

The Johns Hopkins Hospital
Financial Statements
June 30, 2013 and 2012

**The Johns Hopkins Hospital
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June 30, 2013 and 2012**

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Independent Auditor's Report

To the Board of Trustees of
The Johns Hopkins Hospital

We have audited the accompanying financial statements of The Johns Hopkins Hospital ("JHH"), 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 Company'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 Company'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 JHH 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.

A handwritten signature in cursive script that reads "PricewaterhouseCoopers LLP".

September 27, 2013

The Johns Hopkins Hospital
Balance Sheets
June 30, 2013 and 2012

<i>(in thousands)</i>	<u>2013</u>	<u>2012</u>
Assets		
Current assets		
Cash and cash equivalents	\$ 88,752	\$ 41,074
Short-term investments	22,353	8,950
Assets whose use is limited for current liabilities	13,485	12,152
Patient accounts receivable, net of estimated uncollectibles of \$46,014 and \$29,636 at June 30, 2013 and 2012, respectively	294,327	210,413
Due from others	9,475	29,362
Due from affiliates - current portion	22,440	31,015
Inventories of supplies	51,205	45,272
Prepaid expenses and other current assets	26,862	28,815
Total current assets	<u>528,899</u>	<u>407,053</u>
Assets whose use is limited, net of current		
By donors or grantors for		
Future campus development	984	644
Pledges receivable	10,146	15,079
By Board of Trustees	63,783	63,382
Other	4,915	7,705
Total assets whose use is limited, net of current	<u>79,828</u>	<u>86,810</u>
Investments		
Property, plant and equipment	537,097	459,589
Less: Allowance for depreciation and amortization	2,103,401	2,072,864
Total property, plant and equipment, net	<u>(631,132)</u>	<u>(552,048)</u>
Total property, plant and equipment, net	<u>1,472,269</u>	<u>1,520,816</u>
Due from affiliates, net of current portion	190,317	264,213
Estimated malpractice recoveries, net of current portion	31,126	26,095
Other assets	11,420	5,272
Total assets	<u>\$ 2,850,956</u>	<u>\$ 2,769,848</u>

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

The Johns Hopkins Hospital
Balance Sheets
June 30, 2013 and 2012

<i>(in thousands)</i>	<u>2013</u>	<u>2012</u>
Liabilities and Net Assets		
Current liabilities		
Current portion of long-term debt	\$ 25,865	\$ 162,625
Accounts payable and accrued liabilities	178,681	197,090
Accrued vacation	18,505	18,240
Due to affiliates, current portion	13,862	19,725
Advances from third-party payors	84,998	80,257
Current portion of estimated malpractice costs	18,614	21,846
Total current liabilities	<u>340,525</u>	<u>499,783</u>
Long-term debt, net of current portion	784,261	708,198
Estimated malpractice costs, net of current portion	70,109	64,121
Long-term notes payable affiliate, net of current portion	48,250	-
Net pension liability	201,400	290,783
Other long-term liabilities	164,100	235,495
Total liabilities	<u>1,608,645</u>	<u>1,798,380</u>
Net assets		
Unrestricted	1,226,496	952,208
Temporarily restricted	15,815	19,260
Total net assets	<u>1,242,311</u>	<u>971,468</u>
Total liabilities and net assets	<u>\$ 2,850,956</u>	<u>\$ 2,769,848</u>

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

The Johns Hopkins Hospital
Statements of Operations and Changes in Net Assets
Years Ended June 30, 2013 and 2012

<i>(in thousands)</i>	<u>2013</u>	<u>2012</u>
Operating revenues		
Net patient service revenue before bad debts expense	\$ 1,841,096	\$ 1,634,266
Provision for bad debts	59,693	34,930
Net patient service revenue	1,781,403	1,599,336
Other revenue	156,963	143,362
Investment income	9,185	14,042
Net assets released from restrictions used for operations	671	229
Total operating revenues	<u>1,948,222</u>	<u>1,756,969</u>
Operating expenses		
Salaries, wages and benefits	753,909	698,118
Purchased services	572,375	505,647
Supplies and other	397,428	374,736
Interest	24,569	8,349
Depreciation and amortization	129,722	84,892
Total operating expenses	<u>1,878,003</u>	<u>1,671,742</u>
Income from operations	70,219	85,227
Nonoperating revenues and expenses		
Interest expense on swap agreements	(19,155)	(19,115)
Change in market value of swap agreements	71,774	(107,608)
Realized and unrealized gains (losses) on investments	30,276	(5,469)
Loss on advance refunding of debt	(1,010)	(363)
Nonoperating services	(7,210)	(8,073)
Excess (deficiency) of revenues over expenses	144,894	(55,401)
Change in funded status of defined benefit plans	120,994	(188,442)
Net assets released from restrictions used for purchases of property and equipment	8,400	447,657
Increase in unrestricted net assets	<u>274,288</u>	<u>203,814</u>
Changes in temporarily restricted net assets		
Gifts, grants and bequests	6,647	16,235
Net assets released from restrictions used for purchase of property, plant and equipment	(8,400)	(447,657)
Net assets released from restrictions used for operations	(671)	(229)
Other	(1,021)	(10,617)
Decrease in temporarily restricted net assets	<u>(3,445)</u>	<u>(442,268)</u>
Increase (decrease) in net assets	270,843	(238,454)
Net assets		
Beginning of year	<u>971,468</u>	<u>1,209,922</u>
End of year	<u>\$ 1,242,311</u>	<u>\$ 971,468</u>

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

The Johns Hopkins Hospital
Statements of Cash Flows
Years Ended June 30, 2013 and 2012

<i>(in thousands)</i>	<u>2013</u>	<u>2012</u>
Operating activities		
Change in net assets	\$ 270,843	\$ (238,454)
Adjustments to reconcile change in net assets to net cash and cash equivalents (used in) provided by operating activities		
Depreciation, amortization, and accretion	130,490	87,215
Provisions for bad debts	59,693	34,930
Net realized and unrealized (gains) losses on investments	(30,276)	5,469
Change in market value on swap agreements	(71,774)	107,608
Change in funded status of defined benefit plans	(120,994)	188,442
Restricted contributions and investment income received	(11,580)	(26,770)
Refunding of debt	1,010	21,170
Changes in assets and liabilities		
Patient receivable and due from others	(123,720)	(85,830)
Inventories of supplies, prepaid expenses and other current assets	(1,047)	(11,652)
Due from (to) affiliates	55,557	(75,853)
Pledges receivable	4,933	10,535
Other assets	(15,447)	(5,058)
Accounts payable, accrued liabilities and accrued vacation	1,861	15,128
Advances from third-party payors	4,741	13,354
Accrued pension benefit costs	31,611	(29,051)
Other long-term liabilities	379	721
Estimated malpractice costs	4,855	(1,976)
Net cash and cash equivalents provided by operating activities	<u>191,136</u>	<u>9,928</u>
Investing activities		
Purchases of property, plant, and equipment	(100,566)	(284,697)
Purchases of investment securities	(398,056)	(338,006)
Sales of investment securities	335,748	544,319
Payments received on affiliate notes receivable	67,071	-
Advances made on affiliates notes receivable	(46,020)	-
Net cash and cash equivalents used in investing activities	<u>(141,823)</u>	<u>(78,384)</u>
Financing activities		
Proceeds from restricted contributions and investment income received	11,580	26,770
Proceeds from long-term borrowing	269,670	284,587
Repayment of long-term debt	(331,135)	(355,215)
Proceeds from affiliates notes payable	48,250	-
Net cash and cash equivalents provided by (used in) financing activities	<u>(1,635)</u>	<u>(43,858)</u>
Increase (decrease) in cash and cash equivalents	47,678	(112,314)
Cash and cash equivalents		
Beginning of year	<u>41,074</u>	<u>153,388</u>
End of year	<u>\$ 88,752</u>	<u>\$ 41,074</u>
Supplemental disclosure of noncash transactions		
Construction costs incurred but not paid	<u>\$ 13,988</u>	<u>\$ 33,996</u>

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

The Johns Hopkins Hospital

Notes to the Financial Statements

Years Ended June 30, 2013 and 2012

1. Organization and Summary of Significant Accounting Policies

Organization

The Johns Hopkins Health System ("JHHS") is the sole member of The Johns Hopkins Hospital ("JHH"). JHHS is a not-for-profit organization incorporated in the State of Maryland to formulate policy among and provide centralized management for JHHS and its Affiliates. In addition, JHHS provides certain shared services including purchasing, legal, coordination of marketing, and other functions for which JHH is charged separately (Note 13).

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

JHH's mission is to provide patient care in the treatment and prevention of human illness which compares favorably with that rendered by any other institution in the United States or abroad.

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 convertible to cash, with original maturities of three months or less. Total deposits maintained at these institutions at times exceed the amount insured by federal agencies and therefore, bear a risk of loss. JHH 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. JHH 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, drugs, linen, and parts inventory for repairs. 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 donor are recorded at fair value at the date of donation. Investment income or losses on investments of temporarily restricted assets is recorded as an increase or decrease in temporarily restricted net assets to the extent restricted by the donor or law. The cost of securities sold is based on the specific identification method.

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Notes to the Financial Statements
Years Ended June 30, 2013 and 2012

Assets whose use is limited include assets set aside for future capital improvements, assets held by trustees under debt agreements, assets restricted by the board of trustees, and assets held for malpractice funding. These assets consist of cash and short term investments, accrued interest and pledges receivable. The carrying amounts reported in the balance sheets approximate fair value.

Valuation of Investments

Investments in equity securities with readily determinable fair values and all investments in debt securities are recorded at fair value in the Balance Sheets (Note 4). 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 (collectively "alternative investments"), are accounted for under the equity method. The equity method income or loss from these alternative investments is included in the Statement of Operations and Changes in Net Assets as an unrealized gain or loss within excess of revenues over expenses.

Alternative investments are less liquid than other types of investments held by JHH. 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) is 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, other than temporary impairments, and unrealized gains or losses on alternative investments are included in the nonoperating section of the Statement of Operations and Changes in Net Assets included in excess of revenues over expenses unless the income or loss is restricted by donor or law.

Investments in companies in which JHH 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 paid are recorded as a reduction of the carrying amount of the investment.

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

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Notes to the Financial Statements
Years Ended June 30, 2013 and 2012

Property, Plant and Equipment

Property, plant and equipment acquisitions are recorded at cost. Equipment is recorded as an asset if the individual cost is at least \$5 thousand and the useful life is at least three years. Renovation projects of \$5 thousand or greater are capitalized in total even though individual components are less than the capital limit. The amount capitalized for equipment, buildings, and renovation projects financed by debt would include the interest costs incurred on borrowed funds, net of income earned, during the period of construction of capital assets and is capitalized as a component of the cost of acquiring those assets. Depreciation and amortization are determined by use of the straight-line method over an estimated useful life of the asset or the remaining life of the lease, whichever is shorter. Estimated useful lives assigned by JHH range from 5 to 25 years for land improvements, 3 to 40 years for buildings and improvements, 3 to 25 years for fixed and movable equipment, and 5 to 10 years for leasehold improvements. Maintenance and repair costs are expensed as incurred. When property, plant and equipment are retired, sold or otherwise disposed of, the asset's carrying amount and related accumulated depreciation are removed from the accounts and any gain or loss is included in operations.

The cost of software is capitalized provided the cost of the project is at least \$100 thousand and the expected life is at least two years. Costs include payment to vendors for the purchase of software and assistance in its installation, payroll costs of employees directly involved in the software installation, and the interest costs of the software project if financed by debt. Preliminary costs to document system requirements, vendor selection, and any costs before software purchase are expensed. Capitalization of costs will generally end when the project is completed and the software is ready to be used. Where implementation of the project is in phases, only those costs incurred which further the development of the project will be capitalized. Costs incurred to maintain the system are expensed.

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 into 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. JHH's policy is to record an impairment loss when it is determined that the carrying amount of the asset exceeds the sum of the expected undiscounted future cash flows resulting from use of the asset and its eventual disposition. Impairment losses are measured as the amount by which the carrying amount of the asset exceeds its fair value. Long-lived assets to be disposed of are reported at the lower of the carrying amount or fair value less cost to sell. There were no impairment charges for the years ended June 30, 2013 and 2012.

The Johns Hopkins Hospital

Notes to the Financial Statements

Years Ended June 30, 2013 and 2012

Financing Expenses

Financing expenses incurred in connection with the issuance by the Maryland Health and Higher Educational Facilities Authority ("MHHEFA") of long-term debt have been capitalized and are included in other assets in the Balance Sheet. Unamortized financing expenses were \$4.6 million and \$4.9 million at June 30, 2013 and 2012, respectively. These expenses are being amortized over the term of the related bond issues using the effective interest method. Amortization expense for the years ended June 30, 2013 and 2012 was \$0.6 million and \$0.5 million, respectively.

Accrued Vacation

JHH 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

JHH 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 Combined 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.

Swap Agreements

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

Asset Retirement Obligations

The Financial Accounting Standards Board's ("FASB") guidance on accounting for asset retirement obligations provides for the recognition of an estimated liability for legal obligations associated with the retirement of tangible long-lived assets, including obligations that are conditional upon a future event. JHH measures asset retirement obligations at fair value when incurred and capitalizes a corresponding amount as part of the book value of the related long-lived assets. The increase in the capitalized cost is included in determining depreciation expense over the estimated useful life of these assets. Since the fair value of the asset retirement obligation is determined using a present value approach, accretion of the obligation due to the passage of time until its settlement is recognized each year as part of depreciation and amortization expense in JHH's Statements of Operations and Changes in Net Assets.

Temporarily 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.

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Notes to the Financial Statements
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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 JHH greater than one year are discounted using a rate of return that a market participant would expect to receive at the date the pledge is received. Conditional promises to give and indications of intentions to give are reported at fair value at the date the gift is received. The gifts are reported as temporarily 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 restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statements of Operations and Changes in Net Assets as net assets released from restrictions. Donor restricted contributions, whose restrictions are met within the same year as received, are reported as unrestricted contributions in the accompanying financial statements.

Grants

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

Excess (deficiency) of Revenues Over Expenses

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

Nonoperating Services

JHH has entered into an agreement to support capital improvements to the Johns Hopkins University School of Medicine's ("JHUSOM") infrastructure at the Johns Hopkins Hospital's East Baltimore campus through annual contributions. These contributions are recognized each year as nonoperating services in JHH's Statements of Operations and Changes in Net Assets.

Income Taxes

JHH 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 impact on JHH's financial statements during the years ended June 30, 2013 and 2012 resulting from this guidance.

Reclassifications

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

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Notes to the Financial Statements

Years Ended June 30, 2013 and 2012

New Accounting Standards

Effective July 1, 2012 JHH 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 or for disclosing information about fair value measurements. The adoption of ASU 2011-04 had no effect on JHH's Balance Sheets and Statements of Operations and Changes in Net Assets.

Effective July 1, 2012, JHH 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 Statement 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. Net Patient Service Revenue

JHH has agreements with third-party payors that provide for payments to JHH 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 payors, 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.

JHH has a policy of providing 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 JHH does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. Effective July 1, 2011, JHH 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 JHH's financial condition, results of operations or cash flows. Direct and indirect costs for these services amounted to \$27.8 million and \$29.2 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 cost to charges is calculated based on JHH's total expenses (less bad debt expense) divided by gross patient service revenue.

Patient accounts receivable are reported net of estimated allowances for uncollectable 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

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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 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 uncollectable 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:

	<u>Third-Party Payors</u>	<u>Self-Pay</u>	<u>Total All Payors</u>
Patient service revenue (net of contractual allowances)	\$1,779,870	\$61,226	\$1,841,096

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:

	<u>Third-Party Payors</u>	<u>Self-Pay</u>	<u>Total All Payors</u>
Patient service revenue (net of contractual allowances)	\$1,597,592	\$36,674	\$1,634,266

The following table depicts the mix of gross accounts receivable from patients and third-party payors as of June 30, 2013 and 2012:

	<u>2013</u>	<u>2012</u>
Medicare program	22 %	19 %
Blue Cross and Blue Shield of Maryland	13 %	17 %
Health Maintenance Organizations	18 %	17 %
Commercial	15 %	15 %
Medicaid program	9 %	10 %
Medicaid Managed Care Organizations	9 %	9 %
Other self-pay and third party-payors	14 %	13 %

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3. Pledges Receivable

As of June 30, 2013 and 2012, the total value of pledges receivable was \$10.4 million and \$15.7 million, before discounts. These amounts have been discounted at rates ranging from 0.65% to 6.0% and consist of the following:

<i>(in thousands)</i>	2013			
	1 Year	2-5 Years	5 Years or Greater	Totals
Future campus development	\$ 5,291	\$ 4,833	\$ 22	\$ 10,146

<i>(in thousands)</i>	2012			
	1 Year	2-5 Years	5 Years or Greater	Totals
Future campus development	\$ 7,897	\$ 7,138	\$ 44	\$ 15,079

Pledges are deemed to be fully collectable and therefore, no reserve is recorded.

4. Fair Value Measurements

FASB's guidance on the fair value option for financial assets and financial liabilities permits companies to choose to measure many financial assets and liabilities, and certain other items at fair value. This guidance requires a company to record unrealized gains and losses on items for which the fair value option has been elected in excess of revenues over expenses. 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. JHH did not elect fair value accounting for any asset or liability that was not currently required to be measured at fair value.

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

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

- Level 1 Observable inputs such as quoted market prices for identical assets or liabilities in active markets;
- Level 2 Observable inputs for similar assets or liabilities in an active market, or other than quoted prices in an active market that are observable either directly or indirectly; and

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Level 3 Unobservable inputs in which there is little or no market data that require the reporting entity to develop its own assumptions. There were no financial instruments requiring Level 3 classification at June 30, 2013 or June 30, 2012.

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 have 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:

<i>(in thousands)</i>	<u>Level 1</u>	<u>Level 2</u>	<u>Total Fair Value</u>
Assets			
Cash equivalents ⁽¹⁾	\$ 108,956	\$ -	\$ 108,956
Commercial paper ⁽¹⁾	5,956		5,956
U.S. treasury notes ⁽²⁾		90,792	90,792
Corporate bonds ⁽²⁾		101,842	101,842
Asset backed securities ⁽²⁾		26,191	26,191
Equities and equity funds ⁽³⁾	47,130	110,678	157,808
Fixed Income Funds ⁽⁴⁾	46,983	1,605	48,588
	<u>\$ 209,025</u>	<u>\$ 331,108</u>	<u>\$ 540,133</u>
Liabilities			
Interest rate swap agreements ⁽⁵⁾	\$ -	\$ 134,930	\$ 134,930

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

<i>(in thousands)</i>	<u>Level 1</u>	<u>Level 2</u>	<u>Total Fair Value</u>
Assets			
Cash equivalents ⁽¹⁾	\$ 43,727	\$ -	\$ 43,727
U.S. treasury notes ⁽²⁾	-	56,392	56,392
Corporate bonds ⁽²⁾	-	88,946	88,946
Asset backed securities ⁽²⁾	-	39,604	39,604
Equities and equity funds ⁽³⁾	-	136,881	136,881
Fixed Income Funds ⁽⁴⁾	-	44,967	44,967
	<u>\$ 43,727</u>	<u>\$ 366,790</u>	<u>\$ 410,517</u>
Liabilities			
Interest rate swap agreements ⁽⁵⁾	\$ -	\$ 206,703	\$ 206,703

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- (1) Cash and cash equivalents, commercial paper, money market funds, and overnight investments include investments with original maturities of three months or less. 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.
- (2) For investments in U.S. Treasuries (notes, bonds, and bills), corporate bonds, and asset backed securities, fair value is based on the average of the last reported bid and ask price; 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 mortgage 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 are valued using a pricing service at net present value. These evaluated prices render these instruments Level 2. The volatility in the fair value of the swap agreements change as long-term interest rates change. (Note 8)

During 2013 and 2012, there were no transfers between Levels 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 JHH believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value as of the reporting date.

The estimated total fair value of long-term debt, rendered level 2 based on quoted market prices for the same or similar issues, was \$833.1 million and \$901.2 million as of June 30, 2013 and 2012, respectively.

JHH holds alternative investments which are accounted for on the equity method of accounting which approximates fair value, that are not traded on national exchanges or over-the counter markets. JHH 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 JHH's alternative investments.

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The following table displays information by major alternative investment category as of June 30, 2013:

<i>(in thousands)</i> Description	Market Value	Liquidity	Notice Period	Receipt of Proceeds
Global asset allocation	\$ 75,237	Monthly	5 days	(1)
Fund of funds	45,365	Monthly, quarterly or terminated	25 - 70 days	(2)
Hedge funds	4,512	Quarterly	60 days	(3)

(1) Within 15 to 30 days, 95% within 5 days of redemption date, 5% in 30 days after withdrawal.

(2) Within 30 days of redemption date or 90% in 30 to 60 days of redemption date, 10% after annual audit.

(3) 95% within 30 days of redemption date, 5% within 120 days of redemption date.

The following table displays information by major alternative investment category as of June 30, 2012:

<i>(in thousands)</i> Description	Market Value	Liquidity	Notice Period	Receipt of Proceeds
Global asset allocation	\$ 71,847	Monthly	5 days	(1)
Fund of funds	40,367	Monthly, quarterly or terminated	25 - 70 days	(2)
Hedge funds	3,552	Quarterly	60 days	(3)

(1) Within 15 - 30 days, or 95% within 1 business day of the redemption date; 5% after the 12th business day of the month.

(2) Within 5 days, or 95% in 1 - 30 days, 5% within 60 days or after annual audit.

(3) 95% within 30 days of redemption date, 5% within 120 days of redemption date.

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

<i>(in thousands)</i>	<u>2013</u>	<u>2012</u>
Cash equivalents measured at fair value	\$ 108,956	\$ 43,727
Cash and cash equivalents included in AWUIL	<u>(20,204)</u>	<u>(2,653)</u>
Total cash and cash equivalents	<u>\$ 88,752</u>	<u>\$ 41,074</u>
Short and long-term investments measured at fair value	\$ 368,911	\$ 300,180
Investments accounted for under equity/cost method	<u>190,539</u>	<u>168,359</u>
Total short and long-term investments	<u>\$ 559,450</u>	<u>\$ 468,539</u>
Assets whose use is limited measured at fair value	\$ 62,265	\$ 66,609
Pledges receivable	10,146	15,079
Beneficial interest remainder trust	698	584
Cash in AWUIL reported in cash and equivalents in leveling table	<u>20,204</u>	<u>16,690</u>
Total assets whose use is limited	<u>\$ 93,313</u>	<u>\$ 98,962</u>

5. Investments and Assets Whose Use is Limited

Investments (short and long-term) are pooled together with other JHHS affiliates and consisted of the following as of June 30:

<i>(in thousands)</i>	<u>2013 Carrying Amount</u>	<u>2012 Carrying Amount</u>
Commercial paper	\$ 5,113	\$ -
U.S. treasury notes	65,455	35,801
Corporate bonds	73,462	57,183
Asset backed securities	19,007	25,349
Equities and equity funds	157,570	136,881
Fixed Income funds	48,304	44,967
Alternative investments	125,114	115,766
Other equity/cost investments	<u>65,425</u>	<u>52,592</u>
	<u>\$ 559,450</u>	<u>\$ 468,539</u>

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Assets whose use is limited as of June 30 consisted of the following:

<i>(in thousands)</i>	<u>2013 Carrying Amount</u>	<u>2012 Carrying Amount</u>
Cash and cash equivalents	\$ 20,204	\$ 16,691
Commercial paper	843	-
U.S. treasury notes	25,337	20,590
Asset backed securities	7,184	14,256
Corporate bonds	28,380	31,762
Equities and equity funds	237	-
Fixed income funds	284	-
Beneficial interest remainder trust	698	584
Pledges receivable	10,146	15,079
	<u>\$ 93,313</u>	<u>\$ 98,962</u>

Included in assets whose use is limited as of June 30, 2013 and 2012 are \$62.9 million and \$62.5 million, respectively, of investments pooled together with other JHHS affiliates.

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

<i>(in thousands)</i>	<u>2013</u>	<u>2012</u>
Realized gains on investments	\$ 12,538	\$ 2,282
Unrealized (losses) gains on investments	17,738	(7,751)
	<u>\$ 30,276</u>	<u>\$ (5,469)</u>

Investments recorded under the cost or equity method as of June 30 consisted of the following:

<u>Entity</u>	<u>Cost/Equity</u>	<u>Percentage</u>	<u>2013</u>	<u>2012</u>
JHMI Utilities, LLC	Equity	50.0 %	\$ 8,660	\$ 5,666
MCIC Bermuda	Cost	10.0	55,220	45,381
MCIC Vermont	Cost	16.0	1,000	1,000
Other	Cost		545	545
			<u>\$ 65,425</u>	<u>\$ 52,592</u>

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6. Property, Plant and Equipment

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

<i>(in thousands)</i>	2013		2012	
	Cost	Accumulated Depreciation	Cost	Accumulated Depreciation
Land and land improvements	\$ 35,264	\$ 5,488	\$ 29,277	\$ 4,206
Buildings and improvements	907,781	264,569	974,926	247,454
Fixed and moveable equipment	1,040,225	322,834	992,797	273,969
Construction in-progress	54,413	-	21,667	-
Capitalized software	65,718	38,241	54,197	26,419
	\$ 2,103,401	\$ 631,132	\$ 2,072,864	\$ 552,048

Accruals for purchases of property, plant and equipment at June 30, 2013 and 2012 amounted to \$13.9 million and \$33.9 million, respectively, and are included in accounts payable and accrued liabilities in the Balance Sheet. Depreciation expense for the years ended June 30, 2013 and 2012 amounted to \$129.1 million and \$84.4 million, respectively. Amortization expense for the years ended June 30, 2013 and 2012 amounted to \$617 thousand and \$484 thousand, respectively.

JHH and The Johns Hopkins University ("JHU") share various facilities, equipment and services. The costs related to these facilities, equipment and services are generally paid for in their entirety by one institution. Under the provisions of a Joint Administrative Agreement and a lease agreement between JHH and JHU, these costs are allocated to both institutions on the basis of usage. JHU leases approximately 22% and 20% of the net square footage within JHH's buildings at June 30, 2013 and 2012, respectively. During the years ended June 30, 2013 and 2012, JHH retired long-lived, fully depreciated assets determined to have no future value. The original cost and corresponding accumulated depreciation of these long-lived assets was \$50.4 million and \$46.7 million in 2013 and 2012, respectively. No proceeds from retirement were received.

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7. Debt

Debt as of June 30 is summarized as follows:

<i>(in thousands)</i>	2013		2012	
	Current Portion	Long-Term Portion	Current Portion	Long-Term Portion
MHHEFA bonds and notes				
1990 Series--Revenue Bonds	\$ 9,370	\$ 43,941	\$ 9,370	\$ 49,589
2004 - Commercial Paper Series C	-	-	60,000	-
2007 - Commercial Paper Series D	-	-	40,000	-
2008 - Commercial Paper Series E	-	-	325	83,775
2008 - Commercial Paper Series F	-	-	400	84,150
2008 Series Revenue Bonds – including premium of \$1,054 and \$2,108 as of June 30, 2013 and 2012, respectively	-	49,299	48,250	50,353
2010 Series Revenue Bonds - including net original issue premium of \$1,615 and \$1,679 at June 30, 2013 and 2012, respectively.	-	149,810	-	149,874
2011 Series A Revenue Bonds - including premium of \$6,327 and \$7,083 as of June 30, 2013 and 2012, respectively	2,600	76,082	2,260	79,438
2011 Series B Revenue Bonds	-	48,245	-	48,245
2012 Series A Note	1,345	50,845	1,320	52,190
2012 Series B Revenue Bonds - including premium of \$12,644 and \$13,724 as of June 30, 2013 and 2012.	2,770	106,734	700	110,584
2012 Series C Revenue Bonds	375	83,975	-	-
2012 Series D Revenue Bonds	405	84,330	-	-
2012 Series E Floating Rate Note	9,000	91,000	-	-
	<u>\$ 25,865</u>	<u>\$ 784,261</u>	<u>\$ 162,625</u>	<u>\$ 708,198</u>

Obligated Group

The Johns Hopkins Health System's Obligated Group ("JHHS Obligated Group") consists of JHH, Johns Hopkins Bayview Medical Center, Inc., ("JHBMC"), Suburban Hospital Healthcare System, Inc. ("SHHS"), Suburban Hospital, Inc. ("SHI"), Howard County General Hospital ("HCGH") and the Johns Hopkins Health System Corporation ("JHHSC"). JHBMC was admitted into the JHHS Obligated Group in 2004 as part of a plan of debt refinancing. SHHS and SHI were admitted into the JHHS Obligated Group in 2010 as part of the JHH 2010 Series Revenue Bonds issuance and HCGH was admitted into the JHHS Obligated Group in 2012 as part of the JHH 2012 Series B Revenue Bond issuance. JHHSC was admitted in May 2013 as part of a JHHSC debt issuance. All debt of these entities are parity debt, and as such are collateralized equally and ratably by a claim on and a security interest in all of JHH's, JHBMC's, SHI's, SHHS', HCGH's and JHHSCs' 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

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additional debt. As of June 30, 2013 JHHS Obligated Group members were in compliance with these requirements. As of June 30, 2013 and 2012 JHHS Obligated Group members parity debt was \$1.2 billion and \$1.1 billion, respectively.

1990 Series - Revenue Bonds

Portions of the Series 1990 Revenue Bonds have been advance refunded by the 1993 Series - Refunding Revenue Bonds.

The bonds outstanding consist of Capital Appreciation Bonds. Interest on the Capital Appreciation Bonds accrues from the date of delivery, is compounded semi-annually on each July 1, and January 1, and is to be paid at maturity or redemption. Serial Capital Appreciation Bonds of \$26.2 million and \$33.7 million as of June 30, 2013 and 2012, respectively, bearing interest at rates ranging from 7.30% to 7.35% per annum, are due each July 1 in the amount of \$9.4 million from 2010 to 2015. Term Capital Appreciation Bonds of \$27.1 million and \$25.2 million as of June 30, 2013 and 2012, respectively, are due July 1, 2019 and bear interest, compounded semi-annually at a rate of 7.4%. Annual sinking fund installments for the Term Capital Appreciation Bonds in the amount of \$9.4 million are due on July 1, 2016 through 2019.

2004 Commercial Paper Revenue Notes – Series C

The Series C Notes paid interest as the notes matured at a variable rate based on the commercial paper sold by a designated re-marketing agent for terms ranging from 1 to 270 days. The rates for the years ended June 30, 2013 and 2012 were approximately 0.32% and 0.37%, respectively. In November 2012 this commercial paper was refinanced through the issuance of the 2012 Series E Revenue Bonds described below.

2007 Commercial Paper Revenue Notes – Series D

The Series D Notes paid interest as the notes matured at a variable rate based on the commercial paper sold by a designated re-marketing agent for terms ranging from 1 to 270 days. The rates for the years ended June 30, 2013 and 2012 were approximately 0.32% and 0.33%, respectively. In November 2012 this commercial paper was refinanced through the issuance of the 2012 Series E Revenue Bonds described below.

2008 Commercial Paper Revenue Notes - Series E and Series F

The Series E and F Notes paid interest as they matured at a variable rate based on the commercial paper sold by a designated remarketing agent for terms ranging from 1 to 270 days. The rates for the years ended June 30, 2013 and 2012 were approximately 0.23% and 0.21% for the Series E notes and 0.23% and 0.21% for the Series F notes, respectively. In August 2012 this commercial paper was refinanced through the issuance of the 2012 Series C and Series D Revenue Bonds described below.

2008 Series Revenue Bonds

In June 2008 JHH issued \$144.7 million of Revenue Bonds to finance construction of two new clinical care buildings. The bonds are term bonds that were sold in three tranches of approximately \$48.2 million each that have final maturities in 2042, 2046 and 2048. The payment terms require sinking fund deposits in 2036 through 2048 in amounts ranging from \$2.3 million to \$20.2 million. The interest rates on the bonds are based on initial term rate periods of three, five and seven years and currently range between 3.65% and 5.0%. Interest is payable semi-annually.

At the end of the initial term rate periods on November 15, 2011, May 15, 2013 and May 15, 2015 \$48.2 million of the bonds are subject to mandatory purchase by JHH. Accordingly, \$48.2 million of debt has been reclassified to current in the June 30, 2012 balance sheet. The first two tranches of

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term bonds has been purchased by JHH. The first tranche in November 2011 through the issuance of the 2011 Series B Revenue Bonds and the second tranche in May 2013 through the issuance of a note payable to JHHS (see Note 13). JHH has the option at the end of each term period to change the length of the term periods or extend the fixed rate period to the final maturity of the bonds. The bonds were sold at a premium of \$5.3 million which is being accounted for using the bond outstanding method.

2010 Series Revenue Bonds

In June 2010 JHH issued \$148.2 million of Revenue Bonds to further finance construction of the two new clinical buildings. \$29.8 million of the bonds are serial bonds that mature in 2031 through 2035 and pay interest semi-annually at rates ranging from 4.38% to 4.63%. The remaining 2010 Bonds are Term Bonds amounting to \$118.4 million paying interest semi-annually at a rate of 5.0% and maturing in 2040. The payment terms for the Term Bonds require sinking fund deposits in 2036 through 2040 in amounts ranging from \$21.0 million to \$26.3 million. The Serial Bonds were sold at a discount of \$.5 million and the Term Bonds were sold at a premium of \$2.3 million both of which are being accounted for using the bond outstanding method.

2011 Series A Revenue Bonds

In November 2011, JHH issued \$74.6 million of Revenue Bonds to refinance the existing JHH 2001 Series Revenue Bonds. The 2011 Series A Bonds are serial bonds with maturities from 2013 through 2026 and pay a fixed rate of interest ranging from 2.00% to 5.00%. The repayment terms require semi-annual interest payments on May 15th and November 15th. Principal payments range from \$100 thousand to \$13.5 million, and are due upon maturity, beginning May 15, 2013. The bonds were sold at a premium of \$7.6 million.

2011 Series B Revenue Bonds

In November 2011, JHH issued \$48.2 million of Revenue Bonds to refinance a portion of its existing 2008 Series Revenue Bonds (see above). The 2011 Series B Revenue Bonds are variable rate bonds that were issued with a five year term, and a mandatory purchase date of November 15, 2016. The 2011 Bonds pay interest monthly based on 67% of LIBOR plus 1.15%. The LIBOR rate is reset on the first business day of each month. The interest rates for the years ended June 30, 2013 and 2012 were approximately 1.28% and 1.32%, respectively.

2012 Series A Note

In February 2012, JHH issued a \$53.5 million Floating Rate Note in a private placement to refinance its Series 2004 A Commercial Paper that had a balance of \$53.5 million. The 2012 Series A Note has a term of five years, carries a variable rate of interest at 67% of the one-month LIBOR rate plus a spread of .44% that resets and is payable monthly. The interest rates for the years ended June 30, 2013 and 2012 were approximately 0.57% and 0.60%, respectively.

2012 Series B Revenue Bonds

In May 2012, JHH issued \$97.6 million of Revenue Bonds to further finance the construction of its two new clinical buildings. The Bonds are serial bonds and mature annually from 2013 through 2033 in installments that range from \$700 thousand in 2012 to \$7.1 million in 2033, and pay interest semi-annually at rates ranging from 2.00% to 5.00%. The 2012 Series B Revenue Bonds were sold at a premium of \$13.9 million.

2012 Series C and Series D Revenue Bonds

In August 2012, JHH issued \$84.6 million and \$85.1 million of Revenue Bonds, Series 2012 C and Series 2012 D, respectively. These bonds were issued to refund JHH Series 2008 E and Series 2008 F Commercial Paper, and are due in 2038. The 2012 C Bonds are subject to mandatory

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sinking fund installments ranging from \$260 thousand to \$8.7 million. The 2012 D Bonds are subject to mandatory sinking fund installments ranging from \$325 thousand to \$8.7 million. The 2012 C Bonds and 2012 D Bonds are variable rate bonds, and carry a mandatory purchased date of November 15, 2017. The 2012 C Bonds and 2012 D Bonds pay interest monthly based on 67% of LIBOR plus a spread of 0.83% that rests and is payable monthly. The interest rate for the year ended June 30, 2013 was approximately 0.96%.

2012 Series E Floating Rate Note

In November 2012, JHH issued a \$100.0 million Floating Rate Note through a private placement to refinance its Series 2004 C and Series 2007 D Commercial Paper, which had a combined principal amount outstanding of \$100.0 million. The 2012 E Note has a term of five years, carries a variable rate of interest at 67% of the one-month LIBOR rate plus a spread of 0.55% that resets and is payable monthly. The interest rate for the year ended June 30, 2013 was approximately 0.68%.

Total maturities of debt and sinking fund requirements during the next five fiscal years and thereafter are as follows as of June 30, 2013:

(in thousands)

2014	\$	25,865
2015		76,345
2016		23,218
2017		67,199
2018		17,774
Thereafter		<u>578,085</u>
	\$	<u>788,486</u>

Interest costs incurred, paid and capitalized in the years ended June 30 are as follows:

(in thousands)

	<u>2013</u>	<u>2012</u>
Net interest costs		
Capitalized	\$ 294	\$ 15,095
Charged to operations	<u>43,665</u>	<u>27,464</u>
	<u>\$ 43,959</u>	<u>\$ 42,559</u>
Interest costs paid	<u>\$ 43,403</u>	<u>\$ 38,891</u>

8. Derivative Financial Instruments

JHH's primary objective for holding derivative financial instruments is to manage interest rate risk. Derivative financial instruments are recorded at fair value and are included in other long-term liabilities. The total notional amount of interest rate swap agreements was \$520.1 million and \$522.2 million as of June 30, 2013 and 2012, respectively.

JHH 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,

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and the assessment of the probability that the underlying transaction will occur. All of JHH's derivative financial instruments are interest rate swap agreements without hedge accounting designation.

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

Each 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 with the swap counterparty for the difference between the threshold amount and the market value. At June 30, 2013 and 2012, the amount of required collateral was \$72.8 million and \$140.5 million, respectively. JHH has funded the collateral payments to an affiliated company which makes the deposits to the counterparty. JHH has included the collateral funding in the balance of due from affiliates, net of current portion in the balance sheet.

Fair value of derivative instruments as of June 30:

<i>(in thousands)</i>	Derivatives Reported as Liabilities			
	2013		2012	
	Balance Sheet Caption	Fair Value	Balance Sheet Caption	Fair Value
Interest rate swaps not designated as hedging instruments	Other long-term liabilities	<u>\$ (134,929)</u>	Other long-term liabilities	<u>\$(206,703)</u>

Derivatives not designated as hedging instruments as of June 30:

<i>(in thousands)</i>	Amount of Loss Recognized in Change in Unrestricted Net Assets	
	2013	2012
Classification of Derivative Loss in Statement of Operations		
Interest rate swaps		
Change in market value of swap agreements	<u>\$ 71,774</u>	<u>\$(107,608)</u>

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The following is a description of JHH's interest rate swap agreements:

In 2004 JHH entered into a fixed payor interest swap agreement with J.P. Morgan. The notional amount on this swap agreement is \$52.2 million and \$53.5 million as of June 30, 2013 and 2012, respectively. JHH pays J.P. Morgan a fixed annual rate of 3.329% on the outstanding loan value of the 2004 Series A Notes in return for the receipt of a floating rate of interest equal to 67% of the one Month LIBOR rate. Monthly payments began on February 1, 2004. This swap agreement has a maturity date of July 1, 2023. The floating rates as of June 30, 2013 and 2012 were 0.13% and 0.16%, respectively.

In April 2006, JHH entered into two forward start fixed payor swap agreements with Goldman Sachs Capital Markets, L.P. ("GSCM"). The notional amount on these swap agreements is \$150 million each. Payments under the first of these swap agreements began June 1, 2007 and payments under the second agreement began June 1, 2008. These agreements carry a term of 32 years. JHH pays GSCM a fixed annual rate of 3.911% on the notional value of the swap agreement in return for the receipt of a floating rate of interest equal to 67% of the one-month LIBOR rate. Under the second swap agreement JHH pays GSCM a fixed annual rate of 3.922% on the \$150.0 million notional value in return for the receipt of a floating rate of interest equal to 67% of the one month LIBOR rate. The floating rates as of June 30, 2013 and 2012 were 0.13% and 0.16%, respectively.

In July 2007, JHH entered into two additional fixed payor interest rate swap agreements. One was with GSCM in a notional amount of \$84.1 million and another was with Merrill Lynch Capital Services ("MLCS") in a notional amount of \$84.6 million. JHH will pay GSCM a fixed annual rate of 3.819% and will pay MLCS a fixed annual rate of 3.8091% on the outstanding loan values in return for the receipt of a floating rate of interest equal to 67% of the one-month LIBOR rate. Monthly payments began on November 15, 2007 for both swap agreements. Both swap agreements have a maturity date of May 15, 2038. The floating rates as of June 30, 2013 and 2012 were 0.13% and 0.16%, respectively.

9. Temporarily Restricted Net Assets

Temporarily restricted net assets were available for the following purposes as of June 30:

<i>(in thousands)</i>	<u>2013</u>	<u>2012</u>
Purchase of property, plant and equipment	\$ 13,713	\$ 17,723
Patient care	1,246	992
Education and counseling	<u>856</u>	<u>545</u>
	<u>\$ 15,815</u>	<u>\$ 19,260</u>

10. Pension Plans

JHH has two defined benefit pension plans (the "Plans") covering substantially all of its employees. The plan for employees not represented by a collective bargaining unit is part of a multi-employer plan. Employees represented by Local 1999-E are covered by a noncontributory pension plan which provides for retirement income benefits based on years of service and compensation.

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Employees not represented by a collective bargaining agreement are covered by a contributory pension plan which provides for retirement income based on years of service, the level of contributions and the employees' compensation. Effective July 1, 1992, the option for an employee to contribute to the pension plan was discontinued. The funding policy for both plans is to make sufficient contributions to meet the Internal Revenue Service minimum funding requirements. The assets of both plans as of June 30, 2013 and 2012 consisted of cash and cash equivalents, listed stocks, corporate bonds, government securities and alternative investments. All assets are managed by external investment managers, consistent with the plan's investment policy.

The change in benefit obligation, plan assets, and funded status of the pension plans are shown below:

<i>(in thousands)</i>	<u>2013</u>	<u>2012</u>
Change in benefit obligation		
Benefit obligation as of beginning of year	\$ 890,020	\$ 669,494
Service cost	36,423	24,564
Interest cost	40,926	39,741
Actuarial (gain) loss	(91,663)	174,617
Benefits paid	(20,261)	(18,396)
Benefit obligation as of June 30	<u>\$ 855,445</u>	<u>\$ 890,020</u>
Change in plan assets		
Fair value of plan assets as of beginning of year	\$ 599,237	\$ 538,102
Actual return on plan assets	37,450	4,355
Employer contribution	37,619	75,176
Benefits paid	(20,261)	(18,396)
Fair value of plan assets as of June 30	<u>\$ 654,045</u>	<u>\$ 599,237</u>
Funded Status as of June 30		
Fair value of plan assets	\$ 654,045	\$ 599,237
Projected benefit obligation	<u>(855,445)</u>	<u>(890,020)</u>
Funded status	<u>\$ (201,400)</u>	<u>\$ (290,783)</u>

Amounts recognized in the Balance Sheets consist of:

<i>(in thousands)</i>	<u>2013</u>	<u>2012</u>
Net pension liability	<u>\$ (201,400)</u>	<u>\$ (290,783)</u>
Net amount recognized	<u>\$ (201,400)</u>	<u>\$ (290,783)</u>

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

<i>(in thousands)</i>	<u>2013</u>	<u>2012</u>
Actuarial net (gain) loss	323,427	443,318
Prior service cost	953	2,053
	<u>\$ 324,380</u>	<u>\$ 445,371</u>
Accumulated benefit obligation	<u>\$ 789,108</u>	<u>\$ 777,542</u>

Net Periodic Cost

Components of net periodic pension cost:

<i>(in thousands)</i>	<u>2013</u>	<u>2012</u>
Service cost	\$ 36,423	\$ 24,564
Interest cost	40,927	39,741
Expected return on plan assets	(47,850)	(44,967)
Amortization of prior service cost	1,100	1,255
Recognized net actuarial loss	<u>38,630</u>	<u>25,532</u>
Net periodic pension benefit cost	<u>\$ 69,230</u>	<u>\$ 46,125</u>

Other changes in plan assets and benefit obligations
 Recognized in unrestricted net assets:

<i>(in thousands)</i>	<u>2013</u>	<u>2012</u>
Net (gain) loss	\$ (81,264)	\$ 215,229
Amortization of net gain	(38,630)	(25,532)
Amortization of prior service cost	<u>(1,100)</u>	<u>(1,255)</u>
Total recognized in unrestricted net assets	<u>(120,994)</u>	<u>188,442</u>
Total recognized in net periodic benefit cost and unrestricted net assets	<u>\$ (51,764)</u>	<u>\$ 234,567</u>

The actuarial net loss and prior service cost for the defined benefit plans that will be amortized from unrestricted net assets into net periodic benefit costs in 2014 are \$27.4 million and \$597 thousand, respectively.

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

	<u>2013</u>	<u>2012</u>
Discount rate	4.66 %	6.03 %
Expected return on plan assets	8.00 %	8.25 %
Rate of compensation increase	2.00% - 3.00%	2.50% - 3.00%

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The assumptions used in determining the projected pension obligations for the plans are as follows as of July 1:

	<u>2013</u>	<u>2012</u>
Discount rate	5.12 %	4.66 %
Expected return on plan assets	8.00 %	8.00 %
Rate of compensation increase	1.75% - 2.50%	2.00% - 3.00%

The rate of compensation increase was 1.75% for fiscal 2014 and fiscal 2015, 2.00% for fiscal years 2016 through fiscal year 2019 and 2.50% thereafter. The expected rate of return on plan assets assumption was developed based on historical returns for the major asset classes. This review also considered both current market conditions and projected future conditions.

Plan Assets

JHH's pension plan weighted average asset allocations as of June 30, 2013 and 2012 by asset class are as follows:

<i>(in thousands)</i>	<u>2013</u>	<u>2012</u>
Asset Class		
Cash equivalents	2.0 %	4.9 %
Equities and equity funds	32.4	30.2
Fixed income funds	29.2	26.3
Alternative investments	36.4	38.6
	<u>100.0 %</u>	<u>100.0 %</u>

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

Fair Value of Plan Assets

Fair value is the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market 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. There were no financial instruments requiring Level 3 classification at June 30, 2013 and 2012.

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

As of June 30, 2013:

<i>(in thousands)</i>	<u>Level 1</u>	<u>Level 2</u>	<u>Total Fair Value</u>
Assets			
Cash equivalents ⁽¹⁾	\$ 12,905	\$ -	\$ 12,905
Equities and equity funds ⁽²⁾	14,433	197,706	212,139
Fixed income funds ⁽³⁾	171,730	19,181	190,911
Alternative investments ⁽⁴⁾	-	238,090	238,090
	<u>\$ 199,068</u>	<u>\$ 454,977</u>	<u>\$ 654,045</u>

As of June 30, 2012:

<i>(in thousands)</i>	<u>Level 1</u>	<u>Level 2</u>	<u>Total Fair Value</u>
Assets			
Cash equivalents ⁽¹⁾	\$ 29,477	\$ -	\$ 29,477
Equities and equity funds ⁽²⁾	14,295	166,886	181,181
Fixed income funds ⁽³⁾	139,116	18,447	157,563
Alternative investments ⁽⁴⁾	-	231,016	231,016
	<u>\$ 182,888</u>	<u>\$ 416,349</u>	<u>\$ 599,237</u>

- (1) Cash equivalents include investments with original maturities of three months or less and overnight investments. Cash equivalents are carried at amortized cost which approximates fair value which renders them Level 1.
- (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 mortgage 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 net asset value per share that has been calculated in accordance with investment company rules, which among other things, indicates that the underlying investments be measured at fair value. This valuation technique renders these investments Level 2.

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The following table displays information by major alternative investment category as of June 30, 2013:

<i>(in thousands)</i> Description	Fair Market Value	Liquidity	Notice Period	Receipt of Proceeds
Global asset allocation	\$ 119,083	Monthly	5 to 30 days	(1)
Fund of funds	1,935	Quarterly	45 days	(2)
Hedge funds	94,649	Mthly, qtrly or bi-annually	30 to 90 days	(3)
Credit funds	22,029	Annually	60 to 90 days	(4)
Distressed credit	394	December 31, 2013		(5)
	<u>\$ 238,090</u>			

- (1) Within 15 days, or 95% on redemption date, 5% within 3 days
(2) 90% within 30 days, 10% after annual audit
(3) 90% - 95% within 3 to 30 days, 5% to 10% after annual audit or redemption date
(4) Within 30 days, or 90% within 10 days, 10% after annual audit
(5) Locked up until December 31, 2013

The following table displays information by major alternative investment category as of June 30, 2012:

<i>(in thousands)</i> Description	Fair Value	Liquidity	Notice Period	Receipt of Proceeds
Global asset allocation	\$ 106,058	Monthly	5 to 30 days	(1)
Fund of funds	47,982	Quarterly	45 days	(2)
Hedge funds	51,075	Mthly, qtrly or bi-annually	30 to 90 days	(3)
Credit funds	18,712	Annually	60 to 90 days	(4)
Distressed credit	7,189	December 31, 2013		(5)
	<u>\$ 231,016</u>			

- (1) At least 95% within 15 days, remaining within 30 days of redemption date
(2) At least 90% within 60 days, remaining received after the audit or as SPV shares
(3) 90% - 95% within 30 days, 5% - 10% after annual audit
(4) Within 30 days, or 90% within 10 days, 10% after annual audit
(5) Locked up until December 31, 2013

Contributions and Estimated Future Benefit Payments (Unaudited)

JHH expects to contribute \$5.3 million to its pension plan in the fiscal year ending June 30, 2014.

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The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid in each of the following fiscal years as of June 30, 2013:

(in thousands)

2014	\$	26,381
2015		29,552
2016		32,900
2017		36,081
2018		39,738
2019–2021		251,257

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

JHH’s charges are subject to review and approval by the Commission. JHH management has filed the required forms with the Commission and believes JHH is in compliance with Commission requirements. The total rate of reimbursement for services to patients under the Medicare and Medicaid programs is based on an agreement between the Center for Medicare and Medicaid Services and the Commission. Management believes that this program will remain in effect at least through June 30, 2014. Effective April 1, 1999, the Commission developed a methodology to control inpatient hospital charges and JHH 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. Certain highly tertiary inpatient cases such as solid organ transplants, bone marrow transplants and certain oncology cases are treated as exclusions from the charge per case methodology. Effective July 1, 2011, the Commission modified this methodology in an effort to reduce readmissions at Maryland hospitals. Under a Charge per Episode (“CPE”) methodology, hospitals are allowed to retain any rate authority lost due to reductions in readmissions. Conversely, hospitals are not granted any additional rate authority for any increases to readmissions.

In addition to the HSCRC annual rate update, JHH’s management successfully negotiated a prospective rate setting agreement effective July 1, 2004 to provide annual rate increases through fiscal year 2010 for capital costs related to the planned east Baltimore campus redevelopment project. JHH received a certificate of need (“CON”) from the Maryland Health Care Commission for this project which is a condition required by the HSCRC.

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 Commission approves hospital rates on a departmental unit rate basis. Individual unit rates are the basis for hospital reimbursement for inpatient excluded cases and for hospital outpatient services. Under the Commission rate methodology, amounts collected for services to patients

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under the Medicare and Medicaid programs are computed at approximately 94% of Commission approved charges. Other payors are eligible to receive up to a 2.25% discount on prompt payment of claims.

12. Professional and General Liability Insurance

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

JHH and JHU each have a 10% ownership interest in the RRG and the captive insurance company. This ownership interest is included in investments on the Balance Sheets. 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 primary coverage retained by the RRG and the captive. Primary retentions are \$6.0 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 costs associated with settling claims. Projected losses were discounted at .57% and 0.73% for June 30, 2013 and 2012, respectively.

Professional and general liability insurance expense incurred by JHH was \$17.1 million and \$16.0 million for the years ended June 30, 2013 and 2012, respectively, and are included in purchased services expense in JHH's Statements of Changes in Net Assets. Professional and general liability insurance reserves recorded in JHH's balance sheets at June 30, 2013 and 2012 were \$88.7 million and \$86.0 million, respectively.

Effective July 1, 2011, JHH 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 connection with JHH's adoption of ASU 2010-24, JHH recorded an increase in its assets and liabilities in the accompanying consolidated Balance Sheets as of June 30, 2013 and 2012 as follows:

<i>(in thousands)</i>	<u>2013</u>	<u>2012</u>
Caption on balance sheet		
Prepaid expense and other current assets	\$ 17,738	\$ 20,670
Other assets, non-current	31,126	26,095
Total assets	<u>\$ 48,864</u>	<u>\$ 46,765</u>
Current portion of estimated malpractice costs	\$ 17,738	\$ 20,670
Estimated malpractice costs, net of current portion	31,126	26,095
Total liabilities	<u>\$ 48,864</u>	<u>\$ 46,765</u>

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The assets and liabilities represent JHH'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. The adoption had no impact on JHH's results of operations or cash flows.

13. Transactions with Related Parties

During the years ended June 30, 2013 and 2012, JHH engaged in transactions with JHHS and its affiliates, all related parties: Johns Hopkins Bayview Medical Center, Inc. ("JHBMC"), Johns Hopkins Medical Services Corporation ("JHMSC"), Johns Hopkins Community Physicians ("JHCP"), Johns Hopkins Medical Management Corp. ("JHMMC"), Johns Hopkins Employer Health Programs, Inc. ("EHP"), Johns Hopkins HealthCare, LLC ("JHHC"), Johns Hopkins Home Care Group, Inc ("JHHCG"), Central Maryland Heart Center, Dome Corporation, Howard County General Hospital ("HCGH"), Priority Partners Managed Care Organization, Inc. ("Priority Partners"), JHMI Utilities, LLC, and Suburban Hospital Healthcare System ("SHHS"). The following is a summary of related party transactions and balances:

<i>(in thousands)</i>	2013	2012
Revenue (expense) transactions		
Purchasing, legal, advertising and other services provided by JHHS	\$ (92,726)	\$ (82,277)
Cost recoveries for laboratory and various services provided to JHBMC	15,193	14,460
Cost recoveries for laboratory services provided to HCGH	7,192	7,382
Cost recoveries for laboratory and various support services provided to JHCP	85	253
Contribution to JHCP for services provided by JHCP to uninsured patients	(2,687)	(2,687)
Temporary staffing services provided by JHMMC	(15,076)	(14,153)
Premiums paid to EHP for administration of health care claims	(5,370)	(5,428)
Net patient services revenue from providing services to subscribers of JHHC	55,397	53,044
Fees paid to JHHCG for management of pharmacies and patient discharge planning	(14,160)	(16,658)
Net patient service revenue from providing services to subscribers of Priority Partners	113,409	105,656
Utility and telecommunication services provided by JHMI Utilities, LLC	(34,906)	(26,754)

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	<u>2013</u>	<u>2012</u>
Due (to) from related party balances as of June 30		
Due from JHHS for services provided and funding for strategic initiatives and swap collateral	\$ 65,491	\$ 126,036
Due from JHBMC for laboratory and various support services	307	1,077
Due from JHMSC for notes receivable	-	307
Due from/(to) JHCP for support services	47	(255)
Due (to)/from JHHCG for fringe benefits and patient receivables from operation of discharge pharmacies	(601)	535
Due from JHHC for services to patients and financing costs	9,012	12,801
Due from JHMI Utilities LLC for utility and network service and capital costs	14,457	25,668
Due from HCGH for affiliate note receivable and support services	112,377	111,161
Due from SHHS for support services	79	99
Due to JHI for support services	(1,397)	(1,494)
Other	<u>(877)</u>	<u>(432)</u>
	<u>\$ 198,895</u>	<u>\$ 275,503</u>

Included in the amounts due from affiliates in the accompanying June 30, 2012 Balance Sheet was \$0.3 million on a note receivable from JHMSC. The amount was paid during 2013.

Broadway Services, Inc. ("BSI"), a related organization, is a wholly owned subsidiary of the Dome Corporation. The Dome Corporation is owned equally by JHHS and JHU. BSI provides JHH with various services including security, housekeeping, escort and transportation. During 2013 and 2012, JHH incurred costs of approximately \$13.7 million and \$12.1 million, respectively, for these services.

In March 2012, JHH and HCGH entered into a short-term Promissory Note ("Affiliate Note") under which JHH loaned \$110.6 million to HCGH. The Affiliate Note carried an interest rate of 2.75% and principal and accrued interest was due on May 31, 2012, or upon an earlier long-term extension of the Affiliate Note. In May 2012, the Affiliate Note was extended, and has a final due date of July 1, 2033. The Affiliate Note carries an interest rate that resets annually and varies from 4.11% to 4.82%, and is payable semi-annually. Principal payments are due on July 1 of each year and range from \$700 thousand in 2013 to \$7.2 million in 2034.

During the period December 2011 through February 2012, JHH made loans to Johns Hopkins Imaging, LLC, a wholly owned subsidiary of JHHC, in the aggregate amount of \$12.5 million. The loan carries an interest rate of 6.0% and is being amortized over a five year period with principal payments ranging from \$396 thousand in August 2012 to \$231 thousand in December 2016. \$3.4 million of this loan has been repaid at June 30, 2013.

In May 2013 JHH entered into a Promissory Note under which JHH borrowed \$48.3 million from JHHS. The Note carries an interest rate of 0.86% through June 30, 2014 and a rate of 3.0% thereafter. JHH incurred interest cost of \$59 thousand in 2013. The Note matures in 2046 and requires principal payments beginning in 2042 that range in amount from \$3.9 million to \$13.8 million.

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14. Contracts, Commitments and Contingencies

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

In one such case, a physician formerly employed by JHHS and leased to JHCP to provide obstetrical and gynecological services, illegally and without the knowledge of JHHS or its affiliates, photographed his patients and possibly others with what JHHS understands to be his personal photographic and video equipment and stored those images electronically. This occurred for an as yet unknown period of time. The employee was terminated and the matter continues to be under investigation by police and the Federal Bureau of Investigation, with the full cooperation of JHHS.

Relating to this case, several lawsuits have been filed naming as defendants JHHS and several of its affiliates, including JHH, asserting claims for damages and injunctive relief. JHHS and its affiliates maintain both primary and excess medical malpractice insurance coverage for 2013 on a claims made basis through a captive insurer, MCIC, with commercial excess reinsurance policies providing additional protection. The exact amount of insurance coverage available to Johns Hopkins, though, cannot be determined until all claims from all claimants are known for the 2013 policy year. As of June 30, 2013, no liability amount is currently recorded for this matter as the outcome of the case is not yet known and any potential loss is not estimable.

JHH has agreements with JHU, under which JHU provides medical administration and educational services, patient care medical services, and certain other administrative and technical support services through the physicians and interns employed by JHUSOM. Compensation for providing medical administration, educational services and other support services is paid to JHU by JHH; compensation for patient care medical care services is derived from billings to patients (or third-party payors) by JHU. The aggregate amount of purchased services incurred by JHH under these agreements was \$203.7 million and \$194.7 million for the years ended June 30, 2013 and 2012, respectively.

JHH had noncancellable commitments under construction contracts of \$60.0 million and \$73.0 million at June 30, 2013 and 2012, respectively, relating primarily to its campus redevelopment project which includes the construction of a new Cardiovascular and Critical Care Adult Tower and a Children's Hospital.

Commitments for leases that do not meet the criteria for capitalization are classified as operating leases with rentals charged to operations as incurred.

The following is a schedule by year of future minimum lease payments under all operating leases as of June 30, 2013, that have initial or remaining lease terms in excess of one year.

(in thousands)

2014	\$	4,178
2015		3,768
2016		3,190
2017		2,463
2018		2,044

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Rental expense for all operating leases for the years ended June 30, 2013 and 2012 amounted to \$12.7 million and \$12.4 million, respectively.

In 2005, JHH and JHU created a Limited Liability Company (JHMI Utilities, LLC) to provide utility and telecommunication services for their East Baltimore Campus. Each member owns 50% of the LLC and shares equally in the governance of the LLC. The cost of acquiring and upgrading the existing utility facilities, the construction of a new power plant and an upgrade of the telecommunication system have been financed through the issuance of tax exempt bonds by MHHEFA and the proceeds of the Pooled Loan program sponsored by MHHEFA. JHH and JHU have guaranteed the total debt issued by MHHEFA. At June 30, 2013 the amount of debt guarantees by JHH was \$41.6 million. JHH records its investment in JHMI Utility LLC under the equity method of accounting.

During the year ended June 30, 2006, JHH recorded asset retirement obligations associated with the abatement of asbestos in several buildings that were constructed prior to 1980. The fair value of the estimated asset retirement obligations as of June 30, 2013 and 2012 was \$18.3 million and \$18.2 million, respectively.

The change in the asset retirement obligation for the year ended June 30, 2013 consisted of the following:

(in thousands)

Retirement obligation at beginning of year	\$ 18,228
Liabilities settled	(508)
Accretion expense	<u>564</u>
Retirement obligation at end of year	<u>\$ 18,284</u>

JHH has pledged investments having an aggregate market value of \$25.3 million and \$24.5 million as of June 30, 2013 and June 30, 2012, respectively, for JHHS compliance with regulations of the Workers Compensation Commission and the Department of Economic and Employment Development's Unemployment Insurance Fund. These investments are included in assets whose use is limited by board of trustees in the Balance Sheet.

15. Functional Expenses

The Hospital provides general health care services to residents within its geographic location as well as to national and international patients. Expenses related to providing these services for the years ended June 30 consisted of the following:

(in thousands)

	<u>2013</u>	<u>2012</u>
Health care services	\$ 1,618,066	\$ 1,475,868
General and administrative services	<u>259,937</u>	<u>230,804</u>
Total expenses	<u>\$ 1,878,003</u>	<u>\$ 1,706,672</u>

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16. The Johns Hopkins Hospital Endowment Fund, Incorporated

The Endowment Corporation was organized for the purpose of holding and managing the endowment and certain other funds transferred from and for the benefit of JHHS and affiliates. The affairs of the Endowment Corporation are managed by a Board of Trustees, comprised of Trustees who are self-perpetuating. Neither JHHS nor any affiliate holds legal title to any Endowment Corporation funds. The Endowment Corporation's distributions from net assets to JHH were \$6.3 million and \$8.2 million in the years ended June 30, 2013 and 2012, respectively, and were recorded as other revenue. The Board of Trustees may, at its own discretion, award funds from the Endowment Corporation to organizations other than JHHS or its affiliates if the Board of Trustees determines that doing so is for support, benefit, or in furtherance of the mission of JHHS. Accordingly, these amounts are not presented in the financial statement of JHH until they are subsequently distributed to JHH from the Endowment Corporation. The Endowment Corporation's net assets were \$603.5 million and \$547.2 million as of June 30, 2013 and 2012, respectively.

17. Subsequent Events

Subsequent events have been evaluated by management through September 27, 2013, which is the date the financial statements were issued.