

**Johns Hopkins Bayview
Medical Center, Inc.**

**Financial Statements
June 30, 2012 and 2011**

Johns Hopkins Bayview Medical Center, Inc.

Index

June 30, 2012 and 2011

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REPORT OF INDEPENDENT AUDITORS

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

In our opinion, the accompanying balance sheets and the related statements of operations and changes in net assets and cash flows present fairly, in all material respects, the financial position of Johns Hopkins Bayview Medical Center, Inc. ("JHBMC") at June 30, 2012 and 2011, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of JHBMC's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

A handwritten signature in cursive script that reads "PricewaterhouseCoopers LLP".

September 28, 2012

Johns Hopkins Bayview Medical Center, Inc.
Balance Sheets
June 30, 2012 and 2011
(in thousands)

	2012	2011
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 26,376	\$ 31,727
Short-term investments	1,288	6,865
Patient accounts receivable, net of estimated uncollectibles of \$18,756 and \$17,837 as of June 30, 2012 and 2011, respectively	67,015	58,552
Due from others - current portion	10,623	9,839
Due from affiliates - current portion	850	3,152
Inventories of supplies	7,080	6,525
Prepaid expenses and other current assets	5,351	1,872
Total current assets	<u>118,583</u>	<u>118,532</u>
Assets whose use is limited:		
By donors or grantors	7,705	10,965
By Board of Trustees	4,143	4,081
Malpractice funding arrangement and other	787	808
Total assets whose use is limited	<u>12,635</u>	<u>15,854</u>
Investments	<u>45,647</u>	<u>39,313</u>
Property, plant and equipment	427,149	415,680
Less: accumulated depreciation	<u>(258,574)</u>	<u>(248,605)</u>
Total property, plant and equipment, net	<u>168,575</u>	<u>167,075</u>
Due from others, net of current portion	4,796	5,796
Due from affiliate, net of current portion	1,970	2,626
Other assets	4,994	473
Total assets	<u>\$ 357,200</u>	<u>\$ 349,669</u>

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

Johns Hopkins Bayview Medical Center, Inc.
Balance Sheets, continued
June 30, 2012 and 2011
(in thousands)

	2012	2011
LIABILITIES AND NET ASSETS		
Current liabilities:		
Current portion of long-term debt	\$ 18,751	\$ 5,328
Accounts payable and accrued liabilities	39,515	37,135
Due to affiliates	5,686	2,821
Accrued vacation	6,410	5,796
Advances from third-party payors	18,298	17,134
Current portion of estimated malpractice costs	3,795	243
Total current liabilities	<u>92,455</u>	<u>68,457</u>
Long-term debt, net of current portion	78,140	96,891
Estimated malpractice costs, net of current portion	11,923	7,870
Net pension liability	127,707	85,606
Other long-term liabilities	17,927	11,841
Total liabilities	<u>328,152</u>	<u>270,665</u>
Net assets:		
Unrestricted	21,343	67,588
Temporarily restricted	4,131	7,842
Permanently restricted	3,574	3,574
Total net assets	<u>29,048</u>	<u>79,004</u>
Total liabilities and net assets	<u>\$ 357,200</u>	<u>\$ 349,669</u>

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

Johns Hopkins Bayview Medical Center, Inc.
Statements of Operations and Changes in Net Assets
For the years ended June 30, 2012 and 2011
(in thousands)

	2012	2011
Operating revenues:		
Net patient service revenue	\$ 505,487	\$ 464,474
Other revenue	46,703	44,663
Investment income	1,484	1,430
Net assets released from restrictions used for operations	<u>284</u>	<u>320</u>
Total operating revenues	<u>553,958</u>	<u>510,887</u>
Operating expenses:		
Salaries, wages and benefits	247,244	241,709
Purchased services	158,424	142,508
Supplies and other	82,437	76,136
Interest	299	475
Provision for bad debts	27,933	15,017
Depreciation and amortization	<u>24,002</u>	<u>25,729</u>
Total operating expenses	<u>540,339</u>	<u>501,574</u>
Income from operations	13,619	9,313
Non-operating revenues and expenses:		
Interest expense on swap agreements	(2,994)	(3,116)
Change in market value of swap agreements	(5,847)	1,789
Realized and unrealized (losses) / gains on investments	<u>(376)</u>	<u>2,172</u>
Excess of revenues over expenses	4,402	10,158
Change in funded status of defined benefit plans	(50,847)	12,286
Net assets released from restrictions used for purchases of PP&E	-	560
Contributions from affiliates	200	-
Changes in unrealized losses on investments	<u>-</u>	<u>(71)</u>
(Decrease) / increase in unrestricted net assets	<u>(46,245)</u>	<u>22,933</u>
Changes in temporarily restricted net assets:		
Gifts, grants and bequests	1,073	1,752
Net assets released from restrictions used for purchases of PP&E	-	(560)
Net assets released from restrictions used for operations	(284)	(320)
Other net assets released from restrictions	<u>(4,500)</u>	<u>-</u>
(Decrease) / increase in temporarily restricted net assets	<u>(3,711)</u>	<u>872</u>
(Decrease) / increase in net assets	<u>(49,956)</u>	<u>23,805</u>
Net assets at beginning of year	<u>79,004</u>	<u>55,199</u>
Net assets at end of year	<u>\$ 29,048</u>	<u>\$ 79,004</u>

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

Johns Hopkins Bayview Medical Center, Inc.
Statements of Cash Flows
For the years ended June 30, 2012 and 2011
(in thousands)

	2012	2011
Operating activities:		
Change in net assets	\$ (49,956)	\$ 23,805
Adjustments to reconcile change in net assets to net cash and cash equivalents provided by operating activities:		
Depreciation and amortization	24,002	25,729
Provision for bad debts	27,933	15,017
Net realized and unrealized (gains) / losses on investments	376	(2,360)
Change in market value of swap agreements	5,847	(1,789)
Change in funded status of defined benefit plans	50,847	(12,286)
Proceeds from restricted contributions and investment income received	(1,073)	(1,752)
Contributions from affiliates	(200)	-
Changes in assets and liabilities:		
Patient accounts receivable	(36,396)	(20,425)
Inventories of supplies, prepaid expenses, and other current assets	(1,196)	(1,498)
Due to affiliates, net	5,167	(3,370)
Other assets	52	54
Accounts payable, accrued liabilities and accrued vacation	1,811	3,616
Advances from third-party payors	1,164	1,396
Accrued pension benefit costs	(8,746)	5,558
Malpractice funding arrangement and estimated malpractice costs	(568)	1,134
Other long-term liabilities	240	(373)
Net cash and cash equivalents provided by operating activities	<u>19,304</u>	<u>32,456</u>
Investing activities:		
Purchases of property, plant, and equipment	(24,321)	(15,331)
Purchases of investment securities	(25,683)	(86,627)
Sales of investment securities	27,748	80,486
Net cash and cash equivalents used in investing activities	<u>(22,256)</u>	<u>(21,472)</u>
Financing activities:		
Repayment of long-term debt	(5,328)	(5,123)
Proceeds from restricted contributions and investment income received	1,073	1,752
Contributions from affiliates	200	-
Other financing activities	1,656	1,657
Net cash and cash equivalents used in financing activities	<u>(2,399)</u>	<u>(1,714)</u>
(Decrease) increase in cash and cash equivalents	(5,351)	9,270
Cash and cash equivalents at beginning of year	31,727	22,457
Cash and cash equivalents at end of year	<u>\$ 26,376</u>	<u>\$ 31,727</u>

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

Johns Hopkins Bayview Medical Center, Inc.

Notes to Financial Statements

For the years ended June 30, 2012 and 2011

1. Organization and Summary of Significant Accounting Policies:

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

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

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

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

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

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

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

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

Johns Hopkins Bayview Medical Center, Inc.

Notes to Financial Statements

For the years ended June 30, 2012 and 2011

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

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

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

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

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

Investment income earned on cash balances (interest and dividends) are reported in the operating income section of the Consolidated Statement of Operations and Changes in Net Assets under 'investment income'. Realized gains or losses related to the sale of investments, other than temporary impairments, and unrealized gains or losses on alternative investments are included in the non-operating section of the Consolidated Statement of Operations and Changes in Net Assets, and are included in excess of revenues over expenses unless the income or loss is restricted by donor or law. Prior to April 1, 2011, unrealized gains or losses on investments other than alternative investments are excluded from excess of revenues over expenses.

On April 1, 2011, JHHS changed the classification of certain investments to a trading portfolio from available for sale. Accordingly, cumulative unrealized gains of \$1.0 million were reclassified from below excess of revenues over expenses to non-operating income included in the "realized and unrealized gains / (losses) on investments" line item within the Consolidated Statement of Operations and Changes in Net Assets. This change was made as management's intent with respect to the nature of the investment portfolios has changed.

Property, plant and equipment. Property, plant and equipment acquisitions are recorded at cost. Equipment is recorded as an asset if the individual cost is at least \$5 thousand and the useful life is at least two years. Interest costs incurred on borrowed funds, net of income

Johns Hopkins Bayview Medical Center, Inc.
Notes to Financial Statements
For the years ended June 30, 2012 and 2011

earned, during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets. Depreciation is provided over the estimated useful life of assets, using as a guideline the American Hospital Association publication, "Estimated Useful Lives of Depreciable Hospital Assets," and is computed using the straight-line method. Estimated useful lives assigned by JHBMC range from 5 to 25 years for land improvements, 3 to 50 years for buildings and improvements, 3 to 30 years for fixed and movable equipment, and the shorter of the remaining life of the lease or life of the asset for leasehold improvements. Repair and maintenance costs are expensed as incurred. When property, plant and equipment are retired, sold or otherwise disposed of, the asset's carrying amount and related accumulated depreciation are removed from the accounts and any gain or loss is included in operations.

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

Impairment of long-lived assets. Long-lived assets are reviewed for impairment when events and circumstances indicate that the carrying amount of an asset may not be recoverable. JHBMC's policy is to record an impairment loss when it is determined that the carrying amount of the asset exceeds the sum of expected undiscounted future cash flows resulting from the use of the asset and its eventual disposition. Impairment losses are measured as the amount by which the carrying amount of the asset exceeds its fair value. Long-lived assets to be disposed of are reported as the lower of the carrying amount or fair value less cost to sell. There were no impairment charges recorded for the years ended June 30, 2012 and 2011.

Financing expenses. Financing expenses incurred in connection with the issuance of debt by the Maryland Health and Higher Educational Facilities Authority ("MHHEFA") have been capitalized and are included in other assets in the Balance Sheet. Unamortized financing expenses were \$422 thousand and \$472 thousand for the years ended June 30, 2012 and 2011, respectively. These expenses are being amortized over the term of the bond issues using the effective interest method. Amortization expense for the years ended June 30, 2012 and 2011 was \$51 thousand and \$43 thousand, respectively.

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

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

Johns Hopkins Bayview Medical Center, Inc.
Notes to Financial Statements
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Swap agreements. The values of interest rate swap agreements entered into by JHBMC are adjusted to market value monthly at the close of each accounting period based upon quotations from market makers. The change in market value, if any, is recorded in the Statements of Operations and Changes in Net Assets. Entering into an interest rate swap agreement involves, to varying degrees, elements of credit, default, prepayment, market and documentation risk in excess of the amounts recognized on the Balance Sheets. Such risks involve the possibility that there will be no liquid market for these agreements, the counterparty to these agreements may default on its obligation to perform and there may be unfavorable changes in interest rates.

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

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

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

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

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

Johns Hopkins Bayview Medical Center, Inc.
Notes to Financial Statements
For the years ended June 30, 2012 and 2011

FASB's guidance on accounting for uncertainty in income taxes clarifies the accounting for uncertainty of income tax positions. This guidance defines the threshold for recognizing tax return positions in the financial statements as "more likely than not" that the position is sustainable, based on its technical merits. This guidance also provides guidance on the measurement, classification and disclosure of tax return positions in the financial statements. There is no impact on JHBMC's financial statements during the years ended June 30, 2012 and 2011.

New Accounting Standards. Effective July 1, 2011, JHBMC adopted the provisions of ASU 2010-06, "Improving Disclosures about Fair Value Measurements", which affects entities required to make disclosures about recurring and nonrecurring fair value measurements. This ASU requires that the Level 3 fair value roll forward activity be displayed gross, breaking out the purchases, issuances, sales and settlement activity. The adoption of this ASU did not have a significant impact on JHBMC's disclosures.

Effective July 1, 2011, JHBMC adopted the provisions of ASU 2010-23, "Measuring Charity Care for Disclosure", which states that direct and indirect cost be used as the measurement basis for charity care disclosure purposes and that the method used to determine such costs also be disclosed. The adoption of this ASU had no impact on JHBMC's financial condition, results of operations or cash flows.

Effective July 1, 2011, JHBMC adopted the provisions of ASU 2010-24, "Presentation of Insurance Claims and Related Insurance Recoveries", which clarifies that health care entities should not net insurance recoveries against the related claims liabilities. In connection with JHHS' adoption of ASU 2010-24, JHBMC recorded an increase in its assets and liabilities in the accompanying consolidated Balance Sheet as of June 30, 2012 as follows:

<u>Caption on Balance Sheets</u>	2012
Prepaid expenses and other current assets	\$ 3,622
Other assets	4,572
Total assets	<u>\$ 8,194</u>
Current portion of estimated malpractice costs	\$ 3,622
Estimated malpractice costs, net of current portion	4,572
Total liabilities	<u>\$ 8,194</u>

The assets and liabilities represent JHBMC's estimated self-insured captive insurance recoveries for claims reserves and certain claims in excess of self-insured retention levels. The insurance recoveries and liabilities have been allocated between short-term and long-term assets and liabilities based upon the expected timing of the claims payments. The adoption had no impact on JHBMC's results of operations or cash flows.

2. Net Patient Service Revenue

JHBMC has agreements with third-party payors that provide for payments to JHBMC at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges and per diem payments. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated

Johns Hopkins Bayview Medical Center, Inc.
Notes to Financial Statements
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retroactive adjustments under reimbursement arrangements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the services are rendered and adjusted in future periods as final settlements are determined. Adjustments mandated by the Health Services Cost Review Commission are also included in contractual adjustments, a portion of which are also included in established rates.

JHBMC provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Such patients are identified based on information obtained from the patient and subsequent analysis. Because JHBMC does not pursue collection of amounts determined to qualify as charity care, the charges are not reported as revenue. Direct and indirect costs for these services amounted to \$21.5 million and \$18.9 million for the years ended June 30, 2012 and 2011, respectively. The costs of providing charity care services are based on a calculation which applies a ratio of costs to charges to the gross uncompensated charges associated with providing care to charity patients. The ratio of cost to charges is calculated based on JHBMC's total expenses (less bad debt expense) divided by gross patient service revenue.

Approximately 24.0% and 24.3% of patient accounts receivable were due from the Medicare program, 10.0% and 11.1% from the Medicaid program, 11.1% and 11.7% from HMO's, 45.6% and 43.7% from self pay and other third-party payors, and 9.3% and 9.2% from Medicaid managed care organizations, as of June 30, 2012 and 2011, respectively.

3. Investments and Assets Whose Use is Limited

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

	<u>2012</u>	<u>2011</u>
	Carrying Amount	Carrying Amount
U.S. Treasury notes	\$ 9,455	\$ 8,333
Corporate bonds	14,446	12,297
Asset backed securities	6,488	8,997
Equities and equity funds	7,610	8,330
Fixed income funds	2,500	2,561
Alternative investments	6,436	5,660
	<u>\$ 46,935</u>	<u>\$ 46,178</u>

Johns Hopkins Bayview Medical Center, Inc.
Notes to Financial Statements
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Assets whose use is limited as of June 30 consisted of the following (in thousands):

	<u>2012</u>	<u>2011</u>
	Carrying Amount	Carrying Amount
Cash and cash equivalents	\$ 4,930	\$ 4,889
Asset backed securities	1,583	2,944
U.S. Treasury notes	2,315	3,114
Equity index funds	-	-
Corporate bonds	3,518	4,569
Alternative investments	-	-
Pledges receivable	289	338
	<u>\$ 12,635</u>	<u>\$ 15,854</u>

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

	2012	2011
Realized gains on investments	\$ 103	\$ 259
Unrealized (losses) / gains on investments	<u>(479)</u>	<u>1,913</u>
Total	<u>\$ (376)</u>	<u>\$ 2,172</u>

4. Fair Value Measurements

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

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

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

- Level 1 – Observable inputs such as quoted market prices for identical assets or liabilities in active markets;
- Level 2 – Observable inputs for similar assets or liabilities in an active market, or other than quoted prices in an active market that are observable either directly or indirectly; and;
- Level 3 – Unobservable inputs in which there is little or no market data that require the reporting entity to develop its own assumptions. For the years ended June 30, 2012 and 2011, there are not any financial instruments requiring level 3 classification.

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

The following table presents the financial instruments carried at fair value as of June 30, 2012 grouped by hierarchy level:

<u>Assets</u>	Total Fair Value	Level 1	Level 2
Cash equivalents (1)	\$ 440	\$ -	\$ 440
U.S. treasury notes (2)	11,770	-	11,770
Corporate bonds (2)	17,964	-	17,964
Asset backed securities (2)	8,072	-	8,072
Equities and equity funds (3)	7,610	-	7,610
Fixed income funds (4)	2,500	-	2,500
Totals	<u>\$ 48,356</u>	<u>\$ -</u>	<u>\$ 48,356</u>
<u>Liabilities</u>			
Interest rate swap agreements (5)	<u>\$ 14,956</u>	<u>\$ -</u>	<u>\$ 14,956</u>

Johns Hopkins Bayview Medical Center, Inc.
Notes to Financial Statements
For the years ended June 30, 2012 and 2011

The following table presents the financial instruments carried at fair value as of June 30, 2011 grouped by hierarchy level:

<u>Assets</u>	Total Fair Value	Level 1	Level 2
Cash equivalents (1)	\$ 6,541	\$ -	\$ 6,541
U.S. treasury notes (2)	11,446	-	11,446
Corporate bonds (2)	16,866	-	16,866
Asset backed securities (2)	11,941	-	11,941
Equities and equity funds (3)	8,330	-	8,330
Fixed income funds (4)	2,561	-	2,561
Totals	<u>\$ 57,685</u>	<u>\$ -</u>	<u>\$ 57,685</u>
 <u>Liabilities</u>			
Interest rate swap agreements (5)	<u>\$ 9,110</u>	<u>\$ -</u>	<u>\$ 9,110</u>

- (1) Cash equivalents include investments with original maturities of three months or less, including certificates of deposits, commercial paper, and money market funds, and overnight investments. Certificates of deposit, overnight investments, and commercial paper are carried at amortized cost, which approximates fair value, and are classified as level 2. Money market funds are valued based on the NAV and are classified as level 2.
- (2) For investments in U.S. Treasuries (notes, bonds, and bills), corporate bonds, and asset backed securities, fair value is based on the average of the last reported bid and ask prices; therefore these investments are rendered level 2. These investments fluctuate in value based upon changes in interest rates.
- (3) Equities include individual equities and investments in mutual funds, commingled trusts and hedge funds. The ability to liquidate these funds is not limited except for the small percentage of each securities lending fund that is on loan. The commingled trusts and hedge funds are valued regularly within each month utilizing NAV per unit and are rendered level 2.
- (4) Fixed income funds are investments in mutual funds and commingled trusts investing in fixed income instruments. The underlying fixed investments are principally U.S. Treasuries, corporate bonds, commercial paper, and mortgage backed securities. The mutual funds and commingled trusts are valued regularly within each month utilizing NAV per unit and are rendered level 2.
- (5) The interest rate swap agreements are valued using a pricing service at net present value. These evaluated prices render these instruments level 2. The volatility in the fair value of the swap agreements change as long-term interest rates change. See footnote 7.

During 2012 and 2011, there were no transfers between level 1 and 2.

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

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The estimated total fair value of long-term debt, based on quoted market prices for the same or similar issues, was approximately \$96.9 million and \$102.2 million as of June 30, 2012, and 2011, respectively.

JHBMC holds alternative investments, which are accounted for on the equity method of accounting which approximates fair value, that are not traded on national exchanges or over-the-counter markets. JHBMC is provided a net asset value per share for these alternative investments that has been calculated in accordance investment company rules, which among other requirements, indicates that the underlying investments be measured at fair value. There are no unfunded commitments related to JHBMCs' alternative investments. The following table displays information by major alternative investment category as of June 30, 2012 and 2011 (in thousands):

As of June 30, 2012				
Description	Value	Liquidity	Notice Period	Receipt of Proceeds
Global asset allocation	\$ 3,995	Monthly	5 days	At least 95% within 15 days, remaining within 30 days of redemption date
Fund of funds	\$ 2,244	Quarterly, monthly, or terminated	25 - 70 days	At least 90% within 60 days, remaining received after audit or as SPV shares
Hedge funds	\$ 197	Quarterly	60 days	95% within 30 days, 5% within 120 days
Total	<u>\$ 6,436</u>			

As of June 30, 2011				
Description	Value	Liquidity	Notice Period	Receipt of Proceeds
Global asset allocation	\$ 3,568	Monthly	5 - 14 days	Within 15 days, or 95% within 1 business day of the redemption date; 5% after the 12th business day of the month
Fund of funds	\$ 1,880	Monthly, quarterly or annually	30 - 60 days	Within 5 days, or 95% in 1 - 30 days, 5% within 60 days or after annual audit
Hedge funds	\$ 212	Quarterly - last day of the calendar quarter	60 days	95% within 30 days of redemption date; 5% within 120 days of redemption date
Total	<u>\$ 5,660</u>			

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Financial instruments are reflected in the Combined Balance Sheets as of June 30, 2012 and 2011 as follows (in thousands):

	2012	2011
Cash equivalents measured at fair value	\$ 441	\$ 6,540
Cash	25,935	25,187
Total cash and cash equivalents	<u>\$ 26,376</u>	<u>\$ 31,727</u>
Short and long-term investments measured at fair value	\$ 40,499	\$ 40,518
Investments accounted for under equity method	6,436	5,660
Total short and long term investments	<u>\$ 46,935</u>	<u>\$ 46,178</u>
Assets whose use is limited measured at fair value	\$ 7,416	\$ 10,627
Restricted cash	4,930	4,889
Pledges receivable	289	338
Total assets whose use is limited	<u>\$ 12,635</u>	<u>\$ 15,854</u>

5. Property, Plant and Equipment

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

	2012		2011	
	Cost	Accumulated Depreciation	Cost	Accumulated Depreciation
Land and land improvements	\$ 3,624	\$ 355	\$ 3,614	\$ 336
Building and improvements	228,823	136,166	226,984	126,654
Information systems	21,255	19,488	22,124	19,171
Fixed and moveable equipment	151,055	102,565	156,368	102,444
Construction work-in-progress	22,392	-	6,590	-
	<u>\$ 427,149</u>	<u>\$ 258,574</u>	<u>\$ 415,680</u>	<u>\$ 248,605</u>

Accruals for the purchases of property, plant and equipment amounted to \$2.9 million and \$1.7 million as of June 30, 2012 and June 30, 2011, respectively, and are included in accounts payable and accrued liabilities in the Balance Sheets. Depreciation expense for the years ended June 30, 2012 and 2011 amounted to \$24.0 million and \$25.7 million, respectively. During the year ended June 30, 2012, JHBMC retired fully depreciated long-lived assets determined to have no future value. The original cost and accumulated depreciation of these long-lived assets was \$14.0 million. There were no retirements of long lived assets in 2011.

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6. Debt

Debt as of June 30 is summarized as follows (in thousands):

	2012		2011	
	Current Portion	Long-Term Portion	Current Portion	Long-Term Portion
MHHEFA Bonds and Notes:				
Pooled Loan Program Issue, Series 1985A and Series 1985B	\$ 4,201	\$ -	\$ 1,008	\$ 4,201
2004 Commercial Paper Series B	4,005	78,140	3,815	82,145
2008 Variable Rate Demand Bonds - Series A	10,545	-	505	10,545
Total	<u>\$ 18,751</u>	<u>\$ 78,140</u>	<u>\$ 5,328</u>	<u>\$ 96,891</u>

Obligated Group

The Johns Hopkins Hospital's Obligated Group ("JHHS Obligated Group") consists of JHH, JHBMC, Suburban Hospital Healthcare System, Inc. ("SHHS"), Suburban Hospital, Inc. ("SHI"), and Howard County General Hospital ("HCGH"). JHBMC was admitted into the JHH Obligated Group in 2004 as part of a plan of debt refinancing. SHHS and SHI were admitted into the JHH Obligated Group in 2010 as part of a JHH debt issuance. HCGH was admitted into the JHH Obligated Group in May 2012 concurrent with the issuance of the JHH 2012B bond issue. The JHH 1990, 2010, 2011A, 2012B, SHI series 2004 Revenue Bonds; the JHBMC Commercial Paper series 2004B, the JHH Commercial Paper series 2004C, 2007D, and 2008 E & F; the JHH series 2008B, 2011B, and 2012A; the JHBMC series 2008A Variable Rate Demand Bonds, the HCGH series 2008 Variable Rate Demand Bonds, the series 2008 SHI Variable Rate Demand Bonds; and the JHH and JHBMC Pooled Loan Program Issue Series 1985A and 1985B debt are parity debt, and as such are collateralized equally and ratably by a claim on and a security interest in all of JHH's, JHBMC's, SHI's, SHHS', and HCGH's receipts as defined in the Master Loan Agreement with MHHEFA. JHH, JHBMC, SHI, SHHS, and HCGH are required to achieve a defined minimum debt service coverage ratio each year, maintain adequate insurance coverage, and comply with certain restrictions on its ability to incur additional debt. As of June 30, 2012, JHH, JHBMC, SHI, SHHS, and HCGH were in compliance with these requirements. As of June 30, 2012, the outstanding JHH, JHBMC, HCGH, SHI, and SHHS parity debt was \$1.1 billion. As of June 30, 2011, the outstanding JHH, JHBMC, SHI, and SHHS parity debt was \$946.0 million.

Pooled Loan Program Issue

JHBMC has entered into a \$12.1 million loan agreement that funded the purchase and installation of a comprehensive integrated information system by borrowing through draws from the \$175.0 million MHHEFA Revenue Bonds, Pooled Loan Program Issue, Series 1985A and Series 1985B. This debt bears interest at a variable rate. The interest rates in effect for the years ended June 30, 2012 and 2011 were 0.5% and 1.0%, respectively. The loan is being repaid in equal monthly payments of principal over a one hundred and thirty-two month period that began September 1, 2005 with a final payment of the balance of the outstanding principal amount of the loan due on June 30, 2013.

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2004 Commercial Paper Revenue Notes – Series B

The Commercial Paper Revenue Notes - Series B pay interest monthly at a variable rate based on the commercial paper sold by a designated re-marketing agent for terms ranging from 1 to 270 days. The rates for the years ended June 30, 2012 and 2011 were approximately .16% and .24%, respectively. Annual payments of principal began July 1, 2004 and range in amount from \$425.0 thousand on July 1, 2004 to \$8.3 million on July 1, 2025.

In connection with the 2004 Commercial Paper Revenue Notes – Series B, JHBMC entered into a \$89.6 million line of credit agreement (360 day repayment terms) with Wells Fargo to provide for payment of such commercial paper at maturity, subject to certain conditions described therein. This agreement expired on October 31, 2011, but was amended on September 21, 2011 to expire on October 31, 2016. The available line of credit was reduced to \$82.2 million. Amounts advanced under the line of credit agreement bear interest at a variable rate based upon the overnight Federal funds rate plus 0.30% for the first 90 days outstanding and at a prime rate plus 2% thereafter. The advances are repayable on the earliest of the date that is 365 days from the date of such advance, the date of termination, the date of receipts by JHBMC of the proceeds of any subsequent issuances of notes, and the expiration date. No amounts were outstanding as of June 30, 2012 or 2011.

2008 Variable Rate Demand Bonds – Series A

The Variable Rate Demand Bonds - Series A pay interest monthly at a variable rate based on the bonds sold by a designated re-marketing agent on a weekly basis. The rates for the years ended June 30, 2012 and 2011 were approximately .16% and .12%, respectively. Annual payments of principal began May 15, 2009 and range in amount from \$210 thousand on May 15, 2009 to \$915 thousand on May 15, 2027. In connection with the 2008 Variable Rate Demand Bonds - Series A, JHBMC entered into a \$12.2 million letter of credit agreement (367 day repayment terms) with PNC Bank, National Association to provide for payment of such bonds at maturity, subject to certain conditions described therein. A \$505 thousand principal payment on the bonds in May 2012 reduced the letter of credit to \$10.7 million from the \$11.2 million letter of credit for the year ended June 30, 2011. The cost of the letter of credit is 0.40% per annum. This agreement expires on April 23, 2013 subject to extension or earlier termination. There have been no amounts drawn on the letter of credit as of June 30, 2012 or 2011. Since the letter of credit agreement expires before June 30, 2013, the remaining outstanding balance of the bonds, \$10.5 million, has been reclassified to Current portion of long-term debt on the Balance Sheet as of June 30, 2012.

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

2013	\$	18,751
2014		4,210
2015		4,420
2016		5,640
2017		5,875
Thereafter		57,995
	<u>\$</u>	<u>96,891</u>

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

	2012	2011
Net interest costs		
Capitalized	\$ 33	\$ 51
Expensed	3,293	3,591
Allocated to others	64	64
	<u>\$ 3,390</u>	<u>\$ 3,706</u>
Interest costs paid	<u>\$ 3,413</u>	<u>\$ 3,685</u>

7. Derivative Financial Instruments

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

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

Fair value of derivative instruments as of June 30 (in thousands):

		Derivatives reported as liabilities			
		2012		2011	
	Balance Sheet Caption	Fair Value		Balance Sheet Caption	Fair Value
Interest rate swaps not designated as hedging instruments	Other long-term liabilities	<u>\$ 14,956</u>		Other long-term liabilities	<u>\$ 9,110</u>

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

Classification of derivative loss in Statement of Operations	Amount of gain (loss) recognized in change in unrestricted net assets	
	2012	2011
Interest rate swaps:		
Change in the market value of swap agreements	\$ (5,847)	\$ 1,789

Swap Agreements

In 2004, JHBMC entered into a fixed payor interest rate swap agreement with Bank of America. The notional amount on this swap agreement was \$82.1 million and \$86.0 million as of June 30, 2012 and 2011, respectively. JHBMC pays Bank of America a fixed annual rate of 3.3265% on the outstanding loan value of the 2004 Series B Notes in return for the receipt of a floating rate of interest equal to 67% of the one month LIBOR rate. Monthly payments began on February 1, 2004. This swap agreement has a maturity date of July 1, 2025. The floating rates as of June 30, 2012 and 2011 were .16% and .13%, respectively.

In July 2007, JHBMC entered into a fixed payor interest rate swap with Goldman Sachs Capital Markets, L.P. ("Goldman Sachs"). The notional amount on this swap agreement was \$10.5 million and \$11.1 million as of June 30, 2012 and 2011, respectively. JHBMC pays Goldman Sachs a fixed annual rate of 3.691% on the outstanding loan value of the 2008 Series A Notes in return for the receipt of a floating rate of interest equal to 67% of the one-month LIBOR rate. Monthly payments began on November 15, 2007. This swap agreement has a maturity date of May 15, 2027. The floating rates as of June 30, 2012 and 2011 were .16% and .13%, respectively.

8. Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets were available for the following purposes as of June 30 (in thousands):

	2012	2011
Health care services	\$ 2,534	\$ 6,630
Purchase of property, plant, and equipment	1,080	643
Health education and counseling	517	569
	<u>\$ 4,131</u>	<u>\$ 7,842</u>

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

	2012	2011
Health care services	\$ 3,420	\$ 3,420
Health education and counseling	<u>154</u>	<u>154</u>
	<u>\$ 3,574</u>	<u>\$ 3,574</u>

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

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

9. Pension Plans

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

The funding policy for both plans is to make sufficient contributions to comply with the Internal Revenue Service minimum funding requirement. The assets in both of the plans as of June 30, 2012 and 2011 consisted of cash and cash equivalents, listed stocks, corporate bonds, alternative investments and government securities. All assets are managed by external investment managers, consistent with the plan's investment policy. JHBMC uses a June 30 measurement date for its plans.

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

	2012	2011
<u>Change in benefit obligation</u>		
Benefit obligation at beginning of the year	\$ 194,229	\$ 177,007
Service cost	9,435	8,855
Interest cost	11,572	10,573
Actuarial loss / (gain)	48,156	1,543
Benefits paid	<u>(4,233)</u>	<u>(3,749)</u>
Benefit obligation as of June 30	<u>\$ 259,159</u>	<u>\$ 194,229</u>
<u>Change in plan assets</u>		
Fair value of plan assets at beginning of year	\$ 108,623	\$ 84,673
Actual return on plan assets	892	15,983
Employer contributions	26,170	11,716
Benefits paid	<u>(4,233)</u>	<u>(3,749)</u>
Fair value of plan assets as of June 30	<u>\$ 131,452</u>	<u>\$ 108,623</u>
<u>Funded Status as of June 30.</u>		
Fair value of plan assets	\$ 131,452	\$ 108,623
Projected benefit obligation	<u>(259,159)</u>	<u>(194,229)</u>
Funded status	<u>\$ (127,707)</u>	<u>\$ (85,606)</u>

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

	2012	2011
Net pension liability	<u>\$ (127,707)</u>	<u>\$ (85,606)</u>

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

	2012	2011
Actuarial net loss	\$ 109,638	\$ 58,195
Prior service cost	<u>786</u>	<u>1,383</u>
	<u>\$ 110,424</u>	<u>\$ 59,578</u>
Accumulated benefit obligation	<u>\$ 228,884</u>	<u>\$ 168,597</u>

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Net Periodic Benefit Cost

Components of net periodic pension benefit cost (in thousands):

	2012	2011
Service cost	\$ 9,435	\$ 8,855
Interest cost	11,572	10,573
Expected return on plan assets	(9,812)	(8,111)
Amortization of prior service cost	6,229	5,953
Net periodic pension expense	<u>\$ 17,424</u>	<u>\$ 17,270</u>

The actuarial net loss and prior service cost for the defined benefit plans that will be amortized from unrestricted net assets into net periodic pension costs in 2013 are \$9.4 million and \$466 thousand, respectively.

Assumptions

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

	2012	2011
Discount rate	6.03 %	6.04 %
Expected return on plan assets	8.25 %	8.25 %
Rate of compensation increase	2.50 %- 3.00 % ⁽¹⁾	2.00 %- 3.00 % ⁽²⁾

(1) The rate of compensation increase was 2.50% for July 1, 2011, and 3.00% thereafter.

(2) The rate of compensation increase was 2.00% for July 1, 2010, 2.50% for July 1, 2011 and 3.00% thereafter.

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

	2012	2011
Discount rate	4.66 %	6.03 %
Expected return on plan assets	8.00 %	8.25 %
Rate of compensation increase	2.00 %- 3.00% ⁽³⁾	2.50 %- 3.00 % ⁽⁴⁾

(3) The rate of compensation increase was 2.00% for July 1, 2012, 2.50% for July 1, 2013 and 3.00% thereafter.

(4) The rate of compensation increase was 2.50% for July 1, 2011, and 3.00% thereafter.

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Plan Assets

JHBMC's pension plan weighted average asset allocations as of June 30, 2012 and 2011 by asset class are as follows:

<u>Asset Class</u>	2012	2011
Cash and cash equivalents	4.9 %	4.5 %
Equities and equity funds	30.2 %	38.6 %
Fixed income funds	26.3 %	20.1 %
Alternative Investments	38.6 %	36.8 %
Total	<u>100.0 %</u>	<u>100.0 %</u>

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

Fair Value of Plan Assets

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

- Level 1 – Observable inputs such as quoted market prices for identical assets or liabilities in active markets;
- Level 2 – Observable inputs for similar assets or liabilities in an active market, or other than quoted prices in an active market that are observable either directly or indirectly; and;
- Level 3 – Unobservable inputs in which there is little or no market data that require the reporting entity to develop its own assumptions. There were no financial instruments requiring Level 3 classification at June 30, 2012 and 2011.

The following table presents the plan assets carried at fair value as of June 30, 2012 and 2011 grouped by hierarchy level:

As of June 30, 2012	Total		
Assets	Fair Value	Level 1	Level 2
Cash equivalents (1)	\$ 6,525		\$ 6,525
Equities and equity funds (2)	39,680	3,136	36,544
Fixed income funds (3)	34,563	30,517	4,046
Alternative Investments (4)	50,684		50,684
Totals	<u>\$ 131,452</u>	<u>\$ 33,653</u>	<u>\$ 97,799</u>

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As of June 30, 2011	Total		
Assets	Fair Value	Level 1	Level 2
Cash equivalents (1)	\$ 4,833	\$ -	\$ 4,833
Equities and equity funds (2)	38,918	-	38,918
Fixed income funds (3)	16,955	15,573	1,382
Alternative Investments (4)	47,917	-	47,917
Totals	<u>\$ 108,623</u>	<u>\$ 15,573</u>	<u>\$ 93,050</u>

- (1) Cash equivalents include investments with original maturities of three months or less and overnight investments. Cash equivalents are carried at amortized cost, which approximates fair value, and are classified as level 2.
- (2) Equities include individual equities. Equity funds include investments in mutual funds, commingled trusts and hedge funds. The individual equities and mutual funds are valued based on the closing price on the primary market and are rendered level 1. The commingled trusts and hedge funds are valued regularly within each month utilizing NAV per unit and are rendered level 2.
- (3) Fixed income funds are investments in mutual funds and commingled trusts investing in fixed income instruments. The underlying fixed investments are principally U.S. Treasuries, corporate bonds, commercial paper, and mortgage backed securities. The mutual funds are valued based on the closing price on the primary market and are rendered level 1. The commingled trusts are valued regularly within each month utilizing NAV per unit and are rendered level 2.
- (4) Alternative investments include investments that are not traded on national exchanges or over-the-counter markets. These investments are valued using a net asset value per share that has been calculated in accordance with investment company rules, which among other things, indicates that the underlying investments be measured at fair value. This valuation technique renders these investments level 2.

There are no unfunded commitments related to the Plans' alternative investments. The following table displays information by major alternative investment category as of June 30, 2012 (in thousands):

Description	Fair Market Value	Liquidity	Notice Period	Receipt of Proceeds
Global asset allocation	\$ 23,269	Monthly	5 to 30 days	(1)
Fund of funds	10,527	Quarterly or terminated	45 days or terminated	(2)
Hedge funds	11,206	Monthly, quarterly, or bi-annually	30 to 90 days	(3)
Credit funds	4,105	Annually	60 to 90 days	(4)
Distressed credit	1,577	31-Dec-2013		
Total	<u>\$ 50,684</u>			

- (1) At least 95% within 15 days, remaining within 30 days of redemption date.
- (2) At least 90% within 60 days, remaining received after audit or as SPV shares.
- (3) 90-95% within 30 days, 5-10% after annual audit.
- (4) Within 30 days, or 90% within 10 days, 10% after annual audit.

The following table displays information by major alternative investment category as of June 30, 2011 (in thousands):

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Description	Fair Market Value	Liquidity	Notice Period	Receipt of Proceeds
Global asset allocation	\$ 20,987	Monthly	5 days	15 days
Fund of funds	14,959	Mthly, qtrly, or annual	30 to 65 days	(1)
Hedge funds	5,589	Quarterly	30 days	(2)
Credit funds	4,304	Annual	30 to 90 days	(3)
Distressed credit	<u>2,078</u>	31-Dec-2013		
Total	<u>\$ 47,917</u>			

- (1) Within 5 days, or 90% within 30 to 60 days, 10% after annual audit.
(2) 95% within 30 days, 5% after annual audit.
(3) Within 30 days, or 90% within 10 days, 10% after annual audit.

Contributions and Estimated Future Benefit Payments (Unaudited)

JHBMC expects to contribute \$17.2 million to its pension plan in 2013.

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

2013	\$ 5,468
2014	6,401
2015	7,334
2016	8,349
2017	9,480
Thereafter	65,531

10. Maryland Health Services Cost Review Commission

JHBMC's charges are subject to review and approval by the Commission. JHBMC's management has filed the required forms with the Commission and believes JHBMC is in compliance with Commission requirements. The total rate of reimbursement for services to patients under the Medicare and Medicaid programs is based on an agreement between the Center for Medicare and Medicaid Services and the Commission. Management believes that this program will remain in effect at least through June 30, 2013. Effective April 1, 1999, the Commission developed a methodology to control inpatient hospital charges and JHBMC elected to be paid under the new methodology. The methodology established a charge per admission cap for each hospital. The hospital specific charge per admission is adjusted annually to reflect cost inflation, and is also adjusted for changes in the hospital's case mix index. Certain highly tertiary inpatient cases such as solid organ transplants, bone marrow transplants and certain oncology cases are treated as exclusions from the charge per case methodology. Effective July 1, 2011, the Commission modified this methodology in an effort to reduce readmissions at Maryland hospitals. Under a Charge per Episode ("CPE") methodology, hospitals are allowed to retain any rate authority lost due to reductions in readmissions. Conversely, hospitals are not granted any additional rate authority for any increases to readmissions.

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In fiscal 2011, the HSCRC developed a new methodology to establish a charge per visit (CPV) for certain types of outpatient services. The hospital specific charge per visit is adjusted annually to reflect cost inflation and is also adjusted for changes in case mix. This methodology is primarily focused on ambulatory surgery procedures, medical clinic visits and emergency room visits. The methodology also includes other types of outpatient services including infusion procedures, therapies, mental health and major radiology procedures. Certain types of visits such as radiation therapy, psychiatric day hospital and certain types of recurring visits will be treated as exclusions under this methodology. In March 2012, the HSCRC voted to suspend the CPV methodology for fiscal 2012. The HSCRC has not yet provided a timeline for the establishment of a replacement methodology. It is expected that some type of outpatient constraint system will be put in place sometime during fiscal 2013.

The Commission approves hospital rates on a departmental unit rate basis. Individual unit rates are the basis for hospital reimbursement for inpatient excluded cases and for hospital outpatient services. Under the Commission rate methodology, amounts collected for services to patients under the Medicare and Medicaid programs are computed at approximately 94% of Commission approved charges. Other payors are eligible to receive up to a 2.25% discount on prompt payment of claims.

11. Professional and General Liability Insurance

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

The medical institutions obtain primary and excess liability insurance coverage from commercial insurers and the RRG. The primary coverage is written by the RRG, and a portion of the risk is reinsured with the captive insurance company. Commercial excess insurance and reinsurance is purchased under a claims-made policy by the participating institutions for claims in excess of primary coverage retained by the RRG and the captive. Primary retentions are \$5.0 million per incident. Primary coverage is insured under a retrospectively rated claims-made policy; premiums are accrued based upon an estimate of the ultimate cost of the experience to date of each participating member institution. The basis for loss accruals for unreported claims under the primary policy is an actuarial estimate of asserted and unasserted claims including reported and unreported incidents and includes costs associated with settling claims. Projected losses were discounted at 0.7% and 1.2% as of June 30, 2012 and 2011 respectively.

Professional and general liability insurance expense incurred by JHBMC was \$2.8 million and \$4.3 million for the years ended June 30, 2012 and 2011, respectively, and is included in purchased services in the statement of operations and changes in net assets. Reserves were \$15.7 million and \$8.1 million as of June 30, 2012 and 2011, respectively, and are included in other long term liabilities on the balance sheet.

Johns Hopkins Bayview Medical Center, Inc.
Notes to Financial Statements
For the years ended June 30, 2012 and 2011

12. Transactions with Related Parties

During the years ended June 30, 2012 and 2011, JHBMC engaged in transactions with JHHS and its Affiliates, JHH, Johns Hopkins Community Physicians (“JHCP”), Johns Hopkins Medical Management Corporation (“JHMMC”), Johns Hopkins HealthCare, LLC (“JHHC”), Priority Partners Managed Care Organization, Inc. (“PP”), Johns Hopkins Employer Health Programs (“JHEHP”), JHMI Utilities LLC (“JHMI Utilities”), Johns Hopkins International, LLC (“JHI”) and Johns Hopkins Home Care Group, Inc. (“JHHCG”).

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

Revenue/(expense) transactions (in thousands):

	2012	2011
Net patient service revenue from providing services to subscribers of PP	\$ 31,486	\$ 31,062
Net patient service revenue from providing services to subscribers of JHHC	17,128	17,888
Management services provided to JHHS relating to the PACE and Creative Alternatives programs	15,287	16,102
Laboratory and various support services provided by JHH	(14,460)	(14,153)
Purchasing, legal, advertising and other services provided by JHHS	(21,399)	(8,396)
Premiums paid to JHEHP for administration of health care claims	(2,619)	(2,510)
Telecommunication services provided by JHMI Utilities	(2,753)	(2,457)
Fees paid to JHHCG for management of discharge pharmacy and patient discharge planning	(2,862)	(2,341)
Services provided by JHCP	(1,498)	(1,496)
Temporary nursing services provided by JHMMC	(994)	(945)

Due From/(To) Affiliate balances as of June 30 (in thousands):

	2012	2011
Due from JHMSC for note receivable	\$ 2,626	\$ 3,283
Due from/(to) JHHS for services as noted above	(3,119)	2,491
Due from/(to) JHCP for services provided	(224)	6
Due to JHH for services as noted above	(1,077)	(1,267)
Due to JHMI Utilities for services as noted above	(663)	(783)
Due to JHHCG for pharmacy services and patient discharge	(182)	(236)
Due to JHMMC for nursing services received	(72)	(98)
Due to JHHC for advances less patient receivables	-	(190)
Due to JHEHP for administrative expenses	-	(165)
Other	(155)	(84)
Net Due (To) / From Affiliates	<u>\$ (2,866)</u>	<u>\$ 2,957</u>

Johns Hopkins Bayview Medical Center, Inc.
Notes to Financial Statements
For the years ended June 30, 2012 and 2011

Included in the amounts due from affiliates in the accompanying Balance Sheets as of June 30, 2012 and 2011 is a Note Receivable from Johns Hopkins Medical Services Corporation for \$2.6 million and \$3.3 million, respectively. The Note Receivable bears no interest with annual payments of \$656.0 thousand through June 30, 2016.

Broadway Services, Inc. ("BSI"), a related organization, is a wholly owned subsidiary of the Dome Corporation. The Dome Corporation is owned equally by JHHS and JHU. BSI provides JHBMC with various services including security, housekeeping, escort and transportation. During 2012 and 2011, JHBMC incurred costs of approximately \$6.7 million and \$6.1 million, respectively, for these services. JHBMC had accounts payable to BSI of approximately \$312 thousand and \$250 thousand as of June 30, 2012 and 2011, respectively. These amounts are included in accounts payable and accrued expenses in the accompanying Balance Sheets.

JHBMC pays ground and space rent and ground maintenance costs to FSK Land Corporation, a related organization. During 2012 and 2011, JHBMC incurred costs of \$1.6 million and \$1.9 million, respectively, for these services.

13. Contracts, Commitments and Contingencies

JHBMC has agreements with JHU, under which JHU provides medical administration and educational services, conducts medical research programs, provides patient care medical services, and provides certain other administrative and technical support services through the physicians employed by The Johns Hopkins University School of Medicine ("JHUSOM"). Compensation for providing medical administration and educational services is paid to JHU by JHBMC; funding for services in conducting medical research is paid from grant funds and by JHBMC; compensation for patient care medical care services is derived from billings to patients (or third-party payors) by JHU; and compensation for other support services is paid to JHU by JHBMC. The aggregate amount of purchased services incurred by JHBMC under these agreements was \$44.6 million and \$43.9 million for the years ended June 30, 2012 and 2011, respectively.

JHBMC also has an agreement with JHU under which JHU recruits and pays interns and resident physicians who furnish services to JHBMC on a rotating and non-rotating basis. Included in purchased services expense in the accompanying Statements of Operations and Changes in Net Assets for services under this agreement is \$5.2 million for each of the years ended June 30, 2012 and 2011, respectively for physicians providing services on a rotating basis and \$4.1 million and \$3.6 million for the years ended June 30, 2012 and 2011, respectively for physicians providing services on a non-rotating basis.

Additionally, JHBMC is leasing space to JHU. Payments totaled \$3.1 million and \$3.4 million for the years ended June 30, 2012 and 2011, respectively, and have been recorded as a reduction of purchased services.

JHBMC provides departmental support for Chiefs of Service based on personal recruitment agreements between JHBMC, JHUSOM and the respective Chief of Service. These commitments to the department are conditional to the extent the Chief of Service remains in the position. Future expected payments related to agreements currently in place were \$5.6 million and \$3.1 million at June 30, 2012 and 2011, respectively. In 2012, JHBMC also transferred \$4.5 million to JHUSOM as support for the renal program. This transfer is presented as other net assets released from restrictions on the statement of operations and changes in net assets.

Johns Hopkins Bayview Medical Center, Inc.
Notes to Financial Statements
For the years ended June 30, 2012 and 2011

Amounts due to JHU for current operations, net of liabilities previously paid on behalf of JHU by JHBMC, were \$1.8 million at June 30, 2012, and are presented as other accrued expenses on the Balance Sheet. Amounts due from JHU were \$0.7 million at June 30, 2011, and are presented on the Balance Sheet as due from others.

JHBMC serves as the guarantor on a loan agreement between JHCP and MHHEFA. The terms of the Guarantee Agreement between JHBMC and MHHEFA require JHBMC to guarantee \$900.0 thousand plus any outstanding interest charges and attorney fees in the event of default by JHCP. The principal of the loan will be repaid in monthly installments, which began on June 15, 2001 and end in May 2026.

Commitments for leases that do not meet the criteria for capitalization are classified as operating leases with related rentals charged to operations as incurred. The following is a schedule by year of future minimum lease payments under operating leases as of June 30, 2012, that have initial or remaining lease terms in excess of one year (in thousands):

2013	\$	2,386
2014		2,394
2015		2,422
2016		2,369
2017		2,317

Rental expense for all operating leases for the years ended June 30, 2012 and 2011 amounted to \$5.1 million and \$4.6 million, respectively.

14. Functional Expenses

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

	2012	2011
Health care services	\$ 476,467	\$ 438,261
General and administrative services	63,872	63,313
Total expenses	<u>\$ 540,339</u>	<u>\$ 501,574</u>

15. Subsequent Events

JHBMC has performed an evaluation of subsequent events through September 28, 2012, which is the date the financial statements were issued.

Supplemental Financial Information



**REPORT OF INDEPENDENT AUDITORS ON
SUPPLEMENTAL FINANCIAL INFORMATION**

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

We have audited the financial statements of Johns Hopkins Bayview Medical Center ("JHBMC") as of June 30, 2012 and 2011 and for the year then ended and our report thereon appears on page 1 of this document. That audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The supplementary statements of operations and changes in net assets accompanying the financial statements are presented for purposes of additional analysis and are not a required part of the financial statements. The information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves and other additional procedures, in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements taken as a whole. The information is presented for purposes of additional analysis of the financial statements rather than to present the results of operations of the individual entities and is not a required part of the financial statements. Accordingly, we do not express an opinion on the results of operations, of the individual entities.

A handwritten signature in cursive script that reads "PricewaterhouseCoopers LLP".

September 28, 2012

Johns Hopkins Bayview Medical Center, Inc.
Supplemental Statements of Operations and Changes in Net Assets
for the years ended June 30, 2012 and 2011

	2012						2011					
	Acute Care Hospital	Johns Hopkins Bayview Center	Restricted Gifts and Grant Programs	Other Specialty Programs	Inter-divisional Eliminations	Total	Acute Care Hospital	Johns Hopkins Bayview Center	Restricted Gifts and Grant Programs	Other Specialty Programs	Inter-divisional Eliminations	Total
Operating revenues:												
Net patient service revenue	\$ 434,925	\$ 40,278	\$ -	\$ 32,209	\$ (1,925)	\$ 505,487	\$ 394,435	\$ 41,519	\$ -	\$ 30,748	\$ (2,228)	\$ 464,474
Other revenue	7,528	809	17,217	21,149	-	46,703	4,898	802	18,596	20,367	-	44,663
Investment Income	1,484	-	-	-	-	1,484	1,430	-	-	-	-	1,430
Net assets released from restrictions	284	-	-	-	-	284	320	-	-	-	-	320
Total operating revenues	444,221	41,087	17,217	53,358	(1,925)	553,958	401,083	42,321	18,596	51,115	(2,228)	510,887
Operating expenses:												
Salaries, wages and benefits	195,934	22,177	9,169	19,964	-	247,244	189,505	22,331	10,071	19,802	-	241,709
Purchased services	119,009	11,518	5,557	24,265	(1,925)	158,424	103,505	12,800	6,093	22,338	(2,228)	142,508
Supplies and other	65,942	6,660	2,342	7,493	-	82,437	61,006	6,566	2,293	6,271	-	76,136
Interest	254	22	-	23	-	299	405	44	-	26	-	475
Provision for bad debts	26,344	1,416	-	173	-	27,933	13,506	1,362	-	149	-	15,017
Depreciation and amortization	22,490	862	149	501	-	24,002	23,955	1,134	139	501	-	25,729
Total operating expenses	429,973	42,655	17,217	52,419	(1,925)	540,339	391,882	44,237	18,596	49,087	(2,228)	501,574
Income from operations	14,248	(1,568)	-	939	-	13,619	9,201	(1,916)	-	2,028	-	9,313
Non-operating revenues and expenses:												
Interest expense on swap agreements	(2,486)	(482)	-	(26)	-	(2,994)	(2,587)	(502)	-	(27)	-	(3,116)
Change in market values of swap agreements	(5,847)	-	-	-	-	(5,847)	1,789	-	-	-	-	1,789
Realized/Unrealized gains (losses) on investments	(376)	-	-	-	-	(376)	2,172	-	-	-	-	2,172
Excess of revenues over expenses	5,539	(2,050)	-	913	-	4,402	10,575	(2,418)	-	2,001	-	10,158
Net assets released from restriction used for purchases of pp&e	-	-	-	-	-	-	560	-	-	-	-	560
Changes in unrealized gains/(losses) on investments	-	-	-	-	-	-	(71)	-	-	-	-	(71)
Contributions from affiliates	200	-	-	-	-	200	-	-	-	-	-	-
Change in funded status of defined benefit plans	(50,847)	-	-	-	-	(50,847)	12,286	-	-	-	-	12,286
Total change in unrestricted net assets	(45,108)	(2,050)	-	913	-	(46,245)	23,350	(2,418)	-	2,001	-	22,933
Changes in temporarily restricted net assets:												
Gifts, grants and bequests	-	-	1,073	-	-	1,073	-	-	1,752	-	-	1,752
Net assets released from restrictions for operations	-	-	(284)	-	-	(284)	-	-	(320)	-	-	(320)
Net assets released from restriction used for purchases of pp&e	-	-	-	-	-	-	-	-	(560)	-	-	(560)
Other	-	-	(4,500)	-	-	(4,500)	-	-	-	-	-	-
Total change in temporarily restricted net assets	-	-	(3,711)	-	-	(3,711)	-	-	872	-	-	872
Changes in permanently restricted net assets:												
Gifts, grants and bequests	-	-	-	-	-	-	-	-	-	-	-	-
Total change in permanently restricted net assets	-	-	-	-	-	-	-	-	-	-	-	-
Increase/(decrease) in net assets	(45,108)	(2,050)	(3,711)	913	-	(49,956)	23,350	(2,418)	872	2,001	-	23,805
Net assets at beginning of the year	44,162	11,758	10,882	12,202	-	79,004	20,812	14,176	10,010	10,201	-	55,199
Net assets at end of year	\$ (946)	\$ 9,708	\$ 7,171	\$ 13,115	\$ -	\$ 29,048	\$ 44,162	\$ 11,758	\$ 10,882	\$ 12,202	\$ -	\$ 79,004