total maturities of debt and sinking fund requirements during the next five years and thereafter are as follows:

(in thousands)	
2015	$ 6,604
2016	5,640
2017	5,875
2018	5,115
2019	5,545
Thereafter	47,335
	$ 76,114

Interest costs incurred, paid and capitalized for the years ended June 30 are as follows:

(in thousands)	**2014**	**2013**
Net interest costs		
Capitalized	$ 2,134	$ 29
Expensed	3,011	3,151
Allocated to others	58	64
	$ 5,203	$ 3,244
Interest costs paid	$ 4,835	$ 3,309

7. Derivative Financial Instruments

JHBMC's primary objective for holding derivative financial instruments is to manage interest rate risk. Derivative financial instruments are recorded at fair value and are included in other long-term liabilities. JHBMC follows accounting guidance on derivative financial instruments that is based on whether the derivative instrument meets the criteria for designation as cash flow or fair value hedges. The criteria for designating a derivative as a hedge include the assessment of the instrument's effectiveness in risk reduction, matching of the derivative instrument to its underlying transaction, and the assessment of the probability that the underlying transaction will occur. All of JHBMC's derivative financial instruments are interest rate swap agreements without hedge accounting designation.

The values of interest rate swap agreements entered into by JHBMC are adjusted to market value monthly at the close of each accounting period based upon quotations from market makers. Entering into interest rate swap agreements involves, to varying degrees, elements of credit, default, prepayment, market and documentation risk in excess of the amounts recognized on the Balance Sheets. Such risks involve the possibility that there will be no liquid market for these agreements, the counterparty to these agreements may default on its obligation to perform and there may be unfavorable changes in interest rates. JHBMC does not hold derivative instruments for the purpose of managing credit risk and limits the amount of credit exposure to any one counterparty and enters into derivative transactions with high quality counterparties. JHBMC recognizes gains and losses from changes in fair values of interest rate swap agreements as a non-operating revenue or expense within excess (deficiency) of revenues over expenses on the Statements of Operations and Changes in Net Assets.

Fair value of derivative instruments as of June 30:

	Derivatives Reported as Liabilities			
	2014		**2013**	
(in thousands)	**Balance Sheet Caption**	**Fair Value**	**Balance Sheet Caption**	**Fair Value**
Interest rate swaps not designated as hedging instruments	Other long-term liabilities	$ 9,313	Other long-term liabilities	$ 10,188

Derivatives not designated as hedging instruments as of June 30:

(in thousands)	**Amount of Gain (Loss) Recognized in Change in Unrestricted Net Assets**	
Classification of derivative loss in statement of operations	**2014**	**2013**
Nonoperating revenues and expenses		
Change in the market value of swap agreements	$ 875	$ 4,768

Swap Agreements
In 2004, JHBMC entered into a fixed payor interest rate swap agreement with Bank of America. The notional amount on this swap agreement was $73.9 million and $78.1 million as of June 30, 2014 and 2013, respectively. JHBMC pays Bank of America a fixed annual rate of 3.3265% on the outstanding loan value of the 2004 Series B Notes in return for the receipt of a floating rate of interest equal to 67% of the one month LIBOR rate. Monthly payments began on February 1, 2004. This swap agreement has a maturity date of July 1, 2025. The floating rates as of June 30, 2014 and 2013 were .10% and .13%, respectively.

In July 2007, JHBMC entered into a fixed payor interest rate swap with Goldman Sachs Capital Markets, L.P. ("Goldman Sachs"). The notional amount on this swap agreement was $9.5 million and $10.0 million as of June 30, 2014 and 2013, respectively. JHBMC pays Goldman Sachs a fixed annual rate of 3.691% on the outstanding loan value of the 2008 Series A Notes in return for the receipt of a floating rate of interest equal to 67% of the one-month LIBOR rate. Monthly payments began on November 15, 2007. This swap agreement has a maturity date of May 15, 2027. The floating rates as of June 30, 2014 and 2013 were .10% and .13%, respectively.

8. Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets were available for the following purposes as of June 30.

(in thousands)	2014	2013
Health care services	$ 2,721	$ 2,628
Purchase of property, plant, and equipment	338	1,241
Health education and counseling	413	556
	$ 3,472	$ 4,425

Permanently restricted net assets as of June 30 are restricted to:

(in thousands)	2014	2013
Health care services	$ 3,420	$ 3,420
Health education and counseling	105	105
	$ 3,525	$ 3,525

The JHBMC endowments do not include amounts designated by the Board of Trustees to function as endowments. As required by generally accepted accounting principles, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The Board of Trustees of the JHBMC has interpreted UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds, absent explicit donor stipulations to the contrary. As a result of this interpretation, JHBMC classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the organization in a manner consistent with the standard of prudence prescribed by UPMIFA.

9. Pension Plans

JHBMC participates in two noncontributory defined benefit pension plans (union and nonunion) covering substantially all of its employees. The benefits are based on an average of the highest three plan years of an employee's compensation. The FASB's guidance on employer's accounting for defined benefit pension and other postretirement plans requires that the funded status of defined benefit postretirement plans be recognized on JHBMC's Balance Sheets, and changes in the funded status be reflected as a change in net assets.

The funding policy for both plans is to make sufficient contributions to comply with the Internal Revenue Service minimum funding requirement. The assets in both of the plans as of June 30, 2014 and 2013 consisted of cash and cash equivalents, listed stocks, corporate bonds, alternative investments and government securities. All assets are managed by external investment managers, consistent with the plan's investment policy. JHBMC uses a June 30 measurement date for its plans.

The change in benefit obligation, plan assets, and funded status of the pension plans is shown below:

(in thousands)	**2014**	**2013**
Change in benefit obligation		
Benefit obligation at beginning of the year	$ 255,210	$ 259,159
Service cost	10,847	12,291
Interest cost	12,905	11,949
Actuarial loss (gain)	36,957	(23,135)
Benefits paid	(6,721)	(5,054)
Benefit obligation as of June 30	$ 309,198	$ 255,210
Change in plan assets		
Fair value of plan assets at beginning of year	$ 148,658	$ 131,452
Actual return on plan assets	24,782	8,173
Employer contributions	22,944	14,087
Benefits paid	(6,721)	(5,054)
Fair value of plan assets as of June 30	$ 189,663	$ 148,658
Funded status as of June 30,		
Fair value of plan assets	$ 189,663	$ 148,658
Projected benefit obligation	(309,198)	(255,210)
Unfunded status	$ (119,535)	$ (106,552)

Amounts recognized in the Balance Sheets consist of:

(in thousands)	**2014**	**2013**
Net pension liability	$ (119,535)	$ (106,552)

The projected benefit obligation is greater than the fair value of plan assets for all plans that are aggregated within these statements.

Amounts not yet recognized in net periodic benefit cost and included in unrestricted net assets consist of:

(in thousands)	**2014**	**2013**
Actuarial net loss	$ 97,092	$ 79,505
Prior service cost	109	320
	$ 97,201	$ 79,825
Accumulated benefit obligation	$ 279,411	$ 239,256

Net Periodic Benefit Cost
Components of net periodic pension benefit cost:

(in thousands)	**2014**	**2013**
Service cost	$ 10,847	$ 12,291
Interest cost	12,905	11,949
Expected return on plan assets	(12,012)	(10,625)
Amortization of prior service cost	211	466
Recognized net actuarial loss	6,600	9,451
Net periodic pension expense	$ 18,551	$ 23,532

Other changes in plan assets and benefit obligations recognized in unrestricted net assets	**2014**	**2013**
Net loss (gain)	$ 24,187	$ (20,682)
Amortization of net loss	(6,600)	(9,451)
Amortization of prior service cost	(211)	(466)
Total recognized in unrestricted net assets	$ 17,376	$ (30,599)
Total recognized in net periodic benefit cost and unrestricted net assets	$ 35,927	$ (7,067)

The actuarial net loss and prior service cost for the defined benefit plans that will be amortized from unrestricted net assets into net periodic pension costs in 2015 are $9.3 million and $22 thousand, respectively.

Assumptions

The assumptions used in determining net periodic pension cost for the plans are as follows for the year ended June 30:

	2014	2013
Discount rate	5.12 %	4.66 %
Expected return on plan assets	8.00 %	8.00 %
Rate of compensation increase - ultimate	2.50 %	3.00 %

The assumptions used in determining the benefit obligations for the plans are as follows as of July 1:

	2014	2013
Discount rate	4.64 %	5.12 %
Expected return on plan assets	8.00 %	8.00 %
Rate of compensation increase - ultimate	2.50 %	2.50 %

Plan Assets

JHBMC's pension plan weighted average asset allocations as of June 30, 2014 and 2013 by asset class are as follows:

	2014	2013
Asset class		
Cash and cash equivalents	1.6 %	2.0 %
Equities and equity funds	32.7	32.4
Fixed income funds	25.6	29.2
Alternative Investments	40.1	36.4
	100.0 %	100.0 %

The plans' assets are invested among and within various asset classes in order to achieve sufficient diversification in accordance with JHHS and JHBMC risk tolerance. This is achieved through the utilization of asset managers and systematic allocation to investment management style(s), providing a broad exposure to different segments of the fixed income and equity markets. The plans strive to allocate assets between equity investments (including alternative investments) and debt securities at a target rate of approximately 75% and 25%, respectively.

Fair Value of Plan Assets

Fair value is the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The three-tier hierarchy prioritizes the inputs used in measuring fair value as follows:

Level 1 Observable inputs such as quoted market prices for identical assets or liabilities in active markets;

Level 2 Observable inputs for similar assets or liabilities in an active market, or other than quoted prices in an active market that are observable either directly or indirectly; and;

Level 3 Unobservable inputs in which there is little or no market data that require the reporting entity to develop its own assumptions. There were no financial instruments requiring Level 3 classification at June 30, 2014 and 2013.

The following table presents the plan assets carried at fair value as of June 30, 2014 and 2013 grouped by hierarchy level (in thousands):

	June 30, 2014		
	Level 1	Level 2	Total Fair Value
Assets			
Cash equivalents (1)	$ 3,101	$ -	$ 3,101
Equities and equity funds (2)	3,897	58,030	61,927
Fixed income funds (3)	40,152	8,409	48,561
Alternative Investments (4)	-	76,074	76,074
	$ 47,150	$ 142,513	$ 189,663

	June 30, 2013		
	Level 1	Level 2	Total Fair Value
Assets			
Cash equivalents (1)	$ 2,933	$ -	$ 2,933
Equities and equity funds (2)	3,280	44,937	48,217
Fixed income funds (3)	39,032	4,360	43,392
Alternative Investments (4)	-	54,116	54,116
	$ 45,245	$ 103,413	$ 148,658

(1) Cash equivalents include investments with original maturities of three months or less and overnight investments. Cash and cash equivalents and overnight investments are rendered Level 1 due to their frequent pricing and ease of converting to cash.

(2) Equities include individual equities. Equity funds include investments in mutual funds, commingled trusts and hedge funds. The individual equities and mutual funds are valued based on the closing price on the primary market and are rendered Level 1. The commingled trusts and hedge funds are valued regularly within each month utilizing NAV per unit and are rendered Level 2.

(3) Fixed income funds are investments in mutual funds and commingled trusts investing in fixed income instruments. The underlying fixed investments are principally U.S. Treasuries, corporate bonds, commercial paper, and mortgage backed securities. The mutual funds are valued based on the closing price on the primary market and are rendered Level 1. The commingled trusts are valued regularly within each month utilizing NAV per unit and are rendered Level 2.

(4) Alternative investments include investments that are not traded on national exchanges or over-the-counter markets. These investments are valued using a net asset value per share that has been calculated in accordance with investment company rules, which among other things, indicates that the underlying investments be measured at fair value. This valuation technique renders these investments Level 2.

There are no unfunded commitments related to the Plans' alternative investments. The following table displays information by major alternative investment category as of June 30, 2014:

(in thousands)

Description		Fair Market Value	Liquidity	Notice Period	Receipt of Proceeds
Global asset allocation	$	42,793	Monthly	5 to 30 days	(1)
Fund of funds		478	Quarterly or terminated	45 days	(2)
Hedge funds		26,621	Monthly, quarterly, or bi-annually	30 to 95 days	(3)
Credit funds		6,182	Annually	60 to 90 days	(4)
	$	76,074			

(1) Within 15 days, or 95% on redemption date, 5% within 3 days.

(2) 90% within 30 days, 10% after annual audit.

(3) 90 to 95% within 15 to 30 days, 5 to 10% after annual audit or redemption date.

(4) Within 30 days, or 90% within 10 days, 10% after annual audit.

The following table displays information by major alternative investment category as of June 30, 2013:

(in thousands)

Description		Fair Market Value	Liquidity	Notice Period	Receipt of Proceeds
Global asset allocation	$	27,068	Monthly	5 to 30 days	(1)
Fund of funds		439	Quarterly or terminated	45 days	(2)
Hedge funds		21,513	Monthly, quarterly, or bi-annually	30 to 90 days	(3)
Credit funds		5,007	Annually	60 to 90 days	(4)
Distressed credit		89	December 31, 2013		
	$	54,116			

(1) Within 15 days, or 95% on redemption date, 5% within 3 days.

(2) 90% within 30 days, 10% after annual audit.

(3) 90 to 95% within 3 to 30 days, 5 to 10% after annual audit or redemption date.

(4) Within 30 days, or 90% within 10 days, 10% after annual audit.

Contributions and Estimated Future Benefit Payments
JHBMC expects to contribute $26.3 million to its pension plan in 2015.

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

(in thousands)

2015	$	7,426
2016		8,484
2017		9,668
2018		10,924
2019		12,017
Thereafter		81,063

10. Maryland Health Services Cost Review Commission

Maryland has been granted a waiver by the federal government exempting the State from national Medicare and Medicaid reimbursement principles. JHBMC charges for inpatient, outpatient and emergency services performed at the hospital are regulated by the Commission. JHBMC management has made all submissions required by the Commission and believes JHBMC is in compliance with Commission requirements. Management believes that the waiver and Commission regulation will remain in effect through December 31, 2018.

Prior to January 1, 2014, hospitals in the State of Maryland were reimbursed on an all payor basis whereby all payors were paid the same rate based on a methodology that established a Medicare per admission cap for each hospital. Hospital-specific charge per admission was adjusted annually to reflect inflation and each hospital's case mix index. A waiver test was applied annually to determine if the growth of cost per Medicare admission was below the national average.

Effective January 1, 2014, with retroactive application to revenues generated by services provided after June 30, 2013, the Commission and the Center for Medicare and Medicaid Services entered into a Global Budget Revenue Agreement ("GBR"). The agreement will remain in effect through December 31, 2018. The GBR moves from a Medicare per admission methodology to a per capita population health based methodology. However, all hospitals continue to receive reimbursement under an all payor basis. The methodology also includes a new waiver test. Under the new waiver test, growth in revenue per capita will be limited to a rate of 3.58% for the State of Maryland in total. The new agreement sets a hospital's revenue base annually under a global budget arrangement, whereby revenue would be fixed regardless of changes in volume and patient mix for Maryland residents. Hospital revenue for Maryland residents receiving care at Maryland hospitals would be subject to this global budget. However, out of state patients receiving care at Maryland hospitals would not be subject to the global budget. The hospital would receive full rate authority for any out of state volume and growth, or would receive less revenue for lower volumes of out of state patients.

Under the Commission reimbursement methodology, amounts collected for services to patients under the Medicare and Medicaid programs are computed at approximately 94% of Commission approved charges. Other payors are eligible to receive up to a 2.25% discount on prompt payment of claims.

11. Professional and General Liability Insurance

JHU and JHHS and its Affiliates, including JHBMC, participate in an agreement with four other medical institutions to provide a program of professional and general liability insurance for each member institution. As part of this program, the participating medical institutions have formed a risk retention group ("RRG") and a captive insurance company to provide self-insurance for a portion of their risk. JHH and JHU each have a 10% ownership interest in the RRG and the captive insurance company.

The medical institutions obtain primary and excess liability insurance coverage from commercial insurers and the RRG. The primary coverage is written by the RRG, and a portion of the risk is reinsured with the captive insurance company. Commercial excess insurance and reinsurance is purchased under a claims-made policy by the participating institutions for claims in excess of primary coverage retained by the RRG and the captive. Primary retentions are $5.0 million per incident. Primary coverage is insured under a retrospectively rated claims-made policy; premiums are accrued based upon an estimate of the ultimate cost of the experience to date of each participating member institution. The basis for loss accruals for unreported claims under the primary policy is an actuarial estimate of asserted and unasserted claims including reported and unreported incidents and includes costs associated with settling claims. Projected losses were discounted at 0.64% and 0.57% as of June 30, 2014 and 2013, respectively.

Professional and general liability insurance expense incurred by JHBMC was $1.1 million and $2.9 million for the years ended June 30, 2014 and 2013, respectively, and is included in purchased services in the statement of operations and changes in net assets. Reserves were $14.3 million and $15.4 million as of June 30, 2014 and 2013, respectively.

JHBMC does not net insurance recoveries against the related claims liabilities, and has recorded an increase in its assets and liabilities in the accompanying Balance Sheets as follows:

	2014	2013
Caption on balance sheets		
Prepaid expenses and other current assets	$ 3,677	$ 2,991
Estimated malpractice recoveries, net of current portion	4,096	5,249
Total assets	$ 7,773	$ 8,240
Current portion of estimated malpractice costs	$ 3,677	$ 2,991
Estimated malpractice costs, net of current portion	4,096	5,249
Total liabilities	$ 7,773	$ 8,240

The assets and liabilities represent JHBMC's estimated self-insured captive insurance recoveries for claims reserves and certain claims in excess of self-insured retention levels. The insurance recoveries and liabilities have been allocated between short-term and long-term assets and liabilities based upon the expected timing of the claims payments.

12. Transactions With Related Parties

During the years ended June 30, 2014 and 2013, JHBMC engaged in transactions with JHHS and its Affiliates, JHH, Johns Hopkins Community Physicians ("JHCP"), Johns Hopkins Medical Management Corporation ("JHMMC"), Johns Hopkins HealthCare, LLC ("JHHC"), Priority Partners Managed Care Organization, Inc. ("PP"), Johns Hopkins Employer Health Programs ("JHEHP"), JHMI Utilities LLC ("JHMI Utilities"), Johns Hopkins International, LLC ("JHI") and Johns Hopkins Home Care Group, Inc. ("JHHCG").

The following is a summary of related party transactions and balances:

Revenue / (Expense) Transactions

(in thousands)		2014		2013
Net patient service revenue from providing services to subscribers of PP	$	35,798	$	33,549
Net patient service revenue from providing services to subscribers of JHHC		14,596		15,910
Management services provided to JHHS relating to the PACE and Creative Alternatives programs		15,699		15,514
Laboratory and various support services provided by JHH		(14,915)		(15,193)
Purchasing, legal, advertising and other services provided by JHHS		(23,507)		(25,119)
Premiums paid to JHEHP for administration of health care claims		(2,510)		(2,575)
Telecommunication and information services provided by JHMI Utilities		(7,150)		(4,973)
Fees paid to JHHCG for management of discharge pharmacy and patient discharge planning		(2,912)		(3,005)
Services provided by JHCP		(1,498)		(1,498)
Temporary nursing services provided by JHMMC		(1,127)		(826)
Translation services provided by JHI		(386)		(420)

Due From / (To) Affiliate Balances as of June 30

(in thousands)		2014		2013
Due from JHMSC - note receivable	$	1,313	$	1,970
Due to JHHS - promissory note		(9,480)		(10,025)
Due to JHHS - promissory note		(3,000)		(3,000)
Due to JHHS - promissory note		(47,697)		-
Due to JHHS - interest on promissory notes		(372)		-
Due to JHHS for services as noted above		(1,908)		(3,297)
Due to JHCP for services provided		(217)		(230)
Due to JHH for services as noted above		(816)		(487)
Due to JHMI Utilities for services as noted above		(804)		(1,176)
Due to JHHCG for pharmacy services and patient discharge planning		(669)		(343)
Other		(117)		(94)
Net due to affiliates	$	(63,767)	$	(16,682)

In May 2013, JHBMC and JHHS entered into a long-term Promissory Note in the amount of $10.0 million. The Promissory Note carries a variable interest rate based on the one-month LIBOR plus a spread of 0.71%. Interest payments are made at the end of each month. The rate was approximately 0.82% for the year ended June 30, 2014. Principal payments are made annually in May from 2014 through 2027, and range from $545 thousand to $915 thousand.

In June 2013, JHBMC and JHHS entered into a long-term Promissory Note in the amount of $3.0 million, with a fixed interest rate of 3.00%. The Promissory Note is structured as a term note and comes due in 2023. Interest payments are made on a monthly basis.

In August 2013, JHBMC and JHHS entered into a long-term Promissory Note in the amount of $47.7 million, with a fixed interest rate of 5.28%. The Promissory Note is funding construction of a new Cancer Center and expansion of the Emergency Department on the JHBMC campus. Interest payments are made semi-annually in May and November. Principal payments will be made annually in May starting in 2040, and range from $7.8 million to $13.6 million. Unspent proceeds from this note as of June 30, 2014 total $25.5 million and are recorded in assets whose use is limited in the accompanying Balance Sheets.

As of June 30, 2014, total maturities of notes payable to JHHS during the next five years and thereafter are as follows:

(in thousands)

2015	$	565
2016		590
2017		610
2018		645
2019		670
Thereafter		57,097
	$	60,177

Included in the amounts due from affiliates in the accompanying Balance Sheets as of June 30, 2014 and 2013 is a Note Receivable from Johns Hopkins Medical Services Corporation for $1.3 million and $2.0 million, respectively. The Note Receivable bears no interest with annual payments of $656.0 thousand through June 30, 2016.

Broadway Services, Inc. ("BSI"), a related organization, is a wholly owned subsidiary of the Dome Corporation. The Dome Corporation is owned equally by JHHS and JHU. BSI provides JHBMC with various services including security, housekeeping, escort and transportation. JHBMC incurred costs of approximately $6.6 million and $6.7 million for these services during 2014 and 2013, respectively. JHBMC had accounts payable to BSI of approximately $402 thousand and $259 thousand as of June 30, 2014 and 2013, respectively. These amounts are included in accounts payable and accrued expenses in the accompanying Balance Sheets.

JHBMC pays ground and space rent and ground maintenance costs to FSK Land Corporation, a related organization. During 2014 and 2013, JHBMC incurred costs of $2.2 million and $2.1 million, respectively, for these services.

13. Contracts, Commitments and Contingencies

JHBMC has agreements with JHU, under which JHU provides medical administration and educational services, conducts medical research programs, provides patient care medical services, and provides certain other administrative and technical support services through the physicians employed by The Johns Hopkins University School of Medicine ("JHUSOM"). Compensation for providing medical administration and educational services is paid to JHU by JHBMC; funding for services in conducting medical research is paid from grant funds and by JHBMC; compensation for patient care medical care services is derived from billings to patients (or third-party payors) by JHU;

and compensation for other support services is paid to JHU by JHBMC. The aggregate amount of purchased services incurred by JHBMC under these agreements was $52.2 million and $51.8 million for the years ended June 30, 2014 and 2013, respectively.

JHBMC also has an agreement with JHU under which JHU recruits and pays interns and resident physicians who furnish services to JHBMC on a rotating and nonrotating basis. Included in purchased services expense in the accompanying Statements of Operations and Changes in Net Assets for services under this agreement is $5.4 million for the year ended June 30, 2014 and $5.3 million for the year ended June 30, 2013 for physicians providing services on a rotating basis and $3.9 million and $3.7 million for the years ended June 30, 2014 and 2013, respectively, for physicians providing services on a nonrotating basis.

Additionally, JHBMC is leasing space to JHU. Payments totaled $3.0 million and $2.9 million for the years ended June 30, 2014 and 2013, respectively, and have been recorded as a reduction of purchased services.

JHBMC provides departmental support for Chiefs of Service based on personal recruitment agreements between JHBMC, JHUSOM and the respective Chief of Service. These commitments to the department are conditional to the extent the Chief of Service remains in the position. Future expected payments related to agreements currently in place were $3.0 million and $4.2 million at June 30, 2014 and 2013, respectively.

Amounts due to JHU for current operations, net of liabilities previously paid on behalf of JHU by JHBMC were $1.0 million at June 30, 2014, and are presented as other accrued expenses on the Balance Sheets. Amounts due from JHU for liabilities previously paid on behalf of JHU by JHBMC were $1.0 million at June 30, 2013, and are presented on the Balance Sheets as due from others.

Commitments for leases that do not meet the criteria for capitalization are classified as operating leases with related rentals charged to operations as incurred. The following is a schedule by year of future minimum lease payments under operating leases as of June 30, 2014, that have initial or remaining lease terms in excess of one year:

(in thousands)

2015	$	2,929
2016		2,878
2017		2,826
2018		2,732
2019		2,505

Rental expense for all operating leases was $5.7 million and $5.1 million for the years ended June 30, 2014 and 2013, respectively.

14. Functional Expenses

JHBMC provides general health care services to residents within its geographic location. Expenses related to providing these services for the years ended June 30 consisted of the following:

(in thousands)		**2014**		**2013**
Health care services	$	463,554	$	468,719
General and administrative services		64,316		69,742
Total expenses	$	527,870	$	538,461

15. Subsequent Events

JHBMC has performed an evaluation of subsequent events through September 25, 2014, which is the date the financial statements were issued.