



**UNIVERSITY OF MARYLAND MEDICAL SYSTEM CORPORATION
AND SUBSIDIARIES**

Consolidated Financial Statements and Schedules

June 30, 2015 and 2014

(With Independent Auditors' Report Thereon)

**UNIVERSITY OF MARYLAND MEDICAL SYSTEM CORPORATION
AND SUBSIDIARIES**

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

Independent Auditors' Report

The Board of Directors
University of Maryland Medical System Corporation:

We have audited the accompanying consolidated financial statements of the University of Maryland Medical System Corporation and Subsidiaries (the Corporation), which comprise the consolidated balance sheets as of June 30, 2015 and 2014, and the related consolidated statements of operations and changes in net assets, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the University of Maryland Medical System Corporation and Subsidiaries as of June 30, 2015 and 2014, and the results of their operations and their cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.



Other Matter

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying supplementary information in Schedules 1-8 is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements taken as a whole.

KPMG LLP

October 27, 2015

**UNIVERSITY OF MARYLAND MEDICAL SYSTEM CORPORATION
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Consolidated Balance Sheets

June 30, 2015 and 2014

(In thousands)

Assets	2015	2014
Current assets:		
Cash and cash equivalents	\$ 462,506	287,722
Assets limited as to use, current portion	50,417	52,498
Accounts receivable:		
Patient accounts receivable, less allowance for doubtful accounts of \$248,054 and \$210,958 as of June 30, 2015 and 2014, respectively	325,563	358,045
Other	68,949	58,428
Inventories	59,254	56,552
Prepaid expenses and other current assets	25,279	27,503
Total current assets	991,968	840,748
Investments	500,931	534,807
Assets limited as to use, less current portion	888,585	890,358
Property and equipment, net	2,058,129	2,031,234
Investments in joint ventures	74,600	83,072
Other assets	218,633	219,019
Total assets	\$ 4,732,846	4,599,238
Liabilities and Net Assets		
Current liabilities:		
Trade accounts payable	\$ 261,239	261,865
Accrued payroll and benefits	243,848	222,163
Advances from third-party payors	129,212	123,612
Lines of credit	144,400	117,000
Short-term financing	—	150,000
Other current liabilities	115,295	105,275
Long-term debt subject to short-term remarketing arrangements	51,732	77,574
Current portion of long-term debt	33,298	32,624
Total current liabilities	979,024	1,090,113
Long-term debt, less current portion and amount subject to short-term remarketing arrangements	1,559,144	1,436,246
Other long-term liabilities	259,225	267,601
Interest rate swap liabilities	196,372	175,947
Total liabilities	2,993,765	2,969,907
Net assets:		
Unrestricted	1,457,227	1,351,895
Temporarily restricted	245,653	241,386
Permanently restricted	36,201	36,050
Total net assets	1,739,081	1,629,331
Total liabilities and net assets	\$ 4,732,846	4,599,238

See accompanying notes to consolidated financial statements.

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Consolidated Statements of Operations

Years ended June 30, 2015 and 2014

(In thousands)

	2015	2014
Unrestricted revenues, gains and other support:		
Patient service revenue (net of contractual adjustments)	\$ 3,373,236	3,142,505
Provision for bad debts	(145,328)	(225,671)
Net patient service revenue	3,227,908	2,916,834
Other operating revenue:		
State support	3,200	3,000
Other revenue	142,436	107,012
Total unrestricted revenues, gains and other support	3,373,544	3,026,846
Operating expenses:		
Salaries, wages and benefits	1,648,338	1,490,684
Expendable supplies	639,828	583,898
Purchased services	512,287	471,680
Contracted services	214,214	208,748
Depreciation and amortization	182,231	169,117
Interest expense	58,936	54,519
Total operating expenses	3,255,834	2,978,646
Operating income	117,710	48,200
Nonoperating income and expenses, net:		
Contributions	11,385	17,475
Inherent contribution – Upper Chesapeake	—	114,436
Equity in net income of joint ventures	8,603	9,548
Gain on sale of joint venture interest	39,350	—
Investment income	28,273	21,055
Change in fair value of investments	(30,029)	50,994
Change in fair value of undesignated interest rate swaps	(22,237)	(3,420)
Fair value impairment adjustment	(11,483)	—
Loss on early extinguishment of debt	(8,794)	—
Other nonoperating losses, net	(37,676)	(32,401)
Excess of revenues over expenses	\$ 95,102	225,887

See accompanying notes to consolidated financial statements.

**UNIVERSITY OF MARYLAND MEDICAL SYSTEM CORPORATION
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Consolidated Statements of Changes in Net Assets

Years ended June 30, 2015 and 2014

(In thousands)

	Unrestricted net assets	Temporarily restricted net assets	Permanently restricted net assets	Total
Balance at June 30, 2013	\$ 1,264,433	74,877	34,011	1,373,321
Excess of revenues over expenses	225,887	—	—	225,887
Contribution to/economic interest in UCH Legacy Funding Corporation	(150,000)	150,000	—	—
Inherent contribution – Upper Chesapeake	—	6,877	1,276	8,153
Investment gains, net	—	4,775	111	4,886
State support for capital	—	443	—	443
Contributions, net	—	6,552	764	7,316
Net assets released from restrictions used for operations and nonoperating activities	—	(4,793)	—	(4,793)
Net assets released from restrictions used for purchase of property and equipment	2,913	(2,913)	—	—
Change in economic and beneficial interests in the net assets of related organizations	—	4,421	6	4,427
Change in ownership interest of joint ventures	1,115	(244)	—	871
Amortization of accumulated loss of discontinued designated interest rate swap	1,857	—	—	1,857
Change in funded status of defined benefit pension plans	8,011	—	—	8,011
Asset reclassifications at request of donor	(1,485)	1,603	(118)	—
Other	(836)	(212)	—	(1,048)
Increase in net assets	<u>87,462</u>	<u>166,509</u>	<u>2,039</u>	<u>256,010</u>
Balance at June 30, 2014	<u>1,351,895</u>	<u>241,386</u>	<u>36,050</u>	<u>1,629,331</u>
Excess of revenues over expenses	95,102	—	—	95,102
Capital distribution to minority interest holders	(1,011)	—	—	(1,011)
Investment gains, net	—	1,350	29	1,379
State support for capital	—	14,261	—	14,261
Contributions, net	—	14,597	662	15,259
Net assets released from restrictions used for operations and nonoperating activities	—	(5,813)	—	(5,813)
Net assets released from restrictions used for purchase of property and equipment	17,654	(17,654)	—	—
Change in economic and beneficial interests in the net assets of related organizations	—	(2,114)	—	(2,114)
Change in ownership interest of joint ventures	(173)	(61)	—	(234)
Amortization of accumulated loss of discontinued designated interest rate swap	1,812	—	—	1,812
Change in funded status of defined benefit pension plans	(7,992)	—	—	(7,992)
Asset reclassifications at request of donor	293	244	(537)	—
Other	(353)	(543)	(3)	(899)
Increase in net assets	<u>105,332</u>	<u>4,267</u>	<u>151</u>	<u>109,750</u>
Balance at June 30, 2015	<u>\$ 1,457,227</u>	<u>245,653</u>	<u>36,201</u>	<u>1,739,081</u>

See accompanying notes to consolidated financial statements.

**UNIVERSITY OF MARYLAND MEDICAL SYSTEM CORPORATION
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Consolidated Statements of Cash Flows

Years ended June 30, 2015 and 2014

(In thousands)

	2015	2014
Cash flows from operating activities:		
Increase in net assets	\$ 109,750	256,010
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation and amortization	182,231	169,097
Provision for bad debts	145,328	225,671
Amortization of bond premium and deferred financing costs	1,153	1,460
Net realized gains and change in fair value of investments	15,813	(63,131)
Loss on early extinguishment of debt	8,794	—
Gain on sale of joint venture interest	(39,350)	—
Equity in net income of joint ventures	(8,603)	(9,548)
Decrease (increase) in economic and beneficial interests in net assets of related organizations	2,114	(154,427)
Fair value impairment adjustment	11,483	—
Change in fair value of interest rate swaps	20,425	3,420
Change in funded status of defined benefit pension plans	7,992	(8,011)
Inherent contribution related to Upper Chesapeake acquisition	—	(122,589)
Restricted contributions, grants and other support	(15,259)	(7,316)
Change in operating assets and liabilities:		
Patient accounts receivable	(112,846)	(200,755)
Other receivables, prepaid expenses, other current assets and other assets	31,793	(24,505)
Inventories	(2,702)	(6,583)
Trade accounts payable, accrued payroll and benefits, other current liabilities and other long-term liabilities	14,759	42,984
Advances from third-party payors	5,600	138
Net cash provided by operating activities	378,475	101,915
Cash flows from investing activities:		
Purchases and sales of investments and assets limited as to use, net	73,863	(18,814)
Purchases of alternative investments	(106,489)	(56,615)
Sales of alternative investments	41,893	12,799
Transfer of funds to UCHS Legacy Funding Corporation	—	(150,000)
Addition of cash from Upper Chesapeake	—	46,203
Purchases of property and equipment	(208,729)	(202,254)
Distributions from joint ventures	4,796	4,170
Net cash used in investing activities	(194,666)	(364,511)

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Consolidated Statements of Cash Flows

Years ended June 30, 2015 and 2014

(In thousands)

	2015	2014
Cash flows from financing activities:		
Proceeds from long-term debt	\$ 86,604	6,200
Repayment of long-term debt and capital leases	(139,347)	(37,403)
Short-term financing	—	150,000
Draws (repayments) on lines of credit, net	27,400	22,000
Payment of debt issuance costs	1,059	—
Restricted contributions from UCH Legacy Funding Corporation	—	150,000
Restricted contributions, grants and other support	15,259	7,316
	(9,025)	298,113
Net cash (used in) provided by financing activities		
Net increase in cash and cash equivalents	174,784	35,517
Cash and cash equivalents, beginning of year	287,722	252,205
Cash and cash equivalents, end of year	\$ 462,506	287,722
Supplemental disclosures of cash flow information:		
Cash paid during the year for interest, net of amounts capitalized	\$ 54,482	50,547
Amount included in accounts payable for construction in progress	32,953	32,556
Supplemental disclosures of noncash information:		
Capital leases	\$ —	14,529

See accompanying notes to consolidated financial statements.

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Notes to Consolidated Financial Statements

June 30, 2015 and 2014

(1) Organization and Summary of Significant Accounting Policies

(a) Organization

The University of Maryland Medical System Corporation (the Corporation or UMMS) is a private, not-for-profit corporation providing comprehensive healthcare services through an integrated regional network of hospitals and related clinical enterprises. UMMS was created in 1984 when its founding hospital was privatized by the State of Maryland. Over its 30 year history, UMMS evolved into a multi-hospital system with academic, community and specialty service missions reaching primarily across Maryland. In continuing partnership with the University of Maryland School of Medicine, UMMS operates healthcare programs that improve the physical and mental health of thousands of people each day.

The accompanying consolidated financial statements include the accounts of the Corporation, its wholly owned subsidiaries, and entities controlled by the Corporation. In addition, the Corporation maintains equity interests in various unconsolidated joint ventures, which are described in note 4. The significant operating divisions of the Corporation are described in further detail below.

All material intercompany balances and transactions have been eliminated in consolidation.

Recent Acquisitions & Divestitures

On December 6, 2013, UMMS completed a full acquisition and became the sole corporate member of Upper Chesapeake Health System. Prior to December 2013, UMMS owned a 49% interest in a joint venture that included the majority of the operating assets and revenues of Upper Chesapeake Health System. For this period, UMMS' investment in Upper Chesapeake Health System was accounted for as a noncontrolling joint venture interest and a component of UMMS' nonoperating income.

This event is more fully described below.

University of Maryland Medical Center (Medical Center)

The University of Maryland Medical Center, which is a major component of UMMS, is an 816-bed academic medical center located in Baltimore. The Medical Center has served as the teaching hospital of the School of Medicine of the University System of Maryland, Baltimore since 1823. While the Corporation is not affiliated with the University System of Maryland, clinical faculty members of the School of Medicine serve as medical staff of the Medical Center.

The Medical Center is comprised of two operating divisions: University Hospital, which includes the Greenebaum Cancer Center, and Shock Trauma Center. University Hospital, which generates approximately 80% of the Medical Center's admissions and patient days, is a tertiary teaching hospital providing over 70 clinical services and programs. The Greenebaum Cancer Center specializes in the treatment of cancer patients and is a site for clinical cancer research. The Shock Trauma Center, which specializes in emergency treatment of patients suffering severe trauma, generates approximately 20% of admissions and patient days.

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The Medical Center's operations include UniversityCARE, LLC (UCARE), a physician hospital organization of which the Corporation has a majority ownership interest and therefore consolidates, and 36 South Paca Street, LLC, a wholly owned subsidiary of the Corporation that operates a residential apartment building.

The Corporation has certain agreements with various departments of the University of Maryland School of Medicine concerning the provision of professional and administrative services to the Corporation and its patients. Total expense under these agreements in the years ended June 30, 2015 and 2014 was approximately \$146,831,000 and \$146,313,000, respectively.

University of Maryland Rehabilitation and Orthopaedic Institute (ROI)

ROI is comprised of a medical/surgical and rehabilitation hospital in Baltimore with 134 licensed beds, including 88 rehabilitation beds, 36 chronic care beds, 10 medical/surgical beds, and off-site physical therapy facilities.

A related corporation, The James Lawrence Kernan Endowment Fund, Inc. (Kernan Endowment), is governed by a separate, independent board of directors and is required to hold investments and income derived therefrom for the exclusive benefit of ROI. Accordingly, the accompanying consolidated financial statements reflect an economic interest in the net assets of the Kernan Endowment. ROI was previously called The James Lawrence Kernan Hospital (Kernan).

University of Maryland Medical Center Midtown Campus (Midtown)

Midtown is located in Baltimore city and is comprised of Midtown Hospital, a 208-bed acute care hospital; a wholly owned subsidiary providing primary care; and a noncontrolling 20% interest in a managed care organization providing services primarily to Medicaid patients. Midtown was previously called Maryland General Health Systems (Maryland General).

Baltimore Washington Medical System, Inc. (Baltimore Washington)

Baltimore Washington is located in Anne Arundel County, a suburb of Baltimore city, and is a health system comprised of Baltimore Washington Medical Center, a 319-bed acute care hospital providing a broad range of services, and several wholly owned subsidiaries providing emergency physician and other services.

Baltimore Washington Medical Center Foundation, Inc. (BWMC Foundation) is governed by a separate, independent board of directors and is required to hold investments and income derived therefrom for the exclusive benefit of Baltimore Washington Medical Center. Accordingly, the accompanying consolidated financial statements reflect an economic interest in the net assets of the BWMC Foundation.

Shore Regional Health System (Shore Regional)

Shore Regional is a three-hospital health system located on the Eastern Shore of Maryland. Shore Regional owns and operates Memorial Hospital, a 132-bed acute care hospital providing inpatient and outpatient services in Easton, Maryland; Dorchester Hospital, a 41-bed acute care hospital providing

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June 30, 2015 and 2014

inpatient and outpatient services in Cambridge, Maryland; Chester River Hospital Center (CRHC), a 41-bed acute care hospital providing inpatient and outpatient services to the residents of Kent and Queen Anne's counties; Shore Emergency Center at Queenstown (Shore Emergency Center), a free-standing emergency center; Memorial Hospital Foundation (Memorial Foundation), a nonprofit corporation established to solicit donations for the benefit of Memorial Hospital; Chester River Health Foundation (Chester River Foundation), a nonprofit corporation established to solicit donations for the benefit of CRHC; and several other subsidiaries providing various outpatient and home care services.

Dorchester General Hospital Foundation, Inc. (Dorchester Foundation) is governed by a separate, independent board of directors to raise funds on behalf of Dorchester Hospital. Shore Regional does not have control over the policies or decisions of the Dorchester Foundation, and accordingly, the accompanying consolidated financial statements reflect a beneficial interest in the net assets of the Dorchester Foundation.

Charles Regional Health System, Inc. (Charles Regional)

Charles Regional owns and operates Charles Regional Medical Center, which is comprised of a 121-bed acute care hospital and other community healthcare resources providing inpatient and outpatient services to the residents of Charles County in Southern Maryland. Charles Regional was previously called Civista Health (Civista).

University of Maryland St. Joseph Health System, LLC (St. Joseph)

St. Joseph owns and operates University of Maryland St. Joseph Medical Center (UMSJMC), a 232-bed, Catholic acute care hospital located in Towson, Maryland, as well as other subsidiaries providing inpatient and outpatient services to the residents of Baltimore County.

University of Maryland Upper Chesapeake Health System (Upper Chesapeake)

Upper Chesapeake is a health system located in Harford County, Maryland. Upper Chesapeake's healthcare delivery system includes two acute care hospitals, Upper Chesapeake Medical Center (UCMC) (181 beds) and Harford Memorial Hospital (HMH) (89 beds); a physician practice; a captive insurance company; a land holding company; and Upper Chesapeake Health Foundation.

The Corporation became the sole corporate member of Upper Chesapeake and all of its subsidiaries on December 6, 2013, and beginning on that date the financial position and results of operations of Upper Chesapeake were consolidated. Prior to December 6, 2013, the Corporation held a 49% interest in UCHS/UMMS Venture, LLC, which owned substantially all of Upper Chesapeake's operating entities, and consequently the Corporation had treated that ownership interest as a joint venture (see note 4).

To effect the full merger on December 6, 2013, the Corporation contributed \$150,000,000 to UCH Legacy Funding Corporation, a noncontrolled entity formed for the sole purpose of supporting the capital and operating needs of Upper Chesapeake. The Corporation has recorded a \$150,000,000 economic interest in UCH Legacy Funding Corporation, which is included as a component of assets limited as to use.

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The acquisition was accounted for under the purchase accounting method for business combinations. Accordingly, the Corporation's nonoperating income/loss for the period ended June 30, 2014 includes an inherent contribution of Upper Chesapeake's unrestricted net assets of \$114,436,000, and \$876,000 of acquisition costs incurred. The Corporation's statement of changes in net assets for the period ended June 30, 2014 includes an inherent contribution of \$8,153,000 representing Upper Chesapeake's temporarily and permanently restricted net assets on the date of acquisition.

The following table summarizes the estimated fair value of assets acquired and liabilities assumed at December 6, 2013 (the acquisition date):

Assets:	
Current assets	\$ 117,079
Property and equipment	254,732
Goodwill	44,204
Other long-term assets	<u>140,992</u>
Total assets	<u><u>\$ 557,007</u></u>
Liabilities:	
Current liabilities	\$ 59,660
Long-term liabilities	<u>272,052</u>
Total liabilities	<u>331,712</u>
Net assets:	
Unrestricted	217,142
Temporarily restricted	6,877
Permanently restricted	<u>1,276</u>
Total net assets	<u>225,295</u>
Total liabilities and net assets	<u><u>\$ 557,007</u></u>

The following table summarizes the Corporation's pro forma consolidated results as though the acquisition date occurred at July 1:

	<u>2014</u>
Operating revenues	\$ 3,193,454
Net operating income	49,609
Changes in net assets:	
Unrestricted	\$ 125,817
Temporarily restricted	9,632
Permanently restricted	<u>763</u>
Total changes in net assets	<u><u>\$ 136,212</u></u>

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University of Maryland Medical System Foundation, Inc. (UMMS Foundation)

The UMMS Foundation, a not-for-profit foundation, was established for the purpose of soliciting contributions on behalf of the Corporation.

(b) Basis of Presentation

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

(c) Cash Equivalents

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

(d) Investments and Assets Limited as to Use

The Corporation's investment portfolio is classified as trading, and is reported in the consolidated balance sheets at its fair value, based on quoted market prices, at June 30, 2015 and 2014. Unrealized holding gains and losses on trading securities with readily determinable market values are included in nonoperating income. Investment income, including realized gains and losses, is included in nonoperating income in the accompanying consolidated statements of operations.

Assets limited as to use include investments set aside at the discretion of the board of directors for the replacement or acquisition of property and equipment, investments held by trustees under bond indenture agreements and self-insurance trust arrangements, and assets whose use is restricted by donors. Such investments are stated at fair value. Amounts required to meet current liabilities have been included in current assets in the consolidated balance sheets. Changes in fair values of donor-restricted investments are recorded in temporarily restricted net assets unless otherwise required by the donor or state law.

Assets limited as to use also include the Corporation's economic interests in financially interrelated organizations (note 12).

Alternative investments are recorded under the equity method of accounting. Underlying securities of these alternative investments may include certain debt and equity securities that are not readily marketable. Because certain investments are not readily marketable, their fair value is subject to additional uncertainty, and therefore values realized upon disposition may vary significantly from current reported values.

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

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(e) Inventories

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

(f) Economic Interests in Financially Interrelated Organizations

The Corporation recognizes its rights to assets held by recipient organizations, which accept cash or other financial assets from a donor and agree to use those assets on behalf of or transfer those assets, the return on investment of those assets, or both, to the Corporation. Changes in the Corporation's economic interests in these financially interrelated organizations are recognized in the consolidated statements of changes in net assets.

(g) Property and Equipment

Property and equipment are stated at cost, or estimated fair value at date of contribution, less accumulated depreciation. Depreciation is provided on a straight-line basis over the estimated useful lives of the depreciable assets. The estimated useful lives of the assets are as follows:

Buildings	20 to 40 years
Building and leasehold improvements	5 to 20 years
Equipment	3 to 20 years

Interest costs incurred on borrowed funds less interest income earned on the unexpended bond proceeds during the period of construction are capitalized as a component of the cost of acquiring those assets.

Gifts of long-lived assets such as land, buildings, or equipment are reported as unrestricted support 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.

(h) Deferred Financing Costs

Costs incurred related to the issuance of long-term debt, which are included in other assets, are deferred and are amortized over the life of the related debt agreements or the related letter of credit agreements using the effective interest method.

(i) Goodwill

Goodwill is an asset representing the future economic benefits arising from other assets acquired in a business combination that are not individually identified and separately recognized. Goodwill is reviewed for impairment at least annually. A qualitative assessment of whether it is more likely than not that the fair value of the reporting unit is less than its carrying value is performed, which determines whether a quantitative goodwill impairment test is necessary. The goodwill impairment test is a

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Notes to Consolidated Financial Statements

June 30, 2015 and 2014

two-step test. Under the first step, the fair value of the reporting unit is compared with its carrying value (including goodwill). If the fair value of the reporting unit is less than its carrying value, an indication of goodwill impairment exists for the reporting unit and the entity must perform step two of the impairment test (measurement). Under step two, an impairment loss is recognized for any excess of the carrying amount of the reporting unit's goodwill over the implied fair value of that goodwill. The implied fair value of goodwill is determined by allocating the fair value of the reporting unit in a manner similar to a purchase price allocation and the residual fair value after this allocation is the implied fair value of the reporting unit goodwill. Fair value of the reporting unit is determined using a discounted cash flow analysis. If the fair value of the reporting unit exceeds its carrying value, step two does not need to be performed.

No impairment loss was recorded for the years ended June 30, 2015 or 2014.

(j) *Impairment of Long-Lived Assets*

Long-lived assets, such as property, plant, and equipment, and purchased intangibles subject to amortization, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by comparing the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized in the amount by which the carrying amount of the asset exceeds the fair value of the asset. Assets to be disposed of would be separately presented in the consolidated balance sheets and reported at the lower of the carrying amount or fair value less costs to sell, and are no longer depreciated. The assets and liabilities of a disposed group classified as held for sale would be presented separately in the appropriate asset and liability sections of the consolidated balance sheets.

No impairment losses were recorded other than those disclosed specifically in the financial statements for the years ended June 30, 2015 or 2014.

(k) *Investments in Joint Ventures*

When the Corporation does not have a controlling interest in an entity, but exerts a significant influence over the entity, the Corporation applies the equity method of accounting.

(l) *Self-Insurance*

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

(m) *Net Assets*

The Corporation classifies net assets based on the existence or absence of donor-imposed restrictions. Unrestricted net assets represent contributions, gifts and grants, which have no donor-imposed restrictions or which arise as a result of operations. Temporarily restricted net assets are subject to

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donor-imposed restrictions that must or will be met either by satisfying a specific purpose and/or passage of time. Permanently restricted net assets are subject to donor-imposed restrictions that must be maintained in perpetuity. Generally, the donors of these assets permit the use of all or part of the income earned on related investments for specific purposes. The restrictions associated with these net assets generally pertain to patient care, specific capital projects and funding of specific hospital operations and community outreach programs.

(n) *Net Patient Service Revenue and Provision for Uncollectible Accounts*

Patient service revenue for the Medical Center, ROI, Midtown, Baltimore Washington, Shore Regional, Charles Regional, St. Joseph, and Upper Chesapeake reflects actual charges to patients based on rates established by the State of Maryland Health Services Cost Review Commission (HSCRC) in effect during the period in which the services are rendered, net of contractual adjustments. Contractual adjustments represent the difference between amounts billed as patient service revenue and amounts allowed by third-party payors. Such adjustments include discounts on charges as permitted by the HSCRC. See note 18 for further discussion on the HSCRC and regulated rates.

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

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

For receivables associated with services provided to patients who have third-party coverage, the Corporation analyzes contractually due amounts and provides an allowance for bad debts, allowance for contractual adjustments, provision for bad debts, and contractual adjustments on accounts for which the third-party payor has not yet paid or for payors who are known to be having financial difficulties that make the realization of amounts due unlikely. For receivables associated with self-pay patients or with balances remaining after the third-party coverage has already paid, the Corporation records a significant provision for bad debts in the period of service on the basis of its historical collections, which indicates that many patients ultimately do not pay the portion of their bill for which they are financially responsible. The difference between the discounted rates and the amounts collected

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after all reasonable collection efforts have been exhausted is charged off against the allowance for bad debts. The change in the allowance for bad debts was as follows during the years ended June 30:

	2015	2014
Beginning bad debt allowance	\$ (210,958)	(160,675)
Addition of Upper Chesapeake allowance as of the acquisition date	—	21,837
Plus provision for bad debt	(145,328)	(225,671)
Less bad debt write-offs	108,232	153,551
Ending bad debt allowance	\$ (248,054)	(210,958)

The change in the allowance for bad debts during 2015 is attributable to increased patient volumes in 2015, and trends experienced in the collection of the related patient receivables.

In conjunction with the Affordable Care Act, the Medicaid eligibility requirements for Maryland residents were expanded effective January 1, 2014 to include nondisabled adults with incomes at or below 138% of the federal poverty level. As a result, many Maryland residents who were previously uninsured, became insured under Medicaid, resulting in an overall decrease in bad debts for Maryland hospitals including those within the Medical System. The HSCRC adjusted hospital rates on a prospective basis to account for improved revenue collectibility at the hospital level in Fiscal 2015, and will make a similar adjustment in Fiscal 2016. For the years ended June 30, 2015 and 2014, the Medical System accounted for the adjustment within its reserves for uncollectible accounts.

The Health Information Technology for Economic and Clinical Health (HITECH) Act was signed into law in February 2009. In the context of the HITECH Act, certain healthcare entities must implement a certified Electronic Health Record (EHR) in an effort to promote the adoption and “meaningful use” of health information technology (HIT). The HITECH Act includes significant monetary incentives meant to encourage the adaptation of an EHR system. During the years ended June 30, 2015 and 2014, the Corporation recognized “meaningful use” incentive payments totaling \$12,126,000 and \$8,486,000, respectively, which are included in other operating revenue in the consolidated statements of operations.

(o) Charity Care

The Corporation is committed to providing quality healthcare to all, regardless of their ability to pay. Patients who meet the criteria of its charity care policy receive services without charge or at amounts less than its established rates. The criteria for charity care consider the household income in relation to the federal poverty guidelines. The Corporation provides services at no charge for patients with adjusted gross income equal to or less than 200% of the federal poverty guidelines. For uninsured patients with adjusted gross income greater than 200% of the federal poverty guidelines, a sliding scale discount is applied. Income and asset information obtained from patient credit reporting data are used to determine patients’ ability to pay. The Corporation maintains records to identify and monitor the level of charity care it furnished under its charity care policy. The charity care policies of the new affiliates are generally consistent with that of the Corporation’s policy.

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Due to the complexity of the eligibility process, the Corporation provides eligibility services to patients free of charge to assist in the qualification process. These eligibility services include, but are not limited to, the following:

- Financial assistance brochures and other information are posted at each point of service. When patients have questions or concerns, they are encouraged to call a toll-free number to reach customer service representatives during the business day. Financial assistance programs are published on the Corporation's website and included on the statements provided to patients.
- The Corporation offers assistance to patients in completing the applications for Medicaid or other government payment assistance programs, or applying for care under the Corporation's charity care policy, if applicable. The Corporation also employs an external firm to assist in the eligibility process.
- Any patient, whether covered by insurance or not, may meet with a UMMS representative and receive financial counseling from UMMS' dedicated financial assistance unit.

The Corporation recognizes that a large number of uninsured and insured patients meet the charity care guidelines but do not respond to the Corporation's attempts to obtain necessary financial information. In these instances, the Corporation uses credit reporting data to properly classify these unpaid balances as charity care as opposed to bad debt expense. Utilization of income and asset information and credit reporting data indicate the vast majority of amounts reported as provision for bad debts represent amounts due from patients that would otherwise qualify for charity benefits but do not respond to the Corporation's attempts to obtain the necessary financial information. In these cases, reasonable collection efforts are pursued, but yield few collections. Amounts determined to meet the criteria under the charity care policy are not reported as net patient service revenue.

The amounts reported as charity care represent the cost of rendering such services. Costs incurred are estimated based on the cost-to-charge ratio for each hospital and applied to charity care charges. The Corporation estimates the total direct and indirect costs to provide charity care were \$73,851,000 and \$83,486,000 for the years ended June 30, 2015 and 2014, respectively.

(p) *Nonoperating Income and Expenses, Net*

Other activities that are largely unrelated to the Corporation's primary mission are recorded as nonoperating income and expenses, and include investment income, equity in the net income of joint ventures, general donations and fund-raising activities, gains on acquisitions, changes in fair value of investments, changes in fair value of interest rate swaps, settlement payments on interest rate swaps that do not qualify for hedge accounting treatment, and loss on early extinguishment of debt. Settlement payments on interest rate swaps were approximately \$26,241,000 and \$25,418,000 for the years ended June 30, 2015 and 2014, respectively, and are included in other nonoperating losses on the accompanying statements of operations.

(q) *Derivative Financial Instruments*

The Corporation records derivative and hedging activities on the consolidated balance sheets at their respective fair values.

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The Corporation utilizes derivative financial instruments to manage its interest rate risks associated with long-term tax-exempt debt. The Corporation does not hold or issue derivative financial instruments for trading purposes.

The Corporation's specific goals are to (a) manage interest rate sensitivity by modifying the repricing or maturity characteristics of some of its tax-exempt debt, and (b) lower unrealized appreciation or depreciation in the market value of the Corporation's fixed-rate tax-exempt debt when that market value is compared with the cost of the borrowed funds. The effect of this unrealized appreciation or depreciation in market value, however, will generally be offset by the income or loss on the derivative instruments that are linked to the debt.

The Corporation formally documents all hedge relationships between hedging instruments and hedged items, as well as its risk-management objective and strategy for undertaking various hedge transactions. On the date the derivative contract is entered into, the Corporation may designate the derivative as either a hedge of the fair value of a recognized or forecasted liability (fair value hedge) or a hedge of the variability of cash flows to be received or paid related to a recognized liability (cash flow hedge), provided the derivative instrument meets certain criteria related to its effectiveness. This process includes linking all derivatives that are designated as fair value or cash flow hedges to specific liabilities on the consolidated balance sheets. The Corporation also formally assesses, both at the hedge's inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

All derivative instruments are reported as other assets or interest rate swap liabilities in the consolidated balance sheets and measured at fair value. Derivatives not designated as hedges or not meeting effectiveness criteria are carried at fair value with changes in the fair value recognized in other nonoperating income and expenses.

The Corporation discontinues hedge accounting prospectively when it determines that the derivative is no longer effective in offsetting changes in the fair value or cash flows of a hedged item, when the derivative expires or is sold, terminated or exercised, or when management determines that designation of the derivative as a hedge instrument is no longer appropriate. When hedge accounting is discontinued and the derivative remains outstanding, all subsequent changes in fair value of the derivative are included in the excess of revenues over expenses.

Changes in the fair value of derivative instruments are included in or excluded from the excess of revenues over expenses depending on the use of the derivative and whether it qualifies for hedge accounting treatment. Changes in the fair value of a derivative that is designated and qualifies as a fair value hedge, along with the changes in the fair value of the hedged item related to the risk being hedged, are included in the excess of revenues over expenses. Changes in the fair value of a derivative that is designated as a cash flow hedge are excluded from the excess of revenues over expenses to the extent that the hedge is effective until the excess of revenues over expenses is affected by the variability of cash flows in the hedged transaction. Changes in the fair value that relate to ineffectiveness are included in the excess of revenues over expenses as interest expense.

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(r) Excess of Revenue over Expenses

The consolidated statements of operations includes a performance indicator, excess of revenue over expenses. Changes in unrestricted net assets that are excluded from the performance indicator, consistent with industry practice, include contributions of long-lived assets (including assets acquired using contributions, which, by donor restrictions, were to be used for the purpose of acquiring such assets), pension-related changes other than net periodic pension costs, change in fair value of derivatives that qualify for hedge accounting, and other items that are required by generally accepted accounting principles to be reported separately.

(s) Income Taxes

The Corporation and most of its subsidiaries are not-for-profit corporations formed under the laws of the State of Maryland, organized for charitable purposes and recognized by the Internal Revenue Service as tax-exempt organizations under Section 501(c)(3) of the Internal Revenue Code pursuant to Section 501(a) of the Code. The effect of the taxable status of its for-profit subsidiaries is not material to the consolidated financial statements.

During the year ended June 30, 2015, the Corporation sold its interest in North Arundel Senior Living, LLC and NAH/Sunrise of Severna Park, LLC (collectively referred to as Sunrise) and recognized a gain of approximately \$39,500,000, which is recorded as a gain on sale of joint venture in the accompanying consolidated statements of operations. The Corporation estimates it will pay approximately \$2,780,000 in income taxes related to the Sunrise sale when the tax returns for the year ended June 30, 2015 are finalized. There were no income taxes paid on unrelated business activities for the year ended June 30, 2014.

The Corporation has net operating loss carry-forwards on for-profit and unrelated business activities of approximately \$61,060,000 as of June 30, 2015, which expire at various dates through 2031. The Corporation will use approximately \$25,900,000 of net operating losses, which is the entire amount available, to offset the taxable gain related to the Sunrise sale when the Corporation finalizes their tax returns for the fiscal year ended June 30, 2105. The Corporation's remaining deferred tax assets of approximately \$14,064,000 at June 30, 2015 are fully reserved as they are not expected to be utilized.

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

(t) Donor-Restricted Gifts

Unconditional promises to give cash and other assets to the Corporation are reported at fair value at the date the promise is received. Conditional promises to give and indications of intentions to give are reported at fair value at the date the promise becomes unconditional. Contributions are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction is satisfied, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the consolidated statements of

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operations as net assets released from restrictions. Such amounts are classified as other revenue or transfers and additions to property and equipment.

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

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

(u) Fair Value Measurements

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

Cash and cash equivalents, accounts receivable, assets limited as to use, investments, trade accounts payable, accrued payroll and benefits, other accrued expenses and advances from third-party payors – The carrying amounts reported in the consolidated balance sheets approximate the related fair values.

Pension plan asset portfolio – The Corporation applies Accounting Standards Update (ASU) 2009-12, *Fair Value Measurements and Disclosures (Topic 820): Investments in Certain Entities That Calculate Net Asset per Share (or Its Equivalent)*, to its pension plan asset portfolio. The guidance permits, as a practical expedient, fair value of investments within its scope to be estimated using the net asset value or its equivalent. The alternative investments classified within Level 3 of the fair value hierarchy have been recorded using the Net Asset Value (NAV).

Long-term debt – The fair value of the long-term debt issued through the Maryland Health and Higher Educational Facilities Authority (Authority or MHHEFA), based on quoted market prices, at June 30, 2015 and 2014, was approximately \$1,472,007,000 and \$1,514,615,000, respectively. The carrying amounts of other long-term debt reported in note 7 and on the consolidated balance sheets approximate the related fair values.

The Corporation discloses its financial assets, financial liabilities and fair value measurements of nonfinancial items according to the fair value hierarchy required by GAAP that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted market prices in active markets for identical assets or liabilities (Level 1 measurement) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

- Level 1 inputs are quoted market prices (unadjusted) in active markets for identical assets or liabilities that the Corporation has the ability to access at the measurement date.
- Level 2 inputs are inputs other than quoted market prices including within Level 1 that are observable for the asset or liability, either directly or indirectly. If the asset or liability has a

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specified (contractual) term, a Level 2 input must be observable for substantially the full term of the asset or liability.

- Level 3 inputs are unobservable inputs for the asset or liability.

Assets and liabilities classified as Level 1 are valued using unadjusted quoted market prices for identical assets or liabilities in active markets. The Corporation uses techniques consistent with the market approach and the income approach for measuring fair value of its Level 2 and Level 3 assets and liabilities. The market approach is a valuation technique that uses prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities. The income approach generally converts future amounts (cash flows or earnings) to a single present value amount (discounted).

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

As of June 30, 2015 and 2014, the Level 2 assets and liabilities listed in the fair value hierarchy tables below utilize the following valuation techniques and inputs:

(i) Cash Equivalents

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

(ii) U.S. Government and Agency Securities

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

(iii) Corporate Bonds

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

(iv) Collateralized Corporate Obligations

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

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(v) Derivative Liabilities

The fair value of derivative contracts is primarily determined using techniques consistent with the market approach. Derivative contracts include interest rate, credit default, and total return swaps. Significant observable inputs to valuation models include interest rates, Treasury yields, volatilities, credit spreads, maturity and recovery rates.

(v) Commitments and Contingencies

Liabilities for loss contingencies arising from claims, assessments, litigation, fines, penalties and other sources are recorded when it is probable that a liability has been incurred and the amount can be reasonably estimated. Legal costs incurred in connection with loss contingencies are expensed as incurred.

(w) Use of Estimates

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

(x) New Accounting Pronouncements

The Financial Accounting Standards Board (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 2019. The Corporation expects to record a decrease in net patient service revenue related to self-pay patients and a corresponding decrease in bad debt expense upon the adoption of the standard.

The FASB issued ASU 2015-03, *Interest – Imputation of Interest*. This ASU requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The recognition and measurement guidance for debt issuance costs are not affected by the amendments in this ASU. ASU 2015-03 is effective for fiscal year 2017. The Corporation does not anticipate that the adoption of this ASU will have a material impact on its financial position or its results of operations.

The FASB issued ASU 2015-07, *Fair Value Measurement (Topic 820) Disclosures for Investments in Certain Entities that Calculate Net Asset Value per Share*. This ASU removes the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the net asset value per share practical expedient. The amendments also remove the requirement to make certain disclosures for all investments that are eligible to be measured at fair value using the net asset value per share practical expedient. Rather, those disclosures are limited to investments for which the

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entity has elected to measure the fair value using that practical expedient. ASU 2015-07 is effective for fiscal year 2017. The Corporation does not anticipate that the adoption of this ASU will have a material impact on its financial position or its results of operations.

(2) Investments and Assets Limited as to Use

The carrying values of assets limited as to use were as follows at June 30 (in thousands):

	2015	2014
Investments held for collateral	\$ 119,320	96,370
Debt service and reserve funds	64,588	82,782
Construction funds – held by trustee	7,852	46,314
Construction funds – held by the corporation	119,782	98,820
Board designated funds	231,945	222,136
Self-insurance trust funds	150,052	151,380
Funds restricted by donors	56,033	53,510
Economic and beneficial interests in the net assets of related organizations (note 12)	189,430	191,544
Total assets limited as to use	939,002	942,856
Less amounts available for current liabilities	(50,417)	(52,498)
Total assets limited as to use, less current portion	\$ 888,585	890,358

The carrying values of assets limited as to use were as follows at June 30, 2015 (in thousands):

	Investments held for collateral	Debt service and reserve funds	Construction funds	Board designated funds	Self-insurance trust funds	Funds restricted by donors	Economic and beneficial interests	Total
Cash and cash equivalents	\$ —	31,799	94,556	36,570	9,835	6,615	—	179,375
Corporate bonds	—	—	3,292	39,071	2,434	8,783	—	53,580
Collateralized corporate obligations	—	—	931	736	—	65	—	1,732
U.S. government and agency securities	119,320	32,789	1,783	19,557	645	125	—	174,219
Common stocks, including mutual funds	—	—	10,146	85,272	—	23,313	—	118,731
Alternative investments	—	—	16,926	50,739	—	17,132	—	84,797
Assets held by other organizations	—	—	—	—	137,138	—	189,430	326,568
Total assets limited as to use	\$ 119,320	64,588	127,634	231,945	150,052	56,033	189,430	939,002

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The carrying values of assets limited as to use were as follows at June 30, 2014 (in thousands):

	Investments held for collateral	Debt service and reserve funds	Construction funds	Board designated funds	Self-insurance trust funds	Funds restricted by donors	Economic and beneficial interests	Total
Cash and cash equivalents	\$ 4,219	39,005	89,330	25,357	9,838	5,558	—	173,307
Corporate bonds	—	—	3,637	52,907	2,449	8,193	—	67,186
Collateralized corporate obligations	—	—	866	689	—	34	—	1,589
U.S. government and agency securities	92,151	43,777	26,734	5,664	23	72	—	168,421
Common stocks, including mutual funds	—	—	11,811	82,130	—	22,571	—	116,512
Alternative investments	—	—	12,756	55,389	—	17,082	—	85,227
Assets held by other organizations	—	—	—	—	139,070	—	191,544	330,614
Total assets limited as to use	<u>\$ 96,370</u>	<u>82,782</u>	<u>145,134</u>	<u>222,136</u>	<u>151,380</u>	<u>53,510</u>	<u>191,544</u>	<u>942,856</u>

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

The carrying values of investments not limited as to use were as follows at June 30 (in thousands):

	<u>2015</u>	<u>2014</u>
Cash and cash equivalents	\$ 9,404	38,047
Corporate bonds	49,567	54,424
Collateralized corporate obligations	12,543	11,847
U.S. government and agency securities	25,594	53,766
Common stocks	150,761	175,757
Alternative investments	253,062	200,966
	<u>\$ 500,931</u>	<u>534,807</u>

Alternative investments include hedge fund, private equity, and commingled investment funds, which are valued using the equity method of accounting. Substantially all of these alternative investments are subject to 30 day or less notice requirements and are available to be redeemed on at least a monthly basis. There is one fund, totaling approximately \$50,000,000 which is subject to 70 day notice requirements and can be redeemed on a quarterly basis. Another fund, totaling approximately \$14,400,000 is subject to a 90 day

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notice and can be redeemed annually. Another fund, totaling approximately \$14,100,000 is subject to a 65 day notice and can be redeemed quarterly. None of the alternative investments are subject to any lock-up restrictions.

The following table presents investments and assets limited as to use that are measured at fair value on a recurring basis at June 30, 2015 (in thousands):

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Assets:				
Investments:				
Cash and cash equivalents	\$ 9,404	—	—	9,404
Corporate bonds	32,513	17,054	—	49,567
Collateralized corporate obligations	—	12,543	—	12,543
U.S. government and agency securities	19,792	5,802	—	25,594
Common and preferred stocks, including mutual funds	150,761	—	—	150,761
	<u>212,470</u>	<u>35,399</u>	<u>—</u>	<u>247,869</u>
Assets limited as to use:				
Cash and cash equivalents	139,726	39,649	—	179,375
Corporate bonds	48,791	4,789	—	53,580
Collateralized corporate obligations	—	1,732	—	1,732
U.S. government and agency securities	139,984	34,235	—	174,219
Common and preferred stocks, including mutual funds	118,731	—	—	118,731
Investments held by other organizations	—	326,568	—	326,568
	<u>447,232</u>	<u>406,973</u>	<u>—</u>	<u>854,205</u>
	<u>\$ 659,702</u>	<u>442,372</u>	<u>—</u>	<u>1,102,074</u>

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The following table presents investments and assets limited as to use that are measured at fair value on a recurring basis at June 30, 2014 (in thousands):

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Assets:				
Investments:				
Cash and cash equivalents	\$ 38,047	—	—	38,047
Corporate bonds	37,753	16,671	—	54,424
Collateralized corporate obligations	—	11,847	—	11,847
U.S. government and agency securities	47,668	6,098	—	53,766
Common and preferred stocks, including mutual funds	175,757	—	—	175,757
	<u>299,225</u>	<u>34,616</u>	<u>—</u>	<u>333,841</u>
Assets limited as to use:				
Cash and cash equivalents	112,022	61,285	—	173,307
Corporate bonds	62,501	4,685	—	67,186
Collateralized corporate obligations	—	1,589	—	1,589
U.S. government and agency securities	105,949	62,472	—	168,421
Common and preferred stocks, including mutual funds	116,512	—	—	116,512
Investments held by other organizations	—	330,614	—	330,614
	<u>396,984</u>	<u>460,645</u>	<u>—</u>	<u>857,629</u>
	<u>\$ 696,209</u>	<u>495,261</u>	<u>—</u>	<u>1,191,470</u>

Changes to Level 1 and Level 2 securities between June 30, 2015 and 2014 were the result of strategic investments and reinvestments, interest income earnings, and changes in the fair value of investments.

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The Corporation's total return on its investments and assets limited as to use was as follows for the years ended June 30 (in thousands):

	2015	2014
Dividends and interest, net of fees	\$ 15,436	13,804
Net realized gains	15,277	9,276
Change in fair value of trading securities	(31,090)	53,855
Total investment return	\$ (377)	76,935

Total investment return is classified in the consolidated statements of operations as follows for the years ended June 30 (in thousands):

	2015	2014
Nonoperating investment income	\$ 28,273	21,055
Change in fair value of unrestricted investments	(30,029)	50,994
Investment gains on restricted net assets	1,379	4,886
Total investment return	\$ (377)	76,935

Investment return does not include the returns on the economic interests in the net assets of related organizations, the returns on the self-insurance trust funds, returns on undesignated interest rates swaps, or the returns on certain construction funds where amounts have been capitalized.

(3) Property and Equipment

The following is a summary of property and equipment at June 30 (in thousands):

	2015	2014
Land	\$ 140,549	134,174
Buildings	1,468,578	1,461,645
Building and leasehold improvements	698,128	645,454
Equipment	1,365,897	1,263,671
Construction in progress	220,407	191,201
	3,893,559	3,696,145
Less accumulated depreciation and amortization	(1,835,430)	(1,664,911)
	\$ 2,058,129	2,031,234

Interest cost capitalized was \$0 and \$1,031,000 for the year ended June 30, 2015 and 2014, respectively.

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Remaining commitments on construction projects were approximately \$17,518,000 at June 30, 2015.

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

Depreciation expense was \$182,231,000 and \$169,117,000, for the years ended June 30, 2015 and 2014, respectively.

(4) Investments in Joint Ventures

The Corporation has investments of \$74,600,000 and \$83,072,000 at June 30, 2015 and 2014, respectively, in the following unconsolidated joint ventures:

<u>Joint venture</u>	<u>Business purpose</u>	<u>Ownership percentage</u>	
		<u>FY2015</u>	<u>FY2014</u>
Shipley's Imaging Center, LLC	Freestanding imaging center	50%	50%
Maryland Care, Inc.	Managed care organization	20	20
Innovative Health Services, LLC	Third-party insurance claims processor	50	50
NAH/Sunrise of Severna Park, LLC	Senior living facility	(a)	50
Terrapin Insurance Company (Terrapin)	Healthcare professional liability insurance company	50	50
Mt. Washington Pediatric Hospital, Inc. (Mt. Washington)	Healthcare services	50	50
UCHS/UMMS Venture, LLC	Healthcare services	(b)	(b)
Central Maryland Radiation Oncology Center LLC	Healthcare services	50	50
Chesapeake-Potomac Healthcare Alliance	Healthcare services	33	33
Civista Ambulatory Surgery Center, Inc.	Ambulatory surgical services	50	50
NRH/CPT/St. Mary's/Civista Regional Rehab, LLC	Medical rehabilitative and therapy services	15	15

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<u>Joint venture</u>	<u>Business purpose</u>	<u>Ownership percentage</u>	
		<u>FY2015</u>	<u>FY2014</u>
Maryland eCare, LLC	Remote monitoring technology	14%	14%
MRI at St. Joseph Medical Center, LLC	Healthcare services	51	51
Advanced/Upper Chesapeake Health Center, LLC	Imaging Center	10	10

(a) UMMS sold ownership interest during June 2015.

(b) UMMS acquired all of the remaining ownership interest of UCHS/UMMS Venture during the year ended June 30, 2014. The operations are fully consolidated as of the date of full ownership.

The Corporation recorded equity in net earnings of \$8,603,000 and \$9,548,000 related to these joint ventures for the years ended June 30, 2015 and 2014, respectively.

The following is a summary of the Corporation's joint ventures' combined unaudited condensed financial information as of and for the years ended June 30 (in thousands):

	<u>2015</u>			
	<u>Mt.</u>			
	<u>Washington</u>	<u>Terrapin</u>	<u>Others</u>	<u>Total</u>
Current assets	\$ 25,755	6,883	220,873	253,511
Noncurrent assets	79,335	192,522	90,715	362,572
Total assets	<u>\$ 105,090</u>	<u>199,405</u>	<u>311,588</u>	<u>616,083</u>
Current liabilities	\$ 13,850	638	173,772	188,260
Noncurrent liabilities	7,971	196,817	1,535	206,323
Net assets	<u>83,269</u>	<u>1,950</u>	<u>136,281</u>	<u>221,500</u>
Total liabilities and net assets	<u>\$ 105,090</u>	<u>199,405</u>	<u>311,588</u>	<u>616,083</u>
Total operating revenue	\$ 59,131	39,598	756,934	855,663
Total operating expenses	(54,086)	(41,228)	(718,161)	(813,475)
Total nonoperating gains/(losses), net	633	1,630	(13,566)	(11,303)
Contributions from owners	—	—	(9,079)	(9,079)
Other changes in net assets, net	<u>(494)</u>	<u>—</u>	<u>(331)</u>	<u>(825)</u>
Increase in net assets	<u>\$ 5,184</u>	<u>—</u>	<u>15,797</u>	<u>20,981</u>

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	2014				
	Mt.	UCHS/UMMS			Total
	Washington	Terrapin	Venture, LLC (c)	Others	
Current assets	\$ 26,988	19,024	—	241,920	287,932
Noncurrent assets	73,937	168,976	—	98,893	341,806
Total assets	\$ 100,925	188,000	—	340,813	629,738
Current liabilities	\$ 14,252	925	—	207,974	223,151
Noncurrent liabilities	8,588	185,125	—	12,075	205,788
Net assets	78,085	1,950	—	120,764	200,799
Total liabilities and net assets	\$ 100,925	188,000	—	340,813	629,738
Total operating revenue	\$ 55,422	37,503	166,608	804,404	1,063,937
Total operating expenses	(50,878)	(45,401)	(165,176)	(794,193)	(1,055,648)
Total nonoperating gains/(losses), net	4,015	7,898	8,255	450	20,618
Contributions from owners	—	—	125	4,854	4,979
Other changes in net assets, net	1,432	—	(1,717)	(4,128)	(4,413)
Increase in net assets	\$ 9,991	—	8,095	11,387	29,473

(c) Activity from July 1, 2013 through December 6, 2013

(5) Leases

The Corporation rents various equipment and facility space. Rent expense under these operating leases for the years ended June 30, 2015 and 2014 was approximately \$26,684,000 and \$24,523,000, respectively.

Future noncancelable minimum lease payments under operating leases are as follows for the years ending June 30 (in thousands):

2016	\$ 14,793
2017	11,628
2018	8,621
2019	8,410
2020	5,900
Thereafter	19,152
	\$ 68,504

The Corporation rents property used for administration under a 99-year lease. The lease was recorded as a capital lease, and the Corporation recorded assets at their respective fair values of \$3,770,000 and \$29,230,000 for land and buildings, respectively. The lease includes an option for the Corporation to purchase the property during the period from April 20, 2017 to February 28, 2021 for a purchase price of not

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less than \$37,000,000 but not more than \$45,000,000 as determined by appraisals. In addition, the lease agreement includes a put option exercisable through February 28, 2021, whereby the lessor may require the Corporation to purchase the building for \$37,000,000. As of June 30, 2015 and 2014, amounts of \$36,353,000 and \$35,924,000, respectively, representing obligations under the lease, have been recorded in other current liabilities.

As of June 30, 2015, amounts of \$2,076,000 and \$17,156,000 representing obligations under all other capital leases are included in other current liabilities and other long-term liabilities, respectively.

The following is a summary of all property and equipment under capital leases at June 30 (in thousands):

	2015	2014
Land	\$ 3,770	3,770
Buildings	29,230	29,230
Equipment	23,223	22,105
	56,223	55,105
Less accumulated amortization	(10,864)	(9,084)
	\$ 45,359	46,021

Future minimum lease payments under capital leases, together with the present value of the net minimum lease payments, are as follows as of June 30, 2015 (in thousands):

2016	\$	6,022
2017		42,259
2018		2,477
2019		1,798
2020		1,677
Thereafter		15,286
Total minimum lease payments		69,519
Less amounts representing interest		(13,934)
Present value of net minimum lease payments	\$	55,585

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(6) Lines of Credit

Lines of credit outstanding are as follows as of the years ended June 30 (in thousands):

2015					
Line number	Interest rate calculation	Interest rate as of June 30, 2015	Date of expiration	Total available	Outstanding amount
1	1-mo LIBOR + 2.20%	2.39	Annually renewing	\$ 20,000	7,500
2	1, 2 or 3 month LIBOR + 0.75%	0.94	7/15/2016	20,000	20,000
3	1-mo LIBOR + 0.20%	0.99	4/30/2016	10,000	10,000
4	1-mo LIBOR + 2.20%	2.39	Annually renewing	5,000	—
5	Prime + 0.50%	3.75	5/31/2016	12,000	12,000
6	Prime, LIBOR (1, 2, 3 or 6 month) or LIBOR w/daily reset	3.25	1/13/2016	10,000	10,000
7	1-mo LIBOR + 0.75%	0.94	12/31/2015	60,000	60,000
8	1-mo LIBOR + 0.85%	1.04	3/29/2016	25,000	24,900
Total lines of credit				<u>\$ 162,000</u>	<u>144,400</u>

2014					
Line number	Interest rate calculation	Interest rate as of June 30, 2014	Date of expiration	Total available	Outstanding amount
1	1-mo LIBOR + 2.20%	2.32	Annually renewing	\$ 20,000	—
2	1, 2 or 3 month LIBOR + 0.75%	0.87	7/1/2015	20,000	20,000
3	1-mo LIBOR + 0.20%	0.92	3/31/2015	10,000	—
4	1-mo LIBOR + 2.20%	2.32	Annually renewing	5,000	—
5	Prime + 0.50%	3.75	5/31/2015	12,000	12,000
6	Prime, LIBOR (1, 2, 3 or 6 month) or LIBOR w/daily reset	3.25	1/14/2015	10,000	—
7	1-mo LIBOR + 0.75%	0.87	11/15/2014	60,000	60,000
8	1-mo LIBOR + 0.85%	0.97	1/29/2015	25,000	25,000
Total lines of credit				<u>\$ 162,000</u>	<u>117,000</u>

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(7) Long-Term Debt and Other Borrowings

Long-term debt consists of the following at June 30 (in thousands):

	<u>Interest rate</u>	<u>Payable in fiscal year(s)</u>	<u>2015</u>	<u>2014</u>
MHHEFA project revenue bonds:				
Corporation issue, payments due annually on July 1:				
Series 2015 Bonds	2.00%–5.00%	2016–2043	\$ 80,145	—
Series 2013 Bonds	2.00%–5.00%	2013–2043	353,650	356,935
Series 2012A-D Bonds	Variable rate	2013–20411	214,290	215,335
Series 2010 Bonds	2.50%–5.25%	2010–2040	215,465	221,070
Series 2008D/E Bonds	Variable rate	2026–2042	105,000	105,000
Series 2008F Bonds	4.00%–5.25%	2009–2024	53,510	60,260
Series 2007A Bonds	Variable rate	2008–2035	90,295	92,735
Series 2006A Bonds	4.50%–5.00%	2026–2042	—	45,000
Series 2005 Bonds	4.00%–5.50%	2006–2032	121,225	122,725
Series 1991B Bonds	7.00%	1992–2023	23,350	24,760
Upper Chesapeake issue, payments due annually on January 1:				
Series 2011B/C Bonds	Variable rate	2013–20401	111,129	113,590
Series 2011A Bonds	Variable rate	2012–20431	48,095	49,065
Series 2008C Bonds	5.25%–6.05%	2009-2038	—	50,535
Other long-term debt:				
UCHS Bridge Loan	Variable rate	2017	150,000	150,000
North Arundel Senior Living, LLC Mortgage	4.75%	Monthly, 2021	—	10,617
Charles County Government loan payable	3.05	Monthly, 2004–2021	6,486	7,516
Community Bank note payable	4.50	Monthly, 2014–2024	5,218	5,740
O’Dea Medical Arts L.P. mortgage	4.66	2009–2019	9,081	9,283
Term loans	1.62%–3.95%	2009–2022	30,557	34,574
Other loans and notes payable	3.25%–7.00%	Monthly, 1991–2025	2,975	3,142
			<u>1,620,471</u>	<u>1,677,882</u>

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	<u>Interest rate</u>	<u>Payable in fiscal year(s)</u>	<u>2015</u>	<u>2014</u>
Less current portion of long-term debt			\$ 33,298	32,624
Less short-term financing			—	150,000
Less long-term debt subject to short-term remarketing agreements			<u>51,732</u>	<u>77,574</u>
			1,535,441	1,417,684
Plus unamortized premiums and discounts, net			<u>23,703</u>	<u>18,562</u>
			<u>\$ 1,559,144</u>	<u>1,436,246</u>

¹ Mandatory purchase options are due in the following (fiscal years), unless the bank and the Obligated Group agree to an extension: Series 2012A (2022), 2012B&C (2017), 2012D (2019), 2011A (2021), 2011B (2022), and 2011C (2018).

Pursuant to an Amended and Restated Master Loan Agreement dated August 1, 2012 (UMMS Master Loan Agreement), the Corporation and several of its subsidiaries have issued debt through MHHEFA. As security for the performance of the bond obligation under the Master Loan Agreement, the Authority maintains a security interest in the revenue of the obligors. The UMMS Master Loan Agreement contains certain restrictive covenants. These covenants require that rates and charges be set at certain levels, limit incurrence of additional debt, require compliance with certain operating ratios and restrict the disposition of assets.

The Obligated Group under the UMMS Master Loan Agreement includes the Medical Center, ROI, Midtown, Baltimore Washington Medical Center, Shore Health (Memorial Hospital and Dorchester General), CRHC, Charles Regional Medical Center, UMSJMC, UCMC, HMH, and the UMMS Foundation. Each member of the Obligated Group is jointly and severally liable for the repayment of the obligations under the UMMS Master Loan Agreement.

Under the terms of the UMMS Master Loan Agreement and other loan agreements, certain funds are required to be maintained on deposit with the Master Trustee to provide for repayment of the obligations of the Obligated Group (note 2).

In May 2015, the Corporation refunded \$45,000,000 of the Series 2006A Bonds and \$49,485,000 of the Series 2008C – UCHS Bonds. The refunding was completed using the proceeds of a new \$80,145,000 fixed rate MHHEFA bond issue (the Series 2015 Bonds).

On December 3, 2013, the Corporation entered into a term loan in the amount of \$150,000,000 as a bridge financing related to the acquisition of Upper Chesapeake. The term loan was originally payable on December 2, 2014 and was extended to December 10, 2016, and as such has been classified as long term debt and a short-term financing at June 30, 2015 and 2014, respectively, in the consolidated balance sheets. The Corporation intends to refinance this obligation prior to its maturity date.

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The payment of principal and interest on the Corporation's issue Series 2005 Bonds is insured under a financial guaranty insurance policy. This policy insured the payment of principal, sinking fund installments and interest on the corresponding bonds. The insurance policy required the Obligated Group to adhere to the same covenants as those in the UMMS Master Loan Agreement.

The aggregate annual future maturities of long-term debt according to the original terms of the Master Loan Agreement and all other loan agreements are as follows for the years ending June 30 (in thousands):

2016	\$	33,298
2017		184,829
2018		45,721
2019		43,660
2020		36,736
Thereafter		<u>1,276,227</u>
	\$	<u><u>1,620,471</u></u>

The Corporation's Series 2007A, 2008D-E, 2011A-C, and 2012A-D are variable rate demand bonds requiring remarketing agents to purchase and remarket any bonds tendered before the stated maturity date. The reimbursement obligations with respect to the letters of credit are evidenced and secured by the respective bonds. To provide liquidity support for the timely payment of any bonds that are not successfully remarketed, the Corporation has entered into letter of credit agreements with three banking institutions. These agreements have terms that expire in 2016 through 2018. If the bonds are not successfully remarketed, the Corporation is required to pay an interest rate specified in the letter of credit agreement, and the principal repayment of bonds may be accelerated to require repayment in periods ranging from 20 to 60 months from the date of the failed remarketing. The Corporation has reflected the amount of its long-term debt that is subject to these short-term remarketing arrangements as a separate component of current liabilities in its consolidated balance sheets. In the event that bonds are not remarketed, the Corporation maintains available letters of credit and has the ability to access other sources to obtain the necessary liquidity to comply with accelerated repayment terms. All variable rate demand bonds were successfully remarketed as of June 30, 2015.

The following table reflects the mandatory redemptions and required repayment terms for the years ended June 30 (in thousands) of the Corporation's debt obligations in the event that the put options associated with variable rate demand bonds subject to short-term remarketing agreements were exercised, but not successfully remarketed, and mandatory purchase options are not extended:

2016	\$	85,030
2017		360,478
2018		164,165
2019		116,835
2020		34,671
Thereafter		<u>859,292</u>
	\$	<u><u>1,620,471</u></u>

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The approximate interest rates on MHHEFA project revenue bonds bearing interest at variable rates were as follows at June 30:

	<u>2015</u>	<u>2014</u>
Series 2011A Bonds – UCHS Issue	3.67%	3.67%
Series 2011B Bonds – UCHS Issue	1.30	1.27
Series 2011C Bonds – UCHS Issue	0.99	0.96
Series 2008D Bonds	0.02	0.06
Series 2008E Bonds	0.08	0.03
Series 2007A Bonds	0.07	0.05
Series 2012A Bonds	1.18	1.16
Series 2012B Bonds	0.88	0.86
Series 2012C Bonds	1.98	1.17
Series 2012D Bonds	1.13	1.10

Term loans outstanding are as follows at June 30 (in thousands):

	<u>Interest rate</u>	<u>Interest rate</u>	<u>Payable in fiscal year(s)</u>	<u>2015</u>	<u>2014</u>
Term loan 1:					
Payable monthly beginning February 2012	1-mo LIBOR + 2.75%	3.00%	2012–2018	\$ 16,691	18,916
Term loan 2:					
Payable monthly beginning March 2012	Fixed rate	3.95	2012–2022	9,200	10,000
Term loan 3:					
Payable monthly beginning January 2012	Fixed rate	3.19	2012–2017	427	712
Term loan 4:					
Payable monthly beginning April 2012	Fixed rate	3.10	2012–2017	458	719
Term loan 5:					
Payable monthly beginning February 2010	1-mo LIBOR + 1.75%	2.18	2010–2018	3,281	3,506
Term loan 6:					
Payable monthly beginning October 2012	Fixed rate	2.80	2013–2018	411	594
Term loan 7:					
Payable monthly beginning November 2012	Fixed rate	2.80	2013–2018	89	127
Total term loans (included in long-term debt)				<u>\$ 30,557</u>	<u>34,574</u>

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(8) Interest Rate Risk Management

The Corporation uses a combination of fixed and variable rate debt to finance capital needs. The Corporation maintains an interest rate risk-management strategy that uses interest rate swaps to minimize significant, unanticipated earnings fluctuations that may arise from volatility in interest rates.

At June 30, 2015 and 2014, the Corporation's notional values of outstanding interest rate swaps were \$791,936,000 and \$801,160,000, respectively, the details of which were as follows (in thousands):

	<u>Notional amount</u>	<u>Pay rate</u>	<u>Receive rate</u>	<u>Maturity date</u>	<u>Mark to market</u>	<u>Qualifies for hedge accounting treatment?</u>
As of June 30, 2015:						
Swap #1	\$ 89,171	3.59%	70% 1-month Libor	7/1/2031	\$ (15,444)	No
Swap #2	84,000	3.93	68% 1-month Libor	7/1/2041	(28,822)	No
Swap #3	21,000	4.24	68% 1-month Libor	7/1/2041	(8,314)	No
Swap #4	37,400	3.99	67% 1-month Libor	7/1/2034	(8,612)	No
Swap #5	27,730	3.54	70% 1-month Libor	7/1/2031	(4,666)	No
Swap #6	196,000	3.93	68% 1-month Libor	7/1/2041	(67,262)	No
Swap #7	49,000	4.24	68% 1-month Libor	7/1/2041	(19,403)	No
Swap #8	87,275	4.00	67% 1-month Libor	7/1/2034	(20,168)	No
Swap #9	4,330	3.63	67% 1-month Libor	7/1/2032	(532)	No
Swap #10	109,050	3.92	67% 1-month Libor	1/1/2038	(29,445)	No
Swap #11	<u>86,980</u>	0.51	67% 1-month Libor + 0.5133%	1/1/2038	<u>592</u>	No
					(202,076)	
				Valuation adjustments	<u>5,704</u>	
Total	<u>\$ 791,936</u>				<u>\$ (196,372)</u>	

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	<u>Notional amount</u>	<u>Pay rate</u>	<u>Receive rate</u>	<u>Maturity date</u>	<u>Mark to market</u>	<u>Qualifies for hedge accounting treatment?</u>
As of June 30, 2014:						
Swap #1	\$ 90,200	3.59%	70% 1-month Libor	7/1/2031	\$ (14,889)	No
Swap #2	84,000	3.93	68% 1-month Libor	7/1/2041	(24,983)	No
Swap #3	21,000	4.24	68% 1-month Libor	7/1/2041	(7,348)	No
Swap #4	38,350	3.99	67% 1-month Libor	7/1/2034	(8,317)	No
Swap #5	28,060	3.54	70% 1-month Libor	7/1/2031	(4,481)	No
Swap #6	196,000	3.93	68% 1-month Libor	7/1/2041	(58,299)	No
Swap #7	49,000	4.24	68% 1-month Libor	7/1/2041	(17,147)	No
Swap #8	89,450	4.00	67% 1-month Libor	7/1/2034	(19,485)	No
Swap #9	4,690	3.63	67% 1-month Libor	7/1/2032	(582)	No
Swap #10	111,525	3.92	67% 1-month Libor	1/1/2038	(27,077)	No
Swap #11	<u>88,885</u>	0.51	67% 1-month Libor + 0.5133%	1/1/2038	<u>(1,350)</u>	No
					(183,958)	
				Valuation adjustments	<u>8,011</u>	
Total \$	<u>801,160</u>				\$ <u>(175,947)</u>	

The mark-to-market values of the Corporation's interest rate swaps include a valuation adjustment representing the creditworthiness of the counterparties to the swaps.

On January 1, 2013, in accordance with ASC 815, *Derivatives and Hedging*, the Corporation elected to discontinue the cash flow hedging relationship for Swap #8. As of that date, the accumulated losses included in unrestricted net assets, will be reclassified into earnings over the life of the Series 2007 bonds. For the years ended June 30, 2015 and 2014, \$1,812,000 and \$1,857,000, respectively were reclassified from other changes in net assets into change in fair value of undesignated interest rate swaps. The accumulated losses included in unrestricted net assets were (\$21,415,000) and (\$23,227,000) at June 30, 2015 and 2014, respectively.

The Corporation recorded a net nonoperating gain (loss) on changes in the fair value of nonqualifying interest rate swaps of (\$22,237,000) and (\$3,420,000) for the years ended June 30, 2015 and 2014, respectively.

The swap agreements are included in the consolidated balance sheets at their fair value of \$196,372,000 and \$175,947,000 as of June 30, 2015 and 2014, respectively, an amount that is based on observable inputs other than quoted market prices in active markets for identical liabilities (Level 2 in the fair value hierarchy).

On December 6, 2013, in connection with the transaction discussed in note 1, the interest rate swap agreement for Upper Chesapeake was revised into a new agreement with the same terms and original confirmation between UMMS and the swap counterparty. The new agreement requires collateral postings by Upper Chesapeake, which is guaranteed by the Corporation. The Corporation posted collateral on behalf of Upper Chesapeake in the amount of \$30,017,000 and \$27,077,000 as of June 30, 2015 and 2014, respectively.

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The Corporation is subject to a collateral posting requirement with two of its swap counterparties. Collateral posting requirements are based on the Corporation's long-term debt credit ratings, as well as the net liability position of total interest rate swap agreements outstanding with that counterparty. The amount of such posted collateral was \$80,723,000 and \$66,765,000 at June 30, 2015 and 2014, respectively.

As of June 30, 2015 and 2014, the Corporation met its collateral posting requirement through the use of collateralized investments, which were selected and purchased by the Corporation and subsequently transferred to the custody of the swap counterparty. The amount of posted investments that is required to meet the collateral requirement is computed daily, and is accounted for as a component of the Corporation's assets limited as to use on the accompanying consolidated balance sheets as of that date. Any excess investment value is considered a component of the Corporation's unrestricted investment portfolio, and is included in investments on the accompanying consolidated balance sheets as of that date.

(9) Other Liabilities

Other liabilities consist of the following at June 30 (in thousands):

	2015	2014
Professional and general malpractice liabilities	\$ 206,072	215,173
Capital lease obligations	55,585	55,570
Accrued pension obligations	25,481	24,751
Accrued interest payable	19,616	22,698
Other miscellaneous	67,766	54,684
Total other liabilities	374,520	372,876
Less current portion	(115,295)	(105,275)
Other long-term liabilities	\$ 259,225	267,601

Other miscellaneous liabilities primarily consist of unearned revenue and patient credit balance liabilities.

(10) Retirement Plans

Employees of the Corporation are included in various retirement plans established by the Corporation, the Medical Center, ROI, Midtown, Baltimore Washington, Shore Regional, Charles Regional, and Upper Chesapeake. Participation by employees in their specific plan(s) has evolved based upon the organization by which they were first employed and the elections that they made at the times when their original employers became part of the Corporation. Following is a brief description of each of the retirement plans in which employees of the Corporation participate.

(a) Defined Benefit Plans

University of Maryland Medical Center Midtown Campus Retirement Plan for Non – Union Employees (Midtown Plan) – A noncontributory defined benefit plan covering substantially all nonunion employees. The benefits are based on years of service and compensation. Contributions to

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this plan are made to satisfy the minimum funding requirements of ERISA. In 2006, Midtown froze the defined benefit pension plan.

Baltimore Washington Medical Center Pension Plan (Baltimore Washington Plan) – A noncontributory defined benefit pension plan covering full-time employees who have been employed for at least one year and have reached 21 years of age.

Baltimore Washington Medical Center Supplemental Executive Retirement Plan – A noncontributory defined benefit pension plan for senior management level employees.

Chester River Health System, Inc. Pension Plan and Trust – A noncontributory defined benefit pension plan covering substantially all CRHC employees as well as employees of a subsidiary. The benefits are paid to retirees based upon age at retirement, years of service and average compensation. Chester River's funding policy is to satisfy the minimum funding requirements of ERISA. Effective June 30, 2008, Chester River froze the defined benefit pension plan.

Civista Health Inc. Retirement Plan and Trust (Charles Regional Plan) – A noncontributory defined benefit pension plan covering employees that have worked at least one thousand hours per year during three or more plan years. Plan benefits are accumulated based upon a combination of years of service and percent of annual compensation. Charles Regional makes annual contributions to the plan based upon amounts required to be funded under provisions of ERISA.

Upper Chesapeake Health System, Inc. Pension Plan and Trust – A noncontributory defined benefit pension plan covering substantially all employees of the various affiliates of Upper Chesapeake who have completed six months of employment and attained the age of twenty and a half years. Upper Chesapeake makes annual contributions to the plan equal to the minimum funding requirements pursuant to ERISA regulations. On December 31, 2005, Upper Chesapeake froze the defined benefit pension plan. On June 30, 2015 Upper Chesapeake terminated the defined benefit pension plan and intends to liquidate its entire benefit obligation using its plan assets by June 30, 2016. Due to the termination, the benefit obligations for the year ended June 30, 2015, are determined as the estimated amount of lump sum distributions and annuity contract premiums expected to be paid.

On June 30, 2015 the Corporation amended the *Baltimore Washington Medical Center Pension Plan* to provide for the merger of the Midtown Plan and the Charles Regional Plan into the Baltimore Washington Plan and to change the name of the newly consolidated plan to the *University of Maryland Medical System Corporate Pension Plan* (the Corporate Plan). All provisions of the respective previous plans shall continue to apply to the respective applicable participants. In addition as of June 30, 2015 all of the assets of the three formerly separate plans that were previously available only to pay benefits for their separate plan participants are now available to pay benefits for all participants under the newly consolidated Corporate Plan.

The Corporation recognizes the funded status (i.e., difference between the fair value of plan assets and projected benefit obligations) of its defined benefit pension plans as an asset or liability in its consolidated balance sheets. The Corporation recognizes changes in the funded status in the year in which the changes occur as changes in unrestricted net assets. All defined benefit pension plans use a June 30 measurement date.

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The following table sets forth the combined benefit obligations and assets of the defined benefit plans at June 30 (in thousands):

	2015	2014
Change in projected benefit obligations:		
Benefit obligations at beginning of year	\$ 256,487	165,157
Addition of Upper Chesapeake obligation	—	71,539
Settlements	(1,551)	(1,325)
Service cost	4,296	3,731
Interest cost	11,318	13,120
Actuarial loss	5,090	18,766
Benefit payments	(16,470)	(14,501)
Projected benefit obligations at end of year	\$ 259,170	256,487
	2015	2014
Change in plan assets:		
Fair value of plan assets at beginning of year	\$ 233,218	138,573
Addition of Upper Chesapeake assets	—	61,836
Actual return on plan assets	6,919	29,465
Settlements	(1,551)	(1,325)
Employer contributions	11,573	13,433
Benefit payments	(16,470)	(8,764)
Fair value of plan assets at end of year	\$ 233,689	233,218

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

	<u>2015</u>	<u>2014</u>
Funded status, end of period:		
Fair value of plan assets	\$ 233,689	233,218
Projected benefit obligations	<u>259,170</u>	<u>256,487</u>
Net funded status	<u>\$ (25,481)</u>	<u>(23,269)</u>
Accumulated benefit obligation at end of year	\$ 253,362	248,545
Amounts recognized in consolidated balance sheets at June 30:		
Pension asset	\$ —	1,482
Accrued pension obligation	<u>(25,481)</u>	<u>(24,751)</u>
	<u>\$ (25,481)</u>	<u>(23,269)</u>
Amounts recognized in unrestricted net assets at June 30:		
Net actuarial loss	\$ (85,613)	(77,451)
Prior service cost	<u>(815)</u>	<u>(985)</u>
	<u>\$ (86,428)</u>	<u>(78,436)</u>

The estimated amounts that will be amortized from unrestricted net assets into net periodic pension cost in fiscal 2016 are as follows:

Net actuarial loss	\$ 6,401
Prior service cost	<u>166</u>
	<u>\$ 6,567</u>

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

	<u>2015</u>	<u>2014</u>
Service cost	\$ 4,295	3,731
Interest cost	11,318	13,120
Expected return on plan assets	(16,084)	(17,580)
Prior service cost recognized	171	174
Recognized gains or losses	<u>6,094</u>	<u>8,978</u>
Net periodic pension cost	<u>\$ 5,794</u>	<u>8,423</u>

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

	<u>2015</u>	<u>2014</u>
Discount rate	3.00%–4.61%	4.40%–5.37%
Rate of compensation increase (for nonfrozen plan)	2.50–4.50	2.50–4.50

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

	<u>2015</u>	<u>2014</u>
Discount rate	4.40%–4.62%	4.48%–5.37%
Expected long-term return on plan assets	6.50–7.00	7.25–7.50
Rate of compensation increase (for nonfrozen plan)	2.50–4.50	2.50–4.50

As of June 30, 2015, the Corporation adopted the new Mercer MRP-2007 mortality table with generational improvements using projection scale Mercer MMP-2007. As a result of the adoption, the projected benefit obligation increased \$5,100,000.

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

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The Corporation's pension plans' target allocation and weighted average asset allocations at the measurement date of June 30, 2015 and 2014, by asset category, are as follows:

<u>Asset category</u>	<u>Target allocation</u>	<u>Percentage of plan assets as of June 30</u>	
		<u>2015</u>	<u>2014</u>
Cash and cash equivalents	4%	3%	7%
Fixed income securities	34	42	37
Equity securities	37	34	43
Global asset allocation	15	16	8
Hedge funds	10	5	5
		<u>100%</u>	<u>100%</u>

Equity and fixed income securities include investments in hedge fund of funds that are categorized in accordance with each fund's respective investment holdings.

The table below presents the Corporation's combined investable assets of the defined benefit pension plans as of June 30, 2015 aggregated by the three level valuation hierarchy as described in note 1(u) (in thousands):

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Cash and cash equivalents	\$ 3,931	3,533	—	7,464
Corporate bonds	27,213	—	—	27,213
Gov't & agency bonds	15,619	—	—	15,619
Fixed income mutual funds	30,183	—	—	30,183
Common and preferred stocks	30,051	—	—	30,051
Equity mutual funds	41,710	—	—	41,710
Other mutual funds	8,834	—	—	8,834
Alternative investments	—	31,208	41,407	72,615
	<u>\$ 157,541</u>	<u>34,741</u>	<u>41,407</u>	<u>233,689</u>

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The table below presents the Corporation's combined investable assets of the defined benefit pension plans as of June 30, 2014, aggregated by the three level valuation hierarchy as described in note 1(u) (in thousands):

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Cash and cash equivalents	\$ 6,082	11,107	—	17,189
Corporate bonds	26,568	—	—	26,568
Gov't & agency bonds	15,001	—	—	15,001
Fixed income mutual funds	21,022	—	—	21,022
Common and preferred stocks	30,138	—	—	30,138
Equity mutual funds	59,209	—	—	59,209
Other mutual funds	10,908	—	—	10,908
Alternative investments	—	33,229	19,954	53,183
	<u>\$ 168,928</u>	<u>44,336</u>	<u>19,954</u>	<u>233,218</u>

Changes to Level 1 and Level 2 inputs between June 30, 2015 and 2014 were the result of strategic investments and reinvestments, interest income earnings, and changes in the fair value of investments.

Changes to the fair values based on the Level 3 inputs are summarized as follows (in thousands):

	<u>Hedge funds</u>
Balance as of June 30, 2013	\$ 17,741
Additions/purchases	385
Withdrawals/sales	(168)
Net change in value	<u>1,996</u>
Balance as of June 30, 2014	19,954
Additions/purchases	21,255
Withdrawals/sales	(151)
Net change in value	<u>349</u>
Balance as of June 30, 2015	<u>\$ 41,407</u>

The hedge fund-of-funds alternative investments held as of June 30, 2015 are subject to notice requirements of 30 days or less and are available to be redeemed on at least a monthly basis with the exception of one fund, totaling \$7,700,000, which is subject to 70 day notice requirements and can be redeemed on a quarterly basis. None of the alternative investments are subject to any lock-up restrictions.

The Corporation expects to contribute \$9,337,000 to its defined benefit pension plans for the fiscal year ending June 30, 2016.

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

2016	\$	88,884
2017		10,850
2018		10,625
2019		10,705
2020		11,466
2021–2025		70,375

The expected benefits to be paid are based on the same assumptions used to measure the Corporation’s benefit obligation at June 30, 2015.

(b) Defined Contribution Plans

Corporation Pension Plan – A noncontributory defined contribution plan for all eligible Corporation employees not participating in the ROI Plan or the Midtown Plan described below. Contributions to this plan by the Corporation are determined as a fixed percentage of total employees’ base compensation.

Corporation Salary Reduction 403(b) Plan – A contributory benefit plan covering substantially all employees not participating in the ROI Plan or the Midtown Plan described below. Employees are immediately eligible for elective deferrals of compensation as contributions to the plan.

Kernan Tax Sheltered Annuity Plan – A contributory benefit plan administered by an insurance company for ROI employees hired prior to a certain date in 1996. Employee contributions to this plan are eligible for a matching contribution by ROI after participating employees have completed two years of credited service.

Midtown 401(k) Profit Sharing Plan for Union Employees – Defined contribution plan for substantially all union employees of Midtown. Employer contributions to this plan are determined based on years of service and hours worked. Employees are immediately eligible for elective deferrals of compensation as contributions to the plan.

Baltimore Washington Retirement Plans – Defined contribution plans covering all employees of Baltimore Washington Medical Center, and certain related entities. Employees are eligible for matching contributions after two years of service as defined in the plans.

Shore Health System Retirement Plan – A contributory benefit plan covering substantially all employees of Shore Health. Employees are eligible for matching contributions after one year of service.

Chester River Retirement Plan – A contributory benefit plan covering substantially all employees of Chester River who have met the eligibility requirements.

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Charles Regional Retirement Savings Plan – A contributory benefit plan covering substantially all full-time employees of Charles Regional. Employees are eligible for matching contributions after three years of service as defined in the plan.

Upper Chesapeake Retirement Plan – A defined contribution benefit plan which allows employees of Upper Chesapeake to contribute amounts tax-deferred up to certain limits allowable under IRS guidelines. Upper Chesapeake is required to match up to 100% of employee contributions up to 4% of employees' salaries, based on years of service. Upper Chesapeake is also required to make a contribution of 1% of each employee's salary for all employees who work more than 1,000 hours annually. Additional contributions are required to be made by Upper Chesapeake for employees aged fifty and older, who have completed ten years of service. Employees vest in amounts contributed by Upper Chesapeake ratably over a five-year period.

On June 30, 2015 the Corporation amended the *Baltimore Washington Medical Center Pension Plan* to provide for the merger of the Midtown Plan and the Charles Regional Plan into the Baltimore Washington Plan and to change the name of the newly consolidated plan to the *University of Maryland Medical System Corporate Pension Plan* (the Corporate Plan). Under the newly consolidated Corporate Plan, all of the provisions of the Baltimore Washington Plan shall continue to apply to Baltimore Washington Plan applicable participants, all of the provisions of the Midtown Plan shall continue to apply to Midtown Plan applicable participants, and all of the provisions of the Charles Regional Plan shall continue to apply to Charles Regional Plan applicable participants. In addition as of June 30, 2015 all of the assets of the three formerly separate plans that were previously available only to pay benefits for their separate plan participants are now available to pay benefits for all participants under the newly consolidated Corporate Plan.

Total annual retirement costs incurred by the Corporation for the previously discussed defined contribution plans were \$38,163,000 and \$35,016,000 for the years ended June 30, 2015 and 2014, respectively. Such amounts are included in salaries, wages and benefits in the accompanying consolidated statements of operations.

(11) Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are restricted primarily for the following purposes at June 30 (in thousands):

	2015	2014
Facility construction and renovations, research, education, and other	\$ 56,223	49,842
Economic and beneficial interests in the net assets of related organizations	189,430	191,544
	\$ 245,653	241,386

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Net assets were released from donor restrictions during the years ended June 30, 2015 and 2014 by expending funds satisfying the restricted purposes or by occurrence of other events specified by donors as follows (in thousands):

	2015	2014
Purchases of equipment and construction costs	\$ 17,654	2,913
Research, education, uncompensated care, and other	5,813	4,793
	\$ 23,467	7,706

Included in net assets released from donor restrictions for research, education, uncompensated care and other is \$4,034,000 and \$3,173,000 for the years ended June 30, 2015 and 2014.

Permanently restricted net assets consist primarily of gifts to be held in perpetuity, the income from which may be used to fund the operations of the Corporation.

The Corporation's endowments consist of donor-restricted funds established for a variety of purposes. Net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

(a) Interpretation of Relevant Law

The Corporation has interpreted the Maryland Uniform Prudent Management of Institutional Funds Act (MUPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Corporation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the organization in a manner consistent with the standard of prudence prescribed by MUPMIFA. In accordance with MUPMIFA, the Corporation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (1) The duration and preservation of the fund
- (2) The purposes of the Corporation and the donor-restricted endowment fund
- (3) General economic conditions
- (4) The possible effect of inflation and deflation
- (5) The expected total return from income and the appreciation of investments

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- (6) Other resources of the Corporation
- (7) The investment policies of the Corporation.

Endowment net assets are as follows (in thousands):

		June 30, 2015			
		Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor-restricted endowment funds	\$	—	13,265	36,201	49,466

		June 30, 2014			
		Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor-restricted endowment funds	\$	—	13,480	36,050	49,530

(b) Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or MUPMIFA requires the Corporation to retain as a fund of perpetual duration. The Corporation does not have any donor-restricted endowment funds that are below the level that the donor or MUPMIFA requires.

(c) Investment Strategies

The Corporation has adopted policies for corporate investments, including endowment assets, that seek to maximize risk-adjusted returns with preservation of principal. Endowment assets include those assets of donor-restricted funds that the Corporation must hold in perpetuity or for a donor-specified period(s). The endowment assets are invested in a manner that is intended to hold a mix of investment assets designed to meet the objectives of the account. The Corporation expects its endowment funds, over time, to provide an average rate of return that generates earnings to achieve the endowment purpose.

To satisfy its long-term rate-of-return objectives, the Corporation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Corporation employs a diversified asset allocation structure to achieve its long-term return objectives within prudent risk constraints.

The Corporation monitors the endowment funds' returns and appropriates average returns for use. In establishing this practice, the Corporation considered the long-term expected return on its endowment. This is consistent with the Corporation's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

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(12) Economic and Beneficial Interests in the Net Assets of Related Organizations

The Corporation is supported by several related organizations that were formed to raise funds on behalf of the Corporation and certain of its subsidiaries. These interests are accounted for as either economic or beneficial interests in the net assets of such organizations.

The following is a summary of economic and beneficial interests in the net assets of financially interrelated organizations as of June 30 (in thousands):

	2015	2014
Economic interests in:		
UCH Legacy Funding Corporation	\$ 150,000	150,000
The James Lawrence Kernan Hospital Endowment Fund, Incorporated	29,304	31,809
Baltimore Washington Medical Center Foundation, Inc.	7,022	6,600
Total economic interests	186,326	188,409
Beneficial interest in the net assets of Dorchester General Hospital Foundation, Inc.	3,104	3,135
	\$ 189,430	191,544

The UCH Legacy Funding Corporation was formed in December 2013 to hold funds restricted for the benefit of Upper Chesapeake.

At the discretion of its board of trustees, the Kernan Endowment Fund may pledge securities to satisfy various collateral requirements on behalf of ROI and may provide funding to ROI to support various clinical programs or capital needs.

BWMC Foundation was formed in July 2000 and supports the activities of Baltimore Washington Medical Center by soliciting charitable contributions on its behalf.

Shore Regional maintains a beneficial interest in the net assets of Dorchester Foundation, a nonprofit corporation organized to raise funds on behalf of Dorchester Hospital. Shore Regional does not have control over the policies or decisions of the Dorchester Foundation.

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A summary of the combined unaudited condensed financial information of the financially interrelated organizations in which the Corporation holds an economic or beneficial interest as of June 30 is as follows (in thousands):

	2015	2014
Current assets	\$ 3,700	2,770
Noncurrent assets	186,211	189,361
Total assets	\$ 189,911	192,131
Current liabilities	\$ 128	103
Noncurrent liabilities	353	484
Net assets	189,430	191,544
Total liabilities and net assets	\$ 189,911	192,131
Total operating revenue	\$ 1,355	7,570
Total operating expense	(3,997)	(3,775)
Other changes in net assets	528	150,632
Total increase (decrease) in net assets	\$ (2,114)	154,427

(13) State Support

The Corporation received \$3,200,000 and \$3,000,000 in support for the Shock Trauma Center operations from the state of Maryland, for the years ended June 30, 2015 and 2014, respectively

The state of Maryland appropriates funds for construction costs incurred, equipment purchases made, and other capital support. The Corporation recognizes this support as the funds are expended for the intended projects. The Corporation expended and recorded \$14,261,000 and \$443,000 during the year ended June 30, 2015 and 2014, respectively.

(14) Functional Expenses

The Corporation provides general healthcare services to residents within its geographic location. Expenses related to providing these services, based on management's estimates of expense allocations, are as follows for the years ended June 30 (in thousands):

	2015	2014
Healthcare services	\$ 2,876,799	2,632,935
General and administrative	379,035	345,711
	\$ 3,255,834	2,978,646

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(15) Insurance

The Corporation maintains self-insurance programs for professional and general liability risks, employee health, employee long-term disability, and workers' compensation. Estimated liabilities have been recorded based on actuarial estimation of reported and incurred but not reported claims. The accrued liabilities for these programs as of June 30, 2015 and 2014 were as follows (in thousands):

	2015	2014
Professional and general malpractice liabilities	\$ 206,072	215,173
Employee health	27,323	24,105
Employee long-term disability	15,219	12,962
Workers' compensation	19,027	16,937
Total self-insured liabilities	267,641	269,177
Less current portion	(68,596)	(62,667)
	\$ 199,045	206,510

The Corporation provides for and funds the present value of the costs for professional and general liability claims and insurance coverage related to the projected liability from asserted and unasserted incidents, which the Corporation believes may ultimately result in a loss. These accrued malpractice losses are discounted using a discount rate of 2.5%. In management's opinion, these accruals provide an adequate and appropriate loss reserve. The professional and general malpractice liabilities presented above include \$129,185,000 and \$125,206,000 as of June 30, 2015 and 2014, respectively, for which related insurance receivables have been recorded within other assets on the accompanying consolidated balance sheets.

The Corporation and each of its affiliates are self-insured for professional and general liability claims up to the limits of \$1.0 million on individual claims and \$3.0 million in the aggregate on an annual basis. For amounts in excess of these limits, the risk of loss has been transferred to the Terrapin Insurance Company (Terrapin), an unconsolidated joint venture. Terrapin provides insurance for claims in excess of \$1 million individually and \$3 million in the aggregate up to \$100 million individually and \$100 million in the aggregate under claims made policies between the Corporation and Terrapin. For claims in excess of Terrapin's coverage limits, if any, the Corporation retains the risk of loss.

As discussed in note 4, Terrapin is a joint venture corporation in which a 50% equity interest is owned by the Corporation and a 50% equity interest is owned by Faculty Physicians, Inc.

Total malpractice insurance expense for the Corporation during the years ended June 30, 2015 and 2014 was approximately \$46,112,000 and \$50,835,000, respectively.

(16) Business and Credit Concentrations

The Corporation provides healthcare services through its inpatient and outpatient care facilities located in the State of Maryland. The Corporation generally does not require collateral or other security in extending

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credit; however, it routinely obtains assignment of (or is otherwise entitled to receive) patients' benefits receivable under their health insurance programs, plans or policies (e.g., Medicare, Medicaid, Blue Cross, workers' compensation, health maintenance organizations (HMOs) and commercial insurance policies).

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

The Corporation had gross receivables from patients and third-party payors as follows at June 30:

	<u>2015</u>	<u>2014</u>
Medicare	24%	22%
Medicaid	25	28
Commercial insurance and HMOs	18	17
Blue Cross	10	11
Self-pay and others	23	22
	<u>100%</u>	<u>100%</u>

The Corporation recorded gross revenues from patients and third-party payors for the years ended June 30 as follows:

	<u>2015</u>	<u>2014</u>
Medicare	39%	38%
Medicaid	22	20
Commercial insurance and HMOs	19	21
Blue Cross	15	14
Self-pay and others	5	7
	<u>100%</u>	<u>100%</u>

(17) Certain Significant Risks and Uncertainties

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

- Dependence on revenues derived from reimbursement by the 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; and

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- Lawsuits alleging malpractice and related claims.

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

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

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

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

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

The general healthcare industry environment is increasingly uncertain, especially with respect to the impact of Federal healthcare reform legislation, which was passed in 2010 and largely upheld by the U.S. Supreme Court in June 2012. Potential impacts of ongoing healthcare industry transformation include, but are not limited to (1) significant capital investments in healthcare information technology, (2) continuing volatility in the state and federal government reimbursement programs, (3) lack of clarity related to the health benefit exchange framework mandated by reform legislation, including important open questions regarding exchange reimbursement levels, and impact on the healthcare "demand curve" as the previously uninsured enter the insurance system, and (4) effective management of multiple major regulatory mandates, including the transition to ICD-10. This Federal healthcare reform legislation does not affect the consolidated financial statements for the year ended June 30, 2015.

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

Effective July 1, 2013, the Health System and the Health Services Cost Review Commission (HSCRC) agreed to implement the Global Budget Revenue (GBR) methodology for the following hospitals: Medical Center, ROI, Midtown, Baltimore Washington, Charles Regional, St. Joseph, Shore Emergency Center, and Upper Chesapeake. The agreements will continue each year and on July 1 of each year thereafter, the agreements will renew for a one year period unless it is canceled by the HSCRC or by the Corporation. The

**UNIVERSITY OF MARYLAND MEDICAL SYSTEM CORPORATION
AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

June 30, 2015 and 2014

agreements were in place for the years ended June 30, 2015 and 2014. The GBR model is a revenue constraint and quality improvement system designed by the HSCRC to provide hospitals with strong financial incentives to manage their resources efficiently and effectively in order to slow the rate of increase in health care costs and improve health care delivery processes and outcomes. The GBR model is consistent with the Corporation's mission to provide the highest value of care possible to its patients and the communities it serves.

The GBR agreements establish a prospective, fixed revenue base "GBR cap" for the upcoming year. This includes both inpatient and outpatient regulated services. Under GBR, a hospital'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 Corporation to adjust unit rates, within certain limits, to achieve the overall revenue base for the Corporation 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 Corporation will receive an annual adjustment to its cap for the change in population in the Corporation's service areas. GBR is designed to encourage hospitals to operate efficiently by reducing utilization and managing patients in the appropriate care delivery setting.

For the years ended June 30, 2015 and 2014, Memorial Hospital, Dorchester Hospital, and CRHC continued their participation in Total Patient Revenue (TPR) agreements with the HSCRC. The TPR agreements establish an approved aggregate inpatient and outpatient revenue for regulated services to provide care for the patient population in the geographic region without regard for patient acuity or volumes. GBR and TPR are generally the same concept.

The HSCRC utilizes a bad debt pool into which each of the regulated hospitals in Maryland participates. The funds in the bad debt pool are distributed to the hospitals that exceed the state average based upon the amount of uncompensated care delivered to patients during the year. For the years ended June 30, 2015 and 2014, the Corporation recognized a net distribution from the pool of \$19,264,000 and \$45,805,000, respectively, which is recorded as net patient service revenue.

(19) Subsequent Events

The corporation evaluated all events and transactions that occurred after June 30, 2015 and through October 27, 2015, the date the consolidated financial statements were issued. Other than described below, the Corporation did not have any material recognizable subsequent events during the period.

The Corporation acquired 100% of the stock of Riverside Health, Inc. (Riverside) and its affiliates on August 17, 2015 (the Purchase Date).

Riverside is a holding company that operates as a managed health care and insurance organization in the State of Maryland and includes the following subsidiaries: Riverside Health of Maryland, Inc., Riverside Advantage, Inc., Riverside Health of Delaware, Inc., and Riverside Health DC, Inc.

Pursuant to the Stock Purchase Agreement (the Purchase Agreement), the Corporation purchased Riverside for the stated purchase price of \$42,600,000.

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June 30, 2015 and 2014

The Purchase Agreement also included an Earn-Out clause for the previous stockholders of Riverside not to be determined until December 31, 2019. This Earn-Out could range from a payment of \$27,000,000 to \$98,000,000 depending on the performance of the organization from the date of the acquisition until December 31, 2019.

The acquisition will be accounted for under the purchase accounting method for business combinations and the financial position and results of operations of Riverside will be consolidated by the Corporation beginning on August 17, 2015. The Corporation is evaluating the expected amount of the Earn-Out and will record a liability in conjunction with the purchase accounting.

**UNIVERSITY OF MARYLAND MEDICAL SYSTEM CORPORATION
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Consolidating Balance Sheet Information by Division

June 30, 2015

(In thousands)

Assets	University of Maryland Medical Center	Rehabilitation & Orthopaedic Institute	Midtown	Baltimore Washington	Shore Regional	Charles Regional	St. Joseph Health	Upper Chesapeake	UMMS Foundation	ECARE	Eliminations	Consolidated total
Current assets:												
Cash and cash equivalents	\$ 251,525	10,222	15,899	61,841	11,980	22,797	3,768	84,474	—	—	—	462,506
Assets limited as to use, current portion	46,377	—	764	1,294	948	485	549	—	—	—	—	50,417
Accounts receivable:												
Patient accounts receivable, less allowance for doubtful accounts of \$248,054	143,905	13,920	24,921	35,366	24,507	8,364	39,694	34,886	—	—	—	325,563
Other	160,906	(81)	1,658	1,096	8,582	982	(79,696)	—	—	249	(24,747)	68,949
Inventories	26,756	1,106	3,533	6,759	3,659	1,675	5,535	10,231	—	—	—	59,254
Prepaid expenses and other current assets	6,197	110	219	537	1,142	443	1,479	13,508	1,500	144	—	25,279
Total current assets	<u>635,666</u>	<u>25,277</u>	<u>46,994</u>	<u>106,893</u>	<u>50,818</u>	<u>34,746</u>	<u>(28,671)</u>	<u>143,099</u>	<u>1,500</u>	<u>393</u>	<u>(24,747)</u>	<u>991,968</u>
Investments	284,743	28,515	—	72,447	82,215	22,429	10,582	—	—	—	—	500,931
Assets limited as to use, less current portion:												
Investments held for collateral	77,603	—	3,700	8,000	—	—	—	30,017	—	—	—	119,320
Debt service funds	21,197	—	—	—	—	—	—	—	—	—	—	21,197
Construction funds	47,014	10,755	6,045	26,538	15,810	11,000	10,472	—	—	—	—	127,634
Board designated and escrow funds	—	—	—	—	77,013	7,081	—	124,874	22,977	—	—	231,945
Self-insurance trust funds	52,637	—	15,896	23,321	26,380	5,943	9,370	9,479	—	—	—	143,026
Funds restricted by donor	—	—	1,173	—	31,376	—	1,101	—	22,383	—	—	56,033
Economic and beneficial interests in the net assets of related organizations	<u>200,020</u>	<u>30,680</u>	<u>432</u>	<u>7,022</u>	<u>3,105</u>	<u>—</u>	<u>9,503</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(61,332)</u>	<u>189,430</u>
Property and equipment, net	398,471	41,435	27,246	64,881	153,684	24,024	30,446	164,370	45,360	—	(61,332)	888,585
Investments in joint ventures and other assets	922,861	46,354	98,649	253,540	172,150	91,983	215,891	253,876	—	2,825	—	2,058,129
Investments in joint ventures and other assets	<u>661,818</u>	<u>—</u>	<u>16,958</u>	<u>16,520</u>	<u>13,177</u>	<u>6,371</u>	<u>13,280</u>	<u>217,172</u>	<u>5,965</u>	<u>—</u>	<u>(658,028)</u>	<u>293,233</u>
Total assets	<u>\$ 2,903,559</u>	<u>141,581</u>	<u>189,847</u>	<u>514,281</u>	<u>472,044</u>	<u>179,553</u>	<u>241,528</u>	<u>778,517</u>	<u>52,825</u>	<u>3,218</u>	<u>(744,107)</u>	<u>4,732,846</u>

**UNIVERSITY OF MARYLAND MEDICAL SYSTEM CORPORATION
AND SUBSIDIARIES**

Consolidating Balance Sheet Information by Division

June 30, 2015

(In thousands)

Liabilities and Net Assets	University of Maryland Medical Center	Rehabilitation & Orthopaedic Institute	Midtown	Baltimore Washington	Shore Regional	Charles Regional	St. Joseph Health	Upper Chesapeake	UMMS Foundation	ECARE	Eliminations	Consolidated total
Current liabilities:												
Trade accounts payable	\$ 133,454	7,124	15,124	29,130	20,518	8,844	25,929	18,433	996	1,687	—	261,239
Accrued payroll and benefits	110,937	5,470	12,745	28,754	26,051	5,405	28,391	26,095	—	—	—	243,848
Advances from third-party payors	76,099	3,427	9,520	9,057	6,020	4,162	13,102	7,825	—	—	—	129,212
Lines of credit	132,400	—	—	—	—	12,000	—	—	—	—	—	144,400
Other current liabilities	86,145	4,031	6,770	(13,894)	10,108	1,878	3,762	35,118	—	6,124	(24,747)	115,295
Long-term debt subject to short-term remarketing arrangements	51,732	—	—	—	—	—	—	—	—	—	—	51,732
Current portion of long-term debt	12,971	482	888	3,714	3,299	2,751	4,938	4,255	—	—	—	33,298
Total current liabilities	603,738	20,534	45,047	56,761	65,996	35,040	76,122	91,726	996	7,811	(24,747)	979,024
Long-term debt, less current portion	723,590	21,419	33,955	171,779	91,583	63,105	247,961	205,752	—	—	—	1,559,144
Other long-term liabilities	110,797	415	22,910	38,486	21,532	13,260	8,954	42,871	—	—	—	259,225
Interest rate swap liabilities	167,520	—	—	—	—	—	—	28,852	—	—	—	196,372
Total liabilities	1,605,645	42,368	101,912	267,026	179,111	111,405	333,037	369,201	996	7,811	(24,747)	2,993,765
Net assets:												
Unrestricted	1,075,715	68,400	86,330	240,233	252,714	68,055	(98,724)	251,536	26,336	(4,593)	(508,775)	1,457,227
Temporarily restricted	220,510	30,813	1,605	7,022	24,670	93	6,815	156,504	6,930	—	(209,309)	245,653
Permanently restricted	1,689	—	—	—	15,549	—	400	1,276	18,563	—	(1,276)	36,201
Total net assets	1,297,914	99,213	87,935	247,255	292,933	68,148	(91,509)	409,316	51,829	(4,593)	(719,360)	1,739,081
Total liabilities and net assets	\$ 2,903,559	141,581	189,847	514,281	472,044	179,553	241,528	778,517	52,825	3,218	(744,107)	4,732,846

See accompanying independent auditors' report.

**UNIVERSITY OF MARYLAND MEDICAL SYSTEM CORPORATION
AND SUBSIDIARIES**

Consolidating Balance Sheet Information by Division – University of Maryland Medical Center & Affiliates (UMMC)

June 30, 2015

(In thousands)

Assets	University of Maryland Medical Center	University Specialty	36 South Paca	University CARE	Eliminations	University of Maryland consolidated total
Current assets:						
Cash and cash equivalents	\$ 249,790	26	1,165	544	—	251,525
Assets limited as to use, current portion	46,377	—	—	—	—	46,377
Accounts receivable:						
Patient accounts receivable, less allowance for doubtful accounts of \$103,887	143,896	—	—	9	—	143,905
Other	164,633	—	114	22	(3,863)	160,906
Inventories	26,717	—	—	39	—	26,756
Prepaid expenses and other current assets	6,132	—	—	65	—	6,197
Total current assets	<u>637,545</u>	<u>26</u>	<u>1,279</u>	<u>679</u>	<u>(3,863)</u>	<u>635,666</u>
Investments	284,743	—	—	—	—	284,743
Assets limited as to use, less current portion:						
Investment held for collateral	77,603	—	—	—	—	77,603
Debt service funds	21,197	—	—	—	—	21,197
Construction funds	47,014	—	—	—	—	47,014
Board designated and escrow funds	—	—	—	—	—	—
Self-insurance trust funds	52,637	—	—	—	—	52,637
Funds restricted by donor	—	—	—	—	—	—
Economic interests in the net assets of related organizations	200,020	—	—	—	—	200,020
	<u>398,471</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>398,471</u>
Property and equipment, net	913,877	—	8,984	—	—	922,861
Investments in joint ventures and other assets	667,291	—	3,277	—	(8,750)	661,818
Total assets	<u>\$ 2,901,927</u>	<u>26</u>	<u>13,540</u>	<u>679</u>	<u>(12,613)</u>	<u>2,903,559</u>

**UNIVERSITY OF MARYLAND MEDICAL SYSTEM CORPORATION
AND SUBSIDIARIES**

Consolidating Balance Sheet Information by Division – University of Maryland Medical Center & Affiliates (UMMC)

June 30, 2015

(In thousands)

Liabilities and Net Assets	University of Maryland Medical Center	University Specialty	36 South Paca	University CARE	Eliminations	University of Maryland consolidated total
Current liabilities:						
Trade accounts payable	\$ 131,978	101	217	1,158	—	133,454
Accrued payroll and benefits	110,905	—	—	32	—	110,937
Advances from third-party payors	76,099	—	—	—	—	76,099
Lines of credit	132,400	—	—	—	—	132,400
Other current liabilities	85,534	(25)	3,959	540	(3,863)	86,145
Long-term debt subject to short-term remarketing arrangements	51,732	—	—	—	—	51,732
Current portion of long-term debt	12,971	—	—	—	—	12,971
Total current liabilities	601,619	76	4,176	1,730	(3,863)	603,738
Long-term debt, less current portion	723,590	—	—	—	—	723,590
Other long-term liabilities	110,780	—	17	—	—	110,797
Interest rate swaps	167,520	—	—	—	—	167,520
Total liabilities	1,603,509	76	4,193	1,730	(3,863)	1,605,645
Net assets:						
Unrestricted	1,076,219	(50)	9,347	(1,051)	(8,750)	1,075,715
Temporarily restricted	220,510	—	—	—	—	220,510
Permanently restricted	1,689	—	—	—	—	1,689
Total net assets	1,298,418	(50)	9,347	(1,051)	(8,750)	1,297,914
Total liabilities and net assets	\$ 2,901,927	26	13,540	679	(12,613)	2,903,559

See accompanying independent auditors' report.

**UNIVERSITY OF MARYLAND MEDICAL SYSTEM CORPORATION
AND SUBSIDIARIES**

Consolidating Balance Sheet Information by Division – Midtown Health, Inc. (Midtown)

June 30, 2015

(In thousands)

Assets	UM Midtown Health Systems, Inc.	UMMC Midtown Campus	UM Midtown Clin. Prac. Group	Eliminations	Midtown consolidated total
Current assets:					
Cash and cash equivalents	\$ 485	15,362	52	—	15,899
Assets limited as to use, current portion	—	764	—	—	764
Accounts receivable:					
Patient accounts receivable, less allowance for doubtful accounts of \$16,923	—	23,892	1,029	—	24,921
Other	(90)	2,777	(1,029)	—	1,658
Inventories	—	3,533	—	—	3,533
Prepaid expenses and other current assets	—	219	—	—	219
Total current assets	<u>395</u>	<u>46,547</u>	<u>52</u>	<u>—</u>	<u>46,994</u>
Investments	—	—	—	—	—
Assets limited as to use, less current portion:					
Investment held for collateral	—	3,700	—	—	3,700
Debt service funds	—	—	—	—	—
Construction funds	—	6,045	—	—	6,045
Board designated and escrow funds	—	—	—	—	—
Self-insurance trust funds	—	15,896	—	—	15,896
Funds restricted by donor	—	1,173	—	—	1,173
Economic interests in the net assets of related organizations	—	432	—	—	432
	—	27,246	—	—	27,246
Property and equipment, net	1,736	96,913	—	—	98,649
Investments in joint ventures and other assets	8,563	8,395	—	—	16,958
Total assets	<u>\$ 10,694</u>	<u>179,101</u>	<u>52</u>	<u>—</u>	<u>189,847</u>

**UNIVERSITY OF MARYLAND MEDICAL SYSTEM CORPORATION
AND SUBSIDIARIES**

Consolidating Balance Sheet Information by Division – Midtown Health, Inc. (Midtown)

June 30, 2015

(In thousands)

Liabilities and Net Assets	UM Midtown Health Systems, Inc.	UMMC Midtown Campus	UM Midtown Clin. Prac. Group	Eliminations	Midtown consolidated total
Current liabilities:					
Trade accounts payable	\$ 26	15,053	45	—	15,124
Accrued payroll and benefits	—	12,745	—	—	12,745
Advances from third-party payors	—	9,520	—	—	9,520
Lines of credit	—	—	—	—	—
Other current liabilities	—	6,770	—	—	6,770
Current portion of long-term debt	199	689	—	—	888
Total current liabilities	225	44,777	45	—	45,047
Long-term debt, less current portion	581	33,374	—	—	33,955
Other long-term liabilities	1	22,909	—	—	22,910
Total liabilities	807	101,060	45	—	101,912
Net assets:					
Unrestricted	9,887	76,436	7	—	86,330
Temporarily restricted	—	1,605	—	—	1,605
Permanently restricted	—	—	—	—	—
Total net assets	9,887	78,041	7	—	87,935
Total liabilities and net assets	\$ 10,694	179,101	52	—	189,847

See accompanying independent auditors' report.

**UNIVERSITY OF MARYLAND MEDICAL SYSTEM CORPORATION
AND SUBSIDIARIES**

Consolidating Balance Sheet Information by Division – Baltimore Washington Medical System (BWMS)

June 30, 2015

(In thousands)

Assets	Baltimore Washington Medical System, Inc.	Baltimore Washington Medical Center	Baltimore Washington Healthcare Services	Baltimore Washington Health Enterprises	North County Corporation	Shipley's	Eliminations	BWMS consolidated total
Current assets:								
Cash and cash equivalents	\$ —	59,774	1,098	(186)	1,155	—	—	61,841
Assets limited as to use, current portion	—	1,294	—	—	—	—	—	1,294
Accounts receivable:								
Patient accounts receivable, less allowance for doubtful accounts of \$54,192	—	28,370	3,202	3,794	—	—	—	35,366
Other	—	1,143	—	(1)	(46)	—	—	1,096
Inventories	—	6,759	—	—	—	—	—	6,759
Prepaid expenses and other current assets	—	918	22	(414)	11	—	—	537
Total current assets	—	98,258	4,322	3,193	1,120	—	—	106,893
Investments	—	72,447	—	—	—	—	—	72,447
Assets limited as to use, less current portion:								
Investment held for collateral	—	8,000	—	—	—	—	—	8,000
Debt service funds	—	—	—	—	—	—	—	—
Construction funds	—	26,538	—	—	—	—	—	26,538
Board designated and escrow funds	—	—	—	—	—	—	—	—
Self-insurance trust funds	—	23,321	—	—	—	—	—	23,321
Funds restricted by donor	—	—	—	—	—	—	—	—
Economic interests in the net assets of related organizations	—	7,022	—	—	—	—	—	7,022
	—	64,881	—	—	—	—	—	64,881
Property and equipment, net	—	230,369	—	5,537	17,634	—	—	253,540
Investments in joint ventures and other assets	199,176	16,488	—	1,915	19	—	(201,078)	16,520
Total assets	\$ 199,176	482,443	4,322	10,645	18,773	—	(201,078)	514,281

**UNIVERSITY OF MARYLAND MEDICAL SYSTEM CORPORATION
AND SUBSIDIARIES**

Consolidating Balance Sheet Information by Division – Baltimore Washington Medical System (BWMS)

June 30, 2015

(In thousands)

Liabilities and Net Assets	Baltimore Washington Medical System, Inc.	Baltimore Washington Medical Center	Baltimore Washington Healthcare Services	Baltimore Washington Health Enterprises	North County Corporation	Shipley's	Eliminations	BWMS consolidated total
Current liabilities:								
Trade accounts payable	\$ 18	26,530	300	2,276	6	—	—	29,130
Accrued payroll and benefits	1,508	25,538	850	858	—	—	—	28,754
Advances from third-party payors	—	9,057	—	—	—	—	—	9,057
Lines of credit	—	—	—	—	—	—	—	—
Other current liabilities	(50,171)	42,677	(9,778)	3,722	(344)	—	—	(13,894)
Current portion of long-term debt	—	3,489	—	—	225	—	—	3,714
Total current liabilities	(48,645)	107,291	(8,628)	6,856	(113)	—	—	56,761
Long-term debt, less current portion	—	168,723	—	—	3,056	—	—	171,779
Other long-term liabilities	—	37,541	—	945	—	—	—	38,486
Total liabilities	(48,645)	313,555	(8,628)	7,801	2,943	—	—	267,026
Net assets:								
Unrestricted	247,821	161,866	12,950	2,844	15,830	—	(201,078)	240,233
Temporarily restricted	—	7,022	—	—	—	—	—	7,022
Permanently restricted	—	—	—	—	—	—	—	—
Total net assets	247,821	168,888	12,950	2,844	15,830	—	(201,078)	247,255
Total liabilities and net assets	\$ 199,176	482,443	4,322	10,645	18,773	—	(201,078)	514,281

See accompanying independent auditors' report.

**UNIVERSITY OF MARYLAND MEDICAL SYSTEM CORPORATION
AND SUBSIDIARIES**

Consolidating Balance Sheet Information by Division – Shore Regional Health (Shore Regional)

June 30, 2015

(In thousands)

Assets	Shore Health System, Inc.	Memorial Hospital Foundation, Inc. and Subsidiary	Care Health Services, Inc.	Shore Health Enterprises, Inc. and Subsidiary	Shore Clinical Foundation, Inc.	Chester River Consolidated Total	Eliminations	SHS consolidated total
Current assets:								
Cash and cash equivalents	\$ 7,351	(4)	208	—	—	4,425	—	11,980
Assets limited as to use, current portion	605	—	—	—	—	343	—	948
Accounts receivable:								
Patient accounts receivable, less allowance for doubtful accounts of \$20,220	14,557	380	2,404	—	—	7,166	—	24,507
Other	958	2,620	43	—	3,981	980	—	8,582
Inventories	3,202	—	—	—	—	457	—	3,659
Prepaid expenses and other current assets	946	12	83	—	25	76	—	1,142
Total current assets	<u>27,619</u>	<u>3,008</u>	<u>2,738</u>	<u>—</u>	<u>4,006</u>	<u>13,447</u>	<u>—</u>	<u>50,818</u>
Investments	69,136	—	—	—	650	12,429	—	82,215
Assets limited as to use, less current portion:								
Debt service funds	—	—	—	—	—	—	—	—
Construction funds	11,272	—	—	—	—	4,538	—	15,810
Board designated and escrow funds	25,000	—	—	—	45,970	6,043	—	77,013
Self-insurance trust funds	21,325	—	—	—	—	5,055	—	26,380
Funds restricted by donor	4,515	—	—	—	23,687	3,174	—	31,376
Economic and beneficial interests in the net assets of related organizations	80,620	—	—	—	—	6,372	(83,887)	3,105
	<u>142,732</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>69,657</u>	<u>25,182</u>	<u>(83,887)</u>	<u>153,684</u>
Property and equipment, net	136,890	403	1,288	—	3,394	30,175	—	172,150
Investments in joint ventures and other assets	11,257	—	—	—	18	4,643	(2,741)	13,177
Total assets	<u>\$ 387,634</u>	<u>3,411</u>	<u>4,026</u>	<u>—</u>	<u>77,725</u>	<u>85,876</u>	<u>(86,628)</u>	<u>472,044</u>

**UNIVERSITY OF MARYLAND MEDICAL SYSTEM CORPORATION
AND SUBSIDIARIES**

Consolidating Balance Sheet Information by Division – Shore Regional Health (Shore Regional)

June 30, 2015

(In thousands)

Liabilities and Net Assets	Shore Health System, Inc.	Memorial Hospital Foundation, Inc. and Subsidiary	Care Health Services, Inc.	Shore Health Enterprises, Inc. and Subsidiary	Shore Clinical Foundation, Inc.	Chester River Consolidated Total	Eliminations	SHS consolidated total
Current liabilities:								
Trade accounts payable	\$ 15,265	28	593	—	15	4,617	—	20,518
Accrued payroll and benefits	18,384	228	3,066	—	16	4,357	—	26,051
Advances from third-party payors	5,217	—	—	—	—	803	—	6,020
Lines of credit	—	—	—	—	—	—	—	—
Other current liabilities	2,138	—	781	—	180	7,009	—	10,108
Current portion of long-term debt	3,177	—	—	—	—	122	—	3,299
Total current liabilities	44,181	256	4,440	—	211	16,908	—	65,996
Long-term debt, less current portion	86,872	—	—	—	—	4,711	—	91,583
Other long-term liabilities	13,069	—	—	—	—	8,463	—	21,532
Total liabilities	144,122	256	4,440	—	211	30,082	—	179,111
Net assets:								
Unrestricted	206,300	3,155	(414)	—	48,000	49,813	(54,140)	252,714
Temporarily restricted	22,951	—	—	—	18,249	3,405	(19,935)	24,670
Permanently restricted	14,261	—	—	—	11,265	2,576	(12,553)	15,549
Total net assets	243,512	3,155	(414)	—	77,514	55,794	(86,628)	292,933
Total liabilities and net assets	\$ 387,634	3,411	4,026	—	77,725	85,876	(86,628)	472,044

See accompanying independent auditors' report.

**UNIVERSITY OF MARYLAND MEDICAL SYSTEM CORPORATION
AND SUBSIDIARIES**

Consolidating Balance Sheet Information by Division – Chester River Health System, Inc. (CRHS) a subsidiary of Shore Regional Health

June 30, 2015

(In thousands)

Assets	<u>Chester River Hospital Center</u>	<u>Chester River Manor</u>	<u>Chester River Home Care and Hospice</u>	<u>Chester River Health Foundation</u>	<u>Chester River consolidated total</u>
Current assets:					
Cash and cash equivalents	\$ 3,276	526	623	—	4,425
Assets limited as to use, current portion	343	—	—	—	343
Accounts receivable:					
Patient accounts receivable, less allowance for doubtful accounts of \$5,499	6,312	557	297	—	7,166
Other	1,035	277	22	(354)	980
Inventories	457	—	—	—	457
Prepaid expenses and other current assets	76	—	—	—	76
	<u>11,499</u>	<u>1,360</u>	<u>942</u>	<u>(354)</u>	<u>13,447</u>
Total current assets					
Investments	10,820	—	1,447	162	12,429
Assets limited as to use, less current portion:					
Debt service funds	—	—	—	—	—
Construction funds	4,538	—	—	—	4,538
Board designated and escrow funds	5,000	—	—	1,043	6,043
Self-insurance trust funds	4,971	84	—	—	5,055
Funds restricted by donor	105	—	—	3,069	3,174
Economic interests in the net assets of related organizations	5,933	70	369	—	6,372
	<u>20,547</u>	<u>154</u>	<u>369</u>	<u>4,112</u>	<u>25,182</u>
Property and equipment, net	27,967	1,993	215	—	30,175
Investments in joint ventures and other assets	2,180	—	—	2,463	4,643
Total assets	<u>\$ 73,013</u>	<u>3,507</u>	<u>2,973</u>	<u>6,383</u>	<u>85,876</u>

**UNIVERSITY OF MARYLAND MEDICAL SYSTEM CORPORATION
AND SUBSIDIARIES**

Consolidating Balance Sheet Information by Division – Chester River Health System, Inc. (CRHS) a subsidiary of Shore Regional Health

June 30, 2015

(In thousands)

Liabilities and Net Assets	Chester River Hospital Center	Chester River Manor	Chester River Home Care and Hospice	Chester River Health Foundation	Chester River consolidated total
Current liabilities:					
Trade accounts payable	\$ 4,083	478	48	8	4,617
Accrued payroll and benefits	3,395	778	184	—	4,357
Advances from third-party payors	709	94	—	—	803
Lines of credit	—	—	—	—	—
Other current liabilities	7,005	2	—	2	7,009
Current portion of long-term debt	92	30	—	—	122
Total current liabilities	15,284	1,382	232	10	16,908
Long-term debt, less current portion	4,659	52	—	—	4,711
Other long-term liabilities	8,175	288	—	—	8,463
Total liabilities	28,118	1,722	232	10	30,082
Net assets:					
Unrestricted	41,947	1,730	2,738	3,398	49,813
Temporarily restricted	1,660	55	3	1,687	3,405
Permanently restricted	1,288	—	—	1,288	2,576
Total net assets	44,895	1,785	2,741	6,373	55,794
Total liabilities and net assets	\$ 73,013	3,507	2,973	6,383	85,876

See accompanying independent auditors' report.

**UNIVERSITY OF MARYLAND MEDICAL SYSTEM CORPORATION
AND SUBSIDIARIES**

Consolidating Balance Sheet Information by Division – Charles Regional Health (Charles Regional)

June 30, 2015

(In thousands)

Assets	Charles Regional Health, Inc.	Charles Regional Medical Center, Inc.	Charles Regional Care Partners, Inc. and Subsidiary	Charles Regional Health Foundation, Inc.	Eliminations	Charles Regional consolidated total
Current assets:						
Cash and cash equivalents	\$ 79	20,680	797	1,241	—	22,797
Assets limited as to use, current portion	—	485	—	—	—	485
Accounts receivable:						
Patient accounts receivable, less allowance for doubtful accounts of \$8,695	—	7,945	419	—	—	8,364
Other	(3,153)	535	3,805	(205)	—	982
Inventories	—	1,675	—	—	—	1,675
Prepaid expenses and other current assets	—	320	88	35	—	443
Total current assets	(3,074)	31,640	5,109	1,071	—	34,746
Investments	—	20,279	—	2,150	—	22,429
Assets limited as to use, less current portion:						
Debt service funds	—	—	—	—	—	—
Construction funds	—	11,000	—	—	—	11,000
Board designated and escrow funds	7,081	—	—	—	—	7,081
Self-insurance trust funds	—	5,943	—	—	—	5,943
Funds restricted by donor	—	—	—	—	—	—
Economic interests in the net assets of related organizations	—	—	—	—	—	—
	7,081	16,943	—	—	—	24,024
Property and equipment, net	17,846	70,324	1,204	2,609	—	91,983
Investments in joint ventures and other assets	904	10,631	(234)	—	(4,930)	6,371
Total assets	\$ 22,757	149,817	6,079	5,830	(4,930)	179,553

**UNIVERSITY OF MARYLAND MEDICAL SYSTEM CORPORATION
AND SUBSIDIARIES**

Consolidating Balance Sheet Information by Division – Charles Regional Health System, Inc. (Charles Regional)

June 30, 2015

(In thousands)

Liabilities and Net Assets	Charles Regional Health, Inc.	Charles Regional Medical Center, Inc.	Charles Regional Care Partners, Inc. and Subsidiary	Charles Regional Health Foundation, Inc.	Eliminations	Charles Regional consolidated total
Current liabilities:						
Trade accounts payable	\$ 1	8,522	243	78	—	8,844
Accrued payroll and benefits	—	5,174	231	—	—	5,405
Advances from third-party payors	—	4,162	—	—	—	4,162
Lines of credit	—	12,000	—	—	—	12,000
Other current liabilities	607	1,271	—	—	—	1,878
Current portion of long-term debt	601	2,126	—	24	—	2,751
Total current liabilities	1,209	33,255	474	102	—	35,040
Long-term debt, less current portion	5,391	56,917	—	797	—	63,105
Other long-term liabilities	—	13,260	—	—	—	13,260
Total liabilities	6,600	103,432	474	899	—	111,405
Net assets:						
Unrestricted	16,157	46,292	5,605	4,838	(4,837)	68,055
Temporarily restricted	—	93	—	93	(93)	93
Permanently restricted	—	—	—	—	—	—
Total net assets	16,157	46,385	5,605	4,931	(4,930)	68,148
Total liabilities and net assets	\$ 22,757	149,817	6,079	5,830	(4,930)	179,553

See accompanying independent auditors' report.

**UNIVERSITY OF MARYLAND MEDICAL SYSTEM CORPORATION
AND SUBSIDIARIES**

Consolidating Balance Sheet Information by Division – University of Maryland St. Joseph Health System (SJHS)

June 30, 2015

(In thousands)

Assets	St. Joseph Medical Center	St. Joseph Medical Group	St. Joseph Properties	St. Joseph Orthopaedics	O'Dea Medical Arts	St. Joseph Foundation	Eliminations	St. Joseph consolidated total
Current assets:								
Cash and cash equivalents	\$ 1,186	159	—	—	1,638	785	—	3,768
Assets limited as to use, current portion	549	—	—	—	—	—	—	549
Accounts receivable:								
Patient accounts receivable, less allowance for doubtful accounts of \$17,176	35,052	3,475	—	1,167	—	—	—	39,694
Other	(21,507)	(35,992)	(3,922)	(17,794)	(307)	(174)	—	(79,696)
Inventories	5,512	—	—	23	—	—	—	5,535
Prepaid expenses and other current assets	510	651	169	144	5	—	—	1,479
Total current assets	<u>21,302</u>	<u>(31,707)</u>	<u>(3,753)</u>	<u>(16,460)</u>	<u>1,336</u>	<u>611</u>	<u>—</u>	<u>(28,671)</u>
Investments	—	—	—	—	—	10,582	—	10,582
Assets limited as to use, less current portion:								
Debt service funds	—	—	—	—	—	—	—	—
Construction funds	10,472	—	—	—	—	—	—	10,472
Board designated and escrow funds	—	—	—	—	—	—	—	—
Self-insurance trust funds	9,370	—	—	—	—	—	—	9,370
Funds restricted by donor	—	—	—	—	—	1,101	—	1,101
Economic interests in the net assets of related organizations	9,503	—	—	—	—	—	—	9,503
	<u>29,345</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>1,101</u>	<u>—</u>	<u>30,446</u>
Property and equipment, net	202,324	583	63	532	12,389	—	—	215,891
Investments in joint ventures and other assets	10,734	—	2,527	2,846	—	377	(3,204)	13,280
Total assets	<u>\$ 263,705</u>	<u>(31,124)</u>	<u>(1,163)</u>	<u>(13,082)</u>	<u>13,725</u>	<u>12,671</u>	<u>(3,204)</u>	<u>241,528</u>

**UNIVERSITY OF MARYLAND MEDICAL SYSTEM CORPORATION
AND SUBSIDIARIES**

Consolidating Balance Sheet Information by Division – University of Maryland St. Joseph Health System (SJHS)

June 30, 2015

(In thousands)

Liabilities and Net Assets	St. Joseph Medical Center	St. Joseph Medical Group	St. Joseph Properties	St. Joseph Orthopaedics	O'Dea Medical Arts	St. Joseph Foundation	Eliminations	St. Joseph consolidated total
Current liabilities:								
Trade accounts payable	\$ 24,576	953	456	(46)	(90)	80	—	25,929
Accrued payroll and benefits	22,542	2,160	—	3,689	—	—	—	28,391
Advances from third-party payors	13,102	—	—	—	—	—	—	13,102
Lines of credit	—	—	—	—	—	—	—	—
Other current liabilities	2,966	346	—	201	78	171	—	3,762
Current portion of long-term debt	4,938	—	—	—	—	—	—	4,938
Total current liabilities	68,124	3,459	456	3,844	(12)	251	—	76,122
Long-term debt, less current portion	238,885	—	—	—	9,076	—	—	247,961
Other long-term liabilities	8,954	—	—	—	—	—	—	8,954
Total liabilities	315,963	3,459	456	3,844	9,064	251	—	333,037
Net assets:								
Unrestricted	(52,259)	(34,583)	(1,619)	(16,926)	4,661	5,206	(3,204)	(98,724)
Temporarily restricted	1	—	—	—	—	6,814	—	6,815
Permanently restricted	—	—	—	—	—	400	—	400
Total net assets	(52,258)	(34,583)	(1,619)	(16,926)	4,661	12,420	(3,204)	(91,509)
Total liabilities and net assets	\$ 263,705	(31,124)	(1,163)	(13,082)	13,725	12,671	(3,204)	241,528

See accompanying independent auditors' report.

**UNIVERSITY OF MARYLAND MEDICAL SYSTEM CORPORATION
AND SUBSIDIARIES**

Consolidating Balance Sheet Information by Division – University of Maryland Upper Chesapeake Health System (UCHS)

June 30, 2015

(In thousands)

Assets	Upper Chesapeake Medical Center	Harford Memorial Hospital	UCHS Properties	Health Ventures	Medical Services	Residential Hospice House	Upper Chesapeake Health Foundation	Upper Chesapeake Health System	Hospice of Harford County	Upper Chesapeake Insurance Co.	Upper Chesapeake Land Trust	Eliminations	Upper Chesapeake consolidated total
Current assets:													
Cash and cash equivalents	\$ 53,793	30,277	—	—	62	43	299	—	—	—	—	—	84,474
Assets limited as to use, current portion	—	—	—	—	—	—	—	—	—	—	—	—	—
Accounts receivable:													
Patient accounts receivable, less allowance for doubtful accounts of \$21,123	22,746	7,297	—	—	4,845	(2)	—	—	—	—	—	—	34,886
Other	—	—	—	—	—	—	—	—	—	—	—	—	—
Inventories	6,938	2,875	—	—	418	—	—	—	—	—	—	—	10,231
Prepaid expenses and other current assets	1,513	2,632	14	—	765	5	7,942	62	—	575	—	—	13,508
Total current assets	<u>84,990</u>	<u>43,081</u>	<u>14</u>	<u>—</u>	<u>6,090</u>	<u>46</u>	<u>8,241</u>	<u>62</u>	<u>—</u>	<u>575</u>	<u>—</u>	<u>—</u>	<u>143,099</u>
Investments	—	—	—	—	—	—	—	—	—	—	—	—	—
Assets limited as to use, less current portion:													
Investments held for swap collateral	30,017	—	—	—	—	—	—	—	—	—	—	—	30,017
Debt service funds	—	—	—	—	—	—	—	—	—	—	—	—	—
Construction funds	—	—	—	—	—	—	—	—	—	—	—	—	—
Board designated and escrow funds	46,372	60,352	—	—	—	490	17,660	—	—	—	—	—	124,874
Self-insurance trust funds	—	—	—	—	—	—	—	—	—	9,479	—	—	9,479
Funds restricted by donor	—	—	—	—	—	—	—	—	—	—	—	—	—
Economic interests in the net assets of related organizations	—	—	—	—	—	—	—	—	—	—	—	—	—
	<u>76,389</u>	<u>60,352</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>490</u>	<u>17,660</u>	<u>—</u>	<u>—</u>	<u>9,479</u>	<u>—</u>	<u>—</u>	<u>164,370</u>
Property and equipment, net	215,065	28,695	101	—	2,463	2,287	46	2,217	—	—	3,002	—	253,876
Investments in joint ventures and other assets	223,814	—	—	3,322	17	—	135	—	—	8,012	—	(18,128)	217,172
Total assets	<u>\$ 600,258</u>	<u>132,128</u>	<u>115</u>	<u>3,322</u>	<u>8,570</u>	<u>2,823</u>	<u>26,082</u>	<u>2,279</u>	<u>—</u>	<u>18,066</u>	<u>3,002</u>	<u>(18,128)</u>	<u>778,517</u>

**UNIVERSITY OF MARYLAND MEDICAL SYSTEM CORPORATION
AND SUBSIDIARIES**

Consolidating Balance Sheet Information by Division – University of Maryland Upper Chesapeake Health System (UCHS)

June 30, 2015

(In thousands)

Liabilities and Net Assets	Upper Chesapeake Medical Center	Harford Memorial Hospital	UCHS Properties	Health Ventures	Medical Services	Residential Hospice House	Upper Chesapeake Health Foundation	Upper Chesapeake Health System	Hospice of Harford County	Upper Chesapeake Insurance Co.	Upper Chesapeake Land Trust	Eliminations	Upper Chesapeake consolidated total
Current liabilities:													
Trade accounts payable	\$ 8,658	6,527	—	—	2,466	1	—	752	—	29	—	—	18,433
Accrued payroll and benefits	18,232	6,179	—	—	271	—	—	1,413	—	—	—	—	26,095
Advances from third-party payors	6,214	1,611	—	—	—	—	—	—	—	—	—	—	7,825
Other current liabilities	(12,348)	26,353	—	—	4,950	47	7,954	2,813	—	2,208	3,076	65	35,118
Current portion of long-term debt	4,255	—	—	—	—	—	—	—	—	—	—	—	4,255
Total current liabilities	25,011	40,670	—	—	7,687	48	7,954	4,978	—	2,237	3,076	65	91,726
Long-term debt, less current portion	179,799	25,953	—	—	—	—	—	—	—	—	—	—	205,752
Other long-term liabilities	26,845	1,392	—	—	—	—	—	—	—	14,634	—	—	42,871
Interest rate swaps	28,852	—	—	—	—	—	—	—	—	—	—	—	28,852
Total liabilities	260,507	68,015	—	—	7,687	48	7,954	4,978	—	16,871	3,076	65	369,201
Net assets:													
Unrestricted	171,623	64,113	115	3,322	883	2,285	10,838	(2,699)	—	1,195	(74)	(65)	251,536
Temporarily restricted	168,128	—	—	—	—	490	6,014	—	—	—	—	(18,128)	156,504
Permanently restricted	—	—	—	—	—	—	1,276	—	—	—	—	—	1,276
Total net assets	339,751	64,113	115	3,322	883	2,775	18,128	(2,699)	—	1,195	(74)	(18,193)	409,316
Total liabilities and net assets	\$ 600,258	132,128	115	3,322	8,570	2,823	26,082	2,279	—	18,066	3,002	(18,128)	778,517

See accompanying independent auditors' report.

**UNIVERSITY OF MARYLAND MEDICAL SYSTEM CORPORATION
AND SUBSIDIARIES**

Consolidating Balance Sheet Information by Division

June 30, 2014

(In thousands)

Assets	University of Maryland Medical Center	Rehabilitation & Orthopaedic Institute	Midtown	Baltimore Washington	Shore Regional	Charles Regional	St. Joseph Health	Upper Chesapeake	UMMS Foundation	ECARE	Eliminations	Consolidated total
Current assets:												
Cash and cash equivalents	\$ 120,849	25,636	20,459	20,960	19,979	22,881	5,245	51,713	—	—	—	287,722
Assets limited as to use, current portion	45,943	—	993	1,140	910	912	477	2,123	—	—	—	52,498
Accounts receivable:												
Patient accounts receivable, less allowance for doubtful accounts of \$210,958	160,184	16,193	27,654	40,403	28,682	9,041	36,201	39,687	—	—	—	358,045
Other	161,893	1,681	2,727	2,707	17,934	2,013	(74,901)	—	—	237	(55,863)	58,428
Inventories	24,692	1,188	2,969	7,708	4,014	1,587	4,932	9,462	—	—	—	56,552
Prepaid expenses and other current assets	6,003	10	142	1,889	1,723	266	2,592	13,332	1,500	46	—	27,503
Total current assets	519,564	44,708	54,944	74,807	73,242	36,700	(25,454)	116,317	1,500	283	(55,863)	840,748
Investments	361,916	13,700	—	73,089	52,718	22,708	10,676	—	—	—	—	534,807
Assets limited as to use, less current portion:												
Investments held for collateral	60,418	—	—	8,000	—	—	—	27,952	—	—	—	96,370
Debt service funds	33,781	—	—	—	—	—	—	4,055	—	—	—	37,836
Construction funds	58,392	12,554	1,603	28,278	9,715	4,729	29,863	—	—	—	—	145,134
Board designated and escrow funds	—	—	—	—	75,336	5,364	—	117,696	23,740	—	—	222,136
Self-insurance trust funds	54,750	—	21,055	21,930	24,426	6,880	5,900	8,887	—	—	—	143,828
Funds restricted by donor	—	—	1,175	—	29,157	—	785	—	22,393	—	—	53,510
Economic and beneficial interests in the net assets of related organizations	202,189	34,003	111	6,602	3,134	—	9,503	—	—	—	(63,998)	191,544
Total	409,530	46,557	23,944	64,810	141,768	16,973	46,051	158,590	46,133	—	(63,998)	890,358
Property and equipment, net	896,440	45,433	102,074	252,204	165,945	90,903	211,436	263,556	—	3,243	—	2,031,234
Investments in joint ventures and other assets	657,514	—	28,236	17,790	11,426	5,383	12,504	217,872	6,894	—	(655,528)	302,091
Total assets	\$ 2,844,964	150,398	209,198	482,700	445,099	172,667	255,213	756,335	54,527	3,526	(775,389)	4,599,238

**UNIVERSITY OF MARYLAND MEDICAL SYSTEM CORPORATION
AND SUBSIDIARIES**

Consolidating Balance Sheet Information by Division

June 30, 2014

(In thousands)

Liabilities and Net Assets	University of Maryland Medical Center	Rehabilitation & Orthopaedic Institute	Midtown	Baltimore Washington	Shore Regional	Charles Regional	St. Joseph Health	Upper Chesapeake	UMMS Foundation	ECARE	Eliminations	Consolidated total
Current liabilities:												
Trade accounts payable	\$ 144,766	5,779	13,612	23,519	20,434	8,974	27,119	16,789	32	841	—	261,865
Accrued payroll and benefits	97,157	4,962	12,753	25,134	25,091	5,590	26,818	24,658	—	—	—	222,163
Advances from third-party payors	71,498	3,880	8,757	9,965	6,187	3,449	12,066	7,810	—	—	—	123,612
Lines of credit	105,000	—	—	—	—	12,000	—	—	—	—	—	117,000
Short-term financing	150,000	—	—	—	—	—	—	—	—	—	—	150,000
Other current liabilities	85,579	11,863	15,231	(1,337)	4,549	3,378	4,040	32,617	—	5,218	(55,863)	105,275
Long-term debt subject to short-term remarketing arrangements	77,574	—	—	—	—	—	—	—	—	—	—	77,574
Current portion of long-term debt	13,249	463	866	3,618	3,196	2,688	4,363	4,181	—	—	—	32,624
Total current liabilities	744,823	26,947	51,219	60,899	59,457	36,079	74,406	86,055	32	6,059	(55,863)	1,090,113
Long-term debt, less current portion	558,828	22,003	35,094	193,650	98,184	66,145	253,825	208,517	—	—	—	1,436,246
Other long-term liabilities	119,466	415	26,139	36,286	19,745	15,491	7,715	42,344	—	—	—	267,601
Interest rate swap liabilities	148,097	—	—	—	—	—	—	27,850	—	—	—	175,947
Total liabilities	1,571,214	49,365	112,452	290,835	177,386	117,715	335,946	364,766	32	6,059	(55,863)	2,969,907
Net assets:												
Unrestricted	1,049,321	66,897	95,460	185,263	232,805	54,859	(86,233)	233,396	28,935	(2,533)	(506,275)	1,351,895
Temporarily restricted	222,740	34,136	1,286	6,602	19,656	93	5,100	156,897	6,851	—	(211,975)	241,386
Permanently restricted	1,689	—	—	—	15,252	—	400	1,276	18,709	—	(1,276)	36,050
Total net assets	1,273,750	101,033	96,746	191,865	267,713	54,952	(80,733)	391,569	54,495	(2,533)	(719,526)	1,629,331
Total liabilities and net assets	\$ 2,844,964	150,398	209,198	482,700	445,099	172,667	255,213	756,335	54,527	3,526	(775,389)	4,599,238

See accompanying independent auditors' report.

**UNIVERSITY OF MARYLAND MEDICAL SYSTEM CORPORATION
AND SUBSIDIARIES**

Consolidating Operations Information by Division
Year ended June 30, 2015

(In thousands)

	University of Maryland Medical Center	Rehabilitation & Orthopaedic Institute	Midtown	Baltimore Washington	Shore Regional	Charles Regional	St. Joseph Health	UCHS	UMMS Foundation	ECARE	Eliminations	Consolidated total
Unrestricted revenues, gains and other support:												
Patient Service Revenue (net of contractual adjustments)	\$ 1,353,182	108,225	209,569	426,622	328,052	135,840	394,008	418,724	—	—	(986)	3,373,236
Provision for bad debts	(40,129)	(6,738)	(17,319)	(25,158)	(15,820)	(8,390)	(11,520)	(20,254)	—	—	—	(145,328)
Net patient service revenue	1,313,053	101,487	192,250	401,464	312,232	127,450	382,488	398,470	—	—	(986)	3,227,908
Other operating revenue:												
State support	3,200	—	—	—	—	—	—	—	—	—	—	3,200
Other revenue	104,231	4,614	2,237	8,737	3,488	849	8,472	7,553	—	2,936	(681)	142,436
Total unrestricted revenue, gains and other support	1,420,484	106,101	194,487	410,201	315,720	128,299	390,960	406,023	—	2,936	(1,667)	3,373,544
Operating expenses:												
Salaries, wages and benefits	678,025	53,676	92,381	206,003	165,302	59,787	192,833	200,324	—	7	—	1,648,338
Expendable supplies	308,119	16,384	23,382	69,177	42,327	20,159	83,920	76,349	—	11	—	639,828
Purchased services	142,821	21,769	39,558	71,566	64,599	24,496	90,054	54,784	—	4,157	(1,517)	512,287
Contracted services	128,649	8,801	24,784	12,398	12,513	4,166	7,787	15,116	—	—	—	214,214
Depreciation and amortization	83,705	4,854	11,995	22,267	17,644	4,848	14,388	21,897	—	633	—	182,231
Interest expense	27,604	726	1,193	6,632	3,330	2,264	9,705	7,293	—	189	—	58,936
Total operating expenses	1,368,923	106,210	193,293	388,043	305,715	115,720	398,687	375,763	—	4,997	(1,517)	3,255,834
Operating income (loss)	51,561	(109)	1,194	22,158	10,005	12,579	(7,727)	30,260	—	(2,061)	(150)	117,710
Nonoperating income and expenses, net:												
Loss on early extinguishment of debt	(1,756)	—	—	—	—	—	—	(7,038)	—	—	—	(8,794)
Change in fair value of undesignated interest rate swaps	(21,235)	—	—	—	—	—	—	(1,002)	—	—	—	(22,237)
Other nonoperating gains and losses:												
Contributions	19	—	—	—	858	—	854	2,000	7,654	—	—	11,385
Gain on sale of joint venture	—	—	—	39,350	—	—	—	—	—	—	—	39,350
Equity in net income of joint ventures	2,510	—	3,783	—	222	74	1,617	397	—	—	—	8,603
Investment income	11,798	636	52	2,238	5,955	443	393	6,307	451	—	—	28,273
Change in fair value of investments	(15,404)	(792)	—	(2,846)	(5,429)	(592)	(485)	(3,712)	(769)	—	—	(30,029)
Fair value impairment adjustment	—	—	(11,483)	—	—	—	—	—	—	—	—	(11,483)
Other nonoperating gains and losses	(13,956)	(368)	(561)	(3,330)	(2,046)	(667)	(5,795)	(3,921)	(7,032)	—	—	(37,676)
Total other nonoperating gains and losses	(15,033)	(524)	(8,209)	35,412	(440)	(742)	(3,416)	1,071	304	—	—	8,423
Excess (deficiency) of revenues over expenses	\$ 13,537	(633)	(7,015)	57,570	9,565	11,837	(11,143)	23,291	304	(2,061)	(150)	95,102

See accompanying independent auditors' report.

**UNIVERSITY OF MARYLAND MEDICAL SYSTEM CORPORATION
AND SUBSIDIARIES**

Consolidating Operations Information by Division for University of Maryland Medical Center & Affiliates (UMMC)

Year ended June 30, 2015

(In thousands)

	University of Maryland Medical Center			University Specialty	36 South Paca	University CARE	Eliminations	University of Maryland consolidated total
	University Hospital	Shock Trauma Center	Subtotal					
Unrestricted revenues, gains and other support:								
Patient service revenue (net of contractual adjustments)	\$ 1,142,910	208,335	1,351,245	—	—	1,937	—	1,353,182
Provision for bad debts	(6,912)	(33,126)	(40,038)	81	—	(172)	—	(40,129)
Net patient service revenue	1,135,998	175,209	1,311,207	81	—	1,765	—	1,313,053
Other operating revenue:								
State support	—	3,200	3,200	—	—	—	—	3,200
Other revenue	101,428	175	101,603	12	1,087	1,529	—	104,231
Total unrestricted revenue, gains and other support	1,237,426	178,584	1,416,010	93	1,087	3,294	—	1,420,484
Operating expenses:								
Salaries, wages and benefits	609,697	66,501	676,198	(7)	126	1,708	—	678,025
Expendable supplies	280,690	27,239	307,929	(37)	64	163	—	308,119
Purchased services	96,425	42,744	139,169	(331)	819	3,164	—	142,821
Contracted services	116,427	12,222	128,649	—	—	—	—	128,649
Depreciation and amortization	71,190	12,085	83,275	—	430	—	—	83,705
Interest expense	27,272	—	27,272	—	332	—	—	27,604
Total operating expenses	1,201,701	160,791	1,362,492	(375)	1,771	5,035	—	1,368,923
Operating income (loss)	35,725	17,793	53,518	468	(684)	(1,741)	—	51,561
Nonoperating income and expenses, net:								
Loss on early extinguishment of debt	\$ (1,756)	—	(1,756)	—	—	—	—	(1,756)
Change in fair value of undesignated interest rate swaps	(21,235)	—	(21,235)	—	—	—	—	(21,235)
Other nonoperating gains and losses:								
Contributions	19	—	19	—	—	—	—	19
Equity in net income of joint ventures	260	—	260	—	—	—	2,250	2,510
Investment income	10,298	1,500	11,798	—	—	—	—	11,798
Change in fair value of investments	(15,404)	—	(15,404)	—	—	—	—	(15,404)
Other nonoperating gains and losses	(14,130)	—	(14,130)	—	—	—	174	(13,956)
Total other nonoperating gains and losses	(18,957)	1,500	(17,457)	—	—	—	2,424	(15,033)
Excess (deficiency) of revenues over expenses	\$ (6,223)	19,293	13,070	468	(684)	(1,741)	2,424	13,537

See accompanying independent auditors' report.

**UNIVERSITY OF MARYLAND MEDICAL SYSTEM CORPORATION
AND SUBSIDIARIES**

Consolidating Operations Information by Division for Midtown Health, Inc. (Midtown)

Year ended June 30, 2015

(In thousands)

	UM Midtown Health Systems, Inc.	UMMC Midtown Campus	UM Midtown Clin. Prac. Group	Eliminations	Midtown consolidated total
Unrestricted revenues, gains and other support:					
Patient service revenue (net of contractual adjustments)	\$ —	208,848	7,209	(6,488)	209,569
Provision for bad debts	—	(16,602)	(717)	—	(17,319)
Net patient service revenue	—	192,246	6,492	(6,488)	192,250
Other operating revenue:					
State support	—	—	—	—	—
Other revenue	925	1,288	24	—	2,237
Total unrestricted revenue, gains and other support	925	193,534	6,516	(6,488)	194,487
Operating expenses:					
Salaries, wages and benefits	—	92,381	—	—	92,381
Expendable supplies	—	23,382	—	—	23,382
Purchased services	772	38,758	28	—	39,558
Contracted services	—	24,784	6,488	(6,488)	24,784
Depreciation and amortization	353	11,642	—	—	11,995
Interest expense	59	1,134	—	—	1,193
Total operating expenses	1,184	192,081	6,516	(6,488)	193,293
Operating income (loss)	(259)	1,453	—	—	1,194
Nonoperating income and expenses, net:					
Loss on early extinguishment of debt	—	—	—	—	—
Change in fair value of undesignated interest rate swaps	—	—	—	—	—
Other nonoperating gains and losses:					
Contributions	—	—	—	—	—
Equity in net income of joint ventures	3,783	—	—	—	3,783
Investment income	—	52	—	—	52
Change in fair value of investments	—	—	—	—	—
Fair value impairment adjustment	(11,483)	—	—	—	(11,483)
Other nonoperating gains and losses	—	(561)	—	—	(561)
Total other nonoperating gains and losses	(7,700)	(509)	—	—	(8,209)
Excess of revenues over expenses	\$ (7,959)	944	—	—	(7,015)

See accompanying independent auditors' report.

**UNIVERSITY OF MARYLAND MEDICAL SYSTEM CORPORATION
AND SUBSIDIARIES**

Consolidating Operations Information by Division for Baltimore Washington Medical System (BWMS)

Year ended June 30, 2015

(In thousands)

	Baltimore Washington Medical System, Inc.	Baltimore Washington Medical Center	Baltimore Washington Healthcare Services	Baltimore Washington Health Enterprises	North County Corporation	Shipley's	Eliminations	BWMS consolidated total
Unrestricted revenues, gains and other support:								
Patient service revenue (net of contractual adjustments)	\$ —	370,789	29,080	28,998	—	—	(2,245)	426,622
Provision for bad debts	—	(15,358)	(9,588)	(212)	—	—	—	(25,158)
Net patient service revenue	—	355,431	19,492	28,786	—	—	(2,245)	401,464
Other operating revenue:								
State support	—	—	—	—	—	—	—	—
Other revenue	3,896	2,949	—	3,695	2,906	—	(4,709)	8,737
Total unrestricted revenue, gains and other support	3,896	358,380	19,492	32,481	2,906	—	(6,954)	410,201
Operating expenses:								
Salaries, wages and benefits	3,819	169,483	12,315	20,386	—	—	—	206,003
Expendable supplies	2	60,784	1	8,246	144	—	—	69,177
Purchased services	75	62,269	5,105	9,580	1,491	—	(6,954)	71,566
Contracted services	—	9,287	—	3,111	—	—	—	12,398
Depreciation and amortization	—	20,435	—	1,041	791	—	—	22,267
Interest expense	—	5,928	—	623	81	—	—	6,632
Total operating expenses	3,896	328,186	17,421	42,987	2,507	—	(6,954)	388,043
Operating income (loss)	—	30,194	2,071	(10,506)	399	—	—	22,158
Nonoperating income and expenses, net:								
Loss on early extinguishment of debt	—	—	—	—	—	—	—	—
Change in fair value of undesignated interest rate swaps	—	—	—	—	—	—	—	—
Other nonoperating gains and losses:								
Contributions	—	—	—	—	—	—	—	—
Gain on sale of joint venture interest	—	—	—	39,350	—	—	—	39,350
Equity in net income of joint ventures	58,137	—	—	—	—	—	(58,137)	—
Investment income	—	2,238	—	—	—	—	—	2,238
Change in fair value of investments	—	(2,846)	—	—	—	—	—	(2,846)
Other nonoperating gains and losses	—	(2,999)	—	(331)	—	—	—	(3,330)
Total other nonoperating gains and losses	58,137	(3,607)	—	39,019	—	—	(58,137)	35,412
Excess (deficiency) of revenues over expenses	\$ 58,137	26,587	2,071	28,513	399	—	(58,137)	57,570

See accompanying independent auditors' report.

**UNIVERSITY OF MARYLAND MEDICAL SYSTEM CORPORATION
AND SUBSIDIARIES**

Consolidating Operations Information by Division for Shore Regional Health (Shore Regional)

Year ended June 30, 2015

(In thousands)

	Shore Health System, Inc.	Memorial Hospital Foundation, Inc. and Subsidiary	Care Health Services, Inc.	Shore Health Enterprises, Inc. and Subsidiary	Shore Clinical Foundation, Inc.	Chester River Consolidated Total	Eliminations	SHS consolidated total
Unrestricted revenues, gains and other support:								
Patient service revenue (net of contractual adjustments)	\$ 239,178	—	4,126	—	19,006	65,742	—	328,052
Provision for bad debts	(11,023)	—	(20)	—	—	(4,777)	—	(15,820)
Net patient service revenue	228,155	—	4,106	—	19,006	60,965	—	312,232
Other operating revenue:								
State support	—	—	—	—	—	—	—	—
Other revenue	3,245	—	—	—	49	271	(77)	3,488
Total unrestricted revenue, gains and other support	231,400	—	4,106	—	19,055	61,236	(77)	315,720
Operating expenses:								
Salaries, wages and benefits	106,178	—	3,728	—	25,259	30,137	—	165,302
Expendable supplies	34,340	—	103	—	1,580	6,304	—	42,327
Purchased services	43,792	—	684	—	5,920	14,445	(242)	64,599
Contracted services	7,073	—	—	—	248	5,192	—	12,513
Depreciation and amortization	13,510	—	77	—	355	3,702	—	17,644
Interest expense	3,171	—	—	—	—	159	—	3,330
Total operating expenses	208,064	—	4,592	—	33,362	59,939	(242)	305,715
Operating income (loss)	23,336	—	(486)	—	(14,307)	1,297	165	10,005
Nonoperating income and expenses, net:								
Loss on early extinguishment of debt	\$ —	—	—	—	—	—	—	—
Change in fair value of undesignated interest rate swaps	—	—	—	—	—	—	—	—
Other nonoperating gains and losses:								
Contributions	15	443	—	—	—	400	—	858
Equity in net income of joint ventures	222	—	—	—	—	—	—	222
Investment income (loss)	3,377	2,084	2	—	—	492	—	5,955
Change in fair value of investments	(2,514)	(2,378)	—	—	—	(537)	—	(5,429)
Other nonoperating gains and losses	(1,345)	(118)	—	—	—	(418)	(165)	(2,046)
Total other nonoperating gains and losses	(245)	31	2	—	—	(63)	(165)	(440)
Excess (deficiency) of revenues over expenses	\$ 23,091	31	(484)	—	(14,307)	1,234	—	9,565

See accompanying independent auditors' report.

**UNIVERSITY OF MARYLAND MEDICAL SYSTEM CORPORATION
AND SUBSIDIARIES**

Consolidating Operations Information by Division for Chester River Health System, Inc. (CRHS) a subsidiary of Shore Regional Health

Year ended June 30, 2015

(In thousands)

	Chester River Hospital Center	Chester River Manor	Chester River Home Care and Hospice	Chester River Health Foundation	Chester River consolidated total
Unrestricted revenues, gains and other support:					
Patient service revenue (net of contractual allowances)	\$ 55,231	8,221	2,290	—	65,742
Provision for bad debts	(4,788)	6	5	—	(4,777)
Net patient service revenue	50,443	8,227	2,295	—	60,965
Other operating revenue:					
State support	—	—	—	—	—
Other revenue	259	3	9	—	271
Total unrestricted revenue, gains and other support	50,702	8,230	2,304	—	61,236
Operating expenses:					
Salaries, wages and benefits	23,535	4,784	1,818		30,137
Expendable supplies	5,449	818	34	3	6,304
Purchased services	11,586	2,475	387	(3)	14,445
Contracted services	5,184	8	—	—	5,192
Depreciation and amortization	3,456	234	12	—	3,702
Interest expense	152	7	—	—	159
Total operating expenses	49,362	8,326	2,251	—	59,939
Operating income	1,340	(96)	53	—	1,297
Nonoperating income and expenses, net:					
Loss on early extinguishment of debt	\$ —	—	—	—	—
Other nonoperating gains and losses:					
Contributions	—	4	—	396	400
Equity in net income of joint ventures	—	—	—	—	—
Investment income	360	—	44	88	492
Change in fair value of investments	(450)	—	(47)	(40)	(537)
Other nonoperating gains and losses	(77)	(1)	—	(340)	(418)
Total other nonoperating gains and losses	(167)	3	(3)	104	(63)
Excess of revenues over expenses	\$ 1,173	(93)	50	104	1,234

See accompanying independent auditors' report.

**UNIVERSITY OF MARYLAND MEDICAL SYSTEM CORPORATION
AND SUBSIDIARIES**

Consolidating Operations Information by Division for Charles Regional Health (Charles Regional)

Year ended June 30, 2015

(In thousands)

	Charles Regional Health, Inc.	Charles Regional Medical Center, Inc.	Charles Regional Care Partners, Inc. and Subsidiary	Charles Regional Health Foundation, Inc.	Eliminations	Charles Regional consolidated total
Unrestricted revenues, gains and other support:						
Patient service revenue (net of contractual adjustments)	\$ —	132,650	3,190	—	—	135,840
Provision for bad debts	—	(8,221)	(169)	—	—	(8,390)
Net patient service revenue	—	124,429	3,021	—	—	127,450
Other operating revenue:						
State support	—	—	—	—	—	—
Other revenue	390	544	237	—	(322)	849
Total unrestricted revenue, gains and other support	390	124,973	3,258	—	(322)	128,299
Operating expenses:						
Salaries, wages and benefits	—	56,041	3,746	—	—	59,787
Expendable supplies	—	19,998	161	—	—	20,159
Purchased services	120	23,095	1,379	—	(98)	24,496
Contracted services	—	4,390	—	—	(224)	4,166
Depreciation and amortization	495	4,196	157	—	—	4,848
Interest expense	300	1,964	—	—	—	2,264
Total operating expenses	915	109,684	5,443	—	(322)	115,720
Operating income	(525)	15,289	(2,185)	—	—	12,579
Nonoperating income and expenses, net:						
Loss on early extinguishment of debt	—	—	—	—	—	—
Other nonoperating gains and losses:						
Contributions	—	—	—	—	—	—
Equity in net income of joint ventures	—	74	—	—	—	74
Investment income	37	193	—	213	—	443
Change in fair value of investments	—	(393)	—	(199)	—	(592)
Other nonoperating gains and losses	—	(879)	226	(26)	12	(667)
Total other nonoperating gains and losses	37	(1,005)	226	(12)	12	(742)
Excess of revenues over expenses	\$ (488)	14,284	(1,959)	(12)	12	11,837

See accompanying independent auditors' report.

**UNIVERSITY OF MARYLAND MEDICAL SYSTEM CORPORATION
AND SUBSIDIARIES**

Consolidating Operations Information by Division for University of Maryland St. Joseph Health System (SJHS)

Year ended June 30, 2015

(In thousands)

	<u>St. Joseph Medical Center</u>	<u>St. Joseph Medical Group</u>	<u>St. Joseph Properties</u>	<u>St. Joseph Orthopaedics</u>	<u>O'Dea Medical Arts</u>	<u>St. Joseph Foundation</u>	<u>Eliminations</u>	<u>St. Joseph consolidated total</u>
Unrestricted revenues, gains and other support:								
Patient service revenue (net of contractual adjustments)	\$ 334,910	32,601	—	26,497	—	—	—	394,008
Provision for bad debts	(8,171)	(1,758)	—	(1,591)	—	—	—	(11,520)
Net patient service revenue	326,739	30,843	—	24,906	—	—	—	382,488
Other operating revenue:								
State support	—	—	—	—	—	—	—	—
Other revenue	4,903	8,047	1,534	266	2,610	—	(8,888)	8,472
Total unrestricted revenue, gains and other support	331,642	38,890	1,534	25,172	2,610	—	(8,888)	390,960
Operating expenses:								
Salaries, wages and benefits	133,674	41,079	—	18,080	—	—	—	192,833
Expendable supplies	82,672	948	—	300	—	—	—	83,920
Purchased services	66,272	9,985	2,024	11,343	1,426	4	(1,000)	90,054
Contracted services	15,534	145	—	—	—	(4)	(7,888)	7,787
Depreciation and amortization	13,717	107	7	124	433	—	—	14,388
Interest expense	9,251	—	44	—	410	—	—	9,705
Total operating expenses	321,120	52,264	2,075	29,847	2,269	—	(8,888)	398,687
Operating income (loss)	10,522	(13,374)	(541)	(4,675)	341	—	—	(7,727)
Nonoperating income and expenses, net:								
Loss on early extinguishment of debt	—	—	—	—	—	—	—	—
Other nonoperating gains and losses:								
Contributions	—	—	—	—	—	854	—	854
Equity in net income of joint ventures	1,617	—	—	—	—	—	—	1,617
Investment income	—	—	—	—	2	391	—	393
Change in fair value of investments	—	—	—	—	—	(485)	—	(485)
Other nonoperating gains and losses	(4,414)	2	—	—	(40)	(1,343)	—	(5,795)
Total other nonoperating gains and losses	(2,797)	2	—	—	(38)	(583)	—	(3,416)
Excess (deficiency) of revenues over expenses	\$ 7,725	(13,372)	(541)	(4,675)	303	(583)	—	(11,143)

See accompanying independent auditors' report.

**UNIVERSITY OF MARYLAND MEDICAL SYSTEM CORPORATION
AND SUBSIDIARIES**
Consolidating Operations Information by Division for Upper Chesapeake Health System (UCHS)
Year ended June 30, 2015
(In thousands)

	Upper Chesapeake Medical Center	Harford Memorial Hospital	UCHS Properties	Health Ventures	Medical Services	Residential Hospice House	Upper Chesapeake Health Foundation	Upper Chesapeake Health System	Hospice of Harford County	Upper Chesapeake Insurance Co.	Upper Chesapeake Land Trust	Eliminations	Upper Chesapeake consolidated total
Unrestricted revenues, gains and other support:													
Patient service revenue (net of contractual adjustments)	\$ 281,148	93,066	—	—	44,247	263	—	—	—	—	—	—	418,724
Provision for bad debts	(11,864)	(6,285)	—	—	(2,101)	(4)	—	—	—	—	—	—	(20,254)
Net patient service revenue	269,284	86,781	—	—	42,146	259	—	—	—	—	—	—	398,470
Other operating revenue:													
State support	—	—	—	—	—	—	—	—	—	—	—	—	—
Other revenue	6,358	2,116	—	—	4,036	839	1,412	14,972	—	3,717	—	(25,897)	7,553
Total unrestricted revenue, gains and other support	275,642	88,897	—	—	46,182	1,098	1,412	14,972	—	3,717	—	(25,897)	406,023
Operating expenses:													
Salaries, wages and benefits	109,225	45,734	—	—	33,175	670	736	10,784	—	—	—	—	200,324
Expendable supplies	61,431	9,743	—	—	4,899	35	53	188	—	—	—	—	76,349
Purchased services	41,817	15,020	720	120	9,910	123	703	3,393	—	3,719	14	(20,755)	54,784
Contracted services	8,003	2,807	—	—	8,248	—	—	—	—	—	—	(3,942)	15,116
Depreciation and amortization	15,114	5,417	12	—	477	270	1	606	—	—	—	—	21,897
Interest expense	6,021	1,271	—	—	1	—	—	—	—	—	—	—	7,293
Total operating expenses	241,611	79,992	732	120	56,710	1,098	1,493	14,971	—	3,719	14	(24,697)	375,763
Operating income (loss)	34,031	8,905	(732)	(120)	(10,528)	—	(81)	1	—	(2)	(14)	(1,200)	30,260
Nonoperating income and expenses, net:													
Loss on early extinguishment of debt	(5,912)	(1,126)	—	—	—	—	—	—	—	—	—	—	(7,038)
Change in fair value of undesignated interest rate swaps	(1,002)	—	—	—	—	—	—	—	—	—	—	—	(1,002)
Other nonoperating gains and losses:													
Contributions	—	—	—	—	—	—	2,000	—	—	—	—	—	2,000
Equity in net income of joint ventures	—	—	—	397	—	—	—	—	—	—	—	—	397
Investment income	329	4,800	—	—	—	—	1,176	—	—	2	—	—	6,307
Change in fair value of investments	(126)	(3,173)	—	—	—	—	(413)	—	—	—	—	—	(3,712)
Other nonoperating gains and losses	(3,976)	—	—	—	—	—	55	—	—	—	—	—	(3,921)
Total other nonoperating gains and losses	(3,773)	1,627	—	397	—	—	2,818	—	—	2	—	—	1,071
Excess (deficiency) of revenues over expenses	\$ 23,344	9,406	(732)	277	(10,528)	—	2,737	1	—	—	(14)	(1,200)	23,291

See accompanying independent auditors' report.

**UNIVERSITY OF MARYLAND MEDICAL SYSTEM CORPORATION
AND SUBSIDIARIES**

Consolidating Operations Information by Division

Year ended June 30, 2014

(In thousands)

	University of Maryland Medical Center	Rehabilitation & Orthopaedic Institute	Midtown	Baltimore Washington	Shore Regional	Charles Regional	St. Joseph Health	UCHS	UMMS Foundation	ECARE	Eliminations	Consolidated total
Unrestricted revenues, gains and other support:												
Patient Service Revenue (net of contractual adjustments)	\$ 1,357,791	108,350	207,823	415,668	318,581	132,411	370,036	232,656	—	—	(811)	3,142,505
Provision for bad debts	(86,664)	(8,878)	(26,864)	(44,480)	(16,820)	(9,410)	(19,567)	(12,988)	—	—	—	(225,671)
Net patient service revenue	1,271,127	99,472	180,959	371,188	301,761	123,001	350,469	219,668	—	—	(811)	2,916,834
Other operating revenue:												
State support	3,000	—	—	—	—	—	—	—	—	—	—	3,000
Other revenue	72,582	3,797	2,455	9,032	3,840	1,525	4,400	7,617	—	2,861	(1,097)	107,012
Total unrestricted revenue, gains and other support	1,346,709	103,269	183,414	380,220	305,601	124,526	354,869	227,285	—	2,861	(1,908)	3,026,846
Operating expenses:												
Salaries, wages and benefits	634,409	51,421	90,109	191,161	160,931	58,768	184,408	119,477	—	—	—	1,490,684
Expendable supplies	294,803	16,730	20,129	67,470	41,428	19,429	80,103	43,793	—	13	—	583,898
Purchased services	140,201	20,540	33,146	66,379	62,609	26,075	88,989	30,859	—	4,190	(1,308)	471,680
Contracted services	130,802	8,648	23,237	12,095	13,039	3,805	7,832	9,290	—	—	—	208,748
Depreciation and amortization	78,760	4,617	12,183	24,147	17,822	4,332	13,928	13,023	—	305	—	169,117
Interest expense	26,661	780	1,306	6,932	3,616	2,701	9,235	3,288	—	—	—	54,519
Total operating expenses	1,305,636	102,736	180,110	368,184	299,445	115,110	384,495	219,730	—	4,508	(1,308)	2,978,646
Operating income (loss)	41,073	533	3,304	12,036	6,156	9,416	(29,626)	7,555	—	(1,647)	(600)	48,200
Nonoperating income and expenses, net:												
Change in fair value of undesignated interest rate swaps	(4,450)	—	—	—	—	—	—	1,030	—	—	—	(3,420)
Other nonoperating gains and losses:												
Contributions	8,705	—	—	—	1,353	—	900	—	6,517	—	—	17,475
Equity in net income of joint ventures	8,440	—	(100)	—	216	68	924	—	—	—	—	9,548
Inherent contribution – UCHS	114,436	—	—	—	—	—	—	—	—	—	—	114,436
Investment income	8,187	373	16	1,312	6,616	19	(1,613)	2,160	3,985	—	—	21,055
Change in fair value of investments	30,708	1,310	—	5,119	9,422	94	973	1,786	1,582	—	—	50,994
Other nonoperating gains and losses	(12,202)	(414)	(615)	(3,616)	(2,457)	(1,366)	(5,279)	(2,947)	(3,505)	—	—	(32,401)
Total other nonoperating gains and losses	158,274	1,269	(699)	2,815	15,150	(1,185)	(4,095)	999	8,579	—	—	181,107
Excess (deficiency) of revenues over expenses	\$ 194,897	1,802	2,605	14,851	21,306	8,231	(33,721)	9,584	8,579	(1,647)	(600)	225,887

See accompanying independent auditors' report.

**UNIVERSITY OF MARYLAND MEDICAL SYSTEM CORPORATION
AND SUBSIDIARIES**

Combining Balance Sheet Information – Obligated Group

June 30, 2015

(In thousands)

Assets	University of Maryland Medical Center	Rehabilitation & Orthopaedic Institute	University of Maryland Midtown Campus	Baltimore Washington Medical Center, Inc.	Shore Health System, Inc.	Chester River Medical Center	Charles Regional Medical Center	St. Joseph Medical Center	Upper Chesapeake Hospitals*	UMMS Foundation	Eliminations	Obligated group total
Current assets:												
Cash and cash equivalents	\$ 249,790	10,222	15,362	59,774	7,351	3,276	20,680	1,186	84,070	—	—	451,711
Assets limited as to use, current portion	46,377	—	764	1,294	605	343	485	549	—	—	—	50,417
Accounts receivable:												
Patient accounts receivable, less allowance for doubtful accounts of \$219,924	143,896	13,920	23,892	28,370	14,557	6,312	7,945	35,052	30,043	—	—	303,987
Other	164,633	(81)	2,777	1,143	958	1,035	535	(21,507)	—	—	(54,711)	94,782
Inventories	26,717	1,106	3,533	6,759	3,202	457	1,675	5,512	9,813	—	—	58,774
Prepaid expenses and other current assets	6,132	110	219	918	946	76	320	510	4,145	1,500	—	14,876
Total current assets	637,545	25,277	46,547	98,258	27,619	11,499	31,640	21,302	128,071	1,500	(54,711)	974,547
Investments	284,743	28,515	—	72,447	69,136	10,820	20,279	—	—	—	—	485,940
Assets limited as to use, less current portion:												
Investments held for collateral	77,603	—	3,700	8,000	—	—	—	—	30,017	—	—	119,320
Debt service funds	21,197	—	—	—	—	—	—	—	—	—	—	21,197
Construction funds	47,014	10,755	6,045	26,538	11,272	4,538	11,000	10,472	—	—	—	127,634
Board designated and escrow funds	—	—	—	—	25,000	5,000	—	—	106,724	22,977	—	159,701
Self-insurance trust funds	52,637	—	15,896	23,321	21,325	4,971	5,943	9,370	—	—	—	133,463
Funds restricted by donor	—	—	1,173	—	4,515	105	—	—	—	22,383	—	28,176
Economic interests in the net assets of related organizations	200,020	34,072	432	7,022	80,620	5,933	—	9,503	—	—	(61,332)	276,270
	398,471	44,827	27,246	64,881	142,732	20,547	16,943	29,345	136,741	45,360	(61,332)	865,761
Property and equipment, net	913,877	46,353	96,913	230,369	136,890	27,967	70,324	202,324	243,760	—	—	1,968,777
Investments in joint ventures and other assets	667,291	—	8,395	16,488	11,257	2,180	10,631	10,734	223,814	5,965	(658,028)	298,727
Total assets	\$ 2,901,927	144,972	179,101	482,443	387,634	73,013	149,817	263,705	732,386	52,825	(774,071)	4,593,752

* Includes both Upper Chesapeake Medical Center and Harford Memorial Hospital

**UNIVERSITY OF MARYLAND MEDICAL SYSTEM CORPORATION
AND SUBSIDIARIES**

Combining Balance Sheet Information – Obligated Group

June 30, 2015

(In thousands)

Liabilities and Net Assets	University of Maryland Medical Center	Rehabilitation & Orthopaedic Institute	University of Maryland Midtown Campus	Baltimore Washington Medical Center, Inc.	Shore Health System, Inc.	Chester River Medical Center	Charles Regional Medical Center	St. Joseph Medical Center	Upper Chesapeake Hospitals*	UMMS Foundation	Eliminations	Obligated group total
Current liabilities:												
Trade accounts payable	\$ 131,978	7,108	15,053	26,530	15,265	4,083	8,522	24,576	15,185	996	—	249,296
Accrued payroll and benefits	110,905	5,365	12,745	25,538	18,384	3,395	5,174	22,542	24,411	—	—	228,459
Advances from third-party payors	76,099	3,427	9,520	9,057	5,217	709	4,162	13,102	7,825	—	—	129,118
Lines of credit	132,400	—	—	—	—	—	12,000	—	—	—	—	144,400
Other current liabilities	85,534	(1,617)	6,770	42,677	2,138	7,005	1,271	2,966	14,005	—	(54,711)	106,038
Long-term debt subject to short-term remarketing arrangements	51,732	—	—	—	—	—	—	—	—	—	—	51,732
Current portion of long-term debt	12,971	482	689	3,489	3,177	92	2,126	4,938	4,255	—	—	32,219
Total current liabilities	601,619	14,765	44,777	107,291	44,181	15,284	33,255	68,124	65,681	996	(54,711)	941,262
Long-term debt, less current portion	723,590	21,419	33,374	168,723	86,872	4,659	56,917	238,885	205,752	—	—	1,540,191
Other long-term liabilities	110,780	415	22,909	37,541	13,069	8,175	13,260	8,954	28,237	—	—	243,340
Interest rate swap liabilities	167,520	—	—	—	—	—	—	—	28,852	—	—	196,372
Total liabilities	1,603,509	36,599	101,060	313,555	144,122	28,118	103,432	315,963	328,522	996	(54,711)	2,921,165
Net assets:												
Unrestricted	1,076,219	74,301	76,436	161,866	206,300	41,947	46,292	(52,259)	235,736	26,336	(508,775)	1,384,399
Temporarily restricted	220,510	34,072	1,605	7,022	22,951	1,660	93	1	168,128	6,930	(209,309)	253,663
Permanently restricted	1,689	—	—	—	14,261	1,288	—	—	—	18,563	(1,276)	34,525
Total net assets	1,298,418	108,373	78,041	168,888	243,512	44,895	46,385	(52,258)	403,864	51,829	(719,360)	1,672,587
Total liabilities and net assets	\$ 2,901,927	144,972	179,101	482,443	387,634	73,013	149,817	263,705	732,386	52,825	(774,071)	4,593,752

* Includes both Upper Chesapeake Medical Center and Harford Memorial Hospital

See accompanying independent auditors' report.

**UNIVERSITY OF MARYLAND MEDICAL SYSTEM CORPORATION
AND SUBSIDIARIES**

Combining Balance Sheet Information – Obligated Group

June 30, 2014

(In thousands)

Assets	University of Maryland Medical Center	Rehabilitation & Orthopaedic Institute	University of Maryland Midtown Campus	Baltimore Washington Medical Center, Inc.	Shore Health System, Inc.	Chester River Medical Center	Charles Regional Medical Center	St. Joseph Medical Center	Upper Chesapeake Hospitals*	UMMS Foundation	Eliminations	Obligated group total
Current assets:												
Cash and cash equivalents	\$ 119,021	23,036	20,163	18,281	13,657	4,575	21,246	2,870	51,391	—	—	274,240
Assets limited as to use, current portion	45,943	—	993	1,140	645	265	912	477	2,123	—	—	52,498
Accounts receivable:												
Patient accounts receivable, less allowance for doubtful accounts of \$182,900	160,127	16,202	26,931	33,312	19,565	5,108	7,988	30,718	34,804	—	—	334,755
Other	165,030	1,681	3,593	701	16,090	(1,087)	13,707	(34,976)	—	—	(67,754)	96,985
Inventories	24,653	1,188	2,969	7,708	3,611	403	1,587	4,904	9,163	—	—	56,186
Prepaid expenses and other current assets	5,967	10	142	1,530	1,455	104	206	1,438	3,046	1,500	—	15,398
Total current assets	<u>520,741</u>	<u>42,117</u>	<u>54,791</u>	<u>62,672</u>	<u>55,023</u>	<u>9,368</u>	<u>45,646</u>	<u>5,431</u>	<u>100,527</u>	<u>1,500</u>	<u>(67,754)</u>	<u>830,062</u>
Investments	361,916	13,700	—	73,089	44,099	4,737	20,458	—	—	—	—	517,999
Assets limited as to use, less current portion:												
Investments held for collateral	60,418	—	—	8,000	—	—	—	—	27,952	—	—	96,370
Debt service funds	33,781	—	1,603	—	—	—	—	—	4,055	—	—	39,439
Construction funds	58,392	15,154	—	28,278	5,078	4,637	4,729	29,863	—	—	—	146,131
Board designated and escrow funds	—	—	—	—	25,000	5,000	—	—	100,234	23,740	—	153,974
Self-insurance trust funds	54,750	—	21,055	21,930	19,157	5,185	6,880	5,900	—	—	—	134,857
Funds restricted by donor	—	—	1,175	—	4,550	70	—	—	—	22,393	—	28,188
Economic interests in the net assets of related organizations	202,189	34,003	111	6,602	74,782	5,834	5,147	9,503	—	—	(63,998)	274,173
Total investments	<u>409,530</u>	<u>49,157</u>	<u>23,944</u>	<u>64,810</u>	<u>128,567</u>	<u>20,726</u>	<u>16,756</u>	<u>45,266</u>	<u>132,241</u>	<u>46,133</u>	<u>(63,998)</u>	<u>873,132</u>
Property and equipment, net	887,175	45,430	100,253	223,802	130,732	27,444	70,840	197,626	253,011	—	—	1,936,313
Investments in joint ventures and other assets	663,332	—	11,959	15,157	11,824	1,454	4,476	9,521	219,523	6,894	(655,528)	288,612
Total assets	<u>\$ 2,842,694</u>	<u>150,404</u>	<u>190,947</u>	<u>439,530</u>	<u>370,245</u>	<u>63,729</u>	<u>158,176</u>	<u>257,844</u>	<u>705,302</u>	<u>54,527</u>	<u>(787,280)</u>	<u>4,446,118</u>

* Includes both Upper Chesapeake Medical Center and Harford Memorial Hospital

**UNIVERSITY OF MARYLAND MEDICAL SYSTEM CORPORATION
AND SUBSIDIARIES**

Combining Balance Sheet Information – Obligated Group

June 30, 2014

(In thousands)

Liabilities and Net Assets	University of Maryland Medical Center	Rehabilitation & Orthopaedic Institute	University of Maryland Midtown Campus	Baltimore Washington Medical Center, Inc.	Shore Health System, Inc.	Chester River Medical Center	Charles Regional Medical Center	St. Joseph Medical Center	Upper Chesapeake Hospitals*	UMMS Foundation	Eliminations	Obligated group total
Current liabilities:												
Trade accounts payable	\$ 142,885	5,762	13,582	19,564	14,238	4,636	8,643	25,301	13,934	32	—	248,577
Accrued payroll and benefits	96,947	4,857	12,753	22,799	17,877	3,448	5,307	21,118	23,128	—	—	208,234
Advances from third-party payors	71,498	3,880	8,757	9,965	5,368	734	3,449	12,066	7,810	—	—	123,527
Lines of credit	105,000	—	—	—	—	—	12,000	—	—	—	—	117,000
Short-term financing	150,000	—	—	—	—	—	—	—	—	—	—	150,000
Other current liabilities	84,899	6,449	15,231	26,675	2,526	1,351	1,377	3,239	9,754	—	(67,754)	83,747
Long-term debt subject to short-term remarketing arrangements	77,574	—	—	—	—	—	—	—	—	—	—	77,574
Current portion of long-term debt	13,249	463	680	3,296	3,084	82	2,007	4,363	4,181	—	—	31,405
Total current liabilities	742,052	21,411	51,003	82,299	43,093	10,251	32,783	66,087	58,807	32	(67,754)	1,040,064
Long-term debt, less current portion	558,828	22,003	34,313	179,849	93,421	4,702	59,257	244,542	208,517	—	—	1,405,432
Other long-term liabilities	119,445	415	26,138	36,286	12,535	6,900	15,491	6,995	27,906	—	—	252,111
Interest rate swap liabilities	148,097	—	—	—	—	—	—	—	27,850	—	—	175,947
Total liabilities	1,568,422	43,829	111,454	298,434	149,049	21,853	107,531	317,624	323,080	32	(67,754)	2,873,554
Net assets:												
Unrestricted	1,049,843	72,572	78,207	134,494	189,472	38,744	50,552	(59,781)	220,832	28,935	(506,275)	1,297,595
Temporarily restricted	222,740	34,003	1,286	6,602	17,750	1,854	93	1	161,390	6,851	(211,975)	240,595
Permanently restricted	1,689	—	—	—	13,974	1,278	—	—	—	18,709	(1,276)	34,374
Total net assets	1,274,272	106,575	79,493	141,096	221,196	41,876	50,645	(59,780)	382,222	54,495	(719,526)	1,572,564
Total liabilities and net assets	\$ 2,842,694	150,404	190,947	439,530	370,245	63,729	158,176	257,844	705,302	54,527	(787,280)	4,446,118

* Includes both Upper Chesapeake Medical Center and Harford Memorial Hospital

See accompanying independent auditors' report.

**UNIVERSITY OF MARYLAND MEDICAL SYSTEM CORPORATION
AND SUBSIDIARIES**
Combining Operations and Changes in Net Assets Information – Obligated Group
Year ended June 30, 2015
(In thousands)

	University of Maryland Medical Center	Rehabilitation & Orthopaedic Institute	University of Maryland Midtown Campus	Baltimore Washington Medical Center	Memorial Hospital	Shore Health System			Chester River Hospital Center	Charles Regional Medical Center	St. Joseph Medical Center	Upper Chesapeake Hospitals*	UMMS Foundation	Eliminations	Obligated group total
						Dorchester General	QAEC	Subtotal							
Unrestricted revenues, gains and other support:															
Patient service revenue (net of contractual adjustments)	\$ 1,351,245	107,600	208,848	370,789	187,400	47,289	4,489	239,178	55,231	132,650	334,910	374,214	—	(986)	3,173,679
Provision for bad debts	(40,038)	(6,679)	(16,602)	(15,358)	(8,574)	(2,283)	(166)	(11,023)	(4,788)	(8,221)	(8,171)	(18,149)	—	—	(129,029)
Net patient service revenue	1,311,207	100,921	192,246	355,431	178,826	45,006	4,323	228,155	50,443	124,429	326,739	356,065	—	(986)	3,044,650
Other operating revenue:															
State support	3,200	—	—	—	—	307	—	—	—	—	—	—	—	—	3,200
Other revenue	101,603	4,556	1,288	2,949	2,932	—	6	3,245	259	544	4,903	8,474	—	(681)	127,140
Total unrestricted revenue, gains and other support	1,416,010	105,477	193,534	358,380	181,758	45,313	4,329	231,400	50,702	124,973	331,642	364,539	—	(1,667)	3,174,990
Operating expenses:															
Salaries, wages, and benefits	676,198	53,044	92,381	169,483	80,850	22,058	3,270	106,178	23,535	56,041	133,674	154,959	—	—	1,465,493
Expendable supplies	307,929	16,369	23,382	60,784	30,395	3,459	486	34,340	5,449	19,998	82,672	71,174	—	—	622,097
Purchased services	139,169	21,568	38,758	62,269	33,994	8,631	1,167	43,792	11,586	23,095	66,272	56,837	—	(1,517)	461,829
Contracted services	128,649	8,801	24,784	9,287	4,455	1,960	658	7,073	5,184	4,390	15,534	10,810	—	—	214,512
Depreciation and amortization	83,275	4,852	11,642	20,435	9,974	2,354	1,182	13,510	3,456	4,196	13,717	20,531	—	—	175,614
Interest expense	27,272	726	1,134	5,928	2,293	352	526	3,171	152	1,964	9,251	7,292	—	—	56,890
Total operating expenses	1,362,492	105,360	192,081	328,186	161,961	38,814	7,289	208,064	49,362	109,684	321,120	321,603	—	(1,517)	2,996,435
Operating income (loss)	53,518	117	1,453	30,194	19,797	6,499	(2,960)	23,336	1,340	15,289	10,522	42,936	—	(150)	178,555
Nonoperating income and expenses, net:															
Loss on early extinguishment of debt	(1,756)	—	—	—	—	—	—	—	—	—	—	(7,038)	—	—	(8,794)
Change in fair value of undesignated interest rate swaps	(21,235)	—	—	—	—	—	—	—	—	—	—	(1,002)	—	—	(22,237)
Other nonoperating gains and losses:															
Contributions	19	—	—	—	15	—	—	15	—	—	—	—	7,654	—	7,688
Equity in net income of joint ventures	260	—	—	—	167	48	7	222	—	74	1,617	—	—	—	2,173
Investment income	11,798	636	52	2,238	3,347	26	4	3,377	360	193	5,129	451	—	—	24,234
Change in fair value of investments	(15,404)	(792)	—	(2,846)	(2,491)	(20)	(3)	(2,514)	(450)	(393)	(3,299)	(769)	—	—	(26,467)
Other nonoperating gains and losses	(14,130)	(368)	(561)	(2,999)	(1,334)	(10)	(1)	(1,345)	(77)	(879)	(4,414)	(3,976)	(7,032)	—	(35,781)
Total other nonoperating gains and losses	(17,457)	(524)	(509)	(3,607)	(296)	44	7	(245)	(167)	(1,005)	(2,797)	(2,146)	304	—	(28,153)
Excess (deficiency) of revenues over expenses	13,070	(407)	944	26,587	19,501	6,543	(2,953)	23,091	1,173	14,284	7,725	32,750	304	(150)	119,371
Net assets released from restrictions used for purchase of property and equipment	14,669	160	383	150	938	—	—	938	1,353	—	641	152	—	—	18,446
Change in unrealized gains on investments	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Change in economic and beneficial interest in the net assets of related organizations	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Change in ownership interest of joint ventures	278	—	—	—	(14,762)	—	—	(14,762)	245	—	(921)	—	—	—	(15,438)
Capital transfers (to) from affiliate	(3,452)	1,978	(600)	—	7,560	—	—	7,560	—	—	—	(12,751)	(2,702)	(2,500)	(27,518)
Amortization of accumulated loss of discontinued designated interest rate swap	1,812	—	—	—	—	—	—	—	—	—	—	—	—	—	1,812
Change in funded status of defined benefit pension plans	—	—	(2,499)	633	—	—	—	—	428	(992)	—	(5,562)	—	—	(7,992)
Asset reclassifications at request of donor	—	—	—	—	—	—	—	—	—	—	—	—	(201)	—	(201)
Other	(1)	(2)	1	2	1	—	—	1	4	(2,501)	77	315	—	150	(1,954)
Increase (decrease) in unrestricted net assets	\$ 26,376	1,729	(1,771)	27,372	13,238	6,543	(2,953)	16,828	3,203	(4,260)	7,522	14,904	(2,599)	(2,500)	86,804

* Includes both Upper Chesapeake Medical Center and Harford Memorial Hospital

See accompanying independent auditors' report.

**UNIVERSITY OF MARYLAND MEDICAL SYSTEM CORPORATION
AND SUBSIDIARIES**

Combining Operations and Changes in Net Assets Information – Obligated Group

Year ended June 30, 2014

(In thousands)

	University of Maryland Medical Center	Rehabilitation & Orthopaedic Institute	University of Maryland Midtown Campus	Baltimore Washington Medical Center	Shore Health System				Chester River Hospital Center	Charles Regional Medical Center	St. Joseph Medical Center	Upper Chesapeake Hospitals*	UMMS Foundation	Eliminations	Obligated group total
					Memorial Hospital	Dorchester General	QAEC	Subtotal							
Unrestricted revenues, gains and other support:															
Patient service revenue (net of contractual adjustments)	\$ 1,355,330	107,626	206,188	359,664	175,910	49,049	4,445	229,404	57,310	128,305	314,749	208,519	—	(811)	2,966,284
Provision for bad debts	(86,868)	(8,765)	(25,203)	(27,697)	(8,438)	(3,353)	(188)	(11,979)	(4,661)	(9,064)	(15,690)	(11,485)	—	—	(201,412)
Net patient service revenue	1,268,462	98,861	180,985	331,967	167,472	45,696	4,257	217,425	52,649	119,241	299,059	197,034	—	(811)	2,764,872
Other operating revenue:															
State support	3,000	—	—	—	—	—	—	—	—	—	—	—	—	—	3,000
Other revenue	69,485	3,796	1,562	3,433	2,656	414	10	3,080	284	511	3,156	5,340	—	(1,097)	89,550
Total unrestricted revenue, gains and other support	1,340,947	102,657	182,547	335,400	170,128	46,110	4,267	220,505	52,933	119,752	302,215	202,374	—	(1,908)	2,857,422
Operating expenses:															
Salaries, wages, and benefits	631,085	50,791	90,109	160,741	79,457	22,301	3,244	105,002	23,193	55,138	128,340	93,328	—	—	1,337,727
Expendable supplies	294,532	16,731	20,129	61,394	29,362	3,859	463	33,684	5,393	19,213	79,055	41,228	—	—	571,359
Purchased services	136,297	20,327	32,398	59,665	34,111	8,612	1,253	43,976	10,317	24,357	67,220	31,435	—	(1,308)	424,684
Contracted services	130,802	8,648	23,237	8,649	4,552	2,442	957	7,951	5,187	4,064	14,180	7,078	—	—	209,796
Depreciation and amortization	78,474	4,615	11,762	22,234	10,613	2,269	1,150	14,032	3,098	3,694	13,286	12,227	—	—	163,422
Interest expense	26,318	780	1,234	6,348	2,734	191	517	3,442	166	2,289	8,852	3,284	—	—	52,713
Total operating expenses	1,297,508	101,892	178,869	319,031	160,829	39,674	7,584	208,087	47,354	108,755	310,933	188,580	—	(1,308)	2,759,701
Operating income (loss)	43,439	765	3,678	16,369	9,299	6,436	(3,317)	12,418	5,579	10,997	(8,718)	13,794	—	(600)	97,721
Nonoperating income and expenses, net:															
Change in fair value of undesignated interest rate swaps	(4,450)	—	—	—	—	—	—	—	—	—	1,030	—	—	—	(3,420)
Other nonoperating gains and losses:															
Contributions	8,705	—	—	—	(31)	—	—	(31)	—	—	—	—	6,517	—	15,191
Equity in net income of joint ventures	5,876	—	—	—	216	—	—	216	—	68	924	—	—	—	7,084
Inherent contribution – UCHS	114,436	—	—	—	—	—	—	—	—	—	—	—	—	—	114,436
Investment income	8,176	373	16	1,312	3,689	6	1	3,696	1,041	19	(2,824)	1,233	3,985	—	17,027
Change in fair value of investments	30,708	1,310	—	5,119	4,886	47	6	4,939	—	94	973	1,786	1,582	—	46,511
Other nonoperating gains and losses	(12,512)	(414)	(615)	(3,328)	(878)	(265)	(37)	(1,180)	(72)	(1,009)	(4,486)	(2,626)	(3,505)	—	(29,747)
Total other nonoperating gains and losses	155,389	1,269	(599)	3,103	7,882	(212)	(30)	7,640	969	(828)	(5,413)	393	8,579	—	170,502
Excess (deficiency) of revenues over expenses	194,378	2,034	3,079	19,472	17,181	6,224	(3,347)	20,058	6,548	10,169	(14,131)	15,217	8,579	(600)	264,803
Net assets released from restrictions used for purchase of property and equipment	—	443	1,093	—	343	—	—	343	848	117	—	—	—	—	2,844
Change in unrealized gains on investments	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Contribution to/economic interest in UCH Legacy Funding Corporation	(150,000)	—	—	—	(5,194)	—	—	(5,194)	(1,455)	—	—	—	—	—	(156,649)
Change in ownership interest of joint ventures	2,158	—	—	—	—	—	—	—	—	—	—	—	—	—	2,158
Capital transfers (to) from affiliate	4,990	—	3,508	—	9,400	—	—	9,400	—	4,868	—	—	(22,654)	(2,500)	(3,288)
Amortization of accumulated loss of discontinued designated interest rate swap	1,857	—	—	—	—	—	—	—	—	—	—	—	—	—	1,857
Change in funded status of defined benefit pension plans	—	—	607	(102)	—	—	—	—	726	(1,615)	—	8,395	—	—	8,011
Asset reclassifications at request of donor	—	—	2	1	—	—	—	—	—	—	—	—	100	—	100
Other	909	12	2	1	(322)	—	—	(322)	(84)	(2,169)	—	(1,013)	11	600	(2,053)
Increase (decrease) in unrestricted net assets	\$ 53,392	2,489	8,289	19,371	21,408	6,224	(3,347)	24,285	6,583	11,370	(14,131)	22,599	(13,964)	(2,500)	117,783

* Includes both Upper Chesapeake Medical Center and Harford Memorial Hospital

See accompanying independent auditors' report.