



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

Consolidated Financial Statements and Schedules

June 30, 2010 and 2009

(With Independent Auditors' Report Thereon)

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

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

## Independent Auditors' Report

The Board of Directors  
University of Maryland Medical System Corporation:

We have audited the accompanying consolidated balance sheets of the University of Maryland Medical System Corporation and Subsidiaries (the Corporation) as of June 30, 2010 and 2009, and the related consolidated statements of operations, changes in net assets, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the University of Maryland Medical System Corporation and Subsidiaries as of June 30, 2010 and 2009, and the results of their operations, changes in their net assets, and their cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Our audits were made for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The consolidating information included in schedules 1 through 4 is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position, results of operations, and cash flows of the individual companies. The combining information included in schedules 5 through 8 is presented for purposes of additional analysis and is not a required part of the basic financial statements. The consolidating information and combining information referred to in this report have been subjected to the auditing procedures applied in the audits of the consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the consolidated financial statements taken as a whole.

**KPMG LLP**

October 28, 2010

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

Consolidated Balance Sheets

June 30, 2010 and 2009

(In thousands)

| <b>Assets</b>   | <b>2010</b>  | <b>2009</b> |
|---|--------------|-------------|
|   |              |             |
| Current assets:   |              |             |
| Cash and cash equivalents   | \$ 238,548   | 207,037     |
| Assets limited as to use, current portion   | 39,228       | 32,305      |
| Accounts receivable:  |              |             |
| Patient accounts receivable, less allowance for doubtful<br>accounts of \$138,499 and \$109,258 as of June 30, 2010<br>and 2009, respectively | 249,127      | 241,779     |
| Other   | 24,155       | 23,104      |
| Inventories   | 30,230       | 31,553      |
| Prepaid expenses and other current assets   | 67,681       | 46,361      |
| Total current assets  | 648,969      | 582,139     |
| Investments   | 281,108      | 243,786     |
| Assets limited as to use, less current portion  | 490,119      | 356,902     |
| Property and equipment, net   | 1,240,114    | 1,200,246   |
| Deferred financing costs, net   | 8,661        | 8,733       |
| Investments in joint ventures   | 107,851      | 73,165      |
| Other assets  | 8,329        | 11,050      |
| Total assets  | \$ 2,785,151 | 2,476,021   |
| <b>Liabilities and Net Assets</b>   |              |             |
| Current liabilities:  |              |             |
| Trade accounts payable  | \$ 146,149   | 138,695     |
| Accrued payroll and benefits  | 121,683      | 108,739     |
| Advances from third-party payors  | 87,558       | 84,528      |
| Lines of credit   | 63,300       | 27,800      |
| Other current liabilities   | 83,958       | 76,145      |
| Long-term debt subject to short-term remarketing arrangements   | 70,069       | 71,099      |
| Current portion of long-term debt   | 36,442       | 19,879      |
| Total current liabilities   | 609,159      | 526,885     |
| Long-term debt, less current portion and amount subject to<br>short-term remarketing arrangements   | 959,243      | 866,156     |
| Other long-term liabilities   | 105,794      | 91,135      |
| Interest rate swap liabilities  | 128,575      | 87,926      |
| Total liabilities   | 1,802,771    | 1,572,102   |
| Net assets:   |              |             |
| Unrestricted  | 894,949      | 799,555     |
| Temporarily restricted  | 56,184       | 76,204      |
| Permanently restricted  | 31,247       | 28,160      |
| Total net assets  | 982,380      | 903,919     |
| Total liabilities and net assets  | \$ 2,785,151 | 2,476,021   |

See accompanying notes to consolidated financial statements.

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

Consolidated Statements of Operations

Years ended June 30, 2010 and 2009

(In thousands)

|  | <u>2010</u>      | <u>2009</u>      |
|--|------------------|------------------|
| Unrestricted revenues, gains and other support:  |                  |                  |
| Net patient service revenue  | \$ 2,129,662     | 2,049,554        |
| Other operating revenue:   |                  |                  |
| State support  | 3,200            | 3,634            |
| Other revenue  | 66,106           | 63,672           |
|  | <u>2,198,968</u> | <u>2,116,860</u> |
| Operating expenses:  |                  |                  |
| Salaries, wages and benefits   | 988,399          | 947,448          |
| Expendable supplies  | 357,793          | 354,620          |
| Purchased services   | 312,381          | 325,579          |
| Contracted services  | 140,844          | 124,869          |
| Depreciation and amortization  | 117,766          | 118,786          |
| Interest expense   | 40,051           | 36,369           |
| Provision for bad debts  | 179,289          | 178,946          |
|  | <u>2,136,523</u> | <u>2,086,617</u> |
| Total operating expenses   |                  |                  |
| Operating income   | 62,445           | 30,243           |
| Nonoperating income and expenses, net:   |                  |                  |
| Contributions  | 8,137            | 6,605            |
| Equity in net income of joint ventures   | 3,514            | 2,178            |
| Investment income (loss)   | 136              | (33,782)         |
| Change in fair value of investments  | 45,592           | (14,050)         |
| Change in fair value of undesignated interest rate swaps                                 | (33,700)         | (32,081)         |
| Loss on early extinguishment of debt   | (816)            | (1,388)          |
| Other nonoperating losses, net   | (13,798)         | (13,060)         |
|  | <u>71,510</u>    | <u>(55,335)</u>  |
| Excess (deficiency) of revenues over expenses  |                  |                  |
| Net assets released from restrictions used for the<br>purchase of property and equipment | 32,612           | 21,470           |
| Change in fair value of investments  | —                | (12,129)         |
| Other  | (8,728)          | (36,542)         |
|  | <u>(8,728)</u>   | <u>(36,542)</u>  |
| Increase (decrease) in unrestricted net assets   | <u>\$ 95,394</u> | <u>(82,536)</u>  |

See accompanying notes to consolidated financial statements.

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

Consolidated Statements of Changes in Net Assets

Years ended June 30, 2010 and 2009

(In thousands)

|  | <b>Unrestricted<br/>net assets</b> | <b>Temporarily<br/>restricted<br/>net assets</b> | <b>Permanently<br/>restricted<br/>net assets</b> | <b>Total</b>    |
|--|------------------------------------|--|--|-----------------|
| Balance at June 30, 2008   | \$ 882,091                         | 87,463   | 28,182   | 997,736         |
| Deficiency of revenues over expenses   | (55,335)                           | —  | —  | (55,335)        |
| Investment losses, net   | —                                  | (4,833)  | (134)  | (4,967)         |
| State support for capital  | —                                  | 18,731   | —  | 18,731          |
| Contributions, net   | —                                  | 3,760  | 272  | 4,032           |
| Net assets released from restrictions used for operations and nonoperating activities  | —                                  | (2,540)  | —  | (2,540)         |
| Net assets released from restrictions used for purchase of property and equipment      | 21,470                             | (21,470)   | —  | —               |
| Change in economic and beneficial interests in the net assets of related organizations | —                                  | (6,735)  | (104)  | (6,839)         |
| Change in ownership interest of joint ventures   | (5,680)                            | 3,332  | —  | (2,348)         |
| Change in fair value of investments  | (12,129)                           | (1,355)  | (56)   | (13,540)        |
| Change in fair value of designated interest rate swaps                                 | (5,469)                            | —  | —  | (5,469)         |
| Change in funded status of defined benefit pension plans                               | (25,807)                           | —  | —  | (25,807)        |
| Other  | 414                                | (149)  | —  | 265             |
| Decrease in net assets   | <u>(82,536)</u>                    | <u>(11,259)</u>                                  | <u>(22)</u>                                      | <u>(93,817)</u> |
| Balance at June 30, 2009   | 799,555                            | 76,204   | 28,160   | 903,919         |
| Excess of revenues over expenses   | 71,510                             | —  | —  | 71,510          |
| Investment gains, net  | —                                  | 3,338  | 136  | 3,474           |
| State support for capital  | —                                  | 7,965  | —  | 7,965           |
| Contributions, net   | —                                  | 21,011   | 2,866  | 23,877          |
| Net assets released from restrictions used for operations and nonoperating activities  | —                                  | (5,890)  | —  | (5,890)         |
| Net assets released from restrictions used for purchase of property and equipment      | 32,612                             | (32,612)   | —  | —               |
| Change in economic and beneficial interests in the net assets of related organizations | —                                  | (14,986)   | 85   | (14,901)        |
| Change in ownership interest of joint ventures   | 3,478                              | 1,141  | —  | 4,619           |
| Change in fair value of designated interest rate swaps                                 | (7,410)                            | —  | —  | (7,410)         |
| Change in funded status of defined benefit pension plans                               | (4,766)                            | —  | —  | (4,766)         |
| Other  | (30)                               | 13   | —  | (17)            |
| Increase (decrease) in net assets  | <u>95,394</u>                      | <u>(20,020)</u>                                  | <u>3,087</u>                                     | <u>78,461</u>   |
| Balance at June 30, 2010   | <u>\$ 894,949</u>                  | <u>56,184</u>                                    | <u>31,247</u>                                    | <u>982,380</u>  |

See accompanying notes to consolidated financial statements.

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

Consolidated Statements of Cash Flows

Years ended June 30, 2010 and 2009

(In thousands)

|  | <b>2010</b> | <b>2009</b> |
|--|-------------|-------------|
| Cash flows from operating activities:  |             |             |
| Increase (decrease) in net assets  | \$ 78,461   | (93,817)    |
| Adjustments to reconcile increase (decrease) in net assets<br>to net cash provided by operating activities:                                  |             |             |
| Depreciation and amortization  | 117,766     | 118,786     |
| Provision for bad debts  | 179,289     | 178,946     |
| Amortization of bond premium and deferred financing costs  | 1,178       | 2,462       |
| Net realized (gains) losses and change in fair value<br>of investments   | (38,703)    | 74,621      |
| Loss on early extinguishment of debt   | 816         | 1,388       |
| Equity in net income of joint ventures   | (3,514)     | (2,178)     |
| Contribution of land held for sale   | (1,800)     | —           |
| Decrease in economic and beneficial interests in net<br>assets of related organizations  | 14,901      | 6,839       |
| Change in fair value of interest rate swaps  | 40,649      | 40,247      |
| Change in funded status of defined benefit pension plans   | 4,766       | 25,807      |
| Increase in patient accounts receivable  | (186,637)   | (128,133)   |
| (Increase) decrease in other receivables, prepaid expenses,<br>other current assets and other assets   | (8,635)     | 4,666       |
| Decrease (increase) in inventories   | 1,323       | (2,176)     |
| Increase (decrease) in trade accounts payable, accrued<br>payroll and benefits, other current liabilities and other<br>long-term liabilities | 27,047      | (14,386)    |
| Increase in advances from third-party payors   | 3,030       | 3,424       |
| Restricted contributions, investment income and state<br>support   | (35,316)    | (17,796)    |
| Net cash provided by operating activities  | 194,621     | 198,700     |
| Cash flows from investing activities:  |             |             |
| Purchases and sales of investments and assets limited as<br>to use, net  | (153,660)   | 62,285      |
| Purchases of property and equipment  | (141,686)   | (184,134)   |
| Distributions from joint ventures, net   | 1,924       | 1,950       |
| Investment in UCHS/UMMS Venture, LLC   | (26,750)    | (31,500)    |
| Change in deposit for undesignated interest rate swaps on<br>hand with swap counterparty   | (13,420)    | (29,472)    |
| Net cash used in investing activities  | (333,592)   | (180,871)   |

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

Years ended June 30, 2010 and 2009

(In thousands)

|  | <b>2010</b>       | <b>2009</b>    |
|--|-------------------|----------------|
| Cash flows from financing activities:  |                   |                |
| Proceeds from long-term debt   | \$ 245,942        | 198,064        |
| Repayment of long-term debt and capital leases   | (139,915)         | (185,826)      |
| Draws on lines of credit, net  | 35,500            | 10,000         |
| Change in deposit for designated interest rate swaps on hand with<br>swap counterparty | (3,941)           | (9,409)        |
| Payment of debt issuance costs   | (2,420)           | (1,823)        |
| Restricted contributions, investment income and state support                          | 35,316            | 17,796         |
|  | <u>170,482</u>    | <u>28,802</u>  |
| Net cash provided by financing activities  | 170,482           | 28,802         |
| Net increase in cash and cash equivalents  | 31,511            | 46,631         |
| Cash and cash equivalents, beginning of year   | <u>207,037</u>    | <u>160,406</u> |
| Cash and cash equivalents, end of year   | <u>\$ 238,548</u> | <u>207,037</u> |
| Supplemental disclosures of cash flow information:                                     |                   |                |
| Cash paid during the year for interest, net of amounts capitalized                     | \$ 37,269         | 36,832         |
| Amount included in accounts payable for construction in progress                       | 11,981            | 14,897         |
| Supplemental disclosure of noncash information:  |                   |                |
| Capital leases   | \$ 11,232         | 1,969          |

See accompanying notes to consolidated financial statements.



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

Notes to Consolidated Financial Statements

June 30, 2010 and 2009

**(1) Organization and Summary of Significant Accounting Policies**

**(a) Organization**

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

**University of Maryland Medical Center**

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

**The James Lawrence Kernan Hospital, Inc.**

Kernan is comprised of a medical/surgical and rehabilitation hospital in Baltimore with 132 licensed beds, including 98 rehabilitation beds, 24 chronic care beds, 10 medical/beds; and off-site physical therapy facilities.

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

**University Specialty Hospital, Inc.**

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

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

June 30, 2010 and 2009

**Maryland General Health Systems, Inc.**

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

A related corporation, Maryland General Community Health Foundation, Inc. (Maryland General Foundation), is governed by a separate, independent board of directors and is required to hold investments and income derived therefrom for the exclusive benefit of Maryland General. Accordingly, the accompanying consolidated financial statements reflect an economic interest in the net assets of the Maryland General Foundation.

**Baltimore Washington Medical System, Inc.**

Baltimore Washington is a health system comprised of Baltimore Washington Medical Center, a 311-bed acute care hospital providing a broad range of services, and several wholly owned subsidiaries providing emergency physician and other services.

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

**Shore Health System, Inc.**

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

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

**Chester River Health System, Inc.**

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

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Notes to Consolidated Financial Statements

June 30, 2010 and 2009

The Corporation and Chester River merged pursuant to an Affiliation Agreement dated July 1, 2008. No consideration was tendered in connection with the transaction. As part of the agreement, the Corporation transferred \$1 million to Chester River for clinical programmatic enhancements and committed an additional \$4 million in support of the enhancements over the next two years. In addition, the Corporation has committed no less than an additional \$8.5 million for capital improvements.

**University of Maryland Medical System Foundation, Inc.**

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

**36 South Paca Street, LLC**

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

**UniversityCARE, LLC**

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

**Shipley's Choice Medical Park, Inc.**

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

**(b) Basis of Presentation**

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

**(c) Cash Equivalents**

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

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

The Corporation's investment portfolio is classified as trading, and is reported in the consolidated balance sheets at its fair value, based on quoted market prices, at June 30, 2010 and 2009. Unrealized holding gains and losses on trading securities with readily determinable market values are included

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

June 30, 2010 and 2009

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 (see note 12).

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

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

*(e) Inventories*

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

*(f) Economic Interests in Financially Interrelated Organizations*

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

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Notes to Consolidated Financial Statements

June 30, 2010 and 2009

**(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 are deferred and are amortized over the life of the related debt agreements or the related letter of credit agreements using the effective interest method. Accumulated amortization of such costs amounted to \$6,594,000 and \$6,072,000 as of June 30, 2010 and 2009, respectively. In connection with the refinancing of certain debt in the years ended June 30, 2010 and 2009, the Corporation recorded a loss on early extinguishment of debt of \$816,000 and \$1,388,000, respectively, which consisted of the write-off of deferred financing costs.

**(i) *Impairment of Long-Lived Assets***

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

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Notes to Consolidated Financial Statements

June 30, 2010 and 2009

**(j) *Investments in Joint Ventures***

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

**(k) *Self-Insurance***

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

**(l) *Net Assets***

The Corporation classifies net assets based on the existence or absence of donor-imposed restrictions. Unrestricted net assets represent contributions, gifts and grants which have no donor-imposed restrictions or which arise as a result of operations. Temporarily restricted net assets are subject to donor-imposed restrictions that must or will be met either by satisfying a specific purpose and/or passage of time. Permanently restricted net assets are subject to donor-imposed restrictions that must be maintained in perpetuity. Generally, the donors of these assets permit the use of all or part of the income earned on related investments for specific purposes. The restrictions associated with these net assets generally pertain to patient care, specific capital projects and funding of specific hospital operations and community outreach programs.

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

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

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

The provision for bad debts is based upon management's assessment of historical and expected net collections considering historical business and economic conditions, trends in health care 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

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from insurers, the Corporation follows internal guidelines for placing certain past due balances with collection agencies.

**(n) *Charity Care***

The Corporation provides charity care to patients who are unable to pay. Such patients are identified based on information obtained from the patient and subsequent analysis. Because the Corporation does not expect collection of amounts determined to qualify as charity care, they are not reported as revenue. Based on established rates, the Corporation estimates \$68,825,000 and \$65,343,000 of charity care services were provided in the years ended June 30, 2010 and 2009, respectively.

**(o) *Nonoperating Income and Expenses, Net***

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

**(p) *Derivative Financial Instruments***

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

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

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

All derivative instruments are reported as other assets or other long-term liabilities in the consolidated balance sheet and measured at fair value. On the date the derivative contract is entered into, the Corporation may designate the derivative as either a hedge of the fair value of a recognized or forecasted liability (fair value hedge) or a hedge of the variability of cash flows to be received or paid related to a recognized liability (cash flow hedge), provided the derivative instrument meets certain criteria related to its effectiveness. Derivatives not designated as hedges or not meeting effectiveness criteria are carried at fair value with changes in the fair value recognized in other nonoperating income and expenses.

The Corporation formally documents all hedge relationships between hedging instruments and hedged items, as well as its risk-management objective and strategy for undertaking various hedge transactions. This process includes linking all derivatives that are designated as fair value or cash flow hedges to specific liabilities on the consolidated balance sheet. The Corporation also formally assesses, both at the hedge's inception and on an ongoing basis, whether the derivatives that are used

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in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

Changes in the fair value of derivative instruments are included in or excluded from the excess (deficiency) of revenues over expenses depending on the use of the derivative and whether it qualifies for hedge accounting. Changes in the fair value of a derivative that is designated and qualifies as a fair value hedge, along with the changes in the fair value of the hedged item related to the risk being hedged are included in the excess (deficiency) 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 (deficiency) of revenues over expenses to the extent that the hedge is effective until the excess (deficiency) 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 (deficiency) of revenues over expenses as interest expense.

The Corporation discontinues hedge accounting prospectively when it determines that the derivative is no longer effective in offsetting changes in the fair value or cash flows of a hedged item, when the derivative expires or is sold, terminated or exercised, or when management determines that 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 (deficiency) of revenues over expenses.

**(q) *Excess (Deficiency) of Revenue over Expenses***

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

**(r) *Income Taxes***

The Corporation and most of its subsidiaries are not-for-profit corporations formed under the laws of the State of Maryland, organized for charitable purposes and recognized by the Internal Revenue Service as tax-exempt organizations under Section 501(c)(3) of the Internal Revenue Code pursuant to Section 501(a) of the Code. The effect of the taxable status of its for-profit subsidiaries is not material to the consolidated financial statements. The Corporation paid approximately \$195,000 and \$850,000 in income taxes on its unrelated business activities in the years ended June 30, 2010 and 2009, respectively.

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.



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(s) ***Donor-Restricted Gifts***

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

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

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). UPMIFA was adopted in Maryland in April 2009. The Corporation evaluated its donor-restricted funds and reclassified approximately \$500,000 that had been recorded as unrestricted net assets to temporarily restricted net assets, in accordance with UPMIFA effective July 1, 2008.

(t) ***Fair Value Measurements***

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

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

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

*Long-term debt* – The fair value of the long-term debt issued through the Maryland Health and Higher Educational Facilities Authority (Authority or MHHEFA), based on quoted market prices for the same or similar issues, at June 30, 2010 and 2009, was approximately \$1,040,208,000 and \$893,364,000, respectively. The carrying amounts of other long-term debt reported in note 7 and on the consolidated balance sheet approximate the related fair values.

**(u) *New Accounting Pronouncements***

In June 2009, the FASB issued guidance that eliminates the hierarchy of authoritative accounting and reporting guidance on nongovernmental generally accepted accounting principles (GAAP) and replaces it with a single authoritative source, the FASB Accounting Standards Codification (ASC). The ASC affects the way in which users refer to GAAP and perform accounting research, but does not change GAAP. This guidance is effective for reporting periods ending after September 15, 2009. The Corporation adopted the provisions of this guidance as of September 30, 2009. The adoption did not have an impact on the Corporation's financial position or results of operations.

In December 2008, the FASB issued guidance related to *Employers' Disclosures about Postretirement Benefit Plan Assets*, which amended previously issued guidance. The purpose of the guidance is to enhance disclosures and provide users with information regarding the types of assets and associated risks in an employer's defined benefit pension or other postretirement plan and events in the economy and markets that could have a significant effect on the value of plan assets. The disclosures about plan assets required shall be provided for fiscal years ending after December 15, 2009. The Corporation adopted this disclosure requirement for the year ended June 30, 2010.

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

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

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

(v) ***Use of Estimates***

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

(w) ***Reclassifications***

Certain amounts for 2009 have been reclassified to conform to the presentation for 2010.

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

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

|  | <b>2010</b> | <b>2009</b> |
|--|-------------|-------------|
| Debt service and reserve funds   | \$ 74,160   | 54,447      |
| Construction funds – held by trustee   | 123,877     | 57,868      |
| Board designated funds   | 86,666      | 90,259      |
| Construction funds – held by the Corporation   | 80,212      | 33,384      |
| Self-insurance trust funds   | 84,920      | 52,862      |
| Funds restricted by donors   | 41,073      | 47,047      |
| Economic and beneficial interests in the net assets of related organizations (note 12) | 38,439      | 53,340      |
| Total assets limited as to use   | 529,347     | 389,207     |
| Less amounts available for current liabilities   | (39,228)    | (32,305)    |
| Total assets limited as to use, less current portion                                   | \$ 490,119  | 356,902     |

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

|                                       | <u>Debt service<br/>and reserve<br/>funds</u> | <u>Construction<br/>funds</u> | <u>Board<br/>designated<br/>funds</u> | <u>Self-insurance<br/>trust funds</u> | <u>Funds<br/>restricted<br/>by donors</u> | <u>Economic<br/>and beneficial<br/>interests</u> | <u>Total</u>   |
|---------------------------------------|---|-------------------------------|---------------------------------------|---------------------------------------|---|--|----------------|
| Cash and cash equivalents             | \$ 29,357                                     | 42,029                        | 7,328                                 | 305                                   | 10,000                                    | —  | 89,019         |
| Corporate bonds                       | —   | 5,196                         | 18,118                                | —                                     | 8,299                                     | —  | 31,613         |
| Collateralized corporate obligations  | —   | 2,459                         | 1,840                                 | —                                     | 31  | —  | 4,330          |
| U.S. government and agency securities | 44,803  | 127,937                       | 3,038                                 | —                                     | 197                                       | —  | 175,975        |
| Common stocks                         | —   | 13,674                        | 26,738                                | —                                     | 15,143                                    | —  | 55,555         |
| Alternative investments               | —   | 12,794                        | 29,604                                | —                                     | 7,403                                     | —  | 49,801         |
| Assets held by other organizations    | —   | —                             | —                                     | 84,615                                | —   | 38,439   | 123,054        |
| Total assets limited as to use        | <u>\$ 74,160</u>                              | <u>204,089</u>                | <u>86,666</u>                         | <u>84,920</u>                         | <u>41,073</u>                             | <u>38,439</u>                                    | <u>529,347</u> |

The composition and fair value of assets limited as to use was as follows at June 30, 2009 (in thousands):

|                                       | <u>Debt service<br/>and reserve<br/>funds</u> | <u>Construction<br/>funds</u> | <u>Board<br/>designated<br/>funds</u> | <u>Self-insurance<br/>trust funds</u> | <u>Funds<br/>restricted<br/>by donors</u> | <u>Economic<br/>and beneficial<br/>interests</u> | <u>Total</u>   |
|---------------------------------------|---|-------------------------------|---------------------------------------|---------------------------------------|---|--|----------------|
| Cash and cash equivalents             | \$ 13,824                                     | 91,252                        | 9,568                                 | 305                                   | 18,950                                    | —  | 133,899        |
| Corporate bonds                       | —   | —                             | 9,071                                 | —                                     | 4,112                                     | —  | 13,183         |
| Collateralized corporate obligations  | —   | —                             | 2,243                                 | —                                     | 470                                       | —  | 2,713          |
| U.S. government and agency securities | 40,623  | —                             | 4,897                                 | —                                     | 1,125                                     | —  | 46,645         |
| Common stocks                         | —   | —                             | 26,957                                | —                                     | 12,277                                    | —  | 39,234         |
| Alternative investments               | —   | —                             | 37,523                                | —                                     | 10,113                                    | —  | 47,636         |
| Assets held by other organizations    | —   | —                             | —                                     | 52,557                                | —   | 53,340   | 105,897        |
| Total assets limited as to use        | <u>\$ 54,447</u>                              | <u>91,252</u>                 | <u>90,259</u>                         | <u>52,862</u>                         | <u>47,047</u>                             | <u>53,340</u>                                    | <u>389,207</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.

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The composition and fair value of investments not limited as to use were as follows at June 30 (in thousands):

|                                       | <u>2010</u>       | <u>2009</u>    |
|---------------------------------------|-------------------|----------------|
| Cash and cash equivalents             | \$ 7,705          | 39,686         |
| Corporate bonds                       | 40,418            | 53,806         |
| Collateralized corporate obligations  | 16,130            | 17,895         |
| U.S. government and agency securities | 26,875            | 39,316         |
| Common stocks                         | 97,569            | 25,695         |
| Alternative investments               | 92,411            | 67,388         |
|                                       | <u>\$ 281,108</u> | <u>243,786</u> |

Investments at June 30, 2010 include \$150,000,000 of funds for potential future commitments in accordance with the Affiliation Agreement with Upper Chesapeake Health System as discussed in note 4.

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

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>2010</u>      | <u>2009</u>     |
|---|------------------|-----------------|
| Dividends and interest, net of fees                   | \$ 13,232        | 13,663          |
| Net realized losses                                   | (10,176)         | (45,923)        |
| Change in fair value of other-than trading securities | —                | (13,540)        |
| Change in fair value of trading securities            | 48,879           | (15,158)        |
| Total investment gain (loss)                          | <u>\$ 51,935</u> | <u>(60,958)</u> |

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

|  | <u>2010</u>      | <u>2009</u>     |
|--|------------------|-----------------|
| Nonoperating investment income (loss)  | \$ 136           | (33,782)        |
| Other operating revenue  | 2,733            | 5,381           |
| Change in fair value of other-than-trading securities in restricted net assets   | —                | (1,411)         |
| Change in fair value of other-than-trading securities classified as unrestricted | —                | (12,129)        |
| Change in fair value of investments  | 45,592           | (14,050)        |
| Investment income (loss) on restricted net assets                                | 3,474            | (4,967)         |
| Total investment return  | <u>\$ 51,935</u> | <u>(60,958)</u> |

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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):

|  | <b>2010</b>  | <b>2009</b> |
|--|--------------|-------------|
| Land   | \$ 72,945    | 70,927      |
| Buildings                                      | 955,181      | 886,211     |
| Building and leasehold improvements            | 433,071      | 414,743     |
| Equipment                                      | 916,454      | 809,229     |
| Construction in progress                       | 84,513       | 128,271     |
|  | 2,462,164    | 2,309,381   |
| Less accumulated depreciation and amortization | (1,222,050)  | (1,109,135) |
|  | \$ 1,240,114 | 1,200,246   |

Interest cost capitalized was \$1,501,000 and \$1,815,000 (net of interest income of \$374,000 and \$1,213,000) for the years ended June 30, 2010 and 2009, respectively.

Remaining commitments on construction projects were approximately \$108,253,000 at June 30, 2010.

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 \$117,766,000 and \$116,763,000 for the years ended June 30, 2010 and 2009, respectively.

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**(4) Investments in Joint Ventures**

The Corporation has investments of \$107,851,000 and \$73,165,000 at June 30, 2010 and 2009, respectively, in the following unconsolidated joint ventures:

| <u>Joint venture</u>                                     | <u>Business purpose</u>                             | <u>Percent ownership</u> |               |
|--|---|--------------------------|---------------|
|  |   | <u>FY2010</u>            | <u>FY2009</u> |
| Lithogroup, Inc.   | Lithotripsy provider                                | 25%                      | 25%           |
| Central Maryland Rehabilitation Center, Inc.             | Rehabilitation therapy provider                     | 50                       | 50            |
| Shipley's Imaging Center, LLC                            | Freestanding imaging center                         | 50                       | 50            |
| Maryland Care, Inc.                                      | Managed care organization                           | 25                       | 25            |
| Innovative Health Services, LLC                          | Third-party insurance claims processor              | 50                       | 50            |
| Helen P. Denit Cancer Treatment Center, LLC              | Cancer treatment services                           | 50                       | 50            |
| NAH/Sunrise of Severna Park, LLC                         | Senior living facility                              | 50                       | 50            |
| Terrapin Insurance Company (Terrapin)                    | Healthcare professional liability insurance company | 50                       | 50            |
| Mt. Washington Pediatric Hospital, Inc. (Mt. Washington) | Healthcare services                                 | 50                       | 50            |
| UCHS/UMMS Venture, LLC                                   | Healthcare services                                 | 34                       | 20            |
| Central Maryland Radiation Oncology Center LLC           | Healthcare services                                 | 50                       | —             |

The Corporation recorded equity in net earnings of \$3,514,000 and \$2,178,000 related to these joint ventures for the years ended June 30, 2010 and 2009, respectively.

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

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\$176 million to UCHS/UMMS Venture, LLC for future capital improvements over the next several years, which will increase the Corporation's membership interest in the UCHS/UMMS Venture, LLC to 100%.

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

|   | <b>2010</b>               |                 |                                   |                |                |
|---|---------------------------|-----------------|-----------------------------------|----------------|----------------|
|   | <b>Mt.<br/>Washington</b> | <b>Terrapin</b> | <b>UCHS/UMMS<br/>Venture, LLC</b> | <b>Others</b>  | <b>Total</b>   |
| Current assets                            | \$ 23,148                 | 22,584          | 68,282                            | 118,293        | 232,307        |
| Noncurrent assets                         | 39,705                    | 105,559         | 259,953                           | 68,117         | 473,334        |
| Total assets                              | <u>\$ 62,853</u>          | <u>128,143</u>  | <u>328,235</u>                    | <u>186,410</u> | <u>705,641</u> |
| Current liabilities                       | \$ 9,760                  | 102             | 49,865                            | 106,299        | 166,026        |
| Noncurrent liabilities                    | 8,286                     | 126,091         | 209,777                           | 3,704          | 347,858        |
| Net assets                                | <u>44,807</u>             | <u>1,950</u>    | <u>68,593</u>                     | <u>76,407</u>  | <u>191,757</u> |
| Total liabilities<br>and net assets       | <u>\$ 62,853</u>          | <u>128,143</u>  | <u>328,235</u>                    | <u>186,410</u> | <u>705,641</u> |
| Total operating revenue                   | \$ 48,904                 | 24,942          | 294,636                           | 514,305        | 882,787        |
| Total operating expenses                  | (46,078)                  | (33,643)        | (282,268)                         | (497,900)      | (859,889)      |
| Total nonoperating<br>gains/(losses), net | 2,259                     | 8,701           | (9,574)                           | 278            | 1,664          |
| Other changes in net<br>assets, net       | <u>3,037</u>              | <u>—</u>        | <u>28,609</u>                     | <u>11,906</u>  | <u>43,552</u>  |
| Increase in net<br>assets                 | <u>\$ 8,122</u>           | <u>—</u>        | <u>31,403</u>                     | <u>28,589</u>  | <u>68,114</u>  |



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|   | <b>2009</b>               |                 |                                   |                |                 |
|---|---------------------------|-----------------|-----------------------------------|----------------|-----------------|
|   | <u>Mt.<br/>Washington</u> | <u>Terrapin</u> | <u>UCHS/UMMS<br/>Venture, LLC</u> | <u>Others</u>  | <u>Total</u>    |
| Current assets                            | \$ 19,987                 | 248             | 65,269                            | 92,589         | 178,093         |
| Noncurrent assets                         | 34,599                    | 107,375         | 231,603                           | 43,638         | 417,215         |
| Total assets                              | <u>\$ 54,586</u>          | <u>107,623</u>  | <u>296,872</u>                    | <u>136,227</u> | <u>595,308</u>  |
| Current liabilities                       | \$ 9,127                  | 145             | 52,775                            | 88,184         | 150,231         |
| Noncurrent liabilities                    | 8,774                     | 105,528         | 206,907                           | 225            | 321,434         |
| Net assets                                | <u>36,685</u>             | <u>1,950</u>    | <u>37,190</u>                     | <u>47,818</u>  | <u>123,643</u>  |
| Total liabilities<br>and net assets       | <u>\$ 54,586</u>          | <u>107,623</u>  | <u>296,872</u>                    | <u>136,227</u> | <u>595,308</u>  |
| Total operating revenue                   | \$ 46,613                 | 20,910          | 292,992                           | 429,133        | 789,648         |
| Total operating expenses                  | (44,665)                  | (12,958)        | (289,962)                         | (422,570)      | (770,155)       |
| Total nonoperating<br>gains/(losses), net | (671)                     | 1,136           | 2,329                             | 1,139          | 3,933           |
| Other changes in net<br>assets, net       | <u>(4,712)</u>            | <u>(7,465)</u>  | <u>(1,954)</u>                    | <u>(2,716)</u> | <u>(16,847)</u> |
| Increase (decrease)<br>in net assets      | <u>\$ (3,435)</u>         | <u>1,623</u>    | <u>3,405</u>                      | <u>4,986</u>   | <u>6,579</u>    |

**(5) Leases**

The Corporation rents various equipment and facility space. Rent expense under these operating leases for the years ended June 30, 2010 and 2009 was approximately \$18,165,000 and \$14,929,000, respectively.

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

|            |                  |
|------------|------------------|
| 2011       | \$ 7,668         |
| 2012       | 4,245            |
| 2013       | 3,218            |
| 2014       | 2,832            |
| 2015       | 2,397            |
| Thereafter | <u>3,771</u>     |
|            | <u>\$ 24,131</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, 2013, whereby the lessor may require the

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Corporation to purchase the building for \$37,000,000. As of June 30, 2010 and 2009, amounts of \$34,680,000 and \$34,457,000, respectively, representing obligations under the lease have been recorded in other current liabilities.

As of June 30, 2010, amounts of \$2,447,000 and \$9,430,000 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):

|                               | <b>2010</b> | <b>2009</b> |
|-------------------------------|-------------|-------------|
| Land                          | \$ 3,770    | 3,770       |
| Buildings                     | 29,230      | 29,230      |
| Equipment                     | 14,771      | 5,253       |
|                               | 47,771      | 38,253      |
| Less accumulated amortization | (5,621)     | (5,133)     |
|                               | \$ 42,150   | 33,120      |

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, 2010 (in thousands):

|   |           |
|---|-----------|
| 2011  | \$ 5,777  |
| 2012  | 5,200     |
| 2013  | 10,470    |
| 2014  | 3,345     |
| 2015  | 3,128     |
| Thereafter                                  | 42,903    |
| Total minimum lease payments                | 70,823    |
| Less amounts representing interest          | (24,266)  |
| Present value of net minimum lease payments | \$ 46,557 |

**(6) Lines of Credit**

The Medical Center had unsecured credit lines totaling \$65,000,000 at June 30, 2010 and 2009, available for working capital purposes under bank credit agreements, of which \$63,300,000 and \$23,300,000 was outstanding at June 30, 2010 and 2009, respectively. Interest is charged on the outstanding balance based on 1-month LIBOR plus a percentage spread (rates ranged from 1.15% – 3.25% at June 30, 2010).

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Maryland General maintained an unsecured line of credit arrangement with a bank of \$5,000,000, of which there was no outstanding balance as of June 30, 2010 or 2009. Interest is charged on the outstanding balance at 1-month LIBOR plus 2.20% (2.55% at June 30, 2010).

Baltimore Washington maintained an unsecured line of credit arrangement with a bank of \$5,000,000 at June 30, 2010, and \$10,000,000 at June 30, 2009, of which there was no outstanding balance at June 30, 2010 and \$4,500,000 outstanding at June 30, 2009. Interest is charged on the outstanding balance at 1-month LIBOR plus 1.75% (2.09% at June 30, 2010).

Shore Health maintained a line of credit with a bank of \$5,000,000 at June 30, 2009, of which there was no outstanding balance.

**(7) Long-Term Debt and Other Borrowings**

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

|   | <u>Interest<br/>rate</u> | <u>Payable in<br/>fiscal<br/>year(s)</u> | <u>2010</u> | <u>2009</u> |
|---|--------------------------|--|-------------|-------------|
| MHHEFA project revenue bonds:   |                          |  |             |             |
| Corporation issue, payments due annually on July 1:                   |                          |  |             |             |
| Series 2010 Bonds   | 2.00% – 5.25%            | 2011 – 2040                              | \$ 242,385  | —           |
| Series 2008A-E Bonds  | Variable rate            | 2025 – 2042                              | 280,000     | 280,000     |
| Series 2008F Bonds  | 4.00% – 5.25%            | 2009 – 2024                              | 81,395      | 87,345      |
| Series 2008G/H Bonds  | Variable rate            | 2009 – 2033                              | —           | 76,800      |
| Series 2007A/B Bonds  | Variable rate            | 2008 – 2035                              | 137,420     | 137,520     |
| Series 2006A Bonds  | 4.50% – 5.00%            | 2026 – 2042                              | 45,000      | 45,000      |
| Series 2005 Bonds   | 4.00% – 5.50%            | 2006 – 2032                              | 141,390     | 142,715     |
| Series 2004B Bonds  | 3.20% – 5.00%            | 2005 – 2025                              | 29,565      | 30,930      |
| Series 2002 Bonds   | 5.00%                    | 2004 – 2013                              | 4,085       | 5,375       |
| Series 2001 Bonds   | 4.25% – 5.00%            | 2006 – 2012                              | 2,410       | 3,440       |
| Series 1991B Bonds  | 7.00%                    | 1992 – 2023                              | 27,315      | 27,315      |
| Shore Health issue, payments due annually on July 1:                  |                          |  |             |             |
| Series 2004A Bonds  | Variable rate            | 2007 – 2030                              | —           | 24,335      |
| Series 1999 Bonds   | 5.00%                    | 2000 – 2010                              | —           | 525         |
| Series 1998 Bonds   | 4.15% – 5.25%            | 2000 – 2020                              | 22,955      | 24,195      |
| MHHEFA pooled loan program:   |                          |  |             |             |
| Chester River Issue, payments due semi-annually on July and January 1 |                          |  |             |             |
| Commercial paper series   | Variable rate            | 1990 – 2013                              | 865         | 1,095       |

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|  | <b>Interest<br/>rate</b> | <b>Payable in<br/>fiscal<br/>year(s)</b> | <b>2010</b> | <b>2009</b> |
|--|--------------------------|--|-------------|-------------|
| MHHEFA variable rate demand bonds:                                       |                          |  |             |             |
| Chester River Issue, payments due<br>semi-annually on July and January 1 |                          |  |             |             |
| MHHEFA D   | Variable rate            | 2004 – 2024                              | \$ 2,395    | 2,695       |
| MHHEFA master lease and sublease   | 4.40%                    | 2006 – 2013                              | 1,765       | 2,332       |
| Other long-term debt:  |                          |  |             |             |
| North Arundel Senior Living,<br>LLC Mortgage                             | Variable rate            | Monthly,<br>2014                         | 11,167      | 11,409      |
| Term loans   | Variable rate            | 2010 – 2013                              | 26,644      | 43,500      |
| Other loans and notes payable  | 5.00% – 7.00%            | Monthly,<br>1991 – 2023                  | 4,990       | 5,159       |
|  |                          |  | 1,061,746   | 951,685     |
| Less current portion of long-term debt                                   |                          |  | 36,442      | 19,879      |
| Less long-term debt subject to short-term remarketing agreements         |                          |  | 70,069      | 71,099      |
|  |                          |  | 955,235     | 860,707     |
| Plus unamortized premiums and discounts, net                             |                          |  | 4,008       | 5,449       |
|  |                          |  | \$ 959,243  | 866,156     |

Pursuant to a Master Loan Agreement dated June 20, 1991 (Master Loan Agreement), as amended, the Corporation and several of its subsidiaries have issued debt through MHHEFA. As security for the performance of the bond obligation under the Master Loan Agreement, the Authority maintains a security interest in the revenue of the obligors. The Master Loan Agreement contains certain restrictive covenants. These covenants require that rates and charges be set at certain levels, limit incurrence of additional debt, require compliance with certain operating ratios and restrict the disposition of assets.

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

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

In January 2010, the Corporation refunded \$95,905,000 of the Series 2008G, 2008H, and Shore Health issue Series 2004A bonds. The refunding was completed using the proceeds of a new \$242,385,000 fixed-rate MHHEFA bond issue (the Series 2010 Bonds). The unamortized portion of issuance costs on the

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refunded debt of \$816,000 was expensed as a loss on early extinguishment of debt during the year ended June 30, 2010.

In July 2008, the Corporation refunded certain bonds using the proceeds of a new \$87,345,000 MHHEFA bond issue (the Series 2008F Bonds). The unamortized portion of issuance costs on the refunded debt of \$1,388,000 was expensed as a loss on early extinguishment of debt during the year ended June 30, 2009.

In July 2008, the Corporation refunded certain bonds using the proceeds of a new \$76,800,000 borrowing under a MHHEFA bond issue (the Series 2008G/H Bonds). As previously discussed, the Series 2008G/H Bonds were refunded in 2010.

The payment of principal and interest on the Series 2005 Bonds and the Series 2004B Bonds is insured by the Ambac Assurance Corporation under a financial guaranty insurance policy. This policy insures the payment of principal, sinking fund installments and interest on the corresponding bonds. Premiums related to the policy as well as other costs incurred relating to the bond issuances were capitalized and are being amortized over the life of the bonds. The insurance policy requires the Obligated Group to adhere to the same covenants as those in the Master Loan Agreement.

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

|            |    |           |
|------------|----|-----------|
| 2011       | \$ | 36,442    |
| 2012       |    | 29,095    |
| 2013       |    | 26,553    |
| 2014       |    | 32,726    |
| 2015       |    | 23,267    |
| Thereafter |    | 913,663   |
|            | \$ | 1,061,746 |

The Corporation's Series 2007A/B and 2008A-E are variable rate demand bonds requiring remarketing agents to purchase and remarket any bonds tendered before the stated maturity date. The reimbursement obligations with respect to the letters of credit are evidenced and secured by the respective bonds. To provide liquidity support for the timely payment of any bonds that are not successfully remarketed, the Corporation has entered into letter of credit agreements with six banking institutions. These agreements have terms that expire in 2011 through 2014. If the bonds are not successfully remarketed, the Corporation is required to pay an interest rate specified in the letter of credit agreement, and the principal repayment of bonds may be accelerated to require repayment in periods ranging from 20 to 60 months from the date of the failed remarketing. The Corporation has reflected the amount of its long-term debt that is subject to these short-term remarketing arrangements as a separate component of current liabilities in its consolidated balance sheets. In the event that bonds are not remarketed, the Corporation maintains available lines of credit and has the ability to access other sources to obtain the necessary liquidity to comply with accelerated repayment terms. All variable rate demand bonds were successfully remarketed as of June 30, 2010.

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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:

|            |  |    |           |
|------------|--|----|-----------|
| 2011       |  | \$ | 106,511   |
| 2012       |  |    | 195,741   |
| 2013       |  |    | 171,771   |
| 2014       |  |    | 68,113    |
| 2015       |  |    | 23,267    |
| Thereafter |  |    | 496,343   |
|            |  |    | 1,061,746 |
|            |  | \$ | 1,061,746 |

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

|   | 2010  | 2009  |
|---|-------|-------|
| Series 2008A Bonds                                      | 0.50% | 3.00% |
| Series 2008B Bonds                                      | 0.22  | 0.32  |
| Series 2008C Bonds                                      | 0.26  | 0.30  |
| Series 2008D Bonds                                      | 0.17  | 0.90  |
| Series 2008E Bonds                                      | 0.29  | 2.45  |
| Series 2008G Bonds                                      | —     | 0.32  |
| Series 2008H Bonds                                      | —     | 0.35  |
| Series 2007A Bonds                                      | 0.26  | 0.25  |
| Series 2007B Bonds                                      | 0.28  | 0.30  |
| Series 2004A Bonds, Shore Health Issue                  | —     | 2.50  |
| Pooled Loan Program Series A and D, Chester River Issue | 0.30  | 0.30  |

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

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

The Medical Center had term loans outstanding totaling \$22,238,000 and \$43,500,000 at June 30, 2010 and 2009, respectively. One loan (\$12,000,000) is due in December 2010 and is charged interest at a rate of 1-month LIBOR plus 0.29% (0.64% at June 30, 2010). The other loan (\$10,238,000) is scheduled to be

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repaid commencing in June 2010 with 23 equal monthly installments of \$262,000 and a final installment for the remaining balance. This loan is charged interest monthly at either 1-month LIBOR plus 3.25% or 4.50%, whichever is higher (4.50% at June 30, 2010). Baltimore Washington had a term loan outstanding of \$4,406,000 at June 30, 2010, upon which interest is charged at a rate of 1-month LIBOR plus 2.00% (2.35% at June 30, 2010).

**(8) Interest Rate Risk Management**

The Corporation uses a combination of fixed and variable rate debt to finance capital needs. The Corporation maintains an interest rate risk-management strategy that uses interest rate swaps to minimize significant, unanticipated earnings fluctuations that may arise from volatility in interest rates. At June 30, 2010 and 2009, the notional values of outstanding interest rate swaps were \$609,869,000 and \$610,069,000, respectively. The interest rate swap agreements provide the Corporation synthetically fixed interest rates ranging from 3.6% – 4.0% with termination dates in 2031 through 2041.

Certain swaps representing a total notional amount of \$137,520,000 qualify as, and are designated as, cash flow hedges. Changes in the fair value of these designated swaps that effectively offset the variability of cash flows associated with the variable rate debt obligation initially are excluded from the excess (deficiency) of revenue over expenses and are reported as a change in the fair value of interest rate swap agreements included in the consolidated statement of changes in net assets. These amounts subsequently are reclassified into interest expense as a yield adjustment of the hedged debt obligation in the same period in which the related interest affects the excess (deficiency) of revenues over expenses. An unrealized loss on the designated swaps of \$7,410,000 and \$5,469,000 is recorded in other changes in unrestricted net assets for the years ended June 30, 2010 and 2009, respectively. For the years ended June 30, 2010 and 2009, the Corporation recognized a net gain (loss) of \$461,000 and (\$2,676,000), respectively, representing hedge ineffectiveness on the designated swaps, which is included in interest expense. The accumulated loss on changes in the fair value of designated swaps that is included in unrestricted net assets was \$25,479,000 and \$18,071,000 at June 30, 2010 and 2009.

Beginning in March 2008, previously designated cash flow hedging relationships were de-designated for accounting purposes. Accordingly, all changes in the fair value of the de-designated swaps since that date have been recognized in nonoperating gains (losses) in the accompanying consolidated statements of operations. The de-designated swaps represent a total notional amount of \$350,000,000 as of June 30, 2010 and 2009. The Corporation recorded a net nonoperating loss on de-designated interest rate swaps of \$33,700,000 and \$32,081,000 for the years ended June 30, 2010 and 2009, respectively.

The Corporation has two forward-starting swap agreements representing a total notional amount of \$122,348,500 that take effect between July 1, 2010 and July 1, 2012. The forward-starting swap agreements provide the Corporation with synthetically fixed interest rates of 3.5% – 4.2%.

The Corporation recognizes the fair value of interest rate swaps as a component of assets or liabilities, as appropriate. At June 30, 2010 and 2009, a liability representing the fair value of the Corporation's interest rate swaps, including forward-starting swaps, of \$128,575,000 and \$87,926,000 is included in other long-term liabilities.

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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 \$56,242,000 and \$38,881,000 at June 30, 2010 and 2009, respectively, and is included as a component of other current assets on the Corporation's consolidated balance sheets.

**(9) Other Liabilities**

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

|  | <b>2010</b> | <b>2009</b> |
|--|-------------|-------------|
| Malpractice and other self-insurance liabilities | \$ 53,228   | 47,866      |
| Capital lease obligations                        | 46,557      | 38,417      |
| Accrued pension obligations                      | 43,062      | 40,518      |
| Accrued interest payable                         | 14,793      | 9,719       |
| Other  | 32,112      | 30,760      |
| Total other liabilities                          | 189,752     | 167,280     |
| Less current portion                             | (83,958)    | (76,145)    |
| Other long-term liabilities                      | \$ 105,794  | 91,135      |

**(10) Retirement Plans**

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

**Defined Benefit Plans**

*State of Maryland Retirement Plans* – Defined benefit pension plans sponsored by the State of Maryland in which certain Medical Center and Kernan Hospital employees participate. As required by an agreement with the State of Maryland at the time the Medical Center became an independent not-for-profit organization, the Corporation makes annual contributions to these plans related to certain employees who participate in these plans. The total required contributions and annual installments were determined through actuarial analysis in 1984 and are being funded over a period of 32 years, which was the expected remaining service lives of the employees at that time. These contributions are for the purpose of funding the net periodic pension costs for all remaining employees participating in these plans. These contributions were fixed via agreement and the Corporation does not have any obligation to fund nor does it have the ability to reduce contributions if net periodic pension costs or the minimum funding requirements as defined by the Employee Retirement Income Security Act of 1974 (ERISA) differ from the fixed contribution. The Corporation expenses costs of this plan as related services are rendered by employees. At June 30, 2010 and 2009, the present value of the Corporation's remaining unfunded amounts under this



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agreement was \$6,082,000 and \$7,089,000, respectively. Information as to the funded status of these plans and their relationship to the accumulated benefit obligations as they relate specifically to the Corporation's employees is not available.

*Kernan Pension Plan* – A defined benefit pension plan for Kernan employees who elected in 1996 to not transfer their retirement benefits to a Corporation Retirement Plan. Contributions to this plan were made to satisfy the minimum funding requirements of ERISA. In 1999, Kernan terminated the defined benefit pension plan. In June 2009, Kernan settled all liabilities of the plan by lump sum payments and annuity purchases. At June 30, 2010 and 2009, the Kernan Pension Plan had no further liabilities.

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

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

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

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

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

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

|  | <u>2010</u>       | <u>2009</u>    |
|--|-------------------|----------------|
| Change in projected benefit obligations:       |                   |                |
| Benefit obligations at beginning of year       | \$ 110,855        | 108,331        |
| Plan amendment                                 | —                 | (389)          |
| Settlements                                    | —                 | (2,713)        |
| Service cost                                   | 2,176             | 1,977          |
| Interest cost                                  | 6,433             | 6,297          |
| Actuarial loss                                 | 10,351            | 1,877          |
| Benefit payments                               | (4,297)           | (4,525)        |
| Projected benefit obligations at end of year   | <u>\$ 125,518</u> | <u>110,855</u> |
| Change in plan assets:                         |                   |                |
| Fair value of plan assets at beginning of year | \$ 70,337         | 85,515         |
| Actual return on plan assets                   | 8,580             | (18,802)       |
| Settlements                                    | —                 | (2,713)        |
| Employer contributions                         | 7,836             | 10,862         |
| Benefit payments                               | (4,297)           | (4,525)        |
| Fair value of plan assets at end of year       | <u>\$ 82,456</u>  | <u>70,337</u>  |

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

|  | <u>2010</u>        | <u>2009</u>     |
|--|--------------------|-----------------|
| Funded status, end of period:  |                    |                 |
| Fair value of plan assets  | \$ 82,456          | 70,337          |
| Projected benefit obligations  | <u>125,518</u>     | <u>110,855</u>  |
|  | <u>\$ (43,062)</u> | <u>(40,518)</u> |
| Amounts recognized in the consolidated balance sheets,<br>end of period: |                    |                 |
| Other long-term liabilities  | <u>\$ (43,062)</u> | <u>(40,518)</u> |
| Amounts recognized in unrestricted net assets at June 30:                |                    |                 |
| Net actuarial loss   | \$ (61,832)        | (56,982)        |
| Prior service cost   | (619)              | (703)           |
|  | <u>\$ (62,451)</u> | <u>(57,685)</u> |

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The estimated amounts that will be amortized from unrestricted net assets into net periodic pension cost in fiscal 2011 are as follows:

|                    |    |         |
|--------------------|----|---------|
| Net actuarial loss | \$ | (5,319) |
| Prior service cost |    | (88)    |
|                    |    | (5,407) |
|                    | \$ | (5,407) |

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

|                                |    | <b>2010</b> | <b>2009</b> |
|--------------------------------|----|-------------|-------------|
| Service cost                   | \$ | 2,176       | 1,977       |
| Interest cost                  |    | 6,433       | 6,297       |
| Expected return on plan assets |    | (6,242)     | (7,088)     |
| Prior service cost recognized  |    | 85          | 85          |
| Recognized gains or losses     |    | 3,158       | 1,521       |
|                                |    | 5,610       | 2,792       |
| Net periodic pension cost      | \$ | 5,610       | 2,792       |

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

|   |  | <b>2010</b> | <b>2009</b> |
|---|--|-------------|-------------|
| Discount rate                                       |  | 5.00%       | 6.00%       |
| Rate of compensation increase (for non-frozen plan) |  | 5.00%       | 6.00%       |

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

|  |  | <b>2010</b>   | <b>2009</b>   |
|--|--|---------------|---------------|
| Discount rate                                      |  | 6.00%         | 4.52% – 6.00% |
| Expected long-term return on plan assets           |  | 7.75% – 8.00% | 3.25% – 8.00% |
| Rate of compensation increase (for nonfrozen plan) |  | 5.00%         | 5.00%         |

The investment policies of the Corporation's pension plans incorporate asset allocation and investment strategies designed to earn superior returns on plan assets consistent with reasonable and prudent levels of risk. Investments are diversified across classes, sectors, and manager style to minimize the risk of loss. The Corporation uses investment managers specializing in each asset category, and regularly monitors performance and compliance with investment guidelines. In developing the expected long-term rate of return on assets assumption, the Corporation considered the current level of expected returns on risk-free investments, the historical level of the risk premium 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

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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, 2010 and 2009, by asset category, are as follows:

| <u>Asset category</u>     | <u>Target<br/>allocation</u> | <u>Percentage of plan assets as of<br/>June 30</u> |             |
|---------------------------|------------------------------|--|-------------|
|                           |                              | <u>2010</u>  | <u>2009</u> |
| Cash and cash equivalents | 3% – 5%                      | 22%  | 20%         |
| Fixed income securities   | 15% – 30%                    | 14   | 23          |
| Equity securities         | 60% – 70%                    | 64   | 57          |
|                           |                              | <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, 2010 and 2009, the Corporation was in the process of implementing changes to its investment classification, which required the liquidation of certain assets, resulting in more cash on hand than targeted. This cash was used to purchase additional securities in subsequent periods in order to restore compliance with the target allocation.

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

|                             | <u>Level 1</u>   | <u>Level 2</u> | <u>Level 3</u> | <u>Total</u>  |
|-----------------------------|------------------|----------------|----------------|---------------|
| Cash and cash equivalents   | \$ 5,850         | 11,978         | —              | 17,828        |
| Corporate obligations       | 10,349           | —              | —              | 10,349        |
| Common and preferred stocks | 33,253           | —              | —              | 33,253        |
| Equity mutual funds         | —                | —              | 5,915          | 5,915         |
| Hedge funds                 | —                | —              | 15,111         | 15,111        |
|                             | <u>\$ 49,452</u> | <u>11,978</u>  | <u>21,026</u>  | <u>82,456</u> |

Changes to Level 1 and Level 2 inputs between June 30, 2009 and June 30, 2010 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>Equity<br/>mutual funds</u> | <u>Hedge<br/>funds</u> | <u>Total</u>  |
|-----------------------------|--------------------------------|------------------------|---------------|
| Balance as of June 30, 2009 | \$ 5,546                       | 21,333                 | 26,879        |
| Withdrawals/sales           | —                              | (7,086)                | (7,086)       |
| Net change in value         | <u>369</u>                     | <u>864</u>             | <u>1,233</u>  |
| Balance as of June 30, 2010 | <u>\$ 5,915</u>                | <u>15,111</u>          | <u>21,026</u> |

The Corporation expects to contribute \$10,303,000 to its defined benefit pension plans for the fiscal year ending June 30, 2011.

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):

|             |          |
|-------------|----------|
| 2011        | \$ 3,881 |
| 2012        | 4,523    |
| 2013        | 5,563    |
| 2014        | 5,171    |
| 2015        | 6,497    |
| 2016 – 2019 | 38,369   |

The expected benefits to be paid are based on the same assumptions used to measure the Corporation's benefit obligation at June 30, 2010.

**Defined Contribution Plans**

*Corporation Pension Plan* – A noncontributory defined contribution plan for all eligible Corporation employees not participating in the State of Maryland Retirement Plans, the Kernan plans, the University Specialty Retirement Plan or the Maryland General plans described below. Contributions to this plan by the Corporation are determined as a fixed percentage of total employees' base compensation.

*Corporation Salary Reduction 403(b) Plan* – A contributory benefit plan covering substantially all employees not participating in the State of Maryland Retirement Plans, the Kernan Plan, the University Specialty Retirement Plan or the Maryland General plans described below. Employees are immediately eligible for elective deferrals of compensation as contributions to the plan.

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

*University Specialty Retirement Plan* – A defined contribution plan for substantially all full-time employees of University Specialty. Employer contributions are made at the discretion of University

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Specialty's board of directors. Employees may also make optional contributions within limits specified by the plan agreement.

*Maryland General Money Purchase Pension Plan for Union Employees* – Noncontributory defined contribution plan for substantially all union employees of Maryland General. Contributions to this plan are determined based on years of service and hours worked.

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

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

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

Total annual retirement costs incurred by the Corporation for the previously discussed defined contribution plans and the State of Maryland Retirement Plans were \$22,051,000 and \$24,930,000 for the years ended June 30, 2010 and 2009, respectively. Such amounts are included in salaries, wages and benefits in the accompanying consolidated statements of operations.

**(11) Temporarily and Permanently Restricted Net Assets**

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

|   | <b>2010</b> | <b>2009</b> |
|---|-------------|-------------|
| Research, professional education, faculty support, and other                    | \$ 17,745   | 22,864      |
| Economic and beneficial interests in the net assets of<br>related organizations | 38,439      | 53,340      |
|   | \$ 56,184   | 76,204      |

Net assets were released from donor restrictions during the years ended June 30, 2010 and 2009 by expending funds satisfying the restricted purposes or by occurrence of other events specified by donors as follows (in thousands):

|  | <b>2010</b> | <b>2009</b> |
|--|-------------|-------------|
| Purchases of equipment and construction costs                                      | \$ 32,612   | 21,470      |
| Research, professional education, faculty support,<br>uncompensated care and other | 5,890       | 2,540       |
|  | \$ 38,502   | 24,010      |

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Included in net assets released from donor restrictions during the year ended June 30, 2010 for research, professional education, faculty support, uncompensated care and other is \$5,599,000 related to nonoperating activities of the Foundation.

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

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.

***Interpretation of Relevant Law***

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

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

Endowment net assets are as follows (in thousands):

|                                  | <b>June 30, 2010</b>              |                                   |              |
|----------------------------------|-----------------------------------|-----------------------------------|--------------|
| <b>Unrestricted</b>              | <b>Temporarily<br/>restricted</b> | <b>Permanently<br/>restricted</b> | <b>Total</b> |
| Donor-restricted endowment funds | \$ —                              | 4,930                             | 31,247       |
|                                  | —                                 | 4,930                             | 36,177       |

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|                                  | <b>June 30, 2009</b> |                                   |                                   |              |
|----------------------------------|----------------------|-----------------------------------|-----------------------------------|--------------|
|                                  | <b>Unrestricted</b>  | <b>Temporarily<br/>restricted</b> | <b>Permanently<br/>restricted</b> | <b>Total</b> |
| Donor-restricted endowment funds | \$ —                 | 4,248                             | 28,160                            | 32,408       |

***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.

***Investment Strategies***

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

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

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

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

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



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

|  | <b>2010</b> | <b>2009</b> |
|--|-------------|-------------|
| Economic interests in:   |             |             |
| The James Lawrence Kernan Hospital Endowment Fund,<br>Incorporated                       | \$ 27,522   | 24,195      |
| Baltimore Washington Medical Center Foundation, Inc.                                     | 5,895       | 6,984       |
| Maryland General Community Health Foundation, Inc.                                       | 2,672       | 20,175      |
| Total economic interests   | 36,089      | 51,354      |
| Beneficial interest in the net assets of Dorchester General<br>Hospital Foundation, Inc. | 2,350       | 1,986       |
|  | \$ 38,439   | 53,340      |

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

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

The Maryland General Foundation is governed by a separate, independent board of directors and was originally required to hold the investments and the income derived therefrom to support activities to improve the health and lifestyle of needy citizens of Baltimore. The Maryland General Foundation operates exclusively for the benefit of Maryland General. During the year ended June 30, 2010, Maryland General Foundation contributed approximately \$18,000,000 of funds to support a capital project at Maryland General, which is included in contributions and net assets released from restrictions used for the purchase of property and equipment in the accompanying consolidated statement of changes in net assets.

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

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

|                                  | <b>2010</b> | <b>2009</b> |
|----------------------------------|-------------|-------------|
| Current assets                   | \$ 3,017    | 1,484       |
| Noncurrent assets                | 37,047      | 52,765      |
| Total assets                     | \$ 40,064   | 54,249      |
| Current liabilities              | \$ 419      | 113         |
| Noncurrent liabilities           | 1,206       | 796         |
| Net assets                       | 38,439      | 53,340      |
| Total liabilities and net assets | \$ 40,064   | 54,249      |
| Total operating revenue          | \$ 286      | (1,568)     |
| Total operating expense          | (220)       | (473)       |
| Other changes in net assets      | (14,967)    | (4,798)     |
| Total decrease in net assets     | \$ (14,901) | (6,839)     |

**(13) State Support**

The Corporation received \$3,200,000 and \$3,634,000 in support for the Shock Trauma Center operations from the State of Maryland in the years ended June 30, 2010 and 2009, 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 \$7,215,000 and \$17,981,000 in the years ended June 30, 2010 and 2009, respectively.

For the year ended June 30, 2010 and 2009, the Corporation received \$750,000 of capital support from the State of Maryland for Kernan.

**(14) Functional Expenses**

The Corporation provides general health care 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):

|                            | <b>2010</b>  | <b>2009</b> |
|----------------------------|--------------|-------------|
| Healthcare services        | \$ 1,839,257 | 1,773,512   |
| General and administrative | 297,266      | 313,105     |
|                            | \$ 2,136,523 | 2,086,617   |

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**(15) Insurance**

The Corporation and its affiliates are self-insured for professional and general liability claims up to the limits of \$1.0 million on individual claims and \$3.0 million in the aggregate on an annual basis. For amounts in excess of these limits, the risk of loss has been transferred to the Terrapin, an unconsolidated joint venture. For the year ended June 30, 2010, Terrapin provided insurance for claims in excess of \$1.0 million individually and \$3.0 million in the aggregate up to \$75.0 million individually and \$75.0 million in the aggregate under claims made policies between the Corporation and Terrapin. For claims in excess of Terrapin's coverage limits, if any, the Corporation retains the risk of loss.

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

Based upon estimates made by independent actuaries, the Corporation provides for and funds the present value of the costs for professional and general liability claims and insurance coverage related to the projected liability from asserted and unasserted incidents which the Corporation believes may ultimately result in a loss, risk management expenses and the projected costs to adjudicate claims. These accrued malpractice losses are discounted using a discount rate of 2.5% and in management's opinion, provide an adequate and appropriate loss reserve.

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

Total malpractice insurance expense for the Corporation during the years ended June 30, 2010 and 2009 was approximately \$30,107,000 and \$36,820,000, respectively.

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

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

**(16) Business and Credit Concentrations**

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

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

|                               | <u>2010</u> | <u>2009</u> |
|-------------------------------|-------------|-------------|
| Medicare                      | 20%         | 21%         |
| Medicaid                      | 37          | 36          |
| Commercial insurance and HMOs | 16          | 17          |
| Blue Cross                    | 12          | 11          |
| Self-pay and others           | 15          | 15          |
|                               | <u>100%</u> | <u>100%</u> |

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

|                               | <u>2010</u> | <u>2009</u> |
|-------------------------------|-------------|-------------|
| Medicare                      | 34%         | 35%         |
| Medicaid                      | 24          | 23          |
| Commercial insurance and HMOs | 17          | 16          |
| Blue Cross                    | 15          | 15          |
| Self-pay and others           | 10          | 11          |
|                               | <u>100%</u> | <u>100%</u> |

**(17) Certain Significant Risks and Uncertainties**

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

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

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

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

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

The health care 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 health care programs. In addition, the federal government and many states have implemented programs to audit and recover potential overpayments to providers from the Medicare and Medicaid programs. The Corporation has implemented a compliance program to monitor conformance with applicable laws and regulations, but the possibility of future government review and enforcement action exists.

As a result of recently enacted and pending federal health care reform legislation, substantial changes are anticipated in the United States health care system. Such legislation includes numerous provisions affecting the delivery of health care services, the financing of health care costs, reimbursement to health care providers and the legal obligations of health insurers, providers and employers. These provisions are currently slated to take effect at specified times over the next decade. This federal health care reform legislation does not affect the consolidated financial statements for the year ended June 30, 2010.

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

Patient service revenue for hospital services is regulated by the HSCRC and recorded at rates established by the HSCRC. The Medical Center, Kernan, Maryland General, Baltimore Washington, Shore Health, and Chester River have Charge Per Case (CPC) agreements with the HSCRC. The CPC agreements establish a prospectively approved average charge per inpatient case (inpatient cases are defined as hospital admissions plus births) and an estimated case mix index. These approved CPC targets are adjusted during the rate year for actual changes in case mix. The CPC agreements allow the hospital to adjust approved unit rates, within certain limits, to achieve the average charge per case targets for each rate year ending June 30.

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, 2010 and 2009, the Corporation recognized a net distribution from the pool of \$47,642,000 and \$38,988,000, respectively, which is recorded as net patient service revenue.

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**(19) Fair Value of Financial Instruments**

The Corporation has implemented the provisions of recent accounting guidance on fair value measurements of financial assets and financial liabilities and for fair value measurements of nonfinancial items that are recognized or disclosed at fair value in the consolidated financial statements on a recurring basis. This guidance established a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted market prices in active markets for identical assets or liabilities (Level 1 measurement) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

- Level 1 inputs are quoted market prices (unadjusted) in active markets for identical assets or liabilities that the Corporation has the ability to access at the measurement date.
- Level 2 inputs are inputs other than quoted market prices including within Level 1 that are observable for the asset or liability, either directly or indirectly. If the asset or liability has a specified (contractual) term, a Level 2 input must be observable for substantially the full term of the asset or liability.
- Level 3 inputs are unobservable inputs for the asset or liability.

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

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

As of June 30, 2010 and 2009, the Level 2 assets and liabilities listed in the fair value hierarchy tables below utilize the following valuation techniques and inputs:

***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.

***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.

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***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.

***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.

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

|   | <u>Level 1</u>    | <u>Level 2</u> | <u>Level 3</u> | <u>Total</u>   |
|---|-------------------|----------------|----------------|----------------|
| Assets:                                 |                   |                |                |                |
| Investments:                            |                   |                |                |                |
| Cash and cash equivalents               | \$ 7,705          | —              | —              | 7,705          |
| Corporate bonds                         | 16,260            | 24,158         | —              | 40,418         |
| Collateralized corporate obligations    | —                 | 16,130         | —              | 16,130         |
| U.S. government and agency securities   | 13,924            | 12,951         | —              | 26,875         |
| Common and preferred stocks             | 97,569            | —              | —              | 97,569         |
|   | <u>135,458</u>    | <u>53,239</u>  | <u>—</u>       | <u>188,697</u> |
| Assets limited as to use:               |                   |                |                |                |
| Cash and cash equivalents               | 89,019            | —              | —              | 89,019         |
| Corporate bonds                         | 12,718            | 18,895         | —              | 31,613         |
| Collateralized corporate obligations    | —                 | 4,330          | —              | 4,330          |
| U.S. government and agency securities   | 91,171            | 84,804         | —              | 175,975        |
| Common and preferred stocks             | 55,555            | —              | —              | 55,555         |
| Investments held by other organizations | —                 | 84,615         | —              | 84,615         |
|   | <u>248,463</u>    | <u>192,644</u> | <u>—</u>       | <u>441,107</u> |
|   | <u>\$ 383,921</u> | <u>245,883</u> | <u>—</u>       | <u>629,804</u> |
| Liabilities:                            |                   |                |                |                |
| Interest rate swap liabilities          | <u>\$ —</u>       | <u>128,575</u> | <u>—</u>       | <u>128,575</u> |

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The following table presents assets and liabilities that are measured at fair value on a recurring basis at June 30, 2009 (in thousands):

|   | <u>Level 1</u>    | <u>Level 2</u> | <u>Level 3</u> | <u>Total</u>   |
|---|-------------------|----------------|----------------|----------------|
| Assets:                                 |                   |                |                |                |
| Investments:                            |                   |                |                |                |
| Cash and cash equivalents               | \$ 39,686         | —              | —              | 39,686         |
| Corporate bonds                         | 26,442            | 27,364         | —              | 53,806         |
| Collateralized corporate obligations    | —                 | 17,895         | —              | 17,895         |
| U.S. government and agency securities   | 10,537            | 28,779         | —              | 39,316         |
| Common and preferred stocks             | 25,695            | —              | —              | 25,695         |
|   | <u>102,360</u>    | <u>74,038</u>  | <u>—</u>       | <u>176,398</u> |
| Assets limited as to use:               |                   |                |                |                |
| Cash and cash equivalents               | 133,899           | —              | —              | 133,899        |
| Corporate obligations                   | 5,897             | 7,286          | —              | 13,183         |
| Collateralized corporate obligations    | —                 | 2,713          | —              | 2,713          |
| U.S. government and agency securities   | 12,501            | 34,144         | —              | 46,645         |
| Common and preferred stocks             | 39,234            | —              | —              | 39,234         |
| Investments held by other organizations | —                 | 52,557         | —              | 52,557         |
|   | <u>191,531</u>    | <u>96,700</u>  | <u>—</u>       | <u>288,231</u> |
|   | <u>\$ 293,891</u> | <u>170,738</u> | <u>—</u>       | <u>464,629</u> |
| Liabilities:                            |                   |                |                |                |
| Interest rate swap liabilities          | \$ —              | 87,926         | —              | 87,926         |

Changes to Level 1 and Level 2 inputs between June 30, 2009 and June 30, 2010 were the result of strategic investments and reinvestments, interest income earnings, and changes in the fair value of investments.

**(20) Related Party Agreements**

The Corporation has certain agreements with various departments of the University of Maryland School of Medicine concerning the provision of professional and administrative services to the Corporation and its patients. Total expense under these agreements in the years ended June 30, 2010 and 2009 was approximately \$98,144,000 and \$89,217,000, respectively.



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

Notes to Consolidated Financial Statements

June 30, 2010 and 2009

**(21) Subsequent Events**

Management evaluated all events and transactions that occurred after June 30, 2010 and through October 28, 2010. Other than as described below, the Corporation did not have any material recognizable subsequent events during this period.

In accordance with the Affiliation Agreement described in note 4, the Corporation paid an additional \$26,750,000 to UCHS/UMMS Venture, LLC for an additional 15% interest in the UCHS/UMMS Venture, LLC on October 1, 2010. This payment increased the Corporation's membership interest of the UCHS/UMMS Venture, LLC to 49%.

In July 2010, the Corporation purchased an 80% interest in a limited-liability real estate trust for approximately \$13,200,000. UCHS purchased the remaining 20% interest. The trust was established for the sole purpose of holding a parcel of land for future development.

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

Consolidating Balance Sheet Information by Division

June 30, 2010

(In thousands)

| Assets  | University of<br>Maryland<br>Medical<br>Center | University<br>CARE | Kernan  | University<br>Specialty | Maryland<br>General | Baltimore<br>Washington | Shore<br>Health | Chester<br>River | UMMS<br>Foundation | Shipley's | 36 South<br>Paca | Eliminations | Consolidated<br>Total |
|---|--|--------------------|---------|-------------------------|---------------------|-------------------------|-----------------|------------------|--------------------|-----------|------------------|--------------|-----------------------|
| Current assets:   |  |                    |         |                         |                     |                         |                 |                  |                    |           |                  |              |                       |
| Cash and cash equivalents   | \$ 175,378                                     | 124                | 9,161   | 2,219                   | 11,635              | 16,493                  | 17,903          | 5,029            | —                  | 110       | 496              | —            | 238,548               |
| Assets limited as to use, current portion   | 36,570   | —                  | —       | —                       | 986                 | 846                     | 471             | 355              | —                  | —         | —                | —            | 39,228                |
| Accounts receivable:  |  |                    |         |                         |                     |                         |                 |                  |                    |           |                  |              |                       |
| Patient accounts receivable, less allowance<br>for doubtful accounts of \$138,499,000 | 137,783  | 120                | 14,025  | 2,733                   | 18,291              | 40,544                  | 26,728          | 8,903            | —                  | —         | —                | —            | 249,127               |
| Other   | 40,926   | 227                | 1,631   | 193                     | 522                 | 366                     | 2,459           | 512              | —                  | 3,019     | 69               | (25,769)     | 24,155                |
| Inventories   | 17,014   | 39                 | 987     | 556                     | 1,703               | 5,456                   | 3,785           | 690              | —                  | —         | —                | —            | 30,230                |
| Prepaid expenses and other<br>current assets  | 55,070   | —                  | 15      | 17                      | 596                 | 9,000                   | 889             | 594              | 1,500              | —         | —                | —            | 67,681                |
| Total current assets  | 462,741  | 510                | 25,819  | 5,718                   | 33,733              | 72,705                  | 52,235          | 16,083           | 1,500              | 3,129     | 565              | (25,769)     | 648,969               |
| Investments   | 184,626  | —                  | 11,252  | 15,330                  | —                   | 42,121                  | 21,950          | 5,829            | —                  | —         | —                | —            | 281,108               |
| Assets limited as to use, less<br>current portion:                                    |  |                    |         |                         |                     |                         |                 |                  |                    |           |                  |              |                       |
| Debt service funds  | 39,553   | —                  | —       | —                       | —                   | —                       | —               | —                | —                  | —         | —                | —            | 39,553                |
| Construction funds  | 160,185  | —                  | —       | —                       | 8,602               | 28,315                  | 6,987           | —                | —                  | —         | —                | —            | 204,089               |
| Board designated and escrow funds   | —  | —                  | —       | —                       | —                   | —                       | 54,464          | —                | —                  | —         | —                | —            | 86,666                |
| Self-insurance trust funds  | 38,393   | —                  | —       | —                       | 22,738              | 11,529                  | 7,351           | 288              | 27,202             | —         | —                | —            | 80,299                |
| Funds restricted by donor   | —  | —                  | —       | —                       | 958                 | —                       | 18,297          | 1,447            | —                  | —         | —                | —            | 41,073                |
| Economic and beneficial interests in the<br>net assets of related organizations       | 52,158   | —                  | 29,232  | 390                     | 3,242               | 5,895                   | 2,350           | —                | —                  | —         | —                | (54,828)     | 38,439                |
|   | 290,289  | —                  | 29,232  | 390                     | 35,540              | 45,739                  | 89,449          | 6,735            | 47,573             | —         | —                | (54,828)     | 490,119               |
| Property and equipment, net   | 668,500  | —                  | 36,016  | 18,974                  | 95,785              | 259,324                 | 119,996         | 23,395           | 1,800              | 6,394     | 9,930            | —            | 1,240,114             |
| Deferred financing costs, net   | 8,661  | —                  | —       | —                       | —                   | —                       | 361             | —                | —                  | —         | —                | —            | 8,661                 |
| Investments in joint ventures and other assets  | 146,393  | —                  | —       | —                       | 13,350              | 6,967                   | —               | 2,506            | 4,057              | —         | 3,277            | (60,731)     | 116,180               |
| Total assets  | \$ 1,761,210                                   | 510                | 102,319 | 40,412                  | 178,408             | 426,856                 | 283,991         | 54,548           | 54,930             | 9,523     | 13,772           | (141,328)    | 2,785,151             |

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

Consolidating Balance Sheet Information by Division

June 30, 2010

(In thousands)

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

See accompanying independent auditors' report.

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

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

June 30, 2010

(In thousands)

| Assets   | <b>Maryland<br/>General<br/>Health<br/>Systems, Inc.</b> | <b>Maryland<br/>General<br/>Hospital</b> | <b>Maryland<br/>General<br/>Clin. Prac.<br/>Group</b> | <b>Eliminations</b> | <b>MGHS<br/>Consolidated<br/>Total</b> |
|--|--|--|---|---------------------|--|
| Current assets:  |  |  |   |                     |  |
| Cash and cash equivalents  | \$ 40  | 11,538                                   | 57  | —                   | 11,635                                 |
| Assets limited as to use, current portion  | —  | 986                                      | —   | —                   | 986                                    |
| Accounts receivable:   |  |  |   |                     |  |
| Patient accounts receivable, less allowance for doubtful<br>accounts of \$11,118,000 | —  | 17,485                                   | 806   | —                   | 18,291                                 |
| Other  | 140  | 1,215                                    | (833)   | —                   | 522                                    |
| Inventories  | —  | 1,703                                    | —   | —                   | 1,703                                  |
| Prepaid expenses and other current assets  | —  | 596                                      | —   | —                   | 596                                    |
| Total current assets   | <u>180</u>   | <u>33,523</u>                            | <u>30</u>   | <u>—</u>            | <u>33,733</u>                          |
| Investments  | —  | —  | —   | —                   | —                                      |
| Assets limited as to use, less current portion:                                      |  |  |   |                     |  |
| Debt service funds   | —  | —  | —   | —                   | —                                      |
| Construction funds   | —  | 8,602                                    | —   | —                   | 8,602                                  |
| Board designated and escrow funds  | —  | —  | —   | —                   | —                                      |
| Self-insurance trust funds   | —  | 22,738                                   | —   | —                   | 22,738                                 |
| Funds restricted by donor  | —  | 958                                      | —   | —                   | 958                                    |
| Economic interests in the net assets of related organizations                        | —  | 3,242                                    | —   | —                   | 3,242                                  |
|  | <u>—</u>   | <u>35,540</u>                            | <u>—</u>  | <u>—</u>            | <u>35,540</u>                          |
| Property and equipment, net  | 2,248  | 93,537                                   | —   | —                   | 95,785                                 |
| Deferred financing costs, net  | —  | —  | —   | —                   | —                                      |
| Investments in joint ventures and other assets                                       | 13,187   | 163                                      | —   | —                   | 13,350                                 |
| Total assets   | <u>\$ 15,615</u>   | <u>162,763</u>                           | <u>30</u>   | <u>—</u>            | <u>178,408</u>                         |

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

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

June 30, 2010

(In thousands)

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

See accompanying independent auditors' report.

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

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

June 30, 2010

(In thousands)

| Assets   | Baltimore<br>Washington<br>Medical<br>System, Inc. | Baltimore<br>Washington<br>Medical<br>Center | Baltimore<br>Washington<br>Healthcare<br>Services | Baltimore<br>Washington<br>Health<br>Enterprises | North<br>County<br>Corporation | Eliminations     | BWMS<br>Consolidated<br>Total |
|--|--|--|---|--|--------------------------------|------------------|-------------------------------|
| Current assets:  |  |  |   |  |                                |                  |                               |
| Cash and cash equivalents  | \$ —   | 15,472                                       | 620   | 381  | 20                             | —                | 16,493                        |
| Assets limited as to use, current portion  | —  | 846  | —   | —  | —                              | —                | 846                           |
| Accounts receivable:   |  |  |   |  |                                |                  |                               |
| Patient accounts receivable, less allowance for<br>doubtful accounts of \$10,570,000 | —  | 35,624                                       | 2,969   | 1,951  | —                              | —                | 40,544                        |
| Other  | 28,332   | 366  | 2,359   | —  | (2,043)                        | (28,648)         | 366                           |
| Inventories  | —  | 5,456  | —   | —  | —                              | —                | 5,456                         |
| Prepaid expenses and other current assets  | 98   | 8,775  | —   | 63   | 64                             | —                | 9,000                         |
| Total current assets   | <u>28,430</u>                                      | <u>66,539</u>                                | <u>5,948</u>                                      | <u>2,395</u>                                     | <u>(1,959)</u>                 | <u>(28,648)</u>  | <u>72,705</u>                 |
| Investments  | —  | 42,121                                       | —   | —  | —                              | —                | 42,121                        |
| Assets limited as to use, less current portion:                                      |  |  |   |  |                                |                  |                               |
| Debt service funds   | —  | —  | —   | —  | —                              | —                | —                             |
| Construction funds   | —  | 28,315                                       | —   | —  | —                              | —                | 28,315                        |
| Board designated and escrow funds  | —  | —  | —   | —  | —                              | —                | —                             |
| Self-insurance trust funds   | —  | 11,529                                       | —   | —  | —                              | —                | 11,529                        |
| Funds restricted by donor  | —  | —  | —   | —  | —                              | —                | —                             |
| Economic interests in the net assets of<br>related organizations                     | —  | 5,895  | —   | —  | —                              | —                | 5,895                         |
|  | —  | 45,739                                       | —   | —  | —                              | —                | 45,739                        |
| Property and equipment, net  | —  | 232,965                                      | —   | 12,044   | 14,315                         | —                | 259,324                       |
| Deferred financing costs, net  | —  | —  | —   | —  | —                              | —                | —                             |
| Investments in joint ventures and other assets                                       | 123,137  | 86   | —   | 2,102  | —                              | (118,358)        | 6,967                         |
| Total assets   | <u>\$ 151,567</u>                                  | <u>387,450</u>                               | <u>5,948</u>                                      | <u>16,541</u>                                    | <u>12,356</u>                  | <u>(147,006)</u> | <u>426,856</u>                |

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

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

June 30, 2010

(In thousands)

| <b>Liabilities and Net Assets</b>    | <b>Baltimore<br/>Washington<br/>Medical<br/>System, Inc.</b> | <b>Baltimore<br/>Washington<br/>Medical<br/>Center</b> | <b>Baltimore<br/>Washington<br/>Healthcare<br/>Services</b> | <b>Baltimore<br/>Washington<br/>Health<br/>Enterprises</b> | <b>North<br/>County<br/>Corporation</b> | <b>Eliminations</b> | <b>BWMS<br/>Consolidated<br/>Total</b> |
|--------------------------------------|--|--|---|--|---|---------------------|--|
| Current liabilities:                 |  |  |   |  |   |                     |  |
| Trade accounts payable               | \$ 17  | 13,980   | 985   | 1,004  | 48                                      | —                   | 16,034                                 |
| Accrued payroll and benefits         | 1,140  | 16,723   | 215   | 1,016  | 24                                      | —                   | 19,118                                 |
| Advances from third-party payors     | —  | 6,010  | —   | —  | —                                       | —                   | 6,010                                  |
| Lines of credit                      | —  | —  | —   | —  | —                                       | —                   | —                                      |
| Other current liabilities            | —  | 26,920   | —   | 6,804  | —                                       | (28,648)            | 5,076                                  |
| Current portion of long-term debt    | —  | 3,961  | —   | 258  | 225                                     | —                   | 4,444                                  |
| Total current liabilities            | <u>1,157</u>   | <u>67,594</u>  | <u>1,200</u>  | <u>9,082</u>   | <u>297</u>                              | <u>(28,648)</u>     | <u>50,682</u>                          |
| Long-term debt, less current portion | —  | 191,635  | —   | 10,909   | 4,181                                   | —                   | 206,725                                |
| Other long-term liabilities          | —  | 18,813   | —   | 587  | —                                       | —                   | 19,400                                 |
| Total liabilities                    | <u>1,157</u>   | <u>278,042</u>   | <u>1,200</u>  | <u>20,578</u>  | <u>4,478</u>                            | <u>(28,648)</u>     | <u>276,807</u>                         |
| Net assets:                          |  |  |   |  |   |                     |  |
| Unrestricted                         | 150,410  | 103,513  | 4,748   | (4,037)  | 7,878                                   | (118,358)           | 144,154                                |
| Temporarily restricted               | —  | 5,895  | —   | —  | —                                       | —                   | 5,895                                  |
| Permanently restricted               | —  | —  | —   | —  | —                                       | —                   | —                                      |
| Total net assets                     | <u>150,410</u>   | <u>109,408</u>   | <u>4,748</u>  | <u>(4,037)</u>   | <u>7,878</u>                            | <u>(118,358)</u>    | <u>150,049</u>                         |
| Total liabilities and net assets     | <u>\$ 151,567</u>  | <u>387,450</u>   | <u>5,948</u>  | <u>16,541</u>  | <u>12,356</u>                           | <u>(147,006)</u>    | <u>426,856</u>                         |

See accompanying independent auditors' report.

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

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

June 30, 2010

(In thousands)

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



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

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

June 30, 2010

(In thousands)

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

See accompanying independent auditors' report.

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

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

June 30, 2010

(In thousands)

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

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

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

June 30, 2010

(In thousands)

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

See accompanying independent auditors' report.

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

Consolidating Balance Sheet Information by Division

June 30, 2009

(In thousands)

| Assets  | University of<br>Maryland<br>Medical<br>Center | University<br>CARE | Kernan  | University<br>Specialty | Maryland<br>General | Baltimore<br>Washington | Shore<br>Health | Chester<br>River | UMMS<br>Foundation | Shipley's | 36 South<br>Paca | Eliminations | Consolidated<br>Total |
|---|--|--------------------|---------|-------------------------|---------------------|-------------------------|-----------------|------------------|--------------------|-----------|------------------|--------------|-----------------------|
| Current assets:   |  |                    |         |                         |                     |                         |                 |                  |                    |           |                  |              |                       |
| Cash and cash equivalents   | \$ 133,277                                     | 83                 | 9,629   | 3,141                   | 5,508               | 25,183                  | 20,650          | 8,983            | —                  | 216       | 367              | —            | 207,037               |
| Assets limited as to use, current portion   | 29,842   | —                  | —       | —                       | 986                 | 846                     | 276             | 355              | —                  | —         | —                | —            | 32,305                |
| Accounts receivable:  |  |                    |         |                         |                     |                         |                 |                  |                    |           |                  |              |                       |
| Patient accounts receivable, less allowance<br>for doubtful accounts of \$109,258 | 140,649  | 301                | 15,374  | 2,245                   | 12,428              | 37,364                  | 24,515          | 8,903            | —                  | —         | —                | —            | 241,779               |
| Other   | 34,234   | 258                | 1,383   | 459                     | 527                 | 457                     | 3,248           | —                | —                  | 2,455     | 77               | (19,994)     | 23,104                |
| Inventories   | 18,949   | 39                 | 888     | 554                     | 1,578               | 5,158                   | 3,819           | 568              | —                  | —         | —                | —            | 31,553                |
| Prepaid expenses and other<br>current assets                                      | 34,438   | 42                 | —       | —                       | 390                 | 8,634                   | 755             | 989              | 1,113              | —         | —                | —            | 46,361                |
| Total current assets  | 391,389  | 723                | 27,274  | 6,399                   | 21,417              | 77,642                  | 53,263          | 19,798           | 1,113              | 2,671     | 444              | (19,994)     | 582,139               |
| Investments   | 157,302  | —                  | 10,325  | 13,775                  | —                   | 45,926                  | 10,702          | 5,756            | —                  | —         | —                | —            | 243,786               |
| Assets limited as to use, less<br>current portion:                                |  |                    |         |                         |                     |                         |                 |                  |                    |           |                  |              |                       |
| Debt service funds  | 16,925   | —                  | —       | —                       | 3,676               | 4,759                   | 1,403           | —                | —                  | —         | —                | —            | 26,763                |
| Construction funds  | 56,433   | —                  | —       | —                       | 31,656              | 3,163                   | —               | —                | —                  | —         | —                | —            | 91,252                |
| Board designated and escrow funds   | —  | —                  | —       | —                       | 10,616              | —                       | 54,795          | 3,000            | 21,848             | —         | —                | —            | 90,259                |
| Self-insurance trust funds  | 16,423   | —                  | —       | —                       | 16,755              | 10,566                  | 4,497           | —                | —                  | —         | —                | —            | 48,241                |
| Funds restricted by donor   | —  | —                  | —       | —                       | 6,007               | —                       | 15,957          | 1,267            | 23,816             | —         | —                | —            | 47,047                |
| Economic and beneficial interests in the<br>net assets of related organizations   | 46,307   | —                  | 26,035  | 377                     | 24,197              | 6,984                   | 1,986           | —                | —                  | —         | —                | (52,546)     | 53,340                |
|   | 136,088  | —                  | 26,035  | 377                     | 92,907              | 25,472                  | 78,638          | 4,267            | 45,664             | —         | —                | (52,546)     | 356,902               |
| Property and equipment, net   | 651,953  | —                  | 37,491  | 20,296                  | 81,406              | 258,732                 | 111,655         | 22,387           | —                  | 6,539     | 9,787            | —            | 1,200,246             |
| Deferred financing costs, net   | 8,686  | —                  | —       | —                       | —                   | —                       | —               | 47               | —                  | —         | —                | —            | 8,733                 |
| Investments in joint ventures and other assets                                    | 114,448  | —                  | —       | —                       | 9,998               | 7,362                   | 379             | 2,476            | 6,165              | —         | 3,277            | (59,890)     | 84,215                |
| Total assets  | \$ 1,459,866                                   | 723                | 101,125 | 40,847                  | 205,728             | 415,134                 | 254,637         | 54,731           | 52,942             | 9,210     | 13,508           | (132,430)    | 2,476,021             |

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

Consolidating Balance Sheet Information by Division

June 30, 2009

(In thousands)

| Liabilities and Net Assets                                       | University of<br>Maryland<br>Medical<br>Center | University<br>CARE | Kernan  | University<br>Specialty | Maryland<br>General | Baltimore<br>Washington | Shore<br>Health | Chester<br>River | UMMS<br>Foundation | Shipley's | 36 South<br>Paca | Eliminations | Consolidated<br>Total |
|--|--|--------------------|---------|-------------------------|---------------------|-------------------------|-----------------|------------------|--------------------|-----------|------------------|--------------|-----------------------|
| Current liabilities:   |  |                    |         |                         |                     |                         |                 |                  |                    |           |                  |              |                       |
| Trade accounts payable   | \$ 85,923                                      | 570                | 5,550   | 3,663                   | 9,447               | 21,815                  | 8,988           | 2,432            | 8                  | 95        | 204              | —            | 138,695               |
| Accrued payroll and benefits                                     | 56,498   | 89                 | 3,657   | 2,526                   | 10,549              | 18,830                  | 12,796          | 3,794            | —                  | —         | —                | —            | 108,739               |
| Advances from third-party payors                                 | 60,840   | —                  | 2,500   | 4,298                   | 5,197               | 6,427                   | 4,412           | 854              | —                  | —         | —                | —            | 84,528                |
| Lines of credit  | 23,300   | —                  | —       | —                       | —                   | 4,500                   | —               | —                | —                  | —         | —                | —            | 27,800                |
| Other current liabilities  | 62,081   | 880                | 5,236   | 12,176                  | 6,107               | 3,891                   | 2,705           | 1,538            | —                  | —         | 1,525            | (19,994)     | 76,145                |
| Long-term debt subject to short-term<br>remarketing arrangements | 71,099   | —                  | —       | —                       | —                   | —                       | —               | —                | —                  | —         | —                | —            | 71,099                |
| Current portion of long-term debt                                | 9,642  | —                  | 293     | 300                     | 2,136               | 4,425                   | 1,778           | 1,305            | —                  | —         | —                | —            | 19,879                |
| Total current liabilities  | 369,383  | 1,539              | 17,236  | 22,963                  | 33,436              | 59,888                  | 30,679          | 9,923            | 8                  | 95        | 1,729            | (19,994)     | 526,885               |
| Long-term debt, less current portion                             | 483,175  | —                  | 12,827  | 7,556                   | 82,855              | 193,958                 | 77,469          | 8,316            | —                  | —         | —                | —            | 866,156               |
| Other long-term liabilities                                      | 25,281   | —                  | —       | 519                     | 30,945              | 19,599                  | 4,812           | 9,591            | 388                | —         | —                | —            | 91,135                |
| Interest rate swap liabilities                                   | 87,926   | —                  | —       | —                       | —                   | —                       | —               | —                | —                  | —         | —                | —            | 87,926                |
| Total liabilities  | 965,765  | 1,539              | 30,063  | 31,038                  | 147,236             | 273,445                 | 112,960         | 27,830           | 396                | 95        | 1,729            | (19,994)     | 1,572,102             |
| Net assets:  |  |                    |         |                         |                     |                         |                 |                  |                    |           |                  |              |                       |
| Unrestricted   | 443,939  | (816)              | 44,894  | 9,432                   | 28,286              | 134,705                 | 123,641         | 25,636           | 28,834             | 9,115     | 11,779           | (59,890)     | 799,555               |
| Temporarily restricted   | 49,750   | —                  | 26,168  | 377                     | 30,206              | 6,984                   | 7,193           | (83)             | 8,155              | —         | —                | (52,546)     | 76,204                |
| Permanently restricted   | 412  | —                  | —       | —                       | —                   | —                       | 10,843          | 1,348            | 15,557             | —         | —                | —            | 28,160                |
| Total net assets   | 494,101  | (816)              | 71,062  | 9,809                   | 58,492              | 141,689                 | 141,677         | 26,901           | 52,546             | 9,115     | 11,779           | (112,436)    | 903,919               |
| Total liabilities and net assets                                 | \$ 1,459,866                                   | 723                | 101,125 | 40,847                  | 205,728             | 415,134                 | 254,637         | 54,731           | 52,942             | 9,210     | 13,508           | (132,430)    | 2,476,021             |

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, 2009

(In thousands)

| Assets   | <b>Maryland<br/>General<br/>Health<br/>Systems, Inc.</b> | <b>Maryland<br/>General<br/>Hospital</b> | <b>Maryland<br/>General<br/>Clin. Prac.<br/>Group</b> | <b>Eliminations</b> | <b>MGHS<br/>Consolidated<br/>Total</b> |
|--|--|--|---|---------------------|--|
| Current assets:  |  |  |   |                     |  |
| Cash and cash equivalents  | \$ 119   | 5,375                                    | 14  | —                   | 5,508                                  |
| Assets limited as to use, current portion  | —  | 986                                      | —   | —                   | 986                                    |
| Accounts receivable:   |  |  |   |                     |  |
| Patient accounts receivable, less allowance for doubtful<br>accounts of \$10,703 | —  | 11,729                                   | 699   | —                   | 12,428                                 |
| Other  | 16   | 1,217                                    | (706)   | —                   | 527                                    |
| Inventories  | —  | 1,578                                    | —   | —                   | 1,578                                  |
| Prepaid expenses and other current assets  | —  | 390                                      | —   | —                   | 390                                    |
| Total current assets   | <u>135</u>   | <u>21,275</u>                            | <u>7</u>  | <u>—</u>            | <u>21,417</u>                          |
| Investments  | —  | —  | —   | —                   | —                                      |
| Assets limited as to use, less current portion:                                  |  |  |   |                     |  |
| Debt service funds   | —  | 3,676                                    | —   | —                   | 3,676                                  |
| Construction funds   | —  | 31,656                                   | —   | —                   | 31,656                                 |
| Board designated and escrow funds  | —  | 10,616                                   | —   | —                   | 10,616                                 |
| Self-insurance trust funds   | —  | 16,755                                   | —   | —                   | 16,755                                 |
| Funds restricted by donor  | —  | 6,007                                    | —   | —                   | 6,007                                  |
| Economic interests in the net assets of related organizations                    | —  | 24,197                                   | —   | —                   | 24,197                                 |
|  | <u>—</u>   | <u>92,907</u>                            | <u>—</u>  | <u>—</u>            | <u>92,907</u>                          |
| Property and equipment, net  | 2,681  | 78,725                                   | —   | —                   | 81,406                                 |
| Deferred financing costs, net  | —  | —  | —   | —                   | —                                      |
| Investments in joint ventures and other assets                                   | 9,835  | 163                                      | —   | —                   | 9,998                                  |
| Total assets   | <u>\$ 12,651</u>   | <u>193,070</u>                           | <u>7</u>  | <u>—</u>            | <u>205,728</u>                         |

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

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

June 30, 2009

(In thousands)

| <b>Liabilities and Net Assets</b>    | <b>Maryland<br/>General<br/>Health<br/>Systems, Inc.</b> | <b>Maryland<br/>General<br/>Hospital</b> | <b>Maryland<br/>General<br/>Clin. Prac.<br/>Group</b> | <b>Eliminations</b> | <b>MGHS<br/>Consolidated<br/>Total</b> |
|--------------------------------------|--|--|---|---------------------|--|
| Current liabilities:                 |  |  |   |                     |  |
| Trade accounts payable               | \$ 8   | 9,439                                    | —   | —                   | 9,447                                  |
| Accrued payroll and benefits         | —  | 10,549                                   | —   | —                   | 10,549                                 |
| Advances from third-party payors     | —  | 5,197                                    | —   | —                   | 5,197                                  |
| Lines of credit                      | —  | —  | —   | —                   | —                                      |
| Other current liabilities            | —  | 6,107                                    | —   | —                   | 6,107                                  |
| Current portion of long-term debt    | 133  | 2,003                                    | —   | —                   | 2,136                                  |
| Total current liabilities            | 141  | 33,295                                   | —   | —                   | 33,436                                 |
| Long-term debt, less current portion | 1,599  | 81,256                                   | —   | —                   | 82,855                                 |
| Other long-term liabilities          | 1  | 30,944                                   | —   | —                   | 30,945                                 |
| Total liabilities                    | 1,741  | 145,495                                  | —   | —                   | 147,236                                |
| Net assets:                          |  |  |   |                     |  |
| Unrestricted                         | 10,910   | 17,369                                   | 7   | —                   | 28,286                                 |
| Temporarily restricted               | —  | 30,206                                   | —   | —                   | 30,206                                 |
| Permanently restricted               | —  | —  | —   | —                   | —                                      |
| Total net assets                     | 10,910   | 47,575                                   | 7   | —                   | 58,492                                 |
| Total liabilities and net assets     | \$ 12,651  | 193,070                                  | 7   | —                   | 205,728                                |

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, 2009

(In thousands)

| Assets  | Baltimore<br>Washington<br>Medical<br>System, Inc. | Baltimore<br>Washington<br>Medical<br>Center | Baltimore<br>Washington<br>Healthcare<br>Services | Baltimore<br>Washington<br>Health<br>Enterprises | North<br>County<br>Corporation | Eliminations     | BWMS<br>Consolidated<br>Total |
|---|--|--|---|--|--------------------------------|------------------|-------------------------------|
| Current assets:   |  |  |   |  |                                |                  |                               |
| Cash and cash equivalents   | \$ —   | 24,471                                       | 467   | 212  | 33                             | —                | 25,183                        |
| Assets limited as to use, current portion                                       | —  | 846  | —   | —  | —                              | —                | 846                           |
| Accounts receivable:  |  |  |   |  |                                |                  |                               |
| Patient accounts receivable, less allowance for<br>doubtful accounts of \$8,219 | —  | 33,162                                       | 3,259   | 943  | —                              | —                | 37,364                        |
| Other   | 26,057   | 457  | 1,712   | —  | (2,476)                        | (25,293)         | 457                           |
| Inventories   | —  | 5,158  | —   | —  | —                              | —                | 5,158                         |
| Prepaid expenses and other current assets                                       | —  | 8,447  | —   | 160  | 27                             | —                | 8,634                         |
| Total current assets  | <u>26,057</u>                                      | <u>72,541</u>                                | <u>5,438</u>                                      | <u>1,315</u>                                     | <u>(2,416)</u>                 | <u>(25,293)</u>  | <u>77,642</u>                 |
| Investments   | —  | 45,926                                       | —   | —  | —                              | —                | 45,926                        |
| Assets limited as to use, less current portion:                                 |  |  |   |  |                                |                  |                               |
| Debt service funds  | —  | 4,759  | —   | —  | —                              | —                | 4,759                         |
| Construction funds  | —  | 3,163  | —   | —  | —                              | —                | 3,163                         |
| Board designated and escrow funds   | —  | —  | —   | —  | —                              | —                | —                             |
| Self-insurance trust funds  | —  | 10,566                                       | —   | —  | —                              | —                | 10,566                        |
| Funds restricted by donor   | —  | —  | —   | —  | —                              | —                | —                             |
| Economic interests in the net assets of<br>related organizations                | —  | 6,984  | —   | —  | —                              | —                | 6,984                         |
|   | —  | 25,472                                       | —   | —  | —                              | —                | 25,472                        |
| Property and equipment, net   | —  | 232,006                                      | —   | 12,185   | 14,541                         | —                | 258,732                       |
| Deferred financing costs, net   | —  | —  | —   | —  | —                              | —                | —                             |
| Investments in joint ventures and other assets                                  | 116,860  | 86   | —   | 2,151  | —                              | (111,735)        | 7,362                         |
| Total assets  | <u>\$ 142,917</u>                                  | <u>376,031</u>                               | <u>5,438</u>                                      | <u>15,651</u>                                    | <u>12,125</u>                  | <u>(137,028)</u> | <u>415,134</u>                |



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

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

June 30, 2009

(In thousands)

| <b>Liabilities and Net Assets</b>    | <b>Baltimore<br/>Washington<br/>Medical<br/>System, Inc.</b> | <b>Baltimore<br/>Washington<br/>Medical<br/>Center</b> | <b>Baltimore<br/>Washington<br/>Healthcare<br/>Services</b> | <b>Baltimore<br/>Washington<br/>Health<br/>Enterprises</b> | <b>North<br/>County<br/>Corporation</b> | <b>Eliminations</b> | <b>BWMS<br/>Consolidated<br/>Total</b> |
|--------------------------------------|--|--|---|--|---|---------------------|--|
| Current liabilities:                 |  |  |   |  |   |                     |  |
| Trade accounts payable               | \$ 97  | 19,890   | 717   | 1,039  | 72                                      | —                   | 21,815                                 |
| Accrued payroll and benefits         | 1,064  | 16,329   | 323   | 1,090  | 24                                      | —                   | 18,830                                 |
| Advances from third-party payors     | —  | 6,427  | —   | —  | —                                       | —                   | 6,427                                  |
| Lines of credit                      | —  | —  | —   | —  | 4,500                                   | —                   | 4,500                                  |
| Other current liabilities            | 67   | 26,327   | —   | 2,790  | —                                       | (25,293)            | 3,891                                  |
| Current portion of long-term debt    | —  | 4,183  | —   | 242  | —                                       | —                   | 4,425                                  |
| Total current liabilities            | <u>1,228</u>   | <u>73,156</u>  | <u>1,040</u>  | <u>5,161</u>   | <u>4,596</u>                            | <u>(25,293)</u>     | <u>59,888</u>                          |
| Long-term debt, less current portion | —  | 182,791  | —   | 11,167   | —                                       | —                   | 193,958                                |
| Other long-term liabilities          | —  | 18,818   | —   | 781  | —                                       | —                   | 19,599                                 |
| Total liabilities                    | <u>1,228</u>   | <u>274,765</u>   | <u>1,040</u>  | <u>17,109</u>  | <u>4,596</u>                            | <u>(25,293)</u>     | <u>273,445</u>                         |
| Net assets:                          |  |  |   |  |   |                     |  |
| Unrestricted                         | 141,689  | 94,282   | 4,398   | (1,458)  | 7,529                                   | (111,735)           | 134,705                                |
| Temporarily restricted               | —  | 6,984  | —   | —  | —                                       | —                   | 6,984                                  |
| Permanently restricted               | —  | —  | —   | —  | —                                       | —                   | —                                      |
| Total net assets                     | <u>141,689</u>   | <u>101,266</u>   | <u>4,398</u>  | <u>(1,458)</u>   | <u>7,529</u>                            | <u>(111,735)</u>    | <u>141,689</u>                         |
| Total liabilities and net assets     | <u>\$ 142,917</u>  | <u>376,031</u>   | <u>5,438</u>  | <u>15,651</u>  | <u>12,125</u>                           | <u>(137,028)</u>    | <u>415,134</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, 2009

(In thousands)

| Assets   | Shore Health System, Inc. | Memorial Hospital Foundation, Inc. and Subsidiary | Care Health Services, Inc. | Shore Health Enterprises, Inc. and Subsidiary | Shore Clinical Foundation, Inc. | Chesapeake Ear, Nose, Throat, Sinus, and Hearing Center, LLC | Chesapeake Neurological Surgery, LLC | Eliminations    | SHS Consolidated Total |
|--|---------------------------|---|----------------------------|---|---------------------------------|--|--------------------------------------|-----------------|------------------------|
| Current assets:  |                           |   |                            |   |                                 |  |                                      |                 |                        |
| Cash and cash equivalents  | \$ 19,593                 | —   | 508                        | 15  | 470                             | 56   | 8                                    | —               | 20,650                 |
| Assets limited as to use, current portion                                    | 276                       | —   | —                          | —   | —                               | —  | —                                    | —               | 276                    |
| Accounts receivable:   |                           |   |                            |   |                                 |  |                                      |                 |                        |
| Patient accounts receivable, less allowance for doubtful accounts of \$8,989 | 22,016                    | —   | 1,070                      | —   | 1,260                           | 87   | 82                                   | —               | 24,515                 |
| Other  | 12,886                    | 195   | 2,537                      | —   | 136                             | —  | 345                                  | (12,851)        | 3,248                  |
| Inventories  | 3,819                     | —   | —                          | —   | —                               | —  | —                                    | —               | 3,819                  |
| Prepaid expenses and other current assets                                    | 640                       | 24  | 7                          | —   | 79                              | 4  | 1                                    | —               | 755                    |
| Total current assets   | <u>59,230</u>             | <u>219</u>  | <u>4,122</u>               | <u>15</u>                                     | <u>1,945</u>                    | <u>147</u>   | <u>436</u>                           | <u>(12,851)</u> | <u>53,263</u>          |
| Investments  | 10,702                    | —   | —                          | —   | —                               | —  | —                                    | —               | 10,702                 |
| Assets limited as to use, less current portion:                              |                           |   |                            |   |                                 |  |                                      |                 |                        |
| Debt service funds   | 1,403                     | —   | —                          | —   | —                               | —  | —                                    | —               | 1,403                  |
| Construction funds   | —                         | —   | —                          | —   | —                               | —  | —                                    | —               | —                      |
| Board designated and escrow funds  | 25,037                    | 29,758  | —                          | —   | —                               | —  | —                                    | —               | 54,795                 |
| Self-insurance trust funds   | 4,497                     | —   | —                          | —   | —                               | —  | —                                    | —               | 4,497                  |
| Funds restricted by donor  | 2,410                     | 13,547  | —                          | —   | —                               | —  | —                                    | —               | 15,957                 |
| Economic and beneficial interests in the net assets of related organizations | 37,381                    | —   | —                          | —   | —                               | —  | —                                    | (35,395)        | 1,986                  |
|  | <u>70,728</u>             | <u>43,305</u>                                     | <u>—</u>                   | <u>—</u>                                      | <u>—</u>                        | <u>—</u>   | <u>—</u>                             | <u>(35,395)</u> | <u>78,638</u>          |
| Property and equipment, net  | 105,713                   | 3,972   | 450                        | 737   | 642                             | 105  | 36                                   | —               | 111,655                |
| Deferred financing costs, net  | —                         | —   | —                          | —   | —                               | —  | —                                    | —               | —                      |
| Investments in joint ventures and other assets                               | 8,016                     | 27  | —                          | —   | —                               | —  | —                                    | (7,664)         | 379                    |
| Total assets   | <u>\$ 254,389</u>         | <u>47,523</u>                                     | <u>4,572</u>               | <u>752</u>                                    | <u>2,587</u>                    | <u>252</u>   | <u>472</u>                           | <u>(55,910)</u> | <u>254,637</u>         |

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

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

June 30, 2009

(In thousands)

| <b>Liabilities and Net Assets</b>    | <b>Shore<br/>Health<br/>System, Inc.</b> | <b>Memorial<br/>Hospital<br/>Foundation,<br/>Inc. and<br/>Subsidiary</b> | <b>Care Health<br/>Services, Inc.</b> | <b>Shore Health<br/>Enterprises,<br/>Inc. and<br/>Subsidiary</b> | <b>Shore<br/>Clinical<br/>Foundation,<br/>Inc.</b> | <b>Chesapeake<br/>Ear, Nose,<br/>Throat, Sinus,<br/>and Hearing<br/>Center, LLC</b> | <b>Chesapeake<br/>Neurological<br/>Surgery, LLC</b> | <b>Eliminations</b> | <b>SHS<br/>Consolidated<br/>Total</b> |
|--------------------------------------|--|--|---------------------------------------|--|--|---|---|---------------------|---------------------------------------|
| Current liabilities:                 |  |  |                                       |  |  |   |   |                     |                                       |
| Trade accounts payable               | \$ 8,185                                 | 4  | 84                                    | —  | 338  | 6   | 371   | —                   | 8,988                                 |
| Accrued payroll and benefits         | 11,541                                   | 21   | 379                                   | —  | 763  | 89  | 3   | —                   | 12,796                                |
| Advances from third-party payors     | 4,412                                    | —  | —                                     | —  | —  | —   | —   | —                   | 4,412                                 |
| Lines of credit                      | —  | —  | —                                     | —  | —  | —   | —   | —                   | —                                     |
| Other current liabilities            | 4,580                                    | 6,033  | 29                                    | 1,352  | —  | 1,286   | 2,277   | (12,852)            | 2,705                                 |
| Current portion of long-term debt    | 1,778                                    | —  | —                                     | —  | —  | —   | —   | —                   | 1,778                                 |
| Total current liabilities            | <u>30,496</u>                            | <u>6,058</u>   | <u>492</u>                            | <u>1,352</u>   | <u>1,101</u>                                       | <u>1,381</u>  | <u>2,651</u>  | <u>(12,852)</u>     | <u>30,679</u>                         |
| Long-term debt, less current portion | 77,469                                   | —  | —                                     | —  | —  | —   | —   | —                   | 77,469                                |
| Other long-term liabilities          | 4,747                                    | 26   | —                                     | 2  | 37   | —   | —   | —                   | 4,812                                 |
| Total liabilities                    | <u>112,712</u>                           | <u>6,084</u>   | <u>492</u>                            | <u>1,354</u>   | <u>1,138</u>                                       | <u>1,381</u>  | <u>2,651</u>  | <u>(12,852)</u>     | <u>112,960</u>                        |
| Net assets:                          |  |  |                                       |  |  |   |   |                     |                                       |
| Unrestricted                         | 123,641                                  | 28,350   | 4,080                                 | (602)  | 1,449  | (1,129)   | (2,179)   | (29,969)            | 123,641                               |
| Temporarily restricted               | 7,193                                    | 5,041  | —                                     | —  | —  | —   | —   | (5,041)             | 7,193                                 |
| Permanently restricted               | 10,843                                   | 8,048  | —                                     | —  | —  | —   | —   | (8,048)             | 10,843                                |
| Total net assets                     | <u>141,677</u>                           | <u>41,439</u>  | <u>4,080</u>                          | <u>(602)</u>   | <u>1,449</u>                                       | <u>(1,129)</u>  | <u>(2,179)</u>                                      | <u>(43,058)</u>     | <u>141,677</u>                        |
| Total liabilities and net assets     | <u>\$ 254,389</u>                        | <u>47,523</u>  | <u>4,572</u>                          | <u>752</u>   | <u>2,587</u>                                       | <u>252</u>  | <u>472</u>  | <u>(55,910)</u>     | <u>254,637</u>                        |

See accompanying independent auditors' report.

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

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

June 30, 2009

(In thousands)

| Assets  | Chester<br>River<br>Hospital<br>Center | Chester<br>River<br>Manor | Chester<br>River<br>Home Care<br>and Hospice | Chester<br>River<br>Health<br>Foundation | Eliminations   | CRHS<br>Consolidated<br>Total |
|---|--|---------------------------|--|--|----------------|-------------------------------|
| Current assets:   |  |                           |  |  |                |                               |
| Cash and cash equivalents   | \$ 7,183                               | 632                       | 265  | 903                                      | —              | 8,983                         |
| Assets limited as to use, current portion                                       | 355                                    | —                         | —  | —  | —              | 355                           |
| Accounts receivable:  |  |                           |  |  |                |                               |
| Patient accounts receivable, less allowance for doubtful<br>accounts of \$4,788 | 7,917                                  | 625                       | 361  | —  | —              | 8,903                         |
| Other   | 709                                    | —                         | 24   | —  | (733)          | —                             |
| Inventories   | 564                                    | 4                         | —  | —  | —              | 568                           |
| Prepaid expenses and other current assets                                       | 929                                    | 35                        | 25   | —  | —              | 989                           |
| Total current assets  | <u>17,657</u>                          | <u>1,296</u>              | <u>675</u>                                   | <u>903</u>                               | <u>(733)</u>   | <u>19,798</u>                 |
| Investments   | 4,161                                  | —                         | 1,083  | 512                                      | —              | 5,756                         |
| Assets limited as to use, less current portion:                                 |  |                           |  |  |                |                               |
| Debt service funds  | —                                      | —                         | —  | —  | —              | —                             |
| Construction funds  | —                                      | —                         | —  | —  | —              | —                             |
| Board designated and escrow funds   | 3,000                                  | —                         | —  | —  | —              | 3,000                         |
| Self-insurance trust funds  | —                                      | —                         | —  | —  | —              | —                             |
| Funds restricted by donor   | —                                      | —                         | 73   | 1,194                                    | —              | 1,267                         |
| Economic interests in the net assets of related organizations                   | 4,384                                  | 4                         | 443  | —  | (4,831)        | —                             |
|   | <u>7,384</u>                           | <u>4</u>                  | <u>516</u>                                   | <u>1,194</u>                             | <u>(4,831)</u> | <u>4,267</u>                  |
| Property and equipment, net   | 20,146                                 | 2,028                     | 213  | —  | —              | 22,387                        |
| Deferred financing costs, net   | 47                                     | —                         | —  | —  | —              | 47                            |
| Investments in joint ventures and other assets                                  | —                                      | —                         | —  | 2,476                                    | —              | 2,476                         |
| Total assets  | <u>\$ 49,395</u>                       | <u>3,328</u>              | <u>2,487</u>                                 | <u>5,085</u>                             | <u>(5,564)</u> | <u>54,731</u>                 |

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

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

June 30, 2009

(In thousands)

| <b>Liabilities and Net Assets</b>    | <b>Chester<br/>River<br/>Hospital<br/>Center</b> | <b>Chester<br/>River<br/>Manor</b> | <b>Chester<br/>River<br/>Home Care<br/>and Hospice</b> | <b>Chester<br/>River<br/>Health<br/>Foundation</b> | <b>Eliminations</b> | <b>CRHS<br/>Consolidated<br/>Total</b> |
|--------------------------------------|--|------------------------------------|--|--|---------------------|--|
| Current liabilities:                 |  |                                    |  |  |                     |  |
| Trade accounts payable               | \$ 2,082   | 312                                | 17   | 21   | —                   | 2,432                                  |
| Accrued payroll and benefits         | 3,371  | 291                                | 132  | —  | —                   | 3,794                                  |
| Advances from third-party payors     | 819  | 35                                 | —  | —  | —                   | 854                                    |
| Lines of credit                      | —  | —                                  | —  | —  | —                   | —                                      |
| Other current liabilities            | 1,463  | 553                                | 117  | 138  | (733)               | 1,538                                  |
| Current portion of long-term debt    | 1,275  | 30                                 | —  | —  | —                   | 1,305                                  |
| Total current liabilities            | 9,010  | 1,221                              | 266  | 159  | (733)               | 9,923                                  |
| Long-term debt, less current portion | 7,931  | 385                                | —  | —  | —                   | 8,316                                  |
| Other long-term liabilities          | 9,436  | 60                                 | —  | 95   | —                   | 9,591                                  |
| Total liabilities                    | 26,377   | 1,666                              | 266  | 254  | (733)               | 27,830                                 |
| Net assets:                          |  |                                    |  |  |                     |  |
| Unrestricted                         | 21,825   | 1,662                              | 2,149  | 3,638  | (3,638)             | 25,636                                 |
| Temporarily restricted               | (138)  | —                                  | 55   | (138)  | 138                 | (83)                                   |
| Permanently restricted               | 1,331  | —                                  | 17   | 1,331  | (1,331)             | 1,348                                  |
| Total net assets                     | 23,018   | 1,662                              | 2,221  | 4,831  | (4,831)             | 26,901                                 |
| Total liabilities and net assets     | \$ 49,395  | 3,328                              | 2,487  | 5,085  | (5,564)             | 54,731                                 |

See accompanying independent auditors' report.

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

Consolidating Operations Information by Division

Year ended June 30, 2010

(In thousands)

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

See accompanying independent auditors' report.

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

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

Year ended June 30, 2010

(In thousands)

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

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

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

Year ended June 30, 2010

(In thousands)

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

See accompanying independent auditors' report.



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

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

Year ended June 30, 2010

(In thousands)

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

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

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

Year ended June 30, 2010

(In thousands)

|  | <b>Baltimore<br/>Washington<br/>Medical<br/>System, Inc.</b> | <b>Baltimore<br/>Washington<br/>Medical<br/>Center</b> | <b>Baltimore<br/>Washington<br/>Healthcare<br/>Services</b> | <b>Baltimore<br/>Washington<br/>Health<br/>Enterprises</b> | <b>North<br/>County<br/>Corporation</b> | <b>Eliminations</b> | <b>BWMS<br/>Consolidated<br/>Total</b> |
|--|--|--|---|--|---|---------------------|--|
| Nonoperating income and expenses, net:   |  |  |   |  |   |                     |  |
| Loss on early extinguishment of debt   | \$ —   | —  | —   | —  | —                                       | —                   | —                                      |
| Change in fair value of undesignated interest rate swaps                               | —  | —  | —   | —  | —                                       | —                   | —                                      |
| Other nonoperating gains and losses:   |  |  |   |  |   |                     |  |
| Contributions  | —  | —  | —   | —  | —                                       | —                   | —                                      |
| Equity in net income of joint ventures   | 186  | —  | —   | —  | —                                       | —                   | 186                                    |
| Investment income (loss)   | 8,624  | 292  | —   | (82)   | —                                       | (8,621)             | 213                                    |
| Change in fair value of investments  | —  | 5,862  | —   | —  | —                                       | —                   | 5,862                                  |
| Other nonoperating gains and losses  | —  | (4,556)  | —   | (207)  | —                                       | —                   | (4,763)                                |
| Total other nonoperating gains and losses  | <u>8,810</u>   | <u>1,598</u>   | <u>—</u>  | <u>(289)</u>   | <u>—</u>                                | <u>(8,621)</u>      | <u>1,498</u>                           |
| Excess (deficiency) of revenues over expenses  | 8,810  | 8,593  | 350   | (669)  | 349                                     | (8,621)             | 8,812                                  |
| Net assets released from restrictions used for purchase of property and equipment      | 1,000  | 1,000  | —   | —  | —                                       | (1,000)             | 1,000                                  |
| Change in unrealized gains on investments  | —  | —  | —   | —  | —                                       | —                   | —                                      |
| Change in economic and beneficial interests in the net assets of related organizations | (1,089)  | —  | —   | —  | —                                       | 1,089               | —                                      |
| Change in ownership interest of joint ventures   | —  | —  | —   | —  | —                                       | —                   | —                                      |
| Capital transfers (to) from affiliate  | —  | —  | —   | (1,908)  | —                                       | 1,908               | —                                      |
| Change in fair value of designated interest rate swaps                                 | —  | —  | —   | —  | —                                       | —                   | —                                      |
| Change in funded status of defined benefit pension plans                               | —  | (361)  | —   | —  | —                                       | —                   | (361)                                  |
| Other  | —  | (1)  | —   | (2)  | —                                       | 1                   | (2)                                    |
| Increase (decrease) in unrestricted net assets   | <u>\$ 8,721</u>  | <u>9,231</u>   | <u>350</u>  | <u>(2,579)</u>   | <u>349</u>                              | <u>(6,623)</u>      | <u>9,449</u>                           |

See accompanying independent auditors' report.

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

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

Year ended June 30, 2010

(In thousands)

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

See accompanying independent auditors' report.

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

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

Year ended June 30, 2010

(In thousands)

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

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

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

Year ended June 30, 2010

(In thousands)

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

See accompanying independent auditors' report.

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

Consolidating Operations Information by Division

Year ended June 30, 2009

(In thousands)

|  | University of<br>Maryland<br>Medical<br>Center | University<br>CARE | Kernan  | University<br>Specialty | Maryland<br>General | Baltimore<br>Washington | Shore<br>Health | Chester<br>River | UMMS<br>Foundation | Shipley's | 36 South<br>Paca | Eliminations | Consolidated<br>Total |
|--|--|--------------------|---------|-------------------------|---------------------|-------------------------|-----------------|------------------|--------------------|-----------|------------------|--------------|-----------------------|
| Unrestricted revenues, gains and other support:  |  |                    |         |                         |                     |                         |                 |                  |                    |           |                  |              |                       |
| Net patient service revenue  | \$ 1,095,538                                   | 2,851              | 102,841 | 55,545                  | 187,190             | 318,407                 | 222,345         | 66,393           | —                  | —         | —                | (1,556)      | 2,049,554             |
| Other operating revenue:   |  |                    |         |                         |                     |                         |                 |                  |                    |           |                  |              |                       |
| State support  | 3,361  | —                  | 273     | —                       | —                   | —                       | —               | —                | —                  | —         | —                | —            | 3,634                 |
| Other revenue  | 45,043   | 1,540              | 2,224   | 255                     | 3,123               | 6,911                   | 3,899           | 749              | —                  | 943       | 1,185            | (2,200)      | 63,672                |
| Total unrestricted revenue, gains and other support                                    | 1,143,942                                      | 4,391              | 105,338 | 55,800                  | 190,313             | 325,318                 | 226,244         | 67,142           | —                  | 943       | 1,185            | (3,756)      | 2,116,860             |
| Operating expenses:  |  |                    |         |                         |                     |                         |                 |                  |                    |           |                  |              |                       |
| Salaries, wages and benefits   | 473,970  | 3,156              | 48,128  | 30,881                  | 86,905              | 151,575                 | 115,905         | 36,771           | —                  | —         | 157              | —            | 947,448               |
| Expendable supplies  | 216,086  | 175                | 15,928  | 7,479                   | 16,578              | 56,313                  | 31,569          | 10,416           | —                  | 10        | 66               | —            | 354,620               |
| Purchased services   | 152,812  | 4,314              | 19,144  | 14,908                  | 32,319              | 55,097                  | 39,409          | 11,187           | —                  | 459       | 559              | (4,629)      | 325,579               |
| Contracted services  | 81,583   | —                  | 7,634   | —                       | 21,259              | 6,156                   | 7,657           | 580              | —                  | —         | —                | —            | 124,869               |
| Depreciation and amortization  | 69,927   | —                  | 3,441   | 1,827                   | 8,114               | 18,655                  | 13,182          | 3,259            | —                  | 150       | 231              | —            | 118,786               |
| Interest expense   | 26,678   | —                  | 607     | 908                     | 1,053               | 4,141                   | 2,278           | 490              | —                  | —         | 214              | —            | 36,369                |
| Provision for bad debts  | 98,320   | 344                | 8,245   | 5,587                   | 21,952              | 28,910                  | 11,799          | 3,784            | —                  | —         | 5                | —            | 178,946               |
| Total operating expenses   | 1,119,376                                      | 7,989              | 103,127 | 61,590                  | 188,180             | 320,847                 | 221,799         | 66,487           | —                  | 619       | 1,232            | (4,629)      | 2,086,617             |
| Operating income (loss)  | 24,566   | (3,598)            | 2,211   | (5,790)                 | 2,133               | 4,471                   | 4,445           | 655              | —                  | 324       | (47)             | 873          | 30,243                |
| Nonoperating income and expenses, net:   |  |                    |         |                         |                     |                         |                 |                  |                    |           |                  |              |                       |
| Loss on early extinguishment of debt   | (1,388)  | —                  | —       | —                       | —                   | —                       | —               | —                | —                  | —         | —                | —            | (1,388)               |
| Change in fair value of undesignated interest rate swaps                               | (31,782)                                       | —                  | —       | —                       | (47)                | (159)                   | (93)            | —                | —                  | —         | —                | —            | (32,081)              |
| Other nonoperating gains and losses:   |  |                    |         |                         |                     |                         |                 |                  |                    |           |                  |              |                       |
| Contributions  | —  | —                  | —       | —                       | —                   | —                       | 74              | 381              | 6,150              | —         | —                | —            | 6,605                 |
| Equity in net income of joint ventures   | (1,098)  | —                  | —       | —                       | 1,025               | 162                     | —               | —                | —                  | —         | —                | 2,089        | 2,178                 |
| Investment income (loss)   | (16,971)                                       | 2                  | (443)   | 254                     | (1,276)             | (3,204)                 | (10,433)        | 290              | (2,001)            | —         | —                | —            | (33,782)              |
| Change in fair value of investments  | (8,290)  | —                  | (980)   | (86)                    | (1,013)             | (2,564)                 | (662)           | (455)            | —                  | —         | —                | —            | (14,050)              |
| Other nonoperating gains and losses  | (994)  | —                  | 2       | 276                     | (1,820)             | (3,738)                 | (1,947)         | (133)            | (5,066)            | —         | —                | 360          | (13,060)              |
| Total other nonoperating gains and losses  | (27,353)                                       | 2                  | (1,421) | 444                     | (3,084)             | (9,344)                 | (12,968)        | 83               | (917)              | —         | —                | 2,449        | (52,109)              |
| Excess (deficiency) of revenues over expenses  | (35,957)                                       | (3,596)            | 790     | (5,346)                 | (998)               | (5,032)                 | (8,616)         | 738              | (917)              | 324       | (47)             | 3,322        | (55,335)              |
| Net assets released from restrictions used for purchase of property and equipment      | 18,982   | —                  | 750     | —                       | —                   | 1,647                   | 716             | 132              | (757)              | —         | —                | —            | 21,470                |
| Change in unrealized gains on investments  | (8,315)  | —                  | (63)    | (109)                   | 751                 | (1,110)                 | (2,654)         | —                | (629)              | —         | —                | —            | (12,129)              |
| Change in economic and beneficial interests in the net assets of related organizations | —  | —                  | —       | —                       | —                   | —                       | —               | —                | —                  | —         | —                | —            | —                     |
| Change in ownership interest of joint ventures   | (5,680)  | —                  | —       | —                       | —                   | —                       | —               | —                | —                  | —         | —                | —            | (5,680)               |
| Capital transfers (to) from affiliate  | —  | 2,898              | —       | —                       | —                   | —                       | —               | 3,000            | —                  | —         | —                | (5,898)      | —                     |
| Change in fair value of designated interest rate swaps                                 | (5,469)  | —                  | —       | —                       | —                   | —                       | —               | —                | —                  | —         | —                | —            | (5,469)               |
| Change in funded status of defined benefit pension plans                               | —  | —                  | —       | —                       | (11,555)            | (10,798)                | —               | (3,454)          | —                  | —         | —                | —            | (25,807)              |
| Other  | (4,261)  | (3)                | —       | (1)                     | (1)                 | 1                       | (333)           | (1)              | (445)              | —         | 1,693            | 3,765        | 414                   |
| Increase (decrease) in unrestricted net assets   | \$ (40,700)                                    | (701)              | 1,477   | (5,456)                 | (11,803)            | (15,292)                | (10,887)        | 415              | (2,748)            | 324       | 1,646            | 1,189        | (82,536)              |

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, 2009

(In thousands)

|   | <b>Maryland<br/>General<br/>Health<br/>Systems, Inc.</b> | <b>Maryland<br/>General<br/>Hospital</b> | <b>Maryland<br/>General<br/>Clin. Prac.<br/>Group</b> | <b>Eliminations</b> | <b>MGHS<br/>Consolidated<br/>Total</b> |
|---|--|--|---|---------------------|--|
| Unrestricted revenues, gains and other support:           |  |  |   |                     |  |
| Net patient service revenue                               | \$ —   | 184,427                                  | 9,821   | (7,058)             | 187,190                                |
| Other operating revenue:                                  |  |  |   |                     |  |
| State support   | —  | —  | —   | —                   | —                                      |
| Other revenue   | 892  | 2,229                                    | 2   | —                   | 3,123                                  |
| Net assets released from restrictions used for operations | —  | —  | —   | —                   | —                                      |
| Total unrestricted revenue, gains and other support       | <u>892</u>   | <u>186,656</u>                           | <u>9,823</u>  | <u>(7,058)</u>      | <u>190,313</u>                         |
| Operating expenses:                                       |  |  |   |                     |  |
| Salaries, wages and benefits                              | —  | 86,905                                   | —   | —                   | 86,905                                 |
| Expendable supplies                                       | —  | 16,578                                   | —   | —                   | 16,578                                 |
| Purchased services  | 939  | 31,376                                   | 4   | —                   | 32,319                                 |
| Contracted services                                       | —  | 21,259                                   | 7,058   | (7,058)             | 21,259                                 |
| Depreciation and amortization                             | 444  | 7,670                                    | —   | —                   | 8,114                                  |
| Interest expense  | 121  | 932                                      | —   | —                   | 1,053                                  |
| Provision for bad debts                                   | —  | 19,191                                   | 2,761   | —                   | 21,952                                 |
| Total operating expenses                                  | <u>1,504</u>   | <u>183,911</u>                           | <u>9,823</u>  | <u>(7,058)</u>      | <u>188,180</u>                         |
| Operating income (loss)                                   | <u>(612)</u>   | <u>2,745</u>                             | <u>—</u>  | <u>—</u>            | <u>2,133</u>                           |

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

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

Year ended June 30, 2009

(In thousands)

|  | <b>Maryland<br/>General<br/>Health<br/>Systems, Inc.</b> | <b>Maryland<br/>General<br/>Hospital</b> | <b>Maryland<br/>General<br/>Clin. Prac.<br/>Group</b> | <b>Eliminations</b> | <b>MGHS<br/>Consolidated<br/>Total</b> |
|--|--|--|---|---------------------|--|
| Nonoperating income and expenses, net:   |  |  |   |                     |  |
| Loss on early extinguishment of debt   | \$ —   | —  | —   | —                   | —                                      |
| Change in fair value of undesignated interest rate swaps                               | —  | (47)                                     | —   | —                   | (47)                                   |
| Other nonoperating gains and losses:   |  |  |   |                     |  |
| Contributions  | —  | —  | —   | —                   | —                                      |
| Equity in net income of joint ventures   | 1,025  | —  | —   | —                   | 1,025                                  |
| Investment income (loss)   | —  | (1,276)                                  | —   | —                   | (1,276)                                |
| Change in fair value of investments  | —  | (1,013)                                  | —   | —                   | (1,013)                                |
| Other nonoperating gains and losses  | —  | (1,820)                                  | —   | —                   | (1,820)                                |
| Total other nonoperating gains and losses  | <u>1,025</u>   | <u>(4,109)</u>                           | <u>—</u>  | <u>—</u>            | <u>(3,084)</u>                         |
| Excess (deficiency) of revenues over expenses  | 413  | (1,411)                                  | —   | —                   | (998)                                  |
| Net assets released from restrictions used for purchase of property and equipment      | —  | —  | —   | —                   | —                                      |
| Change in unrealized gains on investments  | —  | 751                                      | —   | —                   | 751                                    |
| 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  | 410  | (410)                                    | —   | —                   | —                                      |
| Change in fair value of designated interest rate swaps                                 | —  | —  | —   | —                   | —                                      |
| Change in funded status of defined benefit pension plans                               | —  | (11,555)                                 | —   | —                   | (11,555)                               |
| Other  | —  | (1)                                      | —   | —                   | (1)                                    |
| Increase (decrease) in unrestricted net assets   | <u>\$ 823</u>  | <u>(12,626)</u>                          | <u>—</u>  | <u>—</u>            | <u>(11,803)</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, 2009

(In thousands)

|   | <b>Baltimore<br/>Washington<br/>Medical<br/>System, Inc.</b> | <b>Baltimore<br/>Washington<br/>Medical<br/>Center</b> | <b>Baltimore<br/>Washington<br/>Healthcare<br/>Services</b> | <b>Baltimore<br/>Washington<br/>Health<br/>Enterprises</b> | <b>North<br/>County<br/>Corporation</b> | <b>Eliminations</b> | <b>BWMS<br/>Consolidated<br/>Total</b> |
|---|--|--|---|--|---|---------------------|--|
| Unrestricted revenues, gains and other support:           |  |  |   |  |   |                     |  |
| Net patient service revenue                               | \$ —   | 290,516  | 26,397  | 4,195  | —                                       | (2,701)             | 318,407                                |
| Other operating revenue:                                  |  |  |   |  |   |                     |  |
| State support   | —  | —  | —   | —  | —                                       | —                   | —                                      |
| Other revenue   | 3,206  | 2,296  | —   | 2,612  | 2,150                                   | (3,353)             | 6,911                                  |
| Net assets released from restrictions used for operations | —  | —  | —   | —  | —                                       | —                   | —                                      |
| Total unrestricted revenue, gains and other support       | <u>3,206</u>   | <u>292,812</u>   | <u>26,397</u>   | <u>6,807</u>   | <u>2,150</u>                            | <u>(6,054)</u>      | <u>325,318</u>                         |
| Operating expenses:                                       |  |  |   |  |   |                     |  |
| Salaries, wages and benefits                              | 3,206  | 138,100  | 9,294   | 975  | —                                       | —                   | 151,575                                |
| Expendable supplies                                       | —  | 55,781   | —   | 530  | 2                                       | —                   | 56,313                                 |
| Purchased services  | —  | 52,951   | 4,885   | 2,134  | 1,181                                   | (6,054)             | 55,097                                 |
| Contracted services                                       | —  | 6,156  | —   | —  | —                                       | —                   | 6,156                                  |
| Depreciation and amortization                             | —  | 17,690   | —   | 446  | 519                                     | —                   | 18,655                                 |
| Interest expense  | —  | 3,259  | —   | 743  | 139                                     | —                   | 4,141                                  |
| Provision for bad debts                                   | —  | 17,313   | 11,597  | —  | —                                       | —                   | 28,910                                 |
| Total operating expenses                                  | <u>3,206</u>   | <u>291,250</u>   | <u>25,776</u>   | <u>4,828</u>   | <u>1,841</u>                            | <u>(6,054)</u>      | <u>320,847</u>                         |
| Operating income (loss)                                   | <u>—</u>   | <u>1,562</u>   | <u>621</u>  | <u>1,979</u>   | <u>309</u>                              | <u>—</u>            | <u>4,471</u>                           |

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

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

Year ended June 30, 2009

(In thousands)

|  | <b>Baltimore<br/>Washington<br/>Medical<br/>System, Inc.</b> | <b>Baltimore<br/>Washington<br/>Medical<br/>Center</b> | <b>Baltimore<br/>Washington<br/>Healthcare<br/>Services</b> | <b>Baltimore<br/>Washington<br/>Health<br/>Enterprises</b> | <b>North<br/>County<br/>Corporation</b> | <b>Eliminations</b> | <b>BWMS<br/>Consolidated<br/>Total</b> |
|--|--|--|---|--|---|---------------------|--|
| Nonoperating income and expenses, net:   |  |  |   |  |   |                     |  |
| Loss on early extinguishment of debt   | \$ —   | —  | —   | —  | —                                       | —                   | —                                      |
| Change in fair value of undesignated interest rate swaps                               | —  | (159)  | —   | —  | —                                       | —                   | (159)                                  |
| Other nonoperating gains and losses:   |  |  |   |  |   |                     |  |
| Contributions  | —  | —  | —   | —  | —                                       | —                   | —                                      |
| Equity in net income of joint ventures   | 162  | —  | —   | —  | —                                       | —                   | 162                                    |
| Investment income (loss)   | (5,192)  | (3,251)  | —   | 16   | —                                       | 5,223               | (3,204)                                |
| Change in fair value of investments  | —  | (2,564)  | —   | —  | —                                       | —                   | (2,564)                                |
| Other nonoperating gains and losses  | —  | (3,417)  | —   | (321)  | —                                       | —                   | (3,738)                                |
| Total other nonoperating gains and losses  | (5,030)  | (9,232)  | —   | (305)  | —                                       | 5,223               | (9,344)                                |
| Excess (deficiency) of revenues over expenses  | (5,030)  | (7,829)  | 621   | 1,674  | 309                                     | 5,223               | (5,032)                                |
| Net assets released from restrictions used for purchase of property and equipment      | 1,647  | 1,647  | —   | —  | —                                       | (1,647)             | 1,647                                  |
| Change in unrealized gains on investments  | (1,110)  | (1,110)  | —   | —  | —                                       | 1,110               | (1,110)                                |
| Change in economic and beneficial interests in the net assets of related organizations | (358)  | —  | —   | —  | —                                       | 358                 | —                                      |
| 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                               | (15,748)   | (10,798)   | —   | —  | —                                       | 15,748              | (10,798)                               |
| Other  | —  | (1)  | —   | (440)  | —                                       | 442                 | 1                                      |
| Increase (decrease) in unrestricted net assets   | \$ (20,599)  | (18,091)   | 621   | 1,234  | 309                                     | 21,234              | (15,292)                               |

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, 2009

(In thousands)

|  | Shore<br>Health<br>System, Inc. | Memorial<br>Hospital<br>Foundation,<br>Inc. and<br>Subsidiary | Care Health<br>Services, Inc. | Shore Health<br>Enterprises,<br>Inc. and<br>Subsidiary | Shore<br>Clinical<br>Foundation,<br>Inc. | Chesapeake<br>Ear, Nose,<br>Throat, Sinus,<br>and Hearing<br>Center, LLC | Chesapeake<br>Neurological<br>Surgery, LLC | Eliminations   | SHS<br>Consolidated<br>Total |
|--|---------------------------------|---|-------------------------------|--|--|--|--|----------------|------------------------------|
| Unrestricted revenues, gains and other support:  |                                 |   |                               |  |  |  |  |                |                              |
| Net patient service revenue  | \$ 208,228                      | —   | 5,653                         | —  | 8,026                                    | 745  | 368  | (675)          | 222,345                      |
| Other operating revenue:   |                                 |   |                               |  |  |  |  |                |                              |
| State support  | —                               | —   | —                             | —  | —  | —  | —  | —              | —                            |
| Other revenue  | 4,962                           | —   | 39                            | 57   | 172                                      | 35   | —  | (1,366)        | 3,899                        |
| Net assets released from restrictions used for operations                              | —                               | —   | —                             | —  | —  | —  | —  | —              | —                            |
| Total unrestricted revenue, gains and other support                                    | <u>213,190</u>                  | <u>—</u>  | <u>5,692</u>                  | <u>57</u>  | <u>8,198</u>                             | <u>780</u>   | <u>368</u>                                 | <u>(2,041)</u> | <u>226,244</u>               |
| Operating expenses:  |                                 |   |                               |  |  |  |  |                |                              |
| Salaries, wages and benefits   | 104,920                         | —   | 3,931                         | —  | 6,804                                    | 850  | 53   | (653)          | 115,905                      |
| Expendable supplies  | 30,891                          | —   | 222                           | —  | 418                                      | 37   | 1  | —              | 31,569                       |
| Purchased services   | 36,519                          | —   | 1,271                         | 22   | 2,269                                    | 161  | 227  | (1,060)        | 39,409                       |
| Contracted services  | 4,570                           | —   | 18                            | —  | 2,409                                    | —  | 660  | —              | 7,657                        |
| Depreciation and amortization  | 12,959                          | —   | 42                            | 12   | 119                                      | 32   | 18   | —              | 13,182                       |
| Interest expense   | 2,278                           | —   | —                             | 81   | —  | —  | —  | (81)           | 2,278                        |
| Provision for bad debts  | 10,951                          | —   | 91                            | —  | 728                                      | 22   | 7  | —              | 11,799                       |
| Total operating expenses   | <u>203,088</u>                  | <u>—</u>  | <u>5,575</u>                  | <u>115</u>   | <u>12,747</u>                            | <u>1,102</u>   | <u>966</u>                                 | <u>(1,794)</u> | <u>221,799</u>               |
| Operating income (loss)  | <u>10,102</u>                   | <u>—</u>  | <u>117</u>                    | <u>(58)</u>  | <u>(4,549)</u>                           | <u>(322)</u>   | <u>(598)</u>                               | <u>(247)</u>   | <u>4,445</u>                 |
| Nonoperating income and expenses, net:   |                                 |   |                               |  |  |  |  |                |                              |
| Loss on early extinguishment of debt   | \$ —                            | —   | —                             | —  | —  | —  | —  | —              | —                            |
| Change in fair value of undesignated interest rate swaps                               | (93)                            | —   | —                             | —  | —  | —  | —  | —              | (93)                         |
| Other nonoperating gains and losses:   |                                 |   |                               |  |  |  |  |                |                              |
| Contributions  | 1                               | 73  | —                             | —  | —  | —  | —  | —              | 74                           |
| Equity in net income of joint ventures   | —                               | —   | —                             | —  | —  | —  | —  | —              | —                            |
| Investment income (loss)   | (5,142)                         | (5,212)   | 3                             | —  | (1)                                      | —  | —  | (81)           | (10,433)                     |
| Change in fair value of investments  | (911)                           | 249   | —                             | —  | —  | —  | —  | —              | (662)                        |
| Other nonoperating gains and losses  | (1,111)                         | (1,162)   | —                             | 1  | —  | (2)  | (1)  | 328            | (1,947)                      |
| Total other nonoperating gains and losses  | <u>(7,163)</u>                  | <u>(6,052)</u>  | <u>3</u>                      | <u>1</u>   | <u>(1)</u>                               | <u>(2)</u>   | <u>(1)</u>                                 | <u>247</u>     | <u>(12,968)</u>              |
| Excess (deficiency) of revenues over expenses  | 2,846                           | (6,052)   | 120                           | (57)   | (4,550)                                  | (324)  | (599)                                      | —              | (8,616)                      |
| Net assets released from restrictions used for purchase of property and equipment      | 716                             | —   | —                             | —  | —  | —  | —  | —              | 716                          |
| Change in unrealized gains on investments  | (1,013)                         | (1,641)   | —                             | —  | —  | —  | —  | —              | (2,654)                      |
| 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  | (5,052)                         | —   | —                             | —  | 5,052                                    | —  | —  | —              | —                            |
| Change in fair value of designated interest rate swaps                                 | —                               | —   | —                             | —  | —  | —  | —  | —              | —                            |
| Change in funded status of defined benefit pension plans                               | —                               | —   | —                             | —  | —  | —  | —  | —              | —                            |
| Net losses from non-consolidated subsidiaries  | (8,283)                         | —   | —                             | —  | —  | —  | —  | 8,283          | —                            |
| Other  | (101)                           | (239)   | —                             | —  | 4  | —  | —  | 3              | (333)                        |
| Increase (decrease) in unrestricted net assets   | <u>\$ (10,887)</u>              | <u>(7,932)</u>  | <u>120</u>                    | <u>(57)</u>  | <u>506</u>                               | <u>(324)</u>   | <u>(599)</u>                               | <u>8,286</u>   | <u>(10,887)</u>              |

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, 2009

(In thousands)

|   | <b>Chester<br/>River<br/>Hospital<br/>Center</b> | <b>Chester<br/>River<br/>Manor</b> | <b>Chester<br/>River<br/>Home Care<br/>and Hospice</b> | <b>Chester<br/>River<br/>Health<br/>Foundation</b> | <b>Eliminations</b> | <b>CRHS<br/>Consolidated<br/>Total</b> |
|---|--|------------------------------------|--|--|---------------------|--|
| Unrestricted revenues, gains and other support:           |  |                                    |  |  |                     |  |
| Net patient service revenue                               | \$ 55,737  | 8,247                              | 2,409  | —  | —                   | 66,393                                 |
| Other operating revenue:                                  |  |                                    |  |  |                     |  |
| State support   | —  | —                                  | —  | —  | —                   | —                                      |
| Other revenue   | 742  | 5                                  | 2  | —  | —                   | 749                                    |
| Net assets released from restrictions used for operations | —  | —                                  | —  | —  | —                   | —                                      |
| Total unrestricted revenue, gains and other support       | <u>56,479</u>                                    | <u>8,252</u>                       | <u>2,411</u>   | <u>—</u>   | <u>—</u>            | <u>67,142</u>                          |
| Operating expenses:                                       |  |                                    |  |  |                     |  |
| Salaries, wages and benefits                              | 30,396   | 4,679                              | 1,631  | —  | 65                  | 36,771                                 |
| Expendable supplies                                       | 9,574  | 781                                | 61   | —  | —                   | 10,416                                 |
| Purchased services  | 8,621  | 2,013                              | 553  | —  | —                   | 11,187                                 |
| Contracted services                                       | 580  | —                                  | —  | —  | —                   | 580                                    |
| Depreciation and amortization                             | 3,110  | 138                                | 11   | —  | —                   | 3,259                                  |
| Interest expense  | 476  | 19                                 | —  | —  | (5)                 | 490                                    |
| Provision for bad debts                                   | 3,605  | 123                                | 56   | —  | —                   | 3,784                                  |
| Total operating expenses                                  | <u>56,362</u>                                    | <u>7,753</u>                       | <u>2,312</u>   | <u>—</u>   | <u>60</u>           | <u>66,487</u>                          |
| Operating income (loss)                                   | <u>117</u>                                       | <u>499</u>                         | <u>99</u>  | <u>—</u>   | <u>(60)</u>         | <u>655</u>                             |

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

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

Year ended June 30, 2009

(In thousands)

|  | <b>Chester<br/>River<br/>Hospital<br/>Center</b> | <b>Chester<br/>River<br/>Manor</b> | <b>Chester<br/>River<br/>Home Care<br/>and Hospice</b> | <b>Chester<br/>River<br/>Health<br/>Foundation</b> | <b>Eliminations</b> | <b>CRHS<br/>Consolidated<br/>Total</b> |
|--|--|------------------------------------|--|--|---------------------|--|
| Nonoperating income and expenses, net:   |  |                                    |  |  |                     |  |
| Loss on early extinguishment of debt   | \$ —   | —                                  | —  | —  | —                   | —                                      |
| Other nonoperating gains and losses:   |  |                                    |  |  |                     |  |
| Contributions  | —  | —                                  | —  | 381  | —                   | 381                                    |
| Equity in net income of joint ventures   | —  | —                                  | —  | —  | —                   | —                                      |
| Investment income (loss)   | 209  | —                                  | 35   | 51   | (5)                 | 290                                    |
| Change in fair value of investments  | (455)  | —                                  | —  | —  | —                   | (455)                                  |
| Other nonoperating gains and losses  | 202  | 4                                  | 28   | (320)  | (47)                | (133)                                  |
| Total other nonoperating gains and losses  | (44)   | 4                                  | 63   | 112  | (52)                | 83                                     |
| Excess (deficiency) of revenues over expenses  | 73   | 503                                | 162  | 112  | (112)               | 738                                    |
| Net assets released from restrictions used for purchase of property and equipment      | 132  | —                                  | —  | 132  | (132)               | 132                                    |
| 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  | 3,000  | —                                  | —  | —  | —                   | 3,000                                  |
| Change in fair value of designated interest rate swaps                                 | —  | —                                  | —  | —  | —                   | —                                      |
| Change in funded status of defined benefit pension plans                               | (3,454)  | —                                  | —  | —  | —                   | (3,454)                                |
| Other  | (1)  | —                                  | —  | —  | —                   | (1)                                    |
| Increase (decrease) in unrestricted net assets   | \$ (250)   | 503                                | 162  | 244  | (244)               | 415                                    |

See accompanying independent auditors' report.

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

Combining Balance Sheet Information – Obligated Group

June 30, 2010

(In thousands)

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

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

Combining Balance Sheet Information – Obligated Group

June 30, 2010

(In thousands)

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

See accompanying independent auditors' report.

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

Combining Balance Sheet Information – Obligated Group

June 30, 2009

(In thousands)

| Assets  | University of<br>Maryland<br>Medical<br>Center | Kernan<br>Hospital,<br>Inc. | University<br>Specialty<br>Hospital, Inc. | Maryland<br>General<br>Hospital, Inc. | Baltimore<br>Washington<br>Medical<br>Center, Inc. | Shore<br>Health<br>System, Inc. | Eliminations    | Obligated<br>Group<br>Total |
|---|--|-----------------------------|---|---------------------------------------|--|---------------------------------|-----------------|-----------------------------|
| Current assets:   |  |                             |   |                                       |  |                                 |                 |                             |
| Cash and cash equivalents   | \$ 133,277                                     | 9,627                       | 3,141                                     | 5,375                                 | 24,471   | 19,593                          | —               | 195,484                     |
| Assets limited as to use, current portion   | 29,842   | —                           | —   | 986                                   | 846  | 276                             | —               | 31,950                      |
| Accounts receivable:  |  |                             |   |                                       |  |                                 |                 |                             |
| Patient accounts receivable, less allowance for<br>doubtful accounts of \$103,102 | 140,649  | 15,079                      | 2,245                                     | 11,729                                | 33,162   | 22,016                          | —               | 224,880                     |
| Other   | 34,234   | 6,341                       | 459                                       | 1,217                                 | 457  | 12,886                          | (7,175)         | 48,419                      |
| Inventories   | 18,949   | 888                         | 554                                       | 1,578                                 | 5,158  | 3,819                           | —               | 30,946                      |
| Prepaid expenses and other current assets   | 34,438   | —                           | —   | 390                                   | 8,447  | 640                             | —               | 43,915                      |
| Total current assets  | <u>391,389</u>                                 | <u>31,935</u>               | <u>6,399</u>                              | <u>21,275</u>                         | <u>72,541</u>                                      | <u>59,230</u>                   | <u>(7,175)</u>  | <u>575,594</u>              |
| Investments   | 157,302  | 10,325                      | 13,775                                    | —                                     | 45,926   | 10,702                          |                 | 238,030                     |
| Assets limited as to use, less current portion:                                   |  |                             |   |                                       |  |                                 |                 |                             |
| Debt service funds  | 16,925   | —                           | —   | 3,676                                 | 4,759  | 1,403                           | —               | 26,763                      |
| Construction funds  | 56,433   | —                           | —   | 31,656                                | 3,163  | —                               | —               | 91,252                      |
| Board designated and escrow funds   | —  | —                           | —   | 10,616                                | —  | 25,037                          | —               | 35,653                      |
| Self-insurance trust funds  | 16,423   | —                           | —   | 16,755                                | 10,566   | 4,497                           | —               | 48,241                      |
| Funds restricted by donor   | —  | —                           | —   | 6,007                                 | —  | 2,410                           | —               | 8,417                       |
| Economic interests in the net assets of related<br>organizations                  | 46,307   | 26,035                      | 377                                       | 24,197                                | 6,984  | 37,381                          | —               | 141,281                     |
|   | <u>136,088</u>                                 | <u>26,035</u>               | <u>377</u>                                | <u>92,907</u>                         | <u>25,472</u>                                      | <u>70,728</u>                   | <u>—</u>        | <u>351,607</u>              |
| Property and equipment, net   | 651,953  | 37,065                      | 20,296                                    | 78,725                                | 232,006  | 105,713                         | —               | 1,125,758                   |
| Deferred financing costs, net   | 8,686  | —                           | —   | —                                     | —  | —                               | —               | 8,686                       |
| Investments in joint ventures and other assets                                    | 114,448  | —                           | —   | 163                                   | 86   | 8,016                           | (34,611)        | 88,102                      |
| Total assets  | <u>\$ 1,459,866</u>                            | <u>105,360</u>              | <u>40,847</u>                             | <u>193,070</u>                        | <u>376,031</u>                                     | <u>254,389</u>                  | <u>(41,786)</u> | <u>2,387,777</u>            |



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

Combining Balance Sheet Information – Obligated Group

June 30, 2009

(In thousands)

| <b>Liabilities and Net Assets</b>                                | <b>University of<br/>Maryland<br/>Medical<br/>Center</b> | <b>Kernan<br/>Hospital,<br/>Inc.</b> | <b>University<br/>Specialty<br/>Hospital, Inc.</b> | <b>Maryland<br/>General<br/>Hospital, Inc.</b> | <b>Baltimore<br/>Washington<br/>Medical<br/>Center, Inc.</b> | <b>Shore<br/>Health<br/>System, Inc.</b> | <b>Eliminations</b> | <b>Obligated<br/>Group<br/>Total</b> |
|--|--|--------------------------------------|--|--|--|--|---------------------|--------------------------------------|
| Current liabilities:   |  |                                      |  |  |  |  |                     |                                      |
| Trade accounts payable   | \$ 85,923  | 5,470                                | 3,663  | 9,439  | 19,890   | 8,185                                    | (7,068)             | 125,502                              |
| Accrued payroll and benefits                                     | 56,498   | 3,552                                | 2,526  | 10,549   | 16,329   | 11,541                                   | (107)               | 100,888                              |
| Advances from third-party payors                                 | 60,840   | 2,500                                | 4,298  | 5,197  | 6,427  | 4,412                                    | —                   | 83,674                               |
| Lines of credit  | 23,300   | —                                    | —  | —  | —  | —  | —                   | 23,300                               |
| Other current liabilities  | 62,081   | 5,234                                | 12,176   | 6,107  | 26,327   | 4,580                                    | —                   | 116,505                              |
| Long-term debt subject to short-term remarketing<br>arrangements | 71,099   | —                                    | —  | —  | —  | —  | —                   | 71,099                               |
| Current portion of long-term debt                                | 9,642  | 293                                  | 300  | 2,003  | 4,183  | 1,778                                    | —                   | 18,199                               |
| Total current liabilities  | <u>369,383</u>   | <u>17,049</u>                        | <u>22,963</u>                                      | <u>33,295</u>                                  | <u>73,156</u>  | <u>30,496</u>                            | <u>(7,175)</u>      | <u>539,167</u>                       |
| Long-term debt, less current portion                             | 483,175  | 12,827                               | 7,556  | 81,256   | 182,791  | 77,469                                   | —                   | 845,074                              |
| Other long-term liabilities                                      | 25,281   | —                                    | 519  | 30,944   | 18,818   | 4,747                                    | —                   | 80,309                               |
| Interest rate swap liabilities                                   | 87,926   | —                                    | —  | —  | —  | —  | —                   | 87,926                               |
| Total liabilities  | <u>965,765</u>   | <u>29,876</u>                        | <u>31,038</u>                                      | <u>145,495</u>                                 | <u>274,765</u>   | <u>112,712</u>                           | <u>(7,175)</u>      | <u>1,552,476</u>                     |
| Net assets:  |  |                                      |  |  |  |  |                     |                                      |
| Unrestricted   | 443,939  | 49,449                               | 9,432  | 17,369   | 94,282   | 123,641                                  | (34,611)            | 703,501                              |
| Temporarily restricted   | 49,750   | 26,035                               | 377  | 30,206   | 6,984  | 7,193                                    | —                   | 120,545                              |
| Permanently restricted   | 412  | —                                    | —  | —  | —  | 10,843                                   | —                   | 11,255                               |
| Total net assets   | <u>494,101</u>   | <u>75,484</u>                        | <u>9,809</u>                                       | <u>47,575</u>                                  | <u>101,266</u>   | <u>141,677</u>                           | <u>(34,611)</u>     | <u>835,301</u>                       |
| Total liabilities and net assets                                 | <u>\$ 1,459,866</u>                                      | <u>105,360</u>                       | <u>40,847</u>                                      | <u>193,070</u>                                 | <u>376,031</u>   | <u>254,389</u>                           | <u>(41,786)</u>     | <u>2,387,777</u>                     |

See accompanying independent auditors' report.

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

Combining Operations Information – Obligated Group

Year ended June 30, 2010

(In thousands)

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

See accompanying independent auditors' report.

UNIVERSITY OF MARYLAND MEDICAL SYSTEM CORPORATION  
AND SUBSIDIARIES

Combining Operations Information – Obligated Group

Year ended June 30, 2009

(In thousands)

|  | University of Maryland Medical Center |                     |               |           | Kernan Hospital | University Specialty | Maryland General Hospital | Baltimore Washington Medical Center | Shore Health System |                    |         |          | Eliminations | Obligated Group Total |
|--|---------------------------------------|---------------------|---------------|-----------|-----------------|----------------------|---------------------------|-------------------------------------|---------------------|--------------------|---------|----------|--------------|-----------------------|
|  | University Hospital                   | Shock Trauma Center | Cancer Center | Subtotal  |                 |                      |                           |                                     | Memorial Hospital   | Dorchester General | Other   | Subtotal |              |                       |
| Unrestricted revenues, gains and other support:  |                                       |                     |               |           |                 |                      |                           |                                     |                     |                    |         |          |              |                       |
| Net patient service revenue  | \$ 884,515                            | 158,596             | 52,427        | 1,095,538 | 101,149         | 55,545               | 184,427                   | 290,516                             | 159,797             | 48,431             | —       | 208,228  | (1,556)      | 1,933,847             |
| Other operating revenue:   |                                       |                     |               |           |                 |                      |                           |                                     |                     |                    |         |          |              |                       |
| Recovery of costs  | —                                     | —                   | —             | —         | —               | —                    | —                         | —                                   | —                   | —                  | —       | —        | —            | —                     |
| State support  | —                                     | 3,361               | —             | 3,361     | —               | —                    | —                         | —                                   | —                   | —                  | —       | —        | —            | 3,361                 |
| Other revenue  | 44,917                                | —                   | 126           | 45,043    | 2,437           | 255                  | 2,229                     | 2,296                               | 3,549               | 1,413              | —       | 4,962    | (2,200)      | 55,022                |
| Total unrestricted revenue, gains and other support                                    | 929,432                               | 161,957             | 52,553        | 1,143,942 | 103,586         | 55,800               | 186,656                   | 292,812                             | 163,346             | 49,844             | —       | 213,190  | (3,756)      | 1,992,230             |
| Operating expenses:  |                                       |                     |               |           |                 |                      |                           |                                     |                     |                    |         |          |              |                       |
| Salaries, wages, and benefits  | 405,406                               | 50,845              | 17,719        | 473,970   | 46,364          | 30,881               | 86,905                    | 138,100                             | 78,633              | 26,287             | —       | 104,920  | —            | 881,140               |
| Expendable supplies  | 170,898                               | 22,745              | 22,443        | 216,086   | 15,899          | 7,479                | 16,578                    | 55,781                              | 24,980              | 5,911              | —       | 30,891   | —            | 342,714               |
| Purchased services   | 94,549                                | 40,455              | 17,808        | 152,812   | 18,470          | 14,908               | 31,376                    | 52,951                              | 27,592              | 8,927              | —       | 36,519   | (3,756)      | 303,280               |
| Contracted services  | 69,364                                | 8,577               | 3,642         | 81,583    | 7,634           | —                    | 21,259                    | 6,156                               | 2,832               | 1,738              | —       | 4,570    | —            | 121,202               |
| Depreciation and amortization  | 63,335                                | 4,016               | 2,576         | 69,927    | 3,415           | 1,827                | 7,670                     | 17,690                              | 10,311              | 2,648              | —       | 12,959   | —            | 113,488               |
| Interest expense   | 26,619                                | —                   | 59            | 26,678    | 578             | 908                  | 932                       | 3,259                               | 1,985               | 293                | —       | 2,278    | —            | 34,633                |
| Provision for bad debts  | 58,440                                | 33,955              | 5,925         | 98,320    | 8,290           | 5,587                | 19,191                    | 17,313                              | 7,812               | 3,139              | —       | 10,951   | —            | 159,652               |
| Total operating expenses   | 888,611                               | 160,593             | 70,172        | 1,119,376 | 100,650         | 61,590               | 183,911                   | 291,250                             | 154,145             | 48,943             | —       | 203,088  | (3,756)      | 1,956,109             |
| Operating income (loss)  | 40,821                                | 1,364               | (17,619)      | 24,566    | 2,936           | (5,790)              | 2,745                     | 1,562                               | 9,201               | 901                | —       | 10,102   | —            | 36,121                |
| Nonoperating income and expenses, net:   |                                       |                     |               |           |                 |                      |                           |                                     |                     |                    |         |          |              |                       |
| Loss on early extinguishment of debt   | (1,388)                               | —                   | —             | (1,388)   | —               | —                    | —                         | —                                   | —                   | —                  | —       | —        | —            | (1,388)               |
| Change in fair value of undesignated interest rate swaps                               | (31,782)                              | —                   | —             | (31,782)  | —               | —                    | (47)                      | (159)                               | (93)                | —                  | —       | (93)     | —            | (32,081)              |
| Other nonoperating gains and losses:   |                                       |                     |               |           |                 |                      |                           |                                     |                     |                    |         |          |              |                       |
| Contributions  | —                                     | —                   | —             | —         | —               | —                    | —                         | —                                   | —                   | 1                  | —       | 1        | —            | 1                     |
| Equity in net income of joint ventures   | (1,098)                               | —                   | —             | (1,098)   | —               | —                    | —                         | —                                   | —                   | —                  | —       | —        | —            | (1,098)               |
| Investment income (loss)   | (13,917)                              | (2,167)             | (887)         | (16,971)  | 396             | 254                  | (1,276)                   | (3,251)                             | (5,183)             | 41                 | —       | (5,142)  | —            | (25,990)              |
| Change in fair value of investments  | (8,290)                               | —                   | —             | (8,290)   | (1,819)         | (86)                 | (1,013)                   | (2,564)                             | (911)               | —                  | —       | (911)    | —            | (14,683)              |
| Other nonoperating gains and losses  | (994)                                 | —                   | —             | (994)     | (27)            | 276                  | (1,820)                   | (3,417)                             | (1,081)             | (30)               | —       | (1,111)  | —            | (7,093)               |
| Total other nonoperating gains and losses  | (24,299)                              | (2,167)             | (887)         | (27,353)  | (1,450)         | 444                  | (4,109)                   | (9,232)                             | (7,175)             | 12                 | —       | (7,163)  | —            | (48,863)              |
| Excess (deficiency) of revenues over expenses  | (16,648)                              | (803)               | (18,506)      | (35,957)  | 1,486           | (5,346)              | (1,411)                   | (7,829)                             | 1,933               | 913                | —       | 2,846    | —            | (46,211)              |
| Net assets released from restrictions used for purchase of property and equipment      | 18,982                                | —                   | —             | 18,982    | 750             | —                    | —                         | 1,647                               | 716                 | —                  | —       | 716      | —            | 22,095                |
| Change in unrealized gains on investments  | (8,315)                               | —                   | —             | (8,315)   | (63)            | (109)                | 751                       | (1,110)                             | (1,013)             | —                  | —       | (1,013)  | —            | (9,859)               |
| Change in economic and beneficial interests in the net assets of related organizations | —                                     | —                   | —             | —         | —               | —                    | —                         | —                                   | —                   | —                  | —       | —        | —            | —                     |
| Change in ownership interest of joint ventures   | (5,680)                               | —                   | —             | (5,680)   | —               | —                    | —                         | —                                   | —                   | —                  | —       | —        | —            | (5,680)               |
| Capital transfers (to) from affiliate  | —                                     | —                   | —             | —         | —               | —                    | (410)                     | —                                   | (5,052)             | —                  | —       | (5,052)  | —            | (5,462)               |
| Change in fair value of designated interest rate swaps                                 | (5,469)                               | —                   | —             | (5,469)   | —               | —                    | —                         | —                                   | —                   | —                  | —       | —        | —            | (5,469)               |
| Change in funded status of defined benefit pension plans                               | —                                     | —                   | —             | —         | 133             | —                    | (11,555)                  | (10,798)                            | —                   | —                  | —       | —        | —            | (22,220)              |
| Net losses from non-consolidated subsidiaries  | (5,456)                               | —                   | —             | (5,456)   | —               | —                    | —                         | —                                   | —                   | —                  | (8,283) | (8,283)  | 5,456        | (8,283)               |
| Other  | 1,195                                 | —                   | —             | 1,195     | 2               | (1)                  | (1)                       | (1)                                 | (101)               | —                  | —       | (101)    | —            | 1,093                 |
| Increase (decrease) in unrestricted net assets   | \$ (21,391)                           | (803)               | (18,506)      | (40,700)  | 2,308           | (5,456)              | (12,626)                  | (18,091)                            | (3,517)             | 913                | (8,283) | (10,887) | 5,456        | (79,996)              |

See accompanying independent auditors' report.