



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

Consolidated Financial Statements and Schedules

June 30, 2012 and 2011

(With Independent Auditors' Report Thereon)

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

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KPMG LLP
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Baltimore, MD 21202-1128

Independent Auditors' Report

The Board of Directors
University of Maryland Medical System Corporation:

We have audited the accompanying consolidated balance sheets of the University of Maryland Medical System Corporation and Subsidiaries (the Corporation) as of June 30, 2012 and 2011, and the related consolidated statements of operations, changes in net assets, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the University of Maryland Medical System Corporation and Subsidiaries as of June 30, 2012 and 2011, and the results of their operations, changes in their net assets, and their cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

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

KPMG LLP

October 26, 2012

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

Consolidated Balance Sheets

June 30, 2012 and 2011

(In thousands)

Assets	2012	2011
Current assets:		
Cash and cash equivalents	\$ 279,909	217,517
Assets limited as to use, current portion	43,089	40,114
Accounts receivable:		
Patient accounts receivable, less allowance for doubtful accounts of \$140,089 and \$161,124 as of June 30, 2012 and 2011, respectively	289,752	262,421
Other	25,126	24,579
Inventories	35,372	32,181
Swap collateral posted	121,802	41,276
Prepaid expenses and other current assets	16,774	10,595
Total current assets	811,824	628,683
Investments	446,127	406,850
Assets limited as to use, less current portion	453,034	505,466
Property and equipment, net	1,444,090	1,298,650
Deferred financing costs, net	7,168	7,547
Investments in joint ventures	166,803	169,220
Other assets	127,051	9,925
Total assets	\$ 3,456,097	3,026,341
Liabilities and Net Assets		
Current liabilities:		
Trade accounts payable	\$ 188,815	154,995
Accrued payroll and benefits	149,694	128,420
Advances from third-party payors	119,923	96,012
Lines of credit	102,000	54,600
Other current liabilities	106,377	87,643
Long-term debt subject to short-term remarketing arrangements	52,621	166,765
Current portion of long-term debt	53,928	24,242
Total current liabilities	773,358	712,677
Long-term debt, less current portion and amount subject to short-term remarketing arrangements (including \$53,824 of long term debt carried at fair value at June 30, 2012)	1,011,569	869,372
Other long-term liabilities	226,512	87,858
Interest rate swap liabilities	217,756	105,400
Total liabilities	2,229,195	1,775,307
Net assets:		
Unrestricted	1,125,068	1,142,835
Temporarily restricted	67,140	75,656
Permanently restricted	34,694	32,543
Total net assets	1,226,902	1,251,034
Total liabilities and net assets	\$ 3,456,097	3,026,341

See accompanying notes to consolidated financial statements.

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

Consolidated Statements of Operations

Years ended June 30, 2012 and 2011

(In thousands)

	2012	2011
Unrestricted revenues, gains and other support:		
Net patient service revenue	\$ 2,426,977	2,270,416
Other operating revenue:		
State support	3,200	3,200
Other revenue	74,519	70,588
	<u>2,504,696</u>	<u>2,344,204</u>
Operating expenses:		
Salaries, wages and benefits	1,153,106	1,041,344
Expendable supplies	407,413	380,222
Purchased services	382,474	336,281
Contracted services	164,114	139,710
Depreciation and amortization	130,149	129,012
Interest expense	45,901	40,341
Provision for bad debts	133,640	177,013
Facility closure expenses	16,247	—
	<u>2,433,044</u>	<u>2,243,923</u>
Operating income	71,652	100,281
Nonoperating income and expenses, net:		
Contributions	8,961	6,055
Inherent contribution – Civista	37,322	—
Equity in net income of joint ventures	1,660	20,534
Investment income	17,287	39,207
Change in fair value of investments	(23,104)	36,364
Change in fair value of undesignated interest rate swaps	(107,408)	18,640
Change in fair value of debt instrument	(9,607)	—
Other nonoperating losses, net	(19,764)	(17,947)
	<u>(23,001)</u>	<u>203,134</u>
(Deficiency) excess of revenues over expenses	(23,001)	203,134
Net assets released from restrictions used for the purchase of property and equipment	36,352	23,964
Other	(31,118)	20,788
	<u>(17,767)</u>	<u>247,886</u>
(Decrease) increase in unrestricted net assets	<u>\$ (17,767)</u>	<u>247,886</u>

See accompanying notes to consolidated financial statements.

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

Consolidated Statements of Changes in Net Assets

Years ended June 30, 2012 and 2011

(In thousands)

	Unrestricted net assets	Temporarily restricted net assets	Permanently restricted net assets	Total
Balance at June 30, 2010	\$ 894,949	56,184	31,247	982,380
Excess of revenues over expenses	203,134	—	—	203,134
Investment gains, net	—	5,102	177	5,279
State support for capital	—	21,565	—	21,565
Contributions, net	—	17,058	1,079	18,137
Net assets released from restrictions used for operations and nonoperating activities	—	(3,639)	—	(3,639)
Net assets released from restrictions used for purchase of property and equipment	23,964	(23,964)	—	—
Change in economic and beneficial interests in the net assets of related organizations	—	3,324	40	3,364
Change in ownership interest of joint ventures	2,268	102	—	2,370
Change in fair value of designated interest rate swaps	2,298	—	—	2,298
Change in funded status of defined benefit pension plans	16,322	—	—	16,322
Other	(100)	(76)	—	(176)
Increase in net assets	<u>247,886</u>	<u>19,472</u>	<u>1,296</u>	<u>268,654</u>
Balance at June 30, 2011	1,142,835	75,656	32,543	1,251,034
Deficiency of revenues over expenses	(23,001)	—	—	(23,001)
Investment losses, net	—	(296)	—	(296)
State support for capital	—	30,558	—	30,558
Contributions, net	—	7,606	2,130	9,736
Net assets released from restrictions used for operations and nonoperating activities	—	(4,798)	—	(4,798)
Net assets released from restrictions used for purchase of property and equipment	36,352	(36,352)	—	—
Change in economic and beneficial interests in the net assets of related organizations	—	(4,254)	21	(4,233)
Change in ownership interest of joint ventures	(2,883)	(900)	—	(3,783)
Change in fair value of designated interest rate swaps	(4,948)	—	—	(4,948)
Change in funded status of defined benefit pension plans	(23,636)	—	—	(23,636)
Other	349	(80)	—	269
(Decrease) increase in net assets	<u>(17,767)</u>	<u>(8,516)</u>	<u>2,151</u>	<u>(24,132)</u>
Balance at June 30, 2012	<u>\$ 1,125,068</u>	<u>67,140</u>	<u>34,694</u>	<u>1,226,902</u>

See accompanying notes to consolidated financial statements.

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

Years ended June 30, 2012 and 2011

(In thousands)

	2012	2011
Cash flows from operating activities:		
(Decrease) increase in net assets	\$ (24,132)	268,654
Adjustments to reconcile (decrease) increase in net assets to net cash provided by operating activities:		
Depreciation and amortization	130,149	129,012
Provision for bad debts	133,640	177,013
Amortization of bond premium and deferred financing costs	2,954	1,562
Net realized gains and change in fair value of investments	(16,240)	(70,293)
Change in fair value of debt instrument	9,607	—
Equity in net income of joint ventures	(1,660)	(20,534)
Loss on facility closure	13,824	—
Increase (decrease) in economic and beneficial interests in net assets of related organizations	4,233	(3,364)
Change in fair value of interest rate swaps	112,356	(23,175)
Change in funded status of defined benefit pension plans	23,636	16,322
Inherent contribution related to Civista acquisition	(37,811)	—
Restricted contributions, investment income and state support	(39,998)	(44,981)
Increase in patient accounts receivable	(151,040)	(190,307)
Increase in other receivables, prepaid expenses, other current assets and other assets	(15,365)	(6,431)
Increase in inventories	(1,657)	(1,951)
(Decrease) increase in trade accounts payable, accrued payroll and benefits, other current liabilities and other long-term liabilities	58,137	(23,940)
Increase in advances from third-party payors	20,501	8,454
Net cash provided by operating activities	221,134	216,041
Cash flows from investing activities:		
Purchases and sales of investments and assets limited as to use, net	30,678	(44,076)
Addition of cash from Civista Health, Inc.	33,905	—
Purchases of property and equipment	(210,703)	(169,198)
Distributions from joint ventures	6,723	4,388
Investment in joint ventures	—	(39,954)
Cash (paid to) received from swap counter party for undesignated interest rate swaps, net	(64,329)	11,438
Net cash used in investing activities	(203,726)	(237,402)

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Consolidated Statements of Cash Flows

Years ended June 30, 2012 and 2011

(In thousands)

	2012	2011
Cash flows from financing activities:		
Proceeds from long-term debt	\$ 15,631	26,750
Repayment of long-term debt and capital leases	(32,362)	(56,815)
Draws (repayments) on lines of credit, net	37,900	(8,700)
Cash (paid to) received from swap counterparty for designated interest rate swaps, net	(16,183)	3,514
Restricted contributions, investment income and state support	39,998	35,581
	44,984	330
Net cash provided by financing activities		
	62,392	(21,031)
Net increase (decrease) in cash and cash equivalents		
Cash and cash equivalents, beginning of year	217,517	238,548
Cash and cash equivalents, end of year	\$ 279,909	217,517
Supplemental disclosures of cash flow information:		
Cash paid during the year for interest	\$ 43,957	41,802
Amount included in accounts payable for construction in progress	22,972	17,146
Supplemental disclosures of noncash information:		
Capital leases	\$ 56	3,785
Contributed land	—	9,400

See accompanying notes to consolidated financial statements.

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

June 30, 2012 and 2011

(1) Organization and Summary of Significant Accounting Policies

(a) Organization

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

Acquisition of Civista Health, Inc.

On July 1, 2011, the Corporation entered into an affiliation agreement with Civista under which the Corporation became the sole member of Civista. No consideration was tendered in connection with the transaction. At the time of the affiliation, the Corporation transferred \$4,000,000 of capital support to Civista to fund the purchase of the land on which Civista Medical Center is located. The Corporation also transferred \$2,500,000 to Civista on July 1, 2011, to support operational and capital initiatives, and has committed an additional \$10,000,000 for similar investments over the next four years.

The affiliation was accounted for under the purchase accounting method for business combinations and the financial position and results of operations for Civista were consolidated by the Corporation beginning on July 1, 2011. The Corporation recognized an inherent contribution equal to the estimated fair value of the identifiable net assets of Civista on the acquisition date of \$37,811,000, of which \$37,322,000 was included with nonoperating income on the consolidated statement of operations and \$489,000 was included as a temporarily restricted contribution in the consolidated statement of changes in net assets.

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June 30, 2012 and 2011

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

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

Closure of University Specialty Hospital

During fiscal year 2012, the Corporation made the decision to close University Specialty Hospital, Inc. (USH) and to cease operations at that location subsequent to year end. In accordance with ASC Subtopic 205-35, the Corporation evaluated the long-lived assets of USH and determined that the assets were impaired as a result of the decision, and that those assets should be revalued based on fair market prices for similar assets. Accordingly, an impairment loss of \$13,824,000 was recognized in the year ended June 30, 2012. In addition, the Corporation recorded \$2,423,000 of operating expenses related to the accrual of salaries and benefits payable under severance agreements.

University of Maryland Medical Center

The Medical Center is comprised of three operating divisions: University Hospital, Greenebaum Cancer Center and Shock Trauma Center. University Hospital is a tertiary teaching hospital located in Baltimore with 612 licensed beds. The Greenebaum Cancer Center is a 52-bed program which specializes in the treatment of cancer patients. The Shock Trauma Center is a program with 115 licensed beds which provides both treatment to victims of trauma and training in establishing shock trauma systems.

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The James Lawrence Kernan Hospital, Inc.

Kernan is comprised of a medical/surgical and rehabilitation hospital in Baltimore with 137 licensed beds, including 104 rehabilitation beds, 24 chronic care beds, 9 medical/beds; and off-site physical therapy facilities.

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

University Specialty Hospital, Inc.

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

Maryland General Health Systems, Inc.

Maryland General is a West Baltimore health system comprised of Maryland General Hospital, a 164-bed acute care hospital; a wholly owned subsidiary providing primary care; and a noncontrolling 25% interest in a managed care organization providing services primarily to Medicaid patients.

A related corporation, Maryland General Community Health Foundation, Inc. (Maryland General Foundation), is required to hold investments and income derived therefrom for the exclusive benefit of Maryland General. As of June 30, 2011, Maryland General Foundation had contributed all of its assets to Maryland General Hospital in support of future capital projects.

Baltimore Washington Medical System, Inc.

Baltimore Washington is a health system comprised of Baltimore Washington Medical Center, a 308-bed acute care hospital providing a broad range of services, and several wholly owned subsidiaries providing emergency physician and other services.

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

Shore Health System, Inc.

Shore Health is a two-hospital health system located on the Eastern Shore of Maryland. Shore Health owns and operates Memorial Hospital, a 136-bed acute care hospital providing inpatient and outpatient services in Easton, Maryland; Dorchester Hospital, a 52-bed acute care hospital providing inpatient and outpatient services in Cambridge, Maryland; Memorial Hospital Foundation (Memorial Foundation), a nonprofit corporation established to solicit donations for the benefit of Memorial Hospital; and several other subsidiaries providing various outpatient and home care services.

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

Chester River Health System, Inc.

Chester River owns and operates Chester River Hospital Center (CRHC), a 46-bed acute care hospital providing inpatient and outpatient services to the residents of Kent and Queen Anne's counties; Chester River Health Foundation (Chester River Foundation), a nonprofit corporation established to solicit donations for the benefit of Chester River; and two other subsidiaries providing outpatient and homecare services.

Civista Health, Inc.

Civista Medical Center (CMC) is comprised of a 124-bed acute care hospital and other community healthcare resources providing inpatient and outpatient services to the residents of Charles County in Southern Maryland.

University of Maryland Medical System Foundation, Inc.

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

36 South Paca Street, LLC

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

UniversityCARE, LLC

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

Shipleys Choice Medical Park, Inc.

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

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Notes to Consolidated Financial Statements

June 30, 2012 and 2011

(b) *Basis of Presentation*

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

(c) *Cash Equivalents*

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

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

The Corporation's investment portfolio is classified as trading, and is reported in the consolidated balance sheets at its fair value, based on quoted market prices, at June 30, 2012 and 2011. Unrealized holding gains and losses on trading securities with readily determinable market values are included in nonoperating income. Investment income, including realized gains and losses, is included in nonoperating income in the accompanying consolidated statement of operations.

Assets limited as to use include investments set aside at the discretion of the board of directors for the replacement or acquisition of property and equipment, investments held by trustees under bond indenture agreements and self-insurance trust arrangements, and assets whose use is restricted by donors. Such investments are stated at fair value. Amounts required to meet current liabilities have been included in current assets in the consolidated balance sheets. Changes in fair values of donor-restricted investments are recorded in temporarily restricted net assets unless otherwise required by the donor or state law.

Assets limited as to use also include the Corporation's economic interests in financially interrelated organizations (note 12).

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

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

(e) *Inventories*

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

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(f) Economic Interests in Financially Interrelated Organizations

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

(g) Property and Equipment

Property and equipment are stated at cost, or estimated fair value at date of contribution, less accumulated depreciation. Depreciation is provided on a straight-line basis over the estimated useful lives of the depreciable assets. The estimated useful lives of the assets are as follows:

Buildings	20 to 40 years
Building and leasehold improvements	5 to 20 years
Equipment	3 to 20 years

Interest costs incurred on borrowed funds less interest income earned on the unexpended bond proceeds during the period of construction are capitalized as a component of the cost of acquiring those assets.

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

(h) Deferred Financing Costs

Costs incurred related to the issuance of long-term debt are deferred and are amortized over the life of the related debt agreements or the related letter of credit agreements using the effective interest method. Accumulated amortization of such costs amounted to \$8,554,000 and \$7,708,000 as of June 30, 2012 and 2011, respectively.

(i) Goodwill

Goodwill is an asset representing the future economic benefits arising from other assets acquired in a business combination that are not individually identified and separately recognized. Goodwill is reviewed for impairment at least annually. A qualitative assessment of whether it is more likely than not that the fair value of the reporting unit is less than its carrying value is performed, which determines whether a quantitative goodwill impairment test is necessary. The goodwill impairment test is a two-step test. Under the first step, the fair value of the reporting unit is compared with its carrying value (including goodwill). If the fair value of the reporting unit is less than its carrying value, an indication of goodwill impairment exists for the reporting unit and the entity must perform

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step two of the impairment test (measurement). Under step two, an impairment loss is recognized for any excess of the carrying amount of the reporting unit's goodwill over the implied fair value of that goodwill. The implied fair value of goodwill is determined by allocating the fair value of the reporting unit in a manner similar to a purchase price allocation and the residual fair value after this allocation is the implied fair value of the reporting unit goodwill. Fair value of the reporting unit is determined using a discounted cash flow analysis. If the fair value of the reporting unit exceeds its carrying value, step two does not need to be performed.

No impairment loss was recorded in 2012 or 2011.

(j) *Impairment of Long-Lived Assets*

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

(k) *Investments in Joint Ventures*

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

(l) *Self-Insurance*

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

(m) *Net Assets*

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

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associated with these net assets generally pertain to patient care, specific capital projects and funding of specific hospital operations and community outreach programs.

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

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

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

The provision for bad debts is based upon management's assessment of historical and expected net collections considering historical business and economic conditions, trends in healthcare coverage, and other collection indicators. Periodically throughout the year, management assesses the adequacy of the allowance for uncollectible accounts based upon historical write-off experience by payor category. The results of this review are then used to make modifications to the provision for bad debts and to establish an allowance for uncollectible receivables. After collection of amounts due from insurers, the Corporation follows internal guidelines for placing certain past due balances with collection agencies.

(o) Charity Care

The Corporation provides charity care to patients who are unable to pay. Such patients are identified based on information obtained from the patient and subsequent analysis. Because the Corporation does not expect collection of amounts determined to qualify as charity care, they are not reported as revenue. The Corporation estimates the total direct and indirect costs to provide charity care were \$100,753,000 and \$82,627,000 for the years ended June 30, 2012 and 2011, respectively.

(p) Nonoperating Income and Expenses, Net

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

(q) Derivative Financial Instruments

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

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

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

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

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

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

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

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(r) (Deficiency) Excess of Revenue over Expenses

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

(s) Income Taxes

The Corporation and most of its subsidiaries are not-for-profit corporations formed under the laws of the State of Maryland, organized for charitable purposes and recognized by the Internal Revenue Service as tax-exempt organizations under Section 501(c)(3) of the Internal Revenue Code pursuant to Section 501(a) of the Code. The effect of the taxable status of its for-profit subsidiaries is not material to the consolidated financial statements. There were no income taxes paid on unrelated business activities in the year ended June 30, 2012 or 2011. The Corporation has net operating losses of approximately \$15,517,000 as of June 30, 2012, which expire at various dates through 2031. The Corporation's deferred tax assets of approximately \$6,207,000 at June 30, 2012 are fully reserved as they are not expected to be utilized.

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

(t) Donor-Restricted Gifts

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

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

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

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(u) Fair Value Measurements

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

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

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

Long-term debt – The fair value of the long-term debt issued through the Maryland Health and Higher Educational Facilities Authority (Authority or MHHEFA), based on quoted market prices for the same or similar issues, at June 30, 2012 and 2011, was approximately \$1,077,764,000 and \$1,018,753,000, respectively. The carrying amounts of other long-term debt reported in note 7 and on the consolidated balance sheet approximate the related fair values.

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

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

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

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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, 2012 and 2011, the Level 2 assets and liabilities listed in the fair value hierarchy tables below utilize the following valuation techniques and inputs:

(i) U.S. Government and Agency Securities

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

(ii) Corporate Bonds

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

(iii) Corporate Bonds

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

(iv) Derivative Liabilities

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

(v) Fair Value Option

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

(w) Commitments and Contingencies

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

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(x) ***New Accounting Pronouncements***

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 was effective for the Corporation on July 1, 2011. The adoption did not impact the financial position or results of operations of the Corporation. See note 1(o) for related disclosure information.

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 was effective for the Corporation on July 1, 2011. The adoption of this guidance resulted in the recording of additional accruals from medical malpractice claims liability and an insurance recoveries receivable of \$104,740,000. Such amounts are included in other long-term liabilities and other assets for the year ended June 30, 2012. The Corporation did not retroactively adopt the provisions of this ASU. The adoption of this guidance did not have any impact on the results of operations or cash flows of the Corporation.

In September 2011, the FASB issued ASU No. 2011-08, *Intangibles – Goodwill and Other (Topic 350)*. The ASU simplifies the requirements for annual impairment tests for goodwill by permitting a qualitative assessment of whether it is more likely than not that the fair value of a reporting unit is less than its carrying value to determine whether a two-step impairment test is necessary. This ASU is effective for fiscal years beginning after December 15, 2011, with early adoption permitted. The Corporation early adopted this ASU on July 1, 2011 and incorporated its provisions in the performance of annual evaluation of goodwill for the year ended June 30, 2012. The adoption of this pronouncement did not have a material impact on the Corporation's financial position or results of operations.

In July 2011, the FASB issued ASU No. 2011-07, *Health Care Entities (Topic 954): Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debt, and the Allowance for Doubtful Accounts*. The ASU requires health care entities that recognize significant amounts of patient service revenue to present the provision for bad debts related to patient service revenue as a deduction from patient service revenue (net of contractual allowances and discounts) on their statement of operations. Additionally, enhanced disclosures about an entity's policies for recognizing, assessing bad debts, as well as qualitative and quantitative information about changes in the allowance for doubtful accounts are required. This ASU is effective for the Corporation on July 1, 2012.

The Corporation does not anticipate that the adoption of the aforementioned pronouncement that will become effective in fiscal year 2013, will have a material impact on its financial position or its results of operations.

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(y) *Use of Estimates*

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

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

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

	2012	2011
Debt service and reserve funds	\$ 83,367	76,967
Construction funds – held by trustee	49,287	75,027
Board designated funds	104,624	97,307
Construction funds – held by the Corporation	72,469	105,798
Self-insurance trust funds	101,348	99,663
Funds restricted by donors	47,460	49,016
Economic and beneficial interests in the net assets of related organizations (note 12)	37,568	41,802
Total assets limited as to use	496,123	545,580
Less amounts available for current liabilities	(43,089)	(40,114)
Total assets limited as to use, less current portion	\$ 453,034	505,466

The carrying value of assets limited as to use were as follows at June 30, 2012 (in thousands):

	Debt service and reserve funds	Construction funds	Board designated funds	Self-insurance trust funds	Funds restricted by donors	Economic and beneficial interests	Total
Cash and cash equivalents	\$ 29,021	76,940	15,806	368	6,788	—	128,923
Corporate bonds	—	73	9,249	2,714	7,975	—	20,011
Collateralized corporate obligations	—	42	1,517	—	195	—	1,754
U.S. government and agency securities	54,346	43,857	2,449	205	314	—	101,171
Common stocks, including mutual funds	—	409	34,453	—	19,985	—	54,847
Alternative investments	—	435	41,150	—	12,203	—	53,788
Assets held by other organizations	—	—	—	98,061	—	37,568	135,629
Total assets limited as to use	\$ 83,367	121,756	104,624	101,348	47,460	37,568	496,123

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The carrying value of assets limited as to use were as follows at June 30, 2011 (in thousands):

	Debt service and reserve funds	Construction funds	Board designated funds	Self-insurance trust funds	Funds restricted by donors	Economic and beneficial interests	Total
Cash and cash equivalents	\$ 33,491	73,904	9,773	477	7,317	—	124,962
Corporate bonds	—	2,928	2,862	1,117	4,349	—	11,256
Collateralized corporate obligations	—	1,684	1,627	3	287	—	3,601
U.S. government and agency securities	43,476	74,791	2,819	604	499	—	122,189
Common stocks, including mutual funds	—	13,804	39,617	1,036	23,894	—	78,351
Alternative investments	—	13,714	40,609	—	12,670	—	66,993
Assets held by other organizations	—	—	—	96,426	—	41,802	138,228
Total assets limited as to use	\$ 76,967	180,825	97,307	99,663	49,016	41,802	545,580

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

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

	2012	2011
Cash and cash equivalents	\$ 17,342	37,789
Corporate bonds	32,030	28,547
Collateralized corporate obligations	16,443	16,403
U.S. government and agency securities	26,427	28,421
Common stocks	170,879	147,967
Alternative investments	183,006	147,723
	\$ 446,127	406,850

Investments at June 30, 2012 include \$150,000,000 of funds for potential future commitments in accordance with the Affiliation Agreement with Upper Chesapeake Health System as discussed in note 4.

Alternative investments include hedge fund, private equity, and commingled investment funds, which are valued using the equity method of accounting. Substantially all of these investments are subject to 30 day notice requirements for redemption.

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

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

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The following table presents investments and assets limited as to use that are measured at fair value on a recurring basis at June 30, 2011 (in thousands):

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Assets:				
Investments:				
Cash and cash equivalents	\$ 37,789	—	—	37,789
Corporate bonds	10,604	17,943	—	28,547
Collateralized corporate obligations	—	16,403	—	16,403
U.S. government and agency securities	10,568	17,853	—	28,421
Common and preferred stocks, including mutual funds	147,483	484	—	147,967
	<u>206,444</u>	<u>52,683</u>	<u>—</u>	<u>259,127</u>
Assets limited as to use:				
Cash and cash equivalents	88,869	36,093	—	124,962
Corporate bonds	7,162	4,094	—	11,256
Collateralized corporate obligations	—	3,601	—	3,601
U.S. government and agency securities	2,668	119,521	—	122,189
Common and preferred stocks, including mutual funds	77,209	1,142	—	78,351
Investments held by other organizations	—	96,426	—	96,426
	<u>175,908</u>	<u>260,877</u>	<u>—</u>	<u>436,785</u>
	<u>\$ 382,352</u>	<u>313,560</u>	<u>—</u>	<u>695,912</u>

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Changes to Level 1 and Level 2 securities between June 30, 2012 and June 30, 2011 were the result of strategic investments and reinvestments, interest income earnings, and changes in the fair value of investments.

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

	2012	2011
Dividends and interest, net of fees	\$ 10,127	10,557
Net realized gains	7,870	30,107
Change in fair value of trading securities	(24,110)	40,186
Total investment gain	\$ (6,113)	80,850

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

	2012	2011
Nonoperating investment income	\$ 17,287	39,207
Change in fair value of unrestricted investments	(23,104)	36,364
Investment gains on restricted net assets	(296)	5,279
Total investment return	\$ (6,113)	80,850

Investment return does not include the returns on the economic interests in the net assets of related organizations, the returns on the self-insurance trust funds, returns on undesignated interest rates swaps, or the returns on certain construction funds where amounts have been capitalized.

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(3) Property and Equipment

The following is a summary of property and equipment at June 30 (in thousands):

	<u>2012</u>	<u>2011</u>
Land	\$ 86,464	82,279
Buildings	1,009,102	972,683
Building and leasehold improvements	529,589	445,868
Equipment	1,013,061	948,188
Construction in progress	<u>217,230</u>	<u>141,624</u>
	2,855,446	2,590,642
Less accumulated depreciation and amortization	<u>(1,411,356)</u>	<u>(1,291,992)</u>
	<u>\$ 1,444,090</u>	<u>1,298,650</u>

Interest cost capitalized was \$1,368,000 and \$2,942,000 (net of interest income of \$103,000 and \$200,000) for the years ended June 30, 2012 and 2011, respectively.

Remaining commitments on construction projects were approximately \$42,949,000 at June 30, 2012.

Construction in progress includes building and renovation costs for assets that have not yet been placed into service. These costs relate to major construction projects as well as routine renovations under way at the Corporation's facilities.

Depreciation expense was \$130,133,000 and \$128,970,000 for the years ended June 30, 2012 and 2011, respectively.

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(4) Investments in Joint Ventures

The Corporation has investments of \$166,803,000 and \$169,220,000 at June 30, 2012 and 2011, respectively, in the following unconsolidated joint ventures:

<u>Joint venture</u>	<u>Business purpose</u>	<u>Percent ownership</u>	
		<u>FY2012</u>	<u>FY2011</u>
Shipley's Imaging Center, LLC	Freestanding imaging center	50%	50%
Maryland Care, Inc. Innovative Health Services, LLC	Managed care organization	25	25
NAH/Sunrise of Severna Park, LLC	Third-party insurance claims processor	50	50
Terrapin Insurance Company (Terrapin)	Senior living facility	50	50
Mt. Washington Pediatric Hospital, Inc. (Mt. Washington)	Healthcare professional liability insurance company	50	50
UCHS/UMMS Venture, LLC	Healthcare services	50	50
Central Maryland Radiation Oncology Center LLC	Healthcare services	49	49
Chesapeake-Potomac Healthcare Alliance	Healthcare services	50	50
Civista Ambulatory Surgery Center, Inc.	Healthcare services	33	*
NRH/CPT/St. Mary's/ Civista Regional Rehab, LLC	Ambulatory surgical services	50	*
Freestate Healthcare Insurance Company, LTD	Medical rehabilitative and therapy services	15	*
Maryland eCare, LLC	Healthcare professional liability insurance company	17	*
	Remote monitoring technology	14	*

* Acquired as part of Civista Health, Inc. See note 1(a).

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The Corporation recorded equity in net earnings of \$1,660,000 and \$20,534,000 related to these joint ventures for the years ended June 30, 2012 and 2011, respectively.

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

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

	2012				
	Mt. Washington	Terrapin	UCHS/UMMS Venture, LLC	Others	Total
Current assets	\$ 26,499	12,427	89,578	191,821	320,325
Noncurrent assets	52,834	137,883	307,249	80,858	578,824
Total assets	\$ 79,333	150,310	396,827	272,679	899,149
Current liabilities	\$ 13,119	8,105	55,885	173,008	250,117
Noncurrent liabilities	9,407	140,255	218,122	4,288	372,072
Net assets	56,807	1,950	122,820	95,383	276,960
Total liabilities and net assets	\$ 79,333	150,310	396,827	272,679	899,149

	2012				
	Mt. Washington	Terrapin	UCHS/UMMS Venture, LLC	Others	Total
Total operating revenue	\$ 48,537	28,067	380,087	731,354	1,188,045
Total operating expenses	(46,690)	(29,181)	(370,037)	(697,371)	(1,143,279)
Total nonoperating gains/(losses), net	200	1,114	(13,600)	(12,541)	(24,827)
Distributions to owners	—	—	—	(16,000)	(16,000)
Other changes in net assets, net	694	—	(286)	(1,007)	(599)
Increase in net assets	\$ 2,741	—	(3,836)	4,435	3,340

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	2011				
	Mt. Washington	Terrapin	UCHS/UMMS Venture, LLC	Others	Total
Current assets	\$ 24,051	12,398	97,163	106,151	239,763
Noncurrent assets	47,759	117,524	280,831	70,833	516,947
Total assets	<u>\$ 71,810</u>	<u>129,922</u>	<u>377,994</u>	<u>176,984</u>	<u>756,710</u>
Current liabilities	\$ 9,555	3,092	51,643	94,637	158,927
Noncurrent liabilities	8,189	124,880	199,695	2,636	335,400
Net assets	<u>54,066</u>	<u>1,950</u>	<u>126,656</u>	<u>79,711</u>	<u>262,383</u>
Total liabilities and net assets	<u>\$ 71,810</u>	<u>129,922</u>	<u>377,994</u>	<u>176,984</u>	<u>756,710</u>
Total operating revenue	\$ 50,383	25,361	348,101	668,703	1,092,548
Total operating expenses	(46,455)	(34,826)	(340,285)	(644,939)	(1,066,505)
Total nonoperating gains/(losses), net	5,168	9,465	19,327	(9,139)	24,821
Other changes in net assets, net	<u>654</u>	<u>—</u>	<u>30,920</u>	<u>(3,817)</u>	<u>27,757</u>
Increase in net assets	<u>\$ 9,750</u>	<u>—</u>	<u>58,063</u>	<u>10,808</u>	<u>78,621</u>

(5) Leases

The Corporation rents various equipment and facility space. Rent expense under these operating leases for the years ended June 30, 2012 and 2011 was approximately \$17,023,000 and \$16,150,000, respectively.

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

2013	\$ 9,238
2014	5,974
2015	4,737
2016	4,051
2017	3,927
Thereafter	<u>15,998</u>
	<u>\$ 43,925</u>

The Corporation rents property used for administration under a 99-year lease. The lease was recorded as a capital lease, and the Corporation recorded assets at their respective fair values of \$3,770,000 and \$29,230,000 for land and buildings, respectively. The lease includes an option for the Corporation to purchase the property during the period from April 20, 2017 to February 28, 2021 for a purchase price of not less than \$37,000,000 but not more than \$45,000,000 as determined by appraisals. In addition, the lease agreement includes a put option exercisable through February 28, 2013, whereby the lessor may require the

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Corporation to purchase the building for \$37,000,000. As of June 30, 2012 and 2011, amounts of \$35,244,000 and \$34,949,000, respectively, representing obligations under the lease have been recorded in other current liabilities.

As of June 30, 2012, amounts of \$8,200,000 and \$1,998,000 representing obligations under all other capital leases are included in other current liabilities and other long-term liabilities, respectively.

The following is a summary of all property and equipment under capital leases at June 30 (in thousands):

	2012	2011
Land	\$ 3,770	3,770
Buildings	29,230	29,230
Equipment	18,611	18,555
	51,611	51,555
Less accumulated amortization	(13,926)	(9,813)
	\$ 37,685	41,742

Future minimum lease payments under capital leases, together with the present value of the net minimum lease payments, are as follows as of June 30, 2012 (in thousands):

2013	\$	11,493		
2014		4,311		
2015		3,800		
2016		3,537		
2017		2,723		
Thereafter		40,000		
Total minimum lease payments		65,864		
Less amounts representing interest		(20,325)		
Present value of net minimum lease payments	\$	45,539		

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(6) Lines of Credit

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

2012					
Line Number	Interest rate calculation	Interest rate as of June 30, 2012	Date of expiration	Total available	Outstanding amount
1	1-mo LIBOR + 0.80%	1.05%	12/31/2012	\$ 25,000	25,000
2	1-mo LIBOR +2.20%	2.45	Annually renewing	20,000	20,000
3	1,2 or 3 month LIBOR + 0.75%	1.00	7/1/2013	20,000	20,000
4	1-mo LIBOR +0.80%	1.05	12/31/2012	10,000	10,000
5	1-mo LIBOR +2.20%	2.45	Annually renewing	5,000	5,000
6	> of Prime + 0.25%, or 5.0%	5.00	12/1/2012	12,000	12,000
7	Prime, LIBOR (1,2,3 or 6 month) or LIBOR w/daily reset	3.25	1/16/2013	10,000	10,000
Total lines of credit				<u>\$ 102,000</u>	<u>102,000</u>
2011					
Line Number	Interest rate calculation	Interest rate as of June 30, 2011	Date of expiration	Total available	Outstanding amount
1	1-mo LIBOR +0.80%	0.99%	11/30/2011	\$ 25,000	25,000
2	1-mo LIBOR +2.20%	2.39	Annually renewing	20,000	9,600
3	> of Prime, or 1-mo LIBOR + 1.35%	1.54	6/29/2012	20,000	20,000
4	1-mo LIBOR +0.80%	0.99	12/31/2011	10,000	—
5	1-mo LIBOR +2.20%	2.39	Annually renewing	5,000	—
Total lines of credit				<u>\$ 80,000</u>	<u>54,600</u>

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(7) Long-Term Debt and Other Borrowings

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

	<u>Interest rate</u>	<u>Payable in fiscal year(s)</u>	<u>2012</u>	<u>2011</u>
MHHEFA project revenue bonds:				
Corporation issue, payments due annually on July 1:				
Series 2010 Bonds	2.00% – 5.25%	2011 – 2040	\$ 231,925	237,210
Series 2008A-E Bonds	Variable rate	2025 – 2042	280,000	280,000
Series 2008F Bonds	4.00% – 5.25%	2009 – 2024	69,980	75,785
Series 2007A/B Bonds	Variable rate	2008 – 2035	137,220	137,320
Series 2006A Bonds	4.50% – 5.00%	2026 – 2042	45,000	45,000
Series 2005 Bonds	4.00% – 5.50%	2006 – 2032	135,690	138,590
Series 2004B Bonds	3.20% – 5.00%	2005 – 2025	26,690	28,165
Series 2002 Bonds	5.00%	2004 – 2013	1,430	2,785
Series 2001 Bonds	4.25% – 5.00%	2006 – 2012	—	1,275
Series 1991B Bonds	7.00%	1992 – 2023	27,315	27,315
Shore Health issue, payments due annually on July 1:				
Series 1998 Bonds	4.15% – 5.25%	2000 – 2020	19,200	21,115
MHHEFA pooled loan program:				
Chester River issue, payments due semi-annually on July and January 1 Commercial paper series				
	Variable rate	1990 – 2013	385	630

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	Interest rate	Payable in fiscal year(s)	2012	2011
MHHEFA variable rate demand bonds:				
Chester River issue, payments due semi-annually on July and January 1 MHHEFA D	Variable rate	2004 – 2024	\$ 1,965	2,080
MHHEFA master lease and sublease	4.40%	2006 – 2013	545	1,170
MHHEFA project revenue bonds:				
Civista Medical System issue, interest payable semi-annually, principal payable annually on July 1 Series 2005 Bonds	3.00% – 5.00%	2012 – 2037	56,740	*
Other long-term debt:				
North Arundel Senior Living, LLC Mortgage	Variable rate	Monthly, 2014	10,635	10,909
Charles County Government loan payable	3.05%	Monthly, 2012 – 2021	9,568	*
Grandbridge Real Estate Capital mortgaged promissory note payable	5.70%	Monthly, 2012 – 2014	4,459	*
Term loans	Variable rate	2009 – 2022	52,516	43,008
Other loans and notes payable	3.25% – 7.00%	Monthly, 1991 – 2025	6,111	4,462
			1,117,374	1,056,819
Less current portion of long-term debt			53,928	24,242
Less long-term debt subject to short-term remarketing agreements			52,621	166,765
			1,010,825	865,812
Plus unamortized premiums and discounts, net			3,660	3,560
Less fair market value adjustment			(2,916)	—
			\$ 1,011,569	869,372

* *Acquired as part of Civista Health, Inc. See note 1(a).*

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

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

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

The payment of principal and interest on the Corporation's issue Series 2005 Bonds and the Series 2004B Bonds is insured under a financial guaranty insurance policy. This policy insures the payment of principal, sinking fund installments and interest on the corresponding bonds. The insurance policy requires the Obligated Group to adhere to the same covenants as those in the UMMS Master Loan Agreement.

The Civista issue Series 2005 Bond proceeds were loaned to Civista Medical Center, pursuant to Civista's Master Loan Agreement with MHHEFA, to fund costs of a construction and renovation project at Civista Medical Center, which was completed in 2007, pay the issuance costs related to the Civista issue Series 2005 Bonds, pay interest costs during the construction period, and fund a trustee-held debt service reserve fund. The payment of principal and interest on the Civista Series 2005 Bonds is insured by Radian Asset Assurance Inc. (Radian). Civista Medical Center is solely obligated under its Master Loan Agreement. As security for repayment of its obligations under Civista's Master Loan Agreement, Civista Medical Center granted MHHEFA a security interest in substantially all of its receipts. In addition, the Civista issue Series 2005 Bonds are secured by a deed of trust in certain assets of Civista Medical Center, including land, leasehold interest, and tangible personal property.

As a result of the business combination with Civista as discussed in note 1(a), the Corporation recorded a fair value decrease to the Civista Series 2005 Bonds of \$12,523,000 on July 1, 2011, the date of purchase, which is a component of inherent contribution on the consolidated statement of operations. As permitted by ASC Subtopic 825-10, the Corporation has elected to record this debt instrument at its fair value for subsequent reporting periods. Accordingly, the consolidated statement of operations for the year ended June 30, 2012 includes a nonoperating loss related to the subsequent fair value increase in the Civista Series 2005 Bonds of \$9,607,000. The Civista Series 2005 Bonds are included in the consolidated balance sheet at their fair value of \$53,824,000 as of June 30, 2012, an amount that is based on quoted market prices in active markets for identical liabilities (Level 1 in the fair value hierarchy).

In 2004, Civista Medical Center borrowed \$15,000,000 from the County Commissioners of Charles County. The loan is secured by a deed of trust on certain real property of Civista Medical Center. Repayment of this loan is subordinate to repayment of debt under Civista's Master Loan Agreement and the note payable.

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

2013	\$	53,928
2014		46,104
2015		30,403
2016		27,583
2017		28,645
Thereafter		930,711
	\$	1,117,374

The Corporation's Series 2007A/B and 2008A-E, and Chester River's MHHEFA Series D and Pooled Loan issuances, are variable rate demand bonds requiring remarketing agents to purchase and remarket any bonds tendered before the stated maturity date. The reimbursement obligations with respect to the letters of credit are evidenced and secured by the respective bonds. To provide liquidity support for the timely payment of any bonds that are not successfully remarketed, the Corporation has entered into letter of credit agreements with six banking institutions. These agreements have terms that expire in 2013 through 2017. If the bonds are not successfully remarketed, the Corporation is required to pay an interest rate specified in the letter of credit agreement, and the principal repayment of bonds may be accelerated to require repayment in periods ranging from 20 to 60 months from the date of the failed remarketing. The Corporation has reflected the amount of its long-term debt that is subject to these short-term remarketing arrangements as a separate component of current liabilities in its consolidated balance sheets. In the event that bonds are not remarketed, the Corporation maintains available letters of credit and has the ability to access other sources to obtain the necessary liquidity to comply with accelerated repayment terms. All variable rate demand bonds were successfully remarketed as of June 30, 2012.

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

2013	\$	106,549
2014		105,216
2015		91,982
2016		39,162
2017		46,013
Thereafter		728,452
	\$	1,117,374

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

	<u>2012</u>	<u>2011</u>
Series 2008A Bonds	0.28%	0.20%
Series 2008B Bonds	0.25	0.07
Series 2008C Bonds	0.15	0.09
Series 2008D Bonds	0.15	0.04
Series 2008E Bonds	0.17	0.08
Series 2007A Bonds	0.15	0.07
Series 2007B Bonds	0.28	0.07
Pooled Loan Program Series A and D, Chester River Issue	0.40	0.08

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

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

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

	<u>Interest rate</u>	<u>Interest rate</u>	<u>Payable in fiscal year(s)</u>	<u>2012</u>	<u>2011</u>
Term loan 1					
payable monthly beginning February 2012	1-mo LIBOR + 2.75%	3.00%	2012 – 2013	\$ 23,591	26,750
Term loan 2					
payable monthly beginning January 2009	1-mo LIBOR + 0.85%	1.10	2009 – 2014	10,800	11,600
Term loan 3					
payable monthly beginning March 2012	Fixed rate	1.95	2012 – 2022	11,600	—
Term loan 4					
payable monthly beginning January 2012	Fixed rate	1.66	2012 – 2017	1,305	—
Term loan 5					
payable monthly beginning April 2012	Fixed rate	1.62	2012 – 2017	1,264	—
Term loan 6					
payable monthly beginning February 2010	1-mo LIBOR + 1.75%	1.99	2010 – 2013	3,956	4,180
Term loan 7					
payable monthly ending August 2011	1-mo LIBOR + 3.25%	3.44	2012	—	478
Total term loans				<u>\$ 52,516</u>	<u>43,008</u>

(8) Interest Rate Risk Management

The Corporation uses a combination of fixed and variable rate debt to finance capital needs. The Corporation maintains an interest rate risk-management strategy that uses interest rate swaps to minimize significant, unanticipated earnings fluctuations that may arise from volatility in interest rates.

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At June 30, 2012 and 2011, the Corporation's notional values of outstanding interest rate swaps were \$608,949,000 and \$609,669,000, respectively, the details of which were as follows:

	<u>Notional amount</u>	<u>Pay rate</u>	<u>Maturity date</u>	<u>Mark to market</u>	<u>Qualifies for hedge accounting treatment?</u>
As of June 30, 2012:					
Swap #1	\$ 92,349	3.59%	7/1/2031	\$ (22,691)	No
Swap #2	84,000	3.93%	7/1/2041	(36,788)	No
Swap #3	21,000	4.24%	7/1/2041	(10,477)	No
Swap #4	39,650	3.99%	7/1/2034	(12,190)	Yes *
Swap #5	29,380	3.54%	7/1/2031	(6,883)	No
Swap #6	196,000	3.93%	7/1/2041	(85,850)	No
Swap #7	49,000	4.24%	7/1/2041	(24,450)	No
Swap #8	92,525	4.00%	7/1/2034	(28,539)	Yes
Swap #9	<u>5,045</u>	3.63%	7/1/2032	<u>(936)</u>	Yes *
				(228,804)	
			Valuation adjustments	<u>11,048</u>	
Total	\$ <u>608,949</u>			\$ <u>(217,756)</u>	
As of June 30, 2011:					
Swap #1	\$ 92,349	3.59%	7/1/2031	\$ (8,208)	No
Swap #2	84,000	3.93%	7/1/2041	(17,548)	No
Swap #3	21,000	4.24%	7/1/2041	(5,480)	No
Swap #4	39,675	3.99%	7/1/2034	(7,124)	Yes
Swap #5	30,000	3.54%	7/1/2031	(3,366)	No
Swap #6	196,000	3.93%	7/1/2041	(40,949)	No
Swap #7	49,000	4.24%	7/1/2041	(12,787)	No
Swap #8	92,575	4.00%	7/1/2034	(16,716)	Yes
Swap #9	<u>5,070</u>	3.63%	7/1/2032	<u>(616)</u>	Yes
				(112,794)	
			Valuation adjustments	<u>7,394</u>	
Total	\$ <u>609,669</u>			\$ <u>(105,400)</u>	

* De-designated as non-qualifying on June 30, 2012

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

Swaps #4, #8, and #9, representing a total notional amount of \$137,220,000 and \$137,320,000 as of June 30, 2012 and 2011 respectively, qualify as, and are designated as, cash flow hedges. Unrealized gains (losses) on these swaps of \$(17,034,000) and \$2,298,000 are recorded in other changes in unrestricted net

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assets for the years ended June 30, 2012 and 2011, respectively. These amounts subsequently are reclassified into interest expense as a yield adjustment of the hedged debt obligation in the same period in which the related interest affects the excess of revenues over expenses, representing a hedge ineffectiveness adjustment. There was no net gain or loss recognized in interest expense for the year ended June 30, 2012 as a result of hedge ineffectiveness on the designated swaps; for the year ended June 30, 2011, the Corporation recognized a net gain of \$2,237,000, representing hedge ineffectiveness on the designated swaps, which is included in interest expense. The accumulated loss on changes in the fair value of designated swaps that is included in unrestricted net assets was \$40,216,000 and \$23,181,000 at June 30, 2012 and 2011, respectively.

As discussed in Note 20, the Corporation refunded \$40,755,000 of the Series 2007 bonds and \$175,000,000 of the Series 2008 bonds in August 2012. In connection with this refunding, the Corporation reviewed the designation of Swaps #4 and #9, which are associated with the refunded bonds, and de-designated the swaps as non-qualifying. As a result, the Corporation reclassified \$12,086,000 from other changes in net assets into change in fair value of undesignated interest rate swaps, which is included in the performance indicator on the consolidated statement of operations.

Swaps #1, #2, #3, #5, #6 and #7, representing a total notional amount of \$379,380,000 and \$380,000,000 as of June 30, 2012 and 2011, respectively, do not qualify for hedge accounting treatment. The Corporation recorded a net nonoperating gain (loss) on these interest rate swaps of \$(95,322,000) and \$18,640,000 for the years ended June 30, 2012 and 2011, respectively.

The swap agreements are included in the consolidated balance sheet at their fair value of \$217,756,000 and \$105,400,000 as of June 30, 2012 and 2011, respectively, an amount that is based on observable inputs other than quoted market prices in active markets for identical liabilities (Level 2 in the fair value hierarchy).

The Corporation has a forward-starting swap agreement representing a total notional amount of \$92,348,500 that takes effect on July 1, 2012. The forward-starting swap agreement provides the Corporation with a synthetically fixed interest rate of 3.59%. At June 30, 2012, the liability representing the fair value of the Corporation's forward-starting swap, amounts to \$21,033,000.

The Corporation is subject to a collateral posting requirement with one of its swap counterparties. Collateral posting requirements are based on the Corporation's long-term debt credit ratings, as well as the net liability position of total interest rate swap agreements outstanding with that counterparty. The amount of such posted collateral was \$121,802,000 and \$41,276,000 at June 30, 2012 and 2011, respectively.

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(9) Other Liabilities

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

	2012	2011
Professional and general malpractice liabilities	\$ 165,742	51,104
Capital lease obligations	45,539	47,948
Accrued pension obligations	47,630	26,267
Accrued interest payable	15,543	14,580
Other miscellaneous	58,435	35,602
Total other liabilities	332,889	175,501
Less current portion	(106,377)	(87,643)
Other long-term liabilities	\$ 226,512	87,858

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

(10) Retirement Plans

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

(a) Defined Benefit Plans

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

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

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

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

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Civista Health, Inc. Retirement Plan and Trust – A noncontributory defined benefit pension plan covering employees that have worked at least one thousand hours per year during three or more plan years. Plan benefits are accumulated based upon a combination of years of service and percent of annual compensation. Civista makes annual contributions to the plan based upon amounts required to be funded under provisions of ERISA. Disclosures related the Civista Health plan are included for 2012 only.

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

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

	2012	2011
Change in projected benefit obligations:		
Benefit obligations at beginning of year	\$ 125,335	125,518
Addition of Civista obligation	23,259	—
Plan amendment	1,163	—
Settlements	(1,156)	(1,373)
Service cost	3,250	2,649
Interest cost	7,810	6,213
Actuarial loss	17,426	(2,851)
Benefit payments	(5,455)	(4,821)
Projected benefit obligations at end of year	\$ 171,632	125,335
Change in plan assets:		
Fair value of plan assets at beginning of year	\$ 99,068	82,456
Addition of Civista assets	19,061	—
Actual return on plan assets	(6)	14,169
Settlements	(1,156)	(1,373)
Employer contributions	12,490	8,637
Benefit payments	(5,455)	(4,821)
Fair value of plan assets at end of year	\$ 124,002	99,068
Accumulated benefit obligation at end of year	\$ 165,109	120,226

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

	2012	2011
Funded status, end of period:		
Fair value of plan assets	\$ 124,002	99,068
Projected benefit obligations	171,632	125,335
	\$ (47,630)	(26,267)
Amounts recognized in unrestricted net assets at June 30:		
Net actuarial loss	\$ (72,874)	(45,595)
Prior service cost	(1,420)	(534)
	\$ (74,294)	(46,129)

The estimated amounts that will be amortized from unrestricted net assets into net periodic pension cost in fiscal 2013 are as follows:

Net actuarial loss	\$ 6,382
Prior service cost	157
	\$ 6,539

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

	2012	2011
Service cost	\$ 3,250	2,649
Interest cost	7,810	6,213
Expected return on plan assets	(9,389)	(6,661)
Prior service cost recognized	183	85
Recognized gains or losses	4,164	5,878
Net periodic pension cost	\$ 6,018	8,164

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

	2012	2011
Discount rate	4.32% – 4.67%	5.25%
Rate of compensation increase (for nonfrozen plan)	2.50% – 4.50%	5.00

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

	<u>2012</u>	<u>2011</u>
Discount rate	5.25% – 5.60%	5.00%
Expected long-term return on plan assets	7.00% – 7.75%	7.75
Rate of compensation increase (for nonfrozen plan)	3.00% – 4.50%	5.00

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

The Corporation's pension plans' target allocation and weighted average asset allocations at the measurement date of June 30, 2012 and 2011, by asset category, are as follows:

<u>Asset category</u>	<u>Target allocation</u>	<u>Percentage of plan assets as of June 30</u>	
		<u>2012</u>	<u>2011</u>
Cash and cash equivalents	—	4%	7%
Fixed income securities	35	30	27
Equity securities	40	40	39
Global asset allocation	15	16	17
Hedge funds	10	10	10
		<u>100%</u>	<u>100%</u>

Equity and fixed income securities include investments in hedge fund of funds that are categorized in accordance with each fund's respective investment holdings. At both June 30, 2012 and 2011, the Corporation was in the process of implementing changes to its investment classification, which required the liquidation of certain assets, resulting in more cash on hand than targeted. This cash was used to purchase additional securities in subsequent periods in order to restore compliance with the target allocation.

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

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

The table below presents the Corporation's combined investable assets of the defined benefit pension plans as of June 30, 2011, aggregated by the three level valuation hierarchy as described in note 1(u):

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Cash and cash equivalents	\$ 7,138	—	—	7,138
Fixed income mutual funds	22,536	—	—	22,536
Common and preferred stocks	6,549	—	—	6,549
Equity mutual funds	26,501	—	—	26,501
Other mutual funds	9,858	—	—	9,858
Alternative investments	—	16,594	9,892	26,486
	<u>\$ 72,582</u>	<u>16,594</u>	<u>9,892</u>	<u>99,068</u>

Changes to Level 1 and Level 2 inputs between June 30, 2012 and June 30, 2011 were the result of strategic investments and reinvestments, interest income earnings, and changes in the fair value of investments.

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

	Equity mutual funds	Hedge funds	Total
Balance as of June 30, 2010	\$ 1,138	14,340	15,478
Additions/purchases	—	8,160	8,160
Withdrawals/sales	(1,372)	(11,691)	(13,063)
Net change in value	234	(917)	(683)
Balance as of June 30, 2011	—	9,892	9,892
Additions/purchases	—	1,923	1,923
Withdrawals/sales	—	(745)	(745)
Net change in value	—	(918)	(918)
Balance as of June 30, 2012	\$ —	10,152	10,152

The following summarizes the redemption terms for the hedge fund-of-funds vehicles alternative investments held as of June 30, 2012:

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

The Corporation expects to contribute \$7,294,000 to its defined benefit pension plans for the fiscal year ending June 30, 2013.

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

2013	\$ 6,888
2014	7,210
2015	8,035
2016	8,076
2017	9,471
2018 – 2020	53,549

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The expected benefits to be paid are based on the same assumptions used to measure the Corporation's benefit obligation at June 30, 2012.

(b) Defined Contribution Plans

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

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

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

University Specialty Retirement Plan – A defined contribution plan for substantially all full-time employees of University Specialty. Employer contributions are made at the discretion of University Specialty's board of directors. Employees may also make optional contributions within limits specified by the plan agreement.

Maryland General Hospital, Inc. 401(k) Profit Sharing Plan for Union Employees – Defined contribution plan for substantially all union employees of Maryland General. Employer contributions to this plan are determined based on years of service and hours worked. Employees are immediately eligible for elective deferrals of compensation as contributions to the plan.

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

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

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

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

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Total annual retirement costs incurred by the Corporation for the previously discussed defined contribution plans were \$25,839,000 and \$22,794,000 for the years ended June 30, 2012 and 2011, respectively. Such amounts are included in salaries, wages and benefits in the accompanying consolidated statements of operations.

(11) Temporarily and Permanently Restricted Net Assets

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

	2012	2011
Facility construction and renovations, research, education, and other	\$ 29,571	33,854
Economic and beneficial interests in the net assets of related organizations	37,569	41,802
	\$ 67,140	75,656

Net assets were released from donor restrictions during the years ended June 30, 2012 and 2011 by expending funds satisfying the restricted purposes or by occurrence of other events specified by donors as follows (in thousands):

	2012	2011
Purchases of equipment and construction costs	\$ 36,352	23,964
Research, education, uncompensated care, and other	4,798	3,639
	\$ 41,150	27,603

Included in net assets released from donor restrictions for research, professional education, faculty support, uncompensated care and other is \$3,983,000 and \$3,416,000 for the years ended June 30, 2012 and 2011, respectively, related to nonoperating activities of the UMMS Foundation.

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

The Corporation's endowments consist of donor-restricted funds established for a variety of purposes. Net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

(a) Interpretation of Relevant Law

The Corporation has interpreted the Maryland Uniform Prudent Management of Institutional Funds Act (MUPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Corporation classifies as permanently restricted net assets (a) the

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original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the organization in a manner consistent with the standard of prudence prescribed by MUPMIFA. In accordance with MUPMIFA, the Corporation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

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

Endowment net assets are as follows (in thousands):

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

June 30, 2011					
		Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor-restricted endowment funds	\$	—	7,596	32,543	40,139

(b) Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or MUPMIFA requires the Corporation to retain as a fund of perpetual duration. The Corporation does not have any donor-restricted endowment funds that are below the level that the donor or MUPMIFA requires.

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(c) Investment Strategies

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

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

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

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

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

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

	2012	2011
Economic interests in:		
The James Lawrence Kernan Hospital Endowment Fund, Incorporated	\$ 29,002	33,354
Baltimore Washington Medical Center Foundation, Inc.	5,966	5,896
Total economic interests	34,968	39,250
Beneficial interest in the net assets of Dorchester General Hospital Foundation, Inc.	2,601	2,552
	\$ 37,569	41,802

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

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

The Maryland General Foundation contributed the remainder of its assets, approximately \$2,590,000 of funds during the year ended June 30, 2011, to support future Emergency Department capital projects at Maryland General, which is included in contributions and change in economic and beneficial interest in net assets of related organizations in the accompanying consolidated statement of changes in net assets. The contribution made during the year ended June 30, 2011 constituted all of Maryland General Foundation's remaining assets.

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

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

	<u>2012</u>	<u>2011</u>
Current assets	\$ 1,905	3,753
Noncurrent assets	36,408	39,061
Total assets	<u>\$ 38,313</u>	<u>42,814</u>
Current liabilities	\$ 101	374
Noncurrent liabilities	643	638
Net assets	<u>37,569</u>	<u>41,802</u>
Total liabilities and net assets	<u>\$ 38,313</u>	<u>42,814</u>
Total operating revenue	\$ 622	7,125
Total operating expense	(4,922)	(3,066)
Other changes in net assets	67	(695)
Total increase (decrease) in net assets	<u>\$ (4,233)</u>	<u>3,364</u>

(13) State Support

The Corporation received \$3,200,000 in support for the Shock Trauma Center operations from the State of Maryland in each of the years ended June 30, 2012 and 2011.

The State of Maryland appropriates funds for specific construction costs incurred and equipment purchases made. The Corporation recognizes this support as the funds are expended for the intended projects. The Corporation expended and recorded \$29,808,000 and \$20,815,000 during the years ended June 30, 2012 and 2011, respectively.

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In each of the years ended June 30, 2012 and 2011, the Corporation received \$750,000 of capital support from the State of Maryland for Kernan.

(14) Functional Expenses

The Corporation provides general healthcare services to residents within its geographic location. Expenses related to providing these services, based on management's estimates of expense allocations, are as follows for the years ended June 30 (in thousands):

	2012	2011
Healthcare services	\$ 2,042,882	1,915,587
General and administrative	390,162	328,336
	\$ 2,433,044	2,243,923

(15) Insurance

The Corporation maintains self-insurance programs for professional and general liability risks, employee health, employee long-term disability, and workers' compensation. Estimated liabilities have been recorded based on actuarial estimation of reported and incurred but not reported claims. The accrued liabilities for these programs as of June 30, 2012 and 2011 were as follows (in thousands):

	2012	2011
Professional and general malpractice liabilities (including \$104,740 of additional liability in 2012, as discussed in note 1(x))	\$ 165,742	51,104
Employee health	14,589	12,941
Employee long-term disability	8,143	5,521
Workers' compensation	11,473	11,496
Total self-insured liabilities	199,947	81,062
Less current portion	(39,909)	(34,789)
	\$ 160,038	46,273

The Corporation provides for and funds the present value of the costs for professional and general liability claims and insurance coverage related to the projected liability from asserted and unasserted incidents, which the Corporation believes may ultimately result in a loss. These accrued malpractice losses are discounted using a discount rate of 2.5%. In management's opinion, these accruals provide an adequate and appropriate loss reserve.

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

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individually and \$3 million in the aggregate up to \$80 million individually and \$80 million in the aggregate under claims made policies between the Corporation and Terrapin. For claims in excess of Terrapin's coverage limits, if any, the Corporation retains the risk of loss.

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

Total malpractice insurance expense for the Corporation during the years ended June 30, 2012 and 2011 was approximately \$39,290,000 and \$32,581,000, respectively.

(16) Business and Credit Concentrations

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

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

	<u>2012</u>	<u>2011</u>
Medicare	22%	20%
Medicaid	35	33
Commercial insurance and HMOs	16	16
Blue Cross	11	12
Self-pay and others	16	19
	<u>100%</u>	<u>100%</u>

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

	<u>2012</u>	<u>2011</u>
Medicare	31%	33%
Medicaid	27	26
Commercial insurance and HMOs	18	16
Blue Cross	15	14
Self-pay and others	9	11
	<u>100%</u>	<u>100%</u>

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(17) Certain Significant Risks and Uncertainties

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

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

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

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

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

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

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

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

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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, 2012.

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

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

Effective July 1, 2010, Shore Health and Chester River entered into Total Patient Revenue (TPR) agreements with the HSCRC. The TPR agreements establish an approved aggregate inpatient and outpatient revenue for regulated services to provide care for the patient population in the geographic region without regard for patient acuity or volumes.

The HSCRC utilizes a bad debt pool into which each of the regulated hospitals in Maryland participates. The funds in the bad debt pool are distributed to the hospitals that exceed the state average based upon the amount of uncompensated care delivered to patients during the year. For the years ended June 30, 2012 and 2011, the Corporation recognized a net distribution from the pool of \$53,350,000 and \$47,558,000, respectively, which is recorded as net patient service revenue.

(19) Related Party Agreements

The Corporation has certain agreements with various departments of the University of Maryland School of Medicine concerning the provision of professional and administrative services to the Corporation and its patients. Total expense under these agreements in the years ended June 30, 2012 and 2011 was approximately \$115,956,000 and \$97,160,000, respectively.

(20) Subsequent Events

The corporation evaluated all events and transactions that occurred after June 30, 2012 and through October 26, 2012. Other than described below, the Corporation did not have any material recognizable subsequent events during the period.

In August 2012, the Corporation refunded \$40,755,000 of the Series 2007 Bonds and \$175,000,000 of the Series 2008 bonds. The refunding was completed using the proceeds of a new \$216,504,000 MHHEFA bond issue (the Series 2012 Bonds). The refunding resulted in the de-designation for hedge accounting purposes of certain interest rate swaps, as is more fully discussed in footnote 8.

On April 24, 2012, the Corporation entered into a non-binding letter of intent to negotiate for the purchase of the assets of St. Joseph Medical Center, Inc. and its subsidiaries, located in Towson, Maryland, from Catholic Health Initiatives, Inc. An asset purchase agreement has not yet been executed and the Corporation can not yet determine when this transaction will be completed.

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Consolidating Balance Sheet Information by Division

June 30, 2012

(In thousands)

Assets	University of Maryland Medical Center	University CARE	Kernan	University Specialty	Maryland General	Baltimore Washington	Shore Health	Chester River	Civita Health	UMMS Foundation	Shipley's	36 South Paca	Eliminations	Consolidated total
Current assets:														
Cash and cash equivalents	\$ 146,758	343	5,008	221	24,482	36,908	18,462	7,183	38,784	—	658	1,102	—	279,909
Assets limited as to use, current portion	37,912	—	—	—	955	1,051	714	521	1,936	—	—	—	—	43,089
Accounts receivable:														
Patient accounts receivable, less allowance for doubtful accounts of \$140,089	155,572	162	16,172	7,187	13,131	42,825	33,211	9,998	11,494	—	—	—	—	289,752
Other	48,208	125	3,758	122	1,156	142	2,717	4	535	(1,967)	3,454	129	(33,257)	25,126
Inventories	19,188	39	998	594	2,228	7,006	3,367	461	1,491	—	—	—	—	35,372
Prepaid expenses and other current assets	123,530	32	16	—	393	9,979	954	1,203	983	1,500	—	(14)	—	138,576
Total current assets	<u>531,168</u>	<u>701</u>	<u>25,952</u>	<u>8,124</u>	<u>42,345</u>	<u>97,911</u>	<u>59,425</u>	<u>19,370</u>	<u>55,223</u>	<u>(467)</u>	<u>4,112</u>	<u>1,217</u>	<u>(33,257)</u>	<u>811,824</u>
Investments	349,906	—	13,011	191	—	47,935	29,179	4,515	1,390	—	—	—	—	446,127
Assets limited as to use, less current portion:														
Debt service funds	41,438	—	—	—	—	—	—	—	4,544	—	—	—	—	45,982
Construction funds	89,458	—	8,057	—	—	18,390	5,851	—	—	—	—	—	—	121,756
Board designated and escrow funds	—	—	—	—	4,000	—	59,667	5,000	2,545	33,418	—	—	—	104,630
Self-insurance trust funds	41,045	—	—	—	21,088	18,072	13,013	2,426	—	—	—	—	—	95,644
Funds restricted by donor	—	—	—	—	3,201	—	23,007	1,655	—	19,591	—	—	—	47,454
Economic and beneficial interests in the net assets of related organizations	58,001	—	30,788	522	293	5,966	2,600	—	—	—	—	—	(60,602)	37,568
Total investments	<u>229,942</u>	<u>—</u>	<u>38,845</u>	<u>522</u>	<u>28,582</u>	<u>42,428</u>	<u>104,138</u>	<u>9,081</u>	<u>7,089</u>	<u>53,009</u>	<u>—</u>	<u>—</u>	<u>(60,602)</u>	<u>453,034</u>
Property and equipment, net	779,987	—	42,111	5,194	94,089	265,093	133,975	24,014	82,055	1,815	6,194	9,563	—	1,444,090
Deferred financing costs, net	6,842	—	—	—	—	—	—	—	326	—	—	—	—	7,168
Investments in joint ventures and other assets	291,019	—	—	—	24,644	21,423	7,523	3,362	15,206	6,313	—	3,277	(78,913)	293,854
Total assets	<u>\$ 2,188,864</u>	<u>701</u>	<u>119,919</u>	<u>14,031</u>	<u>189,660</u>	<u>474,790</u>	<u>334,240</u>	<u>60,342</u>	<u>161,289</u>	<u>60,670</u>	<u>10,306</u>	<u>14,057</u>	<u>(172,772)</u>	<u>3,456,097</u>

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

Consolidating Balance Sheet Information by Division

June 30, 2012

(In thousands)

Liabilities and Net Assets	University of Maryland Medical Center	University CARE	Kernan	University Specialty	Maryland General	Baltimore Washington	Shore Health	Chester River	Civita Health	UMMS Foundation	Shipley's	36 South Paca	Eliminations	Consolidated total
Current liabilities:														
Trade accounts payable	\$ 126,306	534	5,783	3,486	13,842	18,433	8,139	3,104	8,839	68	60	221	—	188,815
Accrued payroll and benefits	79,906	101	4,802	5,445	12,496	22,919	15,360	3,844	4,821	—	—	—	—	149,694
Advances from third-party payors	82,861	—	3,937	4,584	6,541	10,044	6,704	1,308	3,944	—	—	—	—	119,923
Lines of credit	85,000	—	—	—	5,000	—	—	—	12,000	—	—	—	—	102,000
Other current liabilities	98,528	360	725	13,547	4,094	5,536	4,313	5,747	3,964	—	—	2,820	(33,257)	106,377
Long-term debt subject to short-term remarketing arrangements	50,427	—	—	—	—	—	—	2,194	—	—	—	—	—	52,621
Current portion of long-term debt	37,530	—	270	300	840	8,510	3,294	1,221	1,963	—	—	—	—	53,928
Total current liabilities	560,558	995	15,517	27,362	42,813	65,442	37,810	17,418	35,531	68	60	3,041	(33,257)	773,358
Long-term debt, less current portion	596,491	—	12,049	6,656	35,261	193,601	96,594	2,373	68,544	—	—	—	—	1,011,569
Other long-term liabilities	102,124	—	441	8	36,847	41,632	13,630	10,336	21,494	—	—	—	—	226,512
Interest rate swap liabilities	217,756	—	—	—	—	—	—	—	—	—	—	—	—	217,756
Total liabilities	1,476,929	995	28,007	34,026	114,921	300,675	148,034	30,127	125,569	68	60	3,041	(33,257)	2,229,195
Net assets:														
Unrestricted	639,846	(294)	60,991	(20,517)	71,245	168,149	160,571	28,559	35,703	37,977	10,246	11,016	(78,424)	1,125,068
Temporarily restricted	71,676	—	30,921	522	3,494	5,966	11,798	268	17	3,569	—	—	(61,091)	67,140
Permanently restricted	413	—	—	—	—	—	13,837	1,388	—	19,056	—	—	—	34,694
Total net assets	711,935	(294)	91,912	(19,995)	74,739	174,115	186,206	30,215	35,720	60,602	10,246	11,016	(139,515)	1,226,902
Total liabilities and net assets	\$ 2,188,864	701	119,919	14,031	189,660	474,790	334,240	60,342	161,289	60,670	10,306	14,057	(172,772)	3,456,097

See accompanying independent auditors' report.

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

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

June 30, 2012

(In thousands)

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

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

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

June 30, 2012

(In thousands)

Liabilities and Net Assets	Maryland General Health Systems, Inc.	Maryland General Hospital	Maryland General Clin. Prac. Group	Eliminations	MGHS consolidated total
Current liabilities:					
Trade accounts payable	\$ 8	13,834	—	—	13,842
Accrued payroll and benefits	—	12,496	—	—	12,496
Advances from third-party payors	—	6,541	—	—	6,541
Lines of credit	—	5,000	—	—	5,000
Other current liabilities	—	4,094	—	—	4,094
Current portion of long-term debt	163	677	—	—	840
Total current liabilities	<u>171</u>	<u>42,642</u>	<u>—</u>	<u>—</u>	<u>42,813</u>
Long-term debt, less current portion	1,141	34,120	—	—	35,261
Other long-term liabilities	1	36,846	—	—	36,847
Total liabilities	<u>1,313</u>	<u>113,608</u>	<u>—</u>	<u>—</u>	<u>114,921</u>
Net assets:					
Unrestricted	17,221	54,017	7	—	71,245
Temporarily restricted	—	3,494	—	—	3,494
Permanently restricted	—	—	—	—	—
Total net assets	<u>17,221</u>	<u>57,511</u>	<u>7</u>	<u>—</u>	<u>74,739</u>
Total liabilities and net assets	<u>\$ 18,534</u>	<u>171,119</u>	<u>7</u>	<u>—</u>	<u>189,660</u>

See accompanying independent auditors' report.

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

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

June 30, 2012

(In thousands)

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

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

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

June 30, 2012

(In thousands)

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

See accompanying independent auditors' report.

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

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

June 30, 2012

(In thousands)

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

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

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

June 30, 2012

(In thousands)

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

See accompanying independent auditors' report.

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

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

June 30, 2012

(In thousands)

Assets	Chester River Hospital Center	Chester River Manor	Chester River Home Care and Hospice	Chester River Health Foundation	Eliminations	CRHS consolidated total
Current assets:						
Cash and cash equivalents	\$ 4,424	1,002	295	1,462	—	7,183
Assets limited as to use, current portion	521	—	—	—	—	521
Accounts receivable:						
Patient accounts receivable, less allowance for doubtful accounts of \$4,813	8,901	588	509	—	—	9,998
Other	—	4	—	—	—	4
Inventories	456	5	—	—	—	461
Prepaid expenses and other current assets	1,160	43	—	—	—	1,203
Total current assets	<u>15,462</u>	<u>1,642</u>	<u>804</u>	<u>1,462</u>	<u>—</u>	<u>19,370</u>
Investments	3,177	—	1,119	219	—	4,515
Assets limited as to use, less current portion:						
Debt service funds	—	—	—	—	—	—
Construction funds	—	—	—	—	—	—
Board designated and escrow funds	5,000	—	—	—	—	5,000
Self-insurance trust funds	2,342	84	—	—	—	2,426
Funds restricted by donor	26	—	73	1,556	—	1,655
Economic interests in the net assets of related organizations	5,244	23	410	—	(5,677)	—
	<u>12,612</u>	<u>107</u>	<u>483</u>	<u>1,556</u>	<u>(5,677)</u>	<u>9,081</u>
Property and equipment, net	21,678	2,051	285	—	—	24,014
Deferred financing costs, net	—	—	—	—	—	—
Investments in joint ventures and other assets	879	—	—	2,483	—	3,362
Total assets	<u>\$ 53,808</u>	<u>3,800</u>	<u>2,691</u>	<u>5,720</u>	<u>(5,677)</u>	<u>60,342</u>

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

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

June 30, 2012

(In thousands)

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

See accompanying independent auditors' report.

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

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

June 30, 2012

(In thousands)

Assets	Civista Health, Inc.	Civista Medical Center, Inc.	Civista Care Partners, Inc. and Subsidiary	Civista Health Foundation, Inc.	Eliminations	Civista consolidated total
Current assets:						
Cash and cash equivalents	\$ 7	37,974	238	565	—	38,784
Assets limited as to use, current portion	—	1,936	—	—	—	1,936
Accounts receivable:						
Patient accounts receivable, less allowance for doubtful accounts of \$5,809	—	11,344	150	—	—	11,494
Other	989	2,702	(3,139)	(17)	—	535
Inventories	—	1,491	—	—	—	1,491
Prepaid expenses and other current assets	—	931	52	—	—	983
Total current assets	<u>996</u>	<u>56,378</u>	<u>(2,699)</u>	<u>548</u>	<u>—</u>	<u>55,223</u>
Investments	—	—	—	1,390	—	1,390
Assets limited as to use, less current portion:						
Debt service funds	—	4,544	—	—	—	4,544
Construction funds	—	—	—	—	—	—
Board designated and escrow funds	2,538	—	—	7	—	2,545
Self-insurance trust funds	—	—	—	—	—	—
Funds restricted by donor	—	—	—	—	—	—
Economic interests in the net assets of related organizations	—	4,071	(173)	—	(3,898)	—
	<u>2,538</u>	<u>8,615</u>	<u>(173)</u>	<u>7</u>	<u>(3,898)</u>	<u>7,089</u>
Property and equipment, net	3,262	66,995	8,898	2,900	—	82,055
Deferred financing costs, net	—	326	—	—	—	326
Investments in joint ventures and other assets	—	14,709	497	—	—	15,206
Total assets	<u>\$ 6,796</u>	<u>147,023</u>	<u>6,523</u>	<u>4,845</u>	<u>(3,898)</u>	<u>161,289</u>

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

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

June 30, 2012

(In thousands)

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

See accompanying independent auditors' report.

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

Consolidating Balance Sheet Information by Division

June 30, 2011

(In thousands)

Assets	University of Maryland Medical Center	University Care	Kernan	University Specialty	Maryland General	Baltimore Washington	Shore Health	Chester River	UMMS Foundation	Shipley's	36 South Paca	Eliminations	Consolidated total
Current assets:													
Cash and cash equivalents	\$ 140,420	157	14,416	2,947	14,664	25,382	14,466	4,356	—	144	565	—	217,517
Assets limited as to use, current portion	37,469	—	—	—	986	833	471	355	—	—	—	—	40,114
Accounts receivable:													
Patient accounts receivable, less allowance													
for doubtful accounts of \$161,124	152,030	163	12,026	5,606	13,523	39,571	30,081	9,421	—	—	—	—	262,421
Other	36,716	132	951	323	677	1,234	3,469	22	(2,672)	3,469	85	(19,827)	24,579
Inventories	18,119	39	990	616	2,043	6,014	3,774	586	—	—	—	—	32,181
Prepaid expenses and other current assets	39,391	11	105	24	300	8,954	1,150	682	1,500	—	—	(246)	51,871
Total current assets	<u>424,145</u>	<u>502</u>	<u>28,488</u>	<u>9,516</u>	<u>32,193</u>	<u>81,988</u>	<u>53,411</u>	<u>15,422</u>	<u>(1,172)</u>	<u>3,613</u>	<u>650</u>	<u>(20,073)</u>	<u>628,683</u>
Investments	304,671	—	13,154	5,303	—	48,420	30,162	5,140	—	—	—	—	406,850
Assets limited as to use, less current portion:													
Debt service funds	41,770	—	—	—	—	—	—	—	—	—	—	—	41,770
Construction funds	146,001	—	1,997	—	9,867	19,874	3,086	—	—	—	—	—	180,825
Board designated and escrow funds	—	—	—	—	—	—	60,096	5,000	32,211	—	—	—	97,307
Self-insurance trust funds	39,485	—	—	—	25,326	16,495	11,916	1,524	—	—	—	—	94,746
Funds restricted by donor	—	—	—	—	3,545	—	22,231	1,704	21,536	—	—	—	49,016
Economic and beneficial interests in the net assets of related organizations	<u>56,843</u>	<u>—</u>	<u>34,982</u>	<u>407</u>	<u>735</u>	<u>5,896</u>	<u>2,552</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(59,613)</u>	<u>41,802</u>
	284,099	—	36,979	407	39,473	42,265	99,881	8,228	53,747	—	—	(59,613)	505,466
Property and equipment, net	717,512	—	36,592	20,025	93,667	269,170	119,120	24,493	1,807	6,336	9,928	—	1,298,650
Deferred financing costs, net	7,547	—	—	—	—	—	—	—	—	—	—	—	7,547
Investments in joint ventures and other assets	201,466	—	—	—	15,720	7,895	1,193	2,501	5,315	—	3,277	(58,222)	179,145
Total assets	<u>\$ 1,939,440</u>	<u>502</u>	<u>115,213</u>	<u>35,251</u>	<u>181,053</u>	<u>449,738</u>	<u>303,767</u>	<u>55,784</u>	<u>59,697</u>	<u>9,949</u>	<u>13,855</u>	<u>(137,908)</u>	<u>3,026,341</u>

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

Consolidating Balance Sheet Information by Division

June 30, 2011

(In thousands)

Liabilities and Net Assets	University of Maryland Medical Center	University Care	Kernan	University Specialty	Maryland General	Baltimore Washington	Shore Health	Chester River	UMMS Foundation	Shipley's	36 South Paca	Eliminations	Consolidated total
Current liabilities:													
Trade accounts payable	\$ 103,712	806	5,763	3,347	9,732	23,073	5,772	2,339	84	57	310	—	154,995
Accrued payroll and benefits	71,642	77	4,243	2,909	12,252	20,497	14,142	2,886	—	—	—	(228)	128,420
Advances from third-party payors	66,844	—	3,596	4,697	6,468	8,112	5,287	1,008	—	—	—	—	96,012
Lines of credit	54,600	—	—	—	—	—	—	—	—	—	—	—	54,600
Other current liabilities	79,192	148	1,600	11,653	4,670	2,297	3,971	1,616	—	—	2,207	(19,711)	87,643
Long-term debt subject to short-term remarketing arrangements	164,055	—	—	—	—	—	—	2,710	—	—	—	—	166,765
Current portion of long-term debt	15,051	—	270	300	1,036	4,619	1,883	1,216	—	—	—	(133)	24,242
Total current liabilities	555,096	1,031	15,472	22,906	34,158	58,598	31,055	11,775	84	57	2,517	(20,072)	712,677
Long-term debt, less current portion	517,591	—	12,319	6,956	41,524	202,112	85,845	3,025	—	—	—	—	869,372
Other long-term liabilities	32,272	—	441	186	24,594	15,370	6,980	8,015	—	—	—	—	87,858
Interest rate swap liabilities	105,400	—	—	—	—	—	—	—	—	—	—	—	105,400
Total liabilities	1,210,359	1,031	28,232	30,048	100,276	276,080	123,880	22,815	84	57	2,517	(20,072)	1,775,307
Net assets:													
Unrestricted	657,739	(529)	51,866	4,796	76,497	167,762	155,506	31,266	34,925	9,892	11,338	(58,223)	1,142,835
Temporarily restricted	70,929	—	35,115	407	4,280	5,896	12,197	323	6,122	—	—	(59,613)	75,656
Permanently restricted	413	—	—	—	—	—	12,184	1,380	18,566	—	—	—	32,543
Total net assets	729,081	(529)	86,981	5,203	80,777	173,658	179,887	32,969	59,613	9,892	11,338	(117,836)	1,251,034
Total liabilities and net assets	\$ 1,939,440	502	115,213	35,251	181,053	449,738	303,767	55,784	59,697	9,949	13,855	(137,908)	3,026,341

See accompanying independent auditors' report.

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

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

June 30, 2011

(In thousands)

Assets	Maryland General Health Systems, Inc.	Maryland General Hospital	Maryland General Clin. Prac. Group	Eliminations	MGHS consolidated total
Current assets:					
Cash and cash equivalents	\$ 51	14,551	62	—	14,664
Assets limited as to use, current portion	—	986	—	—	986
Accounts receivable:					
Patient accounts receivable, less allowance for doubtful accounts of \$12,908	—	12,804	719	—	13,523
Other	48	1,403	(774)	—	677
Inventories	—	2,043	—	—	2,043
Prepaid expenses and other current assets	—	300	—	—	300
Total current assets	<u>99</u>	<u>32,087</u>	<u>7</u>	<u>—</u>	<u>32,193</u>
Investments	—	—	—	—	—
Assets limited as to use, less current portion:					
Debt service funds	—	—	—	—	—
Construction funds	—	9,867	—	—	9,867
Board designated and escrow funds	—	—	—	—	—
Self-insurance trust funds	—	25,326	—	—	25,326
Funds restricted by donor	—	3,545	—	—	3,545
Economic interests in the net assets of related organizations	—	735	—	—	735
	—	39,473	—	—	39,473
Property and equipment, net	2,175	91,492	—	—	93,667
Deferred financing costs, net	—	—	—	—	—
Investments in joint ventures and other assets	15,571	149	—	—	15,720
Total assets	<u>\$ 17,845</u>	<u>163,201</u>	<u>7</u>	<u>—</u>	<u>181,053</u>

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

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

June 30, 2011

(In thousands)

Liabilities and Net Assets	Maryland General Health Systems, Inc.	Maryland General Hospital	Maryland General Clin. Prac. Group	Eliminations	MGHS consolidated total
Current liabilities:					
Trade accounts payable	\$ 12	9,720	—	—	9,732
Accrued payroll and benefits	—	12,252	—	—	12,252
Advances from third-party payors	—	6,468	—	—	6,468
Lines of credit	—	—	—	—	—
Other current liabilities	—	4,670	—	—	4,670
Current portion of long-term debt	152	884	—	—	1,036
Total current liabilities	164	33,994	—	—	34,158
Long-term debt, less current portion	1,304	40,220	—	—	41,524
Other long-term liabilities	1	24,593	—	—	24,594
Total liabilities	1,469	98,807	—	—	100,276
Net assets:					
Unrestricted	16,376	60,114	7	—	76,497
Temporarily restricted	—	4,280	—	—	4,280
Permanently restricted	—	—	—	—	—
Total net assets	16,376	64,394	7	—	80,777
Total liabilities and net assets	\$ 17,845	163,201	7	—	181,053

See accompanying independent auditors' report.

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

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

June 30, 2011

(In thousands)

Assets	Baltimore Washington Medical System, Inc.	Baltimore Washington Medical Center	Baltimore Washington Healthcare Services	Baltimore Washington Health Enterprises	North County Corporation	Eliminations	BWMS consolidated total
Current assets:							
Cash and cash equivalents	\$ —	24,561	710	111	—	—	25,382
Assets limited as to use, current portion	—	833	—	—	—	—	833
Accounts receivable:							
Patient accounts receivable, less allowance for doubtful accounts of \$15,415	—	35,324	2,001	2,246	—	—	39,571
Other	30,476	1,234	3,939	—	(1,789)	(32,626)	1,234
Inventories	—	6,014	—	—	—	—	6,014
Prepaid expenses and other current assets	—	8,759	—	115	80	—	8,954
Total current assets	<u>30,476</u>	<u>76,725</u>	<u>6,650</u>	<u>2,472</u>	<u>(1,709)</u>	<u>(32,626)</u>	<u>81,988</u>
Investments	—	48,420	—	—	—	—	48,420
Assets limited as to use, less current portion:							
Debt service funds	—	—	—	—	—	—	—
Construction funds	—	19,874	—	—	—	—	19,874
Board designated and escrow funds	—	—	—	—	—	—	—
Self-insurance trust funds	—	16,495	—	—	—	—	16,495
Funds restricted by donor	—	—	—	—	—	—	—
Economic interests in the net assets of related organizations	—	5,896	—	—	—	—	5,896
	—	42,265	—	—	—	—	42,265
Property and equipment, net	—	243,873	—	11,270	14,027	—	269,170
Deferred financing costs, net	—	—	—	—	—	—	—
Investments in joint ventures and other assets	144,541	630	—	2,296	—	(139,572)	7,895
Total assets	<u>\$ 175,017</u>	<u>411,913</u>	<u>6,650</u>	<u>16,038</u>	<u>12,318</u>	<u>(172,198)</u>	<u>449,738</u>

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

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

June 30, 2011

(In thousands)

Liabilities and Net Assets	Baltimore Washington Medical System, Inc.	Baltimore Washington Medical Center	Baltimore Washington Healthcare Services	Baltimore Washington Health Enterprises	North County Corporation	Eliminations	BWMS consolidated total
Current liabilities:							
Trade accounts payable	\$ 2	20,766	1,134	1,050	90	31	23,073
Accrued payroll and benefits	1,357	17,924	136	1,049	31	—	20,497
Advances from third-party payors	—	8,112	—	—	—	—	8,112
Lines of credit	—	—	—	—	—	—	—
Other current liabilities	—	24,434	—	10,520	—	(32,657)	2,297
Current portion of long-term debt	—	4,120	—	274	225	—	4,619
Total current liabilities	<u>1,359</u>	<u>75,356</u>	<u>1,270</u>	<u>12,893</u>	<u>346</u>	<u>(32,626)</u>	<u>58,598</u>
Long-term debt, less current portion	—	187,521	—	10,635	3,956	—	202,112
Other long-term liabilities	—	14,987	—	383	—	—	15,370
Total liabilities	<u>1,359</u>	<u>277,864</u>	<u>1,270</u>	<u>23,911</u>	<u>4,302</u>	<u>(32,626)</u>	<u>276,080</u>
Net assets:							
Unrestricted	173,658	128,153	5,380	(7,873)	8,016	(139,572)	167,762
Temporarily restricted	—	5,896	—	—	—	—	5,896
Permanently restricted	—	—	—	—	—	—	—
Total net assets	<u>173,658</u>	<u>134,049</u>	<u>5,380</u>	<u>(7,873)</u>	<u>8,016</u>	<u>(139,572)</u>	<u>173,658</u>
Total liabilities and net assets	<u>\$ 175,017</u>	<u>411,913</u>	<u>6,650</u>	<u>16,038</u>	<u>12,318</u>	<u>(172,198)</u>	<u>449,738</u>

See accompanying independent auditors' report.

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

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

June 30, 2011

(In thousands)

Assets	Shore Health System, Inc.	Memorial Hospital Foundation, Inc. and Subsidiary	Care Health Services, Inc.	Shore Health Enterprises, Inc. and Subsidiary	Shore Clinical Foundation, Inc.	Chesapeake Ear, Nose, Throat, Sinus, and Hearing Center, LLC	Chesapeake Neurological Surgery, LLC	Eliminations	SHS consolidated total
Current assets:									
Cash and cash equivalents	\$ 13,585	—	289	36	556	—	—	—	14,466
Assets limited as to use, current portion	471	—	—	—	—	—	—	—	471
Accounts receivable:									
Patient accounts receivable, less allowance for doubtful accounts of \$9,403	26,390	—	876	—	2,815	—	—	—	30,081
Other	4,276	201	2,882	—	529	—	—	(4,419)	3,469
Inventories	3,774	—	—	—	—	—	—	—	3,774
Prepaid expenses and other current assets	941	27	13	—	169	—	—	—	1,150
Total current assets	<u>49,437</u>	<u>228</u>	<u>4,060</u>	<u>36</u>	<u>4,069</u>	<u>—</u>	<u>—</u>	<u>(4,419)</u>	<u>53,411</u>
Investments	30,162	—	—	—	—	—	—	—	30,162
Assets limited as to use, less current portion:									
Debt service funds	—	—	—	—	—	—	—	—	—
Construction funds	3,086	—	—	—	—	—	—	—	3,086
Board designated and escrow funds	25,000	35,096	—	—	—	—	—	—	60,096
Self-insurance trust funds	11,916	—	—	—	—	—	—	—	11,916
Funds restricted by donor	3,852	18,379	—	—	—	—	—	—	22,231
Economic and beneficial interests in the net assets of related organizations	59,272	—	—	—	—	—	—	(56,720)	2,552
	<u>103,126</u>	<u>53,475</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(56,720)</u>	<u>99,881</u>
Property and equipment, net	112,836	3,778	438	714	1,354	—	—	—	119,120
Deferred financing costs, net	—	—	—	—	—	—	—	—	—
Investments in joint ventures and other assets	8,799	24	—	—	—	—	—	(7,630)	1,193
Total assets	<u>\$ 304,360</u>	<u>57,505</u>	<u>4,498</u>	<u>750</u>	<u>5,423</u>	<u>—</u>	<u>—</u>	<u>(68,769)</u>	<u>303,767</u>

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

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

June 30, 2011

(In thousands)

Liabilities and Net Assets	Shore Health System, Inc.	Memorial Hospital Foundation, Inc. and Subsidiary	Care Health Services, Inc.	Shore Health Enterprises, Inc. and Subsidiary	Shore Clinical Foundation, Inc.	Chesapeake Ear, Nose, Throat, Sinus, and Hearing Center, LLC	Chesapeake Neurological Surgery, LLC	Eliminations	SHS consolidated total
Current liabilities:									
Trade accounts payable	\$ 5,406	4	105	—	257	—	—	—	5,772
Accrued payroll and benefits	13,019	11	237	—	875	—	—	—	14,142
Advances from third-party payors	5,287	—	—	—	—	—	—	—	5,287
Lines of credit	—	—	—	—	—	—	—	—	—
Other current liabilities	6,197	741	2	1,450	—	—	—	(4,419)	3,971
Current portion of long-term debt	1,883	—	—	—	—	—	—	—	1,883
Total current liabilities	<u>31,792</u>	<u>756</u>	<u>344</u>	<u>1,450</u>	<u>1,132</u>	<u>—</u>	<u>—</u>	<u>(4,419)</u>	<u>31,055</u>
Long-term debt, less current portion	85,845	—	—	—	—	—	—	—	85,845
Other long-term liabilities	6,837	29	—	—	114	—	—	—	6,980
Total liabilities	<u>124,474</u>	<u>785</u>	<u>344</u>	<u>1,450</u>	<u>1,246</u>	<u>—</u>	<u>—</u>	<u>(4,419)</u>	<u>123,880</u>
Net assets:									
Unrestricted	155,505	38,782	4,154	(700)	4,177	—	—	(46,412)	155,506
Temporarily restricted	12,197	8,674	—	—	—	—	—	(8,674)	12,197
Permanently restricted	12,184	9,264	—	—	—	—	—	(9,264)	12,184
Total net assets	<u>179,886</u>	<u>56,720</u>	<u>4,154</u>	<u>(700)</u>	<u>4,177</u>	<u>—</u>	<u>—</u>	<u>(64,350)</u>	<u>179,887</u>
Total liabilities and net assets	<u>\$ 304,360</u>	<u>57,505</u>	<u>4,498</u>	<u>750</u>	<u>5,423</u>	<u>—</u>	<u>—</u>	<u>(68,769)</u>	<u>303,767</u>

See accompanying independent auditors' report.

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

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

June 30, 2011

(In thousands)

Assets	Chester River Hospital Center	Chester River Manor	Chester River Home Care and Hospice	Chester River Health Foundation	Eliminations	CRHS consolidated total
Current assets:						
Cash and cash equivalents	\$ 2,050	748	376	1,182	—	4,356
Assets limited as to use, current portion	355	—	—	—	—	355
Accounts receivable:						
Patient accounts receivable, less allowance for doubtful accounts of \$6,598	8,570	581	270	—	—	9,421
Other	196	16	5	—	(195)	22
Inventories	582	4	—	—	—	586
Prepaid expenses and other current assets	624	58	—	—	—	682
Total current assets	<u>12,377</u>	<u>1,407</u>	<u>651</u>	<u>1,182</u>	<u>(195)</u>	<u>15,422</u>
Investments	3,664	—	1,246	230	—	5,140
Assets limited as to use, less current portion:						
Debt service funds	—	—	—	—	—	—
Construction funds	—	—	—	—	—	—
Board designated and escrow funds	5,000	—	—	—	—	5,000
Self-insurance trust funds	1,524	—	—	—	—	1,524
Funds restricted by donor	22	—	73	1,609	—	1,704
Economic interests in the net assets of related organizations	4,962	16	417	—	(5,395)	—
	<u>11,508</u>	<u>16</u>	<u>490</u>	<u>1,609</u>	<u>(5,395)</u>	<u>8,228</u>
Property and equipment, net	22,007	2,155	331	—	—	24,493
Deferred financing costs, net	—	—	—	—	—	—
Investments in joint ventures and other assets	—	—	—	2,501	—	2,501
Total assets	<u>\$ 49,556</u>	<u>3,578</u>	<u>2,718</u>	<u>5,522</u>	<u>(5,590)</u>	<u>55,784</u>

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

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

June 30, 2011

(In thousands)

Liabilities and Net Assets	Chester River Hospital Center	Chester River Manor	Chester River Home Care and Hospice	Chester River Health Foundation	Eliminations	CRHS consolidated total
Current liabilities:						
Trade accounts payable	\$ 1,930	382	24	3	—	2,339
Accrued payroll and benefits	2,526	219	141	—	—	2,886
Advances from third-party payors	1,004	4	—	—	—	1,008
Lines of credit	—	—	—	—	—	—
Other current liabilities	1,595	122	78	16	(195)	1,616
Long-term debt subject to short-term remarketing arrangements	2,710	—	—	—	—	2,710
Current portion of long-term debt	1,186	30	—	—	—	1,216
Total current liabilities	10,951	757	243	19	(195)	11,775
Long-term debt, less current portion	2,700	325	—	—	—	3,025
Other long-term liabilities	7,912	60	—	43	—	8,015
Total liabilities	21,563	1,142	243	62	(195)	22,815
Net assets:						
Unrestricted	26,362	2,436	2,403	3,851	(3,786)	31,266
Temporarily restricted	268	—	55	246	(246)	323
Permanently restricted	1,363	—	17	1,363	(1,363)	1,380
Total net assets	27,993	2,436	2,475	5,460	(5,395)	32,969
Total liabilities and net assets	\$ 49,556	3,578	2,718	5,522	(5,590)	55,784

See accompanying independent auditors' report.

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

Consolidating Operations Information by Division

Year ended June 30, 2012

(In thousands)

	University of Maryland Medical Center	University CARE	Kernan	University Specialty	Maryland General	Baltimore Washington	Shore Health	Chester River	Civista Health	UMMS Foundation	Shipley's	36 South Paca	Eliminations	Consolidated total
Unrestricted revenues, gains and other support:														
Net patient service revenue	\$ 1,311,227	3,002	106,262	39,929	176,155	376,524	237,996	63,103	113,930	—	—	—	(1,151)	2,426,977
Other operating revenue:														
State support	3,200	—	—	—	—	—	—	—	—	—	—	—	—	3,200
Other revenue	51,565	2,385	2,828	280	2,335	7,163	6,128	516	1,955	—	980	1,137	(2,753)	74,519
Total unrestricted revenue, gains and other support	1,365,992	5,387	109,090	40,209	178,490	383,687	244,124	63,619	115,885	—	980	1,137	(3,904)	2,504,696
Operating expenses:														
Salaries, wages and benefits	593,530	3,279	50,604	24,732	83,952	180,575	126,156	35,961	54,142	—	—	175	—	1,153,106
Expendable supplies	251,444	211	16,232	4,329	18,049	57,758	34,534	7,895	16,932	—	—	29	—	407,413
Purchased services	169,092	5,080	20,306	15,399	30,130	65,996	44,664	13,994	21,322	—	433	716	(4,658)	382,474
Contracted services	107,962	—	7,994	—	24,699	9,736	8,430	2,448	2,845	—	—	—	—	164,114
Depreciation and amortization	68,625	—	3,202	2,604	11,037	22,687	14,217	4,200	2,992	—	193	392	—	130,149
Interest expense	27,754	—	485	850	1,622	7,947	3,567	259	3,293	—	—	124	—	45,901
Provision for bad debts	75,626	309	5,575	971	13,522	25,961	2,454	1,261	7,960	—	—	1	—	133,640
Facility closure expenses	—	—	—	16,247	—	—	—	—	—	—	—	—	—	16,247
Total operating expenses	1,294,033	8,879	104,398	65,132	183,011	370,660	234,022	66,018	109,486	—	626	1,437	(4,658)	2,433,044
Operating income (loss)	71,959	(3,492)	4,692	(24,923)	(4,521)	13,027	10,102	(2,399)	6,399	—	354	(300)	754	71,652
Nonoperating income and expenses, net:														
Loss on early extinguishment of debt	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Change in fair value of undesignated interest rate swaps	(107,408)	—	—	—	—	—	—	—	—	—	—	—	—	(107,408)
Other nonoperating gains and losses:														
Contributions	—	—	—	—	—	—	1,410	552	438	6,561	—	—	—	8,961
Inherent contribution – Civista	37,322	—	—	—	—	—	—	—	—	—	—	—	—	37,322
Equity in net income of joint ventures	(30,748)	—	—	—	4,933	177	—	—	(349)	—	—	—	27,647	1,660
Investment income	15,129	—	426	(27)	100	1,578	(2,789)	706	151	2,013	—	—	—	17,287
Change in fair value of investments	(17,067)	—	(557)	(362)	(208)	(2,033)	98	(495)	(108)	(2,372)	—	—	—	(23,104)
Change in fair value of financial instrument	—	—	—	—	—	(3,363)	(1,953)	(560)	41	(3,065)	—	—	—	(9,607)
Other nonoperating gains and losses	(9,531)	—	(186)	—	(570)	(3,363)	(1,953)	(560)	41	(3,065)	—	—	(577)	(19,764)
Total other nonoperating gains and losses	(4,895)	—	(317)	(389)	4,255	(3,641)	(3,234)	203	(9,434)	3,137	—	—	27,070	12,755
Excess (deficiency) of revenues over expenses	(40,344)	(3,492)	4,375	(25,312)	(266)	9,386	6,868	(2,196)	(3,035)	3,137	354	(300)	27,824	(23,001)
Net assets released from restrictions used for purchase of property and equipment	29,893	—	4,750	—	995	—	691	—	108	(85)	—	—	—	36,352
Change in unrealized gains on investments	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Change in economic and beneficial interests in the net assets of related organizations	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Change in ownership interest of joint ventures	(2,883)	—	—	—	—	—	—	—	—	—	—	—	—	(2,883)
Capital transfers (to) from affiliate	335	3,728	—	—	2,135	—	(2,471)	—	6,500	—	—	—	(10,227)	—
Change in fair value of designated interest rate swaps	(4,948)	—	—	—	—	—	—	—	—	—	—	—	—	(4,948)
Change in funded status of defined benefit pension plans	—	—	—	—	(8,117)	(8,998)	—	(1,303)	(5,218)	—	—	—	—	(23,636)
Other	54	(1)	—	(1)	1	(1)	(23)	792	13,475	—	—	(22)	(13,925)	349
Increase (decrease) in unrestricted net assets	\$ (17,893)	235	9,125	(25,313)	(5,252)	387	5,065	(2,707)	11,830	3,052	354	(322)	3,672	(17,767)

See accompanying independent auditors' report.

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

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

Year ended June 30, 2012

(In thousands)

	Maryland General Health Systems, Inc.	Maryland General Hospital	Maryland General Clin. Prac. Group	Eliminations	MGHS consolidated total
Unrestricted revenues, gains and other support:					
Net patient service revenue	\$ —	174,332	9,050	(7,227)	176,155
Other operating revenue:					
State support	—	—	—	—	—
Other revenue	892	1,429	14	—	2,335
Total unrestricted revenue, gains and other support	892	175,761	9,064	(7,227)	178,490
Operating expenses:					
Salaries, wages and benefits	—	83,952	—	—	83,952
Expendable supplies	—	18,049	—	—	18,049
Purchased services	731	29,396	3	—	30,130
Contracted services	—	24,699	7,227	(7,227)	24,699
Depreciation and amortization	454	10,583	—	—	11,037
Interest expense	93	1,529	—	—	1,622
Provision for bad debts	—	11,688	1,834	—	13,522
Total operating expenses	1,278	179,896	9,064	(7,227)	183,011
Operating income (loss)	(386)	(4,135)	—	—	(4,521)

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

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

Year ended June 30, 2012

(In thousands)

	Maryland General Health Systems, Inc.	Maryland General Hospital	Maryland General Clin. Prac. Group	Eliminations	MGHS consolidated total
Nonoperating income and expenses, net:					
Loss on early extinguishment of debt	\$ —	—	—	—	—
Change in fair value of undesignated interest rate swaps	—	—	—	—	—
Other nonoperating gains and losses:					
Contributions	—	—	—	—	—
Equity in net income of joint ventures	4,933	—	—	—	4,933
Investment income	—	100	—	—	100
Change in fair value of investments	—	(208)	—	—	(208)
Other nonoperating gains and losses	—	(570)	—	—	(570)
Total other nonoperating gains and losses	<u>4,933</u>	<u>(678)</u>	<u>—</u>	<u>—</u>	<u>4,255</u>
Excess of revenues over expenses	4,547	(4,813)	—	—	(266)
Net assets released from restrictions used for purchase of property and equipment	—	995	—	—	995
Change in unrealized gains on investments	—	—	—	—	—
Change in economic and beneficial interests in the net assets of related organizations	—	—	—	—	—
Change in ownership interest of joint ventures	—	—	—	—	—
Capital transfers (to) from affiliate	(3,702)	5,837	—	—	2,135
Change in fair value of designated interest rate swaps	—	—	—	—	—
Change in funded status of defined benefit pension plans	—	(8,117)	—	—	(8,117)
Other	—	1	—	—	1
Increase in unrestricted net assets	<u>\$ 845</u>	<u>(6,097)</u>	<u>—</u>	<u>—</u>	<u>(5,252)</u>

See accompanying independent auditors' report.

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

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

Year ended June 30, 2012

(In thousands)

	Baltimore Washington Medical System, Inc.	Baltimore Washington Medical Center	Baltimore Washington Healthcare Services	Baltimore Washington Health Enterprises	North County Corporation	Eliminations	BWMS consolidated total
Unrestricted revenues, gains and other support:							
Net patient service revenue	\$ —	336,093	31,238	11,700	—	(2,507)	376,524
Other operating revenue:							
State support	—	—	—	—	—	—	—
Other revenue	3,943	3,482	—	3,087	2,062	(5,411)	7,163
Total unrestricted revenue, gains and other support	3,943	339,575	31,238	14,787	2,062	(7,918)	383,687
Operating expenses:							
Salaries, wages and benefits	3,943	156,728	10,875	9,029	—	—	180,575
Expendable supplies	—	56,948	—	810	—	—	57,758
Purchased services	—	63,804	5,498	3,332	1,280	(7,918)	65,996
Contracted services	—	7,728	—	2,008	—	—	9,736
Depreciation and amortization	—	21,142	—	993	552	—	22,687
Interest expense	—	7,141	—	708	98	—	7,947
Provision for bad debts	—	11,544	14,417	—	—	—	25,961
Total operating expenses	3,943	325,035	30,790	16,880	1,930	(7,918)	370,660
Operating income (loss)	—	14,540	448	(2,093)	132	—	13,027

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

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

Year ended June 30, 2012

(In thousands)

	Baltimore Washington Medical System, Inc.	Baltimore Washington Medical Center	Baltimore Washington Healthcare Services	Baltimore Washington Health Enterprises	North County Corporation	Eliminations	BWMS consolidated total
Nonoperating income and expenses, net:							
Loss on early extinguishment of debt	\$ —	—	—	—	—	—	—
Change in fair value of undesignated interest rate swaps	—	—	—	—	—	—	—
Other nonoperating gains and losses:							
Contributions	—	—	—	—	—	—	—
Equity in net income of joint ventures	9,384	—	—	—	—	(9,207)	177
Investment income	—	1,577	—	1	—	—	1,578
Change in fair value of investments	—	(2,033)	—	—	—	—	(2,033)
Other nonoperating gains and losses	—	(2,832)	—	(531)	—	—	(3,363)
Total other nonoperating gains and losses	<u>9,384</u>	<u>(3,288)</u>	<u>—</u>	<u>(530)</u>	<u>—</u>	<u>(9,207)</u>	<u>(3,641)</u>
Excess (deficiency) of revenues over expenses	9,384	11,252	448	(2,623)	132	(9,207)	9,386
Net assets released from restrictions used for purchase of property and equipment	—	—	—	—	—	—	—
Change in unrealized gains on investments	—	—	—	—	—	—	—
Change in economic and beneficial interests in the net assets of related organizations	70	—	—	—	—	(70)	—
Change in ownership interest of joint ventures	—	—	—	—	—	—	—
Capital transfers (to) from affiliate	—	(14,880)	—	12,157	—	2,723	—
Change in fair value of designated interest rate swaps	—	—	—	—	—	—	—
Change in funded status of defined benefit pension plans	(8,998)	(8,998)	—	—	—	8,998	(8,998)
Other	1	(4)	1	1	—	—	(1)
Increase (decrease) in unrestricted net assets	<u>\$ 457</u>	<u>(12,630)</u>	<u>449</u>	<u>9,535</u>	<u>132</u>	<u>2,444</u>	<u>387</u>

See accompanying independent auditors' report.

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

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

Year ended June 30, 2012

(In thousands)

	Shore Health System, Inc.	Memorial Hospital Foundation, Inc. and Subsidiary	Care Health Services, Inc.	Shore Health Enterprises, Inc. and Subsidiary	Shore Clinical Foundation, Inc.	Eliminations	SHS consolidated total
Unrestricted revenues, gains and other support:							
Net patient service revenue	\$ 221,080	—	5,950	—	10,966	—	237,996
Other operating revenue:							
State support	—	—	—	—	—	—	—
Other revenue	5,072	—	55	58	1,080	(137)	6,128
Total unrestricted revenue, gains and other support	<u>226,152</u>	<u>—</u>	<u>6,005</u>	<u>58</u>	<u>12,046</u>	<u>(137)</u>	<u>244,124</u>
Operating expenses:							
Salaries, wages and benefits	106,479	—	4,831	—	14,846	—	126,156
Expendable supplies	33,503	—	243	—	788	—	34,534
Purchased services	40,860	—	819	25	3,239	(279)	44,664
Contracted services	6,585	—	—	—	1,845	—	8,430
Depreciation and amortization	13,817	—	34	12	354	—	14,217
Interest expense	3,567	—	—	62	—	(62)	3,567
Provision for bad debts	2,372	—	82	—	—	—	2,454
Total operating expenses	<u>207,183</u>	<u>—</u>	<u>6,009</u>	<u>99</u>	<u>21,072</u>	<u>(341)</u>	<u>234,022</u>
Operating income (loss)	<u>18,969</u>	<u>—</u>	<u>(4)</u>	<u>(41)</u>	<u>(9,026)</u>	<u>204</u>	<u>10,102</u>

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

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

Year ended June 30, 2012

(In thousands)

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

See accompanying independent auditors' report.

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

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

Year ended June 30, 2012

(In thousands)

	Chester River Hospital Center	Chester River Manor	Chester River Home Care and Hospice	Chester River Health Foundation	Eliminations	CRHS consolidated total
Unrestricted revenues, gains and other support:						
Net patient service revenue	\$ 52,642	7,877	2,584	—	—	63,103
Other operating revenue:						
State support	—	—	—	—	—	—
Other revenue	457	4	55	—	—	516
Total unrestricted revenue, gains and other support	<u>53,099</u>	<u>7,881</u>	<u>2,639</u>	<u>—</u>	<u>—</u>	<u>63,619</u>
Operating expenses:						
Salaries, wages and benefits	29,599	4,295	2,067	—	—	35,961
Expendable supplies	7,068	765	62	—	—	7,895
Purchased services	11,037	2,506	451	—	—	13,994
Contracted services	2,448	—	—	—	—	2,448
Depreciation and amortization	3,891	250	59	—	—	4,200
Interest expense	250	9	—	—	—	259
Provision for bad debts	957	244	60	—	—	1,261
Total operating expenses	<u>55,250</u>	<u>8,069</u>	<u>2,699</u>	<u>—</u>	<u>—</u>	<u>66,018</u>
Operating income	<u>(2,151)</u>	<u>(188)</u>	<u>(60)</u>	<u>—</u>	<u>—</u>	<u>(2,399)</u>

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

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

Year ended June 30, 2012

(In thousands)

	Chester River Hospital Center	Chester River Manor	Chester River Home Care and Hospice	Chester River Health Foundation	Eliminations	CRHS consolidated total
Nonoperating income and expenses, net:						
Loss on early extinguishment of debt	\$ —	—	—	—	—	—
Other nonoperating gains and losses:						
Contributions	—	—	—	552	—	552
Equity in net income of joint ventures	—	—	—	—	—	—
Investment income	698	7	1	—	—	706
Change in fair value of investments	(495)	—	—	—	—	(495)
Other nonoperating gains and losses	—	—	(7)	(271)	(282)	(560)
Total other nonoperating gains and losses	<u>203</u>	<u>7</u>	<u>(6)</u>	<u>281</u>	<u>(282)</u>	<u>203</u>
Excess of revenues over expenses	(1,948)	(181)	(66)	281	(282)	(2,196)
Net assets released from restrictions used for purchase of property and equipment	—	—	—	—	—	—
Change in unrealized gains on investments	—	—	—	—	—	—
Change in economic and beneficial interests in the net assets of related organizations	—	—	—	—	—	—
Change in ownership interest of joint ventures	—	—	—	—	—	—
Capital transfers (to) from affiliate	—	—	—	—	—	—
Change in fair value of designated interest rate swaps	—	—	—	—	—	—
Change in funded status of defined benefit pension plans	(1,303)	—	—	—	—	(1,303)
Other	848	17	1	(22)	(52)	792
Increase in unrestricted net assets	<u>\$ (2,403)</u>	<u>(164)</u>	<u>(65)</u>	<u>259</u>	<u>(334)</u>	<u>(2,707)</u>

See accompanying independent auditors' report.

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

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

Year ended June 30, 2012

(In thousands)

	<u>Civista Health, Inc.</u>	<u>Civista Medical Center, Inc.</u>	<u>Civista Care Partners, Inc. and Subsidiary</u>	<u>Civista Health Foundation, Inc.</u>	<u>Eliminations</u>	<u>Civista consolidated total</u>
Unrestricted revenues, gains and other support:						
Net patient service revenue	\$ —	111,209	2,721	—	—	113,930
Other operating revenue:						
State support	—	—	—	—	—	—
Other revenue	1,405	707	1,019	514	(1,690)	1,955
Total unrestricted revenue, gains and other support	<u>1,405</u>	<u>111,916</u>	<u>3,740</u>	<u>514</u>	<u>(1,690)</u>	<u>115,885</u>
Operating expenses:						
Salaries, wages and benefits	—	51,770	2,153	219	—	54,142
Expendable supplies	—	16,708	210	14	—	16,932
Purchased services	2,472	18,830	1,019	406	(1,405)	21,322
Contracted services	—	3,130	—	—	(285)	2,845
Depreciation and amortization	12	2,630	312	38	—	2,992
Interest expense	75	2,941	266	11	—	3,293
Provision for bad debts	—	7,679	281	—	—	7,960
Total operating expenses	<u>2,559</u>	<u>103,688</u>	<u>4,241</u>	<u>688</u>	<u>(1,690)</u>	<u>109,486</u>
Operating income	<u>(1,154)</u>	<u>8,228</u>	<u>(501)</u>	<u>(174)</u>	<u>—</u>	<u>6,399</u>

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

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

Year ended June 30, 2012

(In thousands)

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

See accompanying independent auditors' report.

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

Consolidating Operations Information by Division

Year ended June 30, 2011

(In thousands)

	University of Maryland Medical Center	University CARE	Kernan	University Specialty	Maryland General	Baltimore Washington	Shore Health	Chester River	UMMS Foundation	Shipley's	36 South Paca	Eliminations	Consolidated total
Unrestricted revenues, gains and other support:													
Net patient service revenue	\$ 1,276,194	2,755	95,419	52,512	183,146	363,481	231,862	66,133	—	—	—	(1,086)	2,270,416
Other operating revenue:													
State support	3,200	—	—	—	—	—	—	—	—	—	—	—	3,200
Other revenue	50,776	2,105	2,612	326	2,241	6,867	5,602	588	—	1,002	1,221	(2,752)	70,588
Total unrestricted revenue, gains and other support	1,330,170	4,860	98,031	52,838	185,387	370,348	237,464	66,721	—	1,002	1,221	(3,838)	2,344,204
Operating expenses:													
Salaries, wages and benefits	552,426	3,405	45,543	27,606	85,855	169,139	121,828	35,360	—	—	182	—	1,041,344
Expendable supplies	238,973	284	15,138	6,161	16,304	61,228	33,060	9,018	—	—	56	—	380,222
Purchased services	170,524	4,714	18,555	16,591	24,063	51,520	40,448	13,290	—	426	775	(4,625)	336,281
Contracted services	89,516	—	7,644	—	22,770	9,725	8,558	1,497	—	—	—	—	139,710
Depreciation and amortization	69,601	—	3,238	2,347	11,149	23,506	14,785	3,855	—	172	359	—	129,012
Interest expense	26,881	—	476	861	1,698	6,663	3,260	395	—	—	107	—	40,341
Provision for bad debts	101,153	278	6,107	4,467	19,697	34,520	8,595	2,196	—	—	—	—	177,013
Total operating expenses	1,249,074	8,681	96,701	58,033	181,536	356,301	230,534	65,611	—	598	1,479	(4,625)	2,243,923
Operating income (loss)	81,096	(3,821)	1,330	(5,195)	3,851	14,047	6,930	1,110	—	404	(258)	787	100,281
Nonoperating income and expenses, net:													
Loss on early extinguishment of debt	—	—	—	—	—	—	—	—	—	—	—	—	—
Change in fair value of undesignated interest rate swaps	18,640	—	—	—	—	—	—	—	—	—	—	—	18,640
Other nonoperating gains and losses:													
Contributions	—	—	—	—	—	—	206	591	5,258	—	—	—	6,055
Equity in net income of joint ventures	10,366	—	—	—	4,400	(182)	—	—	—	—	—	5,950	20,534
Investment income	25,543	—	1,151	1,275	290	4,241	1,707	638	4,362	—	—	—	39,207
Change in fair value of investments	16,500	—	766	700	152	2,836	12,915	752	1,743	—	—	—	36,364
Other nonoperating gains and losses	(9,420)	—	15	—	(550)	(2,821)	(1,814)	(404)	(2,954)	—	—	1	(17,947)
Total other nonoperating gains and losses	42,989	—	1,932	1,975	4,292	4,074	13,014	1,577	8,409	—	—	5,951	84,213
Excess (deficiency) of revenues over expenses	142,725	(3,821)	3,262	(3,220)	8,143	18,121	19,944	2,687	8,409	404	(258)	6,738	203,134
Net assets released from restrictions used for purchase of property and equipment	20,815	—	750	—	885	750	764	—	—	—	—	—	23,964
Change in unrealized gains on investments	—	—	—	—	—	—	—	—	—	—	—	—	—
Change in economic and beneficial interests in the net assets of related organizations	—	—	—	—	—	—	—	—	—	—	—	—	—
Change in ownership interest of joint ventures	2,268	—	—	—	—	—	—	—	—	—	—	—	2,268
Capital transfers (to) from affiliate	3,801	4,068	1,035	—	47	—	—	—	(4,883)	—	—	(4,068)	—
Change in fair value of designated interest rate swaps	2,298	—	—	—	—	—	—	—	—	—	—	—	2,298
Change in funded status of defined benefit pension plans	—	—	—	—	9,752	4,736	—	1,834	—	—	—	—	16,322
Other	(348)	—	—	1	—	1	(16)	349	75	—	—	(162)	(100)
Increase (decrease) in unrestricted net assets	\$ 171,559	247	5,047	(3,219)	18,827	23,608	20,692	4,870	3,601	404	(258)	2,508	247,886

See accompanying independent auditors' report.

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

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

Year ended June 30, 2011

(In thousands)

	Maryland General Health Systems, Inc.	Maryland General Hospital	Maryland General Clin. Prac. Group	Eliminations	MGHS consolidated total
Unrestricted revenues, gains and other support:					
Net patient service revenue	\$ —	180,958	9,445	(7,257)	183,146
Other operating revenue:					
State support	—	—	—	—	—
Other revenue	889	1,347	5	—	2,241
Total unrestricted revenue, gains and other support	<u>889</u>	<u>182,305</u>	<u>9,450</u>	<u>(7,257)</u>	<u>185,387</u>
Operating expenses:					
Salaries, wages and benefits	—	85,855	—	—	85,855
Expendable supplies	—	16,304	—	—	16,304
Purchased services	747	23,307	9	—	24,063
Contracted services	—	22,770	7,257	(7,257)	22,770
Depreciation and amortization	455	10,694	—	—	11,149
Interest expense	103	1,595	—	—	1,698
Provision for bad debts	—	17,513	2,184	—	19,697
Total operating expenses	<u>1,305</u>	<u>178,038</u>	<u>9,450</u>	<u>(7,257)</u>	<u>181,536</u>
Operating income (loss)	<u>(416)</u>	<u>4,267</u>	<u>—</u>	<u>—</u>	<u>3,851</u>

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

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

Year ended June 30, 2011

(In thousands)

	Maryland General Health Systems, Inc.	Maryland General Hospital	Maryland General Clin. Prac. Group	Eliminations	MGHS consolidated total
Nonoperating income and expenses, net:					
Loss on early extinguishment of debt	\$ —	—	—	—	—
Change in fair value of undesignated interest rate swaps	—	—	—	—	—
Other nonoperating gains and losses:					
Contributions	—	—	—	—	—
Equity in net income of joint ventures	4,400	—	—	—	4,400
Investment income	—	290	—	—	290
Change in fair value of investments	—	152	—	—	152
Other nonoperating gains and losses	—	(550)	—	—	(550)
	<u>4,400</u>	<u>(108)</u>	<u>—</u>	<u>—</u>	<u>4,292</u>
Total other nonoperating gains and losses					
Excess of revenues over expenses	3,984	4,159	—	—	8,143
Net assets released from restrictions used for purchase of property and equipment	—	885	—	—	885
Change in unrealized gains on investments	—	—	—	—	—
Change in economic and beneficial interests in the net assets of related organizations	—	—	—	—	—
Change in ownership interest of joint ventures	—	—	—	—	—
Capital transfers (to) from affiliate	(1,600)	1,647	—	—	47
Change in fair value of designated interest rate swaps	—	—	—	—	—
Change in funded status of defined benefit pension plans	—	9,752	—	—	9,752
Other	(16)	16	—	—	—
	<u>(16)</u>	<u>16</u>	<u>—</u>	<u>—</u>	<u>—</u>
Increase in unrestricted net assets	\$ <u>2,368</u>	<u>16,459</u>	<u>—</u>	<u>—</u>	<u>18,827</u>

See accompanying independent auditors' report.

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

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

Year ended June 30, 2011

(In thousands)

	Baltimore Washington Medical System, Inc.	Baltimore Washington Medical Center	Baltimore Washington Healthcare Services	Baltimore Washington Health Enterprises	North County Corporation	Eliminations	BWMS consolidated total
Unrestricted revenues, gains and other support:							
Net patient service revenue	\$ —	326,216	28,730	10,958	—	(2,423)	363,481
Other operating revenue:							
State support	—	—	—	—	—	—	—
Other revenue	3,406	3,292	—	2,891	2,101	(4,823)	6,867
Total unrestricted revenue, gains and other support	<u>3,406</u>	<u>329,508</u>	<u>28,730</u>	<u>13,849</u>	<u>2,101</u>	<u>(7,246)</u>	<u>370,348</u>
Operating expenses:							
Salaries, wages and benefits	3,406	147,837	10,577	7,319	—	—	169,139
Expendable supplies	—	60,399	—	829	—	—	61,228
Purchased services	—	49,277	4,448	3,738	1,303	(7,246)	51,520
Contracted services	—	7,830	—	1,895	—	—	9,725
Depreciation and amortization	—	22,001	—	959	546	—	23,506
Interest expense	—	5,813	—	736	114	—	6,663
Provision for bad debts	—	21,447	13,073	—	—	—	34,520
Total operating expenses	<u>3,406</u>	<u>314,604</u>	<u>28,098</u>	<u>15,476</u>	<u>1,963</u>	<u>(7,246)</u>	<u>356,301</u>
Operating income (loss)	<u>—</u>	<u>14,904</u>	<u>632</u>	<u>(1,627)</u>	<u>138</u>	<u>—</u>	<u>14,047</u>

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

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

Year ended June 30, 2011

(In thousands)

	Baltimore Washington Medical System, Inc.	Baltimore Washington Medical Center	Baltimore Washington Healthcare Services	Baltimore Washington Health Enterprises	North County Corporation	Eliminations	BWMS consolidated total
Nonoperating income and expenses, net:							
Loss on early extinguishment of debt	\$ —	—	—	—	—	—	—
Change in fair value of undesignated interest rate swaps	—	—	—	—	—	—	—
Other nonoperating gains and losses:							
Contributions	—	—	—	—	—	—	—
Equity in net income of joint ventures	202	—	—	(384)	—	—	(182)
Investment income	17,920	4,232	—	6	—	(17,917)	4,241
Change in fair value of investments	—	2,836	—	—	—	—	2,836
Other nonoperating gains and losses	—	(2,821)	—	—	—	—	(2,821)
Total other nonoperating gains and losses	<u>18,122</u>	<u>4,247</u>	<u>—</u>	<u>(378)</u>	<u>—</u>	<u>(17,917)</u>	<u>4,074</u>
Excess (deficiency) of revenues over expenses	18,122	19,151	632	(2,005)	138	(17,917)	18,121
Net assets released from restrictions used for purchase of property and equipment	750	750	—	—	—	(750)	750
Change in unrealized gains on investments	—	—	—	—	—	—	—
Change in economic and beneficial interests in the net assets of related organizations	—	—	—	—	—	—	—
Change in ownership interest of joint ventures	—	—	—	—	—	—	—
Capital transfers (to) from affiliate	—	—	—	(1,831)	—	1,831	—
Change in fair value of designated interest rate swaps	—	—	—	—	—	—	—
Change in funded status of defined benefit pension plans	4,736	4,736	—	—	—	(4,736)	4,736
Other	1	3	—	—	—	(3)	1
Increase (decrease) in unrestricted net assets	<u>\$ 23,609</u>	<u>24,640</u>	<u>632</u>	<u>(3,836)</u>	<u>138</u>	<u>(21,575)</u>	<u>23,608</u>

See accompanying independent auditors' report.

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

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

Year ended June 30, 2011

(In thousands)

	Shore Health System, Inc.	Memorial Hospital Foundation, Inc. and Subsidiary	Care Health Services, Inc.	Shore Health Enterprises, Inc. and Subsidiary	Shore Clinical Foundation, Inc.	Chesapeake Ear, Nose, Throat, Sinus, and Hearing Center, LLC	Chesapeake Neurological Surgery, LLC	Eliminations	SHS consolidated total
Unrestricted revenues, gains and other support:									
Net patient service revenue	\$ 217,704	—	5,511	—	7,756	766	729	(604)	231,862
Other operating revenue:									
State support	—	—	—	—	—	—	—	—	—
Other revenue	6,301	—	87	57	627	1	—	(1,471)	5,602
Total unrestricted revenue, gains and other support	224,005	—	5,598	57	8,383	767	729	(2,075)	237,464
Operating expenses:									
Salaries, wages and benefits	106,570	—	4,005	—	9,925	1,021	887	(580)	121,828
Expendable supplies	32,302	—	269	—	455	25	9	—	33,060
Purchased services	37,317	—	1,311	21	3,091	191	155	(1,638)	40,448
Contracted services	6,990	—	18	—	1,010	—	540	—	8,558
Depreciation and amortization	14,484	—	35	12	211	24	19	—	14,785
Interest expense	3,260	—	—	61	—	—	—	(61)	3,260
Provision for bad debts	8,435	—	86	—	67	4	3	—	8,595
Total operating expenses	209,358	—	5,724	94	14,759	1,265	1,613	(2,279)	230,534
Operating income (loss)	14,647	—	(126)	(37)	(6,376)	(498)	(884)	204	6,930
Nonoperating income and expenses, net:									
Loss on early extinguishment of debt	—	—	—	—	—	—	—	—	—
Change in fair value of undesignated interest rate swaps	—	—	—	—	—	—	—	—	—
Other nonoperating gains and losses:									
Contributions	83	121	2	—	—	—	—	—	206
Equity in net income of joint ventures	—	—	—	—	—	—	—	—	—
Investment income (loss)	1,421	346	1	—	—	—	—	(61)	1,707
Change in fair value of investments	7,321	5,594	—	—	—	—	—	—	12,915
Other nonoperating gains and losses	(1,289)	(382)	—	—	—	—	—	(143)	(1,814)
Total other nonoperating gains and losses	7,536	5,679	3	—	—	—	—	(204)	13,014
Excess (deficiency) of revenues over expenses	22,183	5,679	(123)	(37)	(6,376)	(498)	(884)	—	19,944
Net assets released from restrictions used for purchase of property and equipment	764	—	—	—	—	—	—	—	764
Change in unrealized gains on investments	—	—	—	—	—	—	—	—	—
Change in economic and beneficial interests in the net assets of related organizations	5,680	—	—	—	—	—	—	(5,680)	—
Change in ownership interest of joint ventures	6,431	—	—	—	—	—	—	(6,431)	—
Capital transfers (to) from affiliate	(14,350)	—	—	—	8,657	2,002	3,691	—	—
Change in fair value of designated interest rate swaps	—	—	—	—	—	—	—	—	—
Change in funded status of defined benefit pension plans	—	—	—	—	—	—	—	—	—
Net losses from nonconsolidated subsidiaries	—	—	—	—	—	—	—	—	—
Other	(17)	—	—	—	—	1	—	—	(16)
Increase (decrease) in unrestricted net assets	\$ 20,691	5,679	(123)	(37)	2,281	1,505	2,807	(12,111)	20,692

See accompanying independent auditors' report.

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

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

Year ended June 30, 2011

(In thousands)

	Chester River Hospital Center	Chester River Manor	Chester River Home Care and Hospice	Chester River Health Foundation	Eliminations	CRHS consolidated total
Unrestricted revenues, gains and other support:						
Net patient service revenue	\$ 55,065	8,494	2,574	—	—	66,133
Other operating revenue:						
State support	—	—	—	—	—	—
Other revenue	498	26	64	—	—	588
Total unrestricted revenue, gains and other support	<u>55,563</u>	<u>8,520</u>	<u>2,638</u>	<u>—</u>	<u>—</u>	<u>66,721</u>
Operating expenses:						
Salaries, wages and benefits	29,568	3,949	1,843	—	—	35,360
Expendable supplies	8,109	843	66	—	—	9,018
Purchased services	9,859	2,939	492	—	—	13,290
Contracted services	1,497	—	—	—	—	1,497
Depreciation and amortization	3,594	219	42	—	—	3,855
Interest expense	385	10	—	—	—	395
Provision for bad debts	2,020	103	73	—	—	2,196
Total operating expenses	<u>55,032</u>	<u>8,063</u>	<u>2,516</u>	<u>—</u>	<u>—</u>	<u>65,611</u>
Operating income	<u>531</u>	<u>457</u>	<u>122</u>	<u>—</u>	<u>—</u>	<u>1,110</u>

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

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

Year ended June 30, 2011

(In thousands)

	Chester River Hospital Center	Chester River Manor	Chester River Home Care and Hospice	Chester River Health Foundation	Eliminations	CRHS consolidated total
Nonoperating income and expenses, net:						
Loss on early extinguishment of debt	\$ —	—	—	—	—	—
Other nonoperating gains and losses:						
Contributions	—	—	—	591	—	591
Equity in net income of joint ventures	—	—	—	—	—	—
Investment income	592	—	14	32	—	638
Change in fair value of investments	752	—	—	—	—	752
Other nonoperating gains and losses	219	5	(5)	(406)	(217)	(404)
Total other nonoperating gains and losses	1,563	5	9	217	(217)	1,577
Excess of revenues over expenses	2,094	462	131	217	(217)	2,687
Net assets released from restrictions used for purchase of property and equipment	—	—	—	—	—	—
Change in unrealized gains on investments	—	—	—	—	—	—
Change in economic and beneficial interests in the net assets of related organizations	—	—	—	—	—	—
Change in ownership interest of joint ventures	—	—	—	—	—	—
Capital transfers (to) from affiliate	—	—	—	—	—	—
Change in fair value of designated interest rate swaps	—	—	—	—	—	—
Change in funded status of defined benefit pension plans	1,834	—	—	—	—	1,834
Other	160	50	—	(125)	264	349
Increase in unrestricted net assets	\$ 4,088	512	131	92	47	4,870

See accompanying independent auditors' report.

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

Combining Balance Sheet Information – Obligated Group

June 30, 2012

(In thousands)

Assets	University of Maryland Medical Center	Kernan Hospital, Inc.	University Specialty Hospital, Inc.	Maryland General Hospital, Inc.	Baltimore Washington Medical Center, Inc.	Shore Health System, Inc.	Chester River Health System, Inc.	UMMS Foundation	Eliminations	Obligated group total
Current assets:										
Cash and cash equivalents	\$ 146,758	5,008	221	24,351	36,053	17,316	—	—	—	229,707
Assets limited as to use, current portion	37,912	—	—	955	1,051	714	—	—	—	40,632
Accounts receivable:										
Patient accounts receivable, less allowance for doubtful accounts of \$128,947	155,572	16,167	7,187	12,247	39,517	28,938	—	—	—	259,628
Other	48,208	9,085	122	2,256	142	840	—	(1,967)	(10,829)	47,857
Inventories	19,188	998	594	2,228	7,006	3,367	—	—	—	33,381
Prepaid expenses and other current assets	123,530	16	—	393	9,316	808	—	1,500	—	135,563
Total current assets	<u>531,168</u>	<u>31,274</u>	<u>8,124</u>	<u>42,430</u>	<u>93,085</u>	<u>51,983</u>	<u>—</u>	<u>(467)</u>	<u>(10,829)</u>	<u>746,768</u>
Investments	349,906	13,011	191	—	47,935	29,179	—	—	—	440,222
Assets limited as to use, less current portion:										
Debt service funds	41,438	—	—	—	—	—	—	—	—	41,438
Construction funds	89,458	8,057	—	—	18,390	5,851	—	—	—	121,756
Board designated and escrow funds	—	—	—	4,000	—	25,000	—	33,418	—	62,418
Self-insurance trust funds	41,045	—	—	21,088	18,072	13,013	—	—	—	93,218
Funds restricted by donor	—	—	—	3,201	—	3,781	—	19,591	—	26,573
Economic interests in the net assets of related organizations	58,001	30,788	522	293	5,966	59,598	—	—	(60,602)	94,566
	<u>229,942</u>	<u>38,845</u>	<u>522</u>	<u>28,582</u>	<u>42,428</u>	<u>107,243</u>	<u>—</u>	<u>53,009</u>	<u>(60,602)</u>	<u>439,969</u>
Property and equipment, net	779,987	42,104	5,194	91,952	240,920	127,388	—	1,815	—	1,289,360
Deferred financing costs, net	6,842	—	—	—	—	—	—	—	—	6,842
Investments in joint ventures and other assets	291,019	—	—	8,155	14,128	15,581	30,215	6,313	(10,275)	355,136
Total assets	<u>\$ 2,188,864</u>	<u>125,234</u>	<u>14,031</u>	<u>171,119</u>	<u>438,496</u>	<u>331,374</u>	<u>30,215</u>	<u>60,670</u>	<u>(81,706)</u>	<u>3,278,297</u>

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

Combining Balance Sheet Information – Obligated Group

June 30, 2012

(In thousands)

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

See accompanying independent auditors' report.

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

Combining Balance Sheet Information – Obligated Group

June 30, 2011

(In thousands)

Assets	University of Maryland Medical Center	Kernan Hospital, Inc.	University Specialty Hospital, Inc.	Maryland General Hospital, Inc.	Baltimore Washington Medical Center, Inc.	Shore Health System, Inc.	Chester River Health System, Inc.	UMMS Foundation	Eliminations	Obligated group total
Current assets:										
Cash and cash equivalents	\$ 140,420	14,416	2,947	14,551	24,561	13,585	—	—	—	210,480
Assets limited as to use, current portion	37,469	—	—	986	833	471	—	—	—	39,759
Accounts receivable:										
Patient accounts receivable, less allowance for doubtful accounts of \$151,402	152,030	12,026	5,606	12,804	35,324	26,390	—	—	—	244,180
Other	36,716	6,314	323	1,403	1,234	4,276	—	(2,672)	(9,428)	38,166
Inventories	18,119	990	616	2,043	6,014	3,774	—	—	—	31,556
Prepaid expenses and other current assets	39,391	105	24	300	8,759	941	—	1,500	—	51,020
Total current assets	424,145	33,851	9,516	32,087	76,725	49,437	—	(1,172)	(9,428)	615,161
Investments	304,671	13,154	5,303	—	48,420	30,162	—	—	—	401,710
Assets limited as to use, less current portion:										
Debt service funds	41,770	—	—	—	—	—	—	—	—	41,770
Construction funds	146,001	1,997	—	9,867	19,874	3,086	—	—	—	180,825
Board designated and escrow funds	—	—	—	—	—	25,000	—	32,211	—	57,211
Self-insurance trust funds	39,485	—	—	25,326	16,495	11,916	—	—	—	93,222
Funds restricted by donor	—	—	—	3,545	—	3,852	—	21,536	—	28,933
Economic interests in the net assets of related organizations	56,843	34,982	407	735	5,896	59,272	—	—	(59,613)	98,522
	284,099	36,979	407	39,473	42,265	103,126	—	53,747	(59,613)	500,483
Property and equipment, net	717,512	36,569	20,025	91,492	243,873	112,836	—	1,807	—	1,224,114
Deferred financing costs, net	7,547	—	—	—	—	—	—	—	—	7,547
Investments in joint ventures and other assets	201,466	—	—	149	630	8,799	32,969	5,315	(34,733)	214,595
Total assets	\$ 1,939,440	120,553	35,251	163,201	411,913	304,360	32,969	59,697	(103,774)	2,963,610

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

Combining Balance Sheet Information – Obligated Group

June 30, 2011

(In thousands)

Liabilities and Net Assets	University of Maryland Medical Center	Kernan Hospital, Inc.	University Specialty Hospital, Inc.	Maryland General Hospital, Inc.	Baltimore Washington Medical Center, Inc.	Shore Health System, Inc.	Chester River Health System, Inc.	UMMS Foundation	Eliminations	Obligated group total
Current liabilities:										
Trade accounts payable	\$ 103,712	5,763	3,347	9,720	20,766	5,406	—	84	—	148,798
Accrued payroll and benefits	71,642	4,138	2,909	12,252	17,924	13,019	—	—	(228)	121,656
Advances from third-party payors	66,844	3,596	4,697	6,468	8,112	5,287	—	—	—	95,004
Lines of credit	54,600	—	—	—	—	—	—	—	—	54,600
Other current liabilities	79,192	1,600	11,653	4,670	24,434	6,197	—	—	(9,005)	118,741
Long-term debt subject to short-term remarketing arrangements	164,055	—	—	—	—	—	—	—	—	164,055
Current portion of long-term debt	15,051	270	300	884	4,120	1,883	—	—	(133)	22,375
Total current liabilities	555,096	15,367	22,906	33,994	75,356	31,792	—	84	(9,366)	725,229
Long-term debt, less current portion	517,591	12,319	6,956	40,220	187,521	85,845	—	—	—	850,452
Other long-term liabilities	32,272	441	186	24,593	14,987	6,837	—	—	—	79,316
Interest rate swap liabilities	105,400	—	—	—	—	—	—	—	—	105,400
Total liabilities	1,210,359	28,127	30,048	98,807	277,864	124,474	—	84	(9,366)	1,760,397
Net assets:										
Unrestricted	657,739	57,444	4,796	60,114	128,153	155,505	31,266	34,925	(34,795)	1,095,147
Temporarily restricted	70,929	34,982	407	4,280	5,896	12,197	323	6,122	(59,613)	75,523
Permanently restricted	413	—	—	—	—	12,184	1,380	18,566	—	32,543
Total net assets	729,081	92,426	5,203	64,394	134,049	179,886	32,969	59,613	(94,408)	1,203,213
Total liabilities and net assets	\$ 1,939,440	120,553	35,251	163,201	411,913	304,360	32,969	59,697	(103,774)	2,963,610

See accompanying independent auditors' report.

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

Combining Operations Information – Obligated Group

Year ended June 30, 2012

(In thousands)

	University of Maryland Medical Center				Kernan Hospital	University Specialty	Maryland General Hospital	Baltimore Washington Medical Center	Shore Health System				Chester River Health System, Inc.	UMMS Foundation	Eliminations	Obligated group total
	University Hospital	Shock Trauma Center	Cancer Center	Subtotal					Memorial Hospital	Dorchester General	QAEC	Subtotal				
Unrestricted revenues, gains and other support:																
Net patient service revenue	\$ 1,066,379	190,121	54,727	1,311,227	105,273	39,929	174,332	336,093	168,172	48,527	4,381	221,080	—	—	(321)	2,187,613
Other operating revenue:																
State support	—	3,200	—	3,200	—	—	—	—	—	—	—	—	—	—	—	3,200
Other revenue	51,408	63	94	51,565	2,828	280	1,429	3,482	4,587	485	—	5,072	—	—	(630)	64,026
Total unrestricted revenue, gains and other support	1,117,787	193,384	54,821	1,365,992	108,101	40,209	175,761	339,575	172,759	49,012	4,381	226,152	—	—	(951)	2,254,839
Operating expenses:																
Salaries, wages, and benefits	517,800	55,815	19,915	593,530	49,902	24,732	83,952	156,728	79,620	24,331	2,528	106,479	—	—	—	1,015,323
Expendable supplies	204,354	26,897	20,193	251,444	16,224	4,329	18,049	56,948	27,979	5,067	457	33,503	—	—	—	380,497
Purchased services	112,177	44,118	12,797	169,092	20,063	15,399	29,396	63,804	30,883	9,684	293	40,860	—	(951)	337,663	
Contracted services	93,563	10,731	3,668	107,962	7,994	—	24,699	7,728	3,590	1,784	1,211	6,585	—	—	154,968	
Depreciation and amortization	63,891	2,603	2,131	68,625	3,186	2,604	10,583	21,142	10,860	1,930	1,027	13,817	—	—	—	119,957
Interest expense	27,754	—	—	27,754	621	850	1,529	7,141	3,616	351	550	4,517	—	—	—	42,412
Provision for bad debts	39,667	32,984	2,975	75,626	5,483	971	11,688	11,544	1,953	179	240	2,372	—	—	—	107,684
Facility closure expenses	—	—	—	—	—	16,247	—	—	—	—	—	—	—	—	—	16,247
Total operating expenses	1,059,206	173,148	61,679	1,294,033	103,473	65,132	179,896	325,035	158,501	43,326	6,306	208,133	—	—	(951)	2,174,751
Operating income (loss)	58,581	20,236	(6,858)	71,959	4,628	(24,923)	(4,135)	14,540	14,258	5,686	(1,925)	18,019	—	—	—	80,088
Nonoperating income and expenses, net:																
Loss on early extinguishment of debt	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Change in fair value of undesignated interest rate swaps	(107,408)	—	—	(107,408)	—	—	—	—	—	—	—	—	—	—	—	(107,408)
Other nonoperating gains and losses:																
Contributions	—	—	—	—	—	—	—	—	47	—	—	47	—	6,561	—	6,608
Inherent contribution – Civista	37,322	—	—	37,322	—	—	—	—	—	—	—	—	—	—	—	37,322
Equity in net income of joint ventures	(30,748)	—	—	(30,748)	—	—	—	—	—	—	—	—	—	—	25,313	(5,435)
Investment income	13,294	1,500	335	15,129	266	(27)	100	1,577	(3,029)	(23)	—	(3,052)	—	2,013	—	16,006
Change in fair value of investments	(17,067)	—	—	(17,067)	(397)	(362)	(208)	(2,033)	2,043	—	—	2,043	—	(2,372)	—	(20,396)
Other nonoperating gains and losses	(9,531)	—	—	(9,531)	(50)	—	(570)	(2,832)	(255)	(89)	—	(344)	—	(3,065)	—	(16,392)
Total other nonoperating gains and losses	(6,730)	1,500	335	(4,895)	(181)	(389)	(678)	(3,288)	(1,194)	(112)	—	(1,306)	—	3,137	25,313	17,713
Excess (deficiency) of revenues over expenses	(55,557)	21,736	(6,523)	(40,344)	4,447	(25,312)	(4,813)	11,252	13,064	5,574	(1,925)	16,713	—	3,137	25,313	(9,607)
Net assets released from restrictions used for purchase of property and equipment	29,893	—	—	29,893	4,750	—	995	—	691	—	—	691	—	(85)	—	36,244
Change in unrealized gains on investments	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Change in economic and beneficial interests in the net assets of related organizations	—	—	—	—	—	—	—	—	(901)	—	—	(901)	—	—	—	(901)
Change in ownership interest of joint ventures	(2,883)	—	—	(2,883)	—	—	—	—	451	—	—	451	—	—	—	(2,432)
Capital transfers (to) from affiliate	335	—	—	335	—	—	5,837	(14,880)	(11,865)	—	—	(11,865)	—	—	—	(20,573)
Change in fair value of designated interest rate swaps	(4,948)	—	—	(4,948)	—	—	—	—	—	—	—	—	—	—	—	(4,948)
Change in funded status of defined benefit pension plans	—	—	—	—	—	—	(8,117)	(8,998)	—	—	—	—	—	—	—	(17,115)
Net gains from nonconsolidated subsidiaries	—	—	—	—	—	—	—	—	—	—	—	—	(2,707)	—	(793)	(3,500)
Other	54	—	—	54	—	(1)	1	(4)	(23)	—	—	(23)	—	—	—	27
Increase (decrease) in unrestricted net assets	\$ (33,106)	21,736	(6,523)	(17,893)	9,197	(25,313)	(6,097)	(12,630)	1,417	5,574	(1,925)	5,066	(2,707)	3,052	24,520	(22,805)

See accompanying independent auditors' report.

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

Combining Operations Information – Obligated Group

Year ended June 30, 2011

(In thousands)

	University of Maryland Medical Center				Kernan Hospital	University Specialty	Maryland General Hospital	Baltimore Washington Medical Center	Shore Health System				Chester River Health System, Inc.	UMMS Foundation	Eliminations	Obligated group total
	University Hospital	Shock Trauma Center	Cancer Center	Subtotal					Memorial Hospital	Dorchester General	QAEC	Subtotal				
Unrestricted revenues, gains and other support:																
Net patient service revenue	\$ 1,035,336	193,030	47,828	1,276,194	94,263	52,512	180,958	326,216	164,741	50,010	2,953	217,704	—	—	(447)	2,147,400
Other operating revenue:																
State support	—	3,200	—	3,200	—	—	—	—	—	—	—	—	—	—	—	3,200
Other revenue	50,670	1	105	50,776	2,575	326	1,347	3,292	5,598	703	—	6,301	—	—	(575)	64,042
Total unrestricted revenue, gains and other support	1,086,006	196,231	47,933	1,330,170	96,838	52,838	182,305	329,508	170,339	50,713	2,953	224,005	—	—	(1,022)	2,214,642
Operating expenses:																
Salaries, wages, and benefits	481,050	52,905	18,471	552,426	44,786	27,606	85,855	147,837	79,647	24,848	2,075	106,570	—	—	—	965,080
Expendable supplies	194,436	24,629	19,908	238,973	15,127	6,161	16,304	60,399	26,492	5,385	425	32,302	—	—	—	369,266
Purchased services	105,486	52,793	12,245	170,524	18,284	16,591	23,307	49,277	28,805	8,297	215	37,317	—	—	(1,022)	314,278
Contracted services	76,243	10,046	3,227	89,516	7,644	—	22,770	7,830	3,527	2,027	1,436	6,990	—	—	—	134,750
Depreciation and amortization	62,857	4,455	2,289	69,601	3,206	2,347	10,694	22,001	11,413	2,560	511	14,484	—	—	—	122,333
Interest expense	26,881	—	—	26,881	476	861	1,595	5,813	2,779	91	390	3,260	—	—	—	38,886
Provision for bad debts	60,942	36,316	3,895	101,153	6,094	4,467	17,513	21,447	6,396	1,950	89	8,435	—	—	—	159,109
Total operating expenses	1,007,895	181,144	60,035	1,249,074	95,617	58,033	178,038	314,604	159,059	45,158	5,141	209,358	—	—	(1,022)	2,103,702
Operating income (loss)	78,111	15,087	(12,102)	81,096	1,221	(5,195)	4,267	14,904	11,280	5,555	(2,188)	14,647	—	—	—	110,940
Nonoperating income and expenses, net:																
Loss on early extinguishment of debt	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Change in fair value of undesignated interest rate swaps	18,640	—	—	18,640	—	—	—	—	—	—	—	—	—	—	—	18,640
Other nonoperating gains and losses:																
Contributions	—	—	—	—	—	—	—	—	83	—	—	83	—	5,258	—	5,341
Equity in net income of joint ventures	10,366	—	—	10,366	—	—	—	—	—	—	—	—	—	—	3,220	13,586
Investment income	22,771	1,966	806	25,543	280	1,275	290	4,232	692	15	—	707	—	4,362	—	36,689
Change in fair value of investments	16,500	—	—	16,500	1,637	700	152	2,836	8,035	—	—	8,035	—	1,743	—	31,603
Other nonoperating gains and losses	(9,420)	—	—	(9,420)	(185)	—	(550)	(2,821)	(1,071)	(218)	—	(1,289)	—	(2,954)	—	(17,219)
Total other nonoperating gains and losses	40,217	1,966	806	42,989	1,732	1,975	(108)	4,247	7,739	(203)	—	7,536	—	8,409	3,220	70,000
Excess (deficiency) of revenues over expenses	136,968	17,053	(11,296)	142,725	2,953	(3,220)	4,159	19,151	19,019	5,352	(2,188)	22,183	—	8,409	3,220	199,580
Net assets released from restrictions used for purchase of property and equipment	20,815	—	—	20,815	750	—	885	750	764	—	—	764	—	—	—	23,964
Change in unrealized gains on investments	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Change in economic and beneficial interests in the net assets of related organizations	—	—	—	—	—	—	—	—	5,680	—	—	5,680	—	—	—	5,680
Change in ownership interest of joint ventures	2,268	—	—	2,268	—	—	—	—	6,431	—	—	6,431	—	—	—	8,699
Capital transfers (to) from affiliate	3,801	—	—	3,801	1,035	—	1,647	—	(14,350)	—	—	(14,350)	—	(4,883)	—	(12,750)
Change in fair value of designated interest rate swaps	2,298	—	—	2,298	—	—	—	—	—	—	—	—	—	—	—	2,298
Change in funded status of defined benefit pension plans	—	—	—	—	—	—	9,752	4,736	—	—	—	—	—	—	—	14,488
Net gains from nonconsolidated subsidiaries	—	—	—	—	—	—	—	—	—	—	—	—	4,870	—	—	4,870
Other	(348)	—	—	(348)	1	1	16	3	(17)	—	—	(17)	—	75	—	(269)
Increase (decrease) in unrestricted net assets	\$ 165,802	17,053	(11,296)	171,559	4,739	(3,219)	16,459	24,640	17,527	5,352	(2,188)	20,691	4,870	3,601	3,220	246,560

See accompanying independent auditors' report.