



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

Consolidated Financial Statements and Schedules

June 30, 2011 and 2010

(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 balance sheets of the University of Maryland Medical System Corporation and Subsidiaries (the Corporation) as of June 30, 2011 and 2010, and the related consolidated statements of operations, changes in net assets, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Corporation's management. 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 of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our 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, 2011 and 2010, and the results of their operations, changes in their net assets, and their cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Our audits were made for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The supplementary information included in schedules 1 through 8 is presented for purposes of additional analysis and is not a required part of the basic consolidated financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the consolidated financial statements taken as a whole.

KPMG LLP

October 27, 2011

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

Consolidated Balance Sheets

June 30, 2011 and 2010

(In thousands)

Assets	2011	2010
Current assets:		
Cash and cash equivalents	\$ 217,517	238,548
Assets limited as to use, current portion	40,114	39,228
Accounts receivable:		
Patient accounts receivable, less allowance for doubtful accounts of \$161,124 and \$136,278 as of June 30, 2011 and 2010, respectively	262,421	249,127
Other	24,579	24,155
Inventories	32,181	30,230
Prepaid expenses and other current assets	51,871	67,681
Total current assets	628,683	648,969
Investments	406,850	281,108
Assets limited as to use, less current portion	505,466	490,119
Property and equipment, net	1,298,650	1,240,114
Deferred financing costs, net	7,547	8,661
Investments in joint ventures	169,220	107,851
Other assets	9,925	8,329
Total assets	\$ 3,026,341	2,785,151
Liabilities and Net Assets		
Current liabilities:		
Trade accounts payable	\$ 154,995	146,149
Accrued payroll and benefits	128,420	121,683
Advances from third-party payors	96,012	87,558
Lines of credit	54,600	63,300
Other current liabilities	87,643	83,958
Long-term debt subject to short-term remarketing arrangements	166,765	70,069
Current portion of long-term debt	24,242	36,442
Total current liabilities	712,677	609,159
Long-term debt, less current portion and amount subject to short-term remarketing arrangements	869,372	959,243
Other long-term liabilities	87,858	105,794
Interest rate swap liabilities	105,400	128,575
Total liabilities	1,775,307	1,802,771
Net assets:		
Unrestricted	1,142,835	894,949
Temporarily restricted	75,656	56,184
Permanently restricted	32,543	31,247
Total net assets	1,251,034	982,380
Total liabilities and net assets	\$ 3,026,341	2,785,151

See accompanying notes to consolidated financial statements.

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

Consolidated Statements of Operations

Years ended June 30, 2011 and 2010

(In thousands)

	2011	2010
Unrestricted revenues, gains and other support:		
Net patient service revenue	\$ 2,270,416	2,129,662
Other operating revenue:		
State support	3,200	3,200
Other revenue	70,588	66,106
	<u>2,344,204</u>	<u>2,198,968</u>
Operating expenses:		
Salaries, wages and benefits	1,041,344	988,399
Expendable supplies	380,222	357,793
Purchased services	336,281	312,381
Contracted services	139,710	140,844
Depreciation and amortization	129,012	117,766
Interest expense	40,341	40,051
Provision for bad debts	177,013	179,289
	<u>2,243,923</u>	<u>2,136,523</u>
Total operating expenses		
Operating income	100,281	62,445
Nonoperating income and expenses, net:		
Contributions	6,055	8,137
Equity in net income of joint ventures	20,534	3,514
Investment income	39,207	136
Change in fair value of investments	36,364	45,592
Change in fair value of undesignated interest rate swaps	18,640	(33,700)
Loss on early extinguishment of debt	—	(816)
Other nonoperating losses, net	(17,947)	(13,798)
	<u>203,134</u>	<u>71,510</u>
Excess of revenues over expenses		
Net assets released from restrictions used for the purchase of property and equipment	23,964	32,612
Other	20,788	(8,728)
	<u>247,886</u>	<u>95,394</u>
Increase in unrestricted net assets	<u>\$ 247,886</u>	<u>95,394</u>

See accompanying notes to consolidated financial statements.

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

Consolidated Statements of Changes in Net Assets

Years ended June 30, 2011 and 2010

(In thousands)

	Unrestricted net assets	Temporarily restricted net assets	Permanently restricted net assets	Total
Balance at June 30, 2009	\$ 799,555	76,204	28,160	903,919
Excess of revenues over expenses	71,510	—	—	71,510
Investment gains, net	—	3,338	136	3,474
State support for capital	—	7,965	—	7,965
Contributions, net	—	21,011	2,866	23,877
Net assets released from restrictions used for operations and nonoperating activities	—	(5,890)	—	(5,890)
Net assets released from restrictions used for purchase of property and equipment	32,612	(32,612)	—	—
Change in economic and beneficial interests in the net assets of related organizations	—	(14,986)	85	(14,901)
Change in ownership interest of joint ventures	3,478	1,141	—	4,619
Change in fair value of designated interest rate swaps	(7,410)	—	—	(7,410)
Change in funded status of defined benefit pension plans	(4,766)	—	—	(4,766)
Other	(30)	13	—	(17)
Increase (decrease) in net assets	95,394	(20,020)	3,087	78,461
Balance at June 30, 2010	894,949	56,184	31,247	982,380
Excess of revenues over expenses	203,134	—	—	203,134
Investment gains, net	—	5,102	177	5,279
State support for capital	—	21,565	—	21,565
Contributions, net	—	17,058	1,079	18,137
Net assets released from restrictions used for operations and nonoperating activities	—	(3,639)	—	(3,639)
Net assets released from restrictions used for purchase of property and equipment	23,964	(23,964)	—	—
Change in economic and beneficial interests in the net assets of related organizations	—	3,324	40	3,364
Change in ownership interest of joint ventures	2,268	102	—	2,370
Change in fair value of designated interest rate swaps	2,298	—	—	2,298
Change in funded status of defined benefit pension plans	16,322	—	—	16,322
Other	(100)	(76)	—	(176)
Increase in net assets	247,886	19,472	1,296	268,654
Balance at June 30, 2011	\$ 1,142,835	75,656	32,543	1,251,034

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, 2011 and 2010

(In thousands)

	2011	2010
Cash flows from operating activities:		
Increase in net assets	\$ 268,654	78,461
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation and amortization	129,012	117,766
Provision for bad debts	177,013	179,289
Amortization of bond premium and deferred financing costs	1,562	1,178
Net realized gains and change in fair value of investments	(70,293)	(38,703)
Loss on early extinguishment of debt	—	816
Equity in net income of joint ventures	(20,534)	(3,514)
Contribution of land held for sale	—	(1,800)
Decrease in economic and beneficial interests in net assets of related organizations	(3,364)	14,901
Change in fair value of interest rate swaps	(23,175)	40,649
Change in funded status of defined benefit pension plans	16,322	4,766
Increase in patient accounts receivable	(190,307)	(186,637)
Increase in other receivables, prepaid expenses, other current assets and other assets	(6,431)	(8,635)
(Increase) decrease in inventories	(1,951)	1,323
(Decrease) increase in trade accounts payable, accrued payroll and benefits, other current liabilities and other long-term liabilities	(23,940)	27,047
Increase in advances from third-party payors	8,454	3,030
Restricted contributions, investment income and state support	(44,981)	(35,316)
Net cash provided by operating activities	216,041	194,621
Cash flows from investing activities:		
Purchases and sales of investments and assets limited as to use, net	(44,076)	(153,660)
Purchases of property and equipment	(169,198)	(141,686)
Distributions from joint ventures, net	4,388	1,924
Investment in joint ventures	(39,954)	(26,750)
Change in deposit for undesignated interest rate swaps on hand with swap counterparty	11,438	(13,420)
Net cash used in investing activities	(237,402)	(333,592)

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

Years ended June 30, 2011 and 2010

(In thousands)

	<u>2011</u>	<u>2010</u>
Cash flows from financing activities:		
Proceeds from long-term debt	\$ 26,750	245,942
Repayment of long-term debt and capital leases	(56,815)	(139,915)
(Repayments) draws on lines of credit, net	(8,700)	35,500
Change in deposit for designated interest rate swaps on hand with swap counterparty	3,514	(3,941)
Payment of debt issuance costs	—	(2,420)
Restricted contributions, investment income and state support	35,581	35,316
	<u>330</u>	<u>170,482</u>
Net cash provided by financing activities		
	(21,031)	31,511
Net (decrease) increase in cash and cash equivalents		
Cash and cash equivalents, beginning of year	<u>238,548</u>	<u>207,037</u>
Cash and cash equivalents, end of year	<u><u>\$ 217,517</u></u>	<u><u>238,548</u></u>
Supplemental disclosures of cash flow information:		
Cash paid during the year for interest	\$ 41,802	37,269
Amount included in accounts payable for construction in progress	17,146	11,981
Supplemental disclosures of noncash information:		
Capital leases	\$ 3,785	11,232
Contributed land	9,400	1,800

See accompanying notes to consolidated financial statements.

**UNIVERSITY OF MARYLAND MEDICAL SYSTEM CORPORATION
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Notes to Consolidated Financial Statements

June 30, 2011 and 2010

(1) Organization and Summary of Significant Accounting Policies

(a) Organization

The University of Maryland Medical System Corporation (the Corporation or UMMS) is engaged in providing comprehensive healthcare services through an integrated network of hospitals and other inpatient and outpatient clinical enterprises. The Corporation operates University Hospital, University of Maryland Marlene and Stewart Greenebaum Cancer Center (Greenebaum Cancer Center), and The R Adams Cowley Shock Trauma Center (Shock Trauma Center), collectively referred to as University of Maryland Medical Center (Medical Center) and is the sole member of The James Lawrence Kernan Hospital, Inc. (Kernan); University Specialty Hospital, Inc. (University Specialty); Maryland General Health Systems, Inc. (Maryland General); Baltimore Washington Medical System, Inc. (Baltimore Washington); Shore Health System, Inc. (Shore Health); Chester River Health System, Inc. (Chester River); University of Maryland Medical System Foundation, Inc. (UMMS Foundation); Shipley's Choice Medical Park, Inc. (Shipley's); and 36 South Paca Street, LLC (36 South Paca); each of which is described below. In addition, the Corporation has a majority interest in UniversityCARE, LLC (UCARE), and accordingly, it is a consolidated subsidiary of the Corporation. The Corporation also maintains equity interests in various unconsolidated joint ventures, which are described in note 4. All material intercompany balances and transactions have been eliminated in consolidation.

University of Maryland Medical Center

The Medical Center is comprised of three operating divisions: University Hospital, Greenebaum Cancer Center and Shock Trauma Center. University Hospital is a tertiary teaching hospital located in Baltimore with 565 licensed beds. The Greenebaum Cancer Center is a 51-bed program which specializes in the treatment of cancer patients. The Shock Trauma Center is a program with 115 licensed beds which provides both treatment to victims of trauma and training in establishing shock trauma systems.

The James Lawrence Kernan Hospital, Inc.

Kernan is comprised of a medical/surgical and rehabilitation hospital in Baltimore with 132 licensed beds, including 98 rehabilitation beds, 24 chronic care beds, 10 medical/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 Kernan. Accordingly, the accompanying consolidated financial statements reflect an economic interest in the net assets of the Kernan Endowment.

University Specialty Hospital, Inc.

University Specialty is a 180-bed facility located in Baltimore providing chronic care.

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Maryland General Health Systems, Inc.

Maryland General is a West Baltimore health system comprised of Maryland General Hospital, a 213-bed acute care hospital; a wholly owned subsidiary providing primary care; and a noncontrolling 25% interest in a managed care organization providing services primarily to Medicaid patients.

A related corporation, Maryland General Community Health Foundation, Inc. (Maryland General Foundation), is required to hold investments and income derived therefrom for the exclusive benefit of Maryland General. As of June 30, 2011, Maryland General Foundation had contributed all of its assets to Maryland General Hospital in support of future capital projects.

Baltimore Washington Medical System, Inc.

Baltimore Washington is a health system comprised of Baltimore Washington Medical Center, a 311-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 Health System, Inc.

Shore Health is a two-hospital health system located on the Eastern Shore of Maryland. Shore Health owns and operates Memorial Hospital, a 145-bed acute care hospital providing inpatient and outpatient services in Easton, Maryland; Dorchester Hospital, a 54-bed acute care hospital providing inpatient and outpatient services in Cambridge, Maryland; Memorial Hospital Foundation (Memorial Foundation), a nonprofit corporation established to solicit donations for the benefit of Memorial Hospital; 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 Health 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.

Chester River Health System, Inc.

Chester River owns and operates Chester River Hospital Center (CRHC), a 53-bed acute care hospital providing inpatient and outpatient services to the residents of Kent and Queen Anne's counties; Chester River Health Foundation (Chester River Foundation), a nonprofit corporation established to solicit donations for the benefit of Chester River; and two other subsidiaries providing outpatient and homecare services.

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University of Maryland Medical System Foundation, Inc.

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

36 South Paca Street, LLC

36 South Paca is a single-member limited liability company that owns and operates a residential apartment building near the Corporation's Baltimore campus.

UniversityCARE, LLC

UCARE, a physician hospital organization was established as a joint venture between the Corporation and University Physicians, Inc. (UPI). The purpose of UCARE is to operate an integrated healthcare services delivery system in a manner that integrates the teaching and research missions of the Corporation, UPI and their affiliates with the delivery of care in a cost efficient manner. The Corporation's ownership percentage and income (loss) sharing percentage is 90% and UPI's percentage is 10%. Accordingly, the assets, liabilities, unrestricted net assets and operations of UCARE are consolidated with the Corporation in the accompanying consolidated financial statements, and UPI's ownership interest is treated as a noncontrolling interest.

Shipley's Choice Medical Park, Inc.

Shipley's, a wholly owned subsidiary, is a 501(c) (2) title-holding corporation, formed for the purpose of managing property investments located in Anne Arundel County. The operations of Shipley's are solely comprised of the management of this property.

(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, 2011 and 2010. 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 statement 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

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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.

(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.

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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 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. Accumulated amortization of such costs amounted to \$7,708,000 and \$6,594,000 as of June 30, 2011 and 2010, respectively. In connection with the refinancing of certain debt in the year ended June 30, 2010, the Corporation recorded a loss on early extinguishment of debt of \$816,000, which consisted of the write-off of deferred financing costs.

(i) *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.

(j) *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.

(k) *Self-Insurance*

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

(l) *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

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

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

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

The 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.

(n) *Charity Care*

The Corporation provides charity care to patients who are unable to pay. Such patients are identified based on information obtained from the patient and subsequent analysis. Because the Corporation does not expect collection of amounts determined to qualify as charity care, they are not reported as revenue. Based on established rates, the Corporation estimates \$83,232,000 and \$68,825,000 of charity care services were provided in the years ended June 30, 2011 and 2010, respectively.

(o) *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, and loss on early extinguishment of debt.

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Notes to Consolidated Financial Statements

June 30, 2011 and 2010

(p) Derivative Financial Instruments

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

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.

All derivative instruments are reported as other assets or other long-term liabilities in the consolidated balance sheet and measured at fair value. 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. 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 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. This process includes linking all derivatives that are designated as fair value or cash flow hedges to specific liabilities on the consolidated balance sheet. 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.

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. 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.

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

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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.

(q) *Excess of Revenue over Expenses*

The consolidated statement 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.

(r) *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. The Corporation paid approximately \$195,000 in income taxes on its unrelated business activities in the year ended June 30, 2010. There were no income taxes paid on unrelated business activities in the year ended June 30, 2011. The Corporation has net operating losses of approximately \$13.5 million as of June 30, 2011, which expire at various dates through 2031. The Corporation's deferred tax assets of approximately \$5.4 million at June 30, 2011 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.

(s) *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 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.

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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).

(t) Fair Value Measurements

In January 2010, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2010-06 (ASU 2010-06), *Improving Disclosures about Fair Value Measurements*. ASU 2010-06 amends Accounting Standards Codification Topic 820, *Fair Value Measurements and Disclosures*, to require a number of additional disclosures regarding fair value measurements and disclosure of the amounts of significant transfers between Level 1 and Level 2 investments and the reasons for such transfers, the reasons for any transfers into or out of Level 3 investments, and disclosure of the policy for determining when transfers among levels are recognized. ASU 2010-06 also clarified that disclosures should be provided for each class of assets and liabilities and clarified the requirement to disclose information about the valuation techniques and inputs used in estimating Level 2 and Level 3 measurements. Effective in fiscal year 2011, ASU 2010-06 also requires that information in the reconciliation of recurring Level 3 measurements about purchases, sales, issuances and settlements be provided on a gross basis. The adoption of ASU 2010-06 only required additional disclosures and did not have an impact on the consolidated financial statements.

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, accounts payable, accrued expenses and advances from third-party payors – The carrying amounts reported in the consolidated balance sheet approximate the related fair values.

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 for the same or similar issues, at June 30, 2011 and 2010, was approximately \$1,018,753,000 and \$1,040,208,000, respectively. The carrying amounts of other long-term debt reported in note 7 and on the consolidated balance sheet approximate the related fair values.

(u) New Accounting Pronouncements

In April 2009, the FASB issued ASU No. 2010-07, *Not-for-Profit Entities: Mergers and Acquisitions (Topic 958)*. This ASU established principles and requirements for how a not-for-profit entity determines whether a combination is a merger or an acquisition and makes other accounting literature fully applicable to not-for-profit entities. This ASU is effective for mergers for which the merger date is on or after the beginning of an initial reporting period beginning on or after December 15, 2009; therefore, effective for the Corporation January 1, 2010. This ASU is effective for acquisitions for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2009; therefore, effective for the Corporation on July 1, 2010. It may not be applied to mergers or acquisitions before those dates. The Corporation adopted the provisions of this guidance as of July 1, 2010. The adoption did not have an impact on

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the Corporation's financial position or results of operations for the year ended June 30, 2011. The Corporation completed the acquisition of Civista Health, Inc. and Subsidiaries on July 1, 2011. The acquisition will be accounted for under the new guidance and accordingly, the acquired entity will be recorded by the Corporation at its fair value as of the date of acquisition. Refer to note 21 Subsequent Events for additional disclosure regarding the transaction.

ASU 2010-07 also amends previous guidance for the reporting of goodwill and other intangibles and noncontrolling interests in consolidated financial statements to make their provisions fully applicable to not-for-profit entities. This guidance establishes that goodwill be tested annually for impairment and an impairment loss be recognized if it is determined that the carrying amount of the reporting unit's net assets exceeds its fair value. Beginning on July 1, 2010, the Corporation applied the transition provisions of the guidance, which requires the Corporation to cease amortization of previously recognized goodwill and to test goodwill for impairment annually or more frequently if events or circumstances indicate that the carrying value of an asset may not be recoverable. The Corporation completed the transitional and annual goodwill impairment test. No adjustments to the carrying value of previously recognized goodwill were recorded during the year ended June 30, 2011.

In August 2010, the FASB issued ASU No. 2010-24, *Health Care Entities (Topic 954): Presentation of Insurance Claims and Related Insurance Recoveries*. The amendments in the ASU clarify that a health care entity may not net insurance recoveries against related claim liabilities. In addition, the amount of the claim liability must be determined without consideration of insurance recoveries. This ASU is effective for the Corporation on July 1, 2011.

In August 2010, the FASB issued ASU No. 2010-23, *Health Care Entities (Topic 954): Measuring Charity Care for Disclosure*. ASU 2010-23 is intended to reduce the diversity in practice regarding the measurement basis used in the disclosure of charity care. ASU 2010-23 requires that cost be used at the measurement basis for charity care disclosure purposes and that cost be identified as the direct and indirect cost of providing the charity care, and requires disclosure of the method used to identify or determine such costs. This ASU is effective for the Corporation on July 1, 2011.

In July 2011, the FASB issued ASU No. 2011-07, *Health Care Entities (Topic 954): Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debt, and the Allowance for Doubtful Accounts*. The ASU requires health care entities that recognize significant amounts of patient service revenue to present the provision for bad debts related to patient service revenue as a deduction from patient service revenue (net of contractual allowances and discounts) on their statement of operations. This ASU is effective for the Corporation on July 1, 2012, with early adoption permitted.

In September 2011, the FASB issued ASU No. 2011-08, *Intangibles – Goodwill and Other (Topic 350)*. This ASU is effective for fiscal years beginning after December 15, 2011, with early adoption permitted. This ASU is effective for the Corporation on July 1, 2012.

The Corporation does not anticipate that the adoption of the aforementioned pronouncements that will become effective in future fiscal years, will have a material impact on its financial position or its results of operations.

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(v) *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.

(2) **Investments and Assets Limited as to Use**

The fair value of assets limited as to use was as follows at June 30 (in thousands):

	<u>2011</u>	<u>2010</u>
Debt service and reserve funds	\$ 76,967	74,160
Construction funds – held by trustee	75,027	123,877
Board designated funds	97,307	86,666
Construction funds – held by the Corporation	105,798	80,212
Self-insurance trust funds	99,663	84,920
Funds restricted by donors	49,016	41,073
Economic and beneficial interests in the net assets of related organizations (note 12)	41,802	38,439
Total assets limited as to use	<u>545,580</u>	<u>529,347</u>
Less amounts available for current liabilities	<u>(40,114)</u>	<u>(39,228)</u>
Total assets limited as to use, less current portion	<u>\$ 505,466</u>	<u>490,119</u>

The composition and fair value of assets limited as to use were as follows at June 30, 2011 (in thousands):

	<u>Debt service and reserve funds</u>	<u>Construction funds</u>	<u>Board designated funds</u>	<u>Self-insurance trust funds</u>	<u>Funds restricted by donors</u>	<u>Economic and beneficial interests</u>	<u>Total</u>
Cash and cash equivalents	\$ 33,491	73,904	9,773	477	7,317	—	124,962
Corporate bonds	—	2,928	2,862	1,117	4,349	—	11,256
Collateralized corporate obligations	—	1,684	1,627	3	287	—	3,601
U.S. government and agency securities	43,476	74,791	2,819	604	499	—	122,189
Common stocks, including mutual funds	—	13,804	39,617	1,036	23,894	—	78,351
Alternative investments	—	13,714	40,609	—	12,670	—	66,993
Assets held by other organizations	—	—	—	96,426	—	41,802	138,228
Total assets limited as to use	<u>\$ 76,967</u>	<u>180,825</u>	<u>97,307</u>	<u>99,663</u>	<u>49,016</u>	<u>41,802</u>	<u>545,580</u>

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The composition and fair value of assets limited as to use were as follows at June 30, 2010 (in thousands):

	<u>Debt service and reserve funds</u>	<u>Construction funds</u>	<u>Board designated funds</u>	<u>Self-insurance trust funds</u>	<u>Funds restricted by donors</u>	<u>Economic and beneficial interests</u>	<u>Total</u>
Cash and cash equivalents	\$ 29,357	42,029	7,328	472	10,000	—	89,186
Corporate bonds	—	5,196	18,118	1,072	8,299	—	32,685
Collateralized corporate obligations	—	2,459	1,840	3	31	—	4,333
U.S. government and agency securities	44,803	127,937	3,038	587	197	—	176,562
Common stocks	—	13,674	26,738	1,006	15,143	—	56,561
Alternative investments	—	12,794	29,604	—	7,403	—	49,801
Assets held by other organizations	—	—	—	81,780	—	38,439	120,219
Total assets limited as to use	<u>\$ 74,160</u>	<u>204,089</u>	<u>86,666</u>	<u>84,920</u>	<u>41,073</u>	<u>38,439</u>	<u>529,347</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 composition and fair value of investments not limited as to use were as follows at June 30 (in thousands):

	<u>2011</u>	<u>2010</u>
Cash and cash equivalents	\$ 37,789	7,705
Corporate bonds	28,547	40,418
Collateralized corporate obligations	16,403	16,130
U.S. government and agency securities	28,421	26,875
Common stocks	147,967	97,569
Alternative investments	147,723	92,411
	<u>\$ 406,850</u>	<u>281,108</u>

Investments at June 30, 2011 include \$150,000,000 of funds for potential future commitments in accordance with the Affiliation Agreement with Upper Chesapeake Health System as discussed in note 4.

Alternative investments include hedge fund, private equity, and commingled fund investments, which are valued using the equity method of accounting.

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Fair value disclosures related to the Corporation's investments and assets limited as to use are provided in note 19.

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):

	<u>2011</u>	<u>2010</u>
Dividends and interest, net of fees	\$ 10,557	13,232
Net realized gains (losses)	30,107	(10,176)
Change in fair value of other-than-trading securities	—	—
Change in fair value of trading securities	<u>40,186</u>	<u>48,879</u>
Total investment gain	<u>\$ 80,850</u>	<u>51,935</u>

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

	<u>2011</u>	<u>2010</u>
Nonoperating investment income	\$ 39,207	136
Other operating revenue	—	2,733
Change in fair value of unrestricted investments	36,364	45,592
Investment gains on restricted net assets	<u>5,279</u>	<u>3,474</u>
Total investment return	<u>\$ 80,850</u>	<u>51,935</u>

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):

	<u>2011</u>	<u>2010</u>
Land	\$ 82,279	72,945
Buildings	972,683	955,181
Building and leasehold improvements	445,868	433,071
Equipment	948,188	916,454
Construction in progress	<u>141,624</u>	<u>84,513</u>
	2,590,642	2,462,164
Less accumulated depreciation and amortization	<u>(1,291,992)</u>	<u>(1,222,050)</u>
	<u>\$ 1,298,650</u>	<u>1,240,114</u>

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Interest cost capitalized was \$2,942,000 and \$1,501,000 (net of interest income of \$200,000 and \$374,000) for the years ended June 30, 2011 and 2010, respectively.

Remaining commitments on construction projects were approximately \$100,927,000 at June 30, 2011.

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 \$128,970,000 and \$117,470,000 for the years ended June 30, 2011 and 2010, respectively.

(4) Investments in Joint Ventures

The Corporation has investments of \$169,220,000 and \$107,851,000 at June 30, 2011 and 2010, respectively, in the following unconsolidated joint ventures:

<u>Joint venture</u>	<u>Business purpose</u>	<u>Percent ownership</u>	
		<u>FY2011</u>	<u>FY2010</u>
Lithogroup, Inc.	Lithotripsy provider	25%	25%
Shibley's Imaging Center, LLC	Freestanding imaging center	50	50
Maryland Care, Inc.	Managed care organization	25	25
Innovative Health Services, LLC	Third-party insurance claims processor	50	50
Helen P. Denit Cancer Treatment Center, LLC	Cancer treatment services	—	50
NAH/Sunrise of Severna Park, LLC	Senior living facility	50	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	49	34
Central Maryland Radiation Oncology Center LLC	Healthcare services	50	50

The Corporation recorded equity in net earnings of \$20,534,000 and \$3,514,000 related to these joint ventures for the years ended June 30, 2011 and 2010, respectively.

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Effective June 26, 2009, the Corporation entered into a Membership Interest Purchase Agreement (Membership Agreement) with Upper Chesapeake Health System, Inc. (UCHS), a healthcare system located in Harford County, Maryland, whereby the Corporation purchased a 20% interest in the Upper Chesapeake Health System/University of Maryland Medical System Venture, LLC (UCHS/UMMS Venture, LLC) for \$31,500,000. On October 1, 2009, the Corporation entered into an Affiliation Agreement with UCHS and the UCHS/UMMS Venture, LLC whereby the Corporation paid an additional \$26,750,000 to UCHS/UMMS Venture, LLC for an additional 14% interest in the UCHS/UMMS Venture, LLC. This payment increased the Corporation's membership interest of the UCHS/UMMS Venture, LLC to 34%. In accordance with the Affiliation Agreement, the Corporation paid an additional \$26,750,000 to UCHS/UMMS Venture, LLC on October 1, 2010. This payment increased the Corporation's membership interest in UCHS/UMMS Venture, LLC to 49%. In accordance with the Affiliation Agreement, the Corporation has designated \$150 million for future capital improvements of UCHS/UMMS Venture, LLC. The Corporation has committed no less than \$176 million to UCHS/UMMS Venture, LLC for future capital improvements over the next several years, which will increase the Corporation's membership interest in the UCHS/UMMS Venture, LLC to 100%.

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):

	2011				
	Mt. Washington	Terrapin	UCHS/UMMS Venture, LLC	Others	Total
Current assets	\$ 24,051	12,398	97,163	106,151	239,763
Noncurrent assets	47,759	117,524	280,831	70,833	516,947
Total assets	\$ 71,810	129,922	377,994	176,984	756,710
Current liabilities	\$ 9,555	3,092	51,643	94,637	158,927
Noncurrent liabilities	8,189	124,880	199,695	2,636	335,400
Net assets	54,066	1,950	126,656	79,711	262,383
Total liabilities and net assets	\$ 71,810	129,922	377,994	176,984	756,710
Total operating revenue	\$ 50,383	25,361	348,101	668,703	1,092,548
Total operating expenses	(46,455)	(34,826)	(340,285)	(644,939)	(1,066,505)
Total nonoperating gains/(losses), net	5,168	9,465	19,327	(9,139)	24,821
Other changes in net assets, net	654		30,920	(3,817)	27,757
Increase in net assets	\$ 9,750	—	58,063	10,808	78,621

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	2010				
	Mt. Washington	Terrapin	UCHS/UMMS Venture, LLC	Others	Total
Current assets	\$ 25,450	22,584	68,282	118,293	234,609
Noncurrent assets	37,752	105,559	259,953	60,613	463,877
Total assets	\$ 63,202	128,143	328,235	178,906	698,486
Current liabilities	\$ 9,636	102	49,865	106,300	165,903
Noncurrent liabilities	9,250	126,091	209,777	3,703	348,821
Net assets	44,316	1,950	68,593	68,903	183,762
Total liabilities and net assets	\$ 63,202	128,143	328,235	178,906	698,486
Total operating revenue	\$ 48,901	24,942	294,636	514,305	882,784
Total operating expenses	(46,582)	(33,643)	(282,268)	(499,356)	(861,849)
Total nonoperating gains/(losses), net	2,244	8,701	(9,574)	1,734	3,105
Other changes in net assets, net	3,068	—	28,609	14,006	45,683
Increase in net assets	\$ 7,631	—	31,403	30,689	69,723

(5) Leases

The Corporation rents various equipment and facility space. Rent expense under these operating leases for the years ended June 30, 2011 and 2010 was approximately \$16,150,000 and \$16,516,000, respectively.

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

2012	\$ 5,677
2013	4,541
2014	4,105
2015	3,626
2016	2,579
Thereafter	10,864
	\$ 31,392

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 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, 2013, whereby the lessor may require the

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Corporation to purchase the building for \$37,000,000. As of June 30, 2011 and 2010, amounts of \$34,949,000 and \$34,680,000, respectively, representing obligations under the lease have been recorded in other current liabilities.

As of June 30, 2011, amounts of \$2,830,000 and \$10,169,000 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):

	2011	2010
Land	\$ 3,770	3,770
Buildings	29,230	29,230
Equipment	18,555	14,771
	51,555	47,771
Less accumulated amortization	(9,813)	(5,621)
	\$ 41,742	42,150

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, 2011 (in thousands):

2012	\$	6,183	
2013		11,458	
2014		4,256	
2015		3,759	
2016		3,505	
Thereafter		39,807	
Total minimum lease payments		68,968	
Less amounts representing interest		(21,020)	
Present value of net minimum lease payments	\$	47,948	

(6) Lines of Credit

The Medical Center had unsecured credit lines totaling \$75,000,000 at June 30, 2011 and \$65,000,000 at June 30, 2010, available for working capital purposes under bank credit agreements, of which \$54,600,000 and \$63,300,000 was outstanding at June 30, 2011 and 2010, respectively. Interest is charged on the outstanding balance based on one-month LIBOR plus a percentage spread (rates ranged from 0.99% – 3.25% at June 30, 2011).

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Maryland General maintained an unsecured line of credit arrangement with a bank of \$5,000,000, of which there was no outstanding balance as of June 30, 2011 or 2010. Interest is charged on the outstanding balance at one-month LIBOR plus 2.20% (2.39% at June 30, 2011).

Baltimore Washington maintained an unsecured line of credit arrangement with a bank of \$5,000,000 at June 30, 2010, of which there was no outstanding balance as of June 30, 2010.

(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>2011</u>	<u>2010</u>
MHHEFA project revenue bonds:				
Corporation issue, payments due annually on July 1:				
Series 2010 Bonds	2.00% – 5.25%	2011 – 2040	\$ 237,210	242,385
Series 2008A-E Bonds	Variable rate	2025 – 2042	280,000	280,000
Series 2008F Bonds	4.00% – 5.25%	2009 – 2024	75,785	81,395
Series 2007A/B Bonds	Variable rate	2008 – 2035	137,320	137,420
Series 2006A Bonds	4.50% – 5.00%	2026 – 2042	45,000	45,000
Series 2005 Bonds	4.00% – 5.50%	2006 – 2032	138,590	141,390
Series 2004B Bonds	3.20% – 5.00%	2005 – 2025	28,165	29,565
Series 2002 Bonds	5.00%	2004 – 2013	2,785	4,085
Series 2001 Bonds	4.25% – 5.00%	2006 – 2012	1,275	2,410
Series 1991B Bonds	7.00%	1992 – 2023	27,315	27,315
Shore Health issue, payments due annually on July 1:				
Series 1998 Bonds	4.15% – 5.25%	2000 – 2020	21,115	22,955
MHHEFA pooled loan program:				
Chester River Issue, payments due semi-annually on July and January 1 Commercial paper series				
	Variable rate	1990 – 2013	630	865
MHHEFA variable rate demand bonds:				
Chester River Issue, payments due semi-annually on July and January 1 MHHEFA D				
	Variable rate	2004 – 2024	2,080	2,395
MHHEFA master lease and sublease	4.40%	2006 – 2013	1,170	1,765

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	Interest rate	Payable in fiscal year(s)	2011	2010
Other long-term debt:				
North Arundel Senior Living, LLC Mortgage	Variable rate	Monthly, 2014	\$ 10,909	11,167
Term loans	Variable rate	2010 – 2013	43,008	26,644
Other loans and notes payable	5.00% – 7.00%	Monthly, 1991 – 2023	4,462	4,990
			1,056,819	1,061,746
Less current portion of long-term debt			24,242	36,442
Less long-term debt subject to short-term remarketing agreements			166,765	70,069
			865,812	955,235
Plus unamortized premiums and discounts, net			3,560	4,008
			\$ 869,372	959,243

Pursuant to a Master Loan Agreement dated June 20, 1991 (Master Loan Agreement), as amended, 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 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 Master Loan Agreement includes the Medical Center, University Specialty, Kernan Hospital, Maryland General Hospital, Baltimore Washington Medical Center, and Shore Health. Each member of the Obligated Group is jointly and severally liable for the repayment of the obligations under the Master Loan Agreement. In January 2010, Chester River Health System and the UMMS Foundation were added to the Obligated Group.

Under the terms of the 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 January 2010, the Corporation refunded \$95,905,000 of the Series 2008G, 2008H, and Shore Health issue Series 2004A bonds. The refunding was completed using the proceeds of a new \$242,385,000 fixed-rate MHHEFA bond issue (the Series 2010 Bonds). The unamortized portion of issuance costs on the refunded debt of \$816,000 was expensed as a loss on early extinguishment of debt during the year ended June 30, 2010.

The payment of principal and interest on the Series 2005 Bonds and the Series 2004B Bonds is insured under a financial guaranty insurance policy. This policy insures the payment of principal, sinking fund

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installments and interest on the corresponding bonds. Premiums related to the policy as well as other costs incurred relating to the bond issuances were capitalized and are being amortized over the life of the bonds. The insurance policy requires the Obligated Group to adhere to the same covenants as those in the 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):

2012	\$	24,242
2013		52,987
2014		42,646
2015		23,262
2016		24,356
Thereafter		889,326
	\$	1,056,819

The Corporation's Series 2007A/B and 2008A-E, and Chester River's MHHEFA Series D and Pooled Loan issuances, 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 six banking institutions. These agreements have terms that expire in 2012 through 2014. 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 lines 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, 2011.

The following table reflects the 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:

2012	\$	191,007
2013		253,097
2014		95,701
2015		23,262
2016		24,356
Thereafter		469,396
	\$	1,056,819

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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>2011</u>	<u>2010</u>
Series 2008A Bonds	0.20%	0.50%
Series 2008B Bonds	0.07	0.22
Series 2008C Bonds	0.09	0.26
Series 2008D Bonds	0.04	0.17
Series 2008E Bonds	0.08	0.29
Series 2007A Bonds	0.07	0.26
Series 2007B Bonds	0.07	0.28
Pooled Loan Program Series A and D, Chester River Issue	0.08	0.30

Chester River's MHHEFA Series D and Pooled Loan notes are secured by CRHS's buildings and equipment, as well as an irrevocable letter of credit, which expires in April 2012. Under the terms of the related loan and letter of credit agreements, Chester River is required to comply with certain restrictive covenants including maintenance of debt to equity and other financial tests.

In May 2006, CRHC entered into a Master Lease and Sublease Agreement (the CRHC Agreement) with MHHEFA and a financial institution to provide financing for CRHC to lease certain equipment essential or convenient for the operation of CRHC. The CRHC Agreement expires in May 2013. During the term of the CRHC Agreement, MHHEFA has legal title to the equipment, including any software license components. At the end of the CRHC Agreement, CRHC has the option to purchase the equipment for a notional amount of \$1.

The Medical Center had term loans outstanding totaling \$38,827,000 and \$22,238,000 at June 30, 2011 and 2010, respectively. One loan (\$11,600,000) is due in December 2011 and is charged interest at a rate of one-month LIBOR plus 0.29% (0.48% at June 30, 2011). The second loan (\$26,750,000) is scheduled to be repaid commencing in January 2013 with 11 equal monthly installments, beginning February 2012, of \$223,000 and a final installment for the remaining balance. This loan is charged interest monthly at one-month LIBOR plus 2.75% (2.9355% at June 30, 2011). The third loan (\$477,000) was repaid in August 2011. Baltimore Washington had a term loan outstanding of \$4,181,000 and \$4,406,000 at June 30, 2011 and 2010, respectively, upon which interest is charged at a rate of one-month LIBOR plus 1.75% (2.19% at June 30, 2011).

(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, 2011 and 2010, the notional values of outstanding interest rate swaps were \$609,669,000 and \$609,869,000, respectively. The interest rate swap agreements provide the Corporation synthetically fixed interest rates ranging from 3.6% – 4.0% with termination dates in 2031 through 2041.

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Certain swaps representing a total notional amount of \$137,320,000 qualify as, and are designated as, cash flow hedges. Changes in the fair value of these designated swaps that effectively offset the variability of cash flows associated with the variable rate debt obligation initially are excluded from the excess of revenue over expenses and are reported as a change in the fair value of interest rate swap agreements included in the consolidated statement of changes in net assets. These amounts subsequently are reclassified into interest expense as a yield adjustment of the hedged debt obligation in the same period in which the related interest affects the excess of revenues over expenses. An unrealized gain (loss) on the designated swaps of \$2,298,000 and \$(7,410,000) is recorded in other changes in unrestricted net assets for the years ended June 30, 2011 and 2010, respectively. For the years ended June 30, 2011 and 2010, the Corporation recognized a net gain of \$2,237,000 and \$461,000, respectively, representing hedge ineffectiveness on the designated swaps, which is included in interest expense. The accumulated loss on changes in the fair value of designated swaps that is included in unrestricted net assets was \$23,181,000 and \$25,479,000 at June 30, 2011 and 2010.

Beginning in March 2008, previously designated cash flow hedging relationships were de-designated for accounting purposes. Accordingly, all changes in the fair value of the de-designated swaps since that date have been recognized in nonoperating gains (losses) in the accompanying consolidated statements of operations. The de-designated swaps represent a total notional amount of \$380,000,000 as of June 30, 2011 and 2010. The Corporation recorded a net nonoperating gain (loss) on de-designated interest rate swaps of \$18,640,000 and \$(33,700,000) for the years ended June 30, 2011 and 2010, respectively.

The Corporation has a forward-starting swap agreement representing a total notional amount of \$92,348,500 that takes effect on July 1, 2012. The forward-starting swap agreement provides the Corporation with a synthetically fixed interest rate of 3.6%.

The Corporation recognizes the fair value of interest rate swaps as a component of assets or liabilities, as appropriate. At June 30, 2011 and 2010, a liability representing the fair value of the Corporation's interest rate swaps, including forward-starting swaps, amounts to \$105,400,000 and \$128,575,000, respectively.

The Corporation is subject to a collateral posting requirement with one 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 \$41,276,000 and \$56,242,000 at June 30, 2011 and 2010, respectively, and is included as a component of other current assets on the Corporation's consolidated balance sheets.

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(9) Other Liabilities

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

	2011	2010
Malpractice and other self-insurance liabilities	\$ 51,104	53,228
Capital lease obligations	47,948	46,557
Accrued pension obligations	26,267	43,062
Accrued interest payable	14,580	14,793
Other	35,602	32,112
Total other liabilities	175,501	189,752
Less current portion	(87,643)	(83,958)
Other long-term liabilities	\$ 87,858	105,794

(10) Retirement Plans

Employees of the Corporation are included in various retirement plans established by the Corporation, the Medical Center, Kernan, University Specialty, Maryland General, Baltimore Washington, Shore Health, Chester River, and the State of Maryland. 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, if applicable. Following is a brief description of each of the retirement plans in which employees of the Corporation participate.

(a) Defined Benefit Plans

State of Maryland Retirement Plans – Defined benefit pension plans sponsored by the State of Maryland in which certain Medical Center and Kernan Hospital employees participate. As required by an agreement with the State of Maryland at the time the Medical Center became an independent not-for-profit organization, the Corporation makes annual contributions to these plans related to certain employees who participate in these plans. The total required contributions and annual installments were determined through actuarial analysis in 1984 and are being funded over a period of 32 years, the expected remaining service lives of the employees at that time. These contributions are for the purpose of funding the net periodic pension costs for all remaining employees participating in these plans. These contributions were fixed via agreement and the Corporation does not have any obligation to fund nor does it have the ability to reduce contributions if net periodic pension costs or the minimum funding requirements as defined by the Employee Retirement Income Security Act of 1974 (ERISA) differ from the fixed contribution. The Corporation expenses costs of this plan as related services are rendered by employees. At June 30, 2011 and 2010, the present value of the Corporation's remaining unfunded amounts under this agreement was \$5,151,000 and \$6,082,000, respectively. Information as to the funded status of these plans and their relationship to the accumulated benefit obligations as they relate specifically to the Corporation's employees is not available.

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Maryland General Retirement Plan for Non – Union Employees – A noncontributory defined benefit plan covering substantially all nonunion employees. The benefits are based on years of service and compensation. Contributions to this plan are made to satisfy the minimum funding requirements of ERISA. In 2006, Maryland General froze the defined benefit pension plan.

Baltimore Washington Medical Center Pension 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.

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 sheet. 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 (excluding the State of Maryland Retirement Plan) at June 30 (in thousands):

	<u>2011</u>	<u>2010</u>
Change in projected benefit obligations:		
Benefit obligations at beginning of year	\$ 125,518	110,855
Plan amendment	—	—
Settlements	(1,373)	—
Service cost	2,649	2,176
Interest cost	6,213	6,433
Actuarial loss	(2,851)	10,351
Benefit payments	(4,821)	(4,297)
Projected benefit obligations at end of year	<u>\$ 125,335</u>	<u>125,518</u>
Change in plan assets:		
Fair value of plan assets at beginning of year	\$ 82,456	70,337
Actual return on plan assets	14,169	8,580
Settlements	(1,373)	—
Employer contributions	8,637	7,836
Benefit payments	(4,821)	(4,297)
Fair value of plan assets at end of year	<u>\$ 99,068</u>	<u>82,456</u>
Accumulated benefit obligation at end of year	\$ 120,226	120,027

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

	<u>2011</u>	<u>2010</u>
Funded status, end of period:		
Fair value of plan assets	\$ 99,068	82,456
Projected benefit obligations	<u>125,335</u>	<u>125,518</u>
	<u>\$ (26,267)</u>	<u>(43,062)</u>
Amounts recognized in unrestricted net assets at June 30:		
Net actuarial loss	\$ (45,595)	(61,832)
Prior service cost	<u>(534)</u>	<u>(619)</u>
	<u>\$ (46,129)</u>	<u>(62,451)</u>

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The estimated amounts that will be amortized from unrestricted net assets into net periodic pension cost in fiscal 2012 are as follows:

Net actuarial loss	\$	(3,490)
Prior service cost		(87)
		<u> </u>
	\$	<u><u>(3,577)</u></u>

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

		<u>2011</u>	<u>2010</u>
Service cost	\$	2,649	2,176
Interest cost		6,213	6,433
Expected return on plan assets		(6,661)	(6,242)
Prior service cost recognized		85	85
Recognized gains or losses		5,878	3,158
		<u> </u>	<u> </u>
Net periodic pension cost	\$	<u><u>8,164</u></u>	<u><u>5,610</u></u>

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

		<u>2011</u>	<u>2010</u>
Discount rate		5.25%	5.00%
Rate of compensation increase (for nonfrozen plan)		5.00	5.00

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>2011</u>	<u>2010</u>
Discount rate		5.00%	6.00%
Expected long-term return on plan assets		7.75	7.75% – 8.00%
Rate of compensation increase (for nonfrozen plan)		5.00	5.00%

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 considered the current level of expected returns on risk-free investments, the historical level of the risk premium

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associated with the other asset classes in which the portfolio is invested, and the expectations for future returns of each asset class. The expected return for each asset class was then weighted based on the target allocation to develop the expected long-term rate of return on assets assumption for the portfolio.

The Corporation's pension plans' target allocation and weighted average asset allocations at the measurement date of June 30, 2011 and 2010, by asset category, are as follows:

<u>Asset category</u>	<u>Target allocation</u>	<u>Percentage of plan assets as of</u>	
		<u>June 30</u>	
		<u>2011</u>	<u>2010</u>
Cash and cash equivalents	0 – 10%	7%	22%
Fixed income securities	25 – 45%	27	14
Equity securities	30 – 50%	39	46
Global asset allocation	10 – 20%	17	—
Hedge funds	5 – 15%	10	18
		<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. At both June 30, 2011 and 2010, the Corporation was in the process of implementing changes to its investment classification, which required the liquidation of certain assets, resulting in more cash on hand than targeted. This cash was used to purchase additional securities in subsequent periods in order to restore compliance with the target allocation.

The table below presents the Corporation's combined investable assets of the defined benefit pension plans, excluding the State of Maryland Retirement Plan, as of June 30, 2011 aggregated by the three level valuation hierarchy as described in note 19:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Cash and cash equivalents	\$ 7,138	—	—	7,138
Fixed income mutual funds	22,536	—	—	22,536
Common and preferred stocks	6,549	—	—	6,549
Equity mutual funds	26,501	—	—	26,501
Other mutual funds	9,858	—	—	9,858
Alternative investments	—	16,594	9,892	26,486
	<u>\$ 72,582</u>	<u>16,594</u>	<u>9,892</u>	<u>99,068</u>

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The table below presents the Corporation's combined investable assets of the defined benefit pension plans, excluding the State of Maryland Retirement Plan, as of June 30, 2010, aggregated by the three level valuation hierarchy as described in note 19:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Cash and cash equivalents	\$ 23,700	—	—	23,700
Fixed income mutual funds	4,477	—	—	4,477
Common and preferred stocks	33,253	—	—	33,253
Equity mutual funds	5,548	—	1,138	6,686
Other mutual funds	—	—	—	—
Alternative investments	—	—	14,340	14,340
	<u>\$ 66,978</u>	<u>—</u>	<u>15,478</u>	<u>82,456</u>

Changes to Level 1 and Level 2 inputs between June 30, 2010 and June 30, 2011 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:

	<u>Equity mutual funds</u>	<u>Hedge funds</u>	<u>Total</u>
Balance as of June 30, 2010	\$ 1,138	14,340	15,478
Additions/purchases	—	8,160	8,160
Withdrawals/sales	(1,372)	(11,691)	(13,063)
Net change in value	<u>234</u>	<u>(917)</u>	<u>(683)</u>
Balance as of June 30, 2011	<u>\$ —</u>	<u>9,892</u>	<u>9,892</u>

The following summarizes the redemption terms for the hedge fund-of-funds vehicles alternative investments held as of June 30, 2011:

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

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The Corporation expects to contribute \$10,303,000 to its defined benefit pension plans for the fiscal year ending June 30, 2012.

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):

2012	\$	3,962
2013		5,401
2014		5,994
2015		6,357
2016		6,641
2017 – 2019		47,698

The expected benefits to be paid are based on the same assumptions used to measure the Corporation's benefit obligation at June 30, 2011.

(b) *Defined Contribution Plans*

Corporation Pension Plan – A noncontributory defined contribution plan for all eligible Corporation employees not participating in the State of Maryland Retirement Plans, the Kernan Plan, the University Specialty Retirement Plan or the Maryland General 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 State of Maryland Retirement Plans, the Kernan Plan, the University Specialty Retirement Plan or the Maryland General 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 Kernan employees hired prior to a certain date in 1996. Employee contributions to this plan are eligible for a matching contribution by Kernan after participating employees have completed two years of credited service.

University Specialty Retirement Plan – A defined contribution plan for substantially all full-time employees of University Specialty. Employer contributions are made at the discretion of University Specialty's board of directors. Employees may also make optional contributions within limits specified by the plan agreement.

Maryland General Hospital, Inc. 401(k) Profit Sharing Plan for Union Employees – Defined contribution plan for substantially all union employees of Maryland General. 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.

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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.

Total annual retirement costs incurred by the Corporation for the previously discussed defined contribution plans and the State of Maryland Retirement Plans were \$22,794,000 and \$22,051,000 for the years ended June 30, 2011 and 2010, 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):

	2011	2010
Facility construction and renovations, research, education, and other	\$ 33,854	17,745
Economic and beneficial interests in the net assets of related organizations	41,802	38,439
	\$ 75,656	56,184

Net assets were released from donor restrictions during the years ended June 30, 2011 and 2010 by expending funds satisfying the restricted purposes or by occurrence of other events specified by donors as follows (in thousands):

	2011	2010
Purchases of equipment and construction costs	\$ 23,964	32,612
Research, education, uncompensated care, and other	3,639	5,890
	\$ 27,603	38,502

Included in net assets released from donor restrictions during the year ended June 30, 2011 for research, professional education, faculty support, uncompensated care and other is \$3,416,000 related to nonoperating activities of the Foundation.

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.

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

Endowment net assets are as follows (in thousands):

	June 30, 2011			Total
	Unrestricted	Temporarily restricted	Permanently restricted	
Donor-restricted endowment funds	\$ —	7,596	32,543	40,139

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	June 30, 2010			
	Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor-restricted endowment funds	\$ —	4,930	31,247	36,177

(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.

(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.

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

	2011	2010
Economic interests in:		
The James Lawrence Kernan Hospital Endowment Fund, Incorporated	\$ 33,354	27,522
Baltimore Washington Medical Center Foundation, Inc.	5,896	5,895
Maryland General Community Health Foundation, Inc.	—	2,672
Total economic interests	39,250	36,089
Beneficial interest in the net assets of Dorchester General Hospital Foundation, Inc.	2,552	2,350
	\$ 41,802	38,439

At the discretion of its board of trustees, the Kernan Endowment Fund may pledge securities to satisfy various collateral requirements on behalf of Kernan and may provide funding to Kernan 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.

The Maryland General Foundation contributed the remainder of its assets, approximately \$2,590,000 and \$18,000,000 of funds during the years ended June 30, 2011 and 2010, respectively, to support future Emergency Department capital projects at Maryland General, which is included in contributions and change in economic and beneficial interest in net assets of related organizations in the accompanying consolidated statement of changes in net assets. The contribution made during the year ended June 30, 2011 constituted all of Maryland General Foundation's remaining assets.

Shore Health maintains a beneficial interest in the net assets of Dorchester Foundation, a nonprofit corporation organized to raise funds on behalf of Dorchester Hospital. Shore Health 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):

	2011	2010
Current assets	\$ 3,753	3,017
Noncurrent assets	39,061	37,047
Total assets	\$ 42,814	40,064
Current liabilities	\$ 374	419
Noncurrent liabilities	638	1,206
Net assets	41,802	38,439
Total liabilities and net assets	\$ 42,814	40,064
Total operating revenue	\$ 7,125	286
Total operating expense	(3,066)	(220)
Other changes in net assets	(696)	(14,967)
Total increase (decrease) in net assets	\$ 3,363	(14,901)

(13) State Support

The Corporation received \$3,200,000 in support for the Shock Trauma Center operations from the State of Maryland in each of the years ended June 30, 2011 and 2010.

The State of Maryland appropriates funds for specific construction costs incurred and equipment purchases made. The Corporation recognizes this support as the funds are expended for the intended projects. The Corporation expended and recorded \$20,815,000 and \$7,215,000 during the years ended June 30, 2011 and 2010, respectively.

For the year ended June 30, 2011 and 2010, the Corporation received \$750,000 of capital support from the State of Maryland for Kernan.

(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):

	2011	2010
Healthcare services	\$ 1,915,587	1,839,257
General and administrative	328,336	297,266
	\$ 2,243,923	2,136,523

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(15) Insurance

The Corporation and 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 \$75 million individually and \$75 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 University Physicians, Inc.

Based upon estimates made by independent actuaries, 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, risk management expenses and the projected costs to adjudicate claims. These accrued malpractice losses are discounted using a discount rate of 2.5% and, in management's opinion, provide an adequate and appropriate loss reserve.

Claims asserted based upon occurrences prior to the inception of the current insurance programs and those prior to certain of the Corporation's component hospitals becoming participants in the insurance programs are covered by other insurance arrangements.

Total malpractice insurance expense for the Corporation during the years ended June 30, 2011 and 2010 was approximately \$32,581,000 and \$30,107,000, respectively.

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

The Corporation, and substantially all of its subsidiaries, are self-insured for workers' compensation and employee health claims.

(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 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).

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

	<u>2011</u>	<u>2010</u>
Medicare	20%	20%
Medicaid	33	37
Commercial insurance and HMOs	16	16
Blue Cross	12	12
Self-pay and others	19	15
	<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>2011</u>	<u>2010</u>
Medicare	33%	34%
Medicaid	26	24
Commercial insurance and HMOs	16	17
Blue Cross	14	15
Self-pay and others	11	10
	<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
- 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.

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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.

As a result of recently enacted and pending federal healthcare reform legislation, substantial changes are anticipated in the U.S. healthcare system. Such legislation includes numerous provisions affecting the delivery of healthcare services, the financing of healthcare costs, reimbursement to healthcare providers and the legal obligations of health insurers, providers and employers. These provisions are currently slated to take effect at specified times over the next decade. This federal healthcare reform legislation does not affect the consolidated financial statements for the year ended June 30, 2011.

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

Patient service revenue for hospital services is regulated by the HSCRC and recorded at rates established by the HSCRC. The Medical Center, Kernan, Maryland General, and Baltimore Washington have Charge Per Case (CPC) agreements with the HSCRC. The CPC agreements establish a prospectively approved average charge per inpatient case (inpatient cases are defined as hospital admissions plus births) and an estimated case mix index. These approved CPC targets are adjusted during the rate year for actual changes in case mix. The CPC agreements allow the hospital to adjust approved unit rates, within certain limits, to achieve the average charge per case targets for each rate year ending June 30. In 2011, the HSCRC implemented a charge per visit (CPV) methodology for hospital based outpatient services, which is similar in nature to the CPC inpatient methodology discussed above. The CPV methodology establishes prospectively approved average charges per outpatient visit for the majority of outpatient services provided. The remaining outpatient services are charged using the established HSCRC unit rates.

Shore Health and Chester River have 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.

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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, 2011 and 2010, the Corporation recognized a net distribution from the pool of \$47,558,000 and \$47,642,000, respectively, which is recorded as net patient service revenue.

(19) Fair Value of Financial Instruments

The Corporation has implemented the provisions of recent accounting guidance on fair value measurements of financial assets and financial liabilities and for fair value measurements of nonfinancial items that are recognized or disclosed at fair value in the consolidated financial statements on a recurring basis. This guidance established a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted market prices in active markets for identical assets or liabilities (Level 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 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, 2011 and 2010, the Level 2 assets and liabilities listed in the fair value hierarchy tables below utilize the following valuation techniques and inputs:

(a) 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.

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(b) *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.

(c) *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.

(d) *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.

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The following table presents assets and liabilities that are measured at fair value on a recurring basis at June 30, 2011 (in thousands):

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Assets:				
Investments:				
Cash and cash equivalents	\$ 37,789	—	—	37,789
Corporate bonds	10,604	17,943	—	28,547
Collateralized corporate obligations	—	16,403	—	16,403
U.S. government and agency securities	10,568	17,853	—	28,421
Common and preferred stocks, including mutual funds	147,483	484	—	147,967
	<u>206,444</u>	<u>52,683</u>	<u>—</u>	<u>259,127</u>
Assets limited as to use:				
Cash and cash equivalents	88,869	36,093	—	124,962
Corporate bonds	7,162	4,094	—	11,256
Collateralized corporate obligations	—	3,601	—	3,601
U.S. government and agency securities	2,668	119,521	—	122,189
Common and preferred stocks, including mutual funds	77,209	1,142	—	78,351
Investments held by other organizations	—	96,426	—	96,426
	<u>175,908</u>	<u>260,877</u>	<u>—</u>	<u>436,785</u>
	<u>\$ 382,352</u>	<u>313,560</u>	<u>—</u>	<u>695,912</u>
Liabilities:				
Interest rate swap liabilities	<u>\$ —</u>	<u>105,400</u>	<u>—</u>	<u>105,400</u>

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June 30, 2011 and 2010

The following table presents assets and liabilities that are measured at fair value on a recurring basis at June 30, 2010 (in thousands):

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Assets:				
Investments:				
Cash and cash equivalents	\$ 7,705	—	—	7,705
Corporate bonds	16,260	24,158	—	40,418
Collateralized corporate obligations	—	16,130	—	16,130
U.S. government and agency securities	13,924	12,951	—	26,875
Common and preferred stocks, including mutual funds	97,569	—	—	97,569
	<u>135,458</u>	<u>53,239</u>	<u>—</u>	<u>188,697</u>
Assets limited as to use:				
Cash and cash equivalents	89,186	—	—	89,186
Corporate bonds	13,691	18,994	—	32,685
Collateralized corporate obligations	—	4,332	—	4,332
U.S. government and agency securities	91,510	85,052	—	176,562
Common and preferred stocks, including mutual funds	55,555	1,007	—	56,562
Investments held by other organizations	—	81,780	—	81,780
	<u>249,942</u>	<u>191,165</u>	<u>—</u>	<u>441,107</u>
	<u>\$ 385,400</u>	<u>244,404</u>	<u>—</u>	<u>629,804</u>
Liabilities:				
Interest rate swap liabilities	\$ —	128,575	—	128,575

Changes to Level 1 and Level 2 inputs between June 30, 2010 and June 30, 2011 were the result of strategic investments and reinvestments, interest income earnings, and changes in the fair value of investments.

(20) Related Party Agreements

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

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June 30, 2011 and 2010

patients. Total expense under these agreements in the years ended June 30, 2011 and 2010 was approximately \$97,160,000 and \$98,144,000, respectively.

(21) Subsequent Events

The corporation evaluated all events and transactions that occurred after June 30, 2011 and through October 27, 2011. Other than described below, the Corporation did not have any material recognizable subsequent events during the period.

Effective July 1, 2011, the Corporation entered into an affiliation agreement with Civista Health, Inc. and Subsidiaries (Civista), a healthcare system located in Southern Maryland, whereby the Corporation became the sole corporate member of Civista. The Civista Medical Center, the largest component of Civista, has been operated by the Corporation under a management agreement that began in 2009. In accordance with the affiliation agreement, the Corporation paid Civista \$4 million on July 1, 2011 to fund the purchase of the land on which Civista Medical Center is located. The Corporation has also transferred \$2.5 million to Civista to support operational and capital initiatives, and has committed an additional \$10 million for similar investments over the next five years.

The transaction will be accounted for under the guidance of ASU 2010-07, and accordingly, the Corporation will consolidate Civista at its fair value as of July 1, 2011. Such amounts are currently being determined. The Corporation does not expect the fair value adjustment recorded during the year ended June 30, 2012 to have a material impact on the Corporation's consolidated financial statements.

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Notes to Consolidated Financial Statements

June 30, 2011 and 2010

Summarized pro forma unaudited historical cost basis combined balance sheet and statement of operations information for the Corporation, its subsidiaries and Civista for the year ended June 30, 2011 is as follows (in thousands):

Operating revenues:		
UMMS	\$	2,344,204
Civista		<u>108,613</u>
Combined	\$	<u><u>2,452,817</u></u>
Operating expenses:		
UMMS	\$	2,243,923
Civista		<u>106,423</u>
Combined	\$	<u><u>2,350,346</u></u>
Net nonoperating revenues:		
UMMS	\$	102,853
Civista		<u>1,672</u>
Combined	\$	<u><u>104,525</u></u>
Change in total net assets:		
UMMS	\$	268,654
Civista		<u>6,256</u>
Combined	\$	<u><u>274,910</u></u>
Total net assets:		
UMMS	\$	1,251,034
Civista		<u>24,362</u>
Combined	\$	<u><u>1,275,396</u></u>

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Consolidating Balance Sheet Information by Division

June 30, 2011

(In thousands)

Assets	University of Maryland Medical Center	University CARE	Kernan	University Specialty	Maryland General	Baltimore Washington	Shore Health	Chester River	UMMS Foundation	Shipley's	36 South Paca	Eliminations	Consolidated Total
Current assets:													
Cash and cash equivalents	\$ 140,420	157	14,416	2,947	14,664	25,382	14,466	4,356	—	144	565	—	217,517
Assets limited as to use, current portion	37,469	—	—	—	986	833	471	355	—	—	—	—	40,114
Accounts receivable:													
Patient accounts receivable, less allowance													
for doubtful accounts of \$161,124	152,030	163	12,026	5,606	13,523	39,571	30,081	9,421	—	—	—	—	262,421
Other	36,716	132	951	323	677	1,234	3,469	22	(2,672)	3,469	85	(19,827)	24,579
Inventories	18,119	39	990	616	2,043	6,014	3,774	586	—	—	—	—	32,181
Prepaid expenses and other current assets	39,391	11	105	24	300	8,954	1,150	682	1,500	—	—	(246)	51,871
Total current assets	<u>424,145</u>	<u>502</u>	<u>28,488</u>	<u>9,516</u>	<u>32,193</u>	<u>81,988</u>	<u>53,411</u>	<u>15,422</u>	<u>(1,172)</u>	<u>3,613</u>	<u>650</u>	<u>(20,073)</u>	<u>628,683</u>
Investments	304,671	—	13,154	5,303	—	48,420	30,162	5,140	—	—	—	—	406,850
Assets limited as to use, less current portion:													
Debt service funds	41,770	—	—	—	—	—	—	—	—	—	—	—	41,770
Construction funds	146,001	—	1,997	—	9,867	19,874	3,086	—	—	—	—	—	180,825
Board designated and escrow funds	—	—	—	—	—	—	60,096	5,000	32,211	—	—	—	97,307
Self-insurance trust funds	39,485	—	—	—	25,326	16,495	11,916	1,524	—	—	—	—	94,746
Funds restricted by donor	—	—	—	—	3,545	—	22,231	1,704	21,536	—	—	—	49,016
Economic and beneficial interests in the net assets of related organizations	<u>56,843</u>	<u>—</u>	<u>34,982</u>	<u>407</u>	<u>735</u>	<u>5,896</u>	<u>2,552</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(59,613)</u>	<u>41,802</u>
	284,099	—	36,979	407	39,473	42,265	99,881	8,228	53,747	—	—	(59,613)	505,466
Property and equipment, net	717,512	—	36,592	20,025	93,667	269,170	119,120	24,493	1,807	6,336	9,928	—	1,298,650
Deferred financing costs, net	7,547	—	—	—	—	—	—	—	—	—	—	—	7,547
Investments in joint ventures and other assets	201,466	—	—	—	15,720	7,895	1,193	2,501	5,315	—	3,277	(58,222)	179,145
Total assets	<u>\$ 1,939,440</u>	<u>502</u>	<u>115,213</u>	<u>35,251</u>	<u>181,053</u>	<u>449,738</u>	<u>303,767</u>	<u>55,784</u>	<u>59,697</u>	<u>9,949</u>	<u>13,855</u>	<u>(137,908)</u>	<u>3,026,341</u>

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Consolidating Balance Sheet Information by Division

June 30, 2011

(In thousands)

Liabilities and Net Assets	University of Maryland Medical Center	University CARE	Kernan	University Specialty	Maryland General	Baltimore Washington	Shore Health	Chester River	UMMS Foundation	Shipley's	36 South Paca	Eliminations	Consolidated Total
Current liabilities:													
Trade accounts payable	\$ 103,712	806	5,763	3,347	9,732	23,073	5,772	2,339	84	57	310	—	154,995
Accrued payroll and benefits	71,642	77	4,243	2,909	12,252	20,497	14,142	2,886	—	—	—	(228)	128,420
Advances from third-party payors	66,844	—	3,596	4,697	6,468	8,112	5,287	1,008	—	—	—	—	96,012
Lines of credit	54,600	—	—	—	—	—	—	—	—	—	—	—	54,600
Other current liabilities	79,192	148	1,600	11,653	4,670	2,297	3,971	1,616	—	—	2,207	(19,711)	87,643
Long-term debt subject to short-term remarketing arrangements	164,055	—	—	—	—	—	—	2,710	—	—	—	—	166,765
Current portion of long-term debt	15,051	—	270	300	1,036	4,619	1,883	1,216	—	—	—	(133)	24,242
Total current liabilities	555,096	1,031	15,472	22,906	34,158	58,598	31,055	11,775	84	57	2,517	(20,072)	712,677
Long-term debt, less current portion	517,591	—	12,319	6,956	41,524	202,112	85,845	3,025	—	—	—	—	869,372
Other long-term liabilities	32,272	—	441	186	24,594	15,370	6,980	8,015	—	—	—	—	87,858
Interest rate swap liabilities	105,400	—	—	—	—	—	—	—	—	—	—	—	105,400
Total liabilities	1,210,359	1,031	28,232	30,048	100,276	276,080	123,880	22,815	84	57	2,517	(20,072)	1,775,307
Net assets:													
Unrestricted	657,739	(529)	51,866	4,796	76,497	167,762	155,506	31,266	34,925	9,892	11,338	(58,223)	1,142,835
Temporarily restricted	70,929	—	35,115	407	4,280	5,896	12,197	323	6,122	—	—	(59,613)	75,656
Permanently restricted	413	—	—	—	—	—	12,184	1,380	18,566	—	—	—	32,543
Total net assets	729,081	(529)	86,981	5,203	80,777	173,658	179,887	32,969	59,613	9,892	11,338	(117,836)	1,251,034
Total liabilities and net assets	\$ 1,939,440	502	115,213	35,251	181,053	449,738	303,767	55,784	59,697	9,949	13,855	(137,908)	3,026,341

See accompanying independent auditors' report.

**UNIVERSITY OF MARYLAND MEDICAL SYSTEM CORPORATION
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Consolidating Balance Sheet Information by Division – Maryland General Health Systems (MGHS)

June 30, 2011

(In thousands)

Assets	Maryland General Health Systems, Inc.	Maryland General Hospital	Maryland General Clin. Prac. Group	Eliminations	MGHS Consolidated Total
Current assets:					
Cash and cash equivalents	\$ 51	14,551	62	—	14,664
Assets limited as to use, current portion	—	986	—	—	986
Accounts receivable:					
Patient accounts receivable, less allowance for doubtful accounts of \$12,908	—	12,804	719	—	13,523
Other	48	1,403	(774)	—	677
Inventories	—	2,043	—	—	2,043
Prepaid expenses and other current assets	—	300	—	—	300
Total current assets	<u>99</u>	<u>32,087</u>	<u>7</u>	<u>—</u>	<u>32,193</u>
Investments	—	—	—	—	—
Assets limited as to use, less current portion:					
Debt service funds	—	—	—	—	—
Construction funds	—	9,867	—	—	9,867
Board designated and escrow funds	—	—	—	—	—
Self-insurance trust funds	—	25,326	—	—	25,326
Funds restricted by donor	—	3,545	—	—	3,545
Economic interests in the net assets of related organizations	—	735	—	—	735
	<u>—</u>	<u>39,473</u>	<u>—</u>	<u>—</u>	<u>39,473</u>
Property and equipment, net	2,175	91,492	—	—	93,667
Deferred financing costs, net	—	—	—	—	—
Investments in joint ventures and other assets	15,571	149	—	—	15,720
Total assets	<u>\$ 17,845</u>	<u>163,201</u>	<u>7</u>	<u>—</u>	<u>181,053</u>

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Consolidating Balance Sheet Information by Division – Maryland General Health Systems (MGHS)

June 30, 2011

(In thousands)

Liabilities and Net Assets	Maryland General Health Systems, Inc.	Maryland General Hospital	Maryland General Clin. Prac. Group	Eliminations	MGHS Consolidated Total
Current liabilities:					
Trade accounts payable	\$ 12	9,720	—	—	9,732
Accrued payroll and benefits	—	12,252	—	—	12,252
Advances from third-party payors	—	6,468	—	—	6,468
Lines of credit	—	—	—	—	—
Other current liabilities	—	4,670	—	—	4,670
Current portion of long-term debt	152	884	—	—	1,036
Total current liabilities	164	33,994	—	—	34,158
Long-term debt, less current portion	1,304	40,220	—	—	41,524
Other long-term liabilities	1	24,593	—	—	24,594
Total liabilities	1,469	98,807	—	—	100,276
Net assets:					
Unrestricted	16,376	60,114	7	—	76,497
Temporarily restricted	—	4,280	—	—	4,280
Permanently restricted	—	—	—	—	—
Total net assets	16,376	64,394	7	—	80,777
Total liabilities and net assets	\$ 17,845	163,201	7	—	181,053

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, 2011

(In thousands)

Assets	Baltimore Washington Medical System, Inc.	Baltimore Washington Medical Center	Baltimore Washington Healthcare Services	Baltimore Washington Health Enterprises	North County Corporation	Eliminations	BWMS Consolidated Total
Current assets:							
Cash and cash equivalents	\$ —	24,561	710	111	—	—	25,382
Assets limited as to use, current portion	—	833	—	—	—	—	833
Accounts receivable:							
Patient accounts receivable, less allowance for doubtful accounts of \$15,415	—	35,324	2,001	2,246	—	—	39,571
Other	30,476	1,234	3,939	—	(1,789)	(32,626)	1,234
Inventories	—	6,014	—	—	—	—	6,014
Prepaid expenses and other current assets	—	8,759	—	115	80	—	8,954
Total current assets	<u>30,476</u>	<u>76,725</u>	<u>6,650</u>	<u>2,472</u>	<u>(1,709)</u>	<u>(32,626)</u>	<u>81,988</u>
Investments	—	48,420	—	—	—	—	48,420
Assets limited as to use, less current portion:							
Debt service funds	—	—	—	—	—	—	—
Construction funds	—	19,874	—	—	—	—	19,874
Board designated and escrow funds	—	—	—	—	—	—	—
Self-insurance trust funds	—	16,495	—	—	—	—	16,495
Funds restricted by donor	—	—	—	—	—	—	—
Economic interests in the net assets of related organizations	—	5,896	—	—	—	—	5,896
	—	42,265	—	—	—	—	42,265
Property and equipment, net	—	243,873	—	11,270	14,027	—	269,170
Deferred financing costs, net	—	—	—	—	—	—	—
Investments in joint ventures and other assets	144,541	630	—	2,296	—	(139,572)	7,895
Total assets	<u>\$ 175,017</u>	<u>411,913</u>	<u>6,650</u>	<u>16,038</u>	<u>12,318</u>	<u>(172,198)</u>	<u>449,738</u>

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

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

June 30, 2011

(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	Eliminations	BWMS Consolidated Total
Current liabilities:							
Trade accounts payable	\$ 2	20,766	1,134	1,050	90	31	23,073
Accrued payroll and benefits	1,357	17,924	136	1,049	31	—	20,497
Advances from third-party payors	—	8,112	—	—	—	—	8,112
Lines of credit	—	—	—	—	—	—	—
Other current liabilities	—	24,434	—	10,520	—	(32,657)	2,297
Current portion of long-term debt	—	4,120	—	274	225	—	4,619
Total current liabilities	<u>1,359</u>	<u>75,356</u>	<u>1,270</u>	<u>12,893</u>	<u>346</u>	<u>(32,626)</u>	<u>58,598</u>
Long-term debt, less current portion	—	187,521	—	10,635	3,956	—	202,112
Other long-term liabilities	—	14,987	—	383	—	—	15,370
Total liabilities	<u>1,359</u>	<u>277,864</u>	<u>1,270</u>	<u>23,911</u>	<u>4,302</u>	<u>(32,626)</u>	<u>276,080</u>
Net assets:							
Unrestricted	173,658	128,153	5,380	(7,873)	8,016	(139,572)	167,762
Temporarily restricted	—	5,896	—	—	—	—	5,896
Permanently restricted	—	—	—	—	—	—	—
Total net assets	<u>173,658</u>	<u>134,049</u>	<u>5,380</u>	<u>(7,873)</u>	<u>8,016</u>	<u>(139,572)</u>	<u>173,658</u>
Total liabilities and net assets	<u>\$ 175,017</u>	<u>411,913</u>	<u>6,650</u>	<u>16,038</u>	<u>12,318</u>	<u>(172,198)</u>	<u>449,738</u>

See accompanying independent auditors' report.

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

Consolidating Balance Sheet Information by Division – Shore Health System (SHS)

June 30, 2011

(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.	Chesapeake Ear, Nose, Throat, Sinus, and Hearing Center, LLC	Chesapeake Neurological Surgery, LLC	Eliminations	SHS Consolidated Total
Current assets:									
Cash and cash equivalents	\$ 13,585	—	289	36	556	—	—	—	14,466
Assets limited as to use, current portion	471	—	—	—	—	—	—	—	471
Accounts receivable:									
Patient accounts receivable, less allowance for doubtful accounts of \$9,403	26,390	—	876	—	2,815	—	—	—	30,081
Other	4,276	201	2,882	—	529	—	—	(4,419)	3,469
Inventories	3,774	—	—	—	—	—	—	—	3,774
Prepaid expenses and other current assets	941	27	13	—	169	—	—	—	1,150
Total current assets	<u>49,437</u>	<u>228</u>	<u>4,060</u>	<u>36</u>	<u>4,069</u>	<u>—</u>	<u>—</u>	<u>(4,419)</u>	<u>53,411</u>
Investments	30,162	—	—	—	—	—	—	—	30,162
Assets limited as to use, less current portion:									
Debt service funds	—	—	—	—	—	—	—	—	—
Construction funds	3,086	—	—	—	—	—	—	—	3,086
Board designated and escrow funds	25,000	35,096	—	—	—	—	—	—	60,096
Self-insurance trust funds	11,916	—	—	—	—	—	—	—	11,916
Funds restricted by donor	3,852	18,379	—	—	—	—	—	—	22,231
Economic and beneficial interests in the net assets of related organizations	59,272	—	—	—	—	—	—	(56,720)	2,552
	<u>103,126</u>	<u>53,475</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(56,720)</u>	<u>99,881</u>
Property and equipment, net	112,836	3,778	438	714	1,354	—	—	—	119,120
Deferred financing costs, net	—	—	—	—	—	—	—	—	—
Investments in joint ventures and other assets	8,799	24	—	—	—	—	—	(7,630)	1,193
Total assets	<u>\$ 304,360</u>	<u>57,505</u>	<u>4,498</u>	<u>750</u>	<u>5,423</u>	<u>—</u>	<u>—</u>	<u>(68,769)</u>	<u>303,767</u>

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

Consolidating Balance Sheet Information by Division – Shore Health System (SHS)

June 30, 2011

(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.	Chesapeake Ear, Nose, Throat, Sinus, and Hearing Center, LLC	Chesapeake Neurological Surgery, LLC	Eliminations	SHS Consolidated Total
Current liabilities:									
Trade accounts payable	\$ 5,406	4	105	—	257	—	—	—	5,772
Accrued payroll and benefits	13,019	11	237	—	875	—	—	—	14,142
Advances from third-party payors	5,287	—	—	—	—	—	—	—	5,287
Lines of credit	—	—	—	—	—	—	—	—	—
Other current liabilities	6,197	741	2	1,450	—	—	—	(4,419)	3,971
Current portion of long-term debt	1,883	—	—	—	—	—	—	—	1,883
Total current liabilities	<u>31,792</u>	<u>756</u>	<u>344</u>	<u>1,450</u>	<u>1,132</u>	<u>—</u>	<u>—</u>	<u>(4,419)</u>	<u>31,055</u>
Long-term debt, less current portion	85,845	—	—	—	—	—	—	—	85,845
Other long-term liabilities	6,837	29	—	—	114	—	—	—	6,980
Total liabilities	<u>124,474</u>	<u>785</u>	<u>344</u>	<u>1,450</u>	<u>1,246</u>	<u>—</u>	<u>—</u>	<u>(4,419)</u>	<u>123,880</u>
Net assets:									
Unrestricted	155,505	38,782	4,154	(700)	4,177	—	—	(46,412)	155,506
Temporarily restricted	12,197	8,674	—	—	—	—	—	(8,674)	12,197
Permanently restricted	12,184	9,264	—	—	—	—	—	(9,264)	12,184
Total net assets	<u>179,886</u>	<u>56,720</u>	<u>4,154</u>	<u>(700)</u>	<u>4,177</u>	<u>—</u>	<u>—</u>	<u>(64,350)</u>	<u>179,887</u>
Total liabilities and net assets	<u>\$ 304,360</u>	<u>57,505</u>	<u>4,498</u>	<u>750</u>	<u>5,423</u>	<u>—</u>	<u>—</u>	<u>(68,769)</u>	<u>303,767</u>

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)

June 30, 2011

(In thousands)

Assets	Chester River Hospital Center	Chester River Manor	Chester River Home Care and Hospice	Chester River Health Foundation	Eliminations	CRHS Consolidated Total
Current assets:						
Cash and cash equivalents	\$ 2,050	748	376	1,182	—	4,356
Assets limited as to use, current portion	355	—	—	—	—	355
Accounts receivable:						
Patient accounts receivable, less allowance for doubtful accounts of \$6,598	8,570	581	270	—	—	9,421
Other	196	16	5	—	(195)	22
Inventories	582	4	—	—	—	586
Prepaid expenses and other current assets	624	58	—	—	—	682
Total current assets	<u>12,377</u>	<u>1,407</u>	<u>651</u>	<u>1,182</u>	<u>(195)</u>	<u>15,422</u>
Investments	3,664	—	1,246	230	—	5,140
Assets limited as to use, less current portion:						
Debt service funds	—	—	—	—	—	—
Construction funds	—	—	—	—	—	—
Board designated and escrow funds	5,000	—	—	—	—	5,000
Self-insurance trust funds	1,524	—	—	—	—	1,524
Funds restricted by donor	22	—	73	1,609	—	1,704
Economic interests in the net assets of related organizations	4,962	16	417	—	(5,395)	—
	<u>11,508</u>	<u>16</u>	<u>490</u>	<u>1,609</u>	<u>(5,395)</u>	<u>8,228</u>
Property and equipment, net	22,007	2,155	331	—	—	24,493
Deferred financing costs, net	—	—	—	—	—	—
Investments in joint ventures and other assets	—	—	—	2,501	—	2,501
Total assets	<u>\$ 49,556</u>	<u>3,578</u>	<u>2,718</u>	<u>5,522</u>	<u>(5,590)</u>	<u>55,784</u>

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

Consolidating Balance Sheet Information by Division – Chester River Health System, Inc. (CRHS)

June 30, 2011

(In thousands)

Liabilities and Net Assets	Chester River Hospital Center	Chester River Manor	Chester River Home Care and Hospice	Chester River Health Foundation	Eliminations	CRHS Consolidated Total
Current liabilities:						
Trade accounts payable	\$ 1,930	382	24	3	—	2,339
Accrued payroll and benefits	2,526	219	141	—	—	2,886
Advances from third-party payors	1,004	4	—	—	—	1,008
Lines of credit	—	—	—	—	—	—
Other current liabilities	1,595	122	78	16	(195)	1,616
Long-term debt subject to short-term remarketing arrangements	2,710	—	—	—	—	2,710
Current portion of long-term debt	1,186	30	—	—	—	1,216
Total current liabilities	10,951	757	243	19	(195)	11,775
Long-term debt, less current portion	2,700	325	—	—	—	3,025
Other long-term liabilities	7,912	60	—	43	—	8,015
Total liabilities	21,563	1,142	243	62	(195)	22,815
Net assets:						
Unrestricted	26,362	2,436	2,403	3,851	(3,786)	31,266
Temporarily restricted	268	—	55	246	(246)	323
Permanently restricted	1,363	—	17	1,363	(1,363)	1,380
Total net assets	27,993	2,436	2,475	5,460	(5,395)	32,969
Total liabilities and net assets	\$ 49,556	3,578	2,718	5,522	(5,590)	55,784

See accompanying independent auditors' report.

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

Consolidating Balance Sheet Information by Division

June 30, 2010

(In thousands)

Assets	University of Maryland Medical Center	University CARE	Kernan	University Specialty	Maryland General	Baltimore Washington	Shore Health	Chester River	UMMS Foundation	Shipley's	36 South Paca	Eliminations	Consolidated Total
Current assets:													
Cash and cash equivalents	\$ 175,378	124	9,161	2,219	11,635	16,493	17,903	5,029	—	110	496	—	238,548
Assets limited as to use, current portion	36,570	—	—	—	986	846	471	355	—	—	—	—	39,228
Accounts receivable:													
Patient accounts receivable, less allowance													
for doubtful accounts of \$136,278	137,783	120	14,025	2,733	18,291	40,544	26,728	8,903	—	—	—	—	249,127
Other	40,926	227	1,631	193	522	366	2,459	512	—	3,019	69	(25,769)	24,155
Inventories	17,014	39	987	556	1,703	5,456	3,785	690	—	—	—	—	30,230
Prepaid expenses and other current assets	55,070	—	15	17	596	9,000	889	594	1,500	—	—	—	67,681
Total current assets	462,741	510	25,819	5,718	33,733	72,705	52,235	16,083	1,500	3,129	565	(25,769)	648,969
Investments	184,626	—	11,252	15,330	—	42,121	21,950	5,829	—	—	—	—	281,108
Assets limited as to use, less current portion:													
Debt service funds	39,553	—	—	—	—	—	—	—	—	—	—	—	39,553
Construction funds	160,185	—	—	—	8,602	28,315	6,987	—	—	—	—	—	204,089
Board designated and escrow funds	—	—	—	—	—	—	54,464	5,000	27,202	—	—	—	86,666
Self-insurance trust funds	38,393	—	—	—	22,738	11,529	7,351	288	—	—	—	—	80,299
Funds restricted by donor	—	—	—	—	958	—	18,297	1,447	20,371	—	—	—	41,073
Economic and beneficial interests in the net assets of related organizations	52,158	—	29,232	390	3,242	5,895	2,350	—	—	—	—	(54,828)	38,439
Property and equipment, net	290,289	—	29,232	390	35,540	45,739	89,449	6,735	47,573	—	—	(54,828)	490,119
Deferred financing costs, net	668,500	—	36,016	18,974	95,785	259,324	119,996	23,395	1,800	6,394	9,930	—	1,240,114
Investments in joint ventures and other assets	8,661	—	—	—	—	—	—	—	—	—	—	—	8,661
	146,393	—	—	—	13,350	6,967	361	2,506	4,057	—	3,277	(60,731)	116,180
Total assets	\$ 1,761,210	510	102,319	40,412	178,408	426,856	283,991	54,548	54,930	9,523	13,772	(141,328)	2,785,151

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

Consolidating Balance Sheet Information by Division

June 30, 2010

(In thousands)

Liabilities and Net Assets	University of Maryland Medical Center	University CARE	Kernan	University Specialty	Maryland General	Baltimore Washington	Shore Health	Chester River	UMMS Foundation	Shipley's	36 South Paca	Eliminations	Consolidated Total
Current liabilities:													
Trade accounts payable	\$ 97,956	706	5,598	3,031	9,180	16,034	10,390	2,830	102	35	287	—	146,149
Accrued payroll and benefits	67,339	74	3,949	2,826	11,108	19,118	13,294	4,085	—	—	—	(110)	121,683
Advances from third-party payors	61,988	—	2,445	4,294	6,630	6,010	5,090	1,101	—	—	—	—	87,558
Lines of credit	63,300	—	—	—	—	—	—	—	—	—	—	—	63,300
Other current liabilities	69,794	506	853	13,943	12,024	5,076	3,840	1,130	—	—	1,889	(25,097)	83,958
Long-term debt subject to short-term remarketing arrangements	70,069	—	—	—	—	—	—	—	—	—	—	—	70,069
Current portion of long-term debt	27,162	—	259	300	1,107	4,444	1,808	1,362	—	—	—	—	36,442
Total current liabilities	457,608	1,286	13,104	24,394	40,049	50,682	34,422	10,508	102	35	2,176	(25,207)	609,159
Long-term debt, less current portion	595,578	—	12,590	7,256	42,547	206,725	88,158	6,951	—	—	—	(562)	959,243
Other long-term liabilities	36,114	—	441	357	33,942	19,400	6,293	9,247	—	—	—	—	105,794
Interest rate swap liabilities	128,575	—	—	—	—	—	—	—	—	—	—	—	128,575
Total liabilities	1,217,875	1,286	26,135	32,007	116,538	276,807	128,873	26,706	102	35	2,176	(25,769)	1,802,771
Net assets:													
Unrestricted	486,180	(776)	46,819	8,015	57,670	144,154	134,814	26,396	31,324	9,488	11,596	(60,731)	894,949
Temporarily restricted	56,742	—	29,365	390	4,200	5,895	9,221	75	5,124	—	—	(54,828)	56,184
Permanently restricted	413	—	—	—	—	—	11,083	1,371	18,380	—	—	—	31,247
Total net assets	543,335	(776)	76,184	8,405	61,870	150,049	155,118	27,842	54,828	9,488	11,596	(115,559)	982,380
Total liabilities and net assets	\$ 1,761,210	510	102,319	40,412	178,408	426,856	283,991	54,548	54,930	9,523	13,772	(141,328)	2,785,151

See accompanying independent auditors' report.

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

Consolidating Balance Sheet Information by Division – Maryland General Health Systems (MGHS)

June 30, 2010

(In thousands)

Assets	Maryland General Health Systems, Inc.	Maryland General Hospital	Maryland General Clin. Prac. Group	Eliminations	MGHS Consolidated Total
Current assets:					
Cash and cash equivalents	\$ 40	11,538	57	—	11,635
Assets limited as to use, current portion	—	986	—	—	986
Accounts receivable:					
Patient accounts receivable, less allowance for doubtful accounts of \$11,118	—	17,485	806	—	18,291
Other	140	1,215	(833)	—	522
Inventories	—	1,703	—	—	1,703
Prepaid expenses and other current assets	—	596	—	—	596
Total current assets	<u>180</u>	<u>33,523</u>	<u>30</u>	<u>—</u>	<u>33,733</u>
Investments	—	—	—	—	—
Assets limited as to use, less current portion:					
Debt service funds	—	—	—	—	—
Construction funds	—	8,602	—	—	8,602
Board designated and escrow funds	—	—	—	—	—
Self-insurance trust funds	—	22,738	—	—	22,738
Funds restricted by donor	—	958	—	—	958
Economic interests in the net assets of related organizations	—	3,242	—	—	3,242
	<u>—</u>	<u>35,540</u>	<u>—</u>	<u>—</u>	<u>35,540</u>
Property and equipment, net	2,248	93,537	—	—	95,785
Deferred financing costs, net	—	—	—	—	—
Investments in joint ventures and other assets	13,187	163	—	—	13,350
Total assets	<u>\$ 15,615</u>	<u>162,763</u>	<u>30</u>	<u>—</u>	<u>178,408</u>

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

Consolidating Balance Sheet Information by Division – Maryland General Health Systems (MGHS)

June 30, 2010

(In thousands)

Liabilities and Net Assets	Maryland General Health Systems, Inc.	Maryland General Hospital	Maryland General Clin. Prac. Group	Eliminations	MGHS Consolidated Total
Current liabilities:					
Trade accounts payable	\$ 7	9,150	23	—	9,180
Accrued payroll and benefits	—	11,108	—	—	11,108
Advances from third-party payors	—	6,630	—	—	6,630
Lines of credit	—	—	—	—	—
Other current liabilities	—	12,024	—	—	12,024
Current portion of long-term debt	142	965	—	—	1,107
Total current liabilities	149	39,877	23	—	40,049
Long-term debt, less current portion	1,457	41,090	—	—	42,547
Other long-term liabilities	1	33,941	—	—	33,942
Total liabilities	1,607	114,908	23	—	116,538
Net assets:					
Unrestricted	14,008	43,655	7	—	57,670
Temporarily restricted	—	4,200	—	—	4,200
Permanently restricted	—	—	—	—	—
Total net assets	14,008	47,855	7	—	61,870
Total liabilities and net assets	\$ 15,615	162,763	30	—	178,408

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, 2010

(In thousands)

Assets	Baltimore Washington Medical System, Inc.	Baltimore Washington Medical Center	Baltimore Washington Healthcare Services	Baltimore Washington Health Enterprises	North County Corporation	Eliminations	BWMS Consolidated Total
Current assets:							
Cash and cash equivalents	\$ —	15,472	620	381	20	—	16,493
Assets limited as to use, current portion	—	846	—	—	—	—	846
Accounts receivable:							
Patient accounts receivable, less allowance for doubtful accounts of \$10,570	—	35,624	2,969	1,951	—	—	40,544
Other	28,332	366	2,359	—	(2,043)	(28,648)	366
Inventories	—	5,456	—	—	—	—	5,456
Prepaid expenses and other current assets	98	8,775	—	63	64	—	9,000
Total current assets	<u>28,430</u>	<u>66,539</u>	<u>5,948</u>	<u>2,395</u>	<u>(1,959)</u>	<u>(28,648)</u>	<u>72,705</u>
Investments	—	42,121	—	—	—	—	42,121
Assets limited as to use, less current portion:							
Debt service funds	—	—	—	—	—	—	—
Construction funds	—	28,315	—	—	—	—	28,315
Board designated and escrow funds	—	—	—	—	—	—	—
Self-insurance trust funds	—	11,529	—	—	—	—	11,529
Funds restricted by donor	—	—	—	—	—	—	—
Economic interests in the net assets of related organizations	—	5,895	—	—	—	—	5,895
	—	45,739	—	—	—	—	45,739
Property and equipment, net	—	232,965	—	12,044	14,315	—	259,324
Deferred financing costs, net	—	—	—	—	—	—	—
Investments in joint ventures and other assets	122,776	86	—	2,102	—	(117,997)	6,967
Total assets	<u>\$ 151,206</u>	<u>387,450</u>	<u>5,948</u>	<u>16,541</u>	<u>12,356</u>	<u>(146,645)</u>	<u>426,856</u>

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

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

June 30, 2010

(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	Eliminations	BWMS Consolidated Total
Current liabilities:							
Trade accounts payable	\$ 17	13,980	985	1,004	48	—	16,034
Accrued payroll and benefits	1,140	16,723	215	1,016	24	—	19,118
Advances from third-party payors	—	6,010	—	—	—	—	6,010
Lines of credit	—	—	—	—	—	—	—
Other current liabilities	—	26,920	—	6,804	—	(28,648)	5,076
Current portion of long-term debt	—	3,961	—	258	225	—	4,444
Total current liabilities	<u>1,157</u>	<u>67,594</u>	<u>1,200</u>	<u>9,082</u>	<u>297</u>	<u>(28,648)</u>	<u>50,682</u>
Long-term debt, less current portion	—	191,635	—	10,909	4,181	—	206,725
Other long-term liabilities	—	18,813	—	587	—	—	19,400
Total liabilities	<u>1,157</u>	<u>278,042</u>	<u>1,200</u>	<u>20,578</u>	<u>4,478</u>	<u>(28,648)</u>	<u>276,807</u>
Net assets:							
Unrestricted	150,049	103,513	4,748	(4,037)	7,878	(117,997)	144,154
Temporarily restricted	—	5,895	—	—	—	—	5,895
Permanently restricted	—	—	—	—	—	—	—
Total net assets	<u>150,049</u>	<u>109,408</u>	<u>4,748</u>	<u>(4,037)</u>	<u>7,878</u>	<u>(117,997)</u>	<u>150,049</u>
Total liabilities and net assets	<u>\$ 151,206</u>	<u>387,450</u>	<u>5,948</u>	<u>16,541</u>	<u>12,356</u>	<u>(146,645)</u>	<u>426,856</u>

See accompanying independent auditors' report.

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

Consolidating Balance Sheet Information by Division – Shore Health System (SHS)

June 30, 2010

(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.	Chesapeake Ear, Nose, Throat, Sinus, and Hearing Center, LLC	Chesapeake Neurological Surgery, LLC	Eliminations	SHS Consolidated Total
Current assets:									
Cash and cash equivalents	\$ 16,946	—	463	51	383	53	7	—	17,903
Assets limited as to use, current portion	471	—	—	—	—	—	—	—	471
Accounts receivable:									
Patient accounts receivable, less allowance for doubtful accounts of \$7,503	24,196	—	947	—	1,464	97	24	—	26,728
Other	7,806	125	2,873	—	139	—	342	(8,826)	2,459
Inventories	3,785	—	—	—	—	—	—	—	3,785
Prepaid expenses and other current assets	675	24	15	—	170	4	1	—	889
Total current assets	<u>53,879</u>	<u>149</u>	<u>4,298</u>	<u>51</u>	<u>2,156</u>	<u>154</u>	<u>374</u>	<u>(8,826)</u>	<u>52,235</u>
Investments	21,950	—	—	—	—	—	—	—	21,950
Assets limited as to use, less current portion:									
Debt service funds	—	—	—	—	—	—	—	—	—
Construction funds	6,987	—	—	—	—	—	—	—	6,987
Board designated and escrow funds	25,000	29,464	—	—	—	—	—	—	54,464
Self-insurance trust funds	7,351	—	—	—	—	—	—	—	7,351
Funds restricted by donor	3,285	15,012	—	—	—	—	—	—	18,297
Economic and beneficial interests in the net assets of related organizations	43,255	—	—	—	—	—	—	(40,905)	2,350
	85,878	44,476	—	—	—	—	—	(40,905)	89,449
Property and equipment, net	114,061	3,873	432	726	803	84	17	—	119,996
Deferred financing costs, net	—	—	—	—	—	—	—	—	—
Investments in joint ventures and other assets	8,396	26	—	—	—	—	—	(8,061)	361
Total assets	<u>\$ 284,164</u>	<u>48,524</u>	<u>4,730</u>	<u>777</u>	<u>2,959</u>	<u>238</u>	<u>391</u>	<u>(57,792)</u>	<u>283,991</u>

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

Consolidating Balance Sheet Information by Division – Shore Health System (SHS)

June 30, 2010

(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.	Chesapeake Ear, Nose, Throat, Sinus, and Hearing Center, LLC	Chesapeake Neurological Surgery, LLC	Eliminations	SHS Consolidated Total
Current liabilities:									
Trade accounts payable	\$ 9,674	2	133	—	250	20	311	—	10,390
Accrued payroll and benefits	12,068	19	318	—	756	131	2	—	13,294
Advances from third-party payors	5,090	—	—	—	—	—	—	—	5,090
Lines of credit	—	—	—	—	—	—	—	—	—
Other current liabilities	6,038	709	2	1,440	—	1,592	2,885	(8,826)	3,840
Current portion of long-term debt	1,808	—	—	—	—	—	—	—	1,808
Total current liabilities	<u>34,678</u>	<u>730</u>	<u>453</u>	<u>1,440</u>	<u>1,006</u>	<u>1,743</u>	<u>3,198</u>	<u>(8,826)</u>	<u>34,422</u>
Long-term debt, less current portion	88,158	—	—	—	—	—	—	—	88,158
Other long-term liabilities	6,210	26	—	—	57	—	—	—	6,293
Total liabilities	<u>129,046</u>	<u>756</u>	<u>453</u>	<u>1,440</u>	<u>1,063</u>	<u>1,743</u>	<u>3,198</u>	<u>(8,826)</u>	<u>128,873</u>
Net assets:									
Unrestricted	134,814	33,103	4,277	(663)	1,896	(1,505)	(2,807)	(34,301)	134,814
Temporarily restricted	9,221	6,463	—	—	—	—	—	(6,463)	9,221
Permanently restricted	11,083	8,202	—	—	—	—	—	(8,202)	11,083
Total net assets	<u>155,118</u>	<u>47,768</u>	<u>4,277</u>	<u>(663)</u>	<u>1,896</u>	<u>(1,505)</u>	<u>(2,807)</u>	<u>(48,966)</u>	<u>155,118</u>
Total liabilities and net assets	<u>\$ 284,164</u>	<u>48,524</u>	<u>4,730</u>	<u>777</u>	<u>2,959</u>	<u>238</u>	<u>391</u>	<u>(57,792)</u>	<u>283,991</u>

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)

June 30, 2010

(In thousands)

Assets	Chester River Hospital Center	Chester River Manor	Chester River Home Care and Hospice	Chester River Health Foundation	Eliminations	CRHS Consolidated Total
Current assets:						
Cash and cash equivalents	\$ 2,646	700	504	1,179	—	5,029
Assets limited as to use, current portion	355	—	—	—	—	355
Accounts receivable:						
Patient accounts receivable, less allowance for doubtful accounts of \$6,123	8,011	625	267	—	—	8,903
Other	1,235	3	22	—	(748)	512
Inventories	686	4	—	—	—	690
Prepaid expenses and other current assets	474	106	13	1	—	594
Total current assets	<u>13,407</u>	<u>1,438</u>	<u>806</u>	<u>1,180</u>	<u>(748)</u>	<u>16,083</u>
Investments	4,394	—	1,232	203	—	5,829
Assets limited as to use, less current portion:						
Debt service funds	—	—	—	—	—	—
Construction funds	—	—	—	—	—	—
Board designated and escrow funds	5,000	—	—	—	—	5,000
Self-insurance trust funds	288	—	—	—	—	288
Funds restricted by donor	26	—	73	1,348	—	1,447
Economic interests in the net assets of related organizations	4,748	11	422	—	(5,181)	—
	<u>10,062</u>	<u>11</u>	<u>495</u>	<u>1,348</u>	<u>(5,181)</u>	<u>6,735</u>
Property and equipment, net	21,084	2,106	205	—	—	23,395
Deferred financing costs, net	—	—	—	—	—	—
Investments in joint ventures and other assets	24	—	—	2,482	—	2,506
Total assets	<u>\$ 48,971</u>	<u>3,555</u>	<u>2,738</u>	<u>5,213</u>	<u>(5,929)</u>	<u>54,548</u>

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

Consolidating Balance Sheet Information by Division – Chester River Health System, Inc. (CRHS)

June 30, 2010

(In thousands)

Liabilities and Net Assets	Chester River Hospital Center	Chester River Manor	Chester River Home Care and Hospice	Chester River Health Foundation	Eliminations	CRHS Consolidated Total
Current liabilities:						
Trade accounts payable	\$ 2,483	340	4	3	—	2,830
Accrued payroll and benefits	3,637	315	133	—	—	4,085
Advances from third-party payors	1,056	45	—	—	—	1,101
Lines of credit	—	—	—	—	—	—
Other current liabilities	1,094	489	257	38	(748)	1,130
Current portion of long-term debt	1,335	27	—	—	—	1,362
Total current liabilities	9,605	1,216	394	41	(748)	10,508
Long-term debt, less current portion	6,596	355	—	—	—	6,951
Other long-term liabilities	9,122	60	—	65	—	9,247
Total liabilities	25,323	1,631	394	106	(748)	26,706
Net assets:						
Unrestricted	22,274	1,924	2,272	3,759	(3,833)	26,396
Temporarily restricted	20	—	55	(6)	6	75
Permanently restricted	1,354	—	17	1,354	(1,354)	1,371
Total net assets	23,648	1,924	2,344	5,107	(5,181)	27,842
Total liabilities and net assets	\$ 48,971	3,555	2,738	5,213	(5,929)	54,548

See accompanying independent auditors' report.

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

Consolidating Operations Information by Division

Year ended June 30, 2011

(In thousands)

	University of Maryland Medical Center	University CARE	Kernan	University Specialty	Maryland General	Baltimore Washington	Shore Health	Chester River	UMMS Foundation	Shipley's	36 South Paca	Eliminations	Consolidated Total
Unrestricted revenues, gains and other support:													
Net patient service revenue	\$ 1,276,194	2,755	95,419	52,512	183,146	363,481	231,862	66,133	—	—	—	(1,086)	2,270,416
Other operating revenue:													
State support	3,200	—	—	—	—	—	—	—	—	—	—	—	3,200
Other revenue	50,776	2,105	2,612	326	2,241	6,867	5,602	588	—	1,002	1,221	(2,752)	70,588
Total unrestricted revenue, gains and other support	1,330,170	4,860	98,031	52,838	185,387	370,348	237,464	66,721	—	1,002	1,221	(3,838)	2,344,204
Operating expenses:													
Salaries, wages and benefits	552,426	3,405	45,543	27,606	85,855	169,139	121,828	35,360	—	—	182	—	1,041,344
Expendable supplies	238,973	284	15,138	6,161	16,304	61,228	33,060	9,018	—	—	56	—	380,222
Purchased services	170,524	4,714	18,555	16,591	24,063	51,520	40,448	13,290	—	426	775	(4,625)	336,281
Contracted services	89,516	—	7,644	—	22,770	9,725	8,558	1,497	—	—	—	—	139,710
Depreciation and amortization	69,601	—	3,238	2,347	11,149	23,506	14,785	3,855	—	172	359	—	129,012
Interest expense	26,881	—	476	861	1,698	6,663	3,260	395	—	—	107	—	40,341
Provision for bad debts	101,153	278	6,107	4,467	19,697	34,520	8,595	2,196	—	—	—	—	177,013
Total operating expenses	1,249,074	8,681	96,701	58,033	181,536	356,301	230,534	65,611	—	598	1,479	(4,625)	2,243,923
Operating income (loss)	81,096	(3,821)	1,330	(5,195)	3,851	14,047	6,930	1,110	—	404	(258)	787	100,281
Nonoperating income and expenses, net:													
Loss on early extinguishment of debt	\$ —	—	—	—	—	—	—	—	—	—	—	—	—
Change in fair value of undesignated interest rate swaps	18,640	—	—	—	—	—	—	—	—	—	—	—	18,640
Other nonoperating gains and losses:													
Contributions	—	—	—	—	—	—	206	591	5,258	—	—	—	6,055
Equity in net income of joint ventures	10,366	—	—	—	4,400	(182)	—	—	—	—	—	5,950	20,534
Investment income	25,543	—	1,151	1,275	290	4,241	1,707	638	4,362	—	—	—	39,207
Change in fair value of investments	16,500	—	766	700	152	2,836	12,915	752	1,743	—	—	—	36,364
Other nonoperating gains and losses	(9,420)	—	15	—	(550)	(2,821)	(1,814)	(404)	(2,954)	—	—	1	(17,947)
Total other nonoperating gains and losses	42,989	—	1,932	1,975	4,292	4,074	13,014	1,577	8,409	—	—	5,951	84,213
Excess (deficiency) of revenues over expenses	142,725	(3,821)	3,262	(3,220)	8,143	18,121	19,944	2,687	8,409	404	(258)	6,738	203,134
Net assets released from restrictions used for purchase of property and equipment	20,815	—	750	—	885	750	764	—	—	—	—	—	23,964
Change in unrealized gains on investments	—	—	—	—	—	—	—	—	—	—	—	—	—
Change in economic and beneficial interests in the net assets of related organizations	—	—	—	—	—	—	—	—	—	—	—	—	—
Change in ownership interest of joint ventures	2,268	—	—	—	—	—	—	—	—	—	—	—	2,268
Capital transfers (to) from affiliate	3,801	4,068	1,035	—	47	—	—	—	(4,883)	—	—	(4,068)	—
Change in fair value of designated interest rate swaps	2,298	—	—	—	—	—	—	—	—	—	—	—	2,298
Change in funded status of defined benefit pension plans	—	—	—	1	9,752	4,736	—	1,834	—	—	—	—	16,322
Other	(348)	—	—	1	—	1	(16)	349	75	—	—	(162)	(100)
Increase (decrease) in unrestricted net assets	\$ 171,559	247	5,047	(3,219)	18,827	23,608	20,692	4,870	3,601	404	(258)	2,508	247,886

See accompanying independent auditors' report.

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

Consolidating Operations Information by Division for Maryland General Health Systems (MGHS)

Year ended June 30, 2011

(In thousands)

	Maryland General Health Systems, Inc.	Maryland General Hospital	Maryland General Clin. Prac. Group	Eliminations	MGHS Consolidated Total
Unrestricted revenues, gains and other support:					
Net patient service revenue	\$ —	180,958	9,445	(7,257)	183,146
Other operating revenue:					
State support	—	—	—	—	—
Other revenue	889	1,347	5	—	2,241
Total unrestricted revenue, gains and other support	<u>889</u>	<u>182,305</u>	<u>9,450</u>	<u>(7,257)</u>	<u>185,387</u>
Operating expenses:					
Salaries, wages and benefits	—	85,855	—	—	85,855
Expendable supplies	—	16,304	—	—	16,304
Purchased services	747	23,307	9	—	24,063
Contracted services	—	22,770	7,257	(7,257)	22,770
Depreciation and amortization	455	10,694	—	—	11,149
Interest expense	103	1,595	—	—	1,698
Provision for bad debts	—	17,513	2,184	—	19,697
Total operating expenses	<u>1,305</u>	<u>178,038</u>	<u>9,450</u>	<u>(7,257)</u>	<u>181,536</u>
Operating income (loss)	<u>(416)</u>	<u>4,267</u>	<u>—</u>	<u>—</u>	<u>3,851</u>

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

Consolidating Operations Information by Division for Maryland General Health Systems (MGHS)

Year ended June 30, 2011

(In thousands)

	Maryland General Health Systems, Inc.	Maryland General Hospital	Maryland General Clin. Prac. Group	Eliminations	MGHS Consolidated Total
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	4,400	—	—	—	4,400
Investment income	—	290	—	—	290
Change in fair value of investments	—	152	—	—	152
Other nonoperating gains and losses	—	(550)	—	—	(550)
Total other nonoperating gains and losses	<u>4,400</u>	<u>(108)</u>	<u>—</u>	<u>—</u>	<u>4,292</u>
Excess of revenues over expenses	3,984	4,159	—	—	8,143
Net assets released from restrictions used for purchase of property and equipment	—	885	—	—	885
Change in unrealized gains on investments	—	—	—	—	—
Change in economic and beneficial interests in the net assets of related organizations	—	—	—	—	—
Change in ownership interest of joint ventures	—	—	—	—	—
Capital transfers (to) from affiliate	(1,600)	1,647	—	—	47
Change in fair value of designated interest rate swaps	—	—	—	—	—
Change in funded status of defined benefit pension plans	—	9,752	—	—	9,752
Other	(16)	16	—	—	—
Increase in unrestricted net assets	<u>\$ 2,368</u>	<u>16,459</u>	<u>—</u>	<u>—</u>	<u>18,827</u>

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, 2011

(In thousands)

	Baltimore Washington Medical System, Inc.	Baltimore Washington Medical Center	Baltimore Washington Healthcare Services	Baltimore Washington Health Enterprises	North County Corporation	Eliminations	BWMS Consolidated Total
Unrestricted revenues, gains and other support:							
Net patient service revenue	\$ —	326,216	28,730	10,958	—	(2,423)	363,481
Other operating revenue:							
State support	—	—	—	—	—	—	—
Other revenue	3,406	3,292	—	2,891	2,101	(4,823)	6,867
Total unrestricted revenue, gains and other support	<u>3,406</u>	<u>329,508</u>	<u>28,730</u>	<u>13,849</u>	<u>2,101</u>	<u>(7,246)</u>	<u>370,348</u>
Operating expenses:							
Salaries, wages and benefits	3,406	147,837	10,577	7,319	—	—	169,139
Expendable supplies	—	60,399	—	829	—	—	61,228
Purchased services	—	49,277	4,448	3,738	1,303	(7,246)	51,520
Contracted services	—	7,830	—	1,895	—	—	9,725
Depreciation and amortization	—	22,001	—	959	546	—	23,506
Interest expense	—	5,813	—	736	114	—	6,663
Provision for bad debts	—	21,447	13,073	—	—	—	34,520
Total operating expenses	<u>3,406</u>	<u>314,604</u>	<u>28,098</u>	<u>15,476</u>	<u>1,963</u>	<u>(7,246)</u>	<u>356,301</u>
Operating income (loss)	<u>—</u>	<u>14,904</u>	<u>632</u>	<u>(1,627)</u>	<u>138</u>	<u>—</u>	<u>14,047</u>

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

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

Year ended June 30, 2011

(In thousands)

	Baltimore Washington Medical System, Inc.	Baltimore Washington Medical Center	Baltimore Washington Healthcare Services	Baltimore Washington Health Enterprises	North County Corporation	Eliminations	BUMS Consolidated Total
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	202	—	—	(384)	—	—	(182)
Investment income	17,920	4,232	—	6	—	(17,917)	4,241
Change in fair value of investments	—	2,836	—	—	—	—	2,836
Other nonoperating gains and losses	—	(2,821)	—	—	—	—	(2,821)
Total other nonoperating gains and losses	<u>18,122</u>	<u>4,247</u>	<u>—</u>	<u>(378)</u>	<u>—</u>	<u>(17,917)</u>	<u>4,074</u>
Excess (deficiency) of revenues over expenses	18,122	19,151	632	(2,005)	138	(17,917)	18,121
Net assets released from restrictions used for purchase of property and equipment	750	750	—	—	—	(750)	750
Change in unrealized gains on investments	—	—	—	—	—	—	—
Change in economic and beneficial interests in the net assets of related organizations	—	—	—	—	—	—	—
Change in ownership interest of joint ventures	—	—	—	—	—	—	—
Capital transfers (to) from affiliate	—	—	—	(1,831)	—	1,831	—
Change in fair value of designated interest rate swaps	—	—	—	—	—	—	—
Change in funded status of defined benefit pension plans	4,736	4,736	—	—	—	(4,736)	4,736
Other	1	3	—	—	—	(3)	1
Increase (decrease) in unrestricted net assets	<u>\$ 23,609</u>	<u>24,640</u>	<u>632</u>	<u>(3,836)</u>	<u>138</u>	<u>(21,575)</u>	<u>23,608</u>

See accompanying independent auditors' report.

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

Consolidating Operations Information by Division for Shore Health System (SHS)

Year ended June 30, 2011

(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.	Chesapeake Ear, Nose, Throat, Sinus, and Hearing Center, LLC	Chesapeake Neurological Surgery, LLC	Eliminations	SHS Consolidated Total
Unrestricted revenues, gains and other support:									
Net patient service revenue	\$ 217,704	—	5,511	—	7,756	766	729	(604)	231,862
Other operating revenue:									
State support	—	—	—	—	—	—	—	—	—
Other revenue	6,301	—	87	57	627	1	—	(1,471)	5,602
Total unrestricted revenue, gains and other support	224,005	—	5,598	57	8,383	767	729	(2,075)	237,464
Operating expenses:									
Salaries, wages and benefits	106,570	—	4,005	—	9,925	1,021	887	(580)	121,828
Expendable supplies	32,302	—	269	—	455	25	9	—	33,060
Purchased services	37,317	—	1,311	21	3,091	191	155	(1,638)	40,448
Contracted services	6,990	—	18	—	1,010	—	540	—	8,558
Depreciation and amortization	14,484	—	35	12	211	24	19	—	14,785
Interest expense	3,260	—	—	61	—	—	—	(61)	3,260
Provision for bad debts	8,435	—	86	—	67	4	3	—	8,595
Total operating expenses	209,358	—	5,724	94	14,759	1,265	1,613	(2,279)	230,534
Operating income (loss)	14,647	—	(126)	(37)	(6,376)	(498)	(884)	204	6,930
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	83	121	2	—	—	—	—	—	206
Equity in net income of joint ventures	—	—	—	—	—	—	—	—	—
Investment income (loss)	1,421	346	1	—	—	—	—	(61)	1,707
Change in fair value of investments	7,321	5,594	—	—	—	—	—	—	12,915
Other nonoperating gains and losses	(1,289)	(382)	—	—	—	—	—	(143)	(1,814)
Total other nonoperating gains and losses	7,536	5,679	3	—	—	—	—	(204)	13,014
Excess (deficiency) of revenues over expenses	22,183	5,679	(123)	(37)	(6,376)	(498)	(884)	—	19,944
Net assets released from restrictions used for purchase of property and equipment	764	—	—	—	—	—	—	—	764
Change in unrealized gains on investments	—	—	—	—	—	—	—	—	—
Change in economic and beneficial interests in the net assets of related organizations	5,680	—	—	—	—	—	—	(5,680)	—
Change in ownership interest of joint ventures	6,431	—	—	—	—	—	—	(6,431)	—
Capital transfers (to) from affiliate	(14,350)	—	—	—	8,657	2,002	3,691	—	—
Change in fair value of designated interest rate swaps	—	—	—	—	—	—	—	—	—
Change in funded status of defined benefit pension plans	—	—	—	—	—	—	—	—	—
Net losses from nonconsolidated subsidiaries	—	—	—	—	—	—	—	—	—
Other	(17)	—	—	—	—	1	—	—	(16)
Increase (decrease) in unrestricted net assets	\$ 20,691	5,679	(123)	(37)	2,281	1,505	2,807	(12,111)	20,692

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)

Year ended June 30, 2011

(In thousands)

	Chester River Hospital Center	Chester River Manor	Chester River Home Care and Hospice	Chester River Health Foundation	Eliminations	CRHS Consolidated Total
Unrestricted revenues, gains and other support:						
Net patient service revenue	\$ 55,065	8,494	2,574	—	—	66,133
Other operating revenue:						
State support	—	—	—	—	—	—
Other revenue	498	26	64	—	—	588
Total unrestricted revenue, gains and other support	<u>55,563</u>	<u>8,520</u>	<u>2,638</u>	<u>—</u>	<u>—</u>	<u>66,721</u>
Operating expenses:						
Salaries, wages and benefits	29,568	3,949	1,843	—	—	35,360
Expendable supplies	8,109	843	66	—	—	9,018
Purchased services	9,859	2,939	492	—	—	13,290
Contracted services	1,497	—	—	—	—	1,497
Depreciation and amortization	3,594	219	42	—	—	3,855
Interest expense	385	10	—	—	—	395
Provision for bad debts	2,020	103	73	—	—	2,196
Total operating expenses	<u>55,032</u>	<u>8,063</u>	<u>2,516</u>	<u>—</u>	<u>—</u>	<u>65,611</u>
Operating income	<u>531</u>	<u>457</u>	<u>122</u>	<u>—</u>	<u>—</u>	<u>1,110</u>

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

Consolidating Operations Information by Division for Chester River Health System, Inc. (CRHS)

Year ended June 30, 2011

(In thousands)

	Chester River Hospital Center	Chester River Manor	Chester River Home Care and Hospice	Chester River Health Foundation	Eliminations	CRHS Consolidated Total
Nonoperating income and expenses, net:						
Loss on early extinguishment of debt	\$ —	—	—	—	—	—
Other nonoperating gains and losses:						
Contributions	—	—	—	591	—	591
Equity in net income of joint ventures	—	—	—	—	—	—
Investment income	592	—	14	32	—	638
Change in fair value of investments	752	—	—	—	—	752
Other nonoperating gains and losses	219	5	(5)	(406)	(217)	(404)
Total other nonoperating gains and losses	1,563	5	9	217	(217)	1,577
Excess of revenues over expenses	2,094	462	131	217	(217)	2,687
Net assets released from restrictions used for purchase of property and equipment	—	—	—	—	—	—
Change in unrealized gains on investments	—	—	—	—	—	—
Change in economic and beneficial interests in the net assets of related organizations	—	—	—	—	—	—
Change in ownership interest of joint ventures	—	—	—	—	—	—
Capital transfers (to) from affiliate	—	—	—	—	—	—
Change in fair value of designated interest rate swaps	—	—	—	—	—	—
Change in funded status of defined benefit pension plans	1,834	—	—	—	—	1,834
Other	160	50	—	(125)	264	349
Increase in unrestricted net assets	\$ 4,088	512	131	92	47	4,870

See accompanying independent auditors' report.

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

Consolidating Operations Information by Division

Year ended June 30, 2010

(In thousands)

	University of Maryland Medical Center	University CARE	Kernan	University Specialty	Maryland General	Baltimore Washington	Shore Health	Chester River	UMMS Foundation	Shipley's	36 South Paca	Eliminations	Consolidated Total
Unrestricted revenues, gains and other support:													
Net patient service revenue	\$ 1,172,458	2,666	97,532	54,088	178,611	343,289	216,774	65,324	—	—	—	(1,080)	2,129,662
Other operating revenue:													
State support	3,200	—	—	—	—	—	—	—	—	—	—	—	3,200
Other revenue	47,786	2,144	2,488	221	2,174	7,063	3,393	660	—	988	1,147	(1,958)	66,106
Total unrestricted revenue, gains and other support	1,223,444	4,810	100,020	54,309	180,785	350,352	220,167	65,984	—	988	1,147	(3,038)	2,198,968
Operating expenses:													
Salaries, wages and benefits	507,010	3,500	46,161	28,482	86,133	165,344	115,155	36,442	—	—	172	—	988,399
Expendable supplies	226,144	263	15,127	6,011	15,551	55,129	29,629	9,891	—	1	47	—	357,793
Purchased services	146,365	4,419	18,279	14,331	26,162	53,745	38,851	12,878	—	455	742	(3,846)	312,381
Contracted services	90,508	—	7,636	—	22,793	9,157	9,590	1,160	—	—	—	—	140,844
Depreciation and amortization	61,797	—	3,358	2,068	9,888	22,601	14,256	3,336	—	159	303	—	117,766
Interest expense	28,748	—	536	885	1,205	5,754	2,451	405	—	—	67	—	40,051
Provision for bad debts	103,541	328	9,057	5,742	16,615	31,308	9,363	3,335	—	—	—	—	179,289
Total operating expenses	1,164,113	8,510	100,154	57,519	178,347	343,038	219,295	67,447	—	615	1,331	(3,846)	2,136,523
Operating income (loss)	59,331	(3,700)	(134)	(3,210)	2,438	7,314	872	(1,463)	—	373	(184)	808	62,445
Nonoperating income and expenses, net:													
Loss on early extinguishment of debt	(816)	—	—	—	—	—	—	—	—	—	—	—	(816)
Change in fair value of undesignated interest rate swaps	(33,700)	—	—	—	—	—	—	—	—	—	—	—	(33,700)
Other nonoperating gains and losses:													
Contributions	—	—	—	—	—	—	559	651	6,927	—	—	—	8,137
Equity in net income of joint ventures	(3,789)	—	—	—	3,367	186	—	—	—	—	—	3,750	3,514
Investment income (loss)	1,499	—	50	39	(428)	213	(2,577)	275	1,065	—	—	—	136
Change in fair value of investments	18,502	—	1,259	1,721	3,255	5,862	13,043	62	1,888	—	—	—	45,592
Other nonoperating gains and losses	(2,205)	—	—	33	(1,999)	(4,763)	(1,801)	(169)	(3,264)	—	—	370	(13,798)
Total other nonoperating gains and losses	14,007	—	1,309	1,793	4,195	1,498	9,224	819	6,616	—	—	4,120	43,581
Excess (deficiency) of revenues over expenses	38,822	(3,700)	1,175	(1,417)	6,633	8,812	10,096	(644)	6,616	373	(184)	4,928	71,510
Net assets released from restrictions used for purchase of property and equipment	7,336	—	750	—	26,563	1,000	1,090	—	(4,127)	—	—	—	32,612
Change in unrealized gains on investments	—	—	—	—	—	—	—	—	—	—	—	—	—
Change in economic and beneficial interests in the net assets of related organizations	—	—	—	—	—	—	—	—	—	—	—	—	—
Change in ownership interest of joint ventures	3,478	—	—	—	—	—	—	—	—	—	—	—	3,478
Capital transfers (to) from affiliate	—	3,769	—	—	—	—	—	1,977	—	—	—	(5,746)	—
Change in fair value of designated interest rate swaps	(7,408)	—	—	—	—	—	(2)	—	—	—	—	—	(7,410)
Change in funded status of defined benefit pension plans	—	—	—	—	(3,830)	(361)	—	(575)	—	—	—	—	(4,766)
Other	13	(29)	—	—	18	(2)	(11)	2	1	—	1	(23)	(30)
Increase (decrease) in unrestricted net assets	\$ 42,241	40	1,925	(1,417)	29,384	9,449	11,173	760	2,490	373	(183)	(841)	95,394

See accompanying independent auditors' report.

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

Consolidating Operations Information by Division for Maryland General Health Systems (MGHS)

Year ended June 30, 2010

(In thousands)

	Maryland General Health Systems, Inc.	Maryland General Hospital	Maryland General Clin. Prac. Group	Eliminations	MGHS Consolidated Total
Unrestricted revenues, gains and other support:					
Net patient service revenue	\$ —	175,997	9,492	(6,878)	178,611
Other operating revenue:					
State support	—	—	—	—	—
Other revenue	898	1,275	1	—	2,174
Total unrestricted revenue, gains and other support	<u>898</u>	<u>177,272</u>	<u>9,493</u>	<u>(6,878)</u>	<u>180,785</u>
Operating expenses:					
Salaries, wages and benefits	—	86,133	—	—	86,133
Expendable supplies	—	15,551	—	—	15,551
Purchased services	826	25,323	13	—	26,162
Contracted services	—	22,793	6,878	(6,878)	22,793
Depreciation and amortization	448	9,440	—	—	9,888
Interest expense	113	1,092	—	—	1,205
Provision for bad debts	—	14,013	2,602	—	16,615
Total operating expenses	<u>1,387</u>	<u>174,345</u>	<u>9,493</u>	<u>(6,878)</u>	<u>178,347</u>
Operating income (loss)	<u>(489)</u>	<u>2,927</u>	<u>—</u>	<u>—</u>	<u>2,438</u>

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

Consolidating Operations Information by Division for Maryland General Health Systems (MGHS)

Year ended June 30, 2010

(In thousands)

	Maryland General Health Systems, Inc.	Maryland General Hospital	Maryland General Clin. Prac. Group	Eliminations	MGHS Consolidated Total
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	3,367	—	—	—	3,367
Investment loss	—	(428)	—	—	(428)
Change in fair value of investments	—	3,255	—	—	3,255
Other nonoperating gains and losses	—	(1,999)	—	—	(1,999)
Total other nonoperating gains and losses	<u>3,367</u>	<u>828</u>	<u>—</u>	<u>—</u>	<u>4,195</u>
Excess of revenues over expenses	2,878	3,755	—	—	6,633
Net assets released from restrictions used for purchase of property and equipment	—	26,563	—	—	26,563
Change in unrealized gains on investments	—	—	—	—	—
Change in economic and beneficial interests in the net assets of related organizations	—	—	—	—	—
Change in ownership interest of joint ventures	—	—	—	—	—
Capital transfers (to) from affiliate	220	(220)	—	—	—
Change in fair value of designated interest rate swaps	—	—	—	—	—
Change in funded status of defined benefit pension plans	—	(3,830)	—	—	(3,830)
Other	—	18	—	—	18
Increase in unrestricted net assets	<u>\$ 3,098</u>	<u>26,286</u>	<u>—</u>	<u>—</u>	<u>29,384</u>

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, 2010

(In thousands)

	Baltimore Washington Medical System, Inc.	Baltimore Washington Medical Center	Baltimore Washington Healthcare Services	Baltimore Washington Health Enterprises	North County Corporation	Eliminations	BWMS Consolidated Total
Unrestricted revenues, gains and other support:							
Net patient service revenue	\$ —	309,441	27,298	8,753	—	(2,203)	343,289
Other operating revenue:							
State support	—	—	—	—	—	—	—
Other revenue	3,238	3,251	—	2,464	2,216	(4,106)	7,063
Total unrestricted revenue, gains and other support	3,238	312,692	27,298	11,217	2,216	(6,309)	350,352
Operating expenses:							
Salaries, wages and benefits	3,238	146,988	9,917	5,201	—	—	165,344
Expendable supplies	—	54,425	—	704	—	—	55,129
Purchased services	—	50,292	5,230	3,287	1,245	(6,309)	53,745
Contracted services	—	8,457	—	700	—	—	9,157
Depreciation and amortization	—	21,124	—	943	534	—	22,601
Interest expense	—	4,904	—	762	88	—	5,754
Provision for bad debts	—	19,507	11,801	—	—	—	31,308
Total operating expenses	3,238	305,697	26,948	11,597	1,867	(6,309)	343,038
Operating income (loss)	—	6,995	350	(380)	349	—	7,314

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

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

Year ended June 30, 2010

(In thousands)

	Baltimore Washington Medical System, Inc.	Baltimore Washington Medical Center	Baltimore Washington Healthcare Services	Baltimore Washington Health Enterprises	North County Corporation	Eliminations	BWMS Consolidated Total
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	186	—	—	—	—	—	186
Investment income	8,624	292	—	(82)	—	(8,621)	213
Change in fair value of investments	—	5,862	—	—	—	—	5,862
Other nonoperating gains and losses	—	(4,556)	—	(207)	—	—	(4,763)
Total other nonoperating gains and losses	<u>8,810</u>	<u>1,598</u>	<u>—</u>	<u>(289)</u>	<u>—</u>	<u>(8,621)</u>	<u>1,498</u>
Excess (deficiency) of revenues over expenses	8,810	8,593	350	(669)	349	(8,621)	8,812
Net assets released from restrictions used for purchase of property and equipment	1,000	1,000	—	—	—	(1,000)	1,000
Change in unrealized gains on investments	—	—	—	—	—	—	—
Change in economic and beneficial interests in the net assets of related organizations	(1,089)	—	—	—	—	1,089	—
Change in ownership interest of joint ventures	—	—	—	—	—	—	—
Capital transfers (to) from affiliate	—	—	—	(1,908)	—	1,908	—
Change in fair value of designated interest rate swaps	—	—	—	—	—	—	—
Change in funded status of defined benefit pension plans	(361)	(361)	—	—	—	361	(361)
Other	—	(1)	—	(2)	—	1	(2)
Increase in unrestricted net assets	<u>\$ 8,360</u>	<u>9,231</u>	<u>350</u>	<u>(2,579)</u>	<u>349</u>	<u>(6,262)</u>	<u>9,449</u>

See accompanying independent auditors' report.

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

Consolidating Operations Information by Division for Shore Health System (SHS)

Year ended June 30, 2010

(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.	Chesapeake Ear, Nose, Throat, Sinus, and Hearing Center, LLC	Chesapeake Neurological Surgery, LLC	Eliminations	SHS Consolidated Total
Unrestricted revenues, gains and other support:									
Net patient service revenue	\$ 201,717	—	5,780	—	8,692	792	347	(554)	216,774
Other operating revenue:									
State support	—	—	—	—	—	—	—	—	—
Other revenue	4,455	—	16	57	259	42	—	(1,436)	3,393
Total unrestricted revenue, gains and other support	206,172	—	5,796	57	8,951	834	347	(1,990)	220,167
Operating expenses:									
Salaries, wages and benefits	103,374	—	3,948	—	7,398	913	52	(530)	115,155
Expendable supplies	28,857	—	290	—	441	40	1	—	29,629
Purchased services	36,112	—	1,214	23	2,567	199	234	(1,498)	38,851
Contracted services	5,907	—	18	—	3,059	—	606	—	9,590
Depreciation and amortization	14,019	—	36	12	141	29	19	—	14,256
Interest expense	2,451	—	—	84	—	—	—	(84)	2,451
Provision for bad debts	8,451	—	94	—	725	29	64	—	9,363
Total operating expenses	199,171	—	5,600	119	14,331	1,210	976	(2,112)	219,295
Operating income (loss)	7,001	—	196	(62)	(5,380)	(376)	(629)	122	872
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	240	559	—	—	—	—	—	(240)	559
Equity in net income of joint ventures	—	—	—	—	—	—	—	—	—
Investment income (loss)	(1,216)	(1,278)	1	—	—	—	—	(84)	(2,577)
Change in fair value of investments	7,057	5,986	—	—	—	—	—	—	13,043
Other nonoperating gains and losses	(1,488)	(515)	—	—	—	—	—	202	(1,801)
Total other nonoperating gains and losses	4,593	4,752	1	—	—	—	—	(122)	9,224
Excess (deficiency) of revenues over expenses	11,594	4,752	197	(62)	(5,380)	(376)	(629)	—	10,096
Net assets released from restrictions used for purchase of property and equipment	1,090	—	—	—	—	—	—	—	1,090
Change in unrealized gains on investments	—	—	—	—	—	—	—	—	—
Change in economic and beneficial interests in the net assets of related organizations	4,332	—	—	—	—	—	—	(4,332)	—
Change in ownership interest of joint ventures	—	—	—	—	—	—	—	—	—
Capital transfers (to) from affiliate	(5,827)	—	—	—	5,827	—	—	—	—
Change in fair value of designated interest rate swaps	(2)	—	—	—	—	—	—	—	(2)
Change in funded status of defined benefit pension plans	—	—	—	—	—	—	—	—	—
Net losses from nonconsolidated subsidiaries	—	—	—	—	—	—	—	—	—
Other	(14)	1	—	1	—	—	1	—	(11)
Increase (decrease) in unrestricted net assets	\$ 11,173	4,753	197	(61)	447	(376)	(628)	(4,332)	11,173

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)

Year ended June 30, 2010

(In thousands)

	Chester River Hospital Center	Chester River Manor	Chester River Home Care and Hospice	Chester River Health Foundation	Eliminations	CRHS Consolidated Total
Unrestricted revenues, gains and other support:						
Net patient service revenue	\$ 55,023	7,839	2,462	—	—	65,324
Other operating revenue:						
State support	—	—	—	—	—	—
Other revenue	575	2	83	—	—	660
Total unrestricted revenue, gains and other support	<u>55,598</u>	<u>7,841</u>	<u>2,545</u>	<u>—</u>	<u>—</u>	<u>65,984</u>
Operating expenses:						
Salaries, wages and benefits	30,265	4,306	1,706	—	165	36,442
Expendable supplies	9,041	793	57	—	—	9,891
Purchased services	10,113	2,220	545	—	—	12,878
Contracted services	1,160	—	—	—	—	1,160
Depreciation and amortization	3,130	198	8	—	—	3,336
Interest expense	393	14	—	—	(2)	405
Provision for bad debts	3,170	57	108	—	—	3,335
Total operating expenses	<u>57,272</u>	<u>7,588</u>	<u>2,424</u>	<u>—</u>	<u>163</u>	<u>67,447</u>
Operating income (loss)	<u>(1,674)</u>	<u>253</u>	<u>121</u>	<u>—</u>	<u>(163)</u>	<u>(1,463)</u>

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

Consolidating Operations Information by Division for Chester River Health System, Inc. (CRHS)

Year ended June 30, 2010

(In thousands)

	Chester River Hospital Center	Chester River Manor	Chester River Home Care and Hospice	Chester River Health Foundation	Eliminations	CRHS Consolidated Total
Nonoperating income and expenses, net:						
Loss on early extinguishment of debt	\$ —	—	—	—	—	—
Other nonoperating gains and losses:						
Contributions	—	—	—	651	—	651
Equity in net income of joint ventures	—	—	—	—	—	—
Investment income	220	—	25	32	(2)	275
Change in fair value of investments	62	—	—	—	—	62
Other nonoperating gains and losses	364	7	(22)	(334)	(184)	(169)
Total other nonoperating gains and losses	646	7	3	349	(186)	819
Excess (deficiency) of revenues over expenses	(1,028)	260	124	349	(349)	(644)
Net assets released from restrictions used for purchase of property and equipment	205	—	—	(205)	—	—
Change in unrealized gains on investments	—	—	—	—	—	—
Change in economic and beneficial interests in the net assets of related organizations	—	—	—	—	—	—
Change in ownership interest of joint ventures	—	—	—	—	—	—
Capital transfers (to) from affiliate	1,977	—	—	(23)	23	1,977
Change in fair value of designated interest rate swaps	—	—	—	—	—	—
Change in funded status of defined benefit pension plans	(575)	—	—	—	—	(575)
Other	(130)	2	(1)	—	131	2
Increase in unrestricted net assets	\$ 449	262	123	121	(195)	760

See accompanying independent auditors' report.

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

Combining Balance Sheet Information – Obligated Group

June 30, 2011

(In thousands)

Assets	University of Maryland Medical Center	Kernan Hospital, Inc.	University Specialty Hospital, Inc.	Maryland General Hospital, Inc.	Baltimore Washington Medical Center, Inc.	Shore Health System, Inc.	Chester River Health System, Inc.	UMMS Foundation	Eliminations	Obligated Group Total
Current assets:										
Cash and cash equivalents	\$ 140,420	14,416	2,947	14,551	24,561	13,585	—	—	—	210,480
Assets limited as to use, current portion	37,469		—	986	833	471	—	—	—	39,759
Accounts receivable:										
Patient accounts receivable, less allowance for doubtful accounts of \$151,402	152,030	12,026	5,606	12,804	35,324	26,390	—	—	—	244,180
Other	36,716	6,314	323	1,403	1,234	4,276	—	(2,672)	(9,428)	38,166
Inventories	18,119	990	616	2,043	6,014	3,774	—	—	—	31,556
Prepaid expenses and other current assets	39,391	105	24	300	8,759	941	—	1,500	—	51,020
Total current assets	<u>424,145</u>	<u>33,851</u>	<u>9,516</u>	<u>32,087</u>	<u>76,725</u>	<u>49,437</u>	<u>—</u>	<u>(1,172)</u>	<u>(9,428)</u>	<u>615,161</u>
Investments	304,671	13,154	5,303	—	48,420	30,162	—	—	—	401,710
Assets limited as to use, less current portion:										
Debt service funds	41,770	—	—	—	—	—	—	—	—	41,770
Construction funds	146,001	1,997	—	9,867	19,874	3,086	—	—	—	180,825
Board designated and escrow funds	—	—	—	—	—	25,000	—	32,211	—	57,211
Self-insurance trust funds	39,485	—	—	25,326	16,495	11,916	—	—	—	93,222
Funds restricted by donor	—	—	—	3,545	—	3,852	—	21,536	—	28,933
Economic interests in the net assets of related organizations	56,843	34,982	407	735	5,896	59,272	—	—	(59,613)	98,522
	<u>284,099</u>	<u>36,979</u>	<u>407</u>	<u>39,473</u>	<u>42,265</u>	<u>103,126</u>	<u>—</u>	<u>53,747</u>	<u>(59,613)</u>	<u>500,483</u>
Property and equipment, net	717,512	36,569	20,025	91,492	243,873	112,836	—	1,807	—	1,224,114
Deferred financing costs, net	7,547	—	—	—	—	—	—	—	—	7,547
Investments in joint ventures and other assets	201,466	—	—	149	630	8,799	32,969	5,315	(34,733)	214,595
Total assets	<u>\$ 1,939,440</u>	<u>120,553</u>	<u>35,251</u>	<u>163,201</u>	<u>411,913</u>	<u>304,360</u>	<u>32,969</u>	<u>59,697</u>	<u>(103,774)</u>	<u>2,963,610</u>

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

Combining Balance Sheet Information – Obligated Group

June 30, 2011

(In thousands)

Liabilities and Net Assets	University of Maryland Medical Center	Kernan Hospital, Inc.	University Specialty Hospital, Inc.	Maryland General Hospital, Inc.	Baltimore Washington Medical Center, Inc.	Shore Health System, Inc.	Chester River Health System, Inc.	UMMS Foundation	Eliminations	Obligated Group Total
Current liabilities:										
Trade accounts payable	\$ 103,712	5,763	3,347	9,720	20,766	5,406	—	84	—	148,798
Accrued payroll and benefits	71,642	4,138	2,909	12,252	17,924	13,019	—	—	(228)	121,656
Advances from third-party payors	66,844	3,596	4,697	6,468	8,112	5,287	—	—	—	95,004
Lines of credit	54,600	—	—	—	—	—	—	—	—	54,600
Other current liabilities	79,192	1,600	11,653	4,670	24,434	6,197	—	—	(9,005)	118,741
Long-term debt subject to short-term remarketing arrangements	164,055	—	—	—	—	—	—	—	—	164,055
Current portion of long-term debt	15,051	270	300	884	4,120	1,883	—	—	(133)	22,375
Total current liabilities	555,096	15,367	22,906	33,994	75,356	31,792	—	84	(9,366)	725,229
Long-term debt, less current portion	517,591	12,319	6,956	40,220	187,521	85,845	—	—	—	850,452
Other long-term liabilities	32,272	441	186	24,593	14,987	6,837	—	—	—	79,316
Interest rate swap liabilities	105,400	—	—	—	—	—	—	—	—	105,400
Total liabilities	1,210,359	28,127	30,048	98,807	277,864	124,474	—	84	(9,366)	1,760,397
Net assets:										
Unrestricted	657,739	57,444	4,796	60,114	128,153	155,505	31,266	34,925	(34,795)	1,095,147
Temporarily restricted	70,929	34,982	407	4,280	5,896	12,197	323	6,122	(59,613)	75,523
Permanently restricted	413	—	—	—	—	12,184	1,380	18,566	—	32,543
Total net assets	729,081	92,426	5,203	64,394	134,049	179,886	32,969	59,613	(94,408)	1,203,213
Total liabilities and net assets	\$ 1,939,440	120,553	35,251	163,201	411,913	304,360	32,969	59,697	(103,774)	2,963,610

See accompanying independent auditors' report.

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

Combining Balance Sheet Information – Obligated Group

June 30, 2010

(In thousands)

Assets	University of Maryland Medical Center	Kernan Hospital, Inc.	University Specialty Hospital, Inc.	Maryland General Hospital, Inc.	Baltimore Washington Medical Center, Inc.	Shore Health System, Inc.	Chester River Health System, Inc.	UMMS Foundation	Eliminations	Obligated Group Total
Current assets:										
Cash and cash equivalents	\$ 175,378	9,151	2,219	11,538	15,472	16,946	—	—	—	230,704
Assets limited as to use, current portion	36,570	—	—	986	846	471	—	—	—	38,873
Accounts receivable:										
Patient accounts receivable, less allowance for doubtful accounts of \$128,261	137,783	13,881	2,733	17,485	35,624	24,196	—	—	—	231,702
Other	40,926	6,886	193	1,215	366	7,806	—	—	(10,567)	46,825
Inventories	17,014	987	556	1,703	5,456	3,785	—	—	—	29,501
Prepaid expenses and other current assets	55,070	15	17	596	8,775	675	—	1,500	—	66,648
Total current assets	462,741	30,920	5,718	33,523	66,539	53,879	—	1,500	(10,567)	644,253
Investments	184,626	11,252	15,330	—	42,121	21,950	—	—	—	275,279
Assets limited as to use, less current portion:										
Debt service funds	39,553	—	—	—	—	—	—	—	—	39,553
Construction funds	160,185	—	—	8,602	28,315	6,987	—	—	—	204,089
Board designated and escrow funds	—	—	—	—	—	25,000	—	27,202	—	52,202
Self-insurance trust funds	38,393	—	—	22,738	11,529	7,351	—	—	—	80,011
Funds restricted by donor	—	—	—	958	—	3,285	—	20,371	—	24,614
Economic interests in the net assets of related organizations	52,158	29,232	390	3,242	5,895	43,255	—	—	(54,828)	79,344
	290,289	29,232	390	35,540	45,739	85,878	—	47,573	(54,828)	479,813
Property and equipment, net	668,500	35,971	18,974	93,537	232,965	114,061	—	1,800	—	1,165,808
Deferred financing costs, net	8,661	—	—	—	—	—	—	—	—	8,661
Investments in joint ventures and other assets	146,393	—	—	163	86	8,396	27,842	4,057	(38,015)	148,922
Total assets	\$ 1,761,210	107,375	40,412	162,763	387,450	284,164	27,842	54,930	(103,410)	2,722,736

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

Combining Balance Sheet Information – Obligated Group

June 30, 2010

(In thousands)

Liabilities and Net Assets	University of Maryland Medical Center	Kernan Hospital, Inc.	University Specialty Hospital, Inc.	Maryland General Hospital, Inc.	Baltimore Washington Medical Center, Inc.	Shore Health System, Inc.	Chester River Health System, Inc.	UMMS Foundation	Eliminations	Obligated Group Total
Current liabilities:										
Trade accounts payable	\$ 97,956	5,015	3,031	9,150	13,980	9,674	—	102	—	138,908
Accrued payroll and benefits	67,339	3,843	2,826	11,108	16,723	12,068	—	—	(110)	113,797
Advances from third-party payors	61,988	2,445	4,294	6,630	6,010	5,090	—	—	—	86,457
Lines of credit	63,300	—	—	—	—	—	—	—	—	63,300
Other current liabilities	69,794	845	13,943	12,024	26,920	6,038	—	—	(9,895)	119,669
Long-term debt subject to short-term remarketing arrangements	70,069	—	—	—	—	—	—	—	—	70,069
Current portion of long-term debt	27,162	259	300	965	3,961	1,808	—	—	—	34,455
Total current liabilities	457,608	12,407	24,394	39,877	67,594	34,678	—	102	(10,005)	626,655
Long-term debt, less current portion	595,578	12,590	7,256	41,090	191,635	88,158	—	—	(562)	935,745
Other long-term liabilities	36,114	441	357	33,941	18,813	6,210	—	—	—	95,876
Interest rate swap liabilities	128,575	—	—	—	—	—	—	—	—	128,575
Total liabilities	1,217,875	25,438	32,007	114,908	278,042	129,046	—	102	(10,567)	1,786,851
Net assets:										
Unrestricted	486,180	52,705	8,015	43,655	103,513	134,814	26,396	31,324	(38,015)	848,587
Temporarily restricted	56,742	29,232	390	4,200	5,895	9,221	75	5,124	(54,828)	56,051
Permanently restricted	413	—	—	—	—	11,083	1,371	18,380	—	31,247
Total net assets	543,335	81,937	8,405	47,855	109,408	155,118	27,842	54,828	(92,843)	935,885
Total liabilities and net assets	\$ 1,761,210	107,375	40,412	162,763	387,450	284,164	27,842	54,930	(103,410)	2,722,736

See accompanying independent auditors' report.

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

Combining Operations Information – Obligated Group

Year ended June 30, 2011

(In thousands)

	University of Maryland Medical Center				Kernan Hospital	University Specialty	Maryland General Hospital	Baltimore Washington Medical Center	Shore Health System				Chester River Health System, Inc.	UMMS Foundation	Eliminations	Obligated Group Total
	University Hospital	Shock Trauma Center	Cancer Center	Subtotal					Memorial Hospital	Dorchester General	QAEC	Subtotal				
Unrestricted revenues, gains and other support:																
Net patient service revenue	\$ 1,035,336	193,030	47,828	1,276,194	94,263	52,512	180,958	326,216	164,741	50,010	2,953	217,704	—	—	(447)	2,147,400
Other operating revenue:																
State support	—	3,200	—	3,200	—	—	—	—	—	—	—	—	—	—	—	3,200
Other revenue	50,670	1	105	50,776	2,575	326	1,347	3,292	5,598	703	—	6,301	—	—	(575)	64,042
Total unrestricted revenue, gains and other support	1,086,006	196,231	47,933	1,330,170	96,838	52,838	182,305	329,508	170,339	50,713	2,953	224,005	—	—	(1,022)	2,214,642
Operating expenses:																
Salaries, wages, and benefits	481,050	52,905	18,471	552,426	44,786	27,606	85,855	147,837	79,647	24,848	2,075	106,570	—	—	—	965,080
Expendable supplies	194,436	24,629	19,908	238,973	15,127	6,161	16,304	60,399	26,492	5,385	425	32,302	—	—	—	369,266
Purchased services	105,486	52,793	12,245	170,524	18,284	16,591	23,307	49,277	28,805	8,297	215	37,317	—	—	(1,022)	314,278
Contracted services	76,243	10,046	3,227	89,516	7,644	—	22,770	7,830	3,527	2,027	1,436	6,990	—	—	—	134,750
Depreciation and amortization	62,857	4,455	2,289	69,601	3,206	2,347	10,694	22,001	11,413	2,560	511	14,484	—	—	—	122,333
Interest expense	26,881	—	—	26,881	476	861	1,595	5,813	2,779	91	390	3,260	—	—	—	38,886
Provision for bad debts	60,942	36,316	3,895	101,153	6,094	4,467	17,513	21,447	6,396	1,950	89	8,435	—	—	—	159,109
Total operating expenses	1,007,895	181,144	60,035	1,249,074	95,617	58,033	178,038	314,604	159,059	45,158	5,141	209,358	—	—	(1,022)	2,103,702
Operating income (loss)	78,111	15,087	(12,102)	81,096	1,221	(5,195)	4,267	14,904	11,280	5,555	(2,188)	14,647	—	—	—	110,940
Nonoperating income and expenses, net:																
Loss on early extinguishment of debt	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Change in fair value of undesignated interest rate swaps	18,640	—	—	18,640	—	—	—	—	—	—	—	—	—	—	—	18,640
Other nonoperating gains and losses:																
Contributions	—	—	—	—	—	—	—	—	83	—	—	83	—	5,258	—	5,341
Equity in net income of joint ventures	10,366	—	—	10,366	—	—	—	—	—	—	—	—	—	—	3,220	13,586
Investment income	22,771	1,966	806	25,543	280	1,275	290	4,232	692	15	—	707	—	4,362	—	36,689
Change in fair value of investments	16,500	—	—	16,500	1,637	700	152	2,836	8,035	—	—	8,035	—	1,743	—	31,603
Other nonoperating gains and losses	(9,420)	—	—	(9,420)	(185)	—	(550)	(2,821)	(1,071)	(218)	—	(1,289)	—	(2,954)	—	(17,219)
Total other nonoperating gains and losses	40,217	1,966	806	42,989	1,732	1,975	(108)	4,247	7,739	(203)	—	7,536	—	8,409	3,220	70,000
Excess (deficiency) of revenues over expenses	136,968	17,053	(11,296)	142,725	2,953	(3,220)	4,159	19,151	19,019	5,352	(2,188)	22,183	—	8,409	3,220	199,580
Net assets released from restrictions used for purchase of property and equipment	20,815	—	—	20,815	750	—	885	750	764	—	—	764	—	—	—	23,964
Change in unrealized gains on investments	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Change in economic and beneficial interests in the net assets of related organizations	—	—	—	—	—	—	—	—	5,680	—	—	5,680	—	—	—	5,680
Change in ownership interest of joint ventures	2,268	—	—	2,268	—	—	—	—	6,431	—	—	6,431	—	—	—	8,699
Capital transfers (to) from affiliate	3,801	—	—	3,801	1,035	—	1,647	—	(14,350)	—	—	(14,350)	—	(4,883)	—	(12,750)
Change in fair value of designated interest rate swaps	2,298	—	—	2,298	—	—	—	—	—	—	—	—	—	—	—	2,298
Change in funded status of defined benefit pension plans	—	—	—	—	—	—	9,752	4,736	—	—	—	—	—	—	—	14,488
Net gains from nonconsolidated subsidiaries	—	—	—	—	—	—	—	—	—	—	—	—	4,870	—	—	4,870
Other	(348)	—	—	(348)	1	1	16	3	(17)	—	—	(17)	—	75	—	(269)
Increase (decrease) in unrestricted net assets	\$ 165,802	17,053	(11,296)	171,559	4,739	(3,219)	16,459	24,640	17,527	5,352	(2,188)	20,691	4,870	3,601	3,220	246,560

See accompanying independent auditors' report.

UNIVERSITY OF MARYLAND MEDICAL SYSTEM CORPORATION
AND SUBSIDIARIES

Combining Operations Information – Obligated Group

Year ended June 30, 2010

(In thousands)

	University of Maryland Medical Center				Kernan Hospital	University Specialty	Maryland General Hospital	Baltimore Washington Medical Center	Shore Health System			Chester River Health System, Inc.	UMMS Foundation	Eliminations	Obligated Group Total
	University Hospital	Shock Trauma Center	Cancer Center	Subtotal					Memorial Hospital	Dorchester General	Subtotal				
Unrestricted revenues, gains and other support:															
Net patient service revenue	\$ 940,075	175,990	56,393	1,172,458	95,846	54,088	175,997	309,441	154,346	47,371	201,717	—	—	(452)	2,009,095
Other operating revenue:															
State support	—	3,200	—	3,200	—	—	—	—	—	—	—	—	—	—	3,200
Other revenue	47,607	—	179	47,786	2,424	221	1,275	3,251	3,426	1,029	4,455	—	—	(631)	58,781
Total unrestricted revenue, gains and other support	987,682	179,190	56,572	1,223,444	98,270	54,309	177,272	312,692	157,772	48,400	206,172	—	—	(1,083)	2,071,076
Operating expenses:															
Salaries, wages, and benefits	438,885	50,628	17,497	507,010	44,887	28,482	86,133	146,988	78,414	24,960	103,374	—	—	—	916,874
Expendable supplies	184,160	24,013	17,971	226,144	15,104	6,011	15,551	54,425	23,337	5,520	28,857	—	—	—	346,092
Purchased services	89,905	40,370	16,090	146,365	16,930	14,331	25,323	50,292	26,847	9,265	36,112	—	—	(1,083)	288,270
Contracted services	77,651	9,147	3,710	90,508	7,636	—	22,793	8,457	3,823	2,084	5,907	—	—	—	135,301
Depreciation and amortization	55,132	4,219	2,446	61,797	2,990	2,068	9,440	21,124	11,339	2,680	14,019	—	—	—	111,438
Interest expense	28,721	—	27	28,748	556	885	1,092	4,904	2,186	265	2,451	—	—	—	38,636
Provision for bad debts	60,668	37,459	5,414	103,541	8,990	5,742	14,013	19,507	6,454	1,997	8,451	—	—	—	160,244
Total operating expenses	935,122	165,836	63,155	1,164,113	97,093	57,519	174,345	305,697	152,400	46,771	199,171	—	—	(1,083)	1,996,855
Operating income (loss)	52,560	13,354	(6,583)	59,331	1,177	(3,210)	2,927	6,995	5,372	1,629	7,001	—	—	—	74,221
Nonoperating income and expenses, net:															
Loss on early extinguishment of debt	(816)	—	—	(816)	—	—	—	—	—	—	—	—	—	—	(816)
Change in fair value of undesignated interest rate swaps	(33,700)	—	—	(33,700)	—	—	—	—	—	—	—	—	—	—	(33,700)
Other nonoperating gains and losses:															
Contributions	—	—	—	—	—	—	—	—	240	—	240	—	6,927	—	7,167
Equity in net income of joint ventures	(3,789)	—	—	(3,789)	—	—	—	—	—	—	—	—	—	1,417	(2,372)
Investment income (loss)	(1,273)	1,966	806	1,499	271	39	(428)	292	(1,255)	39	(1,216)	—	1,065	—	1,522
Change in fair value of investments	18,502	—	—	18,502	1,038	1,721	3,255	5,862	7,052	5	7,057	—	1,888	—	39,323
Other nonoperating gains and losses	(2,205)	—	—	(2,205)	20	33	(1,999)	(4,556)	(1,497)	9	(1,488)	—	(3,264)	—	(13,459)
Total other nonoperating gains and losses	11,235	1,966	806	14,007	1,329	1,793	828	1,598	4,540	53	4,593	—	6,616	1,417	32,181
Excess (deficiency) of revenues over expenses	29,279	15,320	(5,777)	38,822	2,506	(1,417)	3,755	8,593	9,912	1,682	11,594	—	6,616	1,417	71,886
Net assets released from restrictions used for purchase of property and equipment	7,336	—	—	7,336	750	—	26,563	1,000	1,090	—	1,090	—	(4,127)	—	32,612
Change in unrealized gains on investments	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Change in economic and beneficial interests in the net assets of related organizations	—	—	—	—	—	—	—	—	4,332	—	4,332	—	—	—	4,332
Change in ownership interest of joint ventures	3,478	—	—	3,478	—	—	—	—	—	—	—	—	—	—	3,478
Capital transfers (to) from affiliate	—	—	—	—	—	—	(220)	—	(5,827)	—	(5,827)	—	—	—	(6,047)
Change in fair value of designated interest rate swaps	(7,408)	—	—	(7,408)	—	—	—	—	(2)	—	(2)	—	—	—	(7,410)
Change in funded status of defined benefit pension plans	—	—	—	—	—	—	(3,830)	(361)	—	—	—	—	—	—	(4,191)
Net gains (losses) from nonconsolidated subsidiaries	—	—	—	—	—	—	—	—	—	—	760	—	—	—	760
Other	13	—	—	13	—	—	18	(1)	(14)	—	(14)	—	1	—	17
Increase (decrease) in unrestricted net assets	\$ 32,698	15,320	(5,777)	42,241	3,256	(1,417)	26,286	9,231	9,491	1,682	11,173	760	2,490	1,417	95,437

See accompanying independent auditors' report.