Howard County General Hospital, Inc.

Financial Statements
June 30, 2014 and 2013

Howard County General Hospital, Inc.
Index
June 30, 2014 and 2013

INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees of
Howard County General Hospital, Inc.

We have audited the accompanying financial statements of Howard County General Hospital, Inc. (the "Hospital"), 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 the Hospital'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 the Hospital'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 the Hospital at June 30, 2014 and 2013, and the results of its operations and its 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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Howard County General Hospital, Inc.
Balance Sheets
June 30, 2014 and 2013
(in thousands)

	2014	2013
ASSETS		
Current assets:		
Cash and cash equivalents	$ 13,282	$ 22,670
Short-term investments	8,479	4,629
Patient accounts receivable, net of estimated uncollectibles of $7,679 and $6,147 as of June 30, 2014 and 2013, respectively	31,006	31,285
Due from others	297	1,385
Due from affiliates, current portion	207	4
Inventories of supplies	4,650	4,094
Prepaid expenses and other current assets	3,294	2,054
Total current assets	61,215	66,121
Assets whose use is limited		
By donors or grantors for:		
Interest in net assets of Howard Hospital Foundation	13,644	13,903
Other	133	135
Total assets whose use is limited	13,777	14,038
Investments	78,406	50,838
Investments in joint ventures	3,000	3,181
Property, plant and equipment	245,757	268,353
Less: allowance for depreciation and amortization	(85,872)	(97,846)
Total property, plant and equipment, net	159,885	170,507
Due from affiliate, net of current portion	252	-
Estimated malpractice recoveries, net of current portion	1,230	1,522
Other assets	47	338
Total assets	$ 317,812	$ 306,545

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

Howard County General Hospital, Inc.
Balance Sheets, Continued
June 30, 2014 and 2013
(in thousands)

	2014	2013
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable and accrued liabilities	$ 22,921	$ 21,561
Due to affiliates, current portion	8,975	8,759
Accrued vacation	5,384	6,621
Advances from third party payors	9,269	8,630
Current portion of estimated malpractice costs	1,168	925
Total current liabilities	47,717	46,496
Estimated malpractice costs, net of current portion	3,850	4,091
Net pension liability	426	1,295
Long-term notes payable affiliate, net of current portion	158,058	161,930
Other long-term liabilities	14,710	14,072
Total liabilities	224,761	227,884
Net assets:		
Unrestricted	79,274	64,625
Temporarily restricted	10,559	10,976
Permanently restricted	3,218	3,060
Total net assets	93,051	78,661
Total liabilities and net assets	$ 317,812	$ 306,545

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

Howard County General Hospital, Inc.
Statements of Operations and Changes in Net Assets
for the years ended June 30, 2014 and 2013
(in thousands)

	2014	2013
Operating revenues:		
Net patient service revenue before bad debts expense	$ 242,532	$ 243,058
Provision for bad debts	9,934	10,608
Net patient service revenue	232,598	232,450
Other revenue	5,107	2,261
Investment income	1,084	1,284
Total operating revenues	238,789	235,995
Operating expenses:		
Salaries, wages and benefits	114,262	111,984
Purchased services	52,478	48,734
Supplies and other	41,457	38,764
Interest	5,365	4,929
Depreciation and amortization	15,985	17,602
Total operating expenses	229,547	222,013
Income from operations	9,242	13,982
Non-operating revenues and expenses:		
Interest expense on swap agreements	(1,533)	(1,520)
Change in market value of swap agreement	(598)	6,607
Realized gains on investments	374	445
Unrealized gains (loss) on investments	2,643	(123)
Loss on impairment of long lived assets	(242)	-
Excess of revenues over expenses	9,886	19,391
Contributions to affiliates	(702)	(335)
Change in funded status of defined benefit plan	1,308	854
Net assets released from restictions used for purchase of property, plant and equipment	4,157	2,200
Increase in unrestricted net assets	14,649	22,110
Changes in temporarily restricted net assets:		
Gifts, grants and bequests	4,157	2,200
Net change in Howard Hospital Foundation	(417)	675
Net assets released from restrictions used for purchase of property, plant and equipment	(4,157)	(2,200)
(Decrease) increase in temporarily restricted net assets	(417)	675
Changes in permanently restricted net assets:		
Net change in Howard Hospital Foundation	158	-
Increase in permanently restricted net assets	158	-
Increase in net assets	14,390	22,785
Net assets at beginning of year	78,661	55,876
Net assets at end of year	$ 93,051	$ 78,661

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

Howard County General Hospital, Inc.
Statements of Cash Flows
for the years ended June 30, 2014 and 2013
(in thousands)

	2014	2013
Operating activities:		
Change in net assets	$ 14,390	$ 22,785
Adjustments to reconcile change in net assets		
to net cash and cash equivalents provided by operating activities:		
Depreciation and amortization	15,985	17,602
Provision for bad debts	9,934	10,608
Net realized and changes in unrealized gains on investments	(3,017)	(322)
Change in market value of swap agreement	598	(6,607)
Change in funded status of defined benefit plan	(1,308)	(854)
Proceeds from restricted contributions and investment income received	(4,157)	(2,200)
Gains on and returns on equity investments	181	304
Loss on impairment of long lived assets	242	-
Contributions to affiliates	702	335
Change in assets and liabilities:		
Patient accounts receivable	(9,655)	(14,063)
Inventories of supplies, prepaid expenses and other current assets	(471)	(86)
Due to/from affiliates, net	(171)	2,370
Other assets	291	47
Accounts payable, accrued liabilities and accrued vacation	(38)	720
Advances from third party payors	639	(1,135)
Accrued pension benefit costs	439	892
Estimated malpractice costs	57	(22)
Other long-term liabilities	40	78
Net cash and cash equivalents provided by operating activities	24,681	30,452
Investing activities:		
Purchases of property, plant and equipment	(5,444)	(19,792)
Purchases of investment securities	(69,016)	(58,916)
Sales of investment securities	40,615	49,928
Other	261	(675)
Net cash and cash equivalents used in investing activities	(33,584)	(29,455)
Financing activities:		
Proceeds from restricted contributions and investment income received	4,157	2,200
Repayment of long-term debt	-	(40,000)
Proceeds from affiliate notes payable	-	56,000
Repayment of affiliate notes payable	(3,940)	(700)
Contributions to affiliates	(702)	(335)
Net cash and cash equivalents (used in) provided by financing activities	(485)	17,165
(Decrease) increase in cash and cash equivalents	(9,388)	18,162
Cash and cash equivalents at beginning of year	22,670	4,508
Cash and cash equivalents at end of year	$ 13,282	$ 22,670

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

1. <u>Organization and Summary of Significant Accounting Policies</u>:

Organization. The Johns Hopkins Health System Corporation ("JHHSC") is the sole member of Howard County General Hospital, Inc. (the "Hospital" or "HCGH"). JHHSC is a not-for-profit organization incorporated in the State of Maryland to, among other things, formulate policy among and provide centralized management for JHHS and its affiliates. In addition, JHHSC provides certain shared services, including finance, payroll, accounts payable, patient financial services, legal, and other functions for which HCGH is charged separately. The Hospital is a not-for-profit, community based health care institution governed by a board of trustees operated for the purpose of providing appropriate and effective health care services to the physically and mentally ill, the injured, obstetrical patients, and persons needing diagnostic and/or preventative services. The Hospital is committed to serve as the primary community health care resource for Howard County and adjacent communities and recognizes the need to be responsive to the needs of the population it serves. The Hospital's mission is to provide health care services, within the resources available, to all whom present themselves, regardless of race, creed, national origin, age or sex.

JHHSC appoints HCGH's Board of Trustees. HCGH's Articles of Incorporation provide that JHHSC's Board of Trustees will approve HCGH's annual operating budget and capital budgets, significant programmatic changes at HCGH, and other significant changes to HCGH including amendments of its articles of incorporation or bylaws, mergers, or dissolutions.

The Howard Hospital Foundation ("HHF") is a separate, not-for-profit Maryland corporation chartered in 1976 that holds and manages funds exclusively for the benefit of HCGH. The affairs of HHF are managed by a Board of Trustees that is self-perpetuating. HCGH and HHF are financially inter-related. The Foundation is not the beneficiary of the net assets, or cannot unilaterally redirect use of their net assets away from HCGH. All unrestricted net assets can only be utilized for the benefit of HCGH. Therefore HCGH records an interest in net assets of HHF resulting from unrestricted, temporarily restricted and permanently restricted contributions that were solicited and held by HHF to be used exclusively for HCGH. HCGH records its interest in the net assets of HHF under assets whose use is limited.

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

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 converted 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. HCGH has not experienced such losses on these funds.

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

Inventories of supplies. Inventories of supplies are composed of medical supplies and drugs. Inventories of supplies are recorded at 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 the donor 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 HCGH's interest in the net assets of HHF. The amounts reported in the Balance Sheets represent fair value.

Investments and investment income. 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 and 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 Statements of Operations and Changes in Net Assets as an unrealized gain or loss within excess of revenues over expenses.

Alternative investments are less liquid than other types of investments held by HCGH. 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) are reported in the operating income section of the Statements of Operations and Changes in Net Assets under 'investment income'. Realized gains or losses related to the sale of investments, and unrealized gains or losses on alternative investments are included in the non-operating section of the Statement of Operations and Changes in Net Assets included in excess of revenues over expenses unless the income or loss is restricted by donor or law.

Investments in companies in which HCGH does not have control, but has the ability to exercise significant influence over operating and financial policies are accounted for using the equity method of accounting, and operating results flow through the investment income on the Statements of Operations and Changes in Net Assets. Dividends received are recorded as a reduction of the carrying amount of the investment.

Property, plant and equipment. Property, plant and equipment acquisitions are recorded at cost. Depreciation is provided over the estimated useful life of each asset class of depreciable asset and is computed using the straight-line method. Estimated useful lives assigned by HCGH range from 8 to 10 years for land improvements, 10 to 30 years for buildings and improvements, 2 to 20 years for fixed and movable equipment, and 13 to 20 years 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. Repairs 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 operating income.

Gifts of long-lived assets such as land, buildings or equipment are reported as unrestricted support, and are excluded from the excess of revenues over expenses, unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, expiration of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

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. HCGH's policy is to record an impairment loss when it is determined that the carrying amount of the asset exceeds the sum of the expected undiscounted future cash flows resulting from 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 and are reported in the non-operating section of the Statement of Operations and Changes in Net Assets. Long-lived assets to be disposed of are reported at the lower of the carrying amount or fair value less cost to sell. There were $242 thousand of impairment charges recorded for the year ended June 30, 2014.

Accrued vacation. HCGH 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. HCGH 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.

SWAP agreements. The value of the interest rate swap agreements entered into by HCGH are adjusted to market value monthly at the close of each accounting period based upon quotations from market makers. The change in market value, if any, is recorded in the Statement of Operations and Changes in Net Assets. 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.

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 for general program support. Temporarily and permanently restricted net assets consist mainly of endowment assets included in HHF.

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 HCGH 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 as 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 Statement of Operations and Changes in Net Assets.

Excess of revenues over expenses. The Statements of Operations and Changes in Net Assets include excess of revenues over expenses. Changes in unrestricted net assets which are excluded from excess of revenues over expenses, consistent with industry practice, include changes in unrealized gains and losses on investments other than trading securities, change in funded status of defined benefit plans, 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 purposes of acquiring such assets).

Income taxes. HCGH 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 income tax impact on HCGH's financial statements during the years ended June 30, 2014 and 2013.

2. <u>Net Patient Service Revenue:</u>

HCGH has agreements with third-party payors that provide for payments to HCGH 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 payers, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined. 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.

HCGH 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 HCGH does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. Direct and indirect costs for these services amounted to $4.9 million for each of the years ended June 30, 2014 and 2013. 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 costs to charges is calculated based on HCGH's total expenses (less bad debt expense) 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 Statement 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 Hospitals 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 ending June 30, 2014 and 2013, respectively, from these major payor sources is as follows (in thousands):

2014	Third-Party Payors	Self-pay	Total All Payors
Patient service revenue (net of contractual allowances)	$ 234,043	$ 8,489	$ 242,532

2013	Third-Party Payors	Self-pay	Total All Payors
Patient service revenue (net of contractual allowances)	$ 234,551	$ 8,507	$ 243,058

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

	2014	**2013**
Medicare program	35%	29%
Medicaid program	8%	7%
Blue Cross and Blue Shield	14%	16%
Managed Care Organizations	23%	24%
Self pay and other third party payors	20%	24%

3. <u>Fair Value Measurements:</u>

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 performance indicator. 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. HCGH has not elected fair value accounting for any asset or liability that was not currently required to be measured at fair value.

HCGH follows the 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. There are no 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 has 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):

Assets	Total Fair Value	Level 1	Level 2
Cash and cash equivalents (1)	$ 13,282	$ 13,282	$ -
Commercial paper (1)	55	55	-
Certificates of deposit (1)	48	-	48
U.S. Treasuries (2)	24,081	-	24,081
Corporate bonds (2)	22,556	-	22,556
Asset backed securities (2)	4,067	-	4,067
Equity and equity funds (3)	18,373	5,440	12,933
Fixed income funds (4)	7,946	7,717	229
Totals	$ 90,408	$ 26,494	$ 63,914
Liabilities			
Interest rate swap agreement (5)	$ 12,864	$ -	$ 12,864

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

Assets	Total Fair Value	Level 1	Level 2
Cash and cash equivalents (1)	$ 22,670	$ 22,670	$ -
Commercial paper (1)	656	656	-
Certificates of deposit (1)	48	-	48
U.S. Treasuries (2)	18,517	-	18,517
Corporate bonds (2)	20,742	-	20,742
Asset backed securities (2)	5,243	-	5,243
Equity and equity funds (3)	4,801	1,436	3,365
Fixed income funds (4)	1,648	1,432	216
Totals	$ 74,325	$ 26,194	$ 48,131
Liabilities			
Interest rate swap agreement (5)	$ 12,265	$ -	$ 12,265

(1) Cash and cash equivalents, commercial paper, money market funds, and overnight investments include investments with original maturities of three months or less. Certificates of deposit are carried at amortized cost. Certificates of deposit and commercial paper that have 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. Computed prices versus market value render the certificates of deposit level 2.

(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 asset 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 8 "Derivative Financial Instruments," are valued using a swap valuation model that utilizes an income approach using observable market inputs including long-term interest rates, LIBOR swap rates, and credit default swap rates and are rendered level 2. See footnote 8.

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 HCGH 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.

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	$ 13,282	$ 22,670
Total cash and cash equivalents	$ 13,282	$ 22,670
Short and long-term investments measured at fair value	$ 77,126	$ 51,655
Investments accounted for under equity method	12,759	6,993
Total short and long-term investments	$ 89,885	$ 58,648
Assets whose use is limited measured at fair value	$ -	$ -
Interest in net assets of HHF	13,644	13,903
Other	133	135
Total assets whose use is limited	$ 13,777	$ 14,038

HCGH holds alternative investments that are not traded on national exchanges or over-the counter markets. HCGH 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, indicates that the underlying investments be measured at fair value. There are no unfunded commitments related to HCGH's alternative investments.
The following tables display information by major alternative investment category as of June 30, 2014 and 2013 (in thousands):

As of June 30, 2014

Description	Value	Liquidity	Notice Period	Receipt of Proceeds
Global asset allocation	$ 5,785	Monthly	5 days	Within 15 days, or 95% in 5 days of redemption, 5% in 30 days after withdrawal
Fund of funds	3,518	Monthly or quarterly	25 - 70 days	Within 30 days, or 90% in 30 to 60 days, 10% after annual audit
Hedge funds	456	Quarterly	60 days	95% within 30 days of redemption date; 5% within 120 days of redemption date
	$ 9,759			

As of June 30, 2013

Description	Value	Liquidity	Notice Period	Receipt of Proceeds
Global asset allocation	$ 2,293	Monthly	5 days	Within 15 days, or 95% in 5 days of redemption, 5% in 30 days after withdrawal
Fund of funds	1,382	Monthly or quarterly	25 - 70 days	Within 30 days, or 90% in 30 to 60 days, 10% after annual audit
Hedge funds	137	Quarterly	60 days	95% within 30 days of redemption date; 5% within 120 days of redemption date
	$ 3,812			

4. Investments and Assets Whose Use is Limited:

The market value of investments (short and long-term) as of June 30 consisted of the following (in thousands):

	2014	2013
Investments in joint ventures	$ 3,000	$ 3,181
Commercial paper	55	656
U.S. Treasuries	24,081	18,517
Certificates of deposit	48	48
Corporate bonds	22,556	20,742
Asset backed securities	4,067	5,243
Fixed income funds	7,946	1,648
Equities and equity index funds	18,373	4,801
Alternative investments	9,759	3,812
	$ 89,885	$ 58,648

Included in investments as of June 30, 2014 and 2013 are $86.8 million and $55.4 million, respectively, of investments pooled together with other JHHSC affiliates.

The market value of assets whose use is limited as of June 30 consisted of the following (in thousands):

	2014	2013
Interest in net assets of Howard Hospital Foundation	$ 13,644	$ 13,903
Other	133	135
	$ 13,777	$ 14,038

Realized and unrealized gains (losses) on investments for the years ended June 30, 2014 and 2013, included in non-operating revenues and expenses section of the Statements of Operations and Changes in Net Assets consisted of the following:

	2014	2013
Realized gains on investments	$ 374	$ 445
Unrealized (losses) gains on trading investments	2,643	(123)
Total	$ 3,017	$ 322

5. Investments in Joint Ventures:

HCGH has a 25% investment interest in Ten Acres Medical Center, LLC (“Ten Acres”) obtained in exchange for contributed land with an original cost of $4.0 million. Columbia Investment Properties, LLC (“CIP”) owns the remaining 75% of Ten Acres. Ten Acres is a Maryland Limited Liability Company formed to develop, own, operate, manage or dispose of a medical office building (the “Project”) on a portion of the HCGH campus in Howard County, Maryland. The Project consists of approximately a 170,000 square foot medical office building. The term of the joint venture shall continue perpetually unless otherwise agreed upon pursuant to the operating agreement.

Ten Acres is managed by a Board of Managers consisting of one HCGH appointed manager and three CIP appointed members. Profits and losses, as well as additional contributed capital, shall be allocated to the members equal to each members' percentage ownership interest. Distributions shall be made in accordance with the provisions of the operating agreement as determined by the Board of Managers. HCGH accounts for its investment in Ten Acres under the equity method of accounting. HCGH's investment in Ten Acres was $1.5 million and $1.6 million as of June 30, 2014 and 2013, respectively. HCGH recorded a gain on this investment of $5 thousand and $251 thousand for the years ended June 30, 2014 and 2013, respectively. In addition, HCGH received cash dividends from Ten Acres of $144 thousand and $551 thousand for the years ended June 30, 2014 and 2013, respectively.

HCGH has a 20% interest in the Central Maryland Radiation Oncology Center, LLC ("CMROC"), which is located in the Ten Acres medical office building. HCGH's investment in CMROC was $1.5 million for each of the years ended June 30, 2014 and 2013. HCGH recorded a loss on this investment of $43 thousand and $26 thousand for the years ended June 30, 2014 and 2013, respectively. HCGH has guaranteed 50% of the total debt of CMROC that amounts to $607 thousand, and $880 thousand for the year ended June 30, 2014 and 2013, respectively.

6. Property, Plant and Equipment:

Property, plant and equipment and accumulated depreciation and amortization consisted of the following as of June 30 (in thousands):

	2014		2013	
	Cost	Accumulated Depreciation	Cost	Accumulated Depreciation
Land and land improvements	$ 13,743	$ 267	$ 13,699	$ 211
Building and improvements	175,658	51,998	176,098	45,672
Fixed and moveable equipment	55,418	33,607	78,128	51,963
Construction in progress	938	-	428	-
	$ 245,757	$ 85,872	$ 268,353	$ 97,846

Accruals for purchases of property, plant and equipment amounted to $146 thousand and $307 thousand as of June 30, 2014 and 2013, respectively, and are included in accounts payable in the Balance Sheets. Depreciation and amortization expense was $16.0 million and $17.6 million for years ended June 30, 2014 and 2013, respectively.

For the year ended June 30, 2014, HCGH retired fully depreciated long-lived assets determined to have no future value. The original cost and accumulated depreciation of these long-lived assets was $27.8 million, which had no financial impact. For the year ended June 30, 2013, HCGH had no retirement of fully depreciated long-lived assets.

For the year ended June 30, 2014, HCGH had impairment of long-lived assets, with an acquisition cost of $417 thousand and accumulated depreciation of $175 thousand, resulting in a write off of $242 thousand, which is included in the non-operating revenues and expenses section in the financial statements. There was no impairment of long-lived assets recorded for the year ended June 30, 2013.

7. Debt:

Obligated Group

The Johns Hopkins Health System Obligated Group ("JHHS Obligated Group") consists of The Johns Hopkins Hospital ("JHH"), Johns Hopkins Bayview Medical Center, Inc. ("JHBMC"), HCGH, Suburban Hospital, Inc. ("SHI"), Suburban Hospital Healthcare System, Inc. ("SHHS"), Sibley Memorial Hospital, Inc. ("SMH"), and JHHSC. JHBMC was admitted into the JHHS Obligated Group in 2004 as part of a debt refinancing. SHI and SHHS were admitted into the JHHS Obligated Group in 2010 as part of a JHH debt issuance. HCGH was admitted to the JHHS Obligated Group in May 2012 as part of a JHH debt issuance. JHHSC was admitted in May 2013 as part of a JHHSC debt issuance. SMH was admitted into the JHHS Obligated Group in August 2013 pursuant to a JHHS debt issuance. All of the debt of JHH, JHBMC, HCGH, SHI, SHHS, SMH, and JHHSC are parity debt, and as such are collateralized equally and ratably by a claim on and a security interest in all of JHH's, JHBMC's, HCGH's, SHI's, SHHS', SMH's, and JHHSC's receipts as defined in the Master Loan Agreement with MHHEFA. JHHS Obligated Group members are required to achieve a defined minimum debt service coverage ratio each year, maintain adequate insurance coverage, and comply with certain restrictions on their 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 members' parity debt was $1.5 billion. As of June 30, 2013 the outstanding JHHS Obligated Group members' parity debt was $1.2 billion. See Note 13 for Affiliate Notes Payable.

8. Derivative Financial Instruments:

HCGH'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 in the Balance Sheets. The total notional amount of the interest rate swap agreement was $40.0 million as of June 30, 2014, and 2013.

HCGH 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. HCGH's derivative financial instruments include one interest rate swap agreement without hedge accounting designation.

The value of the interest rate swap agreement entered into by HCGH is 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. HCGH does not hold derivative instruments for the purpose of managing credit risk, limits the amount of credit exposure to any one counterparty and enters into derivative transactions with high quality counterparties. HCGH recognizes gains and losses from changes in fair values of interest rate swap agreements as a non-operating revenue or expense within the performance indicator excess of revenues over expenses on the Statements of Operations and Changes in Net Assets.

The fair value of derivative instruments consisted of the following as of June 30 (in thousands):

	Derivatives reported as liabilities			
	Balance Sheet Caption	**2014 Fair Value**	**Balance Sheet Caption**	**2013 Fair Value**
Interest rate swap not designated as hedging instrument	Other long-term liabilities	$ 12,864	Other long-term liabilities	$12,265

Derivatives not designated as hedging instruments consisted of the following as of June 30 (in thousands):

Derivatives not designated as hedges

Classification of derivative (loss) gain in the Statement of Operations and Changes in Net Assets	Amount of (loss) gain recognized in change in unrestricted net assets	
	2014	**2013**
Interest rate swaps:		
Change in market value of swap agreement	$ (598)	$ 6,607

The following is a description of HCGH's interest rate swap agreement:

In May 2006, HCGH entered into a fixed payor interest rate swap agreement with Goldman, Sachs & Co. The notional amount of this swap agreement is $40.0 million and carries a term of 32 years. HCGH will pay Goldman, Sachs & Co. a fixed annual rate of 3.946% on the notional amount of the swap agreement in return for the receipt of a floating rate of interest equal to 67% of the one month LIBOR rate. The floating rates were 0.10% and 0.13% as of June 30, 2014 and 2013, respectively. JHHS has guaranteed the prompt payment of this interest rate swap agreement.

This swap agreement has certain collateral thresholds whereby, on a daily basis, if the market value of the swap agreement declines such that its devaluation exceeds the threshold, cash must be deposited by HCGH with the swap counterparty for the difference between the threshold amount and the fair value. As of June 30, 2014 and 2013 no collateral was required to be posted to the swap counter party.

9. Temporarily and Permanently Restricted Net Assets:

Temporarily restricted net assets as of June 30 (in thousands), are restricted to:

	2014	**2013**
Health care services	$ 6,803	$ 6,860
Purchase of property, plant and equipment	3,756	4,116
	$ 10,559	$ 10,976

Permanently restricted net assets as of June 30 (in thousands), are restricted to:

	2014	**2013**
Health care services	$ 3,218	$ 3,060

10. Pension Plan:

HCGH sponsors a cash balance defined benefit pension plan (the “Plan”). HCGH contributed 7.5% of each employee’s base compensation up to $25 thousand and 11.3% of base compensation in excess of $25 thousand. The Plan’s assets are invested in a diversified portfolio of stocks, bonds and money market certificates managed by a bank trust department. As of January 1, 1996, accruals under the Plan were frozen. Employees now participate in a 401(k) plan. The FASB’s guidance on employer’s accounting for defined benefit plans requires that the funded status of defined benefit postretirement plans be recognized on HCGH’s Balance Sheet, and changes in the funded status be reflected as a change in net assets.

The change in benefit obligation, plan assets, and funded status of the Plan is shown below (in thousands):

Change in benefit obligation	2014	2013
Benefit obligation at beginning of year	$ 11,175	$ 11,482
Interest cost	519	470
Actuarial gain	389	87
Benefits paid	(863)	(864)
Benefit obligation as of June 30	$ 11,220	$ 11,175

Change in plan assets	2014	2013
Fair value of plan assets at beginning of year	$ 9,880	$ 10,225
Actual return on plan assets	1,555	587
Employer contribution	375	91
Benefits paid	(1,016)	(1,023)
Fair value of plan assets as of June 30	$ 10,794	$ 9,880

Funded status as of June 30,	2014	2013
Fair value of plan assets	$ 10,794	$ 9,880
Projected benefit obligation	11,220	11,175
Unfunded status	$ (426)	$ (1,295)

Amounts recognized in the Balance Sheets consist of (in thousands):

	2014	2013
Net pension liability	$ (426)	$ (1,295)

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

	2014	2013
Actuarial net loss	$ 3,196	$ 4,656
Accumulated benefit obligation	$ 11,220	$ 11,175

Net periodic pension benefit cost	2014	2013
Components of net periodic pension cost (in thousands):		
Interest cost	$ 519	$ 470
Expected return on plan assets	(641)	(609)
Amortization of prior service cost	549	636
Settlement loss recognized	386	486
Net periodic pension benefit expense	$ 813	$ 983

Other Changes in Plan Assets and Benefit Obligations Recognized in Unrestricted Net Assets (in thousands)	2014	2013
Net (gain) loss	$ (525)	$ 109
Amortization of net gain	(783)	(963)
Total recognized in unrestricted net assets	$ (1,308)	$ (854)
Total (gain) loss recognized in net periodic benefit cost and unrestricted net assets	$ (495)	$ 129

The actuarial net loss for the defined benefit plans that will be amortized from unrestricted net assets into net periodic benefit costs in 2015 is $549 thousand.
The assumptions used in determining net periodic pension cost for the plan 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%

The assumptions used in determining the benefit obligation for the plan are as follows as of July 1:

	2014	2013
Discount rate	4.64%	5.12%
Expected return on plan assets	8.00%	8.00%

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

Plan Assets

HCGH's pension plan weighted average asset allocations as of June 30 by asset category are as follows:

Asset class	**2014**	**2013**
Cash and cash equivalents	1.63%	1.98%
Equities and equity funds	32.66%	32.44%
Fixed income funds	25.61%	29.18%
Alternatives	40.11%	36.40%
Total	100.00%	100.00%

The Plan's assets are invested, along with JHHS plan assets in a Master Trust, among and within various asset classes in order to achieve sufficient diversification in accordance with HCGH 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 Plan strives to allocate assets between equity securities (including global asset allocation) 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 a market participant 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.

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

As of June 30, 2014 **Assets**	**Total Fair Value**	**Level 1**	**Level 2**
Cash and cash equivalents (1)	$ 176	$ 176	$ -
Equities and equity funds (2)	3,525	222	3,303
Fixed income funds (3)	2,764	2,285	479
Alternatives (4)	4,329	-	4,329
Totals	$ 10,794	$ 2,683	$ 8,111

As of June 30, 2013 **Assets**	**Total Fair Value**	**Level 1**	**Level 2**
Cash and cash equivalents (1)	$ 197	$ 197	$ -
Equities and equity funds (2)	3,233	220	3,013
Fixed income funds (3)	2,822	2,530	292
Alternatives (4)	3,628	-	3,628
Totals	$ 9,880	$ 2,947	$ 6,933

(1) Cash and 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 asset 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 at using a NAV 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 coupled with short-term redemption notice periods renders these investments level 2.

There are no unfunded commitments related to the Plan'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	**Fair Market Value**	**Liquidity**	**Notice Period**	**Receipt of Proceeds**
Global asset allocation	$ 2,435	Monthly	5 to 30 days	Within 15 days, or 95% on redemption date, 5% within 3 days
Fund of funds	27	Quarterly	45 days	90% within 30, 10% after annual audit
Hedge funds	1,515	Monthly, quarterly, or bi-annually	30 to 95 days	90% to 95% within 15 to 30 days, 5% to 10% after annual audit or redemption date
Credit funds	352	Annually	60 to 90 days	Within 30 days, or 90% within 10 days, 10% after annual audit
	$ 4,329			

June 30, 2013

Description	**Fair Market Value**	**Liquidity**	**Notice Period**	**Receipt of Proceeds**
Global asset allocation	$ 1,815	Monthly	5 to 30 days	Within 15 days, or 95% on redemption date, 5% within 3 days
Fund of funds	29	Quarterly	45 days	90% within 30, 10% after annual audit
Hedge funds	1,442	Monthly, quarterly, or bi-annually	30 to 90 days	90% to 95% within 3 to 30 days, 5% to 10% after annual audit or redemption date
Credit funds	336	Annually	60 to 90 days	Within 30 days, or 90% within 10 days, 10% after annual audit
Distressed credit	6	December 31, 2013		
	$ 3,628			

Contributions and Estimated Future Benefit Payments:

HCGH expects to contribute $258 thousand to its pension plan in the fiscal year 2015.

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid in each of the following fiscal years as of June 30, (in thousands):

2015	$	2,133
2016		1,389
2017		1,142
2018		776
2019		892
2020-2022		3,567

HCGH also has a 401(k) savings Plan available to all employees. The revised plan provides that HCGH will contribute 1% to 2% of each employee's total compensation in addition to contributing from fifty cents to one dollar and fifty cents, based on years of service, for each dollar contributed by the employee. HCGH's contribution match basis is limited to 6% of the employee's total compensation. HCGH funded $3.1 million and $3.2 million for the years ended June 30, 2014 and 2013, respectively.

11. 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. HCGH charges for inpatient as well as outpatient and emergency services performed at the hospitals are regulated by the Commission. HCGH management has made all submissions required by the Commission and believes HCGH 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. Other JHHS hospital's 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. Those hospitals 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. HCGH has negotiated to include out of state volume within their global budget; therefore, all in state and out of state volumes are subject to its global budget.

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.

12. Professional and General Liability Insurance:

The Johns Hopkins University ("University"), JHHSC and its affiliates, including HCGH, 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 the University 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 the primary coverage retained by the RRG and the captive. Primary retentions are $1.0 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 un-asserted claims including reported and unreported incidents and includes cost associated with settling claims. Projected losses were discounted at .64% and .57% as of June 30, 2014 and 2013, respectively.

HCGH's participation in the RRG and the captive insurance company does not extend to claims incurred prior to joining JHHSC. HCGH is self-insured for these claims unless they were reported to HCGH's previous insurance company prior to its purchase by JHHS. HCGH has established an additional loss accrual and is funding a separate deposit account with the RRG to cover estimated liabilities related to these claims.

Professional and general liability insurance expense incurred by HCGH was $571 thousand, and $812 thousand for years ended June 30, 2014 and 2013, respectively, and is included in purchased services on the Statements of Operations and Changes in Net Assets. Reserves were $5.0 million for each of the years ended June 30, 2014 and 2013.

HCGH applies the provisions of ASU 2010-24, "Presentation of Insurance Claims and Related Insurance Recoveries", which clarifies that health care entities should not net insurance recoveries against the related claims liabilities. HCGH recorded an increase in its assets and liabilities in the accompanying Balance Sheet as of June 30, 2014 and 2013 as follows (in thousands):

Caption on Balance Sheets	**2014**	**2013**
Prepaid expenses and other current assets	$ 1,104	$ 867
Estimated malpractice recoveries, net of current portion	1,230	1,522
Total assets	$ 2,334	$ 2,389
Current portion of estimated malpractice costs	$ 1,104	$ 867
Estimated malpractice costs, net of current portion	1,230	1,522
Total liabilities	$ 2,334	$ 2,389

The assets and liabilities represent HCGH'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.

13. Transactions with Related Parties:

During the years ended June 30, 2014 and 2013, HCGH engaged in transactions with JHHSC, and its affiliates, JHH, Johns Hopkins Community Physicians ("JHCP"), and JHMI Utilities, LLC ("Utility").

Significant expense transactions (in thousands):	2014	2013
JHH blood lab services	$ 7,406	$ 7,201
JHHSC shared services	7,751	7,129
JHCP physician services	3,284	3,170
Utility for information services	7,477	2,660
JHH clinical engineering services	885	857
	$ 26,803	$ 21,017

Balances due to affiliates (in thousands):

Current Portion	2014	2013
Due to JHHSC	$ (1,087)	$ (159)
Due to JHH	(6,783)	(6,470)
Due to JHCP	(285)	(275)
Due to Utility	(434)	(1,774)
Due to others, current	(179)	(77)
Total due to affiliates, current	$ (8,768)	$ (8,755)

Long-Term Portion:	2014	2013
Due from JHHSC	$ 252	$ -
JHHSC Promissory Notes	(56,000)	(56,000)
JHH Promissory Note	(102,058)	(105,930)
Total net due to affiliates	$(157,806)	$(161,930)

Broadway Services, Inc. ("BSI"), a related organization, is a wholly-owned subsidiary of the Dome Corporation. The Dome Corporation is owned equally by JHHSC and the University. BSI provides HCGH with security and manages its housekeeping services. HCGH incurred expenses of approximately $1.9 million during each of the years ended June 30, 2014 and 2013 for these services.

In March 2012, HCGH and JHH entered into a short-term Promissory Note in the amount of $110.6 million, and carried an interest rate of 2.75%. The Promissory Note principal and accrued interest was due on May 31, 2012, or upon an earlier long-term extension of the Affiliate Note. The proceeds of the Affiliate Note were placed in HCGH's debt service reserve trust for the purpose of redeeming the 1998 Bonds. In May 2012, the Promissory Note was extended ("2012 Affiliate Note"), and now has a final due date of July 1, 2033. The 2012 Affiliate Note carries an interest rate that resets annually and varies from 4.11% to 4.82%, and is payable semi-annually. Interest expense paid to JHH was $4.6 million and $4.7

million for the years ended June 30, 2014 and 2013, respectively. Principal payments are due on July 1 of each year and range from $700 thousand in 2013 to $7.2 million in 2034. The balance on the Promissory Note was $105.9 million and $109.9 million as of June 30, 2014 and 2013, respectively.

In May 2013, HCGH and JHHSC entered into a long-term Promissory Note ("2013A Affiliate Note") in the amount of $40.0 million, and carries a variable rate interest based on the three-month LIBOR plus a spread of 0.65%. The 2013A Affiliate Note comes due in 2046. Interest payments will be made at the end of each month. The rate was approximately 0.84% and 087% for the years ended June 30, 2014 and 2013, respectively. Interest expense paid to JHHSC was $335 thousand and $49 thousand for the years ended June 30, 2014 and 2013, respectively. Principle payments on the 2013A Affiliate Note begin in the year 2034, and range from $2.3 million to $3.9 million.

On June 30, 2013, HCGH and JHHSC entered into a long-term Promissory Note ("2013B Affiliate Note") in the amount of $16.0 million, and carries a fixed interest rate of 3.00%. The 2013B Affiliate Note is structured as a term note and comes due in 2023. Interest payments are paid semi-annually on July 1 and January 1 of each year. Interest expense paid to JHHSC was $480 thousand for the year ended June 30, 2014.

Total maturities of all affiliate notes during the next five years and thereafter are as follows as of June 30, 2014 (in thousands):

2015	$ 3,872
2016	3,977
2017	4,095
2018	4,222
2019	4,347
Thereafter	141,417
	$ 161,930

The current portion of affiliate notes was $3.9 million as of June 30, 2014.

Interest costs incurred related to all external and related party debt amounted to $6.9 million during the year ended June 30, 2014, of which $4 thousand was capitalized and $6.9 million was expensed. Interest costs incurred relating to all external and related party debt amounted to $6.4 million during the year ended June 30, 2013, of which $5 thousand was capitalized and $6.4 million was expensed.

14. Contracts, Commitments and Contingencies:

There are several lawsuits pending in which HCGH has been named as a defendant. In the opinion of HCGH's management, after consultation with legal counsel, the potential liability, in the event of adverse settlement, will not have a material impact on HCGH's financial position.

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 the 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	$ 1,057
2016	1,084
2017	1,111
2018	1,140
2019	1,169

Rental expense for all operating leases for years ended June 30, 2014 and 2013 were $624 thousand and $747 thousand, respectively.

15. Functional Expenses:

HCGH provides general health care services to residents within its geographic location. Expenses relating to health care and general and administrative services for the years ended June 30, 2014 and 2013 as follows (in thousands):

	2014	**2013**
Health care services	$191,404	$190,324
General and administrative services	38,143	31,689
Total functional expenses	$229,547	$222,013

16. Howard Hospital Foundation:

Interest in net assets of HHF of $13.6 million and $13.9 million as of June 30, 2014 and 2013, respectively, are presented in Assets Whose Use is Limited in the Balance Sheets.

HHF assets consist of cash and cash equivalents, marketable securities, and contributions receivable. The following table represents total HHF assets for the years ended June 30, 2014 and 2013 as follows (in thousands):

	2014	**2013**
Cash and cash equivalents	$ 1,021	$ 372
Marketable securities	9,033	7,868
Contributions receivable	4,038	5,877
Total Assets	$ 14,092	$ 14,117

HHF liabilities consist of current and long term liabilities. HHF net assets consist of unrestricted, temporarily restricted, and permanently restricted. The following table represents total HHF liabilities and net assets for the years ended June 30, 2014 and 2013 as follows (in thousands):

	2014	2013
Current liabilities	$ 408	$ 197
Long term liabilities	39	17
Unrestricted net assets	1,975	2,820
Temporarily restricted net assets	8,452	8,023
Permanently restricted net assets	3,218	3,060
Total liabilities and net assets	$ 14,092	$ 14,117

The changes in net assets were ($259) thousand and $675 thousand for the years ended June 30, 2014 and 2013, respectively.

HCGH made transfers to HHF in the amounts of $1.0 million for each of the years ended June 30, 2014 and 2013, respectively. HHF made transfers to HCGH to reimburse HCGH for operating costs and other program support paid by HCGH on behalf of HHF amounting to $1.0 million for each of the years ended June 30, 2014 and 2013, respectively.

17. Subsequent Events:

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