

**HOWARD COUNTY GENERAL
HOSPITAL, INC.**

**Financial Statements
June 30, 2011 and 2010**

HOWARD COUNTY GENERAL HOSPITAL, INC.

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HOWARD COUNTY GENERAL HOSPITAL, INC.
STATEMENTS OF CASH FLOWS
for the years ended June 30, 2011 and 2010
(in thousands)

REPORT OF INDEPENDENT AUDITORS

To the Board of Trustees of
Howard County General Hospital, Inc.:

In our opinion, the accompanying balance sheets and the related statements of operations and changes in net assets and cash flows present fairly, in all material respects, the financial position of Howard County General Hospital, Inc. (the "Hospital") at June 30, 2011 and 2010, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe our audits provide a reasonable basis for our opinion.

September 29, 2011

HOWARD COUNTY GENERAL HOSPITAL, INC.

BALANCE SHEETS

June 30, 2011 and 2010

(in thousands)

	<u>2011</u>	<u>2010</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 7,590	\$ 10,454
Short-term investments	937	1,026
Assets whose use is limited - used for current liabilities	5,677	5,614
Patient accounts receivable, net of estimated uncollectibles of \$5,115 and \$5,355 as of June 30, 2011 and 2010, respectively	23,285	23,223
Due from others	1,195	1,168
Due from affiliates	0	4
Inventories of supplies	3,899	3,573
Prepaid expenses and other current assets	1,353	1,150
Total current assets	<u>43,936</u>	<u>46,212</u>
Assets whose use is limited		
By donors or grantors for:		
Interest in net assets of Howard Hospital Foundation	14,439	13,898
Other	135	0
Total assets whose use is limited	<u>14,574</u>	<u>13,898</u>
Investments	15,521	9,373
Investments in joint ventures	3,543	4,046
Property, plant and equipment	248,550	232,692
Less: allowance for depreciation and amortization	(70,250)	(55,483)
Total property, plant and equipment, net	<u>178,300</u>	<u>177,209</u>
Net pension asset	864	0
Other assets	4,907	6,210
Total assets	<u>\$ 261,645</u>	<u>\$ 256,948</u>

See notes to the financial statements.

HOWARD COUNTY GENERAL HOSPITAL, INC.
BALANCE SHEETS, Continued
June 30, 2011 and 2010
(in thousands)

	<u>2011</u>	<u>2010</u>
LIABILITIES AND NET ASSETS		
Current liabilities:		
Current portion of long-term debt	\$ 2,800	\$ 2,675
Accounts payable	4,241	10,505
Accrued liabilities	15,786	14,230
Due to affiliates	727	787
Accrued interest	2,877	2,938
Accrued vacation	5,852	5,843
Advances from third party payors	8,595	7,657
Current portion of estimated malpractice costs	<u>79</u>	<u>139</u>
Total current liabilities	40,957	44,774
Long-term debt, net of current portion	150,877	153,547
Estimated malpractice costs, net of current portion	2,565	2,314
Net pension liability	0	84
Other long-term liabilities	<u>8,882</u>	<u>11,086</u>
Total liabilities	<u>203,281</u>	<u>211,805</u>
Net assets:		
Unrestricted	43,792	29,248
Temporarily restricted	11,561	12,884
Permanently restricted	<u>3,011</u>	<u>3,011</u>
Total net assets	<u>58,364</u>	<u>45,143</u>
Total liabilities and net assets	<u>\$ 261,645</u>	<u>\$ 256,948</u>

See notes to the financial statements.

HOWARD COUNTY GENERAL HOSPITAL, INC.
STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS
for the years ended June 30, 2011 and 2010
(in thousands)

	<u>2011</u>	<u>2010</u>
Operating revenues:		
Net patient service revenue	\$ 229,505	\$ 221,799
Other revenue	2,402	2,328
Investment income	299	802
Total operating revenues	<u>232,206</u>	<u>224,929</u>
Operating expenses:		
Salaries, wages and benefits	106,555	106,587
Purchased services	45,566	45,410
Supplies and other	40,766	40,290
Interest	5,726	5,787
Provision for bad debts	10,219	10,545
Depreciation and amortization	15,846	12,024
Total operating expenses	<u>224,678</u>	<u>220,643</u>
Income from operations	7,528	4,286
Non-operating revenues and expenses:		
Interest expense on swap agreements	(1,508)	(1,507)
Change in market value of swap agreement	2,204	(2,718)
Realized and unrealized gains (losses) on investments	975	(31)
Loss on impairment of long lived assets	0	(4,263)
Excess of revenues over expenses	<u>9,199</u>	<u>(4,233)</u>
Contributions to affiliates	(579)	(1,869)
Changes in unrealized (losses) gains on investments	567	562
Change in funded status of defined benefit plans	1,800	910
Net assets released from restrictions used for purchase of property, plant and equipment	3,557	3,500
Increase in unrestricted net assets	<u>14,544</u>	<u>(1,130)</u>
Changes in temporarily restricted net assets:		
Gifts, grants and bequests	1,692	1,861
Net change in Howard Hospital Foundation/Children's Garden	542	688
Net assets released from restrictions used for purchase of property, plant and equipment	(3,557)	(3,500)
(Decrease) increase in temporarily restricted net assets	<u>(1,323)</u>	<u>(951)</u>
Increase in net assets	13,221	(2,081)
Net assets at beginning of year	45,143	47,224
Net assets at end of year	<u>\$ 58,364</u>	<u>\$ 45,143</u>

See notes to the financial statements.

HOWARD COUNTY GENERAL HOSPITAL, INC.
STATEMENTS OF CASH FLOWS
for the years ended June 30, 2011 and 2010
(in thousands)

	<u>2011</u>	<u>2010</u>
Operating activities:		
Change in net assets	\$ 13,221	\$ (2,081)
Adjustments to reconcile change in net assets		
to net cash and cash equivalents provided by operating activities:		
Depreciation and amortization	15,846	12,024
Provision for bad debts	10,219	10,545
Net realized and changes in unrealized (gains) losses on investments	(1,542)	(531)
Change in market value of swap agreement	(2,204)	2,718
Change in funded status of defined benefit plans	(1,800)	(910)
Restricted contributions and investment income received	(1,692)	(1,861)
Gains on and returns of equity investments	503	817
Loss on impairment of long lived assets	-	4,263
Contributions to affiliates	(579)	1,869
Change in assets and liabilities:		
Patient accounts receivable	(10,281)	(12,360)
Inventories of supplies, prepaid expenses and other current assets	(556)	1,866
Due to/from affiliates, net	(56)	85
Other assets	(65)	(24)
Accounts payable, accrued liabilities and accrued vacation	(6,614)	2,380
Advances from third party payors	938	215
Accrued pension benefit costs	852	0
Estimated malpractice costs	191	111
Net cash and cash equivalents provided by operating activities	<u>16,381</u>	<u>19,126</u>
Investing activities:		
Purchases of property, plant and equipment	(13,720)	(30,266)
Purchases of investment securities	(11,470)	(9,969)
Sales of investment securities	6,891	18,620
Change in interest in net assets of Howard Hospital Foundation	(542)	(688)
Other investing activities	0	(3,621)
Net cash and cash equivalents used in investing activities	<u>(18,841)</u>	<u>(25,924)</u>
Financing activities:		
Proceeds from restricted contributions and investment income received	1,692	1,861
Repayment of long-term debt	(2,675)	(2,560)
Contributions to affiliates	579	(1,869)
Net cash and cash equivalents provided by financing activities	<u>(404)</u>	<u>(2,568)</u>
Decrease in cash and cash equivalents	(2,864)	(9,366)
Cash and cash equivalents at beginning of year	10,454	19,820
Cash and cash equivalents at end of year	<u>\$ 7,590</u>	<u>\$ 10,454</u>

See notes to the financial statements.

HOWARD COUNTY GENERAL HOSPITAL, INC.
NOTES TO FINANCIAL STATEMENTS
for the years ended June 30, 2011 and 2010

1. Organization and Summary of Significant Accounting Policies:

Organization. The Johns Hopkins Health System Corporation (“JHHS”) is the sole member of Howard County General Hospital, Inc. (the “Hospital” or “HCGH”). JHHS is a not-for-profit organization incorporated in the State of Maryland to, among other things, formulate policy among and provide centralized management for JHHS affiliates (“Affiliates”). In addition, JHHS provides certain shared services, including legal, coordination of marketing, and other functions for which HCGH is charged separately. The Hospital is a not-for-profit, community based health care institution governed by a board of trustees operated for the purpose of providing appropriate and effective health care services to the physically and mentally ill, the injured, obstetrical patients, and persons needing diagnostic and/or preventative services. The Hospital is committed to serve as the primary community health care resource for Howard County and adjacent communities and recognizes the need to be responsive to the needs of the population it serves. The Hospital’s mission is to provide health care services, within the resources available, to all whom present themselves, regardless of race, creed, national origin, age or sex.

JHHS appoints HCGH’s Board of Trustees. HCGH’s Articles of Incorporation provide that JHHS’ Board of Trustees will approve HCGH’s annual operating budget and capital budgets, significant programmatic changes at HCGH, and other significant changes to HCGH including amendments of its articles of incorporation or bylaws, mergers, or dissolutions.

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

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

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

Inventories. Inventories of supplies are composed of medical supplies and drugs. Inventories of supplies are recorded at lower of cost or market using a first in, first out method.

Assets whose use is limited. Assets whose use is limited or restricted by the donor are recorded at fair value at the date of donation, which is then considered cost. Investment income or losses on investments of temporarily or permanently restricted assets is recorded as an increase or

HOWARD COUNTY GENERAL HOSPITAL, INC.
NOTES TO FINANCIAL STATEMENTS
for the years ended June 30, 2011 and 2010

decrease in temporarily or permanently restricted net assets to the extent restricted by the donor or law. The cost of securities sold is based on the specific identification method.

Assets whose use is limited include assets held by trustees under debt agreements. These assets consist primarily of cash and short-term investments, and accrued interest. The carrying amounts reported in the Balance Sheets approximate fair value.

Howard Hospital Foundation. Funds for the benefit of HCGH are owned, held and managed by Howard Hospital Foundation, Inc (“HHF”), a separate, not-for-profit Maryland corporation chartered in 1976. The affairs of HHF are managed by a Board of Trustees who is self-perpetuating. HCGH records an interest in net assets of HHF resulting from unrestricted, temporarily restricted and permanently restricted contributions that were solicited and held by HHF to be used exclusively for HCGH. HCGH records its interest in the net assets of HHF under assets whose use is limited.

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

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

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

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

HOWARD COUNTY GENERAL HOSPITAL, INC.
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On April 1, 2011, HCGH changed the classification of certain investments to a trading portfolio from available for sale. Accordingly, cumulative unrealized gains of \$410 thousand were reclassified from unrestricted net assets to non-operating income included in the 'realized and unrealized gains (losses) on investments' within the Statement of Operations and Changes in Net Assets. This change was made as management's intent with respect to the nature of the investment portfolios has changed.

Investments in companies in which HCGH does not have control, but has the ability to exercise significant influence over operating and financial policies are accounted for using the equity method of accounting, and operating results flow through the investment income on the Statements of Operations and Change in Net Assets. Dividends paid are recorded as a reduction of the carrying amount of the investment.

Property, plant and equipment. Property, plant and equipment acquisitions are recorded at cost. Depreciation is provided over the estimated useful life of each asset class of depreciable asset and is computed using the straight-line method. Estimated useful lives assigned by HCGH range from 6 to 30 years. Interest costs incurred on borrowed funds, net of income earned, during the period of construction of capital assets are capitalized as a component of the cost of acquiring those assets. Repairs and maintenance costs are expensed as incurred. When property, plant and equipment are retired, sold or otherwise disposed of, the asset's carrying amount and related accumulated depreciation are removed from the accounts and any gain or loss is included in operations.

Gifts of long-lived assets such as land, buildings or equipment are reported as unrestricted support, and are excluded from the excess of revenues over expenses, 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, expiration of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

Impairment of long-lived assets. Long-lived assets are reviewed for impairment when events and circumstances indicate that the carrying amount of an asset may not be recoverable. HCGH's policy is to record an impairment loss when it is determined that the carrying amount of the asset exceeds the sum of the expected undiscounted future cash flows resulting from use of the asset and its eventual disposition. Impairment losses are measured as the amount by which the carrying amount of the asset exceeds its fair value and are reported in the non-operating section of the Statement of Operations and Changes in Net Assets. Long-lived assets to be disposed of are reported at the lower of the carrying amount or fair value less cost to sell. Impairments of long-lived assets were \$4.3 million for the year ended June 30, 2010.

HOWARD COUNTY GENERAL HOSPITAL, INC.
NOTES TO FINANCIAL STATEMENTS
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Financing expenses. Financing expenses incurred in connection with the issuance of the Maryland Health and Higher Educational Facilities Authority (“MHHEFA”) 1998 and 2008 Series Revenue Bonds have been capitalized and are included in other assets in the Balance Sheets. Unamortized financing expenses were \$2.1 million and \$2.2 million as of June 30, 2011 and 2010, respectively. These expenses are being amortized over the terms of the bond issues using the effective interest method. Amortization expense of \$160 thousand and \$163 thousand was recorded in the years ended June 30, 2011 and 2010, respectively.

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

Estimated malpractice costs. The provision for estimated medical malpractice claims includes estimates of the ultimate costs for both reported claims and claims incurred but not reported.

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

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

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

Excess of revenues over expenses. The Statements of Operations and Changes in Net Assets include excess of revenues over expenses. Changes in unrestricted net assets which are excluded

HOWARD COUNTY GENERAL HOSPITAL, INC.
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from excess of revenues over expenses, consistent with industry practice, include changes in unrealized gains and losses on investments other than trading securities, change in funded status of defined benefit plans, cumulative effect of changes in accounting principle, permanent transfers of assets to and from affiliates for other than goods and services, and contributions of long-lived assets (including assets acquired using contributions which by donor restriction were to be used for the purposes of acquiring such assets).

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

The Financial Accounting Standards Board's ("FASB") guidance on accounting for uncertainty in income taxes clarifies the accounting for uncertainty of income tax positions. This guidance defines the threshold for recognizing tax return positions in the financial statements as "more likely than not" that the position is sustainable, based on its technical merits. This guidance also provides guidance on the measurement, classification and disclosure of tax return positions in the financial statements. HCGH has adopted this guidance, and there was no impact on its financial statements during the years ended June 30, 2011 and 2010.

2. Net Patient Service Revenue:

HCGH has agreements with third-party payors that provide for payments to HCGH at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per diem payments. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payers, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined. Adjustments mandated by the Health Services Cost Review Commission are also included in contractual adjustments, a portion of which are also included in established rates. Contractual adjustments to gross patient service revenue were \$21.3 million and \$19.3 million for the years ended June 30, 2011 and 2010, respectively.

HCGH provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Such patients are identified based on information obtained from the patient and subsequent analysis. Because HCGH does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. Charges for these services, measured at HCGH's established rates, amounted to \$4.7 million and \$3.8 million for the years ended June 30, 2011 and 2010, respectively.

Revenue from the Medicare and Medicaid programs accounted for approximately 39% and 10%, respectively, of the Hospital's net patient service revenue for the year ended June 30, 2011 and 35% and 10% respectively, of the Hospital's net patient service revenue for the year ended June

HOWARD COUNTY GENERAL HOSPITAL, INC.
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30, 2010. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to change by a material amount in the near term.

Approximately 24% and 27% of gross patient account receivables were due from the Medicare program, 15% and 9% from the Medicaid program, 17% and 16% from the Blue Cross program and 44% and 48% from health maintenance organizations, other third-party payors and individual payors as of June 30, 2011 and 2010, respectively.

3. Fair Value Measurements:

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

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

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

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

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

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

<u>Assets</u>	Total <u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>
Cash equivalents (1)	\$ 307	\$ -	\$ 307
Certificates of deposit (1)	47	-	47
U.S. Treasuries (2)	7,798	-	7,798
Corporate bonds (2)	3,184	-	3,184
Mortgage backed securities (2)	1,980	-	1,980
Equities and equity funds (3)	4,622	-	4,622
Fixed income funds (4)	1,404	-	1,404
Totals	<u>\$ 19,342</u>	<u>\$ -</u>	<u>\$ 19,342</u>
 <u>Liabilities</u>			
Interest rate swap agreement (5)	<u>\$ 8,882</u>	<u>\$ -</u>	<u>\$ 8,882</u>

The following table presents the financial instruments carried at fair value as of June 30, 2010 grouped by hierarchy level:

<u>Assets</u>	Total <u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>
Cash equivalents (1)	\$ 917	\$ 669	\$ 248
Certificates of deposit (1)	613	-	613
U.S. Treasuries (2)	5,548	-	5,548
Corporate bonds (2)	1,104	-	1,104
Mortgage backed securities (2)	660	-	660
Equity index funds (3)	3,909	-	3,909
Totals	<u>\$ 12,751</u>	<u>\$ 669</u>	<u>\$ 12,082</u>
 <u>Liabilities</u>			
Interest rate swap agreement (5)	<u>\$ 11,086</u>	<u>\$ -</u>	<u>\$ 11,086</u>

(1) Cash equivalents include investments with original maturities of three months or less, including certificates of deposit and overnight investments. Certificates of deposit are carried at amortized cost, which approximates fair value. Certificates of deposit that have original maturities greater than three months and are considered short-term investments.

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Overnight investments are rendered level 1. Computed prices and frequent evaluation versus market value render the certificates of deposit level 2.

- (2) For investments in U.S. Treasuries (notes, bonds, and bills), corporate bonds, and mortgage backed securities, fair value is based upon quotes for similar securities; therefore these investments are rendered level 2. These investments fluctuate in value based upon changes in interest rates. Until April 1, 2011, significant changes in the credit quality of the underlying entity were analyzed and any other than temporary impairments was recorded upon that determination, if any.
- (3) Equities include individual equities and investments in mutual funds, commingled trusts and hedge funds. A small portion of the investments are lent out under securities lending. The ability to liquidate these funds is not limited except for the small percentage of each securities lending fund that is on loan. The individual equities and mutual funds are rendered level 1. The commingled trusts and hedge funds are valued regularly within each month utilizing NAV per unit and are rendered level 2.
- (4) Fixed income funds are investments in mutual funds and commingled trusts investing in fixed income instruments. The underlying fixed investments are principally U.S. Treasuries, corporate bonds, commercial paper, and mortgage backed securities. The mutual funds are rendered level 1. The commingled trusts are valued regularly within each month utilizing NAV per unit and are rendered level 2.
- (5) The interest rate swap agreements are valued using a pricing service at net present value. These evaluated prices render these instruments level 2. The volatility in the fair value of the swap agreements change as long-term interest rates change. See footnote 8.

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

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

The estimated total fair value of long-term debt, based on quoted market prices for the same or similar issues, was approximately \$153.0 million and \$154.6 million as of June 30, 2011 and 2010, respectively.

HCGH holds alternative investments that are not traded on national exchanges or over-the-counter markets. HCGH is provided a net asset value per share for these alternative investments that has been calculated in accordance investment company rules, which among other requirements, indicates that the underlying investments be measured at fair value. There are no unfunded commitments related to HCGH's alternative investments. The following table displays information by major alternative investment category as of June 30, 2011 and 2010 (in thousands):

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As of June 30, 2011

<u>Description</u>	<u>Market Value</u>	<u>Liquidity</u>	<u>Notice Period</u>	<u>Receipt of Proceeds</u>
Global asset allocation	\$ 1,957	Monthly	5 to 14 days	Within 15 days, or 95% within 1 business day of the redemption date, 5% after the 12th business day of the month
Fund of funds	\$ 1,030	Monthly, quarterly or annually	30 to 60 days	Within 5 days, or 95% in 1-30 days, 5% within 60 days or after annual audit
Hedge funds	\$ 116	Quarterly - last day of the calendar quarter	60 days	95% within 30 days of redemption date, 5% within 120 days of redemption date

As of June 30, 2010

<u>Description</u>	<u>Market Value</u>	<u>Liquidity</u>	<u>Notice Period</u>	<u>Receipt of Proceeds</u>
Global asset allocation	\$ 2,738	Monthly / manager's discretion	5 days	15-30 days
Fund of funds	\$ 772	Monthly	30 days	5 days

4. Investments and Assets Whose Use is Limited:

Investments (short and long-term) as of June 30 consisted of the following (in thousands):

	2011		2010	
	<u>Cost</u>	<u>Market</u>	<u>Cost</u>	<u>Market</u>
Investments in affiliates	\$ 3,543	\$ 3,543	\$ 4,046	\$ 4,046
U.S. Treasuries	2,086	2,121	574	603
Certificates of deposit	47	47	613	613
Corporate bonds	3,169	3,184	1,084	1,104
Mortgage backed securities	1,934	1,980	636	660
Fixed income funds	1,411	1,404	-	-
Equities and equity index funds	4,141	4,619	4,421	3,909
Alternative investments	2,801	3,103	3,792	3,510
	<u>\$ 19,132</u>	<u>\$ 20,001</u>	<u>\$ 15,166</u>	<u>\$ 14,445</u>

Included in investments as of June 30, 2011 and 2010 are \$16.7 million and \$10.0 million, respectively of investments pooled together with other JHHS affiliates.

Assets whose use is limited as of June 30 consisted of the following (in thousands):

	2011		2010	
	<u>Cost</u>	<u>Market</u>	<u>Cost</u>	<u>Market</u>
Cash equivalents	\$ -	\$ -	\$ 669	\$ 669
U.S. Treasuries	5,677	5,677	4,945	4,945
Interest in net assets of HHF/Childrens Garden	14,574	14,574	13,898	13,898
	<u>\$ 20,251</u>	<u>\$ 20,251</u>	<u>\$ 19,512</u>	<u>\$ 19,512</u>

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The following table shows the unrealized losses and fair value of the HCGH investments with unrealized losses that are not deemed to be other-than-temporarily impaired, aggregated by investment category and length of time that the individual securities have been in a continuous unrealized loss position, as of June 30, 2010 (in thousands):

As of June 30, 2010	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Treasuries	\$ 96	\$ 1	\$ -	\$ -	\$ 96	\$ 1
Corporate bonds	152	1	10	-	162	1
Mortgage backed securities	44	1	11	-	55	1
Fixed income funds	-	-	-	-	-	-
Equities and equity funds	453	3	2,588	569	3,041	572
Alternative investments	-	-	3,219	317	3,219	317
	<u>\$ 745</u>	<u>\$ 6</u>	<u>\$ 5,828</u>	<u>\$ 886</u>	<u>\$ 6,573</u>	<u>\$ 892</u>

There were 37 investment positions in an unrealized loss position as of June 30, 2010. The unrealized loss on the government obligations, corporate bonds, and mortgaged backed securities were caused by interest rate increases. The contractual terms of these investments do not permit the issuer to settle the securities at a price less than the amortized cost of the investment. For debt securities in an unrealized loss position, HCGH does not have the intent nor requirement to sell them; therefore, HCGH does not consider these investments to be other-than-temporarily impaired as of June 30, 2010. The equities are invested in broad based index funds and have fluctuated from an unrealized gain and loss position since acquisition and based on management's impairment policy, HCGH does not consider these investments to be other-than-temporarily impaired as of June 30, 2010. Starting April 1, 2011, HCGH discontinued its evaluation of investments for other than temporary impairment due to its change in investment portfolio classification.

Realized and unrealized gains (losses) on investments for the years ended June 30, 2011 and 2010, included in non-operating revenues and expenses section of the Statement of Operations consisted of the following:

	<u>2011</u>	<u>2010</u>
Realized gains (losses) on investments	\$ 84	\$ (298)
Unrealized gains on trading investments	891	267
Total	<u>\$ 975</u>	<u>\$ (31)</u>

5. Investments in Joint Ventures:

HCGH has a 25% investment interest in Ten Acres Medical Center, LLC ("Ten Acres") obtained in exchange for contributed land with an original cost of \$4.0 million. The 75% member is Columbia Investment Properties, LLC ("CIP"). Ten Acres is a Maryland Limited Liability Company formed to develop, own, operate, manage or dispose of a medical office building (the "Project") on a portion of the HCGH campus in Howard County, Maryland. The Project consists of approximately a 170,000 square foot medical office building that was completed in August

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2009. The term of the joint venture shall continue perpetually unless otherwise agreed upon pursuant to the operating agreement.

Ten Acres is managed by a Board of Managers consisting of one HCGH appointed manager and three CIP appointed members. Profits and losses, as well as additional contributed capital, shall be allocated to the members equal to each members' percentage ownership interest. Distributions shall be made in accordance with the provisions of the operating agreement as determined by the Board of Managers. Ten Acres began operations in August 2009. Ten Acres is accounted for under the equity method of accounting. HCGH's investment in Ten Acres was \$2.1 million and \$2.5 million as of June 30, 2011 and 2010, respectively. HCGH's gain on this investment was \$352 thousand and \$129 thousand for the year ended June 30, 2011, and 2010, respectively. In addition, HCGH received cash dividends from Ten Acres of \$600 thousand and \$1.7 million for the year ended June 30, 2011 and 2010, respectively.

HCGH had a 25% interest in Howard County Limited MRI Partnership ("MRI"). In fiscal year 2010, HCGH paid \$3.0 million to the 75% majority members to exit from MRI prior to its contractual termination date of June 30, 2013, in return for all of the future revenues. The price paid is being amortized over the remaining life of the contractual partnership agreement, and is included in other assets in the Balance Sheets. Income earned on this investment amounted to \$261 thousand for the year ended June 30, 2010. Dividends distributed amounted to \$445 thousand for the year ended June 30, 2010. HCGH accounted for this investment under the equity method of accounting. Subsequent to the purchase of the interest from the majority members, HCGH is entitled to all of the patient revenue associated with MRI services at the hospital.

In fiscal year 2010, HCGH invested \$1.6 million for a 20% interest in the Central Maryland Radiation Oncology Center, LLC ("CMROC") which is located in the new Ten Acres building. HCGH's investment in CMROC was \$1.5 million and \$1.6 million for the years ended June 30, 2011 and 2010 respectively. The operating losses were \$123 thousand and \$0 during the years ended June 30, 2011 and 2010, respectively. HCGH has guaranteed 50% of the total debt of CMROC that amounts to \$1.8 million as of June 30, 2011.

6. Property, Plant and Equipment:

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

	2011		2010	
	Cost	Depreciation	Cost	Depreciation
Land and land improvements	\$ 8,306	\$ 58	\$ 8,260	\$ 26
Building and improvements	164,127	33,248	143,498	27,494
Fixed and moveable	71,108	36,944	61,795	27,963
Construction in progress	5,009	-	19,139	-
	<u>\$ 248,550</u>	<u>\$ 70,250</u>	<u>\$ 232,692</u>	<u>\$ 55,483</u>

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Accruals for purchases of property, plant and equipment as of June 30, 2011 and 2010 amounted to \$3.3 million and \$1.3 million, respectively, and are included in accounts payable in the Balance Sheet. Depreciation and amortization expense for years ended June 30, 2011 and 2010 was \$15.8 million and \$12.0 million, respectively.

There was no impairment charges recorded for the year ended June 30, 2011. During the year ended June 30, 2010, pursuant to the completion of several phases of its campus development plan, HCGH determined that certain long-lived assets had no remaining future value. HCGH recorded impairment charges on long-lived assets of \$4.3 million, which are included in the non-operating section of the Statement of Operations included in excess of revenues over expenses. The original cost of the impaired assets removed from the books was \$7.9 million, with a corresponding accumulated depreciation of \$3.6 million.

There was no retirement of long lived assets for the year ended June 30, 2011. During the year ended June 30, 2010, HCGH retired long-lived assets determined to have no future value and a zero net book value. The original cost and corresponding accumulated depreciation of these long-lived assets was \$39.6 million, respectively. No proceeds from retirement were received.

7. Debt:

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

MHHEFA Bonds and Notes:	2011		2010	
	Current <u>Portion</u>	Long-term <u>Portion</u>	Current <u>Portion</u>	Long-term <u>Portion</u>
1998 Series Revenue Bonds – net of original issue discount of \$1,703 and \$1,833 as of June 30, 2011 and 2010, respectively	\$ 2,800	\$ 110,877	\$ 2,675	\$ 113,547
2008 Series Revenue Bonds	-	40,000	-	40,000
	<u>\$ 2,800</u>	<u>\$ 150,877</u>	<u>\$ 2,675</u>	<u>\$ 153,547</u>

1998 Series-Revenue Bonds

In June 1998, Howard County Acquisition Corporation (now known as HCGH) borrowed \$133.9 million through the issuance by MHHEFA of its 1998 Johns Hopkins Medicine Howard County General Hospital Series Revenue Bonds with stated interest rates ranging from 4.15% to 5.00%. Annual principal payments totaling \$8.8 million as of June 30, 2011, ranging from \$2.8 million to \$3.1 million, are due July 1 of each year until 2013. The bonds include three series of term bonds - \$21.9 million due July 1, 2019, \$54.3 million due July 1, 2029, and \$30.3 million due July 1, 2033. The annual sinking fund payments on these term bonds range from \$3.2 million on July 1, 2014 to \$8.1 million on July 1, 2033. The Johns Hopkins Hospital (“JHH”) and Johns Hopkins University (“JHU”) have each guaranteed 4.5% of the aggregate principal amount of the

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1998 Bonds together with accrued interest limited to the regularly scheduled payments of principal and interest.

2008 Series-Revenue Bonds

In May 2008, HCGH borrowed \$40.0 million through the issuance of its 2008 Series Revenue Bonds ("2008 Bonds") to finance the expansion, renovation and equipping of HCGH's acute care hospital. The 2008 Bonds are due July 1, 2046, and pay interest monthly at a variable rate based on the bonds sold by a designated re-marketing agent on a weekly basis. The rates for the years ended June 30, 2011 and 2010 were approximately 0.23% and 0.23%, respectively. Mandatory annual sinking fund installments begin July 1, 2034, ranging from \$2.3 million to \$3.9 million. The 2008 Bonds are collateralized by a pledge of the receipts of HCGH and guaranteed by the Johns Hopkins Health System Obligated Group.

In connection with the 2008 Bonds, HCGH entered into a \$40.5 million direct-pay letter of credit agreement with PNC Bank, National Association to provide for the payment of principal and interest on the 2008 Bonds. This agreement includes the principal amount of the debt plus 42 days of interest at the maximum rate of 10%, and expires on May 8, 2013, subject to extension or earlier termination. The advances are repayable on the earliest of the date that is 367 days from the date of such advance, the date of termination, the date of receipts by HCGH of the proceeds of any subsequent issuances of notes and the final due date. There have been no amounts drawn on the letter of credit as of June 30, 2011 or 2010.

Total maturities of debt and the sinking fund requirements during the next five fiscal years and thereafter are as follows as of June 30, 2011 (in thousands):

2012	2,800
2013	2,930
2014	3,070
2015	3,225
2016	3,385
Thereafter	<u>139,970</u>
	<u>\$ 155,380</u>

Interest costs incurred related to debt in the amount of \$7.7 million was paid during the year ended June 30, 2011, of which \$434 thousand was capitalized and \$7.2 million was expensed. Interest costs incurred relating to debt in the amount of \$7.8 million was paid during the year ended June 30, 2010, of which \$478 thousand was capitalized and \$7.3 million was expensed.

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8. Derivative Financial Instruments:

HCGH's primary objective for holding derivative financial instruments is to manage interest rate risk. Derivative financial instruments are recorded at fair value and are included in other long-term liabilities. The total notional amount of interest rate swap agreements was \$40.0 million as of June 30, 2011 and 2010.

HCGH follows accounting guidance on derivative financial instruments that is based on whether the derivative instrument meets the criteria for designation as cash flow or fair value hedges. The criteria for designating a derivative as a hedge include the assessment of the instrument's effectiveness in risk reduction, matching of the derivative instrument to its underlying transaction, and the assessment of the probability that the underlying transaction will occur. All of HCGH's derivative financial instruments are interest rate swap agreements without hedge accounting designation.

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

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

		<u>Derivatives reported as liabilities</u>		
		2011		2010
		Fair	Balance Sheet	Fair
		<u>Value</u>	<u>Caption</u>	<u>Value</u>
Interest rate swaps not designated as hedging instruments	Other long-term liabilities	\$ 8,882	Other long-term liabilities	\$ 11,086

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

Classification of derivative gain (loss) in the Statement of Operations	Amount of gain (loss) recognized in change in unrestricted net assets	
	<u>2011</u>	<u>2010</u>
Interest rate swaps:		
Change in market value of swap agreement	\$ 2,204	\$ (2,718)

The following is a description of HCGH's interest rate swap agreement:

In connection with the 2008 Bonds, in May 2006, HCGH entered into a fixed payor interest rate swap agreement with Goldman, Sachs & Co. The notional amount of this swap agreement is \$40.0 million and carries a term of 32 years. HCGH will pay Goldman, Sachs & Co. a fixed annual rate of 3.946% on the notional amount of the swap agreement in return for the receipt of a floating rate of interest equal to 67% of the one month LIBOR rate. The floating rate payments from the interest rate swap agreement are intended to substantially offset the floating rate of the 2008 Bonds. The floating rates as of June 30, 2011 and 2010 were 0.13% and 0.23%, respectively. JHHS has guaranteed the prompt payment of this interest rate swap agreement.

This swap agreement has certain collateral thresholds whereby, on a daily basis, if the market value of the swap agreement declines such that its devaluation exceeds the threshold, cash must be deposited by HCGH with the swap counterparty for the difference between the threshold amount and the fair value. As of June 30, 2011 and 2010 no collateral was required to be posted to the swap counter party.

9. Temporarily and Permanently Restricted Net Assets:

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

	<u>2011</u>	<u>2010</u>
Health care services	\$ 5,832	\$ 4,625
Purchase of property, plant and equipment	<u>5,729</u>	<u>8,259</u>
	<u>\$ 11,561</u>	<u>\$ 12,884</u>

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

	<u>2011</u>	<u>2010</u>
Health care services	<u>\$ 3,011</u>	<u>\$ 3,011</u>

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10. Pension Plan:

HCGH sponsors a cash balance defined benefit pension plan (the "Plan"). HCGH contributed 7.5% of each employee's base compensation up to \$25 thousand and 11.3% of base compensation in excess of \$25 thousand. The Plan's assets are invested in a diversified portfolio of stocks, bonds and money market certificates managed by a bank trust department. As of January 1, 1996, accruals under the Plan were frozen. Employees now participate in a 401(k) plan. Effective for the year ended June 30, 2007, HCGH adopted the provisions of statement of financial accounting standards employer's accounting for defined benefit pension and other postretirement plans. This guidance requires that the funded status of defined benefit postretirement plans be recognized on HCGH's Balance Sheet, and changes in the funded status be reflected as a change in net assets.

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

<u>Change in benefit obligation</u>	<u>2011</u>	<u>2010</u>
Benefit obligation at beginning of year	\$ 10,173	\$ 9,490
Interest cost	550	596
Actuarial gain (loss)	91	487
Benefits paid	<u>(715)</u>	<u>(400)</u>
Benefit obligation as of June 30	<u>\$ 10,099</u>	<u>\$ 10,173</u>

<u>Change in plan assets</u>	<u>2011</u>	<u>2010</u>
Fair value of plan assets at beginning of year	\$ 10,090	\$ 9,260
Actual return on plan assets	1,615	1,229
Benefits paid	<u>(742)</u>	<u>(400)</u>
Fair value of plan assets as of June 30	<u>\$ 10,963</u>	<u>\$ 10,089</u>

<u>Funded status as of June 30,</u>	<u>2011</u>	<u>2010</u>
Fair value of plan assets	\$ 10,963	\$ 10,089
Projected benefit obligation	<u>10,099</u>	<u>10,173</u>
Funded status	<u>\$ 864</u>	<u>\$ (84)</u>

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

Net pension asset (liability)	<u>\$ 864</u>	<u>\$ (84)</u>
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Amounts not yet recognized in net periodic benefit cost and included in unrestricted net assets consist of (in thousands):

	<u>2011</u>	<u>2010</u>
Actuarial net loss	\$ <u>3,913</u>	\$ <u>5,714</u>
Accumulated benefit obligation	\$ <u>10,099</u>	\$ <u>10,173</u>

Net periodic pension benefit cost

Components of net periodic pension cost (in thousands):	<u>2011</u>	<u>2010</u>
Interest cost	\$ 550	\$ 596
Expected return on plan assets	(627)	(577)
Amortization of prior service cost	<u>649</u>	<u>745</u>
Net periodic pension benefit expense	\$ <u>572</u>	\$ <u>764</u>

The actuarial net loss for the defined benefit plans that will be amortized from unrestricted net assets into net periodic benefit costs in 2012 is \$400 thousand.

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

	<u>2011</u>	<u>2010</u>
Discount rate	6.04%	7.10%
Expected return on plan assets	8.25%	8.25%

The assumptions used in determining the benefit obligation for the plan are as follows as of July 1:

	<u>2011</u>	<u>2010</u>
Discount rate	6.03%	6.04%
Expected return on plan assets	8.25%	8.25%

The expected rate of return on the plan assets assumption was developed based on historical returns for the major asset classes. This review also considered both current market conditions and projected future conditions.

Plan Assets

HCGH's pension plan weighted average asset allocations as of June 30 by asset category are as follows:

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<u>Asset category</u>	<u>2011</u>	<u>2010</u>
Cash and cash equivalents	4.44%	5.01%
Equities and equity funds	35.98%	34.47%
Fixed income funds	15.57%	19.11%
Alternatives	<u>44.01%</u>	<u>41.41%</u>
Total	<u>100.00%</u>	<u>100.00%</u>

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

Fair Value of Plan Assets

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

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

The following table presents the plan assets carried at fair value as of June 30, 2011 and 2010, grouped by hierarchy level (in thousands):

As of June 30, 2011

Assets	Total		
	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>
Cash equivalents (1)	\$ 487	\$ -	\$ 487
Equities and equity funds (2)	3,944	-	3,944
Fixed income funds (3)	1,707	1,568	139
Alternatives (4)	<u>4,825</u>	-	<u>4,825</u>
Totals	<u>\$ 10,963</u>	<u>\$ 1,568</u>	<u>\$ 9,395</u>

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As of June 30, 2010

Assets	Total		
	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>
Cash equivalents (1)	\$ 505	\$ -	\$ 505
Equities and equity funds (2)	3,477	477	3,000
Fixed income funds (3)	1,929	1,783	146
Alternatives (4)	4,178	-	4,178
Totals	<u>\$ 10,089</u>	<u>\$ 2,260</u>	<u>\$ 7,829</u>

- (1) Cash equivalents include investments with original maturities of three months or less and overnight investments. Overnight investments are rendered level 1. Computed prices and frequent evaluation versus market value render the other investments level 2.
- (2) Equities include individual equities. Equity funds include investments in mutual funds, commingled trusts and hedge funds. A small portion of the investments are lent out under securities lending. The ability to liquidate these funds is not limited except for the small percentage of each securities lending fund that is on loan. The individual equities and mutual funds are rendered level 1. The commingled trusts and hedge funds are valued regularly within each month utilizing NAV per unit and are rendered level 2.
- (3) Fixed income funds are investments in mutual funds and commingled trusts investing in fixed income instruments. The underlying fixed investments are principally U.S. Treasuries, corporate bonds, commercial paper, and mortgage backed securities. The mutual funds are rendered level 1. The commingled trusts are valued regularly within each month utilizing NAV per unit and are rendered level 2.
- (4) Alternative investments include investments that are not traded on national exchanges or over-the-counter markets. These investments are valued at using a net asset value per share that has been calculated in accordance with investment company rules, which among other things, indicates that the underlying investments be measured at fair value. This valuation technique renders these investments level 2.

The Plans hold alternative investments that are not traded on national exchanges or over-the-counter markets. The Plans are provided a net asset value per share for these alternative investments that has been calculated in accordance investment company rules, which among other requirements, indicates that the underlying investments be measured at fair value. There are no unfunded commitment related to the Plans' alternative investments. The following table displays information by major alternative investment category as of June 30, 2011 and 2010 (in thousands):

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June 30, 2011

<u>Description</u>	<u>Fair Market Value</u>	<u>Liquidity</u>	<u>Notice Period</u>	<u>Receipt of Proceeds</u>
Global asset allocation	\$ 2,116	Monthly	5 - 30 days	(1)
Fund of funds	1,505	Monthly, quarterly or annually	30 - 65 days	(2)
Hedge funds	562	Monthly or quarterly	30 - 65 days	(3)
Credit funds	433	Annual	60 - 90 days	(4)
Distressed credit	209	December 31, 2013		

- (1) Within 15 days, or 95% on redemption date and 5% on third business day
(2) Within 5 days, or 90% within 30 to 60 days, 10% after annual audit
(3) 90-95% within 30 days, 5-10% after 10 days or after annual audit
(4) Within 30 days, or 90% within 10 days, 10% after annual audit

June 30, 2010

<u>Description</u>	<u>Fair Market Value</u>	<u>Liquidity</u>	<u>Notice Period</u>	<u>Receipt of Proceeds</u>
Global asset allocation	\$ 1,593	Monthly	5 days	15 days
Fund of funds	1,556	Monthly or quarterly	30 to 65 days	(1)
Hedge funds	220	Quarterly	30 days	(2)
Credit funds	447	Annual	30 to 90 days	(3)
Distressed credit	362	December 31, 2013		

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

Contributions and Estimated Future Benefit Payments (Unaudited):

HCGH is not required to contribute to its pension plan in 2012.

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The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid in each of the following fiscal years as of June 30, 2011 (in thousands):

2012	\$	2,217
2013		950
2014		797
2015		854
2016		880
2017-2020		4,284

HCGH also has a 401(k) savings Plan available to all employees. The revised plan provides that HCGH will contribute 1% to 2% of each employee's total compensation in addition to contributing from fifty cents to one dollar and fifty cents, based on years of service, for each dollar contributed by the employee. HCGH's contribution match basis is limited to 6% of the employee's total compensation. HCGH funded \$2.9 million and \$2.8 million for the years ended June 30, 2011 and 2010, respectively.

11. Maryland Health Services Cost Review Commission:

HCGH's charges are subject to review and approval by the Maryland Health Services Cost Review Commission ("HSCRC"). HCGH management has filed the required forms with the HSCRC and believes HCGH to be in compliance with HSCRC requirements. The total rate of reimbursement for services to patients under the Medicare and Medicaid programs is based on an arrangement between the Center for Medicare and Medicaid Services and the HSCRC. Management believes that this program will remain in effect at least through June 30, 2012. Effective April 1, 1999, the HSCRC developed a methodology to control inpatient hospital charges and the HCGH elected to be paid under the new methodology. The methodology established a charge per admission cap for each hospital. The hospital specific charge per admission is adjusted annually to reflect cost inflation, and is also adjusted for changes in the hospital's case mix index.

Effective July 1, 2008, the HSCRC developed a new methodology to establish a charge per visit (CPV) for certain types of outpatient services. The hospital specific charge per visit is adjusted annually to reflect cost inflation and is also adjusted for changes in case mix. Certain types of visits such as radiation therapy, psychiatric day hospital and certain types of recurring visits will be treated as exclusions under this methodology.

The HSCRC approves hospital rates on a departmental unit rate basis. Individual unit rates are the basis for hospital reimbursement for inpatient excluded cases and for hospital outpatient excluded services. Under the HSCRC rate methodology, amounts collected for services to patients under Medicare and Medicaid are computed at approximately 94% of HSCRC approved

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rates. Other payors are eligible to receive up to a 2.25% discount based on prompt payment of claims.

12. Professional and General Liability Insurance:

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

JHH and JHU each have a 10% ownership interest in the RRG and the captive insurance company. The medical institutions obtain primary and excess liability insurance coverage from commercial insurers and the RRG. The primary coverage is written by the RRG, and a portion of the risk is reinsured with the captive insurance company. Commercial excess insurance and reinsurance is purchased under a claims-made policy by the participating institutions for claims in excess of the primary coverage retained by the RRG and the captive. Primary retentions are \$1.0 million per incident. Primary coverage is insured under a retrospectively rated claims-made policy; premiums are accrued based upon an estimate of the ultimate cost of the experience to date of each participating member institution. The basis for loss accruals for unreported claims under the primary policy is an actuarial estimate of asserted and unasserted claims including reported and unreported incidents and includes cost associated with settling claims. Projected losses were discounted at 1.2% and 2.0% as of June 30, 2011 and 2010, respectively.

HCGH’s participation in the RRG and the captive insurance company does not extend to claims incurred prior to its purchase by JHHS. HCGH is self insured for these claims unless they were reported to HCGH’s previous insurance company prior to its purchase by JHHS. HCGH has established an additional loss accrual and is funding a separate deposit account with the RRG to cover estimated liabilities related to these claims.

Professional and general liability insurance expense incurred by HCGH was \$1.2 million, and \$1.3 million for years ended June 30, 2011 and 2010, respectively, and is included in purchased services on the Statements of Operations and Changes in Net Assets. Reserves were \$2.6 million, and \$2.5 million for years ended June 30, 2011 and 2010, respectively, and is included in other long-term liabilities in the Balance Sheets.

13. Transactions with Related Parties:

During the years ended June 30, 2011 and 2010, HCGH engaged in transactions with JHHS, and its affiliates, JHH, JHCP, Johns Hopkins HealthCare, LLC (“JHHC”), and Johns Hopkins Medicine International, LLC (“JHI”).

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Expense transactions (in thousands):

	<u>2011</u>	<u>2010</u>
JHH blood lab services	\$ 7,462	\$ 7,091
Purchasing, legal, and other services provided by JHHS	5,986	4,891
JHH clinical engineering services	674	573

Due from (to) related party balances as of June 30 (in thousands):

	<u>2011</u>	<u>2010</u>
Due to JHHS	\$ (327)	\$ (172)
Due to JHHC	(4)	(2)
Due to JHH	(267)	(600)
Due to JHI	(21)	(13)
Due to JHCP	(108)	-
Due from others	-	4
Total due to Affiliates	<u>\$ (727)</u>	<u>\$ (783)</u>

Broadway Services, Inc. ("BSI"), a related organization, is a wholly-owned subsidiary of the Dome Corporation. The Dome Corporation is owned equally by JHHS and JHU. BSI provides the HCGH with security and manages its housekeeping services. During the years ended June 30, 2011 and 2010, HCGH incurred expenses of approximately \$1.8 million and \$1.8 million, respectively for these services.

14. Contracts, Commitments and Contingencies:

Commitments for leases that do not meet the criteria for capitalization are classified as operating leases with related rentals charged to operations as incurred. The following is a schedule by year of the future minimum lease payments under operating leases as of June 30, 2011, that have initial or remaining lease terms in excess of one year (in thousands).

2012	\$ 1,265
2013	861
2014	883
2015	905
2016	929

Rental expense for all operating leases for years ended June 30, 2011 and 2010 were \$1.2 million and \$1.2 million, respectively.

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15. Functional Expenses:

HCGH provides general health care services to residents within its geographic location. Expenses relating to these services were \$191.7 million and \$194.2 million for health care services, and \$33.0 million and \$26.4 million for general and administrative services for the years ended June 30, 2011 and 2010, respectively.

16. Howard Hospital Foundation:

Interest in net assets of HHF of \$14.4 million and \$13.9 million as of June 30, 2011 and 2010 respectively, are presented in long-term assets on the Balance Sheets of HCGH.

HHF assets consist of cash and cash equivalents of \$874 thousand and \$687 thousand, marketable securities of \$7.8 million and \$6.7 million, and other assets of \$5.9 million and \$6.8 million as of June 30, 2011 and 2010, respectively.

Liabilities of HHF were \$163 thousand and \$212 thousand and net assets were \$14.4 million and \$13.9 million as of June 30, 2011 and 2010, respectively. The changes in net assets were \$542 thousand and \$688 thousand for the years ended June 30, 2011 and 2010, respectively.

HCGH made transfers to HHF in the amounts of \$1.0 million, and \$1.0 million for the years ended June 30, 2011 and 2010, respectively. HHF made transfers to HCGH to reimburse HCGH for operating costs and other program support paid by HCGH on behalf of HHF amounting to \$1.0 million, and \$1.0 million for the years ended June 30, 2011 and 2010, respectively.

17. Subsequent Events:

HCGH has performed an evaluation of subsequent events through September 29, 2011, which is the date the financial statements were issued.