GREATER BALTIMORE MEDICAL CENTER, INC.
AND SUBSIDIARIES

Consolidated Financial Statements

June 30, 2014 and 2013

(With Independent Auditors' Report Thereon)

GREATER BALTIMORE MEDICAL CENTER, INC.
AND SUBSIDIARIES

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

Independent Auditors' Report

The Board of Directors
GBMC HealthCare, Inc.:

We have audited the accompanying consolidated financial statements of Greater Baltimore Medical Center, Inc. and its subsidiaries (the Medical Center), which comprise the consolidated balance sheets as of June 30, 2014 and 2013, and the related consolidated statements of operations, changes in net assets, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Greater Baltimore Medical Center, Inc. and its subsidiaries as of June 30, 2014 and 2013, and the results of their operations and their cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

KPMG LLP

October 2, 2014

GREATER BALTIMORE MEDICAL CENTER, INC.
AND SUBSIDIARIES

Consolidated Balance Sheets

June 30, 2014 and 2013

(In thousands)

Assets		**2014**	**2013**
Current assets:			
Cash and cash equivalents	$	24,309	2,585
Short-term investments and limited or restricted use funds		10,540	18,511
Patient accounts receivable, net of reserves of $6,152 and 6,421		47,108	44,077
Advances to affiliates		6,365	1,965
Other current assets		14,640	13,706
Total current assets		102,962	80,844
Noncurrent assets:			
Investments and limited or restricted use funds		217,526	179,555
Interest in net assets of affiliate		8,561	31,393
Advances to affiliates		2,310	2,832
Property, plant and equipment, net		222,039	222,085
Other assets		12,897	12,741
Total noncurrent assets		463,333	448,606
Total assets	$	566,295	529,450
Liabilities and Net Assets			
Current liabilities:			
Accounts payable and accrued expenses	$	34,930	32,549
Accrued salaries and employee benefits		17,109	18,215
Insurance reserves, current		9,641	13,151
Advances from third-party payors		13,175	13,650
Current portion of long-term debt and capital lease liabilities		4,216	4,171
Other liabilities		6,144	5,503
Total current liabilities		85,215	87,239
Noncurrent liabilities:			
Long-term debt		102,542	105,314
Capital lease liabilities		28,331	27,963
Insurance reserves		32,411	33,142
Accrued pension liability		21,339	18,668
Other long-term liabilities		662	912
Total liabilities		270,500	273,238
Net assets:			
Unrestricted		254,252	220,072
Temporarily restricted		29,076	25,949
Permanently restricted		12,467	10,191
Total net assets		295,795	256,212
Total liabilities and net assets	$	566,295	529,450

See accompanying notes to consolidated financial statements.

GREATER BALTIMORE MEDICAL CENTER, INC.
AND SUBSIDIARIES

Consolidated Statements of Operations

Years ended June 30, 2014 and 2013

(In thousands)

	2014	2013
Patient service revenue:		
Patient service revenue, net of contractual allowances	$ 390,336	384,298
Provision for uncollectible accounts	(11,271)	(9,509)
Net patient service revenue	379,065	374,789
Other operating revenue:		
Other revenue	17,707	13,998
Net assets released from restrictions	5,770	5,210
Total operating revenue	402,542	393,997
Operating expenses:		
Salaries and wages	183,931	179,904
Employee benefits	36,661	40,665
Expendable supplies	81,219	80,723
Purchased services	47,164	45,371
Depreciation and amortization	26,160	25,695
Interest	6,562	6,705
Total operating expenses	381,697	379,063
Total operating income	20,845	14,934
Other income:		
Contributions	419	739
Investment income, net	18,977	15,718
Interests in unrestricted net assets of affiliate	299	1,839
Total other income	19,695	18,296
Excess of revenues over expenses	$ 40,540	33,230

See accompanying notes to consolidated financial statements.

GREATER BALTIMORE MEDICAL CENTER, INC.
AND SUBSIDIARIES

Consolidated Statements of Changes in Net Assets

Years ended June 30, 2014 and 2013

(In thousands)

	2014	2013
Excess of revenues over expenses	$ 40,540	33,230
Changes in unrestricted activity:		
Pension related changes other than net periodic pension costs	(3,291)	23,791
Net assets released for purchase of fixed assets	1,884	204
Contribution from noncontrolling interest	—	5
Transfers to affiliates	(2,860)	(3,474)
Reclassification of net assets	(2,093)	—
Increase in unrestricted net assets	34,180	53,756
Changes in temporarily restricted net assets:		
Contributions	5,642	7,542
Investment income, net	73	40
Interests in temporarily restricted net assets of affiliate	3,402	3,663
Transfer of restricted assets (to) from affiliates	86	(1,220)
Net assets released for operations	(5,770)	(5,210)
Net assets released for purchase of fixed assets	(1,884)	(204)
Reclassification of net assets	1,578	—
Increase in temporarily restricted net assets	3,127	4,611
Changes in permanently restricted net assets:		
Contributions	1,761	1,550
Interests in permanently restricted net assets of affiliate	597	1,647
Transfers to affiliates	(597)	(1,693)
Reclassification of net assets	515	—
Increase in permanently restricted net assets	2,276	1,504
Increase in net assets	39,583	59,871
Net assets, beginning of year	256,212	196,341
Net assets, end of year	$ 295,795	256,212

See accompanying notes to consolidated financial statements.

GREATER BALTIMORE MEDICAL CENTER, INC.
AND SUBSIDIARIES

Consolidated Statements of Cash Flows

Years ended June 30, 2014 and 2013

(In thousands)

		2014	2013
Cash flows from operating activities:			
Change in net assets	$	39,583	59,871
Adjustments to reconcile change in net assets to net cash provided by operating activities:			
Depreciation and amortization		26,160	25,695
Provision for uncollectible accounts		11,271	9,509
Changes in interest in net assets of affiliates		(4,298)	(7,149)
Realized/unrealized gains on investments		(16,731)	(13,878)
Transfers to affiliates		3,371	6,387
Pension related changes other than net periodic pension costs		3,291	(23,791)
Realized and unrealized gains on joint venture		(1,453)	—
Restricted contributions		(7,403)	(9,092)
Contribution from noncontrolling interest		—	(5)
Changes in assets and liabilities:			
Increase in patient accounts receivable		(14,302)	(8,571)
Decrease in other assets		815	3,225
(Decrease) increase in accounts payable and accrued expenses, advances from third parties, current and noncurrent liabilities		(8,751)	1,090
Decrease in pension liability		(620)	(4,224)
Net cash provided by operating activities		30,933	39,067
Cash flows from investing activities:			
Decrease (increase) in investments and limited or restricted use funds		14,414	(29,888)
Additions to property and equipment		(18,566)	(18,012)
Proceeds from sale of joint venture		899	—
Net cash used in investing activities		(3,253)	(47,900)
Cash flows from financing activities:			
Payment on long-term debt and capital lease liabilities		(4,145)	(3,949)
Transfer to affiliates		(7,249)	(5,804)
Proceeds from restricted contributions		5,438	4,342
Contribution from noncontrolling interest		—	5
Net cash used in financing activities		(5,956)	(5,406)
Increase (decrease) in cash		21,724	(14,239)
Cash and cash equivalents, beginning of year		2,585	16,824
Cash and cash equivalents, end of year	$	24,309	2,585
Cash paid for interest	$	6,425	6,572
Capital additions accrued but not paid		5,701	3,335
Non-cash capital lease addition		1,808	—

See accompanying notes to consolidated financial statements.

(1) Nature of Operations

Greater Baltimore Medical Center, Inc. and subsidiaries (the Medical Center), located in Baltimore, Maryland, is a not-for-profit hospital and a wholly owned subsidiary of GBMC HealthCare, Inc. (the Company). The Medical Center provides inpatient, outpatient, and emergency care services primarily for residents of the Baltimore metropolitan area. In addition, the Medical Center has ownership of Finney Trimble Surgical Associates, LLC which is a healthcare provider and Ruxton Insurance Company, Ltd. which is a wholly owned insurance captive domiciled in Bermuda that insures the risks for the Medical Center's malpractice and general liability claims. The Medical Center was formed by agreement dated September 1, 1965, by the Hospital for the Women of Maryland of Baltimore City (Women's Hospital) and Presbyterian Eye, Ear and Throat Charity Hospital (Presbyterian Hospital).

(2) Summary of Significant Accounting Policies

(a) Basis of Accounting

The accompanying consolidated financial statements have been prepared on an accrual basis of accounting in accordance with U.S. generally accepted accounting principles. Significant intercompany accounts and transactions have been eliminated in consolidation.

(b) Cash and Cash Equivalents

Cash and cash equivalents, carried at cost which approximates fair value, include short term investments with original maturities of three months or less from the date of purchase invested that are readily convertible to known amounts of cash. Cash balances may exceed amounts insured by federal agencies and therefore bear a risk of loss. The Medical Center has not experienced such losses on these funds.

(c) Limited or Restricted Use Funds Held

Limited use funds primarily include assets held by trustees under agreement. Such funds include assets set aside for bond repayment, malpractice costs, plant replacement, and amounts restricted by donors. The Board of Directors and independent third parties designate the assets held by trustees under agreement. The limited use funds are classified as current or noncurrent based upon the timing and nature of their intended use.

(d) Inventories

Inventories, consisting of medical supplies and drugs are stated at the lower of cost or market, with cost being determined primarily under the first-in, first-out method.

(e) Interest in Net Assets of Affiliates

Prior to 2014, the Medical Center transferred donor-restricted contributions to GBMC Investments Inc., a wholly owned subsidiary of the Company. The Medical Center recognized the investment as well as investment income, realized and unrealized gains/losses related to these underlying contributions. The investment is recorded at its fair value. In 2014, GBMC Investments Inc.

transferred such monies to the Medical Center. In addition, the Medical Center recognizes pledge receivables held by GBMC Foundation, Inc., a wholly owned subsidiary of the Company, since pledge receivables are for the benefit of the Medical Center.

(f) Investments and Investment Income

Investments include amounts designated by management for specific purposes, plant replacement and other purposes. The Medical Center's investment portfolio is considered a trading portfolio and is classified as current or noncurrent assets based on management's intention as to use. Limited use funds that are required for obligations classified as current liabilities are reported as current assets. Investments in marketable securities are measured at fair value on the consolidated balance sheet. The fair values of the investments are based on quoted market prices or dealer quotations. See note 4 for the discussion of the measurement of fair value for investments.

Investment income or losses (including realized gains and losses on investments, interest and dividends) on proceeds of borrowings that are held by a trustee, to the extent not capitalized, are reported as other operating income. Investment income or loss (including unrealized and realized gains and losses on investments, interest and dividends) is included in excess of revenues over expenses unless restricted by a donor or law. Investment income on investments of temporarily restricted net assets is recorded as an increase in temporarily restricted net assets to the extent restricted by the donor or law.

Investment income is recorded on the accrual basis. Purchases and sales of investments are reflected on a trade-date basis. Realized gains and losses on sales of investments are based on historical cost.

(g) Other Assets

Other assets include deferred financing costs related to long-term borrowings that are amortized on a straight-line basis, which approximates the effective interest rate method, over the life of the borrowings which ranges from 3 to 30 years. Also included in other assets are deferred leasing costs, which are amortized over the lease terms and expensed on a straight-line basis over the life of the related lease.

The Medical Center has incurred deferred financing costs related to the issuance of Maryland Health and Higher Educational Facilities Authority (MHHEFA) Series 2012, Series 2011, and Series 1995 Revenue Bonds that have been capitalized. Amortization expense for deferred leasing and bond financing costs for the years ended June 30, 2014 and 2013 was $70 and $66, respectively. Accumulated amortization at June 30, 2014 and 2013 amounted to $284 and $214, respectively.

The Medical Center is a 38% limited partner in the Pavilion West Medical Arts Limited Partnership (West Pavilion). The West Pavilion is a medical office building located on the Medical Center campus.

(Continued)

The Medical Center accounts for its joint ventures using the equity method or at cost, as appropriate, and any income/loss is included in income in other operating revenue in the consolidated statements of operations.

(h) Property, Plant and Equipment

Property, plant and equipment are recorded at cost or, if donated, at fair market value at the date of gift. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, which range from 2 to 40 years. The cost and accumulated depreciation relating to property, plant, and equipment sold or retired are removed from the respective accounts at the time of disposition and the resulting gain or loss is reflected in the statements of operations.

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

(i) Donor-Restricted Gifts

Unconditional promises to give cash and other assets to the Medical Center are reported at their fair value at the date the promise 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 if they are received with donor stipulations that limit the use of donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose of the restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the consolidated statements of operations and changes in net assets as net assets released from restrictions. Donor restricted contributions whose restrictions are met within the same year as received, are reported as unrestricted contributions in the accompanying consolidated financial statements.

(j) Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are those whose use by the Medical Center has been limited by donors to a specific time period or purpose. Permanently restricted net assets have been restricted by donors to be maintained by the Medical Center in perpetuity.

In 2014, the Medical Center determined that $2,093 of unrestricted net assets should be recorded as temporarily restricted net assets of ($1,578) and permanently restricted net assets of ($515).

(k) Insurance Reserves

The provision for estimated insurance reserves includes estimates of the ultimate costs for reported malpractice, health and workers’ compensation claims and claims incurred but not reported.

(l) Net Patient Service Revenue

Net patient service revenue is reported at the estimated net realizable amounts from patients and third-party payors for services rendered. Rates for the Medical Center's charges related to patient services are set and approved in accordance with the established regulations and rate methodologies of Maryland's rate-setting authority, the Health Services Cost Review Commission (HSCRC), an independent agency created by the State of Maryland through legislative actions. All payors are required to pay the Medical Center's rates as approved by the HSCRC. The HSCRC allows a contractual allowance discount of up to 6.00% on charges to Medicare and Medicaid patients. Other third party payors may receive a prompt payment discount of up to 2.25% through an advanced funding agreement with the Medical Center.

On January 29, 2014, the Medical Center and the HSCRC agreed to implement the Global Budget Revenue (GBR) methodology, effective July 1, 2013. The agreement will continue through June 30, 2014 and on July 1, 2014, and each year thereafter, the agreement will renew for a one year period unless it is canceled by the HSCRC or by the Medical Center. The GBR model is consistent with the Medical Center's mission to provide the highest value of care possible to its patients and the communities it serves. The GBR agreement establishes a prospective, fixed revenue base "GBR cap" for the upcoming year. This includes both inpatient and outpatient regulated services. Under GBR, the Medical Center's revenue for all HSCRC regulated services is predetermined for the upcoming year, regardless of changes in volume, service mix intensity, or mix of inpatient or outpatient services that occurred during the year. The GBR agreement allows the Medical Center to adjust unit rates, within certain limits, to achieve the overall revenue base for the Medical Center at year end. Any overcharge or undercharge versus the GBR cap is prospectively added to the subsequent year's GBR cap. Although the GBR cap does not adjust for changes in volume or service mix, the GBR cap is adjusted annually for inflation, and for changes in payor mix and uncompensated care. Beginning on July 1, 2014 and each year thereafter, the Medical Center will receive an annual adjustment to its cap for the change in population in the Medical Center's service area. GBR is designed to encourage hospitals to operate efficiently by reducing utilization and managing patients in the appropriate care delivery setting.

Physician charges are not regulated by the HSCRC and are primarily reimbursed by third party payors at rates that are contractually agreed upon.

Adjustments to patient service revenue for contractual allowances, discounts and financial assistance were $83,140 and $82,398 for the years ended June 30, 2014 and 2013, respectively.

(m) Allowance for Bad Debt

Patient accounts receivable are reduced by allowances for bad debts. In evaluating the collectibility of accounts receivable, the Medical Center analyzes historical collections and write-offs and identifies trends for each of its major payor sources of revenue to estimate the appropriate allowance for bad debts and provision for uncollectible accounts. Management regularly reviews its estimate and evaluates the sufficiency of the allowance for bad debts. The Medical Center analyzes contractual amounts due from patients who have third-party coverage and provides an allowance for doubtful accounts and a provision for bad debts. For patient accounts receivable associated with self-pay patients, which includes those patients without existing insurance coverage for a portion of the bill, the Medical Center records a significant provision for bad debts for patients that are unable or unwilling to pay for the portion of the bill representing their financial responsibility. Account balances are charged off against the allowance for doubtful accounts after all means of collection has been exhausted.

(In thousands)

The activity in the allowance for bad debts is summarized as follows for the years ended June 30:

		2014	2013
Beginning balance	$	6,421	6,190
Provision for uncollectible accounts		11,271	9,509
Less write offs		(11,540)	(9,278)
Ending balance	$	6,152	6,421

(n) Meaningful Use

Under certain provisions of the American Recovery and Reinvestment Act of 2009 (ARRA), federal incentive payments are available to hospitals, physicians and certain other professionals (Providers) when they adopt, implement or upgrade (AIU) certified electronic health record (EHR) technology or become “meaningful users,” as defined under ARRA, of EHR technology in ways that demonstrate improved quality, safety and effectiveness of care. Providers can become eligible for annual Medicare incentive payments by demonstrating meaningful use of EHR technology in each period over four periods. Medicaid providers can receive their initial incentive payment by satisfying AIU criteria, but must demonstrate meaningful use of EHR technology in subsequent years in order to qualify for additional payments. Hospitals may be eligible for both Medicare and Medicaid EHR incentive payments; however, physicians and other professionals may be eligible for either Medicare or Medicaid incentive payments, but not both. The Medical Center recognizes Medicare EHR incentive payments when it is reasonably assured that the Medical Center will successfully demonstrate compliance with the specified meaningful use criteria. The Medical Center and certain physicians satisfied the CMS AIU and/or meaningful use criteria. As a result, the Medical Center recognized approximately $1,776 and $1,781 of Medicare and Medicaid EHR incentive payments in other operating revenues in the consolidated statements of operations for the years ended June 30, 2014 and 2013, respectively.

(o) Excess of Revenue over Expenses

The consolidated statements of operations include a performance indicator, excess of revenues over expenses. Changes in unrestricted net assets which are excluded from excess of revenues over expenses, consistent with industry practice include pension changes other than net periodic pension costs, contributions and distributions with noncontrolling investors, transfers to affiliates, and contributions of long-lived assets (including assets acquired using contributions which by donor restriction were to be used for the purpose acquiring such assets).

(p) Financial Assistance and Community Benefits

As part of the Medical Center's mission, it provides medical care without discrimination, including the ability of a patient to pay for services. Under the Medical Center's Financial Assistance Policy, patients who meet certain financial-based criteria can qualify for free care on all or a portion of the total patient bill. The Medical Center recorded $4,337 and $4,617 of financial assistance during the years ended June 30, 2014 and 2013, respectively. The total direct and indirect cost of providing financial assistance was approximately $3,274 and $3,493 during the years ended June 30, 2014 and 2013, respectively.

In addition to its Financial Assistance Policy, the Medical Center has a long-standing commitment of supporting the community through the provision of outreach services designed to address identified health and social issues. Specifically, the Medical Center provides a variety of screening and early detection tests, wellness activities, social support services and educational seminars. A majority of these services are provided at either nominal or no cost to community members.

(q) Income Taxes

The Medical Center is a not-for-profit corporation as described in Section 501(c)(3) of the Internal Revenue Code and is exempt from federal income taxes on related income pursuant to Section 501(a) of the Code. The Financial Accounting Standards Board's (FASB) 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 standard also provides guidance on the measurement, classification and disclosure of tax return positions in the consolidated financial statements. The Medical Center has adopted this guidance, and there were no amounts recorded in the consolidated financial statements as of and during the years ended June 30, 2014 and 2013 for uncertain tax positions.

(r) Use of Estimates

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

(In thousands)

(s) New Accounting Pronouncements

The FASB issued Accounting Standards update (ASU) 2014-09, *Revenue from Contracts with Customers (Topic 606)*. This ASU establishes principles for reporting useful information to users of financial statements about the nature, amount, timing, and uncertainty of revenue and cash flows arising from the entity's contracts with customers. Particularly, that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. ASU 2014-09 is effective for fiscal year 2018. The Medical Center expects to record a decrease in net patient service revenue and a corresponding decrease in bad debt expense upon adoption of the standard.

(3) Concentrations of Credit Risk

The Medical Center grants credit without collateral to its patients, most of whom are local residents and are insured under third party payor agreements. The mix of receivables and patient service revenue from patients and third parties as of and for the years ended June 30, 2014 and 2013 were as follows:

	Accounts receivables		Revenues	
	2014	**2013**	**2014**	**2013**
Medicare	30%	30%	37%	37%
Medicaid	6	4	2	2
Blue Cross	13	12	16	15
Other third party payors	45	46	43	44
Self Pay	6	8	2	2
Total	100%	100%	100%	100%

The Medical Center provides general acute healthcare service in the State of Maryland. The Medical Center and other healthcare providers are subject to certain inherent risks, including the following:

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

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

(Continued)

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

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

The federal government and many states have aggressively increased enforcement under Medicare and Medicaid anti-fraud and abuse laws and physician self referral laws (STARK law and regulation). Federal healthcare reform initiatives continue to prompt a national review of federally funded healthcare programs. In addition, the federal government and many states continue to fund programs to audit and recover potential overpayments to providers from the Medicare and Medicaid programs. In September 2009, the Medical Center was notified that the Recovery Audit Contractors (RAC) would begin auditing company operations in 2011 and the Medical Center received its first request for records in the first quarter of fiscal year 2011. RAC activity continued in fiscal year 2014 and, on average, the audits for fiscal year 2014 and 2013 remained consistent. The Medical Center has devoted resources to track, tend and defend RAC audit results and implemented a response program and compliance program to monitor conformance with applicable laws and regulations, but the possibility of future government review and enforcement action exists.

As a result of recently enacted and pending federal healthcare reform legislation, substantial changes are anticipated in the United States healthcare system. Such legislation includes numerous provisions affecting the delivery of healthcare services, the financing of healthcare costs, reimbursement to healthcare providers and the legal obligations of health insurers, providers and employers. These provisions are currently slated to take effect at specified times over the next decade. This federal healthcare reform legislation did not affect the 2014 or 2013 consolidated financial statements.

(4) Investments and Limited or Restricted Use Funds

Guidance for fair value measurements establishes a hierarchy of valuation inputs based on the extent to which the inputs are observable in the marketplace. Observable inputs reflect market data obtained from sources independent of the reporting entity and unobservable inputs reflect the entities own assumptions about how market participants would value an asset or liability based on the best information available. Valuation techniques used to measure fair value under current guidance must maximize the use of observable inputs and minimize the use of unobservable inputs. The guidance describes a fair value hierarchy based on three levels of inputs, of which the first two are considered observable and the last one is considered unobservable, that may be used to measure fair value.

The following describes the hierarchy of inputs used to measure fair value and the primary valuation methodologies used by the Medical Center for financial instruments measured at fair value on a recurring basis. The three levels of inputs are as follows:

- Level 1 – Quoted prices in active markets for identical assets or liabilities.

(In thousands)

- Level 2 – Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the same term of the assets or liabilities.
- Level 3 – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

	June 30, 2014			
	Level 1	**Level 2**	**Level 3**	**Total**
Managed cash funds	$ 20,479	—	—	20,479
Corporate debt securities	—	71,952	—	71,952
Bonds – treasury	6,054	—	—	6,054
Bonds – federal agency backed	—	5,739	—	5,739
Bonds – mortgage-backed	—	3,592	—	3,592
Mutual funds – fixed income	—	904	—	904
Municipal bonds	—	1,042	—	1,042
Total fixed income	6,054	83,229	—	89,283
Common stock	80,520	553	796	81,869
Foreign stock	7,992	—	1,760	9,752
Mutual funds	26,649	—	—	26,649
Mutual funds international	34	—	—	34
Total equity	115,195	553	2,556	118,304
Total investment and limited or restricted use funds	141,728	83,782	2,556	228,066
Less current portion	10,540	—	—	10,540
Total noncurrent investment and limited or restricted use funds	$ 131,188	83,782	2,556	217,526

(In thousands)

	June 30, 2013			
	Level 1	Level 2	Level 3	Total
Managed cash funds	$ 27,810	—	—	27,810
Corporate debt securities	—	67,093	—	67,093
Bonds – treasury	7,182	—	—	7,182
Bonds – federal agency backed	—	5,243	—	5,243
Bonds – mortgage-backed	—	5,585	—	5,585
Mutual funds – fixed income	—	1,115	—	1,115
Municipal bonds	—	1,205	—	1,205
Total fixed income	7,182	80,241	—	87,423
Common stock	83,520	—	812	84,332
Foreign stock	4,467	—	1,481	5,948
Mutual funds	17,215	—	—	17,215
Mutual funds international	135	—	—	135
Total equity	105,337	—	2,293	107,630
Total investment and limited or restricted use funds	140,329	80,241	2,293	222,863
Less current portion	18,511	—	—	18,511
Total noncurrent investment and limited or restricted use funds	$ 121,818	80,241	2,293	204,352

The above table includes interest in net assets of affiliates of $24,797 as of June 30, 2013.

Changes to Level 1 and Level 2 inputs between June 30, 2014 and 2013 were the result of strategic investments and reinvestments, interest income earning and changes in fair value of investments.

As of June 30, 2014 and 2013, respectively, the Level 3 investment consists of holdings of $1,760 and $1,481, respectively, in a managed foreign investment fund and $796 and $812, respectively, of donated stock in a closely held company. The foreign investment fund value is provided by the investment manager and is based upon the sales price at close of the exchange on which each security is principally traded. The value of the donated stock is based on independent appraisals obtained by the closely held company. There were no significant transfers between levels during the years ended June 30, 2014 and 2013.

(In thousands)

Investments and limited or restricted use funds comprise the following uses and purposes at June 30:

		2014	2013
Limited use for debt service	$	5,129	5,041
Insurance settlements		42,052	46,293
Donor restricted		32,772	29,329
Unrestricted		148,113	142,200
	$	228,066	222,863

Investment income and gains for cash and cash equivalents and investments and limited use funds comprise the following for the years ended June 30:

		2014	2013
Unrestricted income:			
Dividends and interest, net	$	2,246	1,840
Realized gains on sales of investments		12,024	1,691
Unrealized gains on investments		4,707	12,187
Total unrestricted income, net		18,977	15,718
Temporarily restricted income:			
Dividends and interest, net		73	40
Total investment income, net	$	19,050	15,758

(Continued)

(In thousands)

(5) Property, Plant, and Equipment

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

		2014	2013
Land and land improvements	$	22,663	22,698
Buildings and building service equipment		288,466	280,477
Movable equipment		192,048	202,038
Capital leases		39,322	39,322
Construction in progress		12,867	3,470
		555,366	548,005
Less accumulated depreciation and amortization		(333,327)	(325,920)
Total property, plant and equipment, net	$	222,039	222,085
Depreciation expense	$	26,112	25,650
Amortization expense		48	45
Total depreciation and amortization expense	$	26,160	25,695

(6) Long-Term Debt

Long-term debt as of June 30, consisted of the following:

		2014	2013
MHHEFA project and refunding revenue bonds:			
Series 2012 bonds:			
3.25% – 5.00% term bonds	$	35,680	35,680
Series 2011 bonds:			
2.50% – 5.75% term bonds		63,470	65,765
Series 1995 bonds:			
Variable rate serial bonds		5,710	6,070
Unamortized bond premium/discount		432	454
		105,292	107,969
Less current portion of long-term debt		(2,750)	(2,655)
	$	102,542	105,314

On April 11, 2012, MHHEFA issued $35,680 of tax exempt Revenue Bonds, Series 2012 on behalf of the Medical Center. Bond proceeds were loaned to the Medical Center pursuant to the Master Trust Indenture. The 2012 Bonds bear interest at 3.25% – 5.00%. The bond proceeds and limited use funds were used to refund Series 2001 Revenue Bonds ($40,265). The Series 2012 Bonds are due on July 1 in annual installments ranging from $1,710 in 2022 to $3,700 in 2034.

(In thousands)

On April 20, 2011, MHHEFA issued $67,945 of tax exempt Revenue Bonds, Series 2011 on behalf of the Medical Center. Bond proceeds were loaned to the Medical Center pursuant to the Master Trust Indenture. The Series 2011 bonds bear interest at 2.50% – 5.75%. The bond proceeds and limited use funds were used to finance construction and renovation to the hospital and to refund, a) the Series 2009 Revenue Bonds ($45,000); b) a portion of Series 2001 Revenue Bonds ($12,565); and c) the Series 1993 Revenue Bonds ($11,975). The Series 2011 bonds are due on July 1 in annual installments ranging from $2,375 in 2014 to $3,905 in 2034.

On October 4, 1995, MHHEFA issued $10,000 of tax exempt Revenue Bonds, Series 1995 on behalf of the Medical Center. The Series 1995 bonds are due on July 1 in annual installments ranging from $375 in 2014 to $590 in 2025. The bonds bear interest at a variable rate, which is determined on a weekly basis by the remarketing agent of the issue. The rate was 0.30% and 0.24% as of June 30, 2014 and 2013, respectively. The Series 1995 Bonds are supported by a Standby Bond Purchase Agreement issued by M&T Bank, covering the remaining portion of the obligation, effective through October 1, 2016.

The Series 2012, 2011, and 1995 Revenue Bonds are collateralized equally and ratably by a lien on all gross receipts of the Medical Center.

The aggregate future maturities of long-term debt as of June 30, 2014 are as follows:

		Long-term debt
2015	$	2,750
2016		3,295
2017		3,495
2018		3,620
2019		3,790
Thereafter		87,910
		104,860
Unamortized bond discount		432
	$	105,292

The fair value of the Medical Center’s long-term debt, which is estimated, based on quotes from underwriters, was approximately $113,073 and $111,624 as of June 30, 2014 and 2013, respectively.

Under the Master Trust Indenture, the Medical Center is required to maintain, among other covenants, a maximum annual debt service coverage ratio of not less than 1.1 to 1.0.

In 2013, the Medical Center renewed a $10,000 line of credit, which expires on November 30, 2014 bearing interest at the LIBOR Daily Floating Rate. No amounts were drawn on this line during the years ended June 30, 2014 or 2013.

(In thousands)

(7) Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are available for the following purposes as of June 30:

		2014	2013
Departmental needs	$	14,907	12,505
Purchase of equipment/construction		1,420	1,807
Education		5,117	4,415
Uncompensated care		163	247
Research		4,249	4,064
Time restriction		3,220	2,911
Total temporarily restricted net assets	$	29,076	25,949

Permanently restricted net assets at June 30 are restricted in perpetuity, the income from which is expendable to support:

		2014	2013
Departmental needs	$	8,465	6,194
Research		2,725	2,725
Education		650	645
General support		512	512
Uncompensated care		115	115
Total permanently restricted net assets	$	12,467	10,191

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes for the years ended June 30 as follows:

		2014	2013
Departmental needs	$	4,681	4,021
Education		111	498
Research		819	637
Uncompensated care		159	54
Net assets released for operations	$	5,770	5,210
Purchase of equipment/construction	$	1,884	204

The Medical Center's endowment fund consists of donations from individual donors. The Medical Center has no internal board designated endowment funds recorded in unrestricted net assets. The net assets associated with the endowment are classified and reported based on the existence or absence of donor imposed restrictions.

The Medical Center has interpreted the "Uniform Prudent Management of Institutional Funds Act" (UPMIFA) as requiring the preservation of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Medical Center classifies as permanently restricted net assets the original value of the gifts donated to the permanent endowment. 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 Medical Center in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance, with UPMIFA, the Medical Center considers the following factors in making a determination to appropriate or accumulate endowment funds:

- The duration and preservation of the fund
- The purposes of the Medical Center and the donor restricted endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of the organization
- The investment policies of the organization

(In thousands)

The Medical Center had the following activities among its endowment fund during the years ended June 30, 2014 and 2013, respectively, delineated by net asset class:

	Unrestricted	Temporary restricted	Permanently restricted	Total
Endowment net assets, June 30, 2012	$ —	5,549	8,687	14,236
Investment return:				
Investment income, net	—	164	—	164
Net appreciation (realized and unrealized)	—	1,496	—	1,496
Total investment return	—	1,660	—	1,660
Contributions	—	—	1,504	1,504
Appropriation of endowment assets for expenditure	—	(41)	—	(41)
Endowment net assets, June 30, 2013	—	7,168	10,191	17,359
Investment return:				
Investment income, net	—	258	—	258
Net appreciation (realized and unrealized)	—	1,896	—	1,896
Total investment return	—	2,154	—	2,154
Contributions	—	—	1,761	1,761
Reclassification of net assets	—	—	515	515
Appropriation of endowment assets for expenditure	—	(1,504)	—	(1,504)
Endowment net assets, June 30, 2014	$ —	7,818	12,467	20,285

(a) Endowment Funds with Deficits

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

(b) Return Objectives and Risk Parameters

The Medical Center has adopted endowment investment and spending policies that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of endowment assets. Under this policy, the return objective for the endowment assets, measured over a full market cycle, shall be to maximize the return against a blended index, based on the endowment's target allocation applied to the appropriate individual benchmarks. The Medical Center expects its endowment funds over time, to provide an average rate of return of approximately 7.5% annually. Actual returns in any given year may vary from this amount.

(c) Strategies Employed for Achieving Investment Objectives

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

(d) Endowment Spending Allocation and Relationship of Spending Policy to Investment Objectives

The Board of Directors approves the method to be used to appropriate endowment funds for expenditures. The Medical Center amended its endowment spending allocation policy to conform to UPMIFA which was passed by Maryland on April 14, 2009 and limits annual endowment spending to 7% of the annual market value per year.

(8) Retirement Plans

(a) Defined Benefit Plan

The Medical Center has two noncontributory defined benefit pension plans, Greater Baltimore Medical Center Retirement Plan (DB Non Union) and the Pension Plan for Members of the Bargaining Unit of Greater Baltimore Medical Center (DB Union), covering all full-time employees with at least one year of service. Benefits under the plans are determined based on increasing percentages (depending on years of service) of final average compensation. Annual contributions are made to these plans in accordance with Employment Retirement Income Security Act (ERISA) regulations.

Effective June 30, 2007, the DB Non Union plan was frozen. As a result, no future benefits may be earned; however, employees are eligible to vest under the terms of the Plan.

(In thousands)

The following table sets forth the plans' funded status and amounts recognized in the Medical Center's financial statements as of June 30, 2014 and 2013. The change in benefit obligation, plan assets, and funded status of the pension plans is as follows:

		2014	2013
Change in benefit obligation:			
Benefit obligation at beginning of year	$	173,254	179,911
Service cost		802	901
Interest cost		8,629	8,192
Actuarial loss (gain)		15,177	(10,097)
Benefits paid		(6,141)	(5,653)
Benefit obligation at end of year	$	191,721	173,254
Change in plan assets:			
Fair value of plan assets at beginning of year	$	154,586	133,228
Actual return on plan assets		20,247	17,998
Employer contribution		1,690	9,013
Benefits paid		(6,141)	(5,653)
Fair value of plan assets at end of year	$	170,382	154,586
Funded status at end of year	$	(21,339)	(18,668)
Amounts recognized in unrestricted net assets as of June 30, 2014 and 2013 are as follows:			
Net prior service cost	$	(1,851)	(2,224)
Net actuarial loss		48,607	45,689
Net periodic benefit cost	$	46,756	43,465
Components of net periodic benefit cost for the years ended June 30, 2014 and 2013 are as follows:			
Service cost	$	802	901
Interest cost		8,629	8,192
Expected return on plan assets		(11,383)	(10,014)
Amortization of prior service cost		(372)	(347)
Amortization of loss deferral		3,393	6,055
Total	$	1,069	4,787

The accumulated benefit obligation for the pension plans, which differs from the estimated actuarial present value of the projected benefit obligation because it is based on current rather than future compensation levels, was $189,516 and $171,229 as of June 30, 2014 and 2013, respectively.

(In thousands)

Amounts in unrestricted net assets expected to be recognized as a component of net periodic pension benefit cost in the year ended June 30, 2015 are as follows:

Prior service cost	$	(372)
Loss		3,578
	$	3,206

i) Assumptions

The weighted averages used in developing the projected pension benefit obligations for the plans as of June 30 were as follows:

	Union		Nonunion	
	2014	**2013**	**2014**	**2013**
Discount rate	4.45%	5.09%	4.45%	5.09%
Expected return on plan assets	7.50	7.50	7.50	7.50
Rate of compensation increase	4.00	4.00	—	—

ii) Expected Long-Term Rate of Return

The expected long-term rate of return assumption used was based on a total plan return estimation by looking at the current yields available from fixed-income and reasonable equity return assumption based on long-term market trends and applying this to the Plan's asset mix. In addition, the actual long-term historical returns realized by the pension plans were taken into consideration.

iii) Estimated Future Benefit Payments

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

		Nonunion	Union	Total
2015	$	7,271	1,183	8,454
2016		7,469	1,215	8,684
2017		7,949	1,291	9,240
2018		8,297	1,315	9,612
2019		8,584	1,426	10,010
2020-2024		47,248	7,486	54,734
Total	$	86,818	13,916	100,734

(Continued)

(In thousands)

The Medical Center’s pension plan weighted average asset allocations as of June 30 by asset category were as follows:

	2014	2013
Equity securities	37%	45%
Debt securities	61	50
Cash and cash equivalents	2	5
	100%	100%

The following tables set forth by level, within the fair value hierarchy, the Plan’s assets at fair value as of June 30:

	June 30, 2014			
	Level 1	Level 2	Level 3	Total
Managed cash funds	$ 3,003	—	—	3,003
Mutual funds-fixed income	—	45,405	—	45,405
Common collective trust	—	58,813	—	58,813
Total fixed income	3,003	104,218	—	107,221
Common stock	29,468	—	—	29,468
Foreign stock	2,835	—	—	2,835
Mutual funds	18,944	—	—	18,944
Mutual funds international	11,914	—	—	11,914
Total equity	63,161	—	—	63,161
Total plan assets	$ 66,164	104,218	—	170,382

(In thousands)

	June 30, 2013			
	Level 1	Level 2	Level 3	Total
Managed cash funds	$ 6,958	—	—	6,958
Mutual funds-fixed income	—	39,405	—	39,405
Common collective trust	—	38,118	—	38,118
Total fixed income	6,958	77,523	—	84,481
Common stock	34,292	—	—	34,292
Foreign stock	1,897	—	—	1,897
Mutual funds	25,322	—	—	25,322
Mutual funds international	8,594	—	—	8,594
Total equity	70,105	—	—	70,105
Total plan assets	$ 77,063	77,523	—	154,586

Changes to Level 1 and Level 2 inputs between June 30, 2014 and 2013 were the result of strategic investments and reinvestments, interest income earning and changes in fair value of investments.

The following is a description of the valuation methodologies used for assets measured at fair value:

Corporate bonds: Valued at unadjusted quoted market share prices within active markets or based on external price data of comparable securities.

Common and foreign stock: Valued at unadjusted quoted market share prices within active markets.

Mutual funds: Valued at the net asset value (NAV) of shares held by the Plans at year-end. Shares traded in an active market.

Common/collective trust funds: Valued at fair value based on the unit value of the fund. Unit values are determined by the bank sponsoring such funds dividing the fund’s net assets at fair value by its units outstanding at the valuation date.

iv) Pension Investment Policies

The primary objective of the Medical Center’s pension investment program is the long-term growth of capital consistent with the protection of principal during major market declines. The program utilizes several balanced managers and provides for asset allocation guidelines consistent with the Medical Center’s risk exposure. The equity portion of the DB Union portfolio may range from 45% to 65% of total portfolio assets with a target of 55% measured at market value. The fixed income and cash equivalents portion of the DB Union portfolio may range from 35% to 55% of total portfolio assets with a target of 45% measured at market value. The investment program related to the DB Non Union portfolio, which was frozen effective June 30, 2007, has the added objective to protect the principal in preparation for future termination of the plan. A major strategy of the investment program for the DB Non Union portfolio is a de-risking strategy that periodically transfers investments from equity to fixed income securities based upon pre-established goals and criteria which are managed by the Company's investment consultants. The distribution of the DB Non Union portfolio as of June 30, 2014 was 33.1% equities, fixed income 65.2%, and cash 1.7%.

The equity segment of the portfolio may include common and preferred stock, convertible securities, warrants, and cash equivalent securities. Equity holdings in any one industry should not exceed 20% of the equity portfolio, holdings in any one economic sector should not exceed 50% of the equity portfolio and holdings in any one Medical Center should not exceed 15% of the equity portfolio. Cash equivalent positions should not exceed 10% of the equity managers' portfolio and no more than 15% of the total portfolio measured at market value shall be invested in small companies, defined as companies of less than $500,000 in market capitalization.

The fixed income segment of the portfolio may include marketable bonds, preferred stocks, up to 20% in Securities and Exchange Commission (SEC) registered 144A and securities and cash equivalent securities. With the exception of securities issued by or guaranteed by the U.S. Treasury or U.S. government agencies and instrumentalities, the maximum position in a single issuer's securities should not exceed 5% of the portfolio at market value. The manager is expected to maintain a weighted average bond portfolio quality rating of at least "A." Exposure to below investment grade securities, that is less than "BBB," is limited to a maximum of 20% of the portfolio at market value.

v) Contributions

The Medical Center expects to contribute $1,000 to its DB Union pension plan and $1,000 to its DB Non Union pension plan in the fiscal year ending June 30, 2015.

(b) Defined Contribution Plan

Effective July 1, 2007, the Medical Center established the GBMC, Inc. 401(a) Defined Contribution Plan (DC Non Union) covering all employees except those covered by the collective bargaining agreement, or employees in a zero hour or registry position. The Medical Center contributes up to 6% of all eligible employee wages (basic contribution) to the plan and matches up to 3% of employee wages of those who contribute to the Greater Baltimore Medical Center, Inc. Voluntary 403(b) Plan. At the discretion of the Board of Directors, the Medical Center may contribute additional funds to the plan.

(In thousands)

Expenses for the defined contribution plan for the years ended June 30 were as follows:

		2014	2013
Basic contribution	$	3,406	3,287
Match contribution		2,986	2,701
Total contribution	$	6,392	5,988

Effective July 1, 2009, the Medical Center established the GBMC, Inc. 401(a) Defined Contribution Plan for Members of the Bargaining Union of Greater Baltimore Medical Center (DC Union) for the members covered by a collective bargaining agreement. The Medical Center matches up to 3% of eligible employee wages of those who contribute to the Greater Baltimore Medical Center, Inc. Voluntary 403(b) Plan. The Medical Center contributed $74 and $75 during the years ended June 30, 2014 and 2013, respectively.

(c) Non-Qualified Plan

The Medical Center has a noncontributory, nonqualified deferred compensation plan for certain key employees. Benefits under the Plan are determined based on increasing percentages (depending on years of service) of base pay. The Medical Center recorded expense related to this plan of $709 and $672 for the years ended June 30, 2014 and 2013, respectively.

(9) Related Parties and Affiliates

Advances (payables) to (from) affiliates comprise the following as of June 30:

		2014	2013
Gilchrist Hospice Care. Inc.	$	755	614
GBMC Agency, Inc.		28	29
Physicians, LLC.		5,582	1,314
Pediatric Surgery, LLC		—	8
Advances to affiliates (current)	$	6,365	1,965
Greater Baltimore Health Alliance	$	2,543	744
GBMC Medical Arts LP (PPE)		(1,312)	(564)
Physicians Pavilion West		1,869	2,990
Owings Mills Pavilion		(790)	(338)
Advances to affiliates (noncurrent)	$	2,310	2,832

Such amounts do not have a stated maturity date. Some amounts are noninterest bearing and others bear interest, 3.25% at June 30, 2014 and 2013.

(In thousands)

At June 30, 2013, GBMC Investments, Inc., a wholly owned subsidiary of the Company held donor-restricted investments solely for the benefit of the Medical Center with a fair value of $24,797 (none at June 30, 2014). Further, GBMC Foundation, Inc. held pledge receivables of $8,561 and $6,596 as of June 30, 2014 and 2013, respectively, for the benefit of the Medical Center.

The Medical Center makes transfers to related entities to provide additional liquidity resources to those entities. Transactions between the Medical Center and related entities during the years ended June 30, 2014 and 2013 were as follows:

		2014	2013
Contributions made:			
GBMC Investments, Inc.	$	783	1,740
GBMC Foundation, Inc.		6,119	8,177
GBMC Land, Inc.		1,049	347
GBMC Healthcare, Inc.		310	223
	$	8,261	10,487
Contributions received:			
GBMC Investments, Inc.	$	2,594	2,419
GBMC Foundation		2,296	1,681
	$	4,890	4,100

The Medical Center leases office space in the physicians pavilions east, north and Owings Mills, which are medical office buildings owned by subsidiaries of the Company, under operating leases ranging from two to ten years with various renewal terms. Minimum rental payments including pass-through due under these leases as of June 30, 2014 were as follows:

2015	$	3,274
2016		2,837
2017		2,577
2018		1,939
2019		1,317
Thereafter		2,386

Rent expense, including pass-through expenses, under these leases was approximately $4,295 and $4,199 for the years ended June 30, 2014 and 2013, respectively.

(In thousands)

(10) Functional Expenses

The Medical Center provides general health care services to residents within its geographic location. Expenses related to providing these services for the years ended June 30, were as follows:

	2014	2013
Health care services	$ 341,012	339,395
General and administrative	40,685	39,668
Total operating expenses	$ 381,697	379,063

(11) Leases

Capital Leases

The Medical Center is obligated under a long term lease expiring in 2030 for the use of a medical office building. Payments increase at varying rates from $2,253 to $3,005 per year over the remaining life. Interest rates approximated 5.76% as of June 30, 2014 and 2013.

The Medical Center leases medical equipment with annual payments ranging from $54 to $387 and the last lease expires in fiscal year 2019.

Scheduled principal and interest payments on capital lease and financing obligations for the years ended June 30 are as follows:

	Payments	Principal payments
2015	$ 3,080	1,466
2016	2,924	1,372
2017	2,870	1,385
2018	2,870	1,456
2019	2,870	1,530
Thereafter	30,606	22,588
	45,220	29,797
Less amount representing interest	(15,423)	—
	$ 29,797	29,797

(Continued)

(In thousands)

Operating Leases

The Medical Center leases equipment and office space in the Company's medical office building and in privately owned buildings. The lease terms range from two to thirteen years. Rent expense under these operating leases for the years ended June 30, 2014 and 2013 were $5,628 and $5,880, respectively. The minimum future rental expense for the years ended June 30 are as follows:

	Equipment	Rent	Total
2015	$ 406	4,031	4,437
2016	—	3,571	3,571
2017	—	3,281	3,281
2018	—	2,478	2,478
2019	—	1,727	1,727
Thereafter	—	3,142	3,142
	$ 406	18,230	18,636

(12) Asserted and Unasserted Insurance Claims and Contingencies

The Medical Center maintains an offshore captive insurance company in Bermuda to provide coverage for medical malpractice claims. Reserve balances have been discounted at the rate of 3% for the years ended June 30, 2014 and 2013. The receivable for the expected reinsurance recoverable is recorded within other assets on the balance sheet. Retention on limits in which Ruxton assumes risk of loss is based on an annual occurrence basis of $3 million per occurrence and $18 million in aggregate. Amounts in excess of these limits are insured by highly rated commercial insurance companies.

As of June 30, 2014 and 2013, the Medical Center was partially self-insured for workers' compensation and health insurance claims on a claims-made basis. The aggregate reserves for workers' compensation claims were determined and discounted at the rate of 1.9% and 1.5% for 2014 and 2013, respectively. The receivable for the expected reinsurance recoverable is recorded within other current assets on the balance sheet. The Medical Center's excess workers' compensation policy is based on a per claim basis in excess of $350 plus a corridor deductible of $750.

(Continued)

(In thousands)

The Medical Center recorded reserve activity for claims and claims expense as follows:

	June 30, 2014			
	Malpractice	**Workers' compensation**	**Health**	**Total**
Insurance reserves self insured	$ 25,594	3,714	1,718	31,026
Reserves that are recoverable from reinsurance company	10,533	493	—	11,026
Gross insurance reserves	36,127	4,207	1,718	42,052
Less current portion of insurance reserves	6,312	1,611	1,718	9,641
Total noncurrent insurance reserves	$ 29,815	2,596	—	32,411

	June 30, 2013			
	Malpractice	**Workers' compensation**	**Health**	**Total**
Insurance reserves self insured	$ 29,300	3,587	2,509	35,396
Reserves that are recoverable from reinsurance company	10,154	743	—	10,897
Gross insurance reserves	39,454	4,330	2,509	46,293
Less current portion of insurance reserves	6,312	4,330	2,509	13,151
Total noncurrent insurance reserves	$ 33,142	—	—	33,142

The Medical Center is subject to legal proceedings and claims, which arise from the ordinary course of business. In the opinion of management, the amount of ultimate liability with respect to the actions will not materially affect the financial position of the Medical Center.

(13) Subsequent Events

The Medical Center has evaluated all events and transactions from the balance sheet date through October 2, 2014, the date at which the financial statements were issued, and determined there are no other items to be recognized or disclosed this period.