Howard County General Hospital, Inc.

Financial Statements
June 30, 2013 and 2012

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REPORT OF INDEPENDENT AUDITORS

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

We have audited the accompanying financial statements of Howard County General Hospital, Inc. (the "Hospital"), which comprise the balance sheets as of June 30, 2013 and 2012, and the related statements of operations and changes in net assets and cash flows for the years then ended.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Hospital's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Hospital at June 30, 2013 and 2012, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

PricewaterhouseCoopers LLP

September 27, 2013

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Howard County General Hospital, Inc.
Balance Sheets
June 30, 2013 and 2012
(in thousands)

	2013	2012
ASSETS		
Current assets:		
Cash and cash equivalents	$ 22,670	$ 4,508
Short-term investments	4,629	1,262
Patient accounts receivable, net of estimated uncollectibles of $6,147 and $6,149 as of June 30, 2013 and 2012, respectively	31,285	27,830
Due from others	1,385	1,571
Due from affiliates, current portion	4	-
Inventories of supplies	4,094	3,696
Prepaid expenses and other current assets	2,054	2,306
Total current assets	66,121	41,173
Assets whose use is limited		
By donors or grantors for:		
Interest in net assets of Howard Hospital Foundation	13,903	13,228
Other	135	135
Total assets whose use is limited	14,038	13,363
Investments	50,838	44,895
Investments in joint ventures	3,181	3,485
Property, plant and equipment	268,353	248,479
Less: allowance for depreciation and amortization	(97,846)	(81,278)
Total property, plant and equipment, net	170,507	167,201
Estimated malpractice recoveries, net of current portion	1,522	1,254
Other assets	338	1,421
Total assets	$ 306,545	$ 272,792

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

Howard County General Hospital, Inc.
Balance Sheets, Continued
June 30, 2013 and 2012
(in thousands)

	2013	2012
LIABILITIES AND NET ASSETS		
Current liabilities:		
Current portion of long-term debt	$ -	$ 40,000
Accounts payable	4,673	6,029
Accrued liabilities	16,888	15,227
Due to affiliates, current portion	8,759	3,145
Accrued vacation	6,621	6,125
Advances from third party payors	8,630	9,765
Current portion of estimated malpractice costs	925	1,073
Total current liabilities	46,496	81,364
Estimated malpractice costs, net of current portion	4,091	3,824
Net pension liability	1,295	1,257
Long-term notes payable affiliate, net of current portion	161,930	109,870
Other long-term liabilities	14,072	20,601
Total liabilities	227,884	216,916
Net assets:		
Unrestricted	64,625	42,515
Temporarily restricted	10,976	10,301
Permanently restricted	3,060	3,060
Total net assets	78,661	55,876
Total liabilities and net assets	$ 306,545	$ 272,792

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

Howard County General Hospital, Inc.
Statements of Operations and Changes in Net Assets
for the years ended June 30, 2013 and 2012
(in thousands)

	2013	2012
Operating revenues:		
Net patient service revenue before bad debts expense	$ 243,058	$ 239,637
Provision for bad debts	10,608	11,108
Net patient service revenue	232,450	228,529
Other revenue	2,261	3,194
Investment income	1,284	1,101
Total operating revenues	235,995	232,824
Operating expenses:		
Salaries, wages and benefits	111,984	108,671
Purchased services	48,734	46,567
Supplies and other	38,764	40,685
Interest	4,929	5,836
Depreciation and amortization	17,602	17,315
Total operating expenses	222,013	219,074
Income from operations	13,982	13,750
Non-operating revenues and expenses:		
Interest expense on swap agreements	(1,520)	(1,513)
Change in market value of swap agreement	6,607	(9,990)
Realized and unrealized gains on investments	322	64
Loss on early retirement of debt	-	(3,581)
Excess of revenues over (under) expenses	19,391	(1,270)
Contributions to affiliates	(335)	(1,733)
Change in funded status of defined benefit plan	854	(1,597)
Net assets released from restictions used for purchase of property, plant and equipment	2,200	3,323
Increase (decrease) in unrestricted net assets	22,110	(1,277)
Changes in temporarily restricted net assets:		
Gifts, grants and bequests	2,200	3,323
Net change in Howard Hospital Foundation	675	(1,260)
Net assets released from restrictions used for purchase of property, plant and equipment	(2,200)	(3,323)
Increase (decrease) in temporarily restricted net assets	675	(1,260)
Changes in permanently restricted net assets:		
Net change in Howard Hospital Foundation	-	49
Increase in permanently restricted net assets	-	49
Increase (decrease) in net assets	22,785	(2,488)
Net assets at beginning of year	55,876	58,364
Net assets at end of year	$ 78,661	$ 55,876

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

Howard County General Hospital, Inc.
Statements of Cash Flows
for the years ended June 30, 2013 and 2012
(in thousands)

	2013	2012
Operating activities:		
Change in net assets	$ 22,785	$ (2,488)
Adjustments to reconcile change in net assets to net cash and cash equivalents provided by operating activities:		
Depreciation and amortization	17,602	17,315
Provision for bad debts	10,608	11,108
Net realized and changes in unrealized gains on investments	(322)	(64)
Change in market value of swap agreement	(6,607)	9,990
Change in funded status of defined benefit plan	(854)	1,597
Restricted contributions and investment income received	(2,200)	(3,323)
Gains on and returns on equity investments	304	58
Contributions to affiliates	335	1,733
Change in assets and liabilities:		
Patient accounts receivable	(14,063)	(15,653)
Inventories of supplies, prepaid expenses and other current assets	(86)	(132)
Due to/from affiliates, net	2,370	2,418
Other assets	47	36
Accounts payable, accrued liabilities and accrued vacation	720	4,813
Advances from third party payors	(1,135)	1,170
Accrued pension benefit costs	892	525
Estimated malpractice costs	(22)	5
Other long-term liabilities	78	112
Net cash and cash equivalents provided by operating activities	30,452	29,220
Investing activities:		
Purchases of property, plant and equipment	(19,792)	(7,608)
Purchases of investment securities	(58,916)	(35,929)
Sales of investment securities	49,928	11,971
Other	(675)	1,211
Net cash and cash equivalents used in investing activities	(29,455)	(30,355)
Financing activities:		
Proceeds from restricted contributions and investment income received	2,200	3,323
Repayment of long-term debt	(40,000)	(114,107)
Proceeds from affiliate notes payable	56,000	110,570
Repayment of affiliate notes payable	(700)	0
Contributions to affiliates	(335)	(1,733)
Net cash and cash equivalents provided by (used in) financing activities	17,165	(1,947)
Increase (decrease) in cash and cash equivalents	18,162	(3,082)
Cash and cash equivalents at beginning of year	4,508	7,590
Cash and cash equivalents at end of year	$ 22,670	$ 4,508

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

1. <u>Organization and Summary of Significant Accounting Policies</u>:

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

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

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

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

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

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

Through arrangements with banks, excess operating cash may be invested daily. This investment is a cash equivalent in the accompanying Balance Sheets. HCGH earns interest on these funds at a rate that is based upon the bank's Federal Funds rate. The interest is recorded in the accompanying Statement of Operations and Changes in Net Assets as investment income.

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

Assets whose use is limited. Assets whose use is limited or restricted by the donor are recorded at fair value at the date of donation. Investment income or losses on investments of temporarily or permanently restricted assets is recorded as an increase or decrease in temporarily or permanently restricted net assets to the extent restricted by the donor or law. The cost of securities sold is based on the specific identification method.

Assets whose use is limited include assets held by HHF. These assets consist of HCGH's interest in the net assets of HHF. The amounts reported in the Balance Sheets represent fair value.

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

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

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

Investment income earned on cash balances (interest and dividends) are reported in the operating income section of the Statements of Operations and Changes in Net Assets under 'investment income'. Realized gains or losses related to the sale of investments, and unrealized gains or losses on alternative investments are included in the non-operating section of the Statement of Operations and Changes in Net Assets included in excess of revenues over (under) expenses unless the income or loss is restricted by donor or law.

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

Property, plant and equipment. Property, plant and equipment acquisitions are recorded at cost. Depreciation is provided over the estimated useful life of each asset class of depreciable asset and is computed using the straight-line method. Estimated useful lives assigned by HCGH range from 8 to 10 years for land improvements, 10 to 30 years for buildings and improvements, 2 to 20 years for fixed and movable equipment, and 13 to 20 years for leasehold improvements. Interest costs incurred on borrowed funds, net of income earned, during the period of construction of capital assets are capitalized as a component of the cost of acquiring those assets. Repairs and maintenance costs are expensed as incurred. When property, plant and equipment are retired, sold or otherwise disposed of, the asset's carrying amount and related accumulated depreciation are removed from the accounts and any gain or loss is included in operating income.

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

Impairment of long-lived assets. Long-lived assets are reviewed for impairment when events and circumstances indicate that the carrying amount of an asset may not be recoverable. HCGH's policy is to record an impairment loss when it is determined that the carrying amount of the asset exceeds the sum of the expected undiscounted future cash flows resulting from use of the asset and its eventual disposition. Impairment losses are measured as the amount by which the carrying amount of the asset exceeds its fair value and are reported in the non-operating section of the Statement of Operations and Changes in Net Assets. Long-lived assets to be disposed of are reported at the lower of the carrying amount or fair value less cost to sell. No material impairment charges were recorded in 2013 or 2012.

Financing expenses. Financing expenses incurred in connection with the issuance of the Maryland Health and Higher Educational Facilities Authority ("MHHEFA") 1998 Series Revenue Bonds were initially capitalized and were being amortized over the terms of the bond issues using the effective interest method. In April 2012, HCGH redeemed the outstanding MHHEFA 1998 Series Revenue Bonds and wrote off the remaining $2.0 million of unamortized financing expense as early retirement of the debt and within the non-operating section of the Statement of Operations in 2012. Amortization expense of $117 thousand was recorded in the year ended June 30, 2012.

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

Advances from third-party payors. HCGH receives advances from some of its third-party payors so that those payors can receive the stated prompt pay discount allowed in the State of Maryland. Advances are recorded as a liability in the Balance Sheets.

Estimated malpractice costs. The provision for estimated medical malpractice claims includes estimates of the ultimate gross costs for both reported claims and claims incurred but not reported. Additionally, an insurance recovery has been recorded representing the amount expected to be recovered from the self insured captive insurance company.

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

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

Excess of revenues over (under) expenses. The Statements of Operations and Changes in Net Assets include excess of revenues over (under) expenses. Changes in unrestricted net assets which are excluded from excess of revenues over (under) expenses, consistent with industry practice, include changes in unrealized gains and losses on investments other than trading securities, change in funded status of defined benefit plans, permanent transfers of assets to and from affiliates for other than goods and services, and contributions of long-lived assets (including assets acquired using contributions which, by donor restriction, were to be used for the purposes of acquiring such assets).

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

FASB's guidance on accounting for uncertainty in income taxes clarifies the accounting for uncertainty of income tax positions. This guidance defines the threshold for recognizing tax return positions in the financial statements as "more likely than not" that the position is sustainable, based on its technical merits. This guidance also provides guidance on the measurement, classification and disclosure of tax return positions in the financial statements. There was no income tax impact on HCGH's financial statements during the years ended June 30, 2013 and 2012.

Reclassifications. Certain amounts from the prior year have been reclassified in order to conform to current year presentation.

New Accounting Standards. Effective July 1, 2012 HCGH adopted the provisions of ASU 2011-04, "Fair Value Measurement: Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRS," including an amendment to ASC 820, "Fair Value Measurements." ASU 2011-04 changes the wording used to describe many of the requirements in U.S. GAAP for measuring fair value and for disclosing information about fair value measurements. This update includes amendments that clarify the FASB's intent about the application of existing fair value measurement requirements. Other amendments change a particular principle or requirement for measuring fair value or for disclosing information about fair value measurements. The adoption of ASU 2011-04 had no effect on HCGH's Balance Sheets and Statements of Operations and Changes in Net Assets.

Effective July 1, 2012, HCGH adopted the provisions of ASU 2011-07 "Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts, and the Allowance for Doubtful Accounts for Certain Health Care Entities", which applies to health care entities that recognize a significant amount of patient service revenue at the time services are rendered even though the entities do not assess a patient's ability to pay. This ASU requires health care entities to present the provision for bad debts related to patient service revenue as a deduction from patient service revenue on the face of the Statements of Operations and Changes in Net Assets. The adoption of this ASU was made retrospectively, therefore the provision for bad debts for the prior period was reclassified to conform to the new presentation.

2. <u>Net Patient Service Revenue:</u>

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

HCGH provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Such patients are identified based on information obtained from the patient and subsequent analysis. Because HCGH does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. Effective July 1, 2011, HCGH adopted the provisions of ASU 2010-23, "Measuring Charity Care for Disclosure", which states that direct and indirect cost be used as the measurement basis for charity care disclosure purposes and that the method used to determine such costs also be disclosed. The adoption of this ASU had no impact on HCGH'S financial condition, results of operations or cash flows. Direct and indirect costs for these services amounted to $4.9 million and $5.0 million for the years ended June 30, 2013 and 2012, respectively. The costs of providing charity care services are based on a calculation which applies a ratio of costs to charges to the gross uncompensated charges associated with providing care to charity patients. The ratio of costs to charges is calculated based on HCGH's total expenses (less bad debt expense) divided by gross patient service revenue.

Patient accounts receivable are reported net of estimated allowances for uncollectible accounts and contractual adjustments in the accompanying financial statements. The provision for bad debts is based upon a combination of the payor source, the aging of receivables and management's assessment of historical and expected net collections, trends in health insurance coverage, and other collection indicators. For uninsured patients that do not qualify for charity care, the Hospital recognizes revenue on the basis of its standard rates for services provided. On the basis of historical experience, a significant portion of the Hospitals uninsured patients will be unable or unwilling to pay for the services provided. Thus, a significant provision for bad debts is recorded related to uninsured patients in the period services are provided. Management continuously assesses the adequacy of the allowance for uncollectible accounts based upon historical write-off experience and payment trends by payor classification.

Patient service revenue, net of contractual allowances (but before the provision for bad debts), recognized in the year ending June 30, 2013 from these major payor sources is as follows:

	Third-Party Payors	Self-pay	Total All Payors
Patient service revenue (net of contractual allowances)	$ 235,467	$ 7,591	$ 243,058

Patient service revenue, net of contractual allowances (but before the provision for bad debts), recognized in the year ending June 30, 2012 from these major payor sources is as follows:

	Third-Party Payors	Self-pay	Total All Payors
Patient service revenue (net of contractual allowances)	$ 233,487	$ 6,150	$ 239,637

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

	2013	2012
Medicare program	29%	28%
Medicaid program	12%	13%
Blue Cross and Blue Shield	16%	13%
Managed Care Organizations	24%	28%
Self pay and other third party payors	19%	18%

3. Fair Value Measurements:

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

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

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

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

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

The following table presents the financial instruments carried at fair value as of June 30, 2013 grouped by hierarchy level:

Assets	Total Fair Value	Level 1	Level 2
Cash and cash equivalents (1)	$ 22,670	$ 22,670	$ -
Commercial paper (1)	656	656	-
Certificates of deposit (1)	48	-	48
U.S. Treasuries (2)	18,517	-	18,517
Corporate bonds (2)	20,742	-	20,742
Asset backed securities (2)	5,243	-	5,243
Equity and equity funds (3)	4,801	1,436	3,365
Fixed income funds (4)	1,648	1,432	216
Totals	$ 74,325	$ 26,194	$ 48,131
Liabilities			
Interest rate swap agreement (5)	$ 12,265	$ -	$ 12,265

The following table presents the financial instruments carried at fair value as of June 30, 2012 grouped by hierarchy level:

Assets	Total Fair Value	Level 1	Level 2
Cash and cash equivalents (1)	$ 4,508	$ 4,508	$ -
Certificates of deposit (1)	48	-	48
U.S. Treasuries (2)	11,627	-	11,627
Corporate bonds (2)	17,524	-	17,524
Asset backed securities (2)	7,878	-	7,878
Equities and equity funds (3)	4,183	-	4,183
Fixed income funds (4)	1,369	-	1,369
Totals	$ 47,137	$ 4,508	$ 42,629
Liabilities			
Interest rate swap agreement (5)	$ 18,872	$ -	$ 18,872

(1) Cash and cash equivalents, commercial paper, money market funds, and overnight investments include investments with original maturities of three months or less. Certificates of deposit are carried at amortized cost. Certificates of deposit and commercial paper that have original maturities greater than three months are considered short-term investments. Cash and cash equivalents, commercial paper, money market funds, and overnight investments are rendered level 1 due to their frequent pricing and ease of converting to cash. Computed prices versus market value render the certificates of deposit level 2.

(2) For investments in U.S. Treasuries (notes, bonds, and bills), corporate bonds, and asset backed securities, fair value is based upon quotes for similar securities; therefore these investments are rendered level 2. These investments fluctuate in value based upon changes in interest rates.

(3) Equities include individual equities and investments in mutual funds, commingled trusts and hedge

funds. The individual equities and mutual funds are valued based on the closing price on the primary market and are rendered level 1. The commingled trusts and hedge funds are valued regularly within each month utilizing NAV per unit and are rendered level 2.

(4) Fixed income funds are investments in mutual funds and commingled trusts investing in fixed income instruments. The underlying fixed investments are principally U.S. Treasuries, corporate bonds, commercial paper, and asset backed securities. The mutual funds are valued based on the closing price on the primary market and are rendered level 1. The commingled trusts are valued regularly within each month utilizing NAV per unit and are rendered level 2.

(5) The interest rate swap agreements, discussed further in footnote 9 "Derivative Financial Instruments," are valued using a swap valuation model that utilizes an income approach using observable market inputs including long-term interest rates, LIBOR swap rates, and credit default swap rates. See footnote 8.

During 2013 and 2012, there were no transfers between level 1 and 2.

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

Financial instruments are reflected in the Combined Balance Sheets as of June 30, 2013 and 2012 as follows (in thousands):

	2013	2012
Cash and cash equivalents measured at fair value	$ 22,670	$ 4,508
Total cash and cash equivalents	$ 22,670	$ 4,508
Short and long-term investments measured at fair value	$ 51,655	$ 42,629
Investments accounted for under equity method	6,993	7,013
Total short and long-term investments	$ 58,648	$ 49,642
Interest in net assets of HHF	$ 13,903	$ 13,228
Other	135	135
Total assets whose use is limited	$ 14,038	$ 13,363

HCGH holds alternative investments that are not traded on national exchanges or over-the counter markets. HCGH is provided a net asset value per share for these alternative investments that has been calculated in accordance investment company rules, which among other requirements, indicates that the underlying investments be measured at fair value. There are no unfunded commitments related to HCGH's alternative investments.

The following tables display information by major alternative investment category as of June 30, 2013 and 2012 (in thousands):

As of June 30, 2013

Description	Market Value	Liquidity	Notice Period	Receipt of Proceeds
Global asset allocation	$2,293	Monthly	5 days	Within 15 to 30 days, 95% in 5 days of redemption, 5% in 30 days after withdrawal
Fund of funds	1,382	Monthly or quarterly	25 - 70 days	Within 30 days, or 90% in 30 to 60 days, 10% after annual audit
Hedge funds	137	Quarterly	60 days	95% within 30 days of redemption date; 5% within 120 days of redemption date
	$3,812			

As of June 30, 2012

Description	Market Value	Liquidity	Notice Period	Receipt of Proceeds
Global asset allocation	$2,190	Monthly	5 days	At least 95% within 15 days, remaining within 30 days of redemption date
Fund of funds	1,230	Monthly, quarterly or annually	25 - 70 days	At least 90% within 60 days, remaining received after the audit or as SPV shares
Hedge funds	108	Quarterly - last day of the calendar quarter	60 days	95% within 30 days, 5% within 120 days of redemption date
	$3,528			

The estimated total fair value of long-term debt, rendered level 2 based on quoted market prices for the same or similar issues, was $40.0 million as of June 30, 2012. No long-term debt was outstanding as of June 30, 2013.

4. Investments and Assets Whose Use is Limited:

The market value of investments (short and long-term) as of June 30 consisted of the following (in thousands):

	2013	2012
Investments in affiliates	$ 3,181	$ 3,485
Commercial paper	656	-
U.S. Treasuries	18,517	11,627
Certificates of deposit	48	48
Corporate bonds	20,742	17,524
Asset backed securities	5,243	7,878
Fixed income funds	1,648	1,369
Equities and equity index funds	4,801	4,183
Alternative investments	3,812	3,528
	$ 58,648	$ 49,642

Included in investments as of June 30, 2013 and 2012 are $55.4 million and $46.1 million, respectively of investments pooled together with other JHHS affiliates.

The market value of assets whose use is limited as of June 30 consisted of the following (in thousands):

	2013	2012
Interest in net assets of Howard Hospital Foundation	$ 13,903	$ 13,228
Other	135	135
	$ 14,038	$ 13,363

Realized and unrealized gains (losses) on investments for the years ended June 30, 2013 and 2012, included in non-operating revenues and expenses section of the Statements of Operations and Changes in Net Assets consisted of the following:

	2013	2012
Realized gains on investments	$ 445	$ 37
Unrealized (losses) gains on trading investments	(123)	27
Total	$ 322	$ 64

5. Investments in Joint Ventures:

HCGH has a 25% investment interest in Ten Acres Medical Center, LLC ("Ten Acres") obtained in exchange for contributed land with an original cost of $4.0 million. Columbia Investment Properties, LLC ("CIP") owns the remaining 75% of Ten Acres. Ten Acres is a Maryland Limited Liability Company formed to develop, own, operate, manage or dispose of a medical office building (the "Project") on a portion of the HCGH campus in Howard County, Maryland. The Project consists of approximately a 170,000 square foot medical office building. The term of the joint venture shall continue perpetually unless otherwise agreed upon pursuant to the operating agreement.

Ten Acres is managed by a Board of Managers consisting of one HCGH appointed manager and three CIP appointed members. Profits and losses, as well as additional contributed capital, shall be allocated to the members equal to each members' percentage ownership interest. Distributions shall be made in accordance with the provisions of the operating agreement as determined by the Board of Managers. HCGH accounts for its investment in Ten Acres under the equity method of accounting. HCGH's investment in Ten Acres was $1.6 million and $1.9 million as of June 30, 2013 and 2012, respectively. HCGH recorded a gain on this investment of $251 thousand and $415 thousand for the years ended June 30, 2013, and 2012, respectively. In addition, HCGH received cash dividends from Ten Acres of $551 thousand for each the years ended June 30, 2013 and 2012.

HCGH has a 20% interest in the Central Maryland Radiation Oncology Center, LLC ("CMROC"), which is located in the Ten Acres medical office building. HCGH's investment in CMROC was $1.5 million for each of the years ended June 30, 2013 and 2012. HCGH recorded a loss on this investment of $26 thousand for the year ended June 30, 2013, and a gain of $23 thousand for the year ended June 30, 2012. HCGH has guaranteed 50% of the total debt of CMROC that amounts to $880 thousand as of June 30, 2013.

6. Property, Plant and Equipment:

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

	2013		2012	
	Cost	Accumulated Depreciation	Cost	Accumulated Depreciation
Land and land improvements	$ 13,699	$ 211	$ 8,889	$ 134
Building and improvements	176,098	45,672	168,101	39,303
Fixed and moveable equipment	78,128	51,963	71,387	41,841
Construction in progress	428	-	102	-
	$ 268,353	$ 97,846	$ 248,479	$ 81,278

Accruals for purchases of property, plant and equipment amounted to $307 thousand and $388 thousand as of June 30, 2013 and 2012, respectively, and are included in accounts payable in the Balance Sheets. Depreciation and amortization expense was $17.6 million and $17.3 million for years ended June 30, 2013 and 2012, respectively.

There were no impairment of long-lived assets recorded for the years ended June 30, 2013 and 2012.

During the year ended June 30, 2013, HCGH had no retirement of fully depreciated long-lived assets. During the year ended June 30, 2012, HCGH retired fully depreciated long-lived assets determined to have no future value. The original cost and accumulated depreciation of these long-lived assets was $4.8 million.

7. Debt:

Obligated Group

The Johns Hopkins Health System Obligated Group ("JHHS Obligated Group") consists of The Johns Hopkins Hospital ("JHH"), Johns Hopkins Bayview Medical Center, Inc. ("JHBMC"), HCGH, Suburban Hospital, Inc. ("SHI"), Suburban Hospital Healthcare System, Inc. ("SHHS") and JHHSC. JHBMC was admitted into the JHHS Obligated Group in 2004 as part of a debt refinancing. SHI and SHHS were admitted into the JHHS Obligated Group in 2010 as part of a JHH debt issuance. HCGH was admitted to the JHHS Obligated Group in May 2012 as part of a JHH debt issuance. JHHSC was admitted in May 2013 as part of a JHHSC debt issuance. All of the debt of JHH, JHBMC, HCGH, SHI, SHHS, and JHHSC are parity debt, and as such are collateralized equally and ratably by a claim on and a security interest in all of JHH's, JHBMC's, HCGH's, SHI's, SHHS', and JHHSC's receipts as defined in the Master Loan Agreement with MHHEFA. JHHS Obligated Group members are required to achieve a defined minimum debt service coverage ratio each year, maintain adequate insurance coverage, and comply with certain restrictions on their ability to incur additional debt. As of June 30, 2013, JHHS Obligated Group members were in compliance with these requirements. As of June 30, 2013 the outstanding JHHS Obligated Group members' parity debt was $1.2 billion. As of June 30, 2012 the outstanding JHHS Obligated Group members' parity debt was $1.1 billion. See Note 13 for Affiliate Notes Payable.

1998 Series-Revenue Bonds

In June 1998, Howard County Acquisition Corporation (now known as HCGH) borrowed $133.9 million through the issuance by MHHEFA of its 1998 Johns Hopkins Medicine Howard County General Hospital Series Revenue Bonds ("1998 Bonds") with stated interest rates ranging from 4.15% to 5.00%. Annual principal repayments ranging from $2.9 million to $3.1 million were due July 1 of each year until 2013. The 1998 bonds included three series of term bonds - $21.9 million due July 1, 2019, $54.3 million due July 1, 2029, and $30.3 million due July 1, 2033. The annual sinking fund payments on these term bonds ranged from $3.2 million on July 1, 2014 to $8.1 million on July 1, 2033.

In April 2012, HCGH redeemed all of the outstanding principal of the 1998 Bonds that amounted to $110.6 million. In connection with the redemption, HCGH wrote off $1.6 million of the unamortized original issue discount as early retirement of debt and is recorded in the non-operating section of the Statement of Operations.

2008 Series-Revenue Bonds

In May 2008, HCGH borrowed $40.0 million through the issuance of its 2008 Series Revenue Bonds ("2008 Bonds") to finance the expansion, renovation and equipping of HCGH's acute care hospital. The 2008 Bonds were due July 1, 2046, and paid interest monthly at a variable rate based on the bonds sold by a designated re-marketing agent on a weekly basis. The rates were approximately 0.12% and 0.13% for the years ended June 30, 2013 and 2012, respectively. Mandatory annual sinking fund installments begin July 1, 2034, ranging from $2.3 million to $3.9 million. The 2008 Bonds were collateralized by a pledge of the receipts of HCGH and guaranteed by the JHHS Obligated Group. In May 2013, HCGH redeemed all of the outstanding principle of the 2008 Bonds that amounted to $40.0 million.

In connection with the 2008 Bonds, HCGH entered into a $40.5 million direct-pay letter of credit agreement with PNC Bank, National Association to provide for the payment of principal and interest on the 2008 Bonds. This agreement included the principal amount of the debt plus 42 days of interest at the maximum rate of 10%, and expired on May 8, 2013. The $40.0 million was classified as current portion of long-term debt on the Balance Sheet as of June 30, 2012 since this agreement expired before June 30, 2013. There were no amounts drawn on the letter of credit as of June 30, 2013 or 2012.

8. Derivative Financial Instruments:

HCGH's primary objective for holding derivative financial instruments is to manage interest rate risk. Derivative financial instruments are recorded at fair value and are included in other long-term liabilities in the Balance Sheets. The total notional amount of the interest rate swap agreement was $40.0 million as of June 30, 2013, and 2012.

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

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

The fair value of derivative instruments consisted of the following as of June 30 (in thousands):

	Derivatives reported as liabilities			
	Balance Sheet Caption	2013 Fair Value	Balance Sheet Caption	2012 Fair Value
Interest rate swap not designated as hedging instrument	Other long-term liabilities	$ 12,265	Other long-term liabilities	$ 18,872

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

Classification of derivative gain (loss) in the Statement of Operations and Changes in Net Assets	Amount of gain (loss) recognized in change in unrestricted net assets 2013	2012
Interest rate swaps:		
Change in market value of swap agreement	$ 6,607	$ (9,990)

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

In May 2006, HCGH entered into a fixed payor interest rate swap agreement with Goldman, Sachs & Co. The notional amount of this swap agreement is $40.0 million and carries a term of 32 years. HCGH will pay Goldman, Sachs & Co. a fixed annual rate of 3.946% on the notional amount of the swap agreement in return for the receipt of a floating rate of interest equal to 67% of the one month LIBOR rate. The floating rates were 0.13% and 0.16% as of June 30, 2013 and 2012, respectively. JHHS has guaranteed the prompt payment of this interest rate swap agreement.

This swap agreement has certain collateral thresholds whereby, on a daily basis, if the market value of the swap agreement declines such that its devaluation exceeds the threshold, cash must be deposited by HCGH with the swap counterparty for the difference between the threshold amount and the fair value. As of June 30, 2013 and 2012 no collateral was required to be posted to the swap counter party.

9. Temporarily and Permanently Restricted Net Assets:

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

	2013	2012
Health care services	$ 6,860	$ 5,697
Purchase of property, plant and equipment	4,116	4,604
	$ 10,976	$ 10,301

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

	2013	2012
Health care services	$ 3,060	$ 3,060

10. Pension Plan:

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

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

	2013	2012
Change in benefit obligation		
Benefit obligation at beginning of year	$ 11,482	$ 10,099
Interest cost	470	551
Actuarial gain	87	1,631
Benefits paid	(864)	(799)
Benefit obligation as of June 30	$ 11,175	$ 11,482
Change in plan assets		
Fair value of plan assets at beginning of year	$ 10,225	$ 10,963
Actual return on plan assets	587	12
Employer contribution	91	-
Benefits paid	(1,023)	(750)
Fair value of plan assets as of June 30	$ 9,880	$ 10,225
Funded status as of June 30,		
Fair value of plan assets	$ 9,880	$ 10,225
Projected benefit obligation	11,175	11,482
Funded status	$ (1,295)	$ (1,257)

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

Net pension asset (liability)	$ (1,295)	$ (1,257)

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

	2013	2012
Actuarial net loss	$ 4,656	$ 5,510
Accumulated benefit obligation	$ 11,175	$ 11,482

Net periodic pension benefit cost

	2013	2012
Components of net periodic pension cost (in thousands):		
Interest cost	$ 470	$ 551
Expected return on plan assets	(609)	(724)
Amortization of prior service cost	636	400
Settlement loss recognized	486	273
Net periodic pension benefit expense	$ 983	$ 500

	2013	2012
Other Changes in Plan Assets and Benefit Obligations Recognized in Unreastricted Net Assets		
Net loss	$ 109	$ 2,343
Amortization of net gain	(963)	(746)
Total recognized in unrestricted net assets	$ (854)	$ 1,597
Total recognized in net periodic benefit cost and unrestricted net assets	$ 129	$ 2,097

The actuarial net loss for the defined benefit plans that will be amortized from unrestricted net assets into net periodic benefit costs in 2014 is $549 thousand.

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

	2013	2012
Discount rate	4.66%	6.03%
Expected return on plan assets	8.00%	8.25%

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

	2013	2012
Discount rate	5.12%	4.66%
Expected return on plan assets	8.00%	8.00%

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

Plan Assets

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

Asset class	2013	2012
Cash and cash equivalents	1.98%	4.88%
Equities and equity funds	32.44%	30.69%
Fixed income funds	29.18%	26.15%
Alternatives	36.40%	38.28%
Total	100.00%	100.00%

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

Fair Value of Plan Assets

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

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

The following table presents the plan assets carried at fair value as of June 30, 2013 and 2012, grouped by hierarchy level (in thousands):

As of June 30, 2013 Assets	Total Fair Value	Level 1	Level 2
Cash and cash equivalents (1)	$ 197	$ 197	$ -
Equities and equity funds (2)	3,233	220	3,013
Fixed income funds (3)	2,922	2,630	292
Alternatives (4)	3,628	-	3,628
Totals	$ 9,980	$ 3,047	$ 6,933

As of June 30, 2012 Assets	Total Fair Value	Level 1	Level 2
Cash and cash equivalents (1)	$ 499	$ 499	$ -
Equities and equity funds (2)	3,138	242	2,896
Fixed income funds (3)	2,674	2,357	317
Alternatives (4)	3,914	-	3,914
Totals	$ 10,225	$ 3,098	$ 7,127

(1) Cash and cash equivalents include investments with original maturities of three months or less and overnight investments. Cash and cash equivalents, and overnight investments are rendered level 1 due to their frequent pricing and ease of converting to cash.

(2) Equities include individual equities. Equity funds include investments in mutual funds, commingled trusts and hedge funds. The individual equities and mutual funds are valued based on the closing price on the primary market and are rendered level 1. The commingled trusts and hedge funds are valued regularly within each month utilizing NAV per unit and are rendered level 2.

(3) Fixed income funds are investments in mutual funds and commingled trusts investing in fixed income instruments. The underlying fixed investments are principally U.S. Treasuries, corporate bonds, commercial paper, and asset backed securities. The mutual funds are valued based on the closing price on the primary market and are rendered level 1. The commingled trusts are valued regularly within each month utilizing NAV per unit and are rendered level 2.

(4) Alternative investments include investments that are not traded on national exchanges or over-the-counter markets. These investments are valued at using a NAV per share that has been calculated in accordance with investment company rules, which among other things, indicates that the underlying investments be measured at fair value. This valuation technique coupled with short-term redemption notice periods renders these investments level 2.

There are no unfunded commitments related to the Plan's alternative investments. The following table displays information by major alternative investment category as of June 30, 2013 and 2012 (in thousands):

June 30, 2013

Description	Fair Market Value	Liquidity	Notice Period	Receipt of Proceeds
Global asset allocation	$ 1,815	Monthly	5 to 30 days	Within 15 days, or 95% on redemption date, 5% within 3 days
Fund of funds	29	Quarterly	45 days	90% within 30, 10% after annual audit
Hedge funds	1,442	Monthly, quarterly, or bi-annually	30 to 90 days	90% to 95% within 3 to 30 days, 5% to 10% after annual audit or redemption date
Credit funds	336	Annually	60 to 90 days	Within 30 days, or 90% within 10 days, 10% after annual audit
Distressed credit	6	December 31, 2013		
	$ 3,628			

June 30, 2012

Description	Fair Market Value	Liquidity	Notice Period	Receipt of Proceeds
Global asset allocation	$ 1,797	Monthly	5 to 30 days	Within 15 days, or 95% on redemption date and 5% on third business day
Fund of funds	813	Quarterly	45 days	Within 5 days, or 90% within 30 to 60 days, 10% after annual audit
Hedge funds	865	Monthly or quarterly, or bi-annually	30 to 65 days	90-95% within 30 days, 5-10% after 10 days or after annual audit
Credit funds	317	Annual	60 to 90 days	Within 30 days, or 90% within 10 days, 10% after annual audit
Distressed credit	122	December 31, 2013		
	$ 3,914			

Contributions and Estimated Future Benefit Payments (Unaudited):

HCGH expects to contribute $396 thousand to its pension plan in the fiscal year 2014.

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid in each of the following fiscal years as of June 30, 2014 (in thousands):

2014	$ 2,070
2015	1,112
2016	1,215
2017	1,088
2018	801
2019-2022	3,712

HCGH also has a 401(k) savings Plan available to all employees. The revised plan provides that HCGH will contribute 1% to 2% of each employee's total compensation in addition to contributing from fifty cents to one dollar and fifty cents, based on years of service, for each dollar contributed by the employee. HCGH's contribution match basis is limited to 6% of the employee's total compensation. HCGH funded $3.2 million and $3.1 million for the years ended June 30, 2013 and 2012, respectively.

11. Maryland Health Services Cost Review Commission:

HCGH's charges are subject to review and approval by the Maryland Health Services Cost Review Commission ("HSCRC"). HCGH management has filed the required forms with the HSCRC and believes HCGH to be in compliance with HSCRC requirements. The total rate of reimbursement for services to patients under the Medicare and Medicaid programs is based on an arrangement between the Center for Medicare and Medicaid Services and the HSCRC. Management believes that this program will remain in effect at least through June 30, 2014. Effective April 1, 1999, the HSCRC developed a methodology to control inpatient hospital charges and the HCGH elected to be paid under the new methodology. The methodology established a charge per admission cap for each hospital. The hospital specific charge per admission is adjusted annually to reflect cost inflation, and is also adjusted for changes in the hospital's case mix index.

In fiscal 2011, the HSCRC implemented a new methodology to establish a charge per visit ("CPV") for certain types of outpatient services. The hospital specific charge per visit is adjusted annually to reflect cost inflation and is also adjusted for changes in case mix. This methodology is primarily focused on ambulatory surgery procedures, medical clinic visits and emergency room visits. The methodology also includes other types of outpatient services including infusion procedures, therapies, mental health and major radiology procedures. Certain types of visits such as radiation therapy, psychiatric day hospital and certain types of recurring visits will be treated as exclusions under this methodology. In March 2012, the HSCRC voted to suspend the CPV methodology for fiscal 2012. The HSCRC has not yet provided a timeline for the establishment of a replacement methodology.

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

12. Professional and General Liability Insurance:

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

JHH and the University each have a 10% ownership interest in the RRG and the captive insurance company. The medical institutions obtain primary and excess liability insurance coverage from commercial insurers and the RRG. The primary coverage is written by the RRG, and a portion of the risk is reinsured with the captive insurance company. Commercial excess insurance and reinsurance is purchased under a claims-made policy by the participating institutions for claims in excess of the primary coverage retained by the RRG and the captive. Primary retentions are $1.0 million per incident. Primary coverage is insured under a retrospectively rated claims-made policy; premiums are accrued based upon an estimate of the ultimate cost of the experience to date of each participating member institution. The basis for loss accruals for unreported claims under the primary policy is an actuarial estimate of asserted and unasserted claims including reported and unreported incidents and includes cost associated with settling claims. Projected losses were discounted at .57% and .73% as of June 30, 2013 and 2012, respectively.

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

Professional and general liability insurance expense incurred by HCGH was $812 thousand, and $853 thousand for years ended June 30, 2013 and 2012, respectively, and is included in purchased services on the Statements of Operations and Changes in Net Assets. Reserves were $5.0 million, and $4.9 million for years ended June 30, 2013 and 2012, respectively.

Effective July 1, 2011, HCGH adopted the provisions of ASU 2010-24, "Presentation of Insurance Claims and Related Insurance Recoveries", which clarifies that health care entities should not net insurance recoveries against the related claims liabilities. In accordance with ASU 2010-24, HCGH recorded an increase in its assets and liabilities in the accompanying consolidated Balance Sheet as of June 30, 2013 and 2012 as follows:

Caption on Balance Sheets	2013	2012
Prepaid expenses and other current assets	$ 867	$ 994
Estimated malpractice recoveries, net of current portion	1,522	1,254
Total assets	$ 2,389	$ 2,248
Current portion of estimated malpractice costs	$ 867	$ 994
Estimated malpractice costs, net of current portion	1,522	1,254
Total liabilities	$ 2,389	$ 2,248

The assets and liabilities represent HCGH's estimated self-insured captive insurance recoveries for claims reserves and certain claims in excess of self-insured retention levels. The insurance recoveries and liabilities have been allocated between short-term and long-term assets and liabilities based upon the expected timing of the claims payments.

13. Transactions with Related Parties:

During the years ended June 30, 2013 and 2012, HCGH engaged in transactions with JHHS, and its affiliates, JHH, Johns Hopkins Community Physicians ("JHCP"), and JHMI Utilities, LLC ("Utility").

Significant expense transactions (in thousands):

	2013	2012
JHH blood lab services	$ 7,201	$ 7,388
JHHS shared services	7,129	6,786
JHCP physician services	3,170	3,338
Utility for information services	2,660	-
JHH clinical engineering services	857	810
	$ 21,017	$ 18,322

Balances due to related parties as of June 30 (in thousands):

	2013	2012
Due to JHHS	$ (159)	$ (821)
Due to JHH	(6,470)	(2,000)
Due to JHCP	(275)	(274)
Due to Utility	(1,774)	-
Due to others	(77)	(50)
Total due to Affiliates	$ (8,755)	$ (3,145)

Broadway Services, Inc. ("BSI"), a related organization, is a wholly-owned subsidiary of the Dome Corporation. The Dome Corporation is owned equally by JHHS and the University. BSI provides HCGH with security and manages its housekeeping services. During the years ended June 30, 2013 and 2012, HCGH incurred expenses of approximately $1.9 million and $1.6 million, respectively for these services.

In March 2012, HCGH and JHH entered into a short-term Promissory Note in the amount of $110.6 million, and carried an interest rate of 2.75%. The Promissory Note principal and accrued interest was due on May 31, 2012, or upon an earlier long-term extension of the Affiliate Note. The proceeds of the Affiliate Note were placed in HCGH's debt service reserve trust for the purpose of redeeming the 1998 Bonds. In May 2012, the Promissory Note was extended ("2012 Affiliate Note"), and now has a final due date of July 1, 2033. The 2012 Affiliate Note carries an interest rate that resets annually and varies from 4.11% to 4.82%, and is payable semi-annually. Interest expense paid to JHH was $4.7 million and $758 thousand for the years ended June 30, 2013 and 2012, respectively. Principal payments are due on July 1 of each year and range from $700 thousand in 2013 to $7.2 million in 2034. The balance on the Promissory Note was $110.6 million and $109.9 million as of June 30, 2013 and 2012, respectively.

In May 2013, HCGH and JHHS entered into a long-term Promissory Note ("2013A Affiliate Note") in the amount of $40.0 million, and carries a variable rate interest based on the three-month LIBOR plus a spread of 0.65%. The 2013A Affiliate Note comes due in 2046. Interest payments will be made at the end of each month. The rate was approximately 0.87% for the year ended June 30, 2013. Interest expense paid to JHHS was $49 thousand for the year ended June 30, 2013. Principle payments on the 2013A Affiliate Note begin in the year 2034, and range from $2.3 million to $3.9 million.

On June 30, 2013, HCGH and JHHS entered into a long-term Promissory Note ("2013B Affiliate Note") in the amount of $16.0 million, and carries a fixed interest rate of 3.00%. The 2013B Affiliate Note is structured as a term note and comes due in 2023. Interest payments on the 2013B Affiliate Note loan are paid semi-annually on July 1 and January 1 each year.

Total maturities of all affiliate notes during the next five years and thereafter are as follows as of June 30, 2013 (in thousands):

2014	$ 3,940
2015	3,872
2016	3,977
2017	4,095
2018	4,222
Thereafter	145,764
	$ 165,870

The current portion of affiliate notes was $3.9 million as of June 30, 2013.

Interest costs incurred related to all external and related party debt amounted to $6.4 million during the year ended June 30, 2013, of which $5 thousand was capitalized and $6.4 million was expensed. Interest costs incurred relating to all external and related party debt amounted to $7.3 million during the year ended June 30, 2012, of which $29 thousand was capitalized and $7.3 million was expensed.

14. Contracts, Commitments and Contingencies:

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

Commitments for leases that do not meet the criteria for capitalization are classified as operating leases with related rentals charged to operations as incurred. The following is a schedule by year of the future minimum lease payments under operating leases as of June 30, 2013, that have initial or remaining lease terms in excess of one year (in thousands).

2014	$ 1,051
2015	1,057
2016	1,084
2017	1,111
2018	1,140

Rental expense for all operating leases for years ended June 30, 2013 and 2012 were $747 thousand and $1.0 million, respectively.

15. Functional Expenses:

HCGH provides general health care services to residents within its geographic location. Expenses relating to these services were $190.3 million and $197.8 million for health care services, and $31.7 million and $32.4 million for general and administrative services for the years ended June 30, 2013 and 2012, respectively.

16. Howard Hospital Foundation:

Interest in net assets of HHF of $13.9 million and $13.2 million as of June 30, 2013 and 2012, respectively, are presented in Assets Whose Use is Limited in the Balance Sheets.

HHF assets consisted of cash and cash equivalents of $372 thousand and $1.0 million, marketable securities of $7.9 million and $6.9 million, and contributions receivable of $5.9 million and $5.7 million as of June 30, 2013 and 2012, respectively.

HHF liabilities were $214 thousand and $300 thousand and net assets were $13.9 million and $13.2 million as of June 30, 2013 and 2012, respectively. The changes in net assets were $675 thousand and ($1.3) million for the years ended June 30, 2013 and 2012, respectively.

HCGH made transfers to HHF in the amounts of $1.0 million for each of the years ended June 30, 2013 and 2012. HHF made transfers to HCGH to reimburse HCGH for operating costs and other program support paid by HCGH on behalf of HHF amounting to $1.0 million for each of the years ended June 30, 2013 and 2012, respectively.

17. Subsequent Events:

HCGH has performed an evaluation of subsequent events through September 27, 2013, which is the date the financial statements were issued.