



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

Consolidated Financial Statements and Schedules

June 30, 2013 and 2012

(With Independent Auditors' Report Thereon)

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

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

Independent Auditors' Report

The Board of Directors
University of Maryland Medical System Corporation:

We have audited the accompanying consolidated financial statements of the University of Maryland Medical System Corporation and Subsidiaries (the Corporation), which comprise the consolidated balance sheets as of June 30, 2013 and 2012, and the related consolidated statements of operations and changes in net assets, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the University of Maryland Medical System Corporation and Subsidiaries as of June 30, 2013 and 2012, and the results of their operations and their cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.



Emphasis of Matter

As discussed in note 1(x) to the consolidated financial statements, in 2013, the Corporation adopted new accounting guidance, Accounting Standards Update 2011-07, *Health Care Entities (Topic 954), Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts, and the Allowance for Doubtful Accounts for Certain Health Care Entities*. Our opinion is not modified with respect to this matter.

Other Matter

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

KPMG LLP

October 25, 2013

**UNIVERSITY OF MARYLAND MEDICAL SYSTEM CORPORATION
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Consolidated Balance Sheets

June 30, 2013 and 2012

(In thousands)

Assets	2013	2012
Current assets:		
Cash and cash equivalents	\$ 252,205	279,909
Assets limited as to use, current portion	46,343	43,089
Accounts receivable:		
Patient accounts receivable, less allowance for doubtful accounts of \$160,675 and \$158,201 as of June 30, 2013 and 2012, respectively	340,780	289,752
Other	40,760	25,126
Inventories	41,021	35,372
Swap collateral posted	—	121,802
Prepaid expenses and other current assets	14,313	16,774
Total current assets	735,422	811,824
Investments	463,476	446,127
Assets limited as to use, less current portion	567,780	453,034
Property and equipment, net	1,707,676	1,444,090
Investments in joint ventures	192,045	166,803
Other assets	147,698	134,219
Total assets	\$ 3,814,097	3,456,097
Liabilities and Net Assets		
Current liabilities:		
Trade accounts payable	\$ 239,832	188,815
Accrued payroll and benefits	181,409	149,694
Advances from third-party payors	115,992	119,923
Lines of credit	95,000	102,000
Other current liabilities	93,383	106,377
Long-term debt subject to short-term remarketing arrangements	19,123	52,621
Current portion of long-term debt	38,802	53,928
Total current liabilities	783,541	773,358
Long-term debt, less current portion and amount subject to short-term remarketing arrangements	1,304,046	1,011,569
Other long-term liabilities	207,685	226,512
Interest rate swap liabilities	145,504	217,756
Total liabilities	2,440,776	2,229,195
Net assets:		
Unrestricted	1,264,433	1,125,068
Temporarily restricted	74,877	67,140
Permanently restricted	34,011	34,694
Total net assets	1,373,321	1,226,902
Total liabilities and net assets	\$ 3,814,097	3,456,097

See accompanying notes to consolidated financial statements.

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Consolidated Statements of Operations

Years ended June 30, 2013 and 2012

(In thousands)

	<u>2013</u>	<u>2012</u>
Unrestricted revenues, gains and other support:		
Patient service revenue (net of contractual adjustments)	\$ 2,615,590	2,426,977
Provision for bad debts	(153,457)	(133,640)
Net patient service revenue	<u>2,462,133</u>	<u>2,293,337</u>
Other operating revenue:		
State support	3,000	3,200
Other revenue	106,313	74,519
Total unrestricted revenues, gains and other support	<u>2,571,446</u>	<u>2,371,056</u>
Operating expenses:		
Salaries, wages and benefits	1,295,416	1,153,106
Expendable supplies	470,739	407,413
Purchased services	414,180	382,474
Contracted services	211,021	164,114
Depreciation and amortization	144,671	130,149
Interest expense	49,199	45,901
Facility closure expenses	—	16,247
Total operating expenses	<u>2,585,226</u>	<u>2,299,404</u>
Operating (loss) income	(13,780)	71,652
Nonoperating income and expenses, net:		
Contributions	7,474	8,961
Inherent contribution – Civista	—	37,322
Equity in net income of joint ventures	16,279	1,660
Investment income	17,248	17,287
Change in fair value of investments	29,567	(23,104)
Change in fair value of undesignated interest rate swaps	69,206	(107,408)
Change in fair value of debt instrument	(2,917)	(9,607)
Loss on early extinguishment of debt	(3,397)	—
Other nonoperating losses, net	(35,482)	(19,764)
Excess (deficiency) of revenues over expenses	<u>84,198</u>	<u>(23,001)</u>
Net assets released from restrictions used for the purchase of property and equipment	24,081	36,352
Other	31,086	(31,118)
Increase (decrease) in unrestricted net assets	<u>\$ 139,365</u>	<u>(17,767)</u>

See accompanying notes to consolidated financial statements.

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

Years ended June 30, 2013 and 2012

(In thousands)

	Unrestricted net assets	Temporarily restricted net assets	Permanently restricted net assets	Total
Balance at June 30, 2011	\$ 1,142,835	75,656	32,543	1,251,034
Deficiency of revenues over expenses	(23,001)	—	—	(23,001)
Investment losses, net	—	(296)	—	(296)
State support for capital	—	30,558	—	30,558
Contributions, net	—	7,606	2,130	9,736
Net assets released from restrictions used for operations and nonoperating activities	—	(4,798)	—	(4,798)
Net assets released from restrictions used for purchase of property and equipment	36,352	(36,352)	—	—
Change in economic and beneficial interests in the net assets of related organizations	—	(4,254)	21	(4,233)
Change in ownership interest of joint ventures	(2,883)	(900)	—	(3,783)
Change in fair value of designated interest rate swaps	(4,948)	—	—	(4,948)
Change in funded status of defined benefit pension plans	(23,636)	—	—	(23,636)
Other	349	(80)	—	269
	<u>(17,767)</u>	<u>(8,516)</u>	<u>2,151</u>	<u>(24,132)</u>
(Decrease) increase in net assets				
Balance at June 30, 2012	<u>1,125,068</u>	<u>67,140</u>	<u>34,694</u>	<u>1,226,902</u>
Excess of revenues over expenses	84,198	—	—	84,198
Acquisition of SJMC Foundation	4,737	4,416	350	9,503
Investment gains, net	—	3,658	71	3,729
State support for capital	—	17,253	—	17,253
Contributions, net	—	8,596	280	8,876
Net assets released from restrictions used for operations and nonoperating activities	—	(2,067)	—	(2,067)
Net assets released from restrictions used for purchase of property and equipment	24,081	(24,081)	—	—
Change in economic and beneficial interests in the net assets of related organizations	—	(342)	(110)	(452)
Change in ownership interest of joint ventures	1,170	243	—	1,413
Change in fair value of designated interest rate swaps	3,046	—	—	3,046
Change in funded status of defined benefit pension plans	19,822	—	—	19,822
Asset reclassifications at request of donor	1,519	(245)	(1,274)	—
Other	792	306	—	1,098
	<u>139,365</u>	<u>7,737</u>	<u>(683)</u>	<u>146,419</u>
Increase (decrease) in net assets				
Balance at June 30, 2013	<u>\$ 1,264,433</u>	<u>74,877</u>	<u>34,011</u>	<u>1,373,321</u>

See accompanying notes to consolidated financial statements.

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Consolidated Statements of Cash Flows

Years ended June 30, 2013 and 2012

(In thousands)

	2013	2012
Cash flows from operating activities:		
Increase (decrease) in net assets	\$ 146,419	(24,132)
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities:		
Depreciation and amortization	144,671	130,149
Provision for bad debts	153,457	133,640
Amortization of bond premium and deferred financing costs	1,192	2,954
Net realized gains and change in fair value of investments	(42,082)	16,240
Loss on early extinguishment of debt	3,397	—
Change in fair value of debt instrument	2,917	9,607
Equity in net income of joint ventures	(16,279)	(1,660)
Loss on facility closure	—	13,824
Increase in economic and beneficial interests in net assets of related organizations	452	4,233
Change in fair value of interest rate swaps	(72,252)	112,356
Change in funded status of defined benefit pension plans	(19,822)	23,636
Inherent contribution related to Civista acquisition	—	(37,811)
Restricted contributions, investment income and state support	(29,858)	(39,998)
Change in operating assets and liabilities		
Patient accounts receivable	(204,485)	(151,040)
Other receivables, prepaid expenses, other current assets and other assets	(12,336)	(15,365)
Inventories	(5,649)	(1,657)
Trade accounts payable, accrued payroll and benefits, other current liabilities and other long-term liabilities	59,786	58,137
Advances from third-party payors	(3,931)	20,501
Net cash provided by operating activities	105,597	253,614
Cash flows from investing activities:		
Purchases and sales of investments and assets limited as to use, net	(98,350)	(1,802)
Acquisition of St. Joseph Medical System	(206,300)	—
Addition of cash from Civista Health, Inc.	—	33,905
Purchases of property and equipment	(213,971)	(210,703)
Distributions from joint ventures	3,646	6,723
Cash received from (paid to) swap counter party for collateral related to interest rate swaps, net	121,802	(64,329)
Net cash used in investing activities	(393,173)	(236,206)

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Consolidated Statements of Cash Flows

Years ended June 30, 2013 and 2012

(In thousands)

	<u>2013</u>	<u>2012</u>
Cash flows from financing activities:		
Proceeds from long-term debt	\$ 597,709	15,631
Repayment of long-term debt and capital leases	(356,283)	(32,362)
Draws (repayments) on lines of credit, net	(7,000)	37,900
Payment of debt issuance costs	(4,412)	—
Cash received from (paid to) swap counterparty for designated interest rate swaps, net	—	(16,183)
Restricted contributions, investment income and state support	29,858	39,998
Net cash provided by financing activities	<u>259,872</u>	<u>44,984</u>
Net (decrease) increase in cash and cash equivalents	(27,704)	62,392
Cash and cash equivalents, beginning of year	<u>279,909</u>	<u>217,517</u>
Cash and cash equivalents, end of year	<u>\$ 252,205</u>	<u>279,909</u>
Supplemental disclosures of cash flow information:		
Cash paid during the year for interest	\$ 44,630	43,957
Amount included in accounts payable for construction in progress	35,088	22,972
Supplemental disclosures of noncash information:		
Capital leases	\$ —	56

See accompanying notes to consolidated financial statements.

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Notes to Consolidated Financial Statements

June 30, 2013 and 2012

(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), and certain other affiliates, 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); Civista Health, Inc. (Civista); University of Maryland St. Joseph Health System (St. Joseph); University of Maryland Medical System Foundation, Inc. (UMMS Foundation); and Shipley's Choice Medical Park, Inc. (Shipley's), each of which is described below.

The accompanying consolidated financial statements include the accounts of the Corporation, its wholly owned subsidiaries, and entities controlled by the Corporation. In addition, the Corporation maintains equity interests in various unconsolidated joint ventures, which are described in note 4. All material intercompany balances and transactions have been eliminated in consolidation.

Recent Acquisitions & Divestitures

The Corporation established St. Joseph and subsequently purchased substantially all of the assets of the former St. Joseph Medical Center on December 1, 2012. During the year ended June 30, 2013, the Corporation completed the closure of University Specialty. Additionally, the Corporation became the sole member of Civista on July 1, 2011. These events are more fully described below.

University of Maryland Medical Center

The University of Maryland Medical Center, which is a major component of UMMS, is an 800-bed academic medical center located in Baltimore. The Medical Center has served as the teaching hospital of the School of Medicine of the University System of Maryland, Baltimore since 1823. While the Corporation is not affiliated with the University System of Maryland, clinical faculty members of the School of Medicine serve as medical staff of the Medical Center.

The Medical Center is comprised of three operating divisions: University Hospital, Shock Trauma Center, and Greenebaum Cancer Center. University Hospital, which generates approximately 75% of the Medical Center's admissions and patient days, is a tertiary teaching hospital providing over 70 clinical services and programs. The Shock Trauma Center, which specializes in emergency treatment of patients suffering severe trauma, generates approximately 20% of admissions and patient days. The Greenebaum Cancer Center specializes in the treatment of cancer patients and is a site for clinical cancer research.

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

The James Lawrence Kernan Hospital, Inc.

Kernan is comprised of a medical/surgical and rehabilitation hospital in Baltimore with 153 licensed beds, including 108 rehabilitation beds, 36 chronic care beds, 9 medical/surgical beds; and off-site physical therapy facilities.

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

Effective July 1, 2013, Kernan's name was changed to University of Maryland Rehabilitation and Orthopaedic Institute.

University Specialty Hospital, Inc.

During fiscal year 2013, the Corporation closed University Specialty Hospital (USH), a 180-bed chronic care hospital located in Baltimore and ceased operations at that location. The decision to close University Specialty was made during fiscal 2012, therefore in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Subtopic 205-35, the Corporation recorded an impairment loss of \$13,824,000 during the year ended June 30, 2012. In addition, the Corporation recorded \$2,423,000 of operating expenses related to the accrual of salaries and benefits payable under severance agreements during the year ended June 30, 2012.

During the year ended June 30, 2013, the Corporation sold the USH hospital building along with an unrelated piece of land for \$7,202,000. The Corporation recognized a gain of \$1,427,000 in the year ended June 30, 2013, which is recorded as an other nonoperating gain in the accompanying consolidated statements of operations.

Maryland General Health Systems, Inc.

Maryland General is located in Baltimore city and is comprised of Maryland General Hospital, a 235-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.

Effective July 1, 2013, Maryland General's name was changed to University of Maryland Medical Center Midtown Campus.

Baltimore Washington Medical System, Inc.

Baltimore Washington is located in Anne Arundel County, a suburb of Baltimore city, and is a health system comprised of Baltimore Washington Medical Center, a 307-bed acute care hospital providing

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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. and Chester River 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 132-bed acute care hospital providing inpatient and outpatient services in Easton, Maryland; Dorchester Hospital, a 46-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.

Chester River owns and operates Chester River Hospital Center (CRHC), a 42-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.

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.

Effective July 1, 2013, the operations of Shore Health and Chester River were combined and renamed Shore Regional Health.

Civista Health, Inc.

Civista Medical Center (CMC) is comprised of a 110-bed acute care hospital and other community healthcare resources providing inpatient and outpatient services to the residents of Charles County in Southern Maryland.

On July 1, 2011, the Corporation entered into an affiliation agreement with Civista under which the Corporation became the sole member of Civista. No consideration was tendered in connection with the transaction. The affiliation was accounted for under the purchase accounting method for business combinations and the financial position and results of operations for Civista were consolidated by the Corporation beginning on July 1, 2011. The Corporation recognized an inherent contribution equal to the estimated fair value of the identifiable net assets of Civista on the acquisition date of \$37,811,000, of which \$37,322,000 was included with nonoperating income on the consolidated

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statement of operations and \$489,000 was included as a temporarily restricted contribution in the consolidated statement of changes in net assets, for the year ended June 30, 2012.

The following table summarizes the estimated fair value of assets acquired and liabilities assumed at July 1, 2011 (the acquisition date):

Assets:	
Current assets	\$ 49,063,000
Property and equipment	74,851,000
Other long-term assets	<u>11,332,000</u>
Total assets	<u>\$ 135,246,000</u>
Liabilities:	
Current liabilities	\$ 33,162,000
Long-term liabilities	60,075,000
Accrued pension cost	<u>4,198,000</u>
Total liabilities	<u>97,435,000</u>
Net assets:	
Unrestricted	37,322,000
Temporarily restricted	<u>489,000</u>
Total net assets	<u>37,811,000</u>
Total liabilities and net assets	<u>\$ 135,246,000</u>

Effective July 1, 2013, Civista's name was changed to Charles Regional Health.

University of Maryland St. Joseph Health System, LLC

St. Joseph owns and operates University of Maryland St. Joseph Medical Center (UMSJMC), a 247-bed, Catholic acute care hospital located in Towson, Maryland, as well as other subsidiaries providing inpatient and outpatient services to the residents of Baltimore County.

St. Joseph, a wholly owned subsidiary of the Corporation, acquired substantially all the assets of the former St. Joseph Medical Center, as well as ownership interests in certain of its related affiliates, on December 1, 2012 (the Purchase Date).

The acquisition was completed pursuant to an Asset Purchase Agreement (the Purchase Agreement) with the sellers, under which the stated purchase price was \$206,300,000. The purchase price included \$47,000,000 that was placed into escrow by the Corporation as a contingent component of the purchase. The Corporation expects it is more likely than not that this contingency will be payable to the seller, and has accounted for it as a component of the purchase price and fair value of the assets acquired.

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Under the Purchase Agreement, purchased assets include the former St. Joseph Medical Center hospital facility, land and improvements, furniture, fixtures and equipment, joint venture interests, and other assets, liabilities, and records necessary to continue operations at the facility, but exclude certain assets such as cash, investments, and accounts receivable as of the Purchase Date. Under the terms of the Purchase Agreement, UMMS did not assume any liabilities or financial obligations associated with any acquired assets or the business operations at St. Joseph Medical Center that existed at the time of, or occurred prior to, the Purchase Date, including but not limited to accounts payable, liabilities for benefit and pension plans, financial obligations to any governmental authority and claims or litigation relating to acts or omissions that occurred prior to the Purchase Date.

The acquisition was accounted for under the purchase accounting method for business combinations and the financial position and results of operations of St. Joseph were consolidated by the Corporation beginning on December 1, 2012. Included in other nonoperating losses as of June 30, 2013, is \$6,920,000 of acquisition costs incurred by the Corporation as a result of the purchase.

The following table summarizes the estimated fair value of assets acquired at December 1, 2012 (the acquisition date):

Property, plant and equipment	\$	182,170,000
Investments in joint ventures		14,627,000
Interest in net assets of St. Joseph Medical Center Foundation, Inc.		<u>9,503,000</u>
Total assets	\$	<u><u>206,300,000</u></u>

Included in investments in joint ventures is an interest in O’Dea Medical Arts Limited Partnership (O’Dea). O’Dea has been consolidated with the Corporation due to control.

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

		<u>2013</u>	<u>2012</u>
Operating revenues	\$	2,697,750	2,702,716
Net operating income		(33,349)	47,372
Changes in net assets:			
Unrestricted	\$	114,126	(41,039)
Temporarily restricted		7,305	(8,450)
Permanently restricted		<u>(3,154)</u>	<u>2,075</u>
Total changes in net assets	\$	<u><u>118,277</u></u>	<u><u>(47,414)</u></u>

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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.

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, 2013 and 2012. 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 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

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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.

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

(h) Deferred Financing Costs

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

(i) Goodwill

Goodwill is an asset representing the future economic benefits arising from other assets acquired in a business combination that are not individually identified and separately recognized. Goodwill is

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

No impairment loss was recorded in 2013 or 2012.

(j) *Impairment of Long-Lived Assets*

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

(k) *Investments in Joint Ventures*

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

(l) *Self-Insurance*

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

(m) *Net Assets*

The Corporation classifies net assets based on the existence or absence of donor-imposed restrictions. Unrestricted net assets represent contributions, gifts and grants, which have no

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donor-imposed restrictions or which arise as a result of operations. Temporarily restricted net assets 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.

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

Patient service revenue for the Medical Center, Kernan, Maryland General, Baltimore Washington, Shore Health, Chester River, University Specialty, Civista, and UMSJMC 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.

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For receivables associated with services provided to patients who have third-party coverage, the Corporation analyzes contractually due amounts and provides an allowance for bad debts, allowance for contractual adjustments, provision for bad debts, and contractual adjustments on accounts for which the third-party payor has not yet paid or for payors who are known to be having financial difficulties that make the realization of amounts due unlikely. For receivables associated with self-pay patients or with balances remaining after the third-party coverage has already paid, the Corporation records a significant provision for bad debts in the period of service on the basis of its historical collections, which indicates that many patients ultimately do not pay the portion of their bill for which they are financially responsible. The difference between the discounted rates and the amounts collected after all reasonable collection efforts have been exhausted is charged off against the allowance for bad debts. The change in the allowance for bad debts was as follows during the years ended June 30:

	2013	2012
Beginning bad debt allowance	\$ (158,201)	(161,124)
Plus provision for bad debt	(153,457)	(133,640)
Less bad debt write-offs	150,983	136,563
Ending bad debt allowance	\$ (160,675)	(158,201)

The change in the allowance for bad debts during 2013 is attributable to increased patient volumes in 2013, and trends experienced in the collection of the related patient receivables.

The Health Information Technology for Economic and Clinical Health (HITECH) Act was signed into law in February 2009. In the context of the HITECH Act, certain healthcare entities must implement a certified Electronic Health Record (EHR) in an effort to promote the adoption and “meaningful use” of health information technology (HIT). The HITECH Act includes significant monetary incentives meant to encourage the adaptation of an EHR system. During 2013, the Corporation recognized “meaningful use” incentive payments totaling \$20,261,000, which are included in other operating revenue in the consolidated statements of operations.

(o) Charity Care

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

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

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

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

The amounts reported as charity care represent the cost of rendering such services. Costs incurred are estimated based on the cost-to-charge ratio for each hospital and applied to charity care charges. The Corporation estimates the total direct and indirect costs to provide charity care were \$97,656,000 and \$100,753,000 for the years ended June 30, 2013 and 2012, respectively.

(p) *Nonoperating Income and Expenses, Net*

Other activities that are largely unrelated to the Corporation's primary mission are recorded as nonoperating income and expenses, and include investment income, equity in the net income of joint ventures, general donations and fund-raising activities, gains on acquisitions, changes in fair value of investments, changes in fair value of interest rate swaps, and loss on early extinguishment of debt.

(q) *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.

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

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

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

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

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

(r) *Excess (Deficiency) 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

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acquired using contributions, which, by donor restrictions, were to be used for the purpose of acquiring such assets), pension-related changes other than net periodic pension costs, change in fair value of derivatives that qualify for hedge accounting, and other items that are required by generally accepted accounting principles to be reported separately.

(s) *Income Taxes*

The Corporation and most of its subsidiaries are not-for-profit corporations formed under the laws of the State of Maryland, organized for charitable purposes and recognized by the Internal Revenue Service as tax-exempt organizations under Section 501(c)(3) of the Internal Revenue Code pursuant to Section 501(a) of the Code. The effect of the taxable status of its for-profit subsidiaries is not material to the consolidated financial statements. There were no income taxes paid on unrelated business activities in the year ended June 30, 2013 or 2012. The Corporation has net operating losses of approximately \$27,336,000 as of June 30, 2013, which expire at various dates through 2031. The Corporation's deferred tax assets of approximately \$10,934,000 at June 30, 2013 are fully reserved as they are not expected to be utilized.

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

(t) *Donor-Restricted Gifts*

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

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

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

(u) *Fair Value Measurements*

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

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

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

Long-term debt – The fair value of the long-term debt issued through the Maryland Health and Higher Educational Facilities Authority (Authority or MHHEFA), based on quoted market prices for the same or similar issues, at June 30, 2013 and 2012, was approximately \$1,291,397,000 and \$1,077,764,000, respectively. The carrying amounts of other long-term debt reported in note 7 and on the consolidated balance sheet approximate the related fair values.

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

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

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As of June 30, 2013 and 2012, the Level 2 assets and liabilities listed in the fair value hierarchy tables below utilize the following valuation techniques and inputs:

(i) Cash Equivalents

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

(ii) U.S. Government and Agency Securities

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

(iii) Corporate Bonds

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

(iv) Collateralized Corporate Obligations

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

(v) Derivative Liabilities

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

(v) Fair Value Option

Under the Fair Value Option Subsections of ASC Subtopic 825-10, *Financial Instruments – Overall*, the Corporation has the irrevocable option to report most financial assets and liabilities at fair value on an instrument-by-instrument basis, with changes in fair value reported in earnings. See note 7 to the consolidated financial statements.

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(w) *Commitments and Contingencies*

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

(x) *New Accounting Pronouncements*

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. Additionally, enhanced disclosures about an entity's policies for recognizing, assessing bad debts, as well as qualitative and quantitative information about changes in the allowance for doubtful accounts are required. This ASU was effective for the Corporation on July 1, 2012. The adoption of this pronouncement did not have a material impact on the financial position or results of operations of the Corporation. See note 1(n) for related disclosure information.

(y) *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.

(z) *Reclassification of Prior Year Balances*

Certain prior year amounts in note 14, Functional Expenses, have been reclassified to reflect the effects of the accounting pronouncement discussed in note 1(x). The reclassification reduced the 2012 Healthcare Services expenses by the provision for bad debts of \$133,640,000.

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(2) Investments and Assets Limited as to Use

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

	2013	2012
Investments held for collateral	\$ 66,644	—
Debt service and reserve funds	74,772	83,367
Construction funds – held by trustee	75,340	49,287
Board designated funds	110,003	104,624
Construction funds – held by the Corporation	88,469	72,469
Self-insurance trust funds	111,454	101,348
Funds restricted by donors	50,324	47,460
Economic and beneficial interests in the net assets of related organizations (note 12)	37,117	37,568
Total assets limited as to use	614,123	496,123
Less amounts available for current liabilities	(46,343)	(43,089)
Total assets limited as to use, less current portion	\$ 567,780	453,034

The carrying values of assets limited as to use were as follows at June 30, 2013 (in thousands):

	Investments held for collateral	Debt service and reserve funds	Construction funds	Board designated funds	Self-insurance trust funds	Funds restricted by donors	Economic and beneficial interests	Total
Cash and cash equivalents \$	—	17,906	62,599	8,406	367	6,412	—	95,690
Corporate bonds	—	—	3,256	9,550	2,838	7,810	—	23,454
Collateralized corporate obligations	—	—	1,020	1,056	—	46	—	2,122
U.S. government and agency securities	66,644	56,866	61,325	1,725	132	76	—	186,768
Common stocks, including mutual funds	—	—	17,127	39,643	—	22,348	—	79,118
Alternative investments	—	—	18,482	49,623	—	13,632	—	81,737
Assets held by other organizations	—	—	—	—	108,117	—	37,117	145,234
Total assets limited as to use \$	66,644	74,772	163,809	110,003	111,454	50,324	37,117	614,123

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The carrying values of assets limited as to use were as follows at June 30, 2012 (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 \$	29,021	76,940	15,806	368	6,788	—	128,923
Corporate bonds	—	73	9,249	2,714	7,975	—	20,011
Collateralized corporate obligations	—	42	1,517	—	195	—	1,754
U.S. government and agency securities	54,346	43,857	2,449	205	314	—	101,171
Common stocks, including mutual funds	—	409	34,453	—	19,985	—	54,847
Alternative investments	—	435	41,150	—	12,203	—	53,788
Assets held by other organizations	—	—	—	98,061	—	37,568	135,629
Total assets limited as to use \$	<u>83,367</u>	<u>121,756</u>	<u>104,624</u>	<u>101,348</u>	<u>47,460</u>	<u>37,568</u>	<u>496,123</u>

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

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

	<u>2013</u>	<u>2012</u>
Cash and cash equivalents	\$ 7,035	17,342
Corporate bonds	32,426	32,030
Collateralized corporate obligations	9,014	16,443
U.S. government and agency securities	68,638	26,427
Common stocks	165,409	170,879
Alternative investments	180,954	183,006
	<u>\$ 463,476</u>	<u>446,127</u>

Investments at June 30, 2013 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 investment funds, which are valued using the equity method of accounting. Substantially all of these investments are subject to 30 day notice requirements for redemption.

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The following table presents investments and assets limited as to use that are measured at fair value on a recurring basis at June 30, 2013 (in thousands):

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Assets:				
Investments:				
Cash and cash equivalents	\$ 7,035	—	—	7,035
Corporate bonds	21,410	11,016	—	32,426
Collateralized corporate obligations	—	9,014	—	9,014
U.S. government and agency securities	62,252	6,386	—	68,638
Common and preferred stocks, including mutual funds	165,409	—	—	165,409
	<u>256,106</u>	<u>26,416</u>	<u>—</u>	<u>282,522</u>
Assets limited as to use:				
Cash and cash equivalents	62,501	33,189	—	95,690
Corporate bonds	18,023	5,431	—	23,454
Collateralized corporate obligations	—	2,122	—	2,122
U.S. government and agency securities	68,766	118,002	—	186,768
Common and preferred stocks, including mutual funds	79,118	—	—	79,118
Investments held by other organizations	—	108,117	—	108,117
	<u>228,408</u>	<u>266,861</u>	<u>—</u>	<u>495,269</u>
	<u>\$ 484,514</u>	<u>293,277</u>	<u>—</u>	<u>777,791</u>

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The following table presents investments and assets limited as to use that are measured at fair value on a recurring basis at June 30, 2012 (in thousands):

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Assets:				
Investments:				
Cash and cash equivalents	\$ 17,342	—	—	17,342
Corporate bonds	13,220	18,810	—	32,030
Collateralized corporate obligations	77	16,366	—	16,443
U.S. government and agency securities	12,800	13,627	—	26,427
Common and preferred stocks, including mutual funds	170,879	—	—	170,879
	<u>214,318</u>	<u>48,803</u>	<u>—</u>	<u>263,121</u>
Assets limited as to use:				
Cash and cash equivalents	96,745	32,178	—	128,923
Corporate bonds	16,389	3,622	—	20,011
Collateralized corporate obligations	—	1,754	—	1,754
U.S. government and agency securities	5,865	95,306	—	101,171
Common and preferred stocks, including mutual funds	54,847	—	—	54,847
Investments held by other organizations	—	98,061	—	98,061
	<u>173,846</u>	<u>230,921</u>	<u>—</u>	<u>404,767</u>
	<u>\$ 388,164</u>	<u>279,724</u>	<u>—</u>	<u>667,888</u>

Changes to Level 1 and Level 2 securities between June 30, 2013 and 2012 were the result of strategic investments and reinvestments, interest income earnings, and changes in the fair value of investments.

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

	<u>2013</u>	<u>2012</u>
Dividends and interest, net of fees	\$ 8,462	10,127
Net realized gains	9,924	7,870
Change in fair value of trading securities	32,158	(24,110)
Total investment return	<u>\$ 50,544</u>	<u>(6,113)</u>

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

	<u>2013</u>	<u>2012</u>
Nonoperating investment income	\$ 17,248	17,287
Change in fair value of unrestricted investments	29,567	(23,104)
Investment gains on restricted net assets	3,729	(296)
Total investment return	<u>\$ 50,544</u>	<u>(6,113)</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>2013</u>	<u>2012</u>
Land	\$ 105,418	86,464
Buildings	1,249,769	1,009,102
Building and leasehold improvements	586,814	529,589
Equipment	1,122,742	1,013,061
Construction in progress	150,288	217,230
	3,215,031	2,855,446
Less accumulated depreciation and amortization	<u>(1,507,355)</u>	<u>(1,411,356)</u>
	<u>\$ 1,707,676</u>	<u>1,444,090</u>

There was no interest cost capitalized for the year ended June 30, 2013. Interest cost capitalized was \$1,368,000 (net of interest income \$103,000) for the year ended June 30, 2012.

Remaining commitments on construction projects were approximately \$24,312,000 at June 30, 2013.

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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 \$144,671,000 and \$130,133,000, for the years ended June 30, 2013 and 2012, respectively.

(4) Investments in Joint Ventures

The Corporation has investments of \$192,045,000 and \$166,803,000 at June 30, 2013 and 2012, respectively, in the following unconsolidated joint ventures:

<u>Joint venture</u>	<u>Business purpose</u>	<u>Ownership Percentage</u>	
		<u>FY2013</u>	<u>FY2012</u>
Shipley's Imaging Center, LLC	Freestanding imaging center	50%	50%
Maryland Care, Inc. Innovative Health Services, LLC	Managed care organization	25	25
NAH/Sunrise of Severna Park, LLC	Third-party insurance claims processor	50	50
Terrapin Insurance Company (Terrapin)	Senior living facility	50	50
Mt. Washington Pediatric Hospital, Inc. (Mt. Washington)	Healthcare professional liability insurance company	50	50
UCHS/UMMS Venture, LLC	Healthcare services	50	50
Central Maryland Radiation Oncology Center LLC	Healthcare services	49	49
Chesapeake-Potomac Healthcare Alliance	Healthcare services	50	50
Civista Ambulatory Surgery Center, Inc.	Healthcare services	33	33
NRH/CPT/St. Mary's/Civista Regional Rehab, LLC	Ambulatory surgical services	50	50
	Medical rehabilitative and therapy services	15	15

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<u>Joint venture</u>	<u>Business purpose</u>	<u>Ownership Percentage</u>	
		<u>FY2013</u>	<u>FY2012</u>
Freestate Healthcare Insurance Company, LTD	Healthcare professional liability insurance company	17%	17%
Maryland eCare, LLC	Remote monitoring technology	14	14
MRI at St. Joseph Medical Center, LLC	Healthcare services	51 *	**
SJMC-RA, LLC	Healthcare services	49	**

* *The Corporation has a greater than 50% ownership interest, but does not exert control.*

** *Acquired as part of St. Joseph. See note 1(a).*

The Corporation recorded equity in net earnings of \$16,279,000 and \$1,660,000 related to these joint ventures for the years ended June 30, 2013 and 2012, respectively.

In 2009, the Corporation entered into a Membership Interest Purchase Agreement and an Affiliation Agreement with Upper Chesapeake Health System, Inc. (UCHS), a healthcare system located in Harford County, Maryland, whereby the Corporation has purchased a 49% interest in the Upper Chesapeake Health System/University of Maryland Medical System Venture, LLC (UCHS/UMMS Venture, LLC). In accordance with the Affiliation Agreement, the Corporation has designated \$150,000,000 for future capital improvements of UCHS/UMMS Venture, LLC. The Corporation has committed no less than \$176,000,000 to UCHS/UMMS Venture, LLC for future capital improvements over the next several years, which will culminate in the Corporation's membership interest in the UCHS/UMMS Venture, LLC increasing to 100%.

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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):

	2013				
	Mt. Washington	Terrapin	UCHS/UMMS Venture, LLC	Others	Total
Current assets	\$ 24,380	10,056	86,871	184,665	305,972
Noncurrent assets	65,494	148,845	336,380	94,458	645,177
Total assets	<u>\$ 89,874</u>	<u>158,901</u>	<u>423,251</u>	<u>279,123</u>	<u>951,149</u>
Current liabilities	\$ 13,155	2,920	55,288	164,676	236,039
Noncurrent liabilities	8,625	154,031	234,987	(8,880)	388,763
Net assets	<u>68,094</u>	<u>1,950</u>	<u>132,976</u>	<u>123,327</u>	<u>326,347</u>
Total liabilities and net assets	<u>\$ 89,874</u>	<u>158,901</u>	<u>423,251</u>	<u>279,123</u>	<u>951,149</u>
Total operating revenue	\$ 54,019	32,314	356,417	761,042	1,203,792
Total operating expenses	(48,625)	(39,129)	(348,711)	(740,852)	(1,177,317)
Total nonoperating gains/(losses), net	2,188	6,815	11,364	(2,942)	17,425
Distributions to owners	—	—	—	(10,582)	(10,582)
Other changes in net assets, net	<u>3,705</u>	<u>—</u>	<u>5,481</u>	<u>(12,992)</u>	<u>(3,806)</u>
Increase in net assets	<u>\$ 11,287</u>	<u>—</u>	<u>24,551</u>	<u>(6,326)</u>	<u>29,512</u>

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	2012				
	Mt. Washington	Terrapin	UCHS/UMMS Venture, LLC	Others	Total
Current assets	\$ 26,499	12,427	89,578	191,821	320,325
Noncurrent assets	52,834	137,883	307,249	80,858	578,824
Total assets	<u>\$ 79,333</u>	<u>150,310</u>	<u>396,827</u>	<u>272,679</u>	<u>899,149</u>
Current liabilities	\$ 13,119	8,105	55,885	173,008	250,117
Noncurrent liabilities	9,407	140,255	218,122	4,288	372,072
Net assets	<u>56,807</u>	<u>1,950</u>	<u>122,820</u>	<u>95,383</u>	<u>276,960</u>
Total liabilities and net assets	<u>\$ 79,333</u>	<u>150,310</u>	<u>396,827</u>	<u>272,679</u>	<u>899,149</u>
Total operating revenue	\$ 48,537	28,067	380,087	731,354	1,188,045
Total operating expenses	(46,690)	(29,181)	(370,037)	(697,371)	(1,143,279)
Total nonoperating gains/(losses), net	200	1,114	(13,600)	(12,541)	(24,827)
Distributions to owners	—	—	—	(16,000)	(16,000)
Other changes in net assets, net	<u>694</u>	<u>—</u>	<u>(286)</u>	<u>(1,007)</u>	<u>(599)</u>
Increase in net assets	<u>\$ 2,741</u>	<u>—</u>	<u>(3,836)</u>	<u>4,435</u>	<u>3,340</u>

(5) Leases

The Corporation rents various equipment and facility space. Rent expense under these operating leases for the years ended June 30, 2013 and 2012 was approximately \$23,461,000 and \$17,023,000, respectively.

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

2014	\$ 12,662
2015	8,811
2016	6,033
2017	4,202
2018	3,324
Thereafter	<u>10,312</u>
	<u>\$ 45,344</u>

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, 2021, whereby the lessor may require the

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Corporation to purchase the building for \$37,000,000. As of June 30, 2013 and 2012, amounts of \$35,567,000 and \$35,244,000, respectively, representing obligations under the lease, have been recorded in other current liabilities.

As of June 30, 2013, amounts of \$1,000,000 and \$962,000 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):

	2013	2012
Land	\$ 3,770	3,770
Buildings	29,230	29,230
Equipment	17,798	18,611
	50,798	51,611
Less accumulated amortization	(18,674)	(13,926)
	\$ 32,124	37,685

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, 2013 (in thousands):

2014	\$	4,221	
2015		3,745	
2016		3,520	
2017		39,750	
2018		—	
Thereafter		—	
Total minimum lease payments		51,236	
Less amounts representing interest		(13,707)	
Present value of net minimum lease payments	\$	37,529	

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(6) Lines of Credit

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

2013					
Line number	Interest rate calculation	Interest rate as of June 30, 2013	Date of expiration	Total available	Outstanding amount
1	1-mo LIBOR + 0.80%	0.99%	12/31/2013	\$ 25,000	25,000
2			Annually		
	1-mo LIBOR +2.20%	2.39	renewing	20,000	10,000
3	1,2 or 3 month LIBOR + 0.75%	0.94	7/1/2014	20,000	20,000
4	1-mo LIBOR +0.20%	0.99	12/31/2013	10,000	10,000
5			Annually		
	1-mo LIBOR +2.20%	2.39	renewing	5,000	—
6	Prime + 0.50%	3.75	5/31/2014	12,000	12,000
7	Prime, LIBOR (1,2,3 or 6 month) or				
	LIBOR w/daily reset	3.25	1/16/2014	10,000	10,000
8	1-mo LIBOR + 0.70%	0.89	4/2/2014	60,000	8,000
	Total lines of credit			<u>\$ 162,000</u>	<u>95,000</u>

2012					
Line number	Interest rate calculation	Interest rate as of June 30, 2012	Date of expiration	Total available	Outstanding amount
1	1-mo LIBOR + 0.80%	1.05%	12/31/2012	\$ 25,000	25,000
2			Annually		
	1-mo LIBOR +2.20%	2.45	renewing	20,000	20,000
3	1,2 or 3 month LIBOR + 0.75%	1.00	7/1/2013	20,000	20,000
4	1-mo LIBOR +0.80%	1.05	12/31/2012	10,000	10,000
5			Annually		
	1-mo LIBOR +2.20%	2.45	renewing	5,000	5,000
6	> of Prime + 0.25%, or 5.0%	5.00	12/1/2012	12,000	12,000
7	Prime, LIBOR (1,2,3 or 6 month) or				
	LIBOR w/daily reset	3.25	1/16/2013	10,000	10,000
	Total lines of credit			<u>\$ 102,000</u>	<u>102,000</u>

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(7) Long-Term Debt and Other Borrowings

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

	<u>Interest rate</u>	<u>Payable in fiscal year(s)</u>	<u>2013</u>	<u>2012</u>
MHHEFA project revenue bonds:				
Corporation issue, payments due annually on July 1:				
Series 2013 Bonds	2.00% – 5.00%	2013 – 2043	\$ 362,335	—
Series 2012A-D Bonds	Variable rate	2013 – 2041	216,335	—
Series 2010 Bonds	2.00% – 5.25%	2010 – 2040	226,485	231,925
Series 2008A-E Bonds	Variable rate	2026 – 2042	105,000	280,000
Series 2008F Bonds	4.00% – 5.25%	2009 – 2024	65,055	69,980
Series 2007A/B Bonds	Variable rate	2008 – 2035	95,065	137,220
Series 2006A Bonds	4.50% – 5.00%	2026 – 2042	45,000	45,000
Series 2005 Bonds	4.00% – 5.50%	2006 – 2032	125,825	135,690
Series 2004B Bonds	2.00% – 5.00%	2005 – 2025	—	26,690
Series 2002 Bonds	5.00%	2004 – 2013	—	1,430
Series 1991B Bonds	7.00%	1992 – 2023	26,085	27,315
Shore Health issue, payments due annually on July 1:				
Series 1998 Bonds	4.15% – 5.25%	2000 – 2020	—	19,200
MHHEFA pooled loan program:				
Chester River issue, payments due semi-annually on July and January 1 Commercial paper series				
	Variable rate	1990 – 2013	—	385
MHHEFA variable rate demand bonds:				
Chester River issue, payments due semi-annually on July and January 1 MHHEFA D				
	Variable rate	2004 – 2024	—	1,965
MHHEFA master lease and sublease				
	4.40%	2006 – 2013	—	545
MHHEFA project revenue bonds:				
Civista Medical System issue, interest payable semi-annually, principal payable annually on July 1				
Series 2005 Bonds	3.00% – 5.00%	2012 – 2037	—	56,740
Other long-term debt:				
North Arundel Senior Living, LLC Mortgage				
	4.75%	Monthly, 2021	10,342	10,635
Charles County Government loan payable				
	3.05%	Monthly, 2004 – 2021	8,599	9,568
Grandbridge Real Estate Capital mortgaged promissory note payable				
	5.70%	Monthly, 2012 – 2014	4,215	4,459

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	<u>Interest rate</u>	<u>Payable in fiscal year(s)</u>	<u>2013</u>	<u>2012</u>
O'Dea Medical Arts L.P. mortgage	3.68%	2009 – 2014	\$ 9,272	—
Term loans	1.46% – 2.94%	2009 – 2022	38,591	52,516
Other loans and notes payable	3.25% – 7.00%	Monthly, 1991 – 2025	3,657	6,111
			<u>1,341,861</u>	<u>1,117,374</u>
Less current portion of long-term debt			38,802	53,928
Less long-term debt subject to short-term remarketing agreements			<u>19,123</u>	<u>52,621</u>
			1,283,936	1,010,825
Plus unamortized premiums and discounts, net			20,110	3,660
Less fair market value adjustment			<u>—</u>	<u>(2,916)</u>
			<u>\$ 1,304,046</u>	<u>1,011,569</u>

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

The Obligated Group under the UMMS Master Loan Agreement includes the Medical Center, Kernan Hospital, Maryland General Hospital, Baltimore Washington Medical Center, Shore Health, Chester River Hospital Center, Civista Medical Center, UMSJMC, and the UMMS Foundation. Each member of the Obligated Group is jointly and severally liable for the repayment of the obligations under the UMMS Master Loan Agreement.

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

In August 2012, the Corporation refunded \$40,755,000 of the Series 2007 Bonds and \$175,000,000 of the Series 2008 Bonds. The refunding was completed using the proceeds of a new \$216,335,000 variable-rate MHHEFA bond issue (the Series 2012A-D Bonds).

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In April 2013, the Corporation issued a new fixed-rate MHHEFA bond issue (the Series 2013 Bonds) in the amount of \$362,335,000. The Series 2013 Bonds were issued to finance the following:

Purchase of substantially all of the assets of St. Joseph Medical Center (see footnote 1(a))	\$ 206,300,000
Information Technology and capital construction projects	68,200,000
Refunding of existing debt:	
Civista MHHEFA Series 2005	56,100,000
UMMS MHHEFA Series 2004B	25,200,000
Shore Health MHHEFA Series 1998	17,200,000
Chester River MHHEFA bonds and other loans	14,400,000
Subtotal	387,400,000
Less proceeds of original issue premium	(18,100,000)
Less amounts pledged to refunded bonds, net of financing costs	(6,965,000)
	\$ 362,335,000

The unamortized portion of issuance costs on the debt refunded by the Series 2013 Bonds was expensed as a loss on early extinguishment of debt during the year ended June 30, 2013. In addition, the Corporation had previously recorded a fair value decrease to the Civista Series 2005 Bonds as a result of having elected to record that debt instrument at its fair value under ASC Subtopic 825-10. During fiscal year 2013, the Corporation continued to record changes in the fair value of the Civista Series 2005 Bonds until the refunding occurred, at which time the remaining fair value change of \$2,793,000 was expensed as a component of the loss on early extinguishment of debt.

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

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

2014	\$	38,802
2015		31,657
2016		28,691
2017		29,581
2018		40,276
Thereafter		1,172,854
	\$	1,341,861

The Corporation's Series 2007A and 2008D-E are variable rate demand bonds requiring remarketing agents to purchase and remarket any bonds tendered before the stated maturity date. The reimbursement

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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 2015 through 2017. If the bonds are not successfully remarketed, the Corporation is required to pay an interest rate specified in the letter of credit agreement, and the principal repayment of bonds may be accelerated to require repayment in periods ranging from 20 to 60 months from the date of the failed remarketing. The Corporation has reflected the amount of its long-term debt that is subject to these short-term remarketing arrangements as a separate component of current liabilities in its consolidated balance sheets. In the event that bonds are not remarketed, the Corporation maintains available letters of credit and has the ability to access other sources to obtain the necessary liquidity to comply with accelerated repayment terms. All variable rate demand bonds were successfully remarketed as of June 30, 2013.

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:

2014	\$	57,925
2015		127,235
2016		74,269
2017		59,704
2018		47,609
Thereafter		975,119
		1,341,861
	\$	1,341,861

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

	2013	2012
Series 2008A Bonds	—%	0.28%
Series 2008B Bonds	—	0.25
Series 2008C Bonds	—	0.15
Series 2008D Bonds	0.03	0.15
Series 2008E Bonds	0.05	0.17
Series 2007A Bonds	0.07	0.15
Series 2007B Bonds	—	0.28
Pooled Loan Program Series A and D, Chester River Issue	—	0.40

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

	<u>Interest rate</u>	<u>Interest rate</u>	<u>Payable in fiscal year(s)</u>	<u>2013</u>	<u>2012</u>
Term loan 1					
payable monthly beginning February 2012	1-mo LIBOR + 2.75%	2.94%	2012 – 2018	\$ 21,141	23,591
Term loan 2					
payable monthly beginning January 2009	1-mo LIBOR + 0.85%	1.10	2009 – 2014	—	10,800
Term loan 3					
payable monthly beginning March 2012	Fixed rate	1.95	2012 – 2022	10,800	11,600
Term loan 4					
payable monthly beginning January 2012	Fixed rate	1.66	2012 – 2017	996	1,305
Term loan 5					
payable monthly beginning April 2012	Fixed rate	1.62	2012 – 2017	981	1,264
Term loan 6					
payable monthly beginning February 2010	1-mo LIBOR + 1.75%	1.94	2010 – 2019	3,731	3,956
Term loan 7					
payable monthly beginning October 2012	Fixed rate	1.46	2013 – 2018	776	—
Term loan 8					
payable monthly beginning November 2012	Fixed rate	2.91	2013 – 2018	166	—
Total term loans				<u>\$ 38,591</u>	<u>52,516</u>

(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.

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At June 30, 2013 and 2012, the Corporation's notional values of outstanding interest rate swaps were \$606,899,000 and \$608,949,000, respectively, the details of which were as follows:

	<u>Notional amount</u>	<u>Pay rate</u>	<u>Maturity date</u>	<u>Mark to market</u>	<u>Qualifies for hedge accounting treatment?</u>
As of June 30, 2013:					
Swap #1	\$ 92,349	3.59%	7/1/2031	\$ (14,839)	No
Swap #2	84,000	3.93%	7/1/2041	(23,896)	No
Swap #3	21,000	4.24%	7/1/2041	(7,090)	No
Swap #4	39,225	3.99%	7/1/2034	(8,422)	No
Swap #5	28,730	3.54%	7/1/2031	(4,454)	No
Swap #6	196,000	3.93%	7/1/2041	(55,764)	No
Swap #7	49,000	4.24%	7/1/2041	(16,545)	No
Swap #8	91,550	4.00%	7/1/2034	(19,735)	No
Swap #9	<u>5,045</u>	3.63%	7/1/2032	<u>(647)</u>	No
				(151,392)	
			Valuation adjustments	<u>5,888</u>	
Total	<u>\$ 606,899</u>			<u>\$ (145,504)</u>	
As of June 30, 2012:					
Swap #1	\$ 92,349	3.59%	7/1/2031	\$ (22,691)	No
Swap #2	84,000	3.93%	7/1/2041	(36,788)	No
Swap #3	21,000	4.24%	7/1/2041	(10,477)	No
Swap #4	39,650	3.99%	7/1/2034	(12,190)	No
Swap #5	29,380	3.54%	7/1/2031	(6,883)	No
Swap #6	196,000	3.93%	7/1/2041	(85,850)	No
Swap #7	49,000	4.24%	7/1/2041	(24,450)	No
Swap #8	92,525	4.00%	7/1/2034	(28,539)	Yes*
Swap #9	<u>5,045</u>	3.63%	7/1/2032	<u>(936)</u>	No
				(228,804)	
			Valuation adjustments	<u>11,048</u>	
Total	<u>\$ 608,949</u>			<u>\$ (217,756)</u>	

* De-designated as nonqualifying on January 1, 2013.

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

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Swap #8 qualified as, and was designated as, a cash flow hedge as of June 30, 2012. An unrealized loss of (\$12,058,000) was recorded in other changes in unrestricted net assets for the year ended June 30, 2012. This amount subsequently will be reclassified into interest expense as a yield adjustment of the hedged debt obligation in the same period in which the related interest affected the excess of revenues over expenses, representing a hedge ineffectiveness adjustment. There was no net gain or loss recognized in interest expense for the year ended June 30, 2012 as a result of hedge ineffectiveness on the designated swap. The accumulated loss on changes in the fair value of designated swaps that was included in unrestricted net assets was (\$28,130,000) at June 30, 2012.

On January 1, 2013, in accordance with ASC 815, *Derivatives and Hedging*, the Corporation elected to discontinue the cash flow hedging relationship for Swap #8. As of that date, the accumulated losses included in unrestricted net assets, will be reclassified into earnings over the life of the Series 2007 bonds. For the year ended June 30, 2013, \$938,000 was reclassified from other changes in net assets into change in fair value of undesignated interest rate swaps. The accumulated losses included in unrestricted net assets was (\$25,084,000) at June 30, 2013.

Other than Swap #8 during the period July 1, 2011 through December 31, 2012 as discussed above, the Corporation's interest rate swaps, do not qualify for hedge accounting treatment. The Corporation recorded a net nonoperating gain (loss) on nonqualifying interest rate swaps of \$70,144,000 and \$(107,408,000) for the years ended June 30, 2013 and 2012, respectively.

The swap agreements are included in the consolidated balance sheet at their fair value of \$145,504,000 and \$217,756,000 as of June 30, 2013 and 2012, respectively, an amount that is based on observable inputs other than quoted market prices in active markets for identical liabilities (Level 2 in the fair value hierarchy).

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 \$65,047,000 and \$121,802,000 at June 30, 2013 and 2012, respectively.

As of June 30, 2013, the Corporation met its collateral posting requirement through the use of collateralized investments, which were selected and purchased by the Corporation and subsequently transferred to the custody of the swap counterparty. The amount of posted investments that is required to meet the collateral requirement is computed daily, and is accounted for as a component of the Corporation's assets limited as to use on the accompanying consolidated balance sheet as of that date. Any excess investment value is considered a component of the Corporation's unrestricted investment portfolio, and is included in investments on the accompanying balance sheet as of that date.

As of June 30, 2012, the Corporation met its collateral posting requirement through the transfer of cash to the counterparty, which was accounted for as a component of total current assets on the accompanying consolidated balance sheet on that date.

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(9) Other Liabilities

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

	2013	2012
Professional and general malpractice liabilities	\$ 181,275	165,742
Capital lease obligations	37,529	45,539
Accrued pension obligations	26,584	47,630
Accrued interest payable	16,963	15,543
Other miscellaneous	38,717	58,435
Total other liabilities	301,068	332,889
Less current portion	(93,383)	(106,377)
Other long-term liabilities	\$ 207,685	226,512

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

(10) Retirement Plans

Employees of the Corporation are included in various retirement plans established by the Corporation, the Medical Center, Kernan, University Specialty, Maryland General, Baltimore Washington, Shore Health, Chester River and Civista. Participation by employees in their specific plan(s) has evolved based upon the organization by which they were first employed and the elections that they made at the times when their original employers became part of the Corporation. Following is a brief description of each of the retirement plans in which employees of the Corporation participate.

(a) Defined Benefit Plans

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.

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

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.

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

	2013	2012
Change in projected benefit obligations:		
Benefit obligations at beginning of year	\$ 171,632	125,335
Addition of Civista obligation	—	23,259
Plan amendment	(123)	1,163
Settlements	(2,609)	(1,156)
Service cost	3,963	3,250
Interest cost	7,647	7,810
Actuarial loss	(9,260)	17,426
Benefit payments	(6,093)	(5,455)
Projected benefit obligations at end of year	\$ 165,157	171,632
Change in plan assets:		
Fair value of plan assets at beginning of year	\$ 124,002	99,068
Addition of Civista assets	—	19,061
Actual return on plan assets	11,960	(6)
Settlements	(2,609)	(1,156)
Employer contributions	11,313	12,490
Benefit payments	(6,093)	(5,455)
Fair value of plan assets at end of year	\$ 138,573	124,002
Accumulated benefit obligation at end of year	\$ 158,832	165,109

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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):

	2013	2012
Funded status, end of period:		
Fair value of plan assets	\$ 138,573	124,002
Projected benefit obligations	165,157	171,632
	\$ (26,584)	(47,630)
Amounts recognized in unrestricted net assets at June 30:		
Net actuarial loss	\$ (53,337)	(72,874)
Prior service cost	(1,135)	(1,420)
	\$ (54,472)	(74,294)

The estimated amounts that will be amortized from unrestricted net assets into net periodic pension cost in fiscal 2014 are as follows:

Net actuarial loss	\$ 4,009
Prior service cost	163
	\$ 4,172

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

	2013	2012
Service cost	\$ 3,963	3,250
Interest cost	7,647	7,810
Expected return on plan assets	(9,328)	(9,389)
Prior service cost recognized	163	183
Recognized gains or losses	7,644	4,164
Net periodic pension cost	\$ 10,089	6,018

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

	2013	2012
Discount rate	4.97% – 5.24%	4.32% – 4.67%
Rate of compensation increase (for nonfrozen plan)	2.50% – 4.50%	2.50% – 4.50%

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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>2013</u>	<u>2012</u>
Discount rate	4.32% – 4.67%	5.25% – 5.60%
Expected long-term return on plan assets	7.50%	7.00% – 7.75%
Rate of compensation increase (for nonfrozen plan)	2.50% – 4.50%	3.00% – 4.50%

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 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, 2013 and 2012, by asset category, are as follows:

<u>Asset category</u>	<u>Target allocation</u>	<u>Percentage of plan assets as of June 30</u>	
		<u>2013</u>	<u>2012</u>
Cash and cash equivalents	—	6%	4%
Fixed income securities	35	28	30
Equity securities	40	41	40
Global asset allocation	15	15	16
Hedge funds	10	10	10
		<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, 2013 and 2012, 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.

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The table below presents the Corporation's combined investable assets of the defined benefit pension plans as of June 30, 2013 aggregated by the three level valuation hierarchy as described in note 1(u):

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Cash and cash equivalents	\$ —	7,182	—	7,182
Fixed income mutual funds	35,141	—	—	35,141
Common and preferred stocks	10,337	—	—	10,337
Equity mutual funds	43,584	—	—	43,584
Other mutual funds	10,655	—	—	10,655
Alternative investments	—	13,933	17,741	31,674
	<u>\$ 99,717</u>	<u>21,115</u>	<u>17,741</u>	<u>138,573</u>

The table below presents the Corporation's combined investable assets of the defined benefit pension plans as of June 30, 2012, aggregated by the three level valuation hierarchy as described in note 1(u):

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Cash and cash equivalents	\$ 112	4,834	—	4,946
Fixed income mutual funds	33,899	—	—	33,899
Common and preferred stocks	7,306	—	—	7,306
Equity mutual funds	38,676	—	—	38,676
Other mutual funds	10,122	—	—	10,122
Alternative investments	—	18,901	10,152	29,053
	<u>\$ 90,115</u>	<u>23,735</u>	<u>10,152</u>	<u>124,002</u>

Changes to Level 1 and Level 2 inputs between June 30, 2013 and 2012 were the result of strategic investments and reinvestments, interest income earnings, and changes in the fair value of investments.

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Changes to the fair values based on the Level 3 inputs are summarized as follows:

		<u>Hedge funds</u>
Balance as of June 30, 2011	\$	9,892
Additions/purchases		1,923
Withdrawals/sales		(745)
Net change in value		<u>(918)</u>
Balance as of June 30, 2012		10,152
Additions/purchases		7,660
Withdrawals/sales		(371)
Net change in value		<u>300</u>
Balance as of June 30, 2013	\$	<u><u>17,741</u></u>

The following summarizes the redemption terms for the hedge fund-of-funds vehicles alternative investments held as of June 30, 2013:

	<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

The Corporation expects to contribute \$10,277,000 to its defined benefit pension plans for the fiscal year ending June 30, 2014.

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):

2014	\$	7,503
2015		8,318
2016		8,183
2017		9,880
2018		10,116
2019 – 2020		58,326

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The expected benefits to be paid are based on the same assumptions used to measure the Corporation's benefit obligation at June 30, 2013.

(b) Defined Contribution Plans

Corporation Pension Plan – A noncontributory defined contribution plan for all eligible Corporation employees not participating in the Kernan 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 Kernan 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.

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.

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.

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

Total annual retirement costs incurred by the Corporation for the previously discussed defined contribution plans were \$34,516,000 and \$25,839,000 for the years ended June 30, 2013 and 2012, respectively. Such amounts are included in salaries, wages and benefits in the accompanying consolidated statements of operations.

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(11) Temporarily and Permanently Restricted Net Assets

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

	2013	2012
Facility construction and renovations, research, education, and other	\$ 37,760	29,571
Economic and beneficial interests in the net assets of related organizations	37,117	37,569
	\$ 74,877	67,140

Net assets were released from donor restrictions during the years ended June 30, 2013 and 2012 by expending funds satisfying the restricted purposes or by occurrence of other events specified by donors as follows (in thousands):

	2013	2012
Purchases of equipment and construction costs	\$ 24,081	36,352
Research, education, uncompensated care, and other	2,067	4,798
	\$ 26,148	41,150

Included in net assets released from donor restrictions for research, professional education, faculty support, uncompensated care and other is \$1,638,000 and \$3,983,000 for the years ended June 30, 2013 and 2012, respectively, related to nonoperating activities of the UMMS 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.

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

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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, 2013			
		Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor-restricted endowment funds	\$	—	9,480	34,011	43,491

		June 30, 2012			
		Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor-restricted endowment funds	\$	—	7,708	34,694	42,402

(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

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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.

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

	2013	2012
Economic interests in:		
The James Lawrence Kernan Hospital Endowment Fund, Incorporated	\$ 28,660	29,002
Baltimore Washington Medical Center Foundation, Inc.	5,607	5,966
Total economic interests	34,267	34,968
Beneficial interest in the net assets of Dorchester General Hospital Foundation, Inc.	2,850	2,601
	\$ 37,117	37,569

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.

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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.

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):

	2013	2012
Current assets	\$ 2,140	1,905
Noncurrent assets	35,631	36,408
Total assets	\$ 37,771	38,313
Current liabilities	\$ 101	101
Noncurrent liabilities	553	643
Net assets	37,117	37,569
Total liabilities and net assets	\$ 37,771	38,313
Total operating revenue	\$ (1,000)	622
Total operating expense	1,043	(4,922)
Other changes in net assets	(495)	67
Total decrease in net assets	\$ (452)	(4,233)

(13) State Support

The Corporation received \$3,000,000 and \$3,200,000 in support for the Shock Trauma Center operations from the State of Maryland for the years ended June 30, 2013 and 2012, respectively.

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 \$16,503,000 and \$29,808,000 during the years ended June 30, 2013 and 2012, respectively.

In each of the years ended June 30, 2013 and 2012, the Corporation received \$750,000 of capital support from the State of Maryland for Kernan.

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(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):

	2013	2012
Healthcare services	\$ 2,228,069	1,905,382
General and administrative	357,157	394,022
	\$ 2,585,226	2,299,404

(15) Insurance

The Corporation maintains self-insurance programs for professional and general liability risks, employee health, employee long-term disability, and workers' compensation. Estimated liabilities have been recorded based on actuarial estimation of reported and incurred but not reported claims. The accrued liabilities for these programs as of June 30, 2013 and 2012 were as follows (in thousands):

	2013	2012
Professional and general malpractice liabilities	\$ 181,275	165,742
Employee health	20,068	14,589
Employee long-term disability	10,038	8,143
Workers' compensation	12,420	11,473
Total self-insured liabilities	223,801	199,947
Less current portion	(48,111)	(39,909)
	\$ 175,690	160,038

The Corporation provides for and funds the present value of the costs for professional and general liability claims and insurance coverage related to the projected liability from asserted and unasserted incidents, which the Corporation believes may ultimately result in a loss. These accrued malpractice losses are discounted using a discount rate of 2.5%. In management's opinion, these accruals provide an adequate and appropriate loss reserve. The professional and general malpractice liabilities presented above include \$114,355,000 and \$104,740,000 as of June 30, 2013 and 2012, respectively, for which related insurance receivables have been recorded.

The Corporation and each of its affiliates are self-insured for professional and general liability claims up to the limits of \$1.0 million on individual claims and \$3.0 million in the aggregate on an annual basis. For amounts in excess of these limits, the risk of loss has been transferred to the Terrapin Insurance Company (Terrapin), an unconsolidated joint venture. Terrapin provides insurance for claims in excess of \$1 million individually and \$3 million in the aggregate up to \$90 million individually and \$90 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.

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

Total malpractice insurance expense for the Corporation during the years ended June 30, 2013 and 2012 was approximately \$44,234,000 and \$39,290,000, respectively.

(16) Business and Credit Concentrations

The Corporation provides healthcare services through its inpatient and outpatient care facilities located in the State of Maryland. The Corporation generally does not require collateral or other security in extending credit; however, it routinely obtains assignment of (or is otherwise entitled to receive) patients' benefits receivable under their health insurance programs, plans or policies (e.g., Medicare, Medicaid, Blue Cross, workers' compensation, health maintenance organizations (HMOs) and commercial insurance policies).

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

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

	<u>2013</u>	<u>2012</u>
Medicare	25%	22%
Medicaid	27	35
Commercial insurance and HMOs	17	16
Blue Cross	12	11
Self-pay and others	19	16
	<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>2013</u>	<u>2012</u>
Medicare	36%	31%
Medicaid	23	27
Commercial insurance and HMOs	17	18
Blue Cross	16	15
Self-pay and others	8	9
	<u>100%</u>	<u>100%</u>

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(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.

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

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

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

The general healthcare industry environment is increasingly uncertain, especially with respect to the impact of Federal healthcare reform legislation, which was passed in 2010 and largely upheld by the U.S. Supreme Court in June 2012. Potential impacts of ongoing healthcare industry transformation include, but are not limited to (1) significant capital investments in healthcare information technology, (2) continuing volatility in the state and federal government reimbursement programs, (3) lack of clarity

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

Notes to Consolidated Financial Statements

June 30, 2013 and 2012

related to the health benefit exchange framework mandated by reform legislation, including important open questions regarding exchange reimbursement levels, and impact on the healthcare “demand curve” as the previously uninsured enter the insurance system, and (4) effective management of multiple major regulatory mandates, including the transition to ICD-10. This Federal healthcare reform legislation does not affect the consolidated financial statements for the year ended June 30, 2013.

(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 which are adjusted annually to account for compliance with approved rates, annual inflation and changes in cost and volume. The Medical Center, Kernan, Maryland General, Baltimore Washington, Civista and St. Joseph have Charge Per Episode (CPE) agreements with the HSCRC. The CPE agreements establish a prospectively approved average charge per inpatient episode based upon an estimated case mix index. The agreement allows the hospitals to adjust approved unit rates, within certain limits, to achieve the average CPE target. The HSCRC allows for certain corridors related to the approved rates such that variances within those corridors do not adversely impact the hospitals. Outpatient services are charged using the established HSCRC unit rates. The Corporation’s policy is to defer revenue above the approved amounts and beyond the approved corridors.

Effective July 1, 2010, Shore Health and Chester River entered into 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.

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, 2013 and 2012, the Corporation recognized a net distribution from the pool of \$52,352,000 and \$53,350,000, respectively, which is recorded as net patient service revenue.

(19) 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 patients. Total expense under these agreements in the years ended June 30, 2013 and 2012 was approximately \$135,161,000 and \$115,956,000, respectively.

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

June 30, 2013 and 2012

(20) Subsequent Events

The corporation evaluated all events and transactions that occurred after June 30, 2013 and through October 25, 2013. Other than described below, the Corporation did not have any material recognizable subsequent events during the period.

Effective September 1, 2013, the Corporation entered into a management agreement with Nexus Health, Inc., which operates Fort Washington Medical Center (FWMC), a 37-bed hospital located in southern Prince George's County, Maryland. Under the terms of the agreement, the Corporation will participate in the management, operations, and business development of FWMC.

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

Consolidating Balance Sheet Information by Division

June 30, 2013

(In thousands)

Assets	University of Maryland Medical Center	Kernan	Maryland General	Baltimore Washington	Shore Health	Chester River	Civista Health	St. Joseph Health	UMMS Foundation	Shipley's	ECARE	Eliminations	Consolidated total
Current assets:													
Cash and cash equivalents	\$ 143,939	6,887	6,911	38,267	14,256	5,909	28,806	6,398	—	832	—	—	252,205
Assets limited as to use, current portion	42,900	—	1,001	985	624	573	—	260	—	—	—	—	46,343
Accounts receivable:													
Patient accounts receivable, less allowance													
for doubtful accounts of \$160,675	156,721	14,671	27,860	44,359	32,967	5,974	12,108	46,120	—	—	—	—	340,780
Other	179,820	12,472	727	332	6,943	445	1,533	(61,555)	(1,200)	3,433	208	(102,398)	40,760
Inventories	20,225	1,054	2,691	6,743	3,921	405	1,459	4,523	—	—	—	—	41,021
Prepaid expenses and other current assets	7,071	—	127	2,008	1,753	40	554	1,260	1,500	—	—	—	14,313
Total current assets	<u>550,676</u>	<u>35,084</u>	<u>39,317</u>	<u>92,694</u>	<u>60,464</u>	<u>13,346</u>	<u>44,460</u>	<u>(2,994)</u>	<u>300</u>	<u>4,265</u>	<u>208</u>	<u>(102,398)</u>	<u>735,422</u>
Investments	346,659	12,038	—	51,744	35,467	5,727	1,621	10,220	—	—	—	—	463,476
Assets limited as to use, less current portion:													
Investments held for collateral	58,642	—	—	8,000	—	—	—	—	—	—	—	—	66,642
Debt service funds	34,236	—	—	—	—	—	—	—	—	—	—	—	34,236
Construction funds	79,575	14,001	1,603	13,394	5,078	1,127	962	48,069	—	—	—	—	163,809
Board designated and escrow funds	—	—	—	—	62,957	5,000	3,580	—	38,467	—	—	—	110,004
Self-insurance trust funds	40,043	—	24,607	19,439	16,275	3,476	—	1,808	—	—	—	—	105,648
Funds restricted by donor	—	—	1,140	—	25,740	1,775	—	—	21,670	—	—	—	50,325
Economic and beneficial interests in the net assets of related organizations	65,452	30,490	222	5,607	2,850	—	—	9,503	—	—	—	(77,008)	37,116
	277,948	44,491	27,572	46,440	112,900	11,378	4,542	59,380	60,137	—	—	(77,008)	567,780
Property and equipment, net	845,193	45,132	104,396	259,662	133,048	26,346	96,092	189,418	—	6,471	1,918	—	1,707,676
Investments in joint ventures and other assets	536,349	—	27,061	19,148	7,851	4,051	11,377	14,848	7,118	—	—	(288,060)	339,743
Total assets	<u>\$ 2,556,825</u>	<u>136,745</u>	<u>198,346</u>	<u>469,688</u>	<u>349,730</u>	<u>60,848</u>	<u>158,092</u>	<u>270,872</u>	<u>67,555</u>	<u>10,736</u>	<u>2,126</u>	<u>(467,466)</u>	<u>3,814,097</u>

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

Consolidating Balance Sheet Information by Division

June 30, 2013

(In thousands)

Liabilities and Net Assets	University of Maryland Medical Center	Kernan	Maryland General	Baltimore Washington	Shore Health	Chester River	Civista Health	St. Joseph Health	UMMS Foundation	Shipley's	ECARE	Eliminations	Consolidated total
Current liabilities:													
Trade accounts payable	\$ 145,463	8,093	15,266	21,788	14,374	6,045	7,511	20,643	50	409	190	—	239,832
Accrued payroll and benefits	89,822	5,222	14,757	23,359	19,585	4,719	5,137	18,808	—	—	—	—	181,409
Advances from third-party payors	77,290	3,037	6,803	8,659	5,627	887	3,235	10,454	—	—	—	—	115,992
Lines of credit	83,000	—	—	—	—	—	12,000	—	—	—	—	—	95,000
Other current liabilities	165,414	1,860	8,677	9,698	3,127	(2,892)	4,528	2,547	—	—	2,822	(102,398)	93,383
Long-term debt subject to short-term remarketing arrangements	19,123	—	—	—	—	—	—	—	—	—	—	—	19,123
Current portion of long-term debt	14,616	463	778	3,802	3,021	112	2,376	13,634	—	—	—	—	38,802
Total current liabilities	594,728	18,675	46,281	67,306	45,734	8,871	34,787	66,086	50	409	3,012	(102,398)	783,541
Long-term debt, less current portion	631,391	22,393	35,960	196,747	96,505	5,048	67,141	248,861	—	—	—	—	1,304,046
Other long-term liabilities	108,965	415	25,223	34,679	13,846	8,322	12,100	4,135	—	—	—	—	207,685
Interest rate swap liabilities	145,504	—	—	—	—	—	—	—	—	—	—	—	145,504
Total liabilities	1,480,588	41,483	107,464	298,732	156,085	22,241	114,028	319,082	50	409	3,012	(102,398)	2,440,776
Net assets:													
Unrestricted	996,454	64,638	89,520	165,349	165,187	36,832	43,854	(52,667)	42,899	10,327	(886)	(297,074)	1,264,433
Temporarily restricted	79,370	30,624	1,362	5,607	14,601	387	210	4,107	6,603	—	—	(67,994)	74,877
Permanently restricted	413	—	—	—	13,857	1,388	—	350	18,003	—	—	—	34,011
Total net assets	1,076,237	95,262	90,882	170,956	193,645	38,607	44,064	(48,210)	67,505	10,327	(886)	(365,068)	1,373,321
Total liabilities and net assets	\$ 2,556,825	136,745	198,346	469,688	349,730	60,848	158,092	270,872	67,555	10,736	2,126	(467,466)	3,814,097

See accompanying independent auditors' report.

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

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

June 30, 2013

(In thousands)

Assets	University of Maryland Medical Center	University Specialty	36 South Paca	University CARE	Eliminations	University of Maryland consolidated total
Current assets:						
Cash and cash equivalents	\$ 142,414	196	1,128	201	—	143,939
Assets limited as to use, current portion	42,900	—	—	—	—	42,900
Accounts receivable:						
Patient accounts receivable, less allowance for doubtful accounts of \$86,794	156,593	—	—	128	—	156,721
Other	194,804	600	169	163	(15,916)	179,820
Inventories	20,186	—	—	39	—	20,225
Prepaid expenses and other current assets	7,015	—	—	56	—	7,071
Total current assets	<u>563,912</u>	<u>796</u>	<u>1,297</u>	<u>587</u>	<u>(15,916)</u>	<u>550,676</u>
Investments	346,659	—	—	—	—	346,659
Assets limited as to use, less current portion:						
Investment held for collateral	58,642	—	—	—	—	58,642
Debt service funds	34,236	—	—	—	—	34,236
Construction funds	79,575	—	—	—	—	79,575
Board designated and escrow funds	—	—	—	—	—	—
Self-insurance trust funds	40,043	—	—	—	—	40,043
Funds restricted by donor	—	—	—	—	—	—
Economic interests in the net assets of related organizations	65,347	105	—	—	—	65,452
	<u>277,843</u>	<u>105</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>277,948</u>
Property and equipment, net	835,770	—	9,423	—	—	845,193
Investments in joint ventures and other assets	521,903	—	3,277	—	11,169	536,349
Total assets	<u>\$ 2,546,087</u>	<u>901</u>	<u>13,997</u>	<u>587</u>	<u>(4,747)</u>	<u>2,556,825</u>

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

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

June 30, 2013

(In thousands)

Liabilities and Net Assets	University of Maryland Medical Center	University Specialty	36 South Paca	University CARE	Eliminations	University of Maryland consolidated total
Current liabilities:						
Trade accounts payable	\$ 142,190	1,912	160	1,201	—	145,463
Accrued payroll and benefits	88,879	827	—	116	—	89,822
Advances from third-party payors	72,725	4,565	—	—	—	77,290
Lines of credit	83,000	—	—	—	—	83,000
Other current liabilities	163,631	14,035	3,244	420	(15,916)	165,414
Long-term debt subject to short-term remarketing arrangements	19,123	—	—	—	—	19,123
Current portion of long-term debt	14,616	—	—	—	—	14,616
Total current liabilities	584,164	21,339	3,404	1,737	(15,916)	594,728
Long-term debt, less current portion	631,325	66	—	—	—	631,391
Other long-term liabilities	108,965	—	—	—	—	108,965
Interest rate swaps	145,504	—	—	—	—	145,504
Total liabilities	1,469,958	21,405	3,404	1,737	(15,916)	1,480,588
Net assets:						
Unrestricted	996,451	(20,609)	10,593	(1,150)	11,169	996,454
Temporarily restricted	79,265	105	—	—	—	79,370
Permanently restricted	413	—	—	—	—	413
Total net assets	1,076,129	(20,504)	10,593	(1,150)	11,169	1,076,237
Total liabilities and net assets	\$ 2,546,087	901	13,997	587	(4,747)	2,556,825

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, 2013

(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	\$ 285	6,522	104	—	6,911
Assets limited as to use, current portion	—	1,001	—	—	1,001
Accounts receivable:					
Patient accounts receivable, less allowance for doubtful accounts of \$9,316	—	26,988	872	—	27,860
Other	(34)	1,722	(961)	—	727
Inventories	—	2,691	—	—	2,691
Prepaid expenses and other current assets	—	127	—	—	127
Total current assets	<u>251</u>	<u>39,051</u>	<u>15</u>	<u>—</u>	<u>39,317</u>
Investments	—	—	—	—	—
Assets limited as to use, less current portion:					
Debt service funds	—	—	—	—	—
Construction funds	—	1,603	—	—	1,603
Board designated and escrow funds	—	—	—	—	—
Self-insurance trust funds	—	24,607	—	—	24,607
Funds restricted by donor	—	1,140	—	—	1,140
Economic interests in the net assets of related organizations	—	222	—	—	222
	—	<u>27,572</u>	—	—	<u>27,572</u>
Property and equipment, net	2,227	102,169	—	—	104,396
Investments in joint ventures and other assets	18,267	8,794	—	—	27,061
Total assets	<u>\$ 20,745</u>	<u>177,586</u>	<u>15</u>	<u>—</u>	<u>198,346</u>

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

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

June 30, 2013

(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	\$ 8	15,250	8	—	15,266
Accrued payroll and benefits	—	14,757	—	—	14,757
Advances from third-party payors	—	6,803	—	—	6,803
Lines of credit	—	—	—	—	—
Other current liabilities	—	8,677	—	—	8,677
Current portion of long-term debt	174	604	—	—	778
Total current liabilities	182	46,091	8	—	46,281
Long-term debt, less current portion	967	34,993	—	—	35,960
Other long-term liabilities	1	25,222	—	—	25,223
Total liabilities	1,150	106,306	8	—	107,464
Net assets:					
Unrestricted	19,595	69,918	7	—	89,520
Temporarily restricted	—	1,362	—	—	1,362
Permanently restricted	—	—	—	—	—
Total net assets	19,595	71,280	7	—	90,882
Total liabilities and net assets	\$ 20,745	177,586	15	—	198,346

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, 2013

(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	\$ —	37,209	730	38	290	—	38,267
Assets limited as to use, current portion	—	985	—	—	—	—	985
Accounts receivable:							
Patient accounts receivable, less allowance for doubtful accounts of \$40,646	—	38,987	3,552	1,820	—	—	44,359
Other	27,033	332	5,683	—	(713)	(32,003)	332
Inventories	—	6,743	—	—	—	—	6,743
Prepaid expenses and other current assets	—	1,447	22	533	6	—	2,008
Total current assets	<u>27,033</u>	<u>85,703</u>	<u>9,987</u>	<u>2,391</u>	<u>(417)</u>	<u>(32,003)</u>	<u>92,694</u>
Investments	—	51,744	—	—	—	—	51,744
Assets limited as to use, less current portion:							
Investment held for collateral	—	8,000	—	—	—	—	8,000
Debt service funds	—	—	—	—	—	—	—
Construction funds	—	13,394	—	—	—	—	13,394
Board designated and escrow funds	—	—	—	—	—	—	—
Self-insurance trust funds	—	19,439	—	—	—	—	19,439
Funds restricted by donor	—	—	—	—	—	—	—
Economic interests in the net assets of related organizations	—	5,607	—	—	—	—	5,607
	—	46,440	—	—	—	—	46,440
Property and equipment, net	—	236,734	—	10,400	12,528	—	259,662
Investments in joint ventures and other assets	144,848	11,735	—	2,248	—	(139,683)	19,148
Total assets	<u>\$ 171,881</u>	<u>432,356</u>	<u>9,987</u>	<u>15,039</u>	<u>12,111</u>	<u>(171,686)</u>	<u>469,688</u>

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

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

June 30, 2013

(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	\$ 18	20,374	579	744	73	—	21,788
Accrued payroll and benefits	906	21,672	617	137	27	—	23,359
Advances from third-party payors	—	8,659	—	—	—	—	8,659
Lines of credit	—	—	—	—	—	—	—
Other current liabilities	—	40,634	—	1,067	—	(32,003)	9,698
Current portion of long-term debt	—	3,161	—	416	225	—	3,802
Total current liabilities	924	94,500	1,196	2,364	325	(32,003)	67,306
Long-term debt, less current portion	—	183,145	—	10,096	3,506	—	196,747
Other long-term liabilities	—	33,981	—	698	—	—	34,679
Total liabilities	924	311,626	1,196	13,158	3,831	(32,003)	298,732
Net assets:							
Unrestricted	170,957	115,123	8,791	1,881	8,280	(139,683)	165,349
Temporarily restricted	—	5,607	—	—	—	—	5,607
Permanently restricted	—	—	—	—	—	—	—
Total net assets	170,957	120,730	8,791	1,881	8,280	(139,683)	170,956
Total liabilities and net assets	\$ 171,881	432,356	9,987	15,039	12,111	(171,686)	469,688

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, 2013

(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.	Eliminations	SHS consolidated total
Current assets:							
Cash and cash equivalents	\$ 13,480	—	357	16	403	—	14,256
Assets limited as to use, current portion	624	—	—	—	—	—	624
Accounts receivable:							
Patient accounts receivable, less allowance for doubtful accounts of \$11,019	30,069	—	722	—	2,176	—	32,967
Other	4,283	1	2,490	(13)	182	—	6,943
Inventories	3,921	—	—	—	—	—	3,921
Prepaid expenses and other current assets	986	24	11	—	732	—	1,753
Total current assets	<u>53,363</u>	<u>25</u>	<u>3,580</u>	<u>3</u>	<u>3,493</u>	<u>—</u>	<u>60,464</u>
Investments	35,467	—	—	—	—	—	35,467
Assets limited as to use, less current portion:							
Debt service funds	—	—	—	—	—	—	—
Construction funds	5,078	—	—	—	—	—	5,078
Board designated and escrow funds	25,000	37,957	—	—	—	—	62,957
Self-insurance trust funds	16,275	—	—	—	—	—	16,275
Funds restricted by donor	4,137	21,603	—	—	—	—	25,740
Economic and beneficial interests in the net assets of related organizations	65,507	—	—	—	—	(62,657)	2,850
	<u>115,997</u>	<u>59,560</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(62,657)</u>	<u>112,900</u>
Property and equipment, net	127,156	3,584	554	—	1,754	—	133,048
Investments in joint ventures and other assets	11,959	21	—	—	—	(4,129)	7,851
Total assets	<u>\$ 343,942</u>	<u>63,190</u>	<u>4,134</u>	<u>3</u>	<u>5,247</u>	<u>(66,786)</u>	<u>349,730</u>

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

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

June 30, 2013

(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.	Eliminations	SHS consolidated total
Current liabilities:							
Trade accounts payable	\$ 11,913	15	113	—	2,333	—	14,374
Accrued payroll and benefits	17,025	18	359	—	2,183	—	19,585
Advances from third-party payors	5,627	—	—	—	—	—	5,627
Lines of credit	—	—	—	—	—	—	—
Other current liabilities	2,370	490	77	—	190	—	3,127
Current portion of long-term debt	3,021	—	—	—	—	—	3,021
Total current liabilities	39,956	523	549	—	4,706	—	45,734
Long-term debt, less current portion	96,505	—	—	—	—	—	96,505
Other long-term liabilities	13,836	10	—	—	—	—	13,846
Total liabilities	150,297	533	549	—	4,706	—	156,085
Net assets:							
Unrestricted	165,187	41,366	3,585	3	541	(45,495)	165,187
Temporarily restricted	14,601	10,427	—	—	—	(10,427)	14,601
Permanently restricted	13,857	10,864	—	—	—	(10,864)	13,857
Total net assets	193,645	62,657	3,585	3	541	(66,786)	193,645
Total liabilities and net assets	\$ 343,942	63,190	4,134	3	5,247	(66,786)	349,730

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, 2013

(In thousands)

Assets	<u>Chester River Hospital Center</u>	<u>Chester River Manor</u>	<u>Chester River Home Care and Hospice</u>	<u>Chester River Health Foundation</u>	<u>Eliminations</u>	<u>CRHS consolidated total</u>
Current assets:						
Cash and cash equivalents	\$ 2,313	1,152	725	1,719	—	5,909
Assets limited as to use, current portion	573	—	—	—	—	573
Accounts receivable:						
Patient accounts receivable, less allowance for doubtful accounts of \$3,307	5,063	621	290	—	—	5,974
Other	411	17	1	16	—	445
Inventories	405	—	—	—	—	405
Prepaid expenses and other current assets	—	40	—	—	—	40
Total current assets	<u>8,765</u>	<u>1,830</u>	<u>1,016</u>	<u>1,735</u>	<u>—</u>	<u>13,346</u>
Investments	3,792	—	1,221	714	—	5,727
Assets limited as to use, less current portion:						
Debt service funds	—	—	—	—	—	—
Construction funds	1,127	—	—	—	—	1,127
Board designated and escrow funds	5,000	—	—	—	—	5,000
Self-insurance trust funds	3,392	84	—	—	—	3,476
Funds restricted by donor	44	—	73	1,658	—	1,775
Economic interests in the net assets of related organizations	5,886	83	432	—	(6,401)	—
	<u>15,449</u>	<u>167</u>	<u>505</u>	<u>1,658</u>	<u>(6,401)</u>	<u>11,378</u>
Property and equipment, net	24,145	1,954	247	—	—	26,346
Investments in joint ventures and other assets	1,588	—	—	2,463	—	4,051
Total assets	<u>\$ 53,739</u>	<u>3,951</u>	<u>2,989</u>	<u>6,570</u>	<u>(6,401)</u>	<u>60,848</u>

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

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

June 30, 2013

(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	\$ 5,267	651	84	43	—	6,045
Accrued payroll and benefits	3,840	641	238	—	—	4,719
Advances from third-party payors	751	136	—	—	—	887
Lines of credit	—	—	—	—	—	—
Other current liabilities	(3,009)	71	16	30	—	(2,892)
Current portion of long-term debt	82	30	—	—	—	112
Total current liabilities	<u>6,931</u>	<u>1,529</u>	<u>338</u>	<u>73</u>	<u>—</u>	<u>8,871</u>
Long-term debt, less current portion	4,783	265	—	—	—	5,048
Other long-term liabilities	8,161	138	—	23	—	8,322
Total liabilities	<u>19,875</u>	<u>1,932</u>	<u>338</u>	<u>96</u>	<u>—</u>	<u>22,241</u>
Net assets:						
Unrestricted	32,161	2,019	2,579	4,814	(4,741)	36,832
Temporarily restricted	332	—	55	289	(289)	387
Permanently restricted	1,371	—	17	1,371	(1,371)	1,388
Total net assets	<u>33,864</u>	<u>2,019</u>	<u>2,651</u>	<u>6,474</u>	<u>(6,401)</u>	<u>38,607</u>
Total liabilities and net assets	<u>\$ 53,739</u>	<u>3,951</u>	<u>2,989</u>	<u>6,570</u>	<u>(6,401)</u>	<u>60,848</u>

See accompanying independent auditors' report.

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

Consolidating Balance Sheet Information by Division – Civista Health Inc. and Subsidiaries (Civista)

June 30, 2013

(In thousands)

Assets	Civista Health, Inc.	Civista Medical Center, Inc.	Civista Care Partners, Inc. and Subsidiary	Civista Health Foundation, Inc.	Eliminations	Civista consolidated total
Current assets:						
Cash and cash equivalents	\$ 62	28,125	137	482	—	28,806
Assets limited as to use, current portion	—	—	—	—	—	—
Accounts receivable:						
Patient accounts receivable, less allowance for doubtful accounts of \$7,136	—	11,705	403	—	—	12,108
Other	(10,667)	17,022	(5,216)	394	—	1,533
Inventories	—	1,459	—	—	—	1,459
Prepaid expenses and other current assets	—	460	66	28	—	554
Total current assets	<u>(10,605)</u>	<u>58,771</u>	<u>(4,610)</u>	<u>904</u>	<u>—</u>	<u>44,460</u>
Investments	—	—	—	1,621	—	1,621
Assets limited as to use, less current portion:						
Debt service funds	—	—	—	—	—	—
Construction funds	—	962	—	—	—	962
Board designated and escrow funds	3,485	—	—	95	—	3,580
Self-insurance trust funds	—	—	—	—	—	—
Funds restricted by donor	—	—	—	—	—	—
Economic interests in the net assets of related organizations	—	—	—	—	—	—
	<u>3,485</u>	<u>962</u>	<u>—</u>	<u>95</u>	<u>—</u>	<u>4,542</u>
Property and equipment, net	14,621	69,010	9,584	2,877	—	96,092
Investments in joint ventures and other assets	905	14,663	383	—	(4,574)	11,377
Total assets	<u>\$ 8,406</u>	<u>143,406</u>	<u>5,357</u>	<u>5,497</u>	<u>(4,574)</u>	<u>158,092</u>

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

Consolidating Balance Sheet Information by Division – Civista Health Inc. and Subsidiaries (Civista)

June 30, 2013

(In thousands)

Liabilities and Net Assets	Civista Health, Inc.	Civista Medical Center, Inc.	Civista Care Partners, Inc. and Subsidiary	Civista Health Foundation, Inc.	Eliminations	Civista consolidated total
Current liabilities:						
Trade accounts payable	\$ 3	7,136	328	44	—	7,511
Accrued payroll and benefits	—	4,978	159	—	—	5,137
Advances from third-party payors	—	3,235	—	—	—	3,235
Lines of credit	—	12,000	—	—	—	12,000
Other current liabilities	3,278	1,250	—	—	—	4,528
Current portion of long-term debt	130	1,966	258	22	—	2,376
Total current liabilities	3,411	30,565	745	66	—	34,787
Long-term debt, less current portion	978	61,349	3,957	857	—	67,141
Other long-term liabilities	—	12,100	—	—	—	12,100
Total liabilities	4,389	104,014	4,702	923	—	114,028
Net assets:						
Unrestricted	4,017	39,182	655	4,364	(4,364)	43,854
Temporarily restricted	—	210	—	210	(210)	210
Permanently restricted	—	—	—	—	—	—
Total net assets	4,017	39,392	655	4,574	(4,574)	44,064
Total liabilities and net assets	\$ 8,406	143,406	5,357	5,497	(4,574)	158,092

See accompanying independent auditors' report.

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

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

June 30, 2013

(In thousands)

Assets	St. Joseph Medical Center	St. Joseph Medical Group	St. Joseph Properties	St. Joseph Orthopaedics	O'Dea Medical Arts	St. Joseph Foundation	Eliminations	St. Joseph consolidated total
Current assets:								
Cash and cash equivalents	\$ (8,333)	(20)	49	12,776	1,750	176	—	6,398
Assets limited as to use, current portion	260	—	—	—	—	—	—	260
Accounts receivable:								
Patient accounts receivable, less allowance for doubtful accounts of \$23,759	40,360	2,791	—	2,969	—	—	—	46,120
Other	(27,966)	(6,175)	(3,365)	(22,840)	77	(1,286)	—	(61,555)
Inventories	4,496	—	—	27	—	—	—	4,523
Prepaid expenses and other current assets	735	344	165	—	10	6	—	1,260
Total current assets	<u>9,552</u>	<u>(3,060)</u>	<u>(3,151)</u>	<u>(7,068)</u>	<u>1,837</u>	<u>(1,104)</u>	<u>—</u>	<u>(2,994)</u>
Investments	—	—	—	—	—	10,220	—	10,220
Assets limited as to use, less current portion:								
Debt service funds	—	—	—	—	—	—	—	—
Construction funds	48,069	—	—	—	—	—	—	48,069
Board designated and escrow funds	—	—	—	—	—	—	—	—
Self-insurance trust funds	1,808	—	—	—	—	—	—	1,808
Funds restricted by donor	—	—	—	—	—	—	—	—
Economic interests in the net assets of related organizations	9,503	—	—	—	—	—	—	9,503
	<u>59,380</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>59,380</u>
Property and equipment, net	175,707	603	—	324	12,784	—	—	189,418
Investments in joint ventures and other assets	11,931	—	3,203	2,846	—	71	(3,203)	14,848
Total assets	<u>\$ 256,570</u>	<u>(2,457)</u>	<u>52</u>	<u>(3,898)</u>	<u>14,621</u>	<u>9,187</u>	<u>(3,203)</u>	<u>270,872</u>

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

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

June 30, 2013

(In thousands)

Liabilities and Net Assets	St. Joseph Medical Center	St. Joseph Medical Group	St. Joseph Properties	St. Joseph Orthopaedics	O'Dea Medical Arts	St. Joseph Foundation	Eliminations	St. Joseph consolidated total
Current liabilities:								
Trade accounts payable	\$ 17,679	1,114	357	1,327	145	21	—	20,643
Accrued payroll and benefits	15,085	2,859	—	864	—	—	—	18,808
Advances from third-party payors	10,454	—	—	—	—	—	—	10,454
Lines of credit	—	—	—	—	—	—	—	—
Other current liabilities	2,003	72	—	—	403	69	—	2,547
Current portion of long-term debt	4,362	—	—	—	9,272	—	—	13,634
Total current liabilities	49,583	4,045	357	2,191	9,820	90	—	66,086
Long-term debt, less current portion	248,861	—	—	—	—	—	—	248,861
Other long-term liabilities	3,775	—	—	360	—	—	—	4,135
Total liabilities	302,219	4,045	357	2,551	9,820	90	—	319,082
Net assets:								
Unrestricted	(45,650)	(6,502)	(305)	(6,449)	4,801	4,641	(3,203)	(52,667)
Temporarily restricted	1	—	—	—	—	4,106	—	4,107
Permanently restricted	—	—	—	—	—	350	—	350
Total net assets	(45,649)	(6,502)	(305)	(6,449)	4,801	9,097	(3,203)	(48,210)
Total liabilities and net assets	\$ 256,570	(2,457)	52	(3,898)	14,621	9,187	(3,203)	270,872

See accompanying independent auditors' report.

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

Consolidating Balance Sheet Information by Division

June 30, 2012

(In thousands)

Assets	University of Maryland Medical Center	Kernan	Maryland General	Baltimore Washington	Shore Health	Chester River	Civista Health	UMMS Foundation	Shipley's	Eliminations	Consolidated total
Current assets:											
Cash and cash equivalents	\$ 148,424	5,008	24,482	36,908	18,462	7,183	38,784	—	658	—	279,909
Assets limited as to use, current portion	37,912	—	955	1,051	714	521	1,936	—	—	—	43,089
Accounts receivable:											
Patient accounts receivable, less allowance for doubtful accounts of \$158,201	162,921	16,172	13,131	42,825	33,211	9,998	11,494	—	—	—	289,752
Other	37,755	3,758	1,156	142	2,717	4	535	(1,967)	3,454	(22,428)	25,126
Inventories	19,821	998	2,228	7,006	3,367	461	1,491	—	—	—	35,372
Prepaid expenses and other current assets	123,548	16	393	9,979	954	1,203	983	1,500	—	—	138,576
Total current assets	<u>530,381</u>	<u>25,952</u>	<u>42,345</u>	<u>97,911</u>	<u>59,425</u>	<u>19,370</u>	<u>55,223</u>	<u>(467)</u>	<u>4,112</u>	<u>(22,428)</u>	<u>811,824</u>
Investments	350,097	13,011	—	47,935	29,179	4,515	1,390	—	—	—	446,127
Assets limited as to use, less current portion:											
Debt service funds	41,438	—	—	—	—	—	4,544	—	—	—	45,982
Construction funds	89,458	8,057	—	18,390	5,851	—	—	—	—	—	121,756
Board designated and escrow funds	—	—	4,000	—	59,667	5,000	2,545	33,418	—	—	104,630
Self-insurance trust funds	41,045	—	21,088	18,072	13,013	2,426	—	—	—	—	95,644
Funds restricted by donor	—	—	3,201	—	23,007	1,655	—	19,591	—	—	47,454
Economic and beneficial interests in the net assets of related organizations	58,523	30,788	293	5,966	2,600	—	—	—	—	(60,602)	37,568
	<u>230,464</u>	<u>38,845</u>	<u>28,582</u>	<u>42,428</u>	<u>104,138</u>	<u>9,081</u>	<u>7,089</u>	<u>53,009</u>	<u>—</u>	<u>(60,602)</u>	<u>453,034</u>
Property and equipment, net	794,744	42,111	94,089	265,093	133,975	24,014	82,055	1,815	6,194	—	1,444,090
Investments in joint ventures and other assets	310,934	—	24,644	21,423	7,523	3,362	15,532	6,313	—	(88,709)	301,022
Total assets	<u>\$ 2,216,620</u>	<u>119,919</u>	<u>189,660</u>	<u>474,790</u>	<u>334,240</u>	<u>60,342</u>	<u>161,289</u>	<u>60,670</u>	<u>10,306</u>	<u>(171,739)</u>	<u>3,456,097</u>

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

Consolidating Balance Sheet Information by Division

June 30, 2012

(In thousands)

Liabilities and Net Assets	University of Maryland Medical Center	Kernan	Maryland General	Baltimore Washington	Shore Health	Chester River	Civista Health	UMMS Foundation	Shipley's	Eliminations	Consolidated total
Current liabilities:											
Trade accounts payable	\$ 130,547	5,783	13,842	18,433	8,139	3,104	8,839	68	60	—	188,815
Accrued payroll and benefits	85,452	4,802	12,496	22,919	15,360	3,844	4,821	—	—	—	149,694
Advances from third-party payors	87,445	3,937	6,541	10,044	6,704	1,308	3,944	—	—	—	119,923
Lines of credit	85,000	—	5,000	—	—	—	12,000	—	—	—	102,000
Other current liabilities	104,426	725	4,094	5,536	4,313	5,747	3,964	—	—	(22,428)	106,377
Long-term debt subject to short-term remarketing arrangements	50,427	—	—	—	—	2,194	—	—	—	—	52,621
Current portion of long-term debt	37,830	270	840	8,510	3,294	1,221	1,963	—	—	—	53,928
Total current liabilities	581,127	15,517	42,813	65,442	37,810	17,418	35,531	68	60	(22,428)	773,358
Long-term debt, less current portion	603,147	12,049	35,261	193,601	96,594	2,373	68,544	—	—	—	1,011,569
Other long-term liabilities	102,132	441	36,847	41,632	13,630	10,336	21,494	—	—	—	226,512
Interest rate swap liabilities	217,756	—	—	—	—	—	—	—	—	—	217,756
Total liabilities	1,504,162	28,007	114,921	300,675	148,034	30,127	125,569	68	60	(22,428)	2,229,195
Net assets:											
Unrestricted	639,847	60,991	71,245	168,149	160,571	28,559	35,703	37,977	10,246	(88,220)	1,125,068
Temporarily restricted	72,198	30,921	3,494	5,966	11,798	268	17	3,569	—	(61,091)	67,140
Permanently restricted	413	—	—	—	13,837	1,388	—	19,056	—	—	34,694
Total net assets	712,458	91,912	74,739	174,115	186,206	30,215	35,720	60,602	10,246	(149,311)	1,226,902
Total liabilities and net assets	\$ 2,216,620	119,919	189,660	474,790	334,240	60,342	161,289	60,670	10,306	(171,739)	3,456,097

See accompanying independent auditors' report.

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

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

June 30, 2012

(In thousands)

Assets	University of Maryland Medical Center	University Specialty	36 South Paca	University CARE	Eliminations	University of Maryland consolidated total
Current assets:						
Cash and cash equivalents	\$ 146,758	221	1,102	343	—	148,424
Assets limited as to use, current portion	37,912	—		—	—	37,912
Accounts receivable:						
Patient accounts receivable, less allowance for doubtful accounts of \$95,496	155,572	7,187		162	—	162,921
Other	48,208	122	129	125	(10,829)	37,755
Inventories	19,188	594	—	39	—	19,821
Prepaid expenses and other current assets	123,530	—	(14)	32	—	123,548
Total current assets	<u>531,168</u>	<u>8,124</u>	<u>1,217</u>	<u>701</u>	<u>(10,829)</u>	<u>530,381</u>
Investments	349,906	191	—	—	—	350,097
Assets limited as to use, less current portion:						
Debt service funds	41,438	—	—	—	—	41,438
Construction funds	89,458	—	—	—	—	89,458
Board designated and escrow funds	—	—	—	—	—	—
Self-insurance trust funds	41,045	—	—	—	—	41,045
Funds restricted by donor	—	—	—	—	—	—
Economic interests in the net assets of related organizations	58,001	522	—	—	—	58,523
	<u>229,942</u>	<u>522</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>230,464</u>
Property and equipment, net	779,987	5,194	9,563	—	—	794,744
Investments in joint ventures and other assets	297,861	—	3,277	—	9,796	310,934
Total assets	<u>\$ 2,188,864</u>	<u>14,031</u>	<u>14,057</u>	<u>701</u>	<u>(1,033)</u>	<u>2,216,620</u>

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

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

June 30, 2012

(In thousands)

Liabilities and Net Assets	University of Maryland Medical Center	University Specialty	36 South Paca	University CARE	Eliminations	University of Maryland consolidated total
Current liabilities:						
Trade accounts payable	\$ 126,306	3,486	221	534	—	130,547
Accrued payroll and benefits	79,906	5,445	—	101	—	85,452
Advances from third-party payors	82,861	4,584	—	—	—	87,445
Lines of credit	85,000	—	—	—	—	85,000
Other current liabilities	98,528	13,547	2,820	360	(10,829)	104,426
Long-term debt subject to short-term remarketing arrangements	50,427	—	—	—	—	50,427
Current portion of long-term debt	37,530	300	—	—	—	37,830
Total current liabilities	560,558	27,362	3,041	995	(10,829)	581,127
Long-term debt, less current portion	596,491	6,656	—	—	—	603,147
Other long-term liabilities	102,124	8	—	—	—	102,132
Interest rate swaps	217,756	—	—	—	—	217,756
Total liabilities	1,476,929	34,026	3,041	995	(10,829)	1,504,162
Net assets:						
Unrestricted	639,846	(20,517)	11,016	(294)	9,796	639,847
Temporarily restricted	71,676	522	—	—	—	72,198
Permanently restricted	413	—	—	—	—	413
Total net assets	711,935	(19,995)	11,016	(294)	9,796	712,458
Total liabilities and net assets	\$ 2,188,864	14,031	14,057	701	(1,033)	2,216,620

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, 2012

(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	\$ 123	24,351	8	—	24,482
Assets limited as to use, current portion	—	955	—	—	955
Accounts receivable:					
Patient accounts receivable, less allowance for doubtful accounts of \$10,740	—	12,247	884	—	13,131
Other	(215)	2,256	(885)	—	1,156
Inventories	—	2,228	—	—	2,228
Prepaid expenses and other current assets	—	393	—	—	393
Total current assets	<u>(92)</u>	<u>42,430</u>	<u>7</u>	<u>—</u>	<u>42,345</u>
Investments	—	—	—	—	—
Assets limited as to use, less current portion:					
Debt service funds	—	—	—	—	—
Construction funds	—	—	—	—	—
Board designated and escrow funds	—	4,000	—	—	4,000
Self-insurance trust funds	—	21,088	—	—	21,088
Funds restricted by donor	—	3,201	—	—	3,201
Economic interests in the net assets of related organizations	—	293	—	—	293
	—	28,582	—	—	28,582
Property and equipment, net	2,137	91,952	—	—	94,089
Investments in joint ventures and other assets	16,489	8,155	—	—	24,644
Total assets	<u>\$ 18,534</u>	<u>171,119</u>	<u>7</u>	<u>—</u>	<u>189,660</u>

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

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

June 30, 2012

(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	\$ 8	13,834	—	—	13,842
Accrued payroll and benefits	—	12,496	—	—	12,496
Advances from third-party payors	—	6,541	—	—	6,541
Lines of credit	—	5,000	—	—	5,000
Other current liabilities	—	4,094	—	—	4,094
Current portion of long-term debt	163	677	—	—	840
Total current liabilities	171	42,642	—	—	42,813
Long-term debt, less current portion	1,141	34,120	—	—	35,261
Other long-term liabilities	1	36,846	—	—	36,847
Total liabilities	1,313	113,608	—	—	114,921
Net assets:					
Unrestricted	17,221	54,017	7	—	71,245
Temporarily restricted	—	3,494	—	—	3,494
Permanently restricted	—	—	—	—	—
Total net assets	17,221	57,511	7	—	74,739
Total liabilities and net assets	\$ 18,534	171,119	7	—	189,660

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, 2012

(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	\$ —	36,053	736	49	70	—	36,908
Assets limited as to use, current portion	—	1,051	—	—	—	—	1,051
Accounts receivable:							
Patient accounts receivable, less allowance for doubtful accounts of \$15,337	—	39,517	1,408	1,900	—	—	42,825
Other	33,122	142	5,719	—	(1,599)	(37,242)	142
Inventories	—	7,006	—	—	—	—	7,006
Prepaid expenses and other current assets	—	9,316	—	607	56	—	9,979
Total current assets	<u>33,122</u>	<u>93,085</u>	<u>7,863</u>	<u>2,556</u>	<u>(1,473)</u>	<u>(37,242)</u>	<u>97,911</u>
Investments	—	47,935	—	—	—	—	47,935
Assets limited as to use, less current portion:							
Debt service funds	—	—	—	—	—	—	—
Construction funds	—	18,390	—	—	—	—	18,390
Board designated and escrow funds	—	—	—	—	—	—	—
Self-insurance trust funds	—	18,072	—	—	—	—	18,072
Funds restricted by donor	—	—	—	—	—	—	—
Economic interests in the net assets of related organizations	—	5,966	—	—	—	—	5,966
	—	42,428	—	—	—	—	42,428
Property and equipment, net	—	240,920	—	10,504	13,669	—	265,093
Investments in joint ventures and other assets	142,262	14,128	—	2,160	—	(137,127)	21,423
Total assets	<u>\$ 175,384</u>	<u>438,496</u>	<u>7,863</u>	<u>15,220</u>	<u>12,196</u>	<u>(174,369)</u>	<u>474,790</u>

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

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

June 30, 2012

(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	\$ 14	15,516	1,818	1,023	61	1	18,433
Accrued payroll and benefits	1,255	20,920	216	497	31	—	22,919
Advances from third-party payors	—	10,044	—	—	—	—	10,044
Lines of credit	—	—	—	—	—	—	—
Other current liabilities	—	42,241	—	537	—	(37,242)	5,536
Current portion of long-term debt	—	4,262	—	292	3,956	—	8,510
Total current liabilities	<u>1,269</u>	<u>92,983</u>	<u>2,034</u>	<u>2,349</u>	<u>4,048</u>	<u>(37,241)</u>	<u>65,442</u>
Long-term debt, less current portion	—	183,259	—	10,342	—	—	193,601
Other long-term liabilities	—	40,765	—	867	—	—	41,632
Total liabilities	<u>1,269</u>	<u>317,007</u>	<u>2,034</u>	<u>13,558</u>	<u>4,048</u>	<u>(37,241)</u>	<u>300,675</u>
Net assets:							
Unrestricted	174,115	115,523	5,829	1,662	8,148	(137,128)	168,149
Temporarily restricted	—	5,966	—	—	—	—	5,966
Permanently restricted	—	—	—	—	—	—	—
Total net assets	<u>174,115</u>	<u>121,489</u>	<u>5,829</u>	<u>1,662</u>	<u>8,148</u>	<u>(137,128)</u>	<u>174,115</u>
Total liabilities and net assets	<u>\$ 175,384</u>	<u>438,496</u>	<u>7,863</u>	<u>15,220</u>	<u>12,196</u>	<u>(174,369)</u>	<u>474,790</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, 2012

(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.	Eliminations	SHS consolidated total
Current assets:							
Cash and cash equivalents	\$ 17,316	—	535	16	595	—	18,462
Assets limited as to use, current portion	714	—	—	—	—	—	714
Accounts receivable:							
Patient accounts receivable, less allowance for doubtful accounts of \$2,855	28,938	—	836	—	3,437	—	33,211
Other	840	(28)	2,703	(1,459)	661	—	2,717
Inventories	3,367	—	—	—	—	—	3,367
Prepaid expenses and other current assets	808	17	10	—	119	—	954
Total current assets	<u>51,983</u>	<u>(11)</u>	<u>4,084</u>	<u>(1,443)</u>	<u>4,812</u>	<u>—</u>	<u>59,425</u>
Investments	29,179	—	—	—	—	—	29,179
Assets limited as to use, less current portion:							
Debt service funds	—	—	—	—	—	—	—
Construction funds	5,851	—	—	—	—	—	5,851
Board designated and escrow funds	25,000	34,667	—	—	—	—	59,667
Self-insurance trust funds	13,013	—	—	—	—	—	13,013
Funds restricted by donor	3,781	19,226	—	—	—	—	23,007
Economic and beneficial interests in the net assets of related organizations	59,598	—	—	—	—	(56,998)	2,600
	<u>107,243</u>	<u>53,893</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(56,998)</u>	<u>104,138</u>
Property and equipment, net	127,388	3,680	594	702	1,611	—	133,975
Investments in joint ventures and other assets	15,581	23	—	—	—	(8,081)	7,523
Total assets	<u>\$ 331,374</u>	<u>57,585</u>	<u>4,678</u>	<u>(741)</u>	<u>6,423</u>	<u>(65,079)</u>	<u>334,240</u>

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

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

June 30, 2012

(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.	Eliminations	SHS consolidated total
Current liabilities:							
Trade accounts payable	\$ 7,671	24	61	—	384	(1)	8,139
Accrued payroll and benefits	13,703	13	263	—	1,381	—	15,360
Advances from third-party payors	6,704	—	—	—	—	—	6,704
Lines of credit	—	—	—	—	—	—	—
Other current liabilities	3,578	544	77	—	114	—	4,313
Current portion of long-term debt	3,294	—	—	—	—	—	3,294
Total current liabilities	34,950	581	401	—	1,879	(1)	37,810
Long-term debt, less current portion	96,594	—	—	—	—	—	96,594
Other long-term liabilities	13,624	6	—	—	—	—	13,630
Total liabilities	145,168	587	401	—	1,879	(1)	148,034
Net assets:							
Unrestricted	160,571	37,881	4,277	(741)	4,544	(45,961)	160,571
Temporarily restricted	11,798	8,220	—	—	—	(8,220)	11,798
Permanently restricted	13,837	10,897	—	—	—	(10,897)	13,837
Total net assets	186,206	56,998	4,277	(741)	4,544	(65,078)	186,206
Total liabilities and net assets	\$ 331,374	57,585	4,678	(741)	6,423	(65,079)	334,240

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, 2012

(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	\$ 4,424	1,002	295	1,462	—	7,183
Assets limited as to use, current portion	521	—	—	—	—	521
Accounts receivable:						
Patient accounts receivable, less allowance for doubtful accounts of \$4,813	8,901	588	509	—	—	9,998
Other	—	4	—	—	—	4
Inventories	456	5	—	—	—	461
Prepaid expenses and other current assets	1,160	43	—	—	—	1,203
Total current assets	<u>15,462</u>	<u>1,642</u>	<u>804</u>	<u>1,462</u>	<u>—</u>	<u>19,370</u>
Investments	3,177	—	1,119	219	—	4,515
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	2,342	84	—	—	—	2,426
Funds restricted by donor	26	—	73	1,556	—	1,655
Economic interests in the net assets of related organizations	5,244	23	410	—	(5,677)	—
	<u>12,612</u>	<u>107</u>	<u>483</u>	<u>1,556</u>	<u>(5,677)</u>	<u>9,081</u>
Property and equipment, net	21,678	2,051	285	—	—	24,014
Investments in joint ventures and other assets	879	—	—	2,483	—	3,362
Total assets	<u>\$ 53,808</u>	<u>3,800</u>	<u>2,691</u>	<u>5,720</u>	<u>(5,677)</u>	<u>60,342</u>

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

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

June 30, 2012

(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	\$ 2,481	588	34	1	—	3,104
Accrued payroll and benefits	3,186	491	167	—	—	3,844
Advances from third-party payors	1,304	4	—	—	—	1,308
Lines of credit	—	—	—	—	—	—
Other current liabilities	5,658	(18)	80	27	—	5,747
Long-term debt subject to short-term remarketing arrangements	2,194	—	—	—	—	2,194
Current portion of long-term debt	1,191	30	—	—	—	1,221
Total current liabilities	<u>16,014</u>	<u>1,095</u>	<u>281</u>	<u>28</u>	<u>—</u>	<u>17,418</u>
Long-term debt, less current portion	2,078	295	—	—	—	2,373
Other long-term liabilities	10,173	138	—	25	—	10,336
Total liabilities	<u>28,265</u>	<u>1,528</u>	<u>281</u>	<u>53</u>	<u>—</u>	<u>30,127</u>
Net assets:						
Unrestricted	23,959	2,272	2,338	4,110	(4,120)	28,559
Temporarily restricted	213	—	55	186	(186)	268
Permanently restricted	1,371	—	17	1,371	(1,371)	1,388
Total net assets	<u>25,543</u>	<u>2,272</u>	<u>2,410</u>	<u>5,667</u>	<u>(5,677)</u>	<u>30,215</u>
Total liabilities and net assets	<u>\$ 53,808</u>	<u>3,800</u>	<u>2,691</u>	<u>5,720</u>	<u>(5,677)</u>	<u>60,342</u>

See accompanying independent auditors' report.

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

Consolidating Balance Sheet Information by Division – Civista Health Inc. and Subsidiaries (Civista)

June 30, 2012

(In thousands)

Assets	Civista Health, Inc.	Civista Medical Center, Inc.	Civista Care Partners, Inc. and Subsidiary	Civista Health Foundation, Inc.	Eliminations	Civista consolidated total
Current assets:						
Cash and cash equivalents	\$ 7	37,974	238	565	—	38,784
Assets limited as to use, current portion	—	1,936	—	—	—	1,936
Accounts receivable:						
Patient accounts receivable, less allowance for doubtful accounts of \$5,809	—	11,344	150	—	—	11,494
Other	989	2,702	(3,139)	(17)	—	535
Inventories	—	1,491	—	—	—	1,491
Prepaid expenses and other current assets	—	931	52	—	—	983
Total current assets	<u>996</u>	<u>56,378</u>	<u>(2,699)</u>	<u>548</u>	<u>—</u>	<u>55,223</u>
Investments	—	—	—	1,390	—	1,390
Assets limited as to use, less current portion:						
Debt service funds	—	4,544	—	—	—	4,544
Construction funds	—	—	—	—	—	—
Board designated and escrow funds	2,538	—	—	7	—	2,545
Self-insurance trust funds	—	—	—	—	—	—
Funds restricted by donor	—	—	—	—	—	—
Economic interests in the net assets of related organizations	—	4,071	(173)	—	(3,898)	—
	<u>2,538</u>	<u>8,615</u>	<u>(173)</u>	<u>7</u>	<u>(3,898)</u>	<u>7,089</u>
Property and equipment, net	3,262	66,995	8,898	2,900	—	82,055
Investments in joint ventures and other assets	—	15,035	497	—	—	15,532
Total assets	<u>\$ 6,796</u>	<u>147,023</u>	<u>6,523</u>	<u>4,845</u>	<u>(3,898)</u>	<u>161,289</u>

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

Consolidating Balance Sheet Information by Division – Civista Health Inc. and Subsidiaries (Civista)

June 30, 2012

(In thousands)

Liabilities and Net Assets	Civista Health, Inc.	Civista Medical Center, Inc.	Civista Care Partners, Inc. and Subsidiary	Civista Health Foundation, Inc.	Eliminations	Civista consolidated total
Current liabilities:						
Trade accounts payable	\$ —	8,414	378	47	—	8,839
Accrued payroll and benefits	—	4,702	119	—	—	4,821
Advances from third-party payors	—	3,944	—	—	—	3,944
Lines of credit	—	12,000	—	—	—	12,000
Other current liabilities	2,200	1,764	—	—	—	3,964
Long-term debt subject to short-term remarketing arrangements	—	—	—	—	—	—
Current portion of long-term debt	124	1,579	244	16	—	1,963
Total current liabilities	2,324	32,403	741	63	—	35,531
Long-term debt, less current portion	1,107	62,338	4,215	884	—	68,544
Other long-term liabilities	—	21,494	—	—	—	21,494
Total liabilities	3,431	116,235	4,956	947	—	125,569
Net assets:						
Unrestricted	3,365	30,771	1,567	3,881	(3,881)	35,703
Temporarily restricted	—	17	—	17	(17)	17
Permanently restricted	—	—	—	—	—	—
Total net assets	3,365	30,788	1,567	3,898	(3,898)	35,720
Total liabilities and net assets	\$ 6,796	147,023	6,523	4,845	(3,898)	161,289

See accompanying independent auditors' report.

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

Consolidating Operations Information by Division

Year ended June 30, 2013

(In thousands)

	University of Maryland Medical Center	Kernan	Maryland General	Baltimore Washington	Shore Health	Chester River	Civita Health	St. Joseph Health	UMMS Foundation	Shipley's	ECARE	Eliminations	Consolidated total
Unrestricted revenues, gains and other support:													
Patient Service Revenue (net of contractual adjustments)	\$ 1,329,661	102,474	199,078	373,965	241,242	64,256	121,159	184,764	—	—	—	(1,009)	2,615,590
Provision for bad debts	(86,698)	(4,600)	(15,759)	(24,197)	(6,427)	(2,656)	(4,987)	(8,133)	—	—	—	—	(153,457)
Net patient service revenue	1,242,963	97,874	183,319	349,768	234,815	61,600	116,172	176,631	—	—	—	(1,009)	2,462,133
Other operating revenue:													
State support	3,000	—	—	—	—	—	—	—	—	—	—	—	3,000
Other revenue	82,559	2,471	2,392	8,542	4,494	367	1,758	4,672	—	705	415	(2,062)	106,313
Total unrestricted revenue, gains and other support	1,328,522	100,345	185,711	358,310	239,309	61,967	117,930	181,303	—	705	415	(3,071)	2,571,446
Operating expenses:													
Salaries, wages and benefits	614,986	53,836	97,609	195,223	134,290	32,634	58,277	108,561	—	—	—	—	1,295,416
Expendable supplies	270,481	16,163	21,058	61,568	33,038	7,067	19,207	42,144	—	—	13	—	470,739
Purchased services	171,383	18,992	26,549	63,729	46,294	12,980	21,198	57,519	—	426	1,288	(6,178)	441,180
Contracted services	122,151	8,068	31,039	11,287	11,767	6,152	3,861	13,003	—	—	—	3,693	211,021
Depreciation and amortization	73,083	3,862	11,702	25,254	13,754	3,304	4,499	9,015	—	198	—	—	144,671
Interest expense	28,564	712	1,426	7,791	3,486	214	3,122	3,884	—	—	—	—	49,199
Total operating expenses	1,280,648	101,633	189,383	364,852	242,629	62,351	110,164	234,126	—	624	1,301	(2,485)	2,585,226
Operating income (loss)	47,874	(1,288)	(3,672)	(6,542)	(3,320)	(384)	7,766	(52,823)	—	81	(886)	(586)	(13,780)
Nonoperating income and expenses, net:													
Loss on early extinguishment of debt	(111)	(22)	(35)	(187)	(86)	—	(2,956)	—	—	—	—	—	(3,397)
Change in fair value of undesignated interest rate swaps	69,206	—	—	—	—	—	—	—	—	—	—	—	69,206
Other nonoperating gains and losses:													
Contributions	—	—	—	—	96	1,046	25	42	6,265	—	—	—	7,474
Equity in net income of joint ventures	12,114	—	1,793	42	—	—	440	1,971	—	—	—	(81)	16,279
Investment income	10,756	116	57	1,098	922	964	99	527	2,709	—	—	—	17,248
Change in fair value of investments	15,335	906	224	3,337	9,772	(203)	196	(615)	615	—	—	—	29,567
Change in fair value of financial instrument	—	—	—	—	—	—	(2,917)	—	—	—	—	—	(2,917)
Other nonoperating gains and losses	(12,421)	(95)	(678)	(4,530)	(2,703)	(388)	(97)	(8,387)	(6,183)	—	—	—	(35,482)
Total other nonoperating gains and losses	25,784	927	1,396	(53)	8,087	1,419	(2,254)	(6,462)	3,406	—	—	(81)	32,169
Excess (deficiency) of revenues over expenses	142,753	(383)	(2,311)	(6,782)	4,681	1,035	2,556	(59,285)	3,406	81	(886)	(667)	84,198
Acquisition of St. Joseph Foundation	—	—	—	—	—	—	—	4,737	—	—	—	—	4,737
Net assets released from restrictions used for purchase of property and equipment	16,503	4,030	2,143	641	580	—	(146)	330	—	—	—	—	24,081
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	1,170	—	—	—	—	—	—	—	—	—	—	—	1,170
Capital transfers (to) from affiliate	(12,801)	—	8,537	—	(36)	4,300	2,500	—	—	—	—	(2,500)	—
Change in fair value of designated interest rate swaps	3,046	—	—	—	—	—	—	—	—	—	—	—	3,046
Change in funded status of defined benefit pension plans	—	—	9,922	3,340	—	2,934	3,626	—	—	—	—	—	19,822
Other	205,936	—	(16)	1	(609)	4	(385)	1,551	1,516	—	—	(205,687)	2,311
Increase (decrease) in unrestricted net assets	\$ 356,607	3,647	18,275	(2,800)	4,616	8,273	8,151	(52,667)	4,922	81	(886)	(208,854)	139,365

See accompanying independent auditors' report.

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

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

Year ended June 30, 2013

(In thousands)

	University of Maryland Medical Center			University Specialty	36 South Paca	University CARE	Eliminations	University of Maryland consolidated total
	University Hospital	Shock Trauma Center	Subtotal					
Unrestricted revenues, gains and other support:								
Patient service revenue (net of contractual adjustments)	\$ 1,127,771	197,320	1,325,091	1,238	—	3,332	—	1,329,661
Provision for bad debts	(48,601)	(39,288)	(87,889)	1,496	—	(305)	—	(86,698)
Net patient service revenue	1,079,170	158,032	1,237,202	2,734	—	3,027	—	1,242,963
Other operating revenue:								
State support	—	3,000	3,000	—	—	—	—	3,000
Other revenue	79,165	91	79,256	35	1,180	2,332	(244)	82,559
Total unrestricted revenue, gains and other support	1,158,335	161,123	1,319,458	2,769	1,180	5,359	(244)	1,328,522
Operating expenses:								
Salaries, wages and benefits	554,856	55,882	610,738	556	181	3,327	184	614,986
Expendable supplies	242,009	28,124	270,133	56	5	287	—	270,481
Purchased services	121,829	42,899	164,728	1,839	853	5,127	(1,164)	171,383
Contracted services	110,751	11,400	122,151	—	—	—	—	122,151
Depreciation and amortization	65,974	6,289	72,263	428	392	—	—	73,083
Interest expense	28,390	—	28,390	1	173	—	—	28,564
Total operating expenses	1,123,809	144,594	1,268,403	2,880	1,604	8,741	(980)	1,280,648
Operating income (loss)	34,526	16,529	51,055	(111)	(424)	(3,382)	736	47,874

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

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

Year ended June 30, 2013

(In thousands)

	University of Maryland Medical Center			University Specialty	36 South Paca	University CARE	Eliminations	University of Maryland consolidated total
	University Hospital	Shock Trauma Center	Subtotal					
Nonoperating income and expenses, net:								
Loss on early extinguishment of debt	\$ (111)	—	(111)	—	—	—	—	(111)
Change in fair value of undesignated interest rate swaps	69,206	—	69,206	—	—	—	—	69,206
Other nonoperating gains and losses:								
Contributions	—	—	—	—	—	—	—	—
Equity in net income of joint ventures	9,045	—	9,045	—	—	—	3,069	12,114
Investment income	9,945	791	10,736	20	—	—	—	10,756
Change in fair value of investments	14,626	709	15,335	—	—	—	—	15,335
Other nonoperating gains and losses	(12,421)	—	(12,421)	—	—	—	—	(12,421)
Total other nonoperating gains and losses	21,195	1,500	22,695	20	—	—	3,069	25,784
Excess (deficiency) of revenues over expenses	124,816	18,029	142,845	(91)	(424)	(3,382)	3,805	142,753
Net assets released from restrictions used for purchase of property and equipment	16,503	—	16,503	—	—	—	—	16,503
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	1,170	—	1,170	—	—	—	—	1,170
Capital transfers (to) from affiliate	(12,801)	—	(12,801)	—	—	2,526	(2,526)	(12,801)
Change in fair value of designated interest rate swaps	3,046	—	3,046	—	—	—	—	3,046
Change in funded status of defined benefit pension plans	—	—	—	—	—	—	—	—
Other	205,842	—	205,842	(1)	1	—	94	205,936
Increase (decrease) in unrestricted net assets	\$ 338,576	18,029	356,605	(92)	(423)	(856)	1,373	356,607

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, 2013

(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:					
Patient service revenue (net of contractual adjustments)	\$ —	197,494	8,292	(6,708)	199,078
Provision for bad debts	—	(14,141)	(1,618)	—	(15,759)
Net patient service revenue	—	183,353	6,674	(6,708)	183,319
Other operating revenue:					
State support	—	—	—	—	—
Other revenue	873	1,483	36	—	2,392
Total unrestricted revenue, gains and other support	873	184,836	6,710	(6,708)	185,711
Operating expenses:					
Salaries, wages and benefits	—	97,609	—	—	97,609
Expendable supplies	—	21,058	—	—	21,058
Purchased services	750	25,797	2	—	26,549
Contracted services	—	31,039	6,708	(6,708)	31,039
Depreciation and amortization	459	11,243	—	—	11,702
Interest expense	83	1,343	—	—	1,426
Total operating expenses	1,292	188,089	6,710	(6,708)	189,383
Operating income (loss)	(419)	(3,253)	—	—	(3,672)

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

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

Year ended June 30, 2013

(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	\$ —	(35)	—	—	(35)
Change in fair value of undesignated interest rate swaps	—	—	—	—	—
Other nonoperating gains and losses:					
Contributions	—	—	—	—	—
Equity in net income of joint ventures	1,793	—	—	—	1,793
Investment income	—	57	—	—	57
Change in fair value of investments	—	224	—	—	224
Other nonoperating gains and losses	—	(678)	—	—	(678)
Total other nonoperating gains and losses	<u>1,793</u>	<u>(397)</u>	<u>—</u>	<u>—</u>	<u>1,396</u>
Excess of revenues over expenses	1,374	(3,685)	—	—	(2,311)
Net assets released from restrictions used for purchase of property and equipment	—	2,143	—	—	2,143
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	1,000	7,537	—	—	8,537
Change in fair value of designated interest rate swaps	—	—	—	—	—
Change in funded status of defined benefit pension plans	—	9,922	—	—	9,922
Other	—	(16)	—	—	(16)
Increase in unrestricted net assets	<u>\$ 2,374</u>	<u>15,901</u>	<u>—</u>	<u>—</u>	<u>18,275</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, 2013

(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:							
Patient service revenue (net of contractual adjustments)	\$ —	329,657	33,594	13,035	—	(2,321)	373,965
Provision for bad debts	—	(11,135)	(13,062)	—	—	—	(24,197)
Net patient service revenue	—	318,522	20,532	13,035	—	(2,321)	349,768
Other operating revenue:							
State support	—	—	—	—	—	—	—
Other revenue	3,573	4,066	—	4,210	2,234	(5,541)	8,542
Total unrestricted revenue, gains and other support	3,573	322,588	20,532	17,245	2,234	(7,862)	358,310
Operating expenses:							
Salaries, wages and benefits	3,565	168,709	11,492	11,457	—	—	195,223
Expendable supplies	—	60,662	—	906	—	—	61,568
Purchased services	8	58,982	6,078	5,230	1,293	(7,862)	63,729
Contracted services	—	8,156	—	3,131	—	—	11,287
Depreciation and amortization	—	23,467	—	1,068	719	—	25,254
Interest expense	—	7,021	—	680	90	—	7,791
Total operating expenses	3,573	326,997	17,570	22,472	2,102	(7,862)	364,852
Operating income (loss)	—	(4,409)	2,962	(5,227)	132	—	(6,542)

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

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

Year ended June 30, 2013

(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	\$ —	(187)	—	—	—	—	(187)
Change in fair value of undesignated interest rate swaps	—	—	—	—	—	—	—
Other nonoperating gains and losses:							
Contributions	—	—	—	—	—	—	—
Equity in net income of joint ventures	42	—	—	—	—	—	42
Investment income	(6,822)	1,087	—	12	—	6,821	1,098
Change in fair value of investments	—	3,337	—	—	—	—	3,337
Other nonoperating gains and losses	—	(4,208)	—	(322)	—	—	(4,530)
Total other nonoperating gains and losses	<u>(6,780)</u>	<u>216</u>	<u>—</u>	<u>(310)</u>	<u>—</u>	<u>6,821</u>	<u>(53)</u>
Excess (deficiency) of revenues over expenses	(6,780)	(4,380)	2,962	(5,537)	132	6,821	(6,782)
Net assets released from restrictions used for purchase of property and equipment	641	641	—	—	—	(641)	641
Change in unrealized gains on investments	—	—	—	—	—	—	—
Change in economic and beneficial interests in the net assets of related organizations	(359)	—	—	—	—	359	—
Change in ownership interest of joint ventures	—	—	—	—	—	—	—
Capital transfers (to) from affiliate	—	—	—	5,756	—	(5,756)	—
Change in fair value of designated interest rate swaps	—	—	—	—	—	—	—
Change in funded status of defined benefit pension plans	3,340	3,340	—	—	—	(3,340)	3,340
Other	—	(1)	—	—	—	2	1
Increase (decrease) in unrestricted net assets	<u>\$ (3,158)</u>	<u>(400)</u>	<u>2,962</u>	<u>219</u>	<u>132</u>	<u>(2,555)</u>	<u>(2,800)</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, 2013

(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.	Eliminations	SHS consolidated total
Unrestricted revenues, gains and other support:							
Patient service revenue (net of contractual adjustments)	\$ 222,399	—	5,522	—	13,321	—	241,242
Provision for bad debts	(6,353)	—	(74)	—	—	—	(6,427)
Net patient service revenue	216,046	—	5,448	—	13,321	—	234,815
Other operating revenue:							
State support	—	—	—	—	—	—	—
Other revenue	2,978	—	16	58	1,590	(148)	4,494
Total unrestricted revenue, gains and other support	219,024	—	5,464	58	14,911	(148)	239,309
Operating expenses:							
Salaries, wages and benefits	109,160	—	5,060	—	20,070	—	134,290
Expendable supplies	31,487	—	228	—	1,323	—	33,038
Purchased services	41,346	—	830	23	4,398	(303)	46,294
Contracted services	6,249	—	—	—	5,518	—	11,767
Depreciation and amortization	14,182	—	51	(772)	293	—	13,754
Interest expense	3,486	—	—	63	—	(63)	3,486
Total operating expenses	205,910	—	6,169	(686)	31,602	(366)	242,629
Operating income (loss)	13,114	—	(705)	744	(16,691)	218	(3,320)

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

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

Year ended June 30, 2013

(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.	Eliminations	SHS consolidated total
Nonoperating income and expenses, net:							
Loss on early extinguishment of debt	\$ (86)	—	—	—	—	—	(86)
Change in fair value of undesignated interest rate swaps	—	—	—	—	—	—	—
Other nonoperating gains and losses:							
Contributions	25	59	12	—	—	—	96
Equity in net income of joint ventures	—	—	—	—	—	—	—
Investment income (loss)	651	333	1	—	—	(63)	922
Change in fair value of investments	5,597	4,175	—	—	—	—	9,772
Other nonoperating gains and losses	(1,758)	(790)	—	—	—	(155)	(2,703)
Total other nonoperating gains and losses	4,515	3,777	13	—	—	(218)	8,087
Excess (deficiency) of revenues over expenses	17,543	3,777	(692)	744	(16,691)	—	4,681
Net assets released from restrictions used for purchase of property and equipment	580	—	—	—	—	—	580
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	(12,433)	(291)	—	—	12,688	—	(36)
Change in fair value of designated interest rate swaps	—	—	—	—	—	—	—
Change in funded status of defined benefit pension plans	—	—	—	—	—	—	—
Net losses from nonconsolidated subsidiaries	—	—	—	—	—	—	—
Other	(1,074)	(1)	—	—	—	466	(609)
Increase (decrease) in unrestricted net assets	\$ 4,616	3,485	(692)	744	(4,003)	466	4,616

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, 2013

(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:						
Patient service revenue (net of contractual allowances)	\$ 53,929	7,582	2,745	—	—	64,256
Provision for bad debts	(2,553)	(42)	(61)	—	—	(2,656)
Net patient service revenue	51,376	7,540	2,684	—	—	61,600
Other operating revenue:						
State support						—
Other revenue	304	8	55	—	—	367
Total unrestricted revenue, gains and other support	51,680	7,548	2,739	—	—	61,967
Operating expenses:						
Salaries, wages and benefits	26,253	4,318	2,063	—	—	32,634
Expendable supplies	6,190	799	78	—	—	7,067
Purchased services	10,073	2,498	409	—	—	12,980
Contracted services	6,144	8	—	—	—	6,152
Depreciation and amortization	3,000	249	55	—	—	3,304
Interest expense	206	8	—	—	—	214
Total operating expenses	51,866	7,880	2,605	—	—	62,351
Operating income	(186)	(332)	134	—	—	(384)

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

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

Year ended June 30, 2013

(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	—	—	—	1,046	—	1,046
Equity in net income of joint ventures	—	—	—	—	—	—
Investment income	897	—	19	48	—	964
Change in fair value of investments	(266)	—	66	(3)	—	(203)
Other nonoperating gains and losses	621	60	22	(366)	(725)	(388)
Total other nonoperating gains and losses	<u>1,252</u>	<u>60</u>	<u>107</u>	<u>725</u>	<u>(725)</u>	<u>1,419</u>
Excess of revenues over expenses	1,066	(272)	241	725	(725)	1,035
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	4,300	—	—	—	—	4,300
Change in fair value of designated interest rate swaps	—	—	—	—	—	—
Change in funded status of defined benefit pension plans	2,934	—	—	—	—	2,934
Other	(98)	19	—	(21)	104	4
Increase in unrestricted net assets	<u>\$ 8,202</u>	<u>(253)</u>	<u>241</u>	<u>704</u>	<u>(621)</u>	<u>8,273</u>

See accompanying independent auditors' report.

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

Consolidating Operations Information by Division for Civista Health Inc. and Subsidiaries (Civista)

Year ended June 30, 2013

(In thousands)

	<u>Civista Health, Inc.</u>	<u>Civista Medical Center, Inc.</u>	<u>Civista Care Partners, Inc. and Subsidiary</u>	<u>Civista Health Foundation, Inc.</u>	<u>Eliminations</u>	<u>Civista consolidated total</u>
Unrestricted revenues, gains and other support:						
Patient service revenue (net of contractual adjustments)	\$ —	118,309	2,850	—	—	121,159
Provision for bad debts	—	(4,922)	(65)	—	—	(4,987)
Net patient service revenue	—	113,387	2,785	—	—	116,172
Other operating revenue:						
State support	—	—	—	—	—	—
Other revenue	2,046	529	861	—	(1,678)	1,758
Total unrestricted revenue, gains and other support	<u>2,046</u>	<u>113,916</u>	<u>3,646</u>	<u>—</u>	<u>(1,678)</u>	<u>117,930</u>
Operating expenses:						
Salaries, wages and benefits	—	55,984	2,293	—	—	58,277
Expendable supplies	—	18,953	254	—	—	19,207
Purchased services	3,071	18,137	1,395	—	(1,405)	21,198
Contracted services	—	4,107	27	—	(273)	3,861
Depreciation and amortization	199	3,932	368	—	—	4,499
Interest expense	69	2,802	251	—	—	3,122
Total operating expenses	<u>3,339</u>	<u>103,915</u>	<u>4,588</u>	<u>—</u>	<u>(1,678)</u>	<u>110,164</u>
Operating income	<u>(1,293)</u>	<u>10,001</u>	<u>(942)</u>	<u>—</u>	<u>—</u>	<u>7,766</u>

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

Consolidating Operations Information by Division for Civista Health Inc. and Subsidiaries (Civista)

Year ended June 30, 2013

(In thousands)

	<u>Civista Health, Inc.</u>	<u>Civista Medical Center, Inc.</u>	<u>Civista Care Partners, Inc. and Subsidiary</u>	<u>Civista Health Foundation, Inc.</u>	<u>Eliminations</u>	<u>Civista consolidated total</u>
Nonoperating income and expenses, net:						
Loss on early extinguishment of debt	\$ —	(2,956)	—	—	—	(2,956)
Other nonoperating gains and losses:						
Contributions	—	28	—	(3)	—	25
Equity in net income of joint ventures	—	411	29	—	—	440
Investment income	28	40	—	31	—	99
Change in fair value of investments	—	(7)	—	203	—	196
Change in fair value of financial instrument	—	(2,917)	—	—	—	(2,917)
Other nonoperating gains and losses	—	134	—	270	(501)	(97)
Total other nonoperating gains and losses	<u>28</u>	<u>(2,311)</u>	<u>29</u>	<u>501</u>	<u>(501)</u>	<u>(2,254)</u>
Excess of revenues over expenses	(1,265)	4,734	(913)	501	(501)	2,556
Net assets released from restrictions used for purchase of property and equipment	—	(146)	—	—	—	(146)
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	2,500	—	—	—	—	2,500
Change in fair value of designated interest rate swaps	—	—	—	—	—	—
Change in funded status of defined benefit pension plans	—	3,626	—	—	—	3,626
Other	(583)	197	1	(18)	18	(385)
Increase in unrestricted net assets	<u>\$ 652</u>	<u>8,411</u>	<u>(912)</u>	<u>483</u>	<u>(483)</u>	<u>8,151</u>

See accompanying independent auditors' report.

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

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

Year ended June 30, 2013

(In thousands)

	St. Joseph Medical Center	St. Joseph Medical Group	St. Joseph Properties	St. Joseph Orthopaedics	O'Dea Medical Arts	St. Joseph Foundation	Eliminations	St. Joseph consolidated total
Unrestricted revenues, gains and other support:								
Patient service revenue (net of contractual adjustments)	\$ 146,993	13,386	—	24,385	—	—	—	184,764
Provision for bad debts	(5,066)	(1,161)	—	(1,906)	—	—	—	(8,133)
Net patient service revenue	141,927	12,225	—	22,479	—	—	—	176,631
Other operating revenue:								
State support	—	—	—	—	—	—	—	—
Other revenue	1,752	2,675	757	—	1,450	—	(1,962)	4,672
Total unrestricted revenue, gains and other support	143,679	14,900	757	22,479	1,450	—	(1,962)	181,303
Operating expenses:								
Salaries, wages and benefits	76,046	16,863	—	15,652	—	—	—	108,561
Expendable supplies	41,850	290	—	4	—	—	—	42,144
Purchased services	38,666	4,159	1,063	13,189	825	—	(383)	57,519
Contracted services	14,557	25	—	—	—	—	(1,579)	13,003
Depreciation and amortization	8,647	68	—	83	217	—	—	9,015
Interest expense	3,544	—	—	—	340	—	—	3,884
Total operating expenses	183,310	21,405	1,063	28,928	1,382	—	(1,962)	234,126
Operating income (loss)	(39,631)	(6,505)	(306)	(6,449)	68	—	—	(52,823)

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

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

Year ended June 30, 2013

(In thousands)

	St. Joseph Medical Center	St. Joseph Medical Group	St. Joseph Properties	St. Joseph Orthopaedics	O'Dea Medical Arts	St. Joseph Foundation	Eliminations	St. Joseph consolidated total
Nonoperating income and expenses, net:								
Loss on early extinguishment of debt	\$ —	—	—	—	—	—	—	—
Other nonoperating gains and losses:								
Contributions	—	—	—	—	—	42	—	42
Equity in net income of joint ventures	1,971	—	—	—	—	—	—	1,971
Investment income	—	—	—	—	—	527	—	527
Change in fair value of investments	—	—	—	—	—	(615)	—	(615)
Other nonoperating gains and losses	(8,150)	—	—	—	125	(362)	—	(8,387)
Total other nonoperating gains and losses	(6,179)	—	—	—	125	(408)	—	(6,462)
Excess (deficiency) of revenues over expenses	(45,810)	(6,505)	(306)	(6,449)	193	(408)	—	(59,285)
Acquisition of St. Joseph Foundation	—	—	—	—	—	4,737	—	4,737
Net assets released from restrictions used for purchase of property and equipment	330	—	—	—	—	—	—	330
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	—	—	—	—	—	—	—	—
Other	93	3	1	—	1,403	51	—	1,551
Increase (decrease) in unrestricted net assets	\$ (45,387)	(6,502)	(305)	(6,449)	1,596	4,380	—	(52,667)

See accompanying independent auditors' report.

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

Consolidating Operations Information by Division

Year ended June 30, 2012

(In thousands)

	University of Maryland Medical Center	Kernan	Maryland General	Baltimore Washington	Shore Health	Chester River	Civista Health	UMMS Foundation	Shipley's	Eliminations	Consolidated total
Unrestricted revenues, gains and other support:											
Patient Service Revenue (net of contractual adjustments)	\$ 1,353,837	106,262	176,155	376,524	237,996	63,103	113,930	—	—	(830)	2,426,977
Provision for bad debts	(76,907)	(5,575)	(13,522)	(25,961)	(2,454)	(1,261)	(7,960)	—	—	—	(133,640)
Net patient service revenue	1,276,930	100,687	162,633	350,563	235,542	61,842	105,970	—	—	(830)	2,293,337
Other operating revenue:											
State support	3,200	—	—	—	—	—	—	—	—	—	3,200
Other revenue	54,737	2,828	2,335	7,163	6,128	516	1,955	—	980	(2,123)	74,519
Total unrestricted revenue, gains and other support	1,334,867	103,515	164,968	357,726	241,670	62,358	107,925	—	980	(2,953)	2,371,056
Operating expenses:											
Salaries, wages and benefits	621,716	50,604	83,952	180,575	126,156	35,961	54,142	—	—	—	1,153,106
Expendable supplies	256,013	16,232	18,049	57,758	34,534	7,895	16,932	—	—	—	407,413
Purchased services	188,582	20,306	30,130	65,996	44,664	13,994	21,322	—	433	(2,953)	382,474
Contracted services	107,962	7,994	24,699	9,736	8,430	2,448	2,845	—	—	—	164,114
Depreciation and amortization	71,621	3,202	11,037	22,687	14,217	4,200	2,992	—	193	—	130,149
Interest expense	28,728	485	1,622	7,947	3,567	259	3,293	—	—	—	45,901
Facility closure expenses	16,247	—	—	—	—	—	—	—	—	—	16,247
Total operating expenses	1,290,869	98,823	169,489	344,699	231,568	64,757	101,526	—	626	(2,953)	2,299,404
Operating income (loss)	43,998	4,692	(4,521)	13,027	10,102	(2,399)	6,399	—	354	—	71,652
Nonoperating income and expenses, net:											
Loss on early extinguishment of debt	—	—	—	—	—	—	—	—	—	—	—
Change in fair value of undesignated interest rate swaps	(107,408)	—	—	—	—	—	—	—	—	—	(107,408)
Other nonoperating gains and losses:											
Contributions	—	—	—	—	1,410	552	438	6,561	—	—	8,961
Inherent contribution – Civista	37,322	—	—	—	—	—	—	—	—	—	37,322
Equity in net income of joint ventures	(2,747)	—	4,933	177	—	—	(349)	—	—	(354)	1,660
Investment income	15,102	426	100	1,578	(2,789)	706	151	2,013	—	—	17,287
Change in fair value of investments	(17,429)	(557)	(208)	(2,033)	98	(495)	(108)	(2,372)	—	—	(23,104)
Change in fair value of financial instrument	—	—	—	—	—	—	(9,607)	—	—	—	(9,607)
Other nonoperating gains and losses	(9,182)	(186)	(570)	(3,363)	(1,953)	(560)	41	(3,065)	—	(926)	(19,764)
Total other nonoperating gains and losses	23,066	(317)	4,255	(3,641)	(3,234)	203	(9,434)	3,137	—	(1,280)	12,755
Excess (deficiency) of revenues over expenses	(40,344)	4,375	(266)	9,386	6,868	(2,196)	(3,035)	3,137	354	(1,280)	(23,001)
Net assets released from restrictions used for purchase of property and equipment	29,893	4,750	995	—	691	—	108	(85)	—	—	36,352
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	(2,883)	—	—	—	—	—	—	—	—	—	(2,883)
Capital transfers (to) from affiliate	335	—	2,135	—	(2,471)	—	6,500	—	—	(6,499)	—
Change in fair value of designated interest rate swaps	(4,948)	—	—	—	—	—	—	—	—	—	(4,948)
Change in funded status of defined benefit pension plans	—	—	(8,117)	(8,998)	—	(1,303)	(5,218)	—	—	—	(23,636)
Other	30	—	1	(1)	(23)	792	13,475	—	—	(13,925)	349
Increase (decrease) in unrestricted net assets	\$ (17,917)	9,125	(5,252)	387	5,065	(2,707)	11,830	3,052	354	(21,704)	(17,767)

See accompanying independent auditors' report.

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

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

Year ended June 30, 2012

(In thousands)

	University of Maryland Medical Center				University Specialty	36 South Paca	University CARE	Eliminations	University of Maryland consolidated total
	University Hospital	Shock Trauma Center	Cancer Center	Subtotal					
Unrestricted revenues, gains and other support:									
Patient service revenue (net of contractual adjustments)	\$ 1,066,379	190,121	54,727	1,311,227	39,929	—	3,002	(321)	1,353,837
Provision for bad debts	(39,667)	(32,984)	(2,975)	(75,626)	(971)	(1)	(309)	—	(76,907)
Net patient service revenue	1,026,712	157,137	51,752	1,235,601	38,958	(1)	2,693	(321)	1,276,930
Other operating revenue:									
State support	—	3,200	—	3,200	—	—	—	—	3,200
Other revenue	51,408	63	94	51,565	280	1,137	2,385	(630)	54,737
Total unrestricted revenue, gains and other support	1,078,120	160,400	51,846	1,290,366	39,238	1,136	5,078	(951)	1,334,867
Operating expenses:									
Salaries, wages and benefits	517,800	55,815	19,915	593,530	24,732	175	3,279	—	621,716
Expendable supplies	204,354	26,897	20,193	251,444	4,329	29	211	—	256,013
Purchased services	112,177	44,118	12,797	169,092	15,399	716	5,080	(1,705)	188,582
Contracted services	93,563	10,731	3,668	107,962	—	—	—	—	107,962
Depreciation and amortization	63,891	2,603	2,131	68,625	2,604	392	—	—	71,621
Interest expense	27,754	—	—	27,754	850	124	—	—	28,728
Facility closure expenses	—	—	—	—	16,247	—	—	—	16,247
Total operating expenses	1,019,539	140,164	58,704	1,218,407	64,161	1,436	8,570	(1,705)	1,290,869
Operating income (loss)	58,581	20,236	(6,858)	71,959	(24,923)	(300)	(3,492)	754	43,998

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

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

Year ended June 30, 2012

(In thousands)

	University of Maryland Medical Center				University Specialty	36 South Paca	University CARE	Eliminations	University of Maryland consolidated total
	University Hospital	Shock Trauma Center	Cancer Center	Subtotal					
Nonoperating income and expenses, net:									
Loss on early extinguishment of debt	\$ —	—	—	—	—	—	—	—	—
Change in fair value of undesignated interest rate swaps	(107,408)	—	—	(107,408)	—	—	—	—	(107,408)
Other nonoperating gains and losses:									
Contributions	—	—	—	—	—	—	—	—	—
Inherent contribution – Civista	37,322	—	—	37,322	—	—	—	—	37,322
Equity in net income of joint ventures	(30,748)	—	—	(30,748)	—	—	—	28,001	(2,747)
Investment income	13,294	1,500	335	15,129	(27)	—	—	—	15,102
Change in fair value of investments	(17,067)	—	—	(17,067)	(362)	—	—	—	(17,429)
Other nonoperating gains and losses	(9,531)	—	—	(9,531)	—	—	—	349	(9,182)
Total other nonoperating gains and losses	(6,730)	1,500	335	(4,895)	(389)	—	—	28,350	23,066
Excess (deficiency) of revenues over expenses	(55,557)	21,736	(6,523)	(40,344)	(25,312)	(300)	(3,492)	29,104	(40,344)
Net assets released from restrictions used for purchase of property and equipment	29,893	—	—	29,893	—	—	—	—	29,893
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	(2,883)	—	—	(2,883)	—	—	—	—	(2,883)
Capital transfers (to) from affiliate	335	—	—	335	—	—	3,728	(3,728)	335
Change in fair value of designated interest rate swaps	(4,948)	—	—	(4,948)	—	—	—	—	(4,948)
Change in funded status of defined benefit pension plans	—	—	—	—	—	—	—	—	—
Other	54	—	—	54	(1)	(22)	(1)	—	30
Increase (decrease) in unrestricted net assets	\$ (33,106)	21,736	(6,523)	(17,893)	(25,313)	(322)	235	25,376	(17,917)

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, 2012

(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:					
Patient Service Revenue (net of contractual adjustments)	\$ —	174,332	9,050	(7,227)	176,155
Provision for bad debts	—	(11,688)	(1,834)	—	(13,522)
Net patient service revenue	—	162,644	7,216	(7,227)	162,633
Other operating revenue:					
State support	—	—	—	—	—
Other revenue	892	1,429	14	—	2,335
Total unrestricted revenue, gains and other support	892	164,073	7,230	(7,227)	164,968
Operating expenses:					
Salaries, wages and benefits	—	83,952	—	—	83,952
Expendable supplies	—	18,049	—	—	18,049
Purchased services	731	29,396	3	—	30,130
Contracted services	—	24,699	7,227	(7,227)	24,699
Depreciation and amortization	454	10,583	—	—	11,037
Interest expense	93	1,529	—	—	1,622
Total operating expenses	1,278	168,208	7,230	(7,227)	169,489
Operating income (loss)	(386)	(4,135)	—	—	(4,521)

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

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

Year ended June 30, 2012

(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	4,933	—	—	—	4,933
Investment income	—	100	—	—	100
Change in fair value of investments	—	(208)	—	—	(208)
Other nonoperating gains and losses	—	(570)	—	—	(570)
Total other nonoperating gains and losses	<u>4,933</u>	<u>(678)</u>	<u>—</u>	<u>—</u>	<u>4,255</u>
Excess of revenues over expenses	4,547	(4,813)	—	—	(266)
Net assets released from restrictions used for purchase of property and equipment	—	995	—	—	995
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	(3,702)	5,837	—	—	2,135
Change in fair value of designated interest rate swaps	—	—	—	—	—
Change in funded status of defined benefit pension plans	—	(8,117)	—	—	(8,117)
Other	—	1	—	—	1
Increase in unrestricted net assets	<u>\$ 845</u>	<u>(6,097)</u>	<u>—</u>	<u>—</u>	<u>(5,252)</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, 2012

(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:							
Patient Service Revenue (net of contractual adjustments)	\$ —	336,093	31,238	11,700	—	(2,507)	376,524
Provision for bad debts	—	(11,544)	(14,417)	—	—	—	(25,961)
Net patient service revenue	—	324,549	16,821	11,700	—	(2,507)	350,563
Other operating revenue:							
State support	—	—	—	—	—	—	—
Other revenue	3,943	3,482	—	3,087	2,062	(5,411)	7,163
Total unrestricted revenue, gains and other support	3,943	328,031	16,821	14,787	2,062	(7,918)	357,726
Operating expenses:							
Salaries, wages and benefits	3,943	156,728	10,875	9,029	—	—	180,575
Expendable supplies	—	56,948	—	810	—	—	57,758
Purchased services	—	63,804	5,498	3,332	1,280	(7,918)	65,996
Contracted services	—	7,728	—	2,008	—	—	9,736
Depreciation and amortization	—	21,142	—	993	552	—	22,687
Interest expense	—	7,141	—	708	98	—	7,947
Total operating expenses	3,943	313,491	16,373	16,880	1,930	(7,918)	344,699
Operating income (loss)	—	14,540	448	(2,093)	132	—	13,027

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

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

Year ended June 30, 2012

(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	9,384	—	—	—	—	(9,207)	177
Investment income	—	1,577	—	1	—	—	1,578
Change in fair value of investments	—	(2,033)	—	—	—	—	(2,033)
Other nonoperating gains and losses	—	(2,832)	—	(531)	—	—	(3,363)
Total other nonoperating gains and losses	<u>9,384</u>	<u>(3,288)</u>	<u>—</u>	<u>(530)</u>	<u>—</u>	<u>(9,207)</u>	<u>(3,641)</u>
Excess (deficiency) of revenues over expenses	9,384	11,252	448	(2,623)	132	(9,207)	9,386
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	70	—	—	—	—	(70)	—
Change in ownership interest of joint ventures	—	—	—	—	—	—	—
Capital transfers (to) from affiliate	—	(14,880)	—	12,157	—	2,723	—
Change in fair value of designated interest rate swaps	—	—	—	—	—	—	—
Change in funded status of defined benefit pension plans	(8,998)	(8,998)	—	—	—	8,998	(8,998)
Other	1	(4)	1	1	—	—	(1)
Increase (decrease) in unrestricted net assets	<u>\$ 457</u>	<u>(12,630)</u>	<u>449</u>	<u>9,535</u>	<u>132</u>	<u>2,444</u>	<u>387</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, 2012

(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.	Eliminations	SHS consolidated total
Unrestricted revenues, gains and other support:							
Patient Service Revenue (net of contractual adjustments)	\$ 221,080	—	5,950	—	10,966	—	237,996
Provision for bad debts	(2,372)	—	(82)	—	—	—	(2,454)
Net patient service revenue	218,708	—	5,868	—	10,966	—	235,542
Other operating revenue:							
State support	—	—	—	—	—	—	—
Other revenue	5,072	—	55	58	1,080	(137)	6,128
Total unrestricted revenue, gains and other support	223,780	—	5,923	58	12,046	(137)	241,670
Operating expenses:							
Salaries, wages and benefits	106,479	—	4,831	—	14,846	—	126,156
Expendable supplies	33,503	—	243	—	788	—	34,534
Purchased services	40,860	—	819	25	3,239	(279)	44,664
Contracted services	6,585	—	—	—	1,845	—	8,430
Depreciation and amortization	13,817	—	34	12	354	—	14,217
Interest expense	3,567	—	—	62	—	(62)	3,567
Total operating expenses	204,811	—	5,927	99	21,072	(341)	231,568
Operating income (loss)	18,969	—	(4)	(41)	(9,026)	204	10,102

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

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

Year ended June 30, 2012

(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.	Eliminations	SHS 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	47	1,237	126	—	—	—	1,410
Equity in net income of joint ventures	—	—	—	—	—	—	—
Investment income (loss)	(3,052)	324	1	—	—	(62)	(2,789)
Change in fair value of investments	2,043	(1,945)	—	—	—	—	98
Other nonoperating gains and losses	(1,294)	(517)	—	—	—	(142)	(1,953)
Total other nonoperating gains and losses	(2,256)	(901)	127	—	—	(204)	(3,234)
Excess (deficiency) of revenues over expenses	16,713	(901)	123	(41)	(9,026)	—	6,868
Net assets released from restrictions used for purchase of property and equipment	691	—	—	—	—	—	691
Change in unrealized gains on investments	—	—	—	—	—	—	—
Change in economic and beneficial interests in the net assets of related organizations	(901)	—	—	—	—	901	—
Change in ownership interest of joint ventures	451	—	—	—	—	(451)	—
Capital transfers (to) from affiliate	(11,865)	—	—	—	9,394	—	(2,471)
Change in fair value of designated interest rate swaps	—	—	—	—	—	—	—
Change in funded status of defined benefit pension plans	—	—	—	—	—	—	—
Net losses from nonconsolidated subsidiaries	—	—	—	—	—	—	—
Other	(23)	—	—	—	(1)	1	(23)
Increase (decrease) in unrestricted net assets	\$ 5,066	(901)	123	(41)	367	451	5,065

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, 2012

(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:						
Patient Service Revenue (net of contractual adjustments)	\$ 52,642	7,877	2,584	—	—	63,103
Provision for bad debts	(957)	(244)	(60)	—	—	(1,261)
Net patient service revenue	51,685	7,633	2,524	—	—	61,842
Other operating revenue:						
State support	—	—	—	—	—	—
Other revenue	457	4	55	—	—	516
Total unrestricted revenue, gains and other support	52,142	7,637	2,579	—	—	62,358
Operating expenses:						
Salaries, wages and benefits	29,599	4,295	2,067	—	—	35,961
Expendable supplies	7,068	765	62	—	—	7,895
Purchased services	11,037	2,506	451	—	—	13,994
Contracted services	2,448	—	—	—	—	2,448
Depreciation and amortization	3,891	250	59	—	—	4,200
Interest expense	250	9	—	—	—	259
Total operating expenses	54,293	7,825	2,639	—	—	64,757
Operating income	(2,151)	(188)	(60)	—	—	(2,399)

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

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

Year ended June 30, 2012

(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	—	—	—	552	—	552
Equity in net income of joint ventures	—	—	—	—	—	—
Investment income	698	7	1	—	—	706
Change in fair value of investments	(495)	—	—	—	—	(495)
Other nonoperating gains and losses	—	—	(7)	(271)	(282)	(560)
Total other nonoperating gains and losses	<u>203</u>	<u>7</u>	<u>(6)</u>	<u>281</u>	<u>(282)</u>	<u>203</u>
Excess of revenues over expenses	(1,948)	(181)	(66)	281	(282)	(2,196)
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	(1,303)	—	—	—	—	(1,303)
Other	848	17	1	(22)	(52)	792
Increase in unrestricted net assets	<u>\$ (2,403)</u>	<u>(164)</u>	<u>(65)</u>	<u>259</u>	<u>(334)</u>	<u>(2,707)</u>

See accompanying independent auditors' report.

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

Consolidating Operations Information by Division for Civista Health Inc. and Subsidiaries (Civista)

Year ended June 30, 2012

(In thousands)

	<u>Civista Health, Inc.</u>	<u>Civista Medical Center, Inc.</u>	<u>Civista Care Partners, Inc. and Subsidiary</u>	<u>Civista Health Foundation, Inc.</u>	<u>Eliminations</u>	<u>Civista consolidated total</u>
Unrestricted revenues, gains and other support:						
Patient Service Revenue (net of contractual adjustments)	\$ —	111,209	2,721	—	—	113,930
Provision for bad debts	—	(7,679)	(281)	—	—	(7,960)
Net patient service revenue	—	103,530	2,440	—	—	105,970
Other operating revenue:						
State support	—	—	—	—	—	—
Other revenue	1,405	707	1,019	514	(1,690)	1,955
Total unrestricted revenue, gains and other support	<u>1,405</u>	<u>104,237</u>	<u>3,459</u>	<u>514</u>	<u>(1,690)</u>	<u>107,925</u>
Operating expenses:						
Salaries, wages and benefits	—	51,770	2,153	219	—	54,142
Expendable supplies	—	16,708	210	14	—	16,932
Purchased services	2,472	18,830	1,019	406	(1,405)	21,322
Contracted services	—	3,130	—	—	(285)	2,845
Depreciation and amortization	12	2,630	312	38	—	2,992
Interest expense	75	2,941	266	11	—	3,293
Total operating expenses	<u>2,559</u>	<u>96,009</u>	<u>3,960</u>	<u>688</u>	<u>(1,690)</u>	<u>101,526</u>
Operating income	<u>(1,154)</u>	<u>8,228</u>	<u>(501)</u>	<u>(174)</u>	<u>—</u>	<u>6,399</u>

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

Consolidating Operations Information by Division for Civista Health Inc. and Subsidiaries (Civista)

Year ended June 30, 2012

(In thousands)

	<u>Civista Health, Inc.</u>	<u>Civista Medical Center, Inc.</u>	<u>Civista Care Partners, Inc. and Subsidiary</u>	<u>Civista Health Foundation, Inc.</u>	<u>Eliminations</u>	<u>Civista consolidated total</u>
Nonoperating income and expenses, net:						
Loss on early extinguishment of debt	\$ —	—	—	—	—	—
Other nonoperating gains and losses:						
Contributions	—	14	—	424	—	438
Equity in net income of joint ventures	—	306	(655)	—	—	(349)
Investment income	33	91	—	27	—	151
Change in fair value of investments	—	(5)	—	(103)	—	(108)
Change in fair value of financial instrument	—	(9,607)	—	—	—	(9,607)
Other nonoperating gains and losses	—	317	(103)	200	(373)	41
Total other nonoperating gains and losses	<u>33</u>	<u>(8,884)</u>	<u>(758)</u>	<u>548</u>	<u>(373)</u>	<u>(9,434)</u>
Excess of revenues over expenses	(1,121)	(656)	(1,259)	374	(373)	(3,035)
Net assets released from restrictions used for purchase of property and equipment	—	108	—	108	(108)	108
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	6,500	—	—	—	—	6,500
Change in fair value of designated interest rate swaps	—	—	—	—	—	—
Change in funded status of defined benefit pension plans	—	(5,218)	—	—	—	(5,218)
Other	(2,103)	12,716	2,837	25	—	13,475
Increase in unrestricted net assets	<u>\$ 3,276</u>	<u>6,950</u>	<u>1,578</u>	<u>507</u>	<u>(481)</u>	<u>11,830</u>

See accompanying independent auditors' report.

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

Combining Balance Sheet Information – Obligated Group

June 30, 2013

(In thousands)

Assets	University of Maryland Medical Center	Kernan Hospital, Inc.	Maryland General Hospital, Inc.	Baltimore Washington Medical Center, Inc.	Shore Health System, Inc.	Chester River Medical Center	Civista Medical Center	St. Joseph Medical Center	UMMS Foundation	Eliminations	Obligated group total
Current assets:											
Cash and cash equivalents	\$ 142,414	6,887	6,522	37,209	13,480	2,313	28,125	(8,333)	—	—	228,617
Assets limited as to use, current portion	42,900	—	1,001	985	624	573	—	260	—	—	46,343
Accounts receivable:											
Patient accounts receivable, less allowance for doubtful accounts of \$137,700	156,593	14,631	26,988	38,987	30,069	5,063	11,705	40,360	—	—	324,396
Other	194,804	17,699	1,722	332	4,283	411	17,022	(27,966)	(1,200)	(102,398)	104,709
Inventories	20,186	1,054	2,691	6,743	3,921	405	1,459	4,496	—	—	40,955
Prepaid expenses and other current assets	7,015	—	127	1,447	986	—	460	735	1,500	—	12,270
Total current assets	<u>563,912</u>	<u>40,271</u>	<u>39,051</u>	<u>85,703</u>	<u>53,363</u>	<u>8,765</u>	<u>58,771</u>	<u>9,552</u>	<u>300</u>	<u>(102,398)</u>	<u>757,290</u>
Investments	346,659	12,038	—	51,744	35,467	3,792	—	—	—	—	449,700
Assets limited as to use, less current portion:											
Investments held for collateral	58,642	—	—	8,000	—	—	—	—	—	—	66,642
Debt service funds	34,236	—	—	—	—	—	—	—	—	—	34,236
Construction funds	79,575	14,001	1,603	13,394	5,078	1,127	962	48,069	—	—	163,809
Board designated and escrow funds	—	—	—	—	25,000	5,000	—	—	38,467	—	68,467
Self-insurance trust funds	40,043	—	24,607	19,439	16,275	3,392	—	1,808	—	—	105,564
Funds restricted by donor	—	—	1,140	—	4,137	44	—	—	21,670	—	26,991
Economic interests in the net assets of related organizations	65,347	30,490	222	5,607	65,507	5,886	—	9,503	—	(77,008)	105,554
	<u>277,843</u>	<u>44,491</u>	<u>27,572</u>	<u>46,440</u>	<u>115,997</u>	<u>15,449</u>	<u>962</u>	<u>59,380</u>	<u>60,137</u>	<u>(77,008)</u>	<u>571,263</u>
Property and equipment, net	835,770	45,127	102,169	236,734	127,156	24,145	69,010	175,707	—	—	1,615,818
Investments in joint ventures and other assets	521,903	—	8,794	11,735	11,959	1,588	14,663	11,931	7,118	(277,733)	311,958
Total assets	<u>\$ 2,546,087</u>	<u>141,927</u>	<u>177,586</u>	<u>432,356</u>	<u>343,942</u>	<u>53,739</u>	<u>143,406</u>	<u>256,570</u>	<u>67,555</u>	<u>(457,139)</u>	<u>3,706,029</u>

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

Combining Balance Sheet Information – Obligated Group

June 30, 2013

(In thousands)

Liabilities and Net Assets	University of Maryland Medical Center	Kernan Hospital, Inc.	Maryland General Hospital, Inc.	Baltimore Washington Medical Center, Inc.	Shore Health System, Inc.	Chester River Medical Center	Civista Medical Center	St. Joseph Medical Center	UMMS Foundation	Eliminations	Obligated group total
Current liabilities:											
Trade accounts payable	\$ 142,190	8,069	15,250	20,374	11,913	5,267	7,136	17,679	50	—	227,928
Accrued payroll and benefits	88,879	5,117	14,757	21,672	17,025	3,840	4,978	15,085	—	—	171,353
Advances from third-party payors	72,725	3,037	6,803	8,659	5,627	751	3,235	10,454	—	—	111,291
Lines of credit	83,000	—	—	—	—	—	12,000	—	—	—	95,000
Other current liabilities	163,631	1,860	8,677	40,634	2,370	(3,009)	1,250	2,003	—	(102,398)	115,018
Long-term debt subject to short-term remarketing arrangements	19,123	—	—	—	—	—	—	—	—	—	19,123
Current portion of long-term debt	14,616	463	604	3,161	3,021	82	1,966	4,362	—	—	28,275
Total current liabilities	584,164	18,546	46,091	94,500	39,956	6,931	30,565	49,583	50	(102,398)	767,988
Long-term debt, less current portion	631,325	22,393	34,993	183,145	96,505	4,783	61,349	248,861	—	—	1,283,354
Other long-term liabilities	108,965	415	25,222	33,981	13,836	8,161	12,100	3,775	—	—	206,455
Interest rate swap liabilities	145,504	—	—	—	—	—	—	—	—	—	145,504
Total liabilities	1,469,958	41,354	106,306	311,626	150,297	19,875	104,014	302,219	50	(102,398)	2,403,301
Net assets:											
Unrestricted	996,451	70,083	69,918	115,123	165,187	32,161	39,182	(45,650)	42,899	(286,747)	1,198,607
Temporarily restricted	79,265	30,490	1,362	5,607	14,601	332	210	1	6,603	(67,994)	70,477
Permanently restricted	413	—	—	—	13,857	1,371	—	—	18,003	—	33,644
Total net assets	1,076,129	100,573	71,280	120,730	193,645	33,864	39,392	(45,649)	67,505	(354,741)	1,302,728
Total liabilities and net assets	\$ 2,546,087	141,927	177,586	432,356	343,942	53,739	143,406	256,570	67,555	(457,139)	3,706,029

See accompanying independent auditors' report.

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

Combining Balance Sheet Information – Obligated Group

June 30, 2012

(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	\$ 146,758	5,008	221	24,351	36,053	17,316	—	—	—	229,707
Assets limited as to use, current portion	37,912	—	—	955	1,051	714	—	—	—	40,632
Accounts receivable:										
Patient accounts receivable, less allowance for doubtful accounts of \$128,947	155,572	16,167	7,187	12,247	39,517	28,938	—	—	—	259,628
Other	48,208	9,085	122	2,256	142	840	—	(1,967)	(10,829)	47,857
Inventories	19,188	998	594	2,228	7,006	3,367	—	—	—	33,381
Prepaid expenses and other current assets	123,530	16	—	393	9,316	808	—	1,500	—	135,563
Total current assets	531,168	31,274	8,124	42,430	93,085	51,983	—	(467)	(10,829)	746,768
Investments	349,906	13,011	191	—	47,935	29,179	—	—	—	440,222
Assets limited as to use, less current portion:										
Debt service funds	41,438	—	—	—	—	—	—	—	—	41,438
Construction funds	89,458	8,057	—	—	18,390	5,851	—	—	—	121,756
Board designated and escrow funds	—	—	—	4,000	—	25,000	—	33,418	—	62,418
Self-insurance trust funds	41,045	—	—	21,088	18,072	13,013	—	—	—	93,218
Funds restricted by donor	—	—	—	3,201	—	3,781	—	19,591	—	26,573
Economic interests in the net assets of related organizations	58,001	30,788	522	293	5,966	59,598	—	—	(60,602)	94,566
	229,942	38,845	522	28,582	42,428	107,243	—	53,009	(60,602)	439,969
Property and equipment, net	779,987	42,104	5,194	91,952	240,920	127,388	—	1,815	—	1,289,360
Investments in joint ventures and other assets	297,861	—	—	8,155	14,128	15,581	30,215	6,313	(10,275)	361,978
Total assets	\$ 2,188,864	125,234	14,031	171,119	438,496	331,374	30,215	60,670	(81,706)	3,278,297

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

Combining Balance Sheet Information – Obligated Group

June 30, 2012

(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	\$ 126,306	5,686	3,486	13,834	15,516	7,671	—	68	—	172,567
Accrued payroll and benefits	79,906	4,697	5,445	12,496	20,920	13,703	—	—	—	137,167
Advances from third-party payors	82,861	3,937	4,584	6,541	10,044	6,704	—	—	—	114,671
Lines of credit	85,000	—	—	5,000	—	—	—	—	—	90,000
Other current liabilities	98,528	725	13,547	4,094	42,241	3,578	—	—	(10,829)	151,884
Long-term debt subject to short-term remarketing arrangements	50,427	—	—	—	—	—	—	—	—	50,427
Current portion of long-term debt	37,530	270	300	677	4,262	3,294	—	—	—	46,333
Total current liabilities	560,558	15,315	27,362	42,642	92,983	34,950	—	68	(10,829)	763,049
Long-term debt, less current portion	596,491	12,049	6,656	34,120	183,259	96,594	—	—	—	929,169
Other long-term liabilities	102,124	441	8	36,846	40,765	13,624	—	—	—	193,808
Interest rate swap liabilities	217,756	—	—	—	—	—	—	—	—	217,756
Total liabilities	1,476,929	27,805	34,026	113,608	317,007	145,168	—	68	(10,829)	2,103,782
Net assets:										
Unrestricted	639,846	66,641	(20,517)	54,017	115,523	160,571	28,559	37,977	(10,275)	1,072,342
Temporarily restricted	71,676	30,788	522	3,494	5,966	11,798	268	3,569	(60,602)	67,479
Permanently restricted	413	—	—	—	—	13,837	1,388	19,056	—	34,694
Total net assets	711,935	97,429	(19,995)	57,511	121,489	186,206	30,215	60,602	(70,877)	1,174,515
Total liabilities and net assets	\$ 2,188,864	125,234	14,031	171,119	438,496	331,374	30,215	60,670	(81,706)	3,278,297

See accompanying independent auditors' report.

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

Combining Operations Information – Obligated Group

Year ended June 30, 2013

(In thousands)

	University of Maryland Medical Center	Kernan Hospital	Maryland General Hospital	Baltimore Washington Medical Center	Shore Health System			Chester River Hospital Center	Civista Medical Center	St. Joseph Medical Center	UMMS Foundation	Eliminations	Obligated group total
					Memorial Hospital	Dorchester General	QAEC						
Unrestricted revenues, gains and other support:													
Patient service revenue (net of contractual adjustments)	\$ 1,325,091	101,611	197,494	329,657	168,514	49,757	4,128	222,399	53,929	118,309	146,993	—	2,494,474
Provision for bad debts	(87,889)	(4,543)	(14,141)	(11,135)	(4,698)	(1,566)	(89)	(6,353)	(2,553)	(4,922)	(5,066)	—	(136,602)
Net patient service revenue	1,237,202	97,068	183,353	318,522	163,816	48,191	4,039	216,046	51,376	113,387	141,927	—	2,357,872
Other operating revenue:													
State support	3,000	—	—	—	—	—	—	—	—	—	—	—	3,000
Other revenue	79,256	2,471	1,483	4,066	2,570	393	15	2,978	304	529	1,752	—	90,777
Total unrestricted revenue, gains and other support	1,319,458	99,539	184,836	322,588	166,386	48,584	4,054	219,024	51,680	113,916	143,679	—	2,451,649
Operating expenses:													
Salaries, wages, and benefits	610,738	53,206	97,609	168,709	81,986	23,815	3,359	109,160	26,253	55,984	76,046	—	1,197,705
Expendable supplies	270,133	16,150	21,058	60,662	26,156	4,773	558	31,487	6,190	18,953	41,850	—	466,483
Purchased services	164,728	18,767	25,797	58,982	30,861	9,605	880	41,346	10,073	18,137	38,666	—	370,318
Contracted services	122,151	8,068	31,039	8,156	3,651	1,514	1,084	6,249	6,144	4,107	14,557	—	204,164
Depreciation and amortization	72,263	3,860	11,243	23,467	10,772	2,274	1,136	14,182	3,000	3,932	8,647	—	140,594
Interest expense	28,390	949	1,343	7,021	2,592	348	546	3,486	206	2,802	3,544	—	47,741
Total operating expenses	1,268,403	101,000	188,089	326,997	156,018	42,329	7,563	205,910	51,866	103,915	183,310	—	2,427,005
Operating income (loss)	51,055	(1,461)	(3,253)	(4,409)	10,368	6,255	(3,509)	13,114	(186)	10,001	(39,631)	—	24,644
Nonoperating income and expenses, net:													
Loss on early extinguishment of debt	(111)	(22)	(35)	(187)	(86)	—	—	(86)	—	(2,956)	—	—	(3,397)
Change in fair value of undesignated interest rate swaps	69,206	—	—	—	—	—	—	—	—	—	—	—	69,206
Other nonoperating gains and losses:													
Contributions	—	—	—	—	25	—	—	25	—	28	—	6,265	6,318
Equity in net income of joint ventures	9,045	—	—	—	—	—	—	—	—	411	1,971	—	11,427
Investment income	10,736	116	57	1,087	651	—	—	651	897	40	—	2,709	16,293
Change in fair value of investments	15,335	906	224	3,337	5,597	—	—	5,597	(266)	(7)	—	615	25,741
Change in fair value of financial instrument	—	—	—	—	—	—	—	—	—	(2,917)	—	—	(2,917)
Other nonoperating gains and losses	(12,421)	(129)	(678)	(4,208)	(1,758)	—	—	(1,758)	621	134	(8,150)	(6,183)	(32,772)
Total other nonoperating gains and losses	22,695	893	(397)	216	4,515	—	—	4,515	1,252	(2,311)	(6,179)	3,406	24,090
Excess (deficiency) of revenues over expenses	142,845	(590)	(3,685)	(4,380)	14,797	6,255	(3,509)	17,543	1,066	4,734	(45,810)	3,406	114,543
Net assets released from restrictions used for purchase of property and equipment	16,503	4,030	2,143	641	580	—	—	580	—	(146)	330	—	24,081
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	1,170	—	—	—	—	—	—	—	—	—	—	—	1,170
Capital transfers (to) from affiliate	(12,801)	—	7,537	—	(12,433)	—	—	(12,433)	4,300	—	—	(2,500)	(15,897)
Change in fair value of designated interest rate swaps	3,046	—	—	—	—	—	—	—	—	—	—	—	3,046
Change in funded status of defined benefit pension plans	—	—	9,922	3,340	—	—	—	—	2,934	3,626	—	—	19,822
Net gains from nonconsolidated subsidiaries	—	—	—	(1)	—	—	—	—	—	—	—	—	—
Other	205,842	2	(16)	(1)	(1,074)	—	—	(1,074)	(98)	197	93	1,516	774
Increase (decrease) in unrestricted net assets	\$ 356,605	3,442	15,901	(400)	1,870	6,255	(3,509)	4,616	8,202	8,411	(45,387)	4,922	147,539

See accompanying independent auditors' report.

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

Combining Operations Information – Obligated Group

Year ended June 30, 2012

(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
						Memorial Hospital	Dorchester General	QAEC	Subtotal			
Unrestricted revenues, gains and other support:												
Patient Service Revenue (net of contractual adjustments)	\$ 1,311,227	105,273	39,929	174,332	336,093	168,172	48,527	4,381	221,080	—	—	2,187,613
Provision for bad debts	(75,626)	(5,483)	(971)	(11,688)	(11,544)	(1,953)	(179)	(240)	(2,372)	—	—	(107,684)
Net patient service revenue	1,235,601	99,790	38,958	162,644	324,549	166,219	48,348	4,141	218,708	—	—	2,079,929
Other operating revenue:												
State support	3,200	—	—	—	—	—	—	—	—	—	—	3,200
Other revenue	51,565	2,828	280	1,429	3,482	4,587	485	—	5,072	—	—	64,026
Total unrestricted revenue, gains and other support	1,290,366	102,618	39,238	164,073	328,031	170,806	48,833	4,141	223,780	—	—	2,147,155
Operating expenses:												
Salaries, wages, and benefits	593,530	49,902	24,732	83,952	156,728	79,620	24,331	2,528	106,479	—	—	1,015,323
Expendable supplies	251,444	16,224	4,329	18,049	56,948	27,979	5,067	457	33,503	—	—	380,497
Purchased services	169,092	20,063	15,399	29,396	63,804	30,883	9,684	293	40,860	—	—	337,663
Contracted services	107,962	7,994	—	24,699	7,728	3,590	1,784	1,211	6,585	—	(951)	154,968
Depreciation and amortization	68,625	3,186	2,604	10,583	21,142	10,860	1,930	1,027	13,817	—	—	119,957
Interest expense	27,754	621	850	1,529	7,141	2,666	351	550	3,567	—	—	41,462
Facility closure expenses	—	—	16,247	—	—	—	—	—	—	—	—	16,247
Total operating expenses	1,218,407	97,990	64,161	168,208	313,491	155,598	43,147	6,066	204,811	—	—	2,066,117
Operating income (loss)	71,959	4,628	(24,923)	(4,135)	14,540	15,208	5,686	(1,925)	18,969	—	—	81,038
Nonoperating income and expenses, net:												
Loss on early extinguishment of debt	—	—	—	—	—	—	—	—	—	—	—	—
Change in fair value of undesignated interest rate swaps	(107,408)	—	—	—	—	—	—	—	—	—	—	(107,408)
Other nonoperating gains and losses:												
Contributions	—	—	—	—	—	47	—	—	47	—	6,561	6,608
Inherent contribution – Civista	37,322	—	—	—	—	—	—	—	—	—	—	37,322
Equity in net income of joint ventures	(30,748)	—	—	—	—	—	—	—	—	—	25,313	(5,435)
Investment income	15,129	266	(27)	100	1,577	(3,029)	(23)	—	(3,052)	2,013	—	16,006
Change in fair value of investments	(17,067)	(397)	(362)	(208)	(2,033)	2,043	—	—	2,043	(2,372)	—	(20,396)
Other nonoperating gains and losses	(9,531)	(50)	—	(570)	(2,832)	(1,205)	(89)	—	(1,294)	(3,065)	—	(17,342)
Total other nonoperating gains and losses	(4,895)	(181)	(389)	(678)	(3,288)	(2,144)	(112)	—	(2,256)	—	3,137	16,763
Excess (deficiency) of revenues over expenses	(40,344)	4,447	(25,312)	(4,813)	11,252	13,064	5,574	(1,925)	16,713	—	3,137	(9,607)
Net assets released from restrictions used for purchase of property and equipment	29,893	4,750	—	995	—	691	—	—	691	—	(85)	36,244
Change in unrealized gains on investments	—	—	—	—	—	—	—	—	—	—	—	—
Change in economic and beneficial interests in the net assets of related organizations	—	—	—	—	—	(901)	—	—	(901)	—	—	(901)
Change in ownership interest of joint ventures	(2,883)	—	—	—	—	451	—	—	451	—	—	(2,432)
Capital transfers (to) from affiliate	335	—	—	5,837	(14,880)	(11,865)	—	—	(11,865)	—	—	(20,573)
Change in fair value of designated interest rate swaps	(4,948)	—	—	—	—	—	—	—	—	—	—	(4,948)
Change in funded status of defined benefit pension plans	—	—	—	(8,117)	(8,998)	—	—	—	—	—	—	(17,115)
Net gains from nonconsolidated subsidiaries	—	—	—	—	—	—	—	—	—	—	(793)	(3,500)
Other	54	—	(1)	1	(4)	(23)	—	—	(23)	—	—	27
Increase (decrease) in unrestricted net assets	\$ (17,893)	9,197	(25,313)	(6,097)	(12,630)	1,417	5,574	(1,925)	5,066	(2,707)	3,052	(22,805)

See accompanying independent auditors' report.