Suburban Hospital, Inc. and Controlled Entities

Consolidated Financial Statements
June 30, 2011 and 2010

Suburban Hospital, Inc. and Controlled Entities
Index
June 30, 2011 and 2010

REPORT OF INDEPENDENT AUDITORS

Board of Trustees
Suburban Hospital, Inc. and Controlled Entities

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

As discussed in Note 1 to the consolidated financial statements, SHI changed the manner in which it classifies certain of its investments in 2011.

PricewaterhouseCoopers LLP

September 28, 2011

Suburban Hospital, Inc. and Controlled Entities
Consolidated Balance Sheets
June 30, 2011 and 2010
(in thousands)

	2011	2010
ASSETS		
Current assets:		
Cash and cash equivalents	$ 19,061	$ 16,914
Short term investment	200	-
Patients accounts receivable, net of estimated uncollectibles of $5,900 and $4,321 as of June 30, 2011 and 2010, respectively	33,616	24,950
Due from others	2,370	2,724
Current portion assets whose use is limited	4,144	6,250
Due from affiliates	229	444
Inventories of supplies	7,502	7,655
Prepaid expenses and other current assets	4,475	3,988
Total current assets	71,597	62,925
Assets whose use is limited		
By donors or grantors for:		
Pledges receivable	1,942	1,834
Other	20,943	17,733
By Board of Trustees	73,576	53,890
Malpractice funding arrangements	3,270	2,737
Other	2,901	2,382
Total assets whose use is limited	102,632	78,576
Property, plant and equipment	302,633	293,396
Less: allowance for depreciation and amortization	(186,617)	(173,478)
Total property, plant and equipment, net	116,016	119,918
Investments in joint ventures	420	372
Other assets	2,800	2,867
Total assets	$ 293,465	$ 264,658

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

Suburban Hospital, Inc. and Controlled Entities
Consolidated Balance Sheets
June 30, 2011 and 2010, continued
(in thousands)

	2011	2010
LIABILITIES AND NET ASSETS		
Current liabilities:		
Current portion of long-term debt and obligations under capital leases	$ 3,933	$ 4,546
Accounts payable and accrued liabilities	29,170	25,934
Accrued vacation	6,953	6,860
Accrued interest	554	543
Advances from third-party payers	8,406	6,405
Due to affiliates	448	-
Current portion of estimated malpractice costs	1,296	735
Total current liabilities	50,760	45,023
Long-term debt and obligations under capital leases, net of current portion	71,625	75,687
Estimated malpractice costs, net of current portion	2,406	1,800
Accrued pension liability	4,851	11,201
Other long-term liabilities	6,648	6,531
Total liabilities	136,290	140,242
Net assets:		
Unrestricted	134,290	104,849
Temporarily restricted	12,094	8,875
Permanently restricted	10,791	10,692
Total net assets	157,175	124,416
Total liabilities and net assets	$ 293,465	$ 264,658

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

Suburban Hospital, Inc. and Controlled Entities
Consolidated Statements of Operations and Other Changes in Unrestricted Net Assets
For The Years Ended June 30, 2011 and 2010
(in thousands)

	2011	2010
Operating revenues:		
Net patient service revenue	$ 241,456	$ 225,127
Other revenue	11,576	12,083
Investment income	1,187	1,343
Net assets released from restrictions used for operations	2,168	2,274
Total operating revenues	256,387	240,827
Operating expenses:		
Salaries, wages and benefits	119,322	117,372
Purchased services and other	42,934	37,034
Supplies	55,132	53,650
Interest	1,055	1,660
Provision for bad debt	10,355	8,962
Depreciation and amortization	13,888	13,831
Total operating expenses	242,686	232,509
Income from operations	13,701	8,318
Non-operating revenues and expenses:		
Interest expense on swap agreement	(936)	(934)
Change in market value of swap agreement	485	(1,008)
Realized and unrealized gains (losses) on investments	(771)	949
Net cumulative unrealized gains transferred to trading securities	8,050	-
Excess of revenues over expenses	20,529	7,325
Unrestricted net assets:		
Unrealized gains (losses) on investments	11,126	6,154
Net cumulative unrealized gains transferred to trading securities	(8,050)	-
Change in funded status of defined benefit plan	5,337	1,481
Net assets released from restrictions used for purchase of property, plant and equipment	499	186
Total change in unrestricted net assets	$ 29,441	$ 15,146

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

Suburban Hospital, Inc. and Controlled Entities
Consolidated Statements of Changes in Net Assets
For The Years Ended June 30, 2011 and 2010
(in thousands)

	2011	2010
Unrestricted net assets:		
Excess of revenues over expenses	$ 20,529	$ 7,325
Unrealized gains (losses) on investments	11,126	6,154
Net cumulative unrealized gains transferred to trading securities	(8,050)	-
Change in funded status of defined benefit plan	5,337	1,481
Net assets released from restrictions used for purchase of property, plant and equipment	499	186
Total change in unrestricted net assets	29,441	15,146
Temporarily restricted net assets:		
Gifts, grants and bequests	3,335	1,721
Investment gains (losses) and provision for uncollectible pledges	2,551	1,007
Net assets released from restrictions used for operations	(2,168)	(2,274)
Net assets released from restrictions used for purchase of property, plant and equipment	(499)	(186)
Total change in temporarily restricted net assets	3,219	268
Permanently restricted net assets:		
Contributions	99	1
Total change in permanently restricted net assets	99	1
Increase (decrease) in net assets	32,759	15,415
Net assets at beginning of period	124,416	109,001
Net assets at end of period	$ 157,175	$ 124,416

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

Suburban Hospital, Inc. and Controlled Entities
Consolidated Statements of Cash Flows
For The Years Ended June 30, 2011 and 2010
(in thousands)

	2011	2010
Operating activities:		
Change in net assets	$ 32,759	$ 15,415
Adjustments to reconcile change in net assets to cash and cash equivalents provided by operating activities:		
Depreciation and amortization	13,888	13,831
Provision for bad debts	10,355	8,962
Change in funded status of defined benefit plans	(5,337)	(1,481)
Change in market value of swap agreements	(485)	1,008
Change in net realized and unrealized (gains) losses on investments	(12,747)	(8,467)
Contributions to temporarily and permanently restricted net assets	(692)	(1,211)
Distributions from joint venture partners	(48)	576
Equity in earnings of business ventures	-	(589)
Other operating activities	2,006	454
Change in assets and liabilities:		
Patient accounts receivable and due from others	(16,653)	(11,266)
Pledges receivable	(131)	2,462
Inventories of supplies, prepaid expenses and other assets	(357)	(636)
Due from affiliates	663	583
Accounts payable and accrued liabilities	2,126	(90)
Accrued vacation	93	89
Advances from third party payors	2,001	(225)
Accrued pension costs	(1,012)	3,053
Estimated malpractice costs	606	(648)
Net cash and cash equivalents provided by operating activities	27,035	21,820
Investing activities:		
Purchase of property, plant and equipment	(10,735)	(11,693)
Purchases of investment securities	(79,352)	(44,007)
Sales of investment securities	70,018	53,085
Other investing activities	(936)	(934)
Net cash and cash equivalents used in investing activities	(21,005)	(3,549)
Financing activities:		
Contributions to temporarily and permanently restricted net assets	692	1,211
Repayment of short-term line of credit	-	(4,000)
Repayment of long-term debt and obligations under capital lease	(4,575)	(3,997)
Net cash and cash equivalents used in financing activities	(3,883)	(6,786)
Increase in cash and cash equivalents	2,147	11,485
Cash and cash equivalents at beginning of year	16,914	5,429
Cash and cash equivalents at end of year	$ 19,061	$ 16,914

Supplemental disclosures of cash flow information:
Cash paid for interest in the years ended June 30, 2011 and 2010 was $1,130,000 and $1,868,000, respectively

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

1. Organization and Summary of Significant Accounting Policies

Acquisition by The Johns Hopkins Health System Corporation. Effective June 30, 2009, The Johns Hopkins Health System Corporation became the sole corporate member of Suburban Hospital Healthcare System, Inc. ("SHHS"). At that time, Suburban Hospital, Inc. (the "Hospital" or "SHI") was a wholly owned subsidiary of SHHS. On January 19, 2010, The Johns Hopkins Health System Corporation became the sole corporate member of the Hospital.

Organization. The Hospital, located in Bethesda, Maryland, is a not-for-profit acute care hospital. The Hospital provides inpatient, ambulatory and ancillary services on both an emergent and scheduled basis. Admitting physicians are primarily practitioners of the local area. The Hospital is a not-for-profit corporation as described in Section 501(c)(3) of the Internal Revenue Code.

The Hospital is the sole member of Suburban Physicians Assistant Associates, LLC ("SPAA"). SPAA is a Section 501(c)(3) organization established July 1, 2002, as a separate billing entity for the purpose of recovering expenses associated with the services provided by the Hospital's physician assistants.

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

Effective June 30, 2009, the Hospital also became the sole member of Suburban Hospital Foundation ("Foundation"). The Foundation is a not-for-profit, non-stock corporation organized to conduct community outreach activities and raise funds to be used exclusively for the charitable, educational, medical and scientific needs of the community, as well as to manage and distribute funds received on behalf of the Hospital and its related entities.

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 disclosures 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 consolidated financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Principles of consolidation. The consolidated financial statements include the accounts of the Hospital and its controlled entities, SPAA and the Foundation. All inter-company accounts and transactions have been eliminated in consolidation.

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

Inventories of supplies. Inventories of supplies are composed of medical supplies and drugs. Inventories of drugs and supplies are stated at the 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 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 investments set aside by the Board of Trustees, over which the Board retains control and may, at its discretion, subsequently use for any purpose. Also included are assets held by trustees under indenture agreements, investments for an executive benefit plan, pledges receivable from donors and a professional liability self-insurance trust. The carrying amounts reported in the Consolidated Balance Sheets approximated fair value.

Valuation of investments. Investments in equity securities with readily determinable fair values and all investments in debt securities are recorded at fair value in the Consolidated Balance Sheets (see Note 4). Debt and equity securities traded on a national securities and 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 Statements of Operations as an unrealized gain or loss within excess of revenues over expenses.

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

On April 1, 2011, SHI changed the classification of certain investments to a trading portfolio from available for sale. Accordingly, cumulative unrealized gains of $8.1 million were reclassified from unrestricted net assets to non-operating income included ' within the Consolidated Statement of Operations and Changes in Net Assets. This change was made as management's intent with respect to the nature of the investment portfolios has changed.

Investments in companies in which the Hospital 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 the related operating results are reported as investment income on the Consolidated Statement of Operations and Other Changes in Net Assets. Dividends paid are recorded as a reduction of the carrying amount of the investment.

Investments in companies in which the Hospital does not have control, nor has the ability to exercise significant influence over operating and financial policies are accounted for using the cost method of accounting. Investments are originally recorded at cost, with dividends received being recorded as investment income.

Property, plant and equipment. Property, plant and equipment acquisitions are recorded at cost. Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed using the straight-line method. Equipment under capital lease obligations is amortized on the straight-line method over the shorter period of lease term or estimated useful life of the equipment. Estimated useful lives assigned by the Hospital range from three to ten years for land improvements, 17 to 40 years for buildings and improvements, three to twenty years for fixed and movable equipment, and five to seventeen years for leasehold improvements. Interest costs incurred on borrowed funds, net of interest earned, during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets. Repair and maintenance costs are expensed as incurred. When property, plant and equipment are retired, sold or otherwise disposed of, the asset’s carrying amount and related accumulated depreciation are removed from the accounts and any gain or loss is included in operations.

The cost of software is capitalized provided the cost is at least $2,000 and the expected life is at least two years. Costs include payment to vendors for the purchase of software and assistance in its installation, payroll costs of employees directly involved in the software installation, and the interest costs of the software project. Preliminary costs to document system requirements, vendor selection, and any costs before software purchase are expensed. Capitalization of costs will generally end when the project is completed and is ready to be used. Where implementation of the project is in phases, only those costs incurred which further the development of the project will be capitalized. Costs incurred to maintain the system are expensed.

Impairment of long-lived assets. Long-lived assets are reviewed for impairment when events and circumstances indicate that the carrying amount of an asset may not be recoverable. The Hospital’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. Long-lived assets to be disposed of are reported at the lower of the carrying amount or fair value less cost to sell. There were no impairment charges recorded for the years ended June 30, 2011 and 2010.

Financing expenses. Financing expenses incurred in connection with the issuance of the Maryland Health and Higher Educational Facilities Authority (“MHHEFA”) series bonds have been capitalized and are included in Other assets in the Balance Sheet. Unamortized financing expenses were $710 thousand and $782 thousand as of June 30, 2011 and 2010, respectively. These expenses are being amortized over the terms of the related bond issues using the effective interest method. Amortization expense for years ended June 30, 2011 and 2010 was $72 thousand and $68 thousand, respectively.

Accrued vacation. The Hospital 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 the Hospital (see Note 8) 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 Consolidated 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 Consolidated 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.

The 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 the Hospital with the swap counterparty for the difference between the threshold amount and the fair value. As of June 30, 2011 and 2010 the threshold has not been exceeded and no collateral has been deposited.

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 as restricted by the donor or for general program support.

Donor restricted gifts. Unconditional promises to give cash and other assets are reported at fair value at the date the promise is received. Unconditional promises to give cash to the Hospital greater than one year are discounted using a rate of return that a market participant would expect to receive 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 Consolidated 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 consolidated financial statements.

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

Excess of revenues over expenses. The Consolidated Statements of Operations and Changes in Net Assets include excess of revenues over expenses. Changes in unrestricted net assets which are excluded from excess of revenues over expenses, consistent with industry practice, include, among other items, 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 or 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. The Hospital, SPAA, and Foundation are exempt from federal income tax under section 501(c)(3) of the Internal Revenue Code as public charities. Federal tax law requires that the Hospital, SPAA, and Foundation be operated in a manner consistent with their initial exemption applications in order to maintain their exempt status. Management has analyzed the operations of the Hospital, SPAA, and Foundation concluded that they remain in compliance with the requirements for exemption. The state in which the Hospital, SPAA, and Foundation operate also recognizes this exemption for state income tax purposes.

FASB's guidance on accounting for uncertainty in income taxes clarifies the accounting for uncertainty of income tax positions. This guidance defines the threshold for recognizing tax return positions in the financial statements as "more likely than not" that the position is sustainable, based on its technical merits. This guidance also provides guidance on the measurement, classification and disclosure of tax return positions in the financial statements. The Hospital 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

The Hospital has agreements with third-party payers that provide for payments to the Hospital 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 payers. 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 $31.4 and $29.4 million for the years ended June 30, 2011 and 2010, respectively.

The Hospital 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 the Hospital does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. Charges for these services, measured at the Hospital's established rates, amounted to $4 and $4.1 million for the years ended June 30, 2011 and 2010, respectively.

Patient accounts receivable as of June 30 consistent of the following:

	2011	**2010**
Medicare Program	27%	29%
Medicaid Program	5%	5%
Blue Cross and Blue Shield	16%	16%
Other self-pay and third-party payors	49%	47%
Medicaid Managed Care Organizations	3%	3%

3. Pledges Receivable

As of June 30, 2011, the total value of pledges net of discount and allowance for uncollectible pledges was $1.9 million. These amounts have been discounted at rates ranging from .6% to 1.8% and consist of the following (in thousands):

	1 Year	2-5 Years	5 Years or Greater	Totals
Building project/general fund	$ 416	$ 1,632		$ 2,048
ED/Trauma	763	175		938
Volunteer services	11			11
Annual fund campaign	30	40		70
	$ 1,220	$ 1,847	$ -	$ 3,067
Discount				(142)
Allowance for uncollectible				(983)
				$ 1,942

As of June 30, 2010, the total value of pledges net of discount and allowance for uncollectible pledges was $1.8 million. These amounts have been discounted at rates ranging from 2.42% to 4.76% and consist of the following (in thousands):

	1 Year	2-5 Years	5 Years or Greater	Totals
Building project/general fund	$ 312	$ 1,244	$ 8	$ 1,564
ED/Trauma	661	575	-	1,236
Cardiovascular	-	10	-	10
Volunteer services	13	12	-	25
Education	100	-	-	100
Annual fund campaign	51	44	10	105
	$ 1,137	$ 1,885	$ 18	$ 3,040
Discount				(247)
Allowance for uncollectible				(959)
				$ 1,834

4. Fair Value Measurements

FASB's guidance on the fair value option for financial assets and financial liabilities permits companies to choose to measure many financial assets and liabilities, and certain other items at fair value. This guidance requires a company to record unrealized gains and losses on items for which the fair value option has been elected in its performance indictor. 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. The Hospital did not elect fair value accounting for any assets or liabilities that was not currently required to be measured at fair value.

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

This FASB's guidance establishes 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 were no financial instruments requiring Level 3 classification at June 30, 2011 and 2010.

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.

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

Assets	Total Fair Value	Level 1	Level 2
Cash equivalents (1)	$ 14,783	$ 14,783	$ -
CD (1)	200		$ 200
U.S. treasury notes and bonds (2)	8,462		8,462
Corporate bonds (2)	8,609		8,609
Mortgage backed securities (2)	7,285		7,285
Equity and equity funds (3)	43,835	7,177	36,658
Fixed income funds (4)	11,269		11,269
Totals	$ 94,443	$ 21,960	$ 72,483
Liabilities			
Interest rate swap agreements (5)	$ 3,471	$ -	$ 3,471

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

Assets	Total Fair Value	Level 1	Level 2
Cash equivalents (1)	$ 21,353	$ 21,353	$ -
U.S. treasury notes and bonds (2)	5,753	-	5,753
Corporate bonds (2)	5,852	-	5,852
Mortgage backed securities (2)	2,542	-	2,542
Equity index funds (3)	52,893	14,561	38,332
Totals	$ 88,393	$ 35,914	$ 52,479
Liabilities			
Interest rate swap agreements (5)	$ 3,956	$ -	$ 3,956

(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. 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. Fair value is based on quotes for similar securities; therefore these investments 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 the Hospital 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 excluding capital leases was $75.5 and $80.2 million as of June 30, 2011 and 2010, respectively.

The Hospital holds alternative investments that are not traded on national exchanges or over-the counter markets. The Hospital 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 the Hospital's alternative investments.

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

Description		Fair Market Value	Liquidity	Notice Period	Receipt of Proceeds
Global asset allocation	$	15,702	Monthly	5-14 days	Within 15 days, or 95% within 1 day, 5% after 12th business day of the month
Fund of funds	$	8,272	Monthly, quarterly or annually	30-60 days	Within 5 days, or 95% in 1-30 days, 5% within 60 days or after annual audit
Hedge fund	$	934	Quarterly	60 days	95% within 30 days of redemption date, 5% within 120 days of redemption date
	$	24,908			

The following table displays information by major alternative investment category as of June 30, 2010:

Description		Fair Market Value	Liquidity	Notice Period	Receipt of Proceeds
Fund of funds	$	2,177	Annually	65 days	Within 30 days, or 90% within 30 days, 10% after annual audit
Fund of funds	$	1,637	Quarterly	45 days	Within 30 days, or 90% within 30 days, 10% after annual audit
Long/short equity fund	$	853	Quarterly	60 days	Within 30 days, or 90% within 30 days, 10% after annual audit
	$	4,667			

5. Investments and Assets Whose Use is Limited

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

	2011		2010	
	Cost	Carrying Amount	Cost	Carrying Amount
Cash and cash equivalents	$ 371	$ 449	$ 3,000	$ 3,000
US treasury notes and bonds	9,925	8,462	5,423	5,753
Corporate bonds	10,895	8,609	2,448	2,542
Mortgage backed securities	9,105	7,285	5,597	5,852
Equity and equity funds	50,211	55,121	60,933	52,893
Alternative investments	22,482	24,910	10,671	12,952
Pledges receivable	1,942	1,942	1,834	1,834
	104,931	106,778	89,906	84,826
Less current portion of assets whose use is unlimited	4,138	4,146	6,038	6,250
	$ 100,793	$ 102,632	$ 83,868	$ 78,576

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

	2011	2010
Realized gains (losses) on investments	$ (2,899)	$ (202)
Unrealized gains (losses) on alternative investments	10,178	1,151
	$ 7,279	$ 949

The following tables show the gross unrealized losses and fair value of the Hospital's investments and assets whose use is limited with unrealized losses that are not deemed to be other-than-temporarily impaired, aggregated by investment category and length of time that 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
Government obligations	$ -	$ -	$ -	$ -	$ -	$ -
Corporate bonds	192	20	1,842	381	2,034	401
Equities	202	36	34,122	9,127	34,324	9,163
Mortgage backed securities	-	-	90	16	90	16
Total	$ 394	$ 56	$ 36,054	$ 9,524	$ 36,448	$ 9,580

There were 74 investment positions in an unrealized loss position as of June 30, 2010. The unrealized loss on the government obligations, corporate bonds, and mortgage backed securities were caused by interest rate increases. The contractual terms of those investments do not permit the issuer to settle the securities at a price less than the amortized cost of the investment. The equities are invested in broad based index funds and have fluctuated between an unrealized gain and loss position since acquisition and based on management's impairment policy, The Hospital did not consider these investments to be other-than-temporarily impaired as of June 30, 2010. Starting April 1, 2011, SHI discontinued its evaluation of investments for other than temporary impairment due to its change in investment portfolio classification.

Premier Purchasing Partners, L.P. ("Premier") is a California based for-profit, limited partnership in which the Hospital has an investment (0.2%). Premier provides group purchasing services principally by negotiating contracts for medical, surgical, and other supplies and services.

Colonial Regional Alliance ("CRA") is a Maryland based not-for-profit, limited liability company in which the Hospital has an investment (12.6%). CRA is a regional group purchasing organization serving healthcare facilities located in Maryland and Virginia for the purpose of purchasing healthcare supplies, equipment and services from both regional and national vendors.

Investments recorded under the cost method as of June 30 consisted of the following (in thousands):

Entity	Method	Ownership Percentage	2011	2010
Premier Purchasing Partners	Cost	0.2%	$ 390	$ 342
Colonial Regional Alliance	Cost	12.6%	30	30
			$ 420	$ 372

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	Accumulated Depreciation and Amortization	Cost	Accumulated Depreciation and Amortization
Land and land improvements	$ 996	$ 523	$ 1,008	$ 495
Building and improvements	159,362	82,303	152,162	77,270
Fixed and moveable equipment	106,691	90,444	109,325	84,425
Capitalized software	27,345	13,347	14,489	11,288
Construction in progress	8,239	-	16,412	-
	$ 302,633	$ 186,617	$ 293,396	$ 173,478

Accruals for purchases of property, plant and equipment as of June 30, 2011 and 2010 amounted to $385,000 and $1,533,000, respectively, and are included in accounts payable and accrued liabilities in the Consolidated Balance Sheets. Depreciation and amortization expense for the years ended June 30, 2011 and 2010 amounted to $13.9 and $13.8 million, respectively.

7. Debt

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

	2011		2010	
	Current Portion	Long-Term Portion	Current Portion	Long-Term Portion
MHHEFA Bonds and Notes:				
2004 Series - Revenue Bonds - including original issue premium of $311 and $411 as of June 30, 2011 and 2010, respectively	$ 2,200	$ 16,016	$ 2,875	$ 18,316
2008 Series - Revenue Bond	1,435	54,855	1,385	56,290
Capital leases	298	754	286	1,081
	$ 3,933	$ 71,625	$ 4,546	$ 75,687

Obligated Group
SHI and SHHS were admitted into the Johns Hopkins Health System Obligated Group ("JHHS Obligated Group") in 2010 as part of a plan of debt refinancing. The JHHS Obligated Group consists of Johns Hopkins Hospital ("JHH"), Johns Hopkins Bayview Medical Center, Inc. ("JHBMC"), SHI, and SHHS. The 2004 JHBMC Commercial Paper Series B, the SHI 2004 Series A Revenue Bonds, the JHBMC 2008 Variable Rate Demand Bonds Series A, the JHH and JHBMC Pooled Loan Program Issue Series 1985A and 1985B debt, the JHH 1990, 2001 and 2008 Series Revenue Bonds, the JHH 2004 Commercial Paper Series A and C, the JHH 2007 Commercial Paper Series D, the JHH 2008 Commercial Paper Series E and F, the SHI 2008 Series Revenue Bonds, the JHH 2010 Series Revenue Bonds are parity debt, and as such are collateralized equally and ratably by a claim on and a security interest in all of JHH's, JHBMC's, SHI's, and SHHS' receipts as defined in the Master Loan Agreement with MHHEFA. JHH, JHBMC, SHI and SHHS are required to achieve a defined minimum debt service coverage ratio each year, maintain adequate insurance coverage, and comply with certain restrictions on their ability to incur additional debt. As of June 30, 2011, JHH, JHBMC, SHI, and SHHS were in compliance with these requirements. As of June 30, 2011 and 2010, the outstanding JHH, JHBMC, SHI, and SHHS parity debt was $946.0 million and $963.5 million, respectively.

2004 Series A – Revenue Bonds
In June 2004, the Obligated Group which consisted of SHHS and the Hospital ("SHHS Obligated Group") issued $72.4 million principal amount of Revenue Bonds, Series 2004 A and B. The proceeds of the bonds were used to advance refund the remaining balance of the Series 1993 bonds. The 2004A bonds consist of $7.6 million of Serial bonds due in annual installments beginning July 1, 2005 at interest rates between 4.4% and 5.5%, and $8.2 million term bond due on July 1, 2016 at a rate of 5.5%. Interest is payable semiannually on January 1 and July 1 of each year on the fixed rate Series 2004A bonds. The bond premium is being amortized over the term of the remaining 2004 bond.

2008 Series Revenue Bonds
In November 2008, the SHHS Obligated Group issued $58.5 million principal amount of MHHEFA Revenue Bonds, Series 2008. The 2008 bonds are due in annual installments beginning July 1, 2009 and bear interest at a daily rate, weekly rate, commercial paper rates, or long term rate as selected by the issuer and payable at varying periods depending on the interest rate type. The rates for the years ended June 30, 2011 and 2010 were approximately .08% and 0.25%,

respectively. Annual sinking fund installments from July 1, 2011, and range from $1.4 to $6.2 million. The proceeds of the bonds were used to advance refund the remaining balance of the Series 2004B bonds and to finance or refinance the acquisition, construction, renovations or equipping of healthcare facilities. There was a loss on the refinancing of $350,000.

For the debt of the Hospital described above, total maturities of debt and sinking fund requirements, excluding capital leases, during the next five fiscal years and thereafter are as follows as of June 30, 2011 (in thousands):

2012	$	3,635
2013		4,145
2014		3,945
2015		4,095
2016		6,490
2017 and thereafter		51,885
	$	74,195

For the debt of the Hospital described above, interest expense incurred in the years ended June 30, 2011 and 2010, in thousands, are $1,055 and $1,660, respectively. For the years ended June 30, 2011 and 2010 there are no interest costs capitalized.

Capital Leases

The Hospital leases certain equipment under capital leases. The original cost of the assets under capital leases included in property and equipment at June 30, 2011 and 2010 is $1,473,000. Accumulated depreciation on equipment held under capital leases was $479,000 and $160,000 at June 30, 2011 and 2010, respectively. Depreciation expense on these assets is included within depreciation expense in the Consolidated Statements of Operations and Other Changes in Unrestricted Net Assets.

The future minimum lease payments required under the Hospital's capital leases are as follows (in thousands):

		Capital Lease Payments
2012	$	339
2013		339
2014		339
2015		147
2016		-
Total minimum lease payments		1,164
Interest on capital lease obligations		(83)
Net minimum lease payments		1,081
Less: current obligations under capital leases		298
Long term capital lease obligations	$	783

8. Derivative Financial Instruments

The Hospital'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 $25 million as of June 30, 2011 and 2010.

The Hospital 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. The Hospital's derivative financial instrument is an interest rate swap agreement without hedge accounting designation.

The value of the interest rate swap agreement entered into by the Hospital is 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 Consolidated 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. The hospital does not hold derivative instruments for the purpose of managing credit risk and limits the amount of credit exposure to any one counterparty and enters into derivative transactions with high quality counterparties. The Hospital recognizes gains and losses from changes in fair values of interest rate swap agreements as a non-operating revenue or expense within the excess of revenues over expenses on the Consolidated Statements of Operations and Changes in Net Assets.

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

	Derivatives reported as liabilities			
	2011		2010	
	Balance Sheet Caption	Fair Value	Balance Sheet Caption	Fair Value
Interest rate swaps not designated as hedging instruments	Other long-term liabilities	$ 3,471	Other long-term liabilities	$ 3,956

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

Classification of derivative loss in Statement of Operations	Amount of loss recognized in change in unrestricted net assets	
	2011	2010
Interest rate swaps:		
Non-operating expense	$ 485	$ (1,008)

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

In May 2004, the SHHS Obligated Group entered into a fixed payer interest rate swap agreement with J.P. Morgan in connection with the issuance of Series 2004B tax-exempt floating rate securities (which was refinanced by the 2008 Series Revenue Bonds) with a notional amount of $25.0 million. This swap agreement carries a term of 17 years from the effective date with payments beginning July 1, 2004. The SHHS Obligated Group will pay J.P. Morgan a fixed annual rate of 3.9% on the notional amount of the swap agreement in return for the receipt of a floating rate of interest equal to 68% of the one month LIBOR rate. The floating rate payments from the interest rate swap agreements are intended to substantially offset the floating rate of the debt issue. The floating rates as of June 30, 2011 and 2010 was .08% and 0.24%, respectively.

9. Temporarily and Permanently Restricted Net Assets

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

	2011	2010
Health care services	$ 8,969	$ 4,185
Property, plant, and equipment	2,860	4,535
Indigent care	5	5
Health education	260	150
	$ 12,094	$ 8,875

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

	2011	2010
Student scholarships	$ 4,158	$ 4,157
Health education	868	770
Other healthcare services	5,765	5,765
	$ 10,791	$ 10,692

The Board of Trustees of the Foundation has interpreted UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds, plus a percentage of investment income approximating the rate of inflation to preserve their future purchasing power, absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the organization in a manner consistent with the standard of prudence prescribed by UPMIFA.

Endowment Funds with Deficits
From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the value of the initial and subsequent donor gift amounts (deficit). When donor endowment deficits exist, they are classified as a reduction of unrestricted net assets. Deficits of this nature reported in unrestricted net assets from unfavorable market conditions were $0 at June 30, 2011 and 2010, respectively. Future market gains will be used to restore this deficiency in unrestricted net assets before any net appreciation above the historical cost value of such funds increases temporarily restricted net assets.

Endowment Spending and Relationship of Spending Policy to Investment Objectives
Unless a gift agreement states otherwise, the Foundation determines the amount available to be spent, up to 5% of the permanently restricted fund balance, in the next fiscal year on each January 31, so long as a balance in the corresponding temporarily restricted account is available. Expenditures from restricted funds are approved by the appropriate director or executive identified in the restricted purpose documentation and by the Foundation executive. The authorization is subject to the Hospital's purchasing authorization policy and procedures.

Return Objectives and Risk Parameters and Strategies Employed for Achieving Investment Objectives
Donor-restricted endowment funds are co-invested with the board-designated funds of the Hospital and SHHS, at the direction of the investment committee of the Hospital. Investment gains and losses are allocated proportionately to the amount of Foundation funds represented in SHHS's reserve account. The Hospital makes regular reports to the Foundation of the investment performance of the reserve account. The reserve account is structured for long term growth with a broadly diversified mix of asset classes and styles. All purchases, withdrawals and transfers related to the reserve accounts require board approval. The fund also invests in international equity to reduce volatility and reliance on domestic financial markets. The target for the actual asset mix is reviewed by the investment committee at least annually and compared to the benchmarks.

The endowment funds as of June 30 are as follows (in thousands):

	2011		2010	
	Permanently Restricted	Temporarily Restricted	Permanently Restricted	Temporarily Restricted
Student scholarships	$ 4,158	$ 182	$ 4,157	$ 83
Health education	868	94	770	66
Other healthcare services	5,765	3,466	5,765	1,259
	$ 10,791	$ 3,742	$ 10,692	$ 1,408

The Foundation had the following endowment activities during the years ended June 30, 2011 and 2010 delineated by net asset class and donor restriction versus board designated funds (in thousands):

	2011		2010	
	Permanently Restricted	Temporarily Restricted	Permanently Restricted	Temporarily Restricted
Net appreciation (depreciation)	$ -	$ 2,553	$ -	$ 1,545
Contributions	99	-	1	-
Amounts appropriated for expenditure	-	(219)	-	(137)
Total change in endowment funds	99	2,334	1	1,408
Beginning balance	10,692	1,408	10,691	-
Ending balance	$ 10,791	$ 3,742	$ 10,692	$ 1,408

10. Pension Plan

The Hospital sponsors a defined benefit pension plan (the “Plan”) covering substantially all of their employees. The retirement income benefits are based on a combination of years of service and compensation at various points of service. The FASB’s guidance on employer’s accounting for defined benefit pension and other postretirement plans requires that the funded status of defined benefit postretirement plans be recognized on the Hospital’s consolidated Balance Sheets, and changes in the funded status be reflected as a change in net assets.

The funding policy of the Hospital is to make sufficient contributions to meet the Internal Revenue Service minimum funding requirements. Assets in the plans as of June 30, 2011 and 2010 consisted of cash and cash equivalents, listed stocks, corporate bonds, government securities, and alternative investments. All assets are managed by external investment managers, consistent with the plan’s investment policy.

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

	2011	2010
Change in benefit obligation		
Benefit obligation at beginning of the year	$ 41,680	$ 37,954
Service cost	2,724	2,463
Interest cost	2,378	2,337
Actuarial (gain) loss	(28)	856
Benefits paid	(2,289)	(1,930)
Benefit obligation as of June 30	$ 44,465	$ 41,680
Change in plan assets		
Fair value of plan assets at beginning of year	$ 30,879	$ 28,325
Return on plan assets	6,047	2,619
Employer contributions	4,977	1,865
Benefits paid	(2,289)	(1,930)
Fair value of plan assets at end of year	$ 39,614	$ 30,879
Funded Status as of June 30		
Fair value of plan assets	$ 39,614	$ 30,879
Projected benefit obligation	(44,465)	(41,680)
Funded Status	$ (4,851)	$ (10,801)

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

	2011	2010
Net pension liability	$ (4,851)	$ (10,801)

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

	2011	2010
Actuarial net loss	$ 13,498	$ 18,968
Prior service cost	(853)	(1,013)
	$ 12,645	$ 17,955
Accumulated benefit obligation	$ 44,231	$ 41,420

Net Periodic Pension Cost

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

	2011	2010
Service cost	$ 2,724	$ 2,463
Interest cost	2,378	2,337
Expected rate of return on plan assets	(2,552)	(2,278)
Amortization of prior service cost	(160)	(160)
Amortization of actuarial loss	1,946	2,181
Net periodic benefit cost	$ 4,336	$ 4,543

The actuarial net loss and prior service cost (credit) for the Plan that will be amortized from unrestricted net assets into net periodic benefit cost in 2011 are $1,195 and ($160), respectively.

The assumptions used in determining net periodic pension cost for the Plan is as follows for the years ended June 30:

	2011	2010
Discount rate	6.04 %	6.50 %
Expected return on plan assets	8.25 %	8.25 %
Rate of compensation increase	3.00 %	4.00 %

The assumptions used in determining the benefit obligations for the Plan is as follows as of July 1:

	2011	2010
Discount rate	6.03 %	6.04 %
Expected return on plan assets	8.25 %	8.25 %
Rate of compensation increase	3.00 %	3.00 %

The expected rate of return on 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

The weighted average asset allocations as of June 30 by asset category are as follows:

	2011	2010
Asset Category		
Cash equivalents	4.5%	2.9 %
Equities and equity funds	35.8%	56.1 %
Alternatives	44.1%	18.2 %
Fixed income Funds	15.6%	22.8 %
Total	100.0%	100.0 %

Plan assets are invested among and within various asset classes in order to achieve sufficient diversification in accordance with the Hospital's 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 market participants at the measurement date. The three-tier hierarchy prioritizes the inputs used in measuring fair value as follows:

- Level 1 – Observable inputs such as quoted market prices for identical assets or liabilities in active markets;
- Level 2 – Observable inputs for similar assets or liabilities in an active market, or other than quoted prices in an active market that are observable either directly or indirectly; and
- Level 3 – Unobservable inputs in which there is little or no market data that require the reporting entity to develop its own assumptions. There were no financial instruments requiring Level 3 classification at June 30, 2011 and 2010.

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

As of June 30, 2011

Assets	Total Fair Value	Level 1	Level 2
Cash equivalents (1)	$ 1,763	$ -	$ 1,763
Equities and equity funds (2)	14,193	-	14,193
Fixed income Funds (3)	6,183	5,679	504
Alternatives (4)	17,475	-	17,475
Total	$ 39,614	$ 5,679	$ 33,935

As of June 30, 2010

Assets	Total Fair Value	Level 1	Level 2
Cash equivalents (1)	$ 890	$ 890	$ -
Equity Index funds (3)	29,989	19,065	10,924
Total	$ 30,879	$ 19,955	$ 10,924

(1) Cash equivalents include investments with original maturities of three months or less and overnight investments. Computed prices and frequent evaluation versus market value render the other investments level 2.

(2) Equities include individual equities. Equity funds include investments in commingled trusts and hedge funds. 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 Plan holds alternative investments that are not traded on national exchanges or over-the counter markets. The Plan 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 the Plan's alternative investments.

The following table displays information by major alternative investment category as of June 30, 2011 and 2010:

As of June 30, 2011

Description	Fair Market Value	Liquidity	Notice Period	Receipt of Proceeds
Global asset allocation	$ 7,657	Monthly	5 - 30 days	(1)
Fund of funds	5,454	Mthly, Qtrly, Annual	30 to 65 days	(2)
Hedge Fund	2,038	Mthly or Qtrly	30-65 days	(3)
Credit Fund	1,569	Annual	60-90 days	(4)
Distressed Credit	757	31-Dec-13		
	$ 17,475			

(1) Within 15 days, or 95% on redemption date and 5% on third business day
(2) Within 5 to 30 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

As of June 30, 2010

Description	Fair Market Value	Liquidity	Notice Period	Receipt of Proceeds
Fund of funds	$ 2,469	Annually	65 days	Within 30 days, or 90% within 30 days, 10% after annual audit
Fund of funds	1,611	Quarterly	45 days	Within 30 days, or 90% within 30 days, 10% after annual audit
Long/short equity funds	848	Quarterly	60 days	Within 30 days, or 90% within 30 days, 10% after annual audit
	$ 4,928			

Contributions and Estimated Future Benefit Payments (unaudited)
The Hospital expects to contribute $4.1 million to the Plan in the fiscal year ending June 30, 2012.

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	$	4,958
2013		4,198
2014		4,147
2015		4,141
2016		3,989
2017 - 2021		19,711

11. Maryland Health Services Cost Review Commission (“Commission” or “HSCRC”)

The Hospital charges are subject to review and approval by the Commission. The Hospital's management has filed the required forms with the Commission and believes the Hospital is in compliance with Commission requirements. The total rate of reimbursement for services to patients under the Medicare and Medicaid programs is based on an agreement between the Center for Medicare and Medicaid Services and the Commission. Management believes that this program will remain in effect at least through June 30, 2012. Effective April 1, 1999, the Commission developed a methodology to control inpatient hospital charges, and the Hospital elected to be paid under that methodology. The methodology established a charge per admission cap for each hospital. The hospital specific charge per admission is adjusted annually to reflect cost inflation, and is also adjusted for changes in the hospital’s case mix index. Certain highly tertiary inpatient cases such as solid organ transplants, bone marrow transplants and certain oncology cases are treated as exclusions from the charge per case methodology.

Effective July 1, 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 Commission approves hospital rates on a departmental unit rate basis. Individual unit rates are the basis for hospital reimbursement for inpatient excluded cases and for hospital outpatient excluded services. Under the Commission rate methodology, amounts collected for services to patients under the Medicare and Medicaid programs are computed at approximately 94% of Commission approved charges. Other payors are eligible to receive up to a 2.25% discount on prompt payment of claims.

12. Professional and General Liability Insurance

The Hospital maintains a self-insurance program for professional liability and patient general liability claims, up to a maximum of $1.0 million per claim with an annual aggregate maximum of $3.0 million. Excess liability coverage is purchased above these limits to $15.0 million per claim with a $15.0 annual aggregate maximum. A professional liability trust fund has been established to pay the self-insured portion of professional liability and general liability claims. Additionally, a liability has been recorded for unpaid reported and incurred but not reported claims. The liability as determined by an independent actuary has been discounted at a rate of 1.2% and 2.0% at June 30, 2011 and 2010, respectively.

Professional and general liability insurance expense /(refund) incurred by the Hospital was $1,496,000 and ($647,000) for the years ended June 30, 2011 and 2010, respectively. Reserves were $3.7 and $2.5 million as of June 30, 2011 and 2010, respectively.

13. Related Party Transactions

During the years ended June 30, 2011 and 2010, the Hospital and its affiliate engaged in transactions with certain unconsolidated affiliates. There were no significant intercompany profits that were eliminated.

The Hospital performs treasury management functions for the SHHS and its affiliates. Settlement of inter-company balances is performed each reporting period.

The Hospital provided loans to two officers of the Hospital and to various nursing employees to assist with relocation and to encourage retention totaling $257,000 and $325,000 at June 30, 2011 and 2010, respectively. The loans accrued interest at a rate of 4% to 6% per annum. Principal and accrued interest on the loans were forgiven over a specified service period ranging from 2 to 6 years. Any amount forgiven was considered income to the recipients. The Hospital’s expense was $330,000 and $378,000 for the years ending June 30, 2011 and 2010, respectively.

Johns Hopkins Community Physicians (“JHCP”) ensures that appropriate practice management services are provided, that quality physicians and staff are recruited, that patient-centered care will be consistently delivered, and that the practice will operate effectively and efficiently for initiatives that SHI seeks JHCP to own, manage and operate. During the year ended June 30, 2011, SHI incurred expenses of $3.7 million related to such 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 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	$	2,098
2013		1,321
2014		166
2015		158
2016		149
Thereafter		284
Total minimum lease payments	$	4,176

Rental expense for all operating leases for the years ended June 30, 2011 and 2010 amounted to $3.6 and $4.1 million, respectively.

There are several lawsuits pending in which the Hospital has been named as a defendant. In the opinion of the Hospital's management, after consultation with legal counsel, the potential liability, in the event of adverse settlement, will not have a material impact on the Hospital's financial position.

15. Functional Expenses

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

		2011		2010
Healthcare services	$	199,443	$	194,877
Management and general		40,462		34,444
Fundraising services		1,117		1,314
Program services		1,664		1,874
	$	242,686	$	232,509

16. Subsequent Events

Subsequent events have been evaluated by management through September 28, 2011, which is the date the financial statements were issued.

Supplemental Information

REPORT OF INDEPENDENT AUDITORS ON SUPPLEMENTAL INFORMATION

Board of Trustees
Suburban Hospital, Inc. and Controlled Entities

The report on our audit of consolidated financial statements of Suburban Hospital, Inc. and Controlled Entities as of June 30, 2011 and 2010 and for the years then ended appear on page 1 of this document. That audit was conducted for the purpose of forming an opinion on the consolidated statements taken as a whole. The consolidating information is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position, results of operations and cash flows of the individual companies. Accordingly, we do not express an opinion on the results of operations of the individual companies. However, the consolidating information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the consolidated statements taken as a whole

PricewaterhouseCoopers LLP

September 28, 2011

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Suburban Hospital, Inc. and Controlled Entities
Consolidating Statement of Operations and Other Changes in Unrestricted Net Assets
June 30, 2011

The 2011 operating performance for Suburban Hospital, Inc. and its controlled entities, Suburban Physicians Assistant Associates, LLC and Suburban Hospital Foundation, Inc. is presented below in a consolidating format.

	Suburban Hospital, Inc.	Suburban Hospital Foundation, Inc.	Suburban Physicians Assistant Associates, LLC	Eliminating Entries	Consolidated Suburban Hospital, Inc.
Operating revenues:					
Net patient service revenue	$ 241,071	$ -	$ 385	$ -	$ 241,456
Other revenue	12,818	421	-	(1,663)	11,576
Investment income	931	256	-	-	1,187
Net assets released from restrictions used for operations		2,168	-	-	2,168
Total operating revenue	254,820	2,845	385	(1,663)	256,387
Operating expenses:					
Salaries, wages and benefits	115,401	810	3,111	-	119,322
Purchased services and other	42,341	2,164	92	(1,663)	42,934
Supplies	55,119	13	-	-	55,132
Interest	1,055	-	-	-	1,055
Provision for bad debt	10,355	-	-	-	10,355
Depreciation and amortization	13,887	1	-	-	13,888
Total operating expenses	238,158	2,988	3,203	(1,663)	242,686
Income (loss) from operations	16,662	(143)	(2,818)	-	13,701
Interest expense on swap agreement	(936)				(936)
Change in market value of swap agreement	485				485
Realized and unrealized gains (losses) on investments	(89)	(682)	-	-	(771)
Net cumulative unrealized gains transferred to trading securities	5,507	2,543	-	-	8,050
Excess of revenues over expenses (expenses over revenues)	21,629	1,718	(2,818)	-	20,529
Unrealized gains (losses) on investments	8,561	2,565		-	11,126
Net cumulative unrealized gains transferred to trading securities	(5,507)	(2,543)		-	(8,050)
Change in funded status of defined benefit plan	5,337			-	5,337
Net assets transferred from Suburban Hospital Foundation, Inc. used for capital acquisitions	499			-	499
Equity transfer from Hospital	(2,928)	-	2,928	-	-
Increase (decrease) in unrestricted net assets	$ 27,591	$ 1,740	$ 110	$ -	$ 29,441