KPMG

MT. WASHINGTON PEDIATRIC HOSPITAL, INC. AND SUBSIDIARY

Consolidated Financial Statements and Schedules

June 30, 2011 and 2010

(With Independent Auditors' Report Thereon)

MT. WASHINGTON PEDIATRIC HOSPITAL, INC.
AND SUBSIDIARY

Table of Contents

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

Independent Auditors' Report

The Board of Trustees
Mt. Washington Pediatric Hospital, Inc. and Subsidiary:

We have audited the accompanying consolidated balance sheets of Mt. Washington Pediatric Hospital, Inc. and Subsidiary (the Corporation) as of June 30, 2011 and 2010, and the related consolidated statements of operations and 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 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 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 Mt. Washington Pediatric Hospital, Inc. and Subsidiary as of June 30, 2011 and 2010, and the results of their operations, the changes in 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 are presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position, results of operations, and changes in net assets of the individual entities. The consolidating information has 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 27, 2011

MT. WASHINGTON PEDIATRIC HOSPITAL, INC.
AND SUBSIDIARY

Consolidated Balance Sheets

June 30, 2011 and 2010

Assets		2011	2010
Current assets:			
Cash and cash equivalents	$	17,728,947	20,729,208
Current portion of assets limited as to use		119,548	138,822
Patient accounts receivable, less allowance for doubtful accounts of $1,865,402 and $1,164,058, respectively		5,682,019	4,124,417
Other accounts receivable		56,201	52,768
Inventories of supplies		122,165	123,527
Prepaid expenses and other current assets		460,981	392,634
Total current assets		24,169,861	25,561,376
Investments		14,598,994	6,022,780
Assets limited as to use, less current portion:			
Board-designated funds		4,017,500	4,187,986
Eliasberg Second Floor Construction Fund		4,000,000	4,000,000
Funds restricted by donor		6,191,372	4,689,450
Funds restricted – Capital Campaign		—	788,130
Self-insurance trust funds		1,323,147	1,018,297
		15,532,019	14,683,863
Property and equipment, net		17,850,797	16,600,827
Other assets		254,171	332,792
Total assets	$	72,405,842	63,201,638
Liabilities and Net Assets			
Current liabilities:			
Current portion of long-term debt	$	260,000	250,000
Trade accounts payable		2,294,411	2,882,282
Accrued payroll benefits		3,098,217	2,909,569
Advances from third-party payors		3,538,985	3,544,251
Current portion of malpractice and other self-insurance liabilities		82,283	111,557
Due to affiliates		363,762	49,707
Total current liabilities		9,637,658	9,747,366
Malpractice and other self-insurance liabilities		740,546	1,004,014
Accrued pension obligations		795,735	1,304,288
Long-term debt, less current portion		6,570,000	6,830,000
Total liabilities		17,743,939	18,885,668
Commitments and contingencies			
Net assets:			
Unrestricted		44,154,986	34,246,863
Temporarily restricted		9,681,746	9,243,936
Permanently restricted		825,171	825,171
Total net assets		54,661,903	44,315,970
Total liabilities and net assets	$	72,405,842	63,201,638

See accompanying notes to consolidated financial statements.

MT. WASHINGTON PEDIATRIC HOSPITAL, INC.
AND SUBSIDIARY

Consolidated Statements of Operations and Changes in Net Assets

Years ended June 30, 2011 and 2010

	2011	2010
Unrestricted revenue, gains and other support:		
Net patient service revenue	$ 50,087,871	48,719,456
Other revenue	294,782	181,504
Total unrestricted revenue, gains and other support	50,382,653	48,900,960
Operating expenses:		
Salaries, wages, and benefits	31,989,461	31,195,169
Purchased services	12,124,000	12,157,907
Interest expense	67,663	69,561
Depreciation	1,790,107	1,706,108
Provision for bad debts	482,381	1,452,815
Total operating expenses	46,453,612	46,581,560
Operating income	3,929,041	2,319,400
Nonoperating income and expenses, net:		
Contributions	138,188	765,866
Investment income	1,666,994	1,477,875
Change in fair value of investments	3,959,332	—
Excess of revenues over expenses	9,693,555	4,563,141
Change in unrealized (losses) gains on other-than-trading securities	(2,095,220)	718,163
Net assets released from restrictions used for the purchase of property and equipment upon donor request	1,733,078	456,639
Change in funded status of defined benefit plan	576,710	(463,326)
Increase in unrestricted net assets	9,908,123	5,274,617
Changes in temporarily restricted net assets:		
Contributions	671,981	1,782,793
Investment income, net	953,145	847,610
Net unrealized gains on long-term investments	723,764	289,851
Net assets released from restrictions used for the purchase of property and equipment	(1,733,078)	(456,639)
Net assets released from restrictions used for operations	(178,002)	(107,071)
Increase in temporarily restricted net assets	437,810	2,356,544
Total increase in net assets	10,345,933	7,631,161
Net assets, beginning of year	44,315,970	36,684,809
Net assets, end of year	$ 54,661,903	44,315,970

See accompanying notes to consolidated financial statements.

MT. WASHINGTON PEDIATRIC HOSPITAL, INC.
AND SUBSIDIARY

Consolidated Statements of Cash Flows

Years ended June 30, 2011 and 2010

		2011	2010
Cash flows from operating activities:			
Increase in net assets	$	10,345,933	7,631,161
Adjustments to reconcile increase in net assets to net cash provided by operating activities:			
Depreciation		1,790,107	1,706,108
Amortization of debt issue costs		5,131	5,136
Provision for bad debts		482,381	1,452,815
Net realized gains on investments		(1,344,911)	(1,143,058)
Restricted contributions and investment income		(1,625,124)	(2,630,403)
Change in unrealized gains on other-than-trading securities		(1,371,455)	(1,008,014)
Change in funded status of defined benefit plan		(576,710)	463,326
Changes in operating assets and liabilities:			
Net patient accounts receivable		(2,039,983)	477,208
Other accounts receivable		(3,433)	149,139
Inventories of supplies		1,362	1,982
Prepaid expenses and other current assets		(68,347)	(315,456)
Other long-term assets		73,490	(130,643)
Amounts due to affiliates		314,055	(387,622)
Trade accounts payable		(587,871)	399,715
Accrued payroll benefits		188,648	494,278
Advances from third-party payors		(5,266)	102,809
Other liabilities		(224,585)	152,362
Net cash provided by operating activities		5,353,422	7,420,843
Cash flows from investing activities:			
Purchases of property and equipment		(3,040,077)	(1,809,143)
Purchases and sales of investments, net		(5,859,848)	1,238,454
Decrease in assets limited as to use		(828,882)	(1,970,871)
Net cash used in investing activities		(9,728,807)	(2,541,560)
Cash flows from financing activities:			
Repayment of long-term debt		(250,000)	(240,000)
Restricted contributions and investment income		1,625,124	2,630,403
Net cash provided by financing activities		1,375,124	2,390,403
(Decrease) increase in cash and cash equivalents		(3,000,261)	7,269,686
Cash and cash equivalents at beginning of year		20,729,208	13,459,522
Cash and cash equivalents at end of year	$	17,728,947	20,729,208
Supplemental disclosure of cash flow information:			
Cash paid during the year for interest	$	63,032	67,889

See accompanying notes to consolidated financial statements.

(1) Organization

The consolidated financial statements of Mt. Washington Pediatric Hospital, Inc. and Subsidiary (the Corporation) include the accounts of Mt. Washington Pediatric Hospital, Inc. (the Hospital) and its wholly owned subsidiary, Mt. Washington Pediatric Foundation, Inc. (the Foundation). The Corporation is structured as a joint venture with a 50% ownership interest by the University of Maryland Medical System Corporation (UMMS) and a 50% ownership interest by Johns Hopkins Health System Corporation (JHHS).

The Hospital is a not for profit, nonstock corporation formed under the laws of the State of Maryland. Its purpose is to operate a pediatric rehabilitation and specialty hospital while providing the highest quality services and programs to meet the individualized needs of infants, children, and adolescents in a nurturing environment. The Hospital has 102 licensed beds. The Foundation uses its funds and investment income to solely support the Hospital and its programs.

The Corporation incurred expenses of $467,993 and $473,773 for the years ended June 30, 2011 and 2010, respectively, for administrative services provided by UMMS. The Corporation is managed by UMMS, and accordingly, the results of the Corporation’s operations and its financial condition could be different if it were autonomous.

(2) Summary of Significant Accounting Policies

(a) Basis of Presentation

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

(b) Cash and Cash Equivalents

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

(c) 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.

(d) Investments and Assets Limited as to Use

During the year ended June 30, 2011, the Hospital transferred its investment holdings to an investment pool of one of its owners, UMMS. This investment pool is classified as a trading portfolio. Accordingly, the Hospital has transferred the portion of unrealized holding gains or losses which had previously been a component of net assets, into the excess of revenues over expenses. Each participating member of the investment pool has an undivided interest in the investment pool. The Hospital’s percentage interest in the assets of the investment pool was approximately 3% at June 30, 2011. Investment income and administrative expenses relating to the investment pool are allocated to the individual members based on this percentage.

The Hospital's investment portfolio is classified as trading, and is reported in the consolidated balance sheets at its fair value, based on quoted market prices, at June 30, 2011. Unrealized holding gains and losses on trading securities with readily determinable market value are included in nonoperating income. Investment income, including realized gains and losses, is included in nonoperating income in the accompanying consolidated statement of operations.

The Foundation's investment portfolio is classified as other-than-trading and is reported in the consolidated balance sheet at its fair value, based on quoted market prices. Changes in fair value of securities with readily determinable market values below their recorded basis are recognized in the consolidated statement of operations and changes in net assets as realized losses. Unrealized gains on investments in securities with readily determinable market values are recognized as a component of net assets. Investment income, including realized gains and losses, is included in nonoperating income in the accompanying consolidated statement of operations.

The Foundation does not have any alternative investments in its investment portfolio. However, the Hospital has alternative investments in assets limited as to use for self-insurance and the investment pool. 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.

Assets limited as to use include investments set aside at the discretion of the board of trustees for the replacement or acquisition of property and equipment over which the board of trustees retains control and may at its discretion use for other purposes, 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 sheet. Declines in fair value of these unrestricted investments below their cost basis are recognized in nonoperating income and expense. Changes in fair value of these unrestricted investments above their cost basis are recognized as unrealized gains on investments and are included in other changes in net assets. Changes in fair values of donor-restricted investments are recorded in unrestricted net assets unless otherwise required by the donor or state law to be included in the restricted fund balance.

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 amounts reported in the accompanying consolidated financial statements.

(e) Fair Value Measurements

In January 2010, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2010-06 (ASU 2010-06), *Improving Disclosures about Fair Value Measurements*. ASU 2010-06 amends Accounting Standards Codification (ASC Topic 820), *Fair Value Measurements and Disclosures*, to require a number of additional disclosures regarding fair value measurements and disclosure of the amounts of significant transfers between Level I and Level

(Continued)

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 did not have significant transfers between levels, or any Level III measurements, no additional disclosures were necessary.

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, long-term debt, and advances from third-party payors – The carrying amounts reported in the consolidated balance sheet approximate the related fair values.

(f) Self-Insurance

Under the Corporation's self-insurance programs (general and professional liability 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.

(g) Property and Equipment

Property and equipment are stated at cost or estimated fair value at date of contribution, less accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of the related assets. The estimated useful lives of the assets are as follows:

Building and leasehold improvements	25 to 40 years
Land improvements	5 to 20 years
Equipment	3 to 15 years

Interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets.

(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 using the straight-line method, which approximates the effective-interest method. Accumulated amortization of such costs amounted to $18,814 and $13,683 for the years ended June 30, 2011 and 2010, respectively.

 (Continued)

(i) Impairment of Long-Lived Assets

Management regularly evaluates whether events or changes in circumstances have occurred that could indicate impairment in the value of long-lived assets. In accordance with the provisions of ASC Topic 360, *Property, Plant, and Equipment*, if there is an indication that the carrying amount of an asset is not recoverable, management estimates the projected undiscounted cash flows, excluding interest, to determine if an impairment loss should be recognized. The amount of impairment loss is determined by comparing the historical carrying value of the asset to its estimated fair value. Estimated fair value is determined through an evaluation of recent and projected financial performance using standard industry valuation techniques.

In addition to consideration of impairment upon the events or changes in circumstances described above, management regularly evaluates the remaining lives of its long-lived assets. If estimates are changed, the carrying value of affected assets is allocated over the remaining lives.

In estimating the future cash flows for determining whether an asset is impaired, the Corporation groups its assets at the lowest level for which there are identifiable cash flows independent of other groups of assets. If such costs are impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the estimated fair value of the assets.

(j) 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.

(k) Net Patient Service Revenue and Provision for Uncollectible Accounts

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

The provision for bad debts is based upon management's assessment of historical and expected net collections considering historical business and economic conditions, trends in healthcare coverage, and other collection indicators. Periodically throughout the year, management assesses the adequacy of the allowance for uncollectible accounts based upon historical write-off experience by payor category. The results of this review are then used to make modifications to the provision for bad debts and to establish an allowance for uncollectible receivables. During the year ended June 30, 2011, the Hospital analyzed their bad debt collection rate and determined that based on current collection percentages, their current reserve rate was too high and reduced it accordingly. After collection of amounts due from insurers, the Hospital follows internal guidelines for placing certain past due balances with collection agencies.

(l) Charity Care

The Hospital provides charity care to patients who are unable to pay or who meet certain criteria under its charity care policy. Such patients are identified based on information obtained from the patient and subsequent analysis. Because the Hospital does not expect collection of amounts determined to qualify as charity care, such amounts are not reported as revenue. Charges forgone for charity service provided were $90,307 and $270,783 in the years ended June 30, 2011 and 2010, respectively.

(m) 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, change in fair value of investments and general donations and fund-raising activities.

(n) Excess of Revenues over Expenses

The consolidated statement of operations includes a performance indicator, the excess of revenues over expenses. Changes in unrestricted net assets that are excluded from the excess of revenues over expenses, consistent with industry practice, include the change in unrealized gains on investments (other-than-trading securities), 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), pension-related changes other than net periodic pension costs and other items which are required by generally accepted accounting principles to be reported separately.

(o) Income Tax Status

The Hospital is a not-for-profit corporation as described under Section 501(c)(3) of the Internal Revenue Code (the Code) and is exempt from federal income taxes on related income pursuant to Section 501(a) of the Code. The Foundation is a not-for-profit corporation formed under the laws of the State of Maryland, organized for charitable purposes and recognized by the Internal Revenue Service as a tax-exempt organization under Section 501(c)(3) of the Code.

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.

(Continued)

(p) 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. Donor-restricted contributions for operations whose restrictions are met within the same year as received are reported as unrestricted contributions in the accompanying consolidated financial statements. Revenue earned from contributed assets is considered unrestricted unless specifically restricted by the donor.

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).

(q) New Accounting Pronouncements

In July 2011, the FASB issued ASU No. 2011-07, *Health Care Entities* (Topic 954): *Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debt, and the Allowance for Doubtful Accounts*). The ASU requires health care entities that recognize significant amounts of patient service revenue to present the provision for bad debts related to patient service revenue as a deduction from patient service revenue (net of contractual allowances and discounts) on their statement of operations. This ASU is effective for the Corporation on July 1, 2012, with early adoption permitted. 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. 2010-24, *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 as 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.

In June 2009, the FASB issued guidance that eliminates the hierarchy of authoritative accounting and reporting guidance on nongovernmental GAAP and replaces it with a single authoritative source, the FASB 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.

(r) 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 the 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.

(s) Reclassifications

Certain amounts for 2010 have been reclassified to conform with the presentation for 2011.

(3) Investments and Assets Limited as to Use

The carrying value (at fair value) of assets limited or restricted as to use is summarized as follows at June 30:

	2011	2010
Cash and cash equivalents	$ 150,852	1,040,376
U.S. government and agency securities	369,089	362,893
Corporate obligations	1,963,773	2,534,691
Foreign bonds	369,698	361,211
Common stocks	7,392,725	9,393,660
Assets held by other organizations – UMMS Investment Pool	4,000,000	—
Assets held by other organizations – MMCIP	1,405,430	1,129,854
Total assets limited or restricted as to use	15,651,567	14,822,685
Less amounts available for current liabilities	(119,548)	(138,822)
Total assets limited as to use, less current portion	$ 15,532,019	14,683,863

Board-designated assets represent assets designated by the Hospital's board of trustees for future capital improvements and expansion. The board retains control of these assets and may, at its discretion, subsequently use them for other purposes. The assets consist primarily of cash and cash equivalents, fixed income securities, and equity instruments.

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. 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 long-term liabilities in the accompanying consolidated balance sheets.

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

		2011	2010
U.S. government and agency securities	$	130,911	138,982
Corporate obligations		696,522	1,202,904
Foreign bonds		131,127	138,339
Common stocks		2,622,095	4,542,555
Assets held by other organizations – UMMS Investment Pool		11,018,339	—
	$	14,598,994	6,022,780

The composition and fair values of total cash and investments held in the investment pool as of June 30, 2011 are as follows:

Cash and cash equivalents	$	42,721,303
Corporate bonds		36,232,293
Collateralized corporate obligations		68,482,673
U.S. government and agency securities		36,096,893
Common stocks		170,815,328
Alternative investments		121,945,204
	$	476,293,694
Hospital's allocation (Investments)	$	11,018,339
Hospital's allocation (Assets limited as to use)	$	4,000,000

Investment income and realized and unrealized gains for investments limited or restricted as to use and other long-term investments are summarized as follows for the years ended June 30:

		2011	2010
Interest and dividend income, net of fees	$	322,084	334,817
Net realized gains		2,298,055	1,990,668
Change in fair value of trading securities		3,959,332	—
Net change in unrealized (losses) gains on other-than-trading securities		(1,371,456)	1,008,014
	$	5,208,015	3,333,499

Total investment return is classified in the consolidated statements of operations and changes in net assets, for the years ended June 30, as follows:

		2011	2010
Nonoperating investment income	$	1,666,994	1,477,875
Investment gains on restricted net assets		1,676,909	1,137,461
Change in fair value of trading securities		3,959,332	—
Net change in unrealized (losses) gains on other-than-trading securities		(2,095,220)	718,163
	$	5,208,015	3,333,499

(4) Fair Value Measurements

As discussed in note 1(d), 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 I measurement) and the lowest priority to measurements involving significant unobservable inputs (Level III measurements). The three levels of the fair value hierarchy are as follows:

- Level I 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 II inputs are inputs other than quoted market prices including within Level I that are observable for the asset or liability, either directly or indirectly. If the asset or liability has a specified (contractual) term, a Level II input must be observable for substantially the full term of the asset or liability.
- Level III inputs are unobservable inputs for the asset or liability.

Assets and liabilities classified as Level I 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 II and Level III assets and liabilities. The market approach is a valuation technique that uses prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities. The income approach generally converts future amounts (cash flows or earnings) to a single present value amount (discounted).

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

As of June 30, 2011 and 2010, the Level II assets and liabilities listed in the fair value hierarchy tables below utilize the following valuation techniques and inputs:

Corporate and Foreign 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.

The following table presents assets and liabilities that are measured at fair value on a recurring basis, excluding alternative investments in the amount of $3,923,316 for investments and $1,424,286 for assets limited as to use which are accounted for under the equity method, as of June 30, 2011:

	Level I	Level II	Level III	Total
Investments:				
U.S. government and agency securities	$ 130,911	—	—	130,911
Corporate obligations	696,522	—	—	696,522
Foreign bonds	—	131,127	—	131,127
Common stocks	2,622,095	—	—	2,622,095
Investments held by other organizations	5,547,539	1,547,484	—	7,095,023
Subtotal	8,997,067	1,678,611	—	10,675,678
Assets limited as to use:				
Cash and cash equivalents	150,852	—	—	150,852
U.S. government and agency securities	369,089	—	—	369,089
Corporate obligations	1,963,773	—	—	1,963,773
Foreign bonds	—	369,698	—	369,698
Common stocks	7,392,725	—	—	7,392,725
Investments held by other organizations	2,013,929	1,967,215	—	3,981,144
Subtotal	11,890,368	2,336,913	—	14,227,281
	$ 20,887,435	4,015,524	—	24,902,959

(Continued)

The following table presents assets and liabilities that are measured at fair value on a recurring basis as of June 30, 2010:

	Level I	Level II	Level III	Total
Investments:				
U.S. government and agency securities	$ 138,982	—	—	138,982
Corporate obligations	894,424	308,480	—	1,202,904
Foreign bonds	—	138,339	—	138,339
Common stocks	4,542,555	—	—	4,542,555
Subtotal	5,575,961	446,819	—	6,022,780
Assets limited as to use:				
Cash and cash equivalents	1,040,376	—	—	1,040,376
U.S. government and agency securities	362,893	—	—	362,893
Corporate obligations	1,861,063	673,628	—	2,534,691
Foreign bonds	—	361,211	—	361,211
Common stocks	9,393,660	—	—	9,393,660
Investments held by other organizations	—	1,129,854	—	1,129,854
Subtotal	12,657,992	2,164,693	—	14,822,685
	$ 18,233,953	2,611,512	—	20,845,465

(5) Property and Equipment

A summary of property and equipment and related accumulated depreciation is as follows at June 30:

	2011	2010
Land and land improvements	$ 499,870	319,370
Buildings and fixed equipment	27,595,040	27,114,831
Leasehold improvements	587,779	586,651
Major moveable equipment	9,786,549	9,189,758
Minor equipment	3,076,122	2,954,644
Construction in progress	2,183,906	523,935
	43,729,266	40,689,189
Less accumulated depreciation	(25,878,469)	(24,088,362)
Property and equipment, net	$ 17,850,797	16,600,827

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 Hospital's facilities.

Depreciation expense for the years ended June 30, 2011 and 2010 amounted to $1,790,107 and $1,706,108, respectively.

The Hospital entered into a construction contract for the expansion and renovation of its hospital building. The Hospital had unspent commitments under the construction contract of approximately $4,080,000 as of June 30, 2011.

(6) Retirement Plans

Employees of the Corporation became eligible to participate in the Baltimore Washington Medical System, Inc.'s (BWMS) noncontributory defined benefit pension plan (the Plan) effective July 1, 1997. In connection with BWMS' sale of 50% interest in the Hospital, this Plan was amended effective July 1, 2006 to become a multiple employer plan whereby the assets and liabilities of this Plan related to the Corporation's participants have been transferred to the Corporation. The Plan covers employees who have completed one year of eligibility service and have reached 21 years of age.

Under the Plan, upon normal retirement, participants shall be eligible to receive benefits based on the value of their vested accrued benefit. Vested accrued benefits are calculated as the sum of: (a) the present value of a participant's accrued benefit under the previous plan as of June 30, 1989, plus (b) a percentage (3.0% for less than 15 years, 4.0% for years 15 to 19, 5.6% for years 20 to 24, and 7.2% for 25 years and higher) of the participant's annual compensation and compensation in excess of the Social Security Wage Base, as defined, plus (c) annual interest credited at a rate equal to the average yield of six-month United States Treasury Bills at the beginning of the plan year.

Vesting begins after three years of participation in the Plan. The funding policy is to make annual contributions to the Plan in amounts sufficient to satisfy the funding standards of the Employee Retirement Income Security Act of 1974. Pension expense for the defined benefit pension plan was approximately $498,000 and $450,000 for the years ended June 30, 2011 and 2010, respectively.

The Corporation also has a 403(b) retirement plan (Retirement Plan) covering substantially all employees. Employees are immediately eligible for elective deferrals of compensation as contributions to the Retirement Plan. The Retirement Plan currently has a discretionary provision for employer matching contributions.

The following table sets forth the change in the benefit obligation and plan assets as of and for the years ended June 30, the measurement date:

		2011	2010
Change in projected benefit obligations:			
Benefit obligations at beginning of year	$	4,473,217	3,331,163
Service cost		459,864	374,562
Interest cost		220,219	204,614
Amendments		—	—
Actuarial loss		(186,547)	644,766
Benefits paid		(34,456)	(81,888)
Projected benefit obligations at end of year	$	4,932,297	4,473,217
Change in plan assets:			
Fair value of plan assets at beginning of year	$	3,168,929	2,077,211
Actual return on plan assets		572,492	310,398
Employer contributions		429,597	863,208
Benefits paid		(34,456)	(81,888)
Fair value of plan assets at end of year	$	4,136,562	3,168,929
Accumulated benefit obligation at end of year	$	4,372,640	3,891,809

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

		2011	2010
Funded status, end of period:			
Fair value of plan assets	$	4,136,562	3,168,929
Projected benefit obligations		4,932,297	4,473,217
Funded status	$	(795,735)	(1,304,288)
Amounts recognized in unrestricted net assets as of June 30:			
Net actuarial loss	$	(971,738)	(1,545,807)
Unamortized prior service cost		(32,382)	(35,023)
	$	(1,004,120)	(1,580,830)

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

Net actuarial gain	$	51,076
Prior service cost		2,641
	$	53,717

The components of net periodic pension cost for the years ended June 30 is as follows:

		2011	2010
Service cost	$	459,864	374,562
Interest cost		220,219	204,614
Expected return on plan assets		(253,090)	(186,109)
Amortization of prior service cost		2,641	2,641
Amortization of actuarial loss		68,120	54,511
Net periodic pension cost	$	497,754	450,219

The information below related to the assumptions relates to the entire Plan. Certain information related to the Corporation is not separately identifiable.

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

	2011	2010
Discount rate	5.25%	5.00%
Rate of compensation increase	5.00	5.00

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

	2011	2010
Discount rate	5.00%	6.00%
Expected long-term return on plan assets	7.75	8.00
Rate of compensation increase	5.00	5.00

All of the Plan's assets are held in the UMMS Master Pension Trust (the Master Trust), which was established during the year ended June 30, 2011 for the investment assets of multiple-sponsored retirement plans. Each participating plan has an undivided interest in the Master Trust. The Plan's percentage interest in the net assets of the Master Trust was approximately 4% at June 30, 2011. Investment income and administrative expenses relating to the Master Trust are allocated to the individual plans based on this percentage.

The fair values of total cash and investments held in the Master Trust as of June 30, 2011 are as follows:

Cash and cash equivalents	$	6,692,505
Common and preferred stocks		6,676,862
Equity mutual funds		27,617,424
Fixed income mutual funds		23,449,037
Other mutual funds		10,273,370
Hedge funds		27,602,484
Total Master Trust cash and investments	$	102,311,682
Plan's interest in Master Trust	$	4,136,562

The investment policies of the Master Trust 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 Master Trust 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 Master Trust considered the current level of expected returns on risk-free investments, the historical level of the risk premium associated with the other asset classes in which the portfolio is invested, and the expectations for future returns of each asset class. The expected return for each asset class was then weighted based on the target allocation to develop the expected long-term rate of return on assets assumption for the portfolio.

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

		Percentage of plan assets as of June 30	
Asset category	**Target allocation**	**2011**	**2010**
Cash and cash equivalents	0 – 10%	7%	22%
Equity securities	30 – 50%	27	42
Fixed income securities	25 – 45%	39	18
Global asset allocation	10 – 20%	17	—
Hedge funds	5 – 15%	10	18
		100%	100%

Equity and fixed income securities include investments in hedge fund of funds that are categorized in accordance with the fund's respective investment holdings. At June 30, 2010, the Corporation was in the process of implementing changes to its investment classification which required the liquidation of certain assets, resulting in more cash was 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 Master Trust's and the Plan's allocated share of investments as of June 30, 2011 aggregated by the three level valuation hierarchies as described in note 4:

		Level I	Level II	Level III	Total
Cash and cash equivalents	$	6,692,505	—	—	6,692,505
Common and preferred stocks		6,676,862	—	—	6,676,862
Equity mutual funds		27,617,424	—	—	27,617,424
Fixed income mutual funds		23,449,037	—	—	23,449,037
Other mutual funds		10,273,370	—	—	10,273,370
Alternative investments		—	17,293,411	10,309,073	27,602,484
	$	74,709,198	17,293,411	10,309,073	102,311,682
The Plan's allocation	$	3,020,567	699,190	416,805	4,136,562

The table below presents the Corporation's portion of investable assets of the defined benefit pension plan as of June 30, 2010 aggregated by the three level valuation hierarchies as described in note 4:

		Level I	Level II	Level III	Total
Cash and cash equivalents	$	370,544	315,387	—	685,931
Corporate obligations		580,715	—	—	580,715
Common and preferred stocks		1,046,065	—	—	1,046,065
Equity mutual funds		—	—	275,010	275,010
Hedge funds		—	—	581,208	581,208
	$	1,997,324	315,387	856,218	3,168,929

Changes to Level I and Level II inputs between June 30, 2010 and June 30, 2011 were the result of strategic investments and reinvestments, interest income earnings, and changes in the fair value of investments. Changes in Level III investments between 2010 and 2011 were due to investing in the Master Trust which has a different investment strategy than the Plan's previous investments.

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

	Fund 1	Fund 2
Redemption timing:		
Redemption frequency	Monthly	Quarterly
Required notice	20 days	70 days
Audit reserve:		
Percentage held back for audit reserve	—%	5%
Gates:		
Potential gate holdback	None	None
Potential gate release timeframe	N/A	N/A

The Corporation expects to contribute approximately $700,000 to its defined benefit pension plans for the fiscal year ending June 30, 2012.

The following benefit payments, which reflect expected future employee service, as appropriate, are expected to be paid from plan assets in the following years ending June 30:

2012	$ 75,439
2013	113,251
2014	140,674
2015	147,639
2016	138,124
2017 – 2021	1,463,654

The expected benefits to be paid are based on the same assumptions used to measure the Corporation’s benefit obligation at June 30, 2011 and 2010.

(7) Leases

The Corporation rents office and clinical space from Prince George’s County Hospital. Total rent expense for the years ended June 30, 2011 and 2010 was $82,198 and $79,863, respectively. The lease is month to month, and therefore, there are no future obligations on the lease.

(8) Functional Expenses

The Corporation considers healthcare services and management and general to be its primary functional categories for purposes of expense classification. Depreciation and interest costs are allocated ratably to each classification. The Hospital's operating expenses by functional classification for the years ended June 30 is as follows:

		2011	2010
Healthcare services	$	39,485,570	39,594,326
Management and general		6,968,042	6,987,234
	$	46,453,612	46,581,560

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

Most of the Corporation's revenues are subject to review and approval by the Maryland Health Services Cost Review Commission (HSCRC). Hospital management has filed the required forms with the Commission and believes the Hospital to be in compliance with the Commission's requirements.

The current rate of reimbursement for services to patients under the Medicare and Medicaid programs is based on an agreement between the Center for Medicare and Medicaid Services (CMS) and the Commission. This agreement is based upon a waiver from Medicare reimbursement principles under Section 1814(b) of the Social Security Act and will continue as long as third-party payors elect to be reimbursed under this program and the rate of increase for costs per hospital inpatient admission is below the national average. Management believes that this program will remain in effect at least through June 30, 2012.

Patient service revenue is recorded at established rates regulated by the Commission. Such rates are adjusted prospectively giving effect to, among other things, the projected impact of inflation, and variances between actual unit rates and previously approved unit rates (price variances) during the previous year.

The timing of the Commission's adjustment for the Hospital could result in an increase or reduction in rates (revenue) due to the variances described above in a year subsequent to the year in which the variances occur. The Corporation's policy is to accrue revenue based on actual charges for services to patients in the year in which the services are performed.

(10) Long-Term Debt

Long-term debt, including current maturities of Maryland Health and Higher Education Facilities Authority Series D Revenue Bonds, totaled $6,830,000 and $7,080,000 at June 30, 2011 and 2010, respectively. The bonds were issued on November 1, 2007, interest payable monthly at a variable rate payable in fiscal years 2010 through 2029. Interest rates during fiscal year 2011 ranged from 0.08% to 0.40%.

(Continued)

The annual future maturities of long-term debt according to the original terms of the Loan Agreement in each of the next five fiscal years are as follows:

2012	$	260,000
2013		280,000
2014		285,000
2015		305,000
2016		315,000
Thereafter		5,385,000
	$	6,830,000

The Corporation's Series D Revenue Bonds are variable rate demand bonds requiring remarketing agents to purchase and remarket any bonds tendered before the stated maturity date. To provide liquidity support for the timely payment of any bonds that are not successfully remarketed, the Corporation has entered into a Security Agreement with Bank of America and obtained an irrevocable Letter of Credit for $7,668,740. 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, at the sole discretion of Bank of America, to require full repayment of the outstanding balance on the mandatory prepayment date, which is on or after November 1, 2012, as defined in the Loan Agreement. The Corporation has reflected the current portion of its long-term debt that is subject to these remarketing arrangements as a component of current liabilities. As of June 30, 2011, the Corporation did not have any amounts outstanding on the letter of credit.

The following table for the years ended June 30 reflects the approximate required repayment terms of the Corporation's debt obligations in the event that the put options associated with variable rate demand bonds subject to the remarketing agreement were exercised, but the related bonds were not successfully remarketed:

2012	$	260,000
2013		6,570,000
	$	6,830,000

The Loan Agreement contains certain restrictive covenants, including requirements that rates and charges be set at certain levels, that incurrence of additional debt be limited, and that compliance with certain operating ratios be maintained. As further security under the Loan Agreement, the Foundation has guaranteed the Corporation's repayment of principal and interest due on the bonds.

(11) Insurance

(a) Professional Liability Insurance

In connection with the affiliation agreement with UMMS and effective July 1, 2006, the Corporation became self-insured with respect to professional and general liability through its participation in the Maryland Medicine Comprehensive Insurance Program Self Insurance Trust (the Trust). The

(Continued)

Corporation is self-insured for claims up to the limits of $1,000,000 on individual claims and $3,000,000 in the aggregate on an annual basis. For amounts in excess of these limits, the risk of loss has been transferred to the Terrapin Insurance Company (Terrapin), an unconsolidated joint venture of UMMS. For the year ended June 30, 2011, Terrapin provided insurance for claims related to UMMS and the Corporation for claims in excess of $1,000,000 on individual claims and $3,000,000 in the aggregate up to $75,000,000 individually and $75,000,000 in the aggregate under modified claims made policies between the aforementioned entities and Terrapin. For claims in excess of Terrapin's coverage limits, if any, the Corporation retains the risk of loss.

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 that 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.

The Corporation may become involved in claims and litigation on malpractice matters that 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.

Total malpractice insurance expense for the Corporation in 2011 and 2010 was $148,610 and $679,595, respectively.

(b) Workers' Compensation

The Corporation is insured against workers' compensation claims through membership in the Maryland Hospital Association Workers' Compensation Self-Insurance Group. Premiums are paid quarterly and adjusted yearly based on the group's actual experience.

(c) Health Insurance

The Corporation maintains a self-insurance plan for employee health insurance. The Corporation has accrued $421,842 and $482,161 as of June 30, 2011 and 2010, respectively, for estimated claims incurred but not reported.

(12) Business and Credit Concentrations

The Corporation provides services to patients in the Baltimore Metropolitan area, the majority of whom are under the age of 18 and are covered by third-party health insurance or state Medicaid programs. Insurance coverage and credit information is obtained from patients upon admission when available. The Corporation bills the insurer directly for services provided. No collateral is obtained for accounts receivable.

(Continued)

Gross receivables from patients and third-party payors consisted of the following at June 30:

	2011	2010
Medicaid	44%	63%
Blue Cross	26	20
Commercial insurance and HMO	29	16
Self-pay and others	1	1
	100%	100%

Gross patient service revenue, by payor class, consisted of the following at June 30:

	2011	2010
Medicaid	71%	75%
Blue Cross	12	11
Commercial insurance and HMO	16	13
Self-pay and others	1	1
	100%	100%

(13) Endowment

The Corporation's endowment consists of four individual funds established based on donor-restrictions. Net assets associated with endowment funds are classified and reported based on the existence of donor-imposed restrictions.

(a) Interpretation of Relevant Law

The board of trustees has interpreted UPMIFA as requiring that donor-restricted endowment funds be managed with the long-term objective of at least maintaining the real value (after inflation) of the funds. 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 directions 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 board of trustees in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, 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

(Continued)

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. The other resources of the Corporation
7. The investment policies of the Corporation

Endowment net assets consist of the following as of June 30, 2011:

		Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor-restricted endowment funds	$	—	5,042,329	825,171	5,867,500
Board-designated endowment funds		—	4,435,483	—	4,435,483
Total endowed net assets	$	—	9,477,812	825,171	10,302,983

Endowment net assets consist of the following as of June 30, 2010:

		Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor-restricted endowment funds	$	—	4,095,570	825,171	4,920,741
Board-designated endowment funds		—	5,047,724	—	5,047,724
Total endowed net assets	$	—	9,143,294	825,171	9,968,465

Changes in endowment net assets for the year ended June 30, 2011 are as follows:

		Unrestricted	Temporarily restricted	Permanently restricted	Total
Endowment net assets, July 1, 2010	$	—	9,143,294	825,171	9,968,465
Investment return		—	334,518	—	334,518
Endowment net assets, July 1, 2011	$	—	9,477,812	825,171	10,302,983

(b) Funds with Deficiencies

From time to time, the fair value of assets associated with an individual donor-restricted endowment fund may fall below the original value of the fund. As of June 30, 2011, there have been no deficiencies of this nature. Subsequent gains that restore the fair value of the assets of the endowment fund to the required level will be classified as an increase in unrestricted net assets, as appropriate.

(c) Return Objectives and Risk Parameters

The Foundation has adopted investment and funding policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Under the investment policy, as approved by the board of trustees, the endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results of a benchmark that includes the S&P 500, Barclays Government/Credit, and T-Bill Index while assuming a moderate level of investment risk. The Foundation expects its endowment funds, over three to five years, to provide an average annual real rate of return of at least 5%. Actual returns in any given year may vary from this amount.

(d) Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, the Foundation 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 Foundation targets a diversified asset allocation that places emphasis on investments in equities, bonds, cash, and cash equivalents in a ratio to achieve its long-term return objectives within prudent risk constraints.

(e) Funding Policy and How the Investment Objectives Relates to Funding Policy

The Foundation has historically distributed to the Hospital an amount equal to approximately 5% after investment expenses of the average assets of the Foundation. The terms and provisions of the original endowment subfunds must be honored in considering the Hospital's requests. Funding requests are submitted to the Foundation for approval by the Hospital annually. In determining distributions, the Foundation considered the expected and actual return on the endowment.

(Continued)

(14) Temporarily and Permanently Restricted Net Assets

The Corporation classifies net assets based on the existence or absence of donor-imposed restrictions.

Temporarily and permanently restricted net assets consisted of the following at June 30:

		2011	2010
Temporarily restricted net assets:			
Funds to be used for programs and outdoor area	$	177,551	74,259
Callaway Fund		26,383	26,383
Endowment funds to be used for 2nd floor renovation		4,000,000	5,342,392
Endowment funds, other		5,477,812	3,800,902
Total	$	9,681,746	9,243,936
Permanently restricted net assets:			
Eliasberg Fund	$	5,000	5,000
White Fund		150,576	150,576
Williams Fund		86,829	86,829
Redman Fund		582,766	582,766
Total	$	825,171	825,171

(15) Certain Significant Risks and Uncertainties

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

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

The healthcare industry is subject to numerous laws and regulations from federal, state, and local governments. The Corporation's compliance with these laws and regulations can be subject to periodic governmental review and interpretation, which can result in regulatory action unknown or unasserted at this time. Management is aware of certain asserted and unasserted legal claims and regulatory matters arising in the ordinary course of business, none of which, in the opinion of management, is 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 Medicaid anti-fraud and abuse laws and physician self-referral laws (STARK law and regulation). Recent federal initiatives have prompted a national review of federally funded healthcare programs. In addition, the federal government and many states have implemented programs to audit and recover potential overpayments to providers from the Medicaid program. The Corporation has implemented a compliance program to monitor conformance with applicable laws and regulations, but the possibility of future government review and enforcement action exists.

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

(16) Subsequent Events

The Corporation evaluated all events and transaction that occurred after June 30, 2011 and through October 27, 2011. The Corporation did not have any material recognizable subsequent events during the period.

Schedule 1

**MT. WASHINGTON PEDIATRIC HOSPITAL, INC.
AND SUBSIDIARY**

Consolidating Balance Sheet Information

June 30, 2011

Assets		Mt. Washington Pediatric Hospital, Inc.	Mt. Washington Pediatric Foundation, Inc.	Elimination entries	Consolidated total
Current assets:					
Cash and cash equivalents	$	15,507,758	2,221,189	—	17,728,947
Current portion of assets limited as to use		119,548	—	—	119,548
Patient accounts receivable, less allowance for doubtful accounts of $1,865,402		5,682,019	—	—	5,682,019
Other accounts receivable		56,201	—	—	56,201
Inventories of supplies		122,165	—	—	122,165
Prepaid expenses and other current assets		551,912	25,734	(116,665)	460,981
Total current assets		22,039,603	2,246,923	(116,665)	24,169,861
Investments		11,018,339	3,580,655	—	14,598,994
Assets limited as to use, less current portion:					
Board-designated funds		4,017,500	—	—	4,017,500
Eliasberg Second Floor Construction Fund		—	4,000,000	—	4,000,000
Funds restricted by donor		96,087	6,095,285	—	6,191,372
Funds restricted – Capital Campaign		—	—	—	—
Self-insurance trust funds		1,323,147	—	—	1,323,147
		5,436,734	10,095,285	—	15,532,019
Property and equipment, net		17,850,797	—	—	17,850,797
Economic interest in net assets of the Foundation		15,806,198	—	(15,806,198)	—
Other assets		254,171	—	—	254,171
Total assets	$	72,405,842	15,922,863	(15,922,863)	72,405,842
Liabilities and Net Assets					
Current liabilities:					
Current portion of long-term debt	$	260,000	—	—	260,000
Trade accounts payable		2,294,411	—	—	2,294,411
Accrued payroll benefits		3,098,217	—	—	3,098,217
Advances from third-party payors		3,538,985	—	—	3,538,985
Current portion of malpractice and other self-insurance liabilities		82,283	—	—	82,283
Due to affiliates		363,762	116,665	(116,665)	363,762
Total current liabilities		9,637,658	116,665	(116,665)	9,637,658
Other long-term liabilities:					
Malpractice and other self-insurance liabilities		740,546	—	—	740,546
Accrued pension obligations		795,735	—	—	795,735
Long-term debt, less current portion		6,570,000	—	—	6,570,000
Total liabilities		17,743,939	116,665	(116,665)	17,743,939
Net assets:					
Unrestricted		44,079,465	5,476,833	(5,401,312)	44,154,986
Temporarily restricted		9,757,267	9,504,194	(9,579,715)	9,681,746
Permanently restricted		825,171	825,171	(825,171)	825,171
Total net assets		54,661,903	15,806,198	(15,806,198)	54,661,903
Total liabilities and net assets	$	72,405,842	15,922,863	(15,922,863)	72,405,842

See accompanying independent auditors' report.

**MT. WASHINGTON PEDIATRIC HOSPITAL, INC.
AND SUBSIDIARY**

Consolidating Balance Sheet Information

June 30, 2010

Assets	Mt. Washington Pediatric Hospital, Inc.	Mt. Washington Pediatric Foundation, Inc.	Elimination entries	Consolidated total
Current assets:				
Cash and cash equivalents	$ 19,179,952	1,549,256	—	20,729,208
Current portion of assets limited as to use	138,822	—	—	138,822
Patient accounts receivable, less allowance for doubtful accounts of $1,164,058	4,124,417	—	—	4,124,417
Other accounts receivable	52,768	—	—	52,768
Inventories of supplies	123,527	—	—	123,527
Prepaid expenses and other current assets	366,867	25,767	—	392,634
Total current assets	23,986,353	1,575,023	—	25,561,376
Investments	2,709,020	3,313,760	—	6,022,780
Assets limited as to use, less current portion:				
Board-designated funds	4,187,986	—	—	4,187,986
Eliasberg Second Floor Construction Fund	—	4,000,000	—	4,000,000
Funds restricted by donor	36,994	4,652,456	—	4,689,450
Funds restricted – Capital Campaign	788,130	—	—	788,130
Self-insurance trust funds	1,018,297	—	—	1,018,297
	6,031,407	8,652,456	—	14,683,863
Property and equipment, net	16,600,827	—	—	16,600,827
Economic interest in net assets of the Foundation	13,541,239	—	(13,541,239)	—
Other assets	332,792	—	—	332,792
Total assets	$ 63,201,638	13,541,239	(13,541,239)	63,201,638
Liabilities and Net Assets				
Current liabilities:				
Current portion of long-term debt	$ 250,000	—	—	250,000
Trade accounts payable	2,882,282	—	—	2,882,282
Accrued payroll benefits	2,909,569	—	—	2,909,569
Advances from third-party payors	3,544,251	—	—	3,544,251
Current portion of malpractice and other self-insurance liabilities	111,557	—	—	111,557
Due to affiliates	49,707	—	—	49,707
Total current liabilities	9,747,366	—	—	9,747,366
Other long-term liabilities:				
Malpractice and other self-insurance liabilities	1,004,014	—	—	1,004,014
Accrued pension obligations	1,304,288	—	—	1,304,288
Long-term debt, less current portion	6,830,000	—	—	6,830,000
Total liabilities	18,885,668	—	—	18,885,668
Net assets:				
Unrestricted	34,246,863	4,888,783	(4,888,783)	34,246,863
Temporarily restricted	9,243,936	7,827,285	(7,827,285)	9,243,936
Permanently restricted	825,171	825,171	(825,171)	825,171
Total net assets	44,315,970	13,541,239	(13,541,239)	44,315,970
Total liabilities and net assets	$ 63,201,638	13,541,239	(13,541,239)	63,201,638

See accompanying independent auditors' report.

Schedule 3

MT. WASHINGTON PEDIATRIC HOSPITAL, INC.
AND SUBSIDIARY

Consolidating Statement of Operations and Changes in Net Assets Information

Year ended June 30, 2011

	Mt. Washington Pediatric Hospital, Inc.	Mt. Washington Pediatric Foundation, Inc.	Elimination entries	Consolidated total
Unrestricted revenue and other support:				
Net patient service revenue	$ 50,087,871	—	—	50,087,871
Other revenue	563,269	—	(268,487)	294,782
Total unrestricted revenue and other support	50,651,140	—	(268,487)	50,382,653
Operating expenses:				
Salaries, wages, and benefits	31,989,461	—	—	31,989,461
Purchased services	12,124,000	—	—	12,124,000
Interest expense	67,663	—	—	67,663
Depreciation	1,790,107	—	—	1,790,107
Provision for bad debts	482,381	—	—	482,381
Total operating expenses	46,453,612	—	—	46,453,612
Operating income	4,197,528	—	(268,487)	3,929,041
Nonoperating income and expenses:				
Contributions	138,188	—	—	138,188
Investment income	1,078,127	588,867	—	1,666,994
Change in fair value of investments	3,959,332	—	—	3,959,332
Support from Mt. Washington Pediatric Foundation, Inc.	—	(450,132)	450,132	—
Total nonoperating income and expense	5,175,647	138,735	450,132	5,764,514
Excess of revenues over expenses	9,373,175	138,735	181,645	9,693,555
Change in unrealized (losses) gains on other-than-trading securities	(2,544,535)	449,315	—	(2,095,220)
Net assets released from restrictions used for the purchase of property and equipment upon donor request	1,839,202	—	(106,124)	1,733,078
Change in funded status of defined benefit plan	576,710	—	—	576,710
Change in economic interest in the Foundation	588,050	—	(588,050)	—
Increase in unrestricted net assets	9,832,602	588,050	(512,529)	9,908,123
Changes in temporarily restricted net assets:				
Contributions	1,122,113	—	(450,132)	671,981
Investment income, net	—	953,145	—	953,145
Net unrealized gains on long-term investments	—	723,764	—	723,764
Change in economic interest in the Foundation	1,676,909	—	(1,676,909)	—
Net assets released from restrictions used for the purchase of property and equipment	(1,839,202)	—	106,124	(1,733,078)
Net assets released from restrictions used for operations	(446,489)	—	268,487	(178,002)
Increase in temporarily restricted net assets	513,331	1,676,909	(1,752,430)	437,810
Total increase in net assets	10,345,933	2,264,959	(2,264,959)	10,345,933
Net assets, beginning of year	44,315,970	13,541,239	(13,541,239)	44,315,970
Net assets, end of year	$ 54,661,903	15,806,198	(15,806,198)	54,661,903

See accompanying independent auditors' report.

Schedule 4

MT. WASHINGTON PEDIATRIC HOSPITAL, INC.
AND SUBSIDIARY

Consolidating Statement of Operations and Changes in Net Assets Information

Year ended June 30, 2010

	Mt. Washington Pediatric Hospital, Inc.	Mt. Washington Pediatric Foundation, Inc.	Elimination entries	Consolidated total
Unrestricted revenue and other support:				
Net patient service revenue	$ 48,719,456	—	—	48,719,456
Other revenue	283,504	—	(102,000)	181,504
Total unrestricted revenue and other support	49,002,960	—	(102,000)	48,900,960
Operating expenses:				
Salaries, wages, and benefits	31,195,169	—	—	31,195,169
Purchased services	12,157,907	—	—	12,157,907
Interest expense	69,561	—	—	69,561
Depreciation	1,706,108	—	—	1,706,108
Provision for bad debts	1,452,815	—	—	1,452,815
Total operating expenses	46,581,560	—	—	46,581,560
Operating income	2,421,400	—	(102,000)	2,319,400
Nonoperating income and expenses:				
Contributions	765,866	—	—	765,866
Investment income	909,396	568,479	—	1,477,875
Support from Mt. Washington Pediatric Foundation, Inc.	—	(102,000)	102,000	—
Total nonoperating income and expense	1,675,262	466,479	102,000	2,243,741
Excess of revenues over expenses	4,096,662	466,479	—	4,563,141
Change in unrealized gains on other-than-trading securities	536,514	181,649	—	718,163
Net assets released from restrictions used for the purchase of property and equipment upon donor request	456,639	—	—	456,639
Change in funded status of defined benefit plan	(463,326)	—	—	(463,326)
Change in economic interest in the Foundation	648,128	—	(648,128)	—
Increase in unrestricted net assets	5,274,617	648,128	(648,128)	5,274,617
Changes in temporarily restricted net assets:				
Contributions	1,782,793	—	—	1,782,793
Investment income, net	—	847,610	—	847,610
Net unrealized gains (losses) on long-term investments	—	289,851	—	289,851
Change in economic interest in the Foundation	1,137,461	—	(1,137,461)	—
Net assets released from restrictions used for the purchase of property and equipment	(456,639)	—	—	(456,639)
Net assets released from restrictions used for operations	(107,071)	—	—	(107,071)
Increase in temporarily restricted net assets	2,356,544	1,137,461	(1,137,461)	2,356,544
Total increase in net assets	7,631,161	1,785,589	(1,785,589)	7,631,161
Net assets, beginning of year	36,684,809	11,755,650	(11,755,650)	36,684,809
Net assets, end of year	$ 44,315,970	13,541,239	(13,541,239)	44,315,970

See accompanying independent auditors' report.