Suburban Hospital, Inc. and Controlled Entities

Consolidated Financial Statements
June 30, 2013 and 2012

Suburban Hospital, Inc. and Controlled Entities
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June 30, 2013 and 2012

Independent Auditor's Report

To the Board of Trustees of
Suburban Hospital, Inc. and Control Entities

We have audited the accompanying consolidated financial statements of Suburban Hospital, Inc. and Controlled Entities ("SHI"), which comprise the consolidated balance sheets as of June 30, 2013 and 2012, and the related consolidated statements of operations and other changes in unrestricted net assets, changes in net assets, and cash flows for the years then ended.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated 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 consolidated 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 consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to SHI's preparation and fair presentation of the consolidated 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 SHI'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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of SHI at June 30, 2013 and 2012, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

PricewaterhouseCoopers LLP

September 27, 2013

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Suburban Hospital, Inc. and Controlled Entities
Consolidated Balance Sheets
June 30, 2013 and 2012

(in thousands)	2013	2012
Assets		
Current assets		
Cash and cash equivalents	$ 12,788	$ 12,822
Short term investment	203	200
Patients accounts receivable, net of estimated uncollectibles of $7,440 and $6,672 as of June 30, 2013 and 2012, respectively	34,268	30,777
Due from others - current portion	6,424	4,403
Assets whose use is limited - used for current liabilities	4,381	6,128
Due from affiliates - current portion	27	64
Inventories of supplies	8,646	7,776
Prepaid expenses and other current assets	3,604	5,206
Total current assets	70,341	67,376
Assets whose use is limited		
By donors or grantors for		
Pledges receivable	4,428	1,315
Other	22,935	20,878
By Board of Trustees	122,038	81,760
Other	1,428	2,220
Total assets whose use is limited	150,829	106,173
Property, plant and equipment	232,087	312,767
Less: Allowance for depreciation and amortization	(129,534)	(200,216)
Total property, plant and equipment, net	102,553	112,551
Investments in joint ventures	50	418
Estimated malpractice recoveries, net of current portion	1,105	837
Other assets	700	1,529
Total assets	$ 325,578	$ 288,884

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

Suburban Hospital, Inc. and Controlled Entities
Consolidated Balance Sheets
June 30, 2013 and 2012

(in thousands)	2013	2012
Liabilities and Net Assets		
Current liabilities		
Current portion of long-term debt and obligations under capital leases	$ 2,725	$ 57,826
Accounts payable and accrued liabilities	28,203	24,578
Accrued vacation	6,738	7,052
Accrued interest	425	508
Advances from third-party payors	7,721	10,728
Due to affiliates - current portion	4,325	665
Current portion of estimated malpractice costs	1,408	1,251
Total current liabilities	51,545	102,608
Long-term debt and obligations under capital leases, net of current portion	10,913	13,711
Long-term notes payable affiliate, net of current portion	50,230	-
Estimated malpractice costs, net of current portion	1,105	837
Net pension liability	5,777	8,564
Other long-term liabilities	6,855	8,503
Total liabilities	126,425	134,223
Net assets		
Unrestricted	171,790	132,468
Temporarily restricted	16,504	11,357
Permanently restricted	10,859	10,836
Total net assets	199,153	154,661
Total liabilities and net assets	$ 325,578	$ 288,884

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

Suburban Hospital, Inc. and Controlled Entities
Consolidated Statements of Operations and Other Changes in Unrestricted Net Assets
Years Ended June 30, 2013 and 2012

(in thousands)	2013	2012
Operating revenues		
Net patient service revenue before bad debts expense	$ 244,801	$ 244,737
Provision for bad debts	(9,345)	(9,908)
Net patient service revenue	$ 235,456	$ 234,829
Other revenue	46,191	15,721
Investment income	1,813	1,470
Net assets released from restrictions used for operations	1,394	1,923
Total operating revenues	284,854	253,943
Operating expenses		
Salaries, wages and benefits	119,889	120,413
Purchased services and other	54,053	46,959
Supplies	60,224	59,247
Interest	774	875
Depreciation and amortization	15,201	15,115
Total operating expenses	250,141	242,609
Income from operations	34,713	11,334
Nonoperating revenues and expenses		
Interest expense on swap agreement	(941)	(941)
Change in market value of swap agreement	1,181	(1,243)
Realized and unrealized gains (losses) on investments	7,184	(1,609)
Loss on advance refunding of debt	(530)	-
Loss on impariment of long-lived assets	(3,473)	-
Excess of revenues over expenses	38,134	7,541
Unrestricted net assets		
Contribution to affiliates	(2,580)	(4,452)
Change in funded status of defined benefit plan	3,758	(4,911)
Net assets released from restrictions used for purchase of property, plant and equipment	10	-
Total change in unrestricted net assets	$ 39,322	$ (1,822)

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

Suburban Hospital, Inc. and Controlled Entities
Consolidated Statements of Changes in Net Assets
Years Ended June 30, 2013 and 2012

(in thousands)	2013	2012
Unrestricted net assets		
Excess of revenues over expenses	$ 38,134	$ 7,541
Contribution to affiliates	(2,580)	(4,452)
Change in funded status of defined benefit plan	3,758	(4,911)
Net assets released from restrictions used for purchase of property, plant and equipment	10	-
Total change in unrestricted net assets	39,322	(1,822)
Temporarily restricted net assets		
Gifts, grants and bequests	5,599	1,130
Investment gains and provision for uncollectible pledges	952	56
Net assets released from restrictions used for operations	(1,394)	(1,923)
Net assets released from restrictions used for purchase of property, plant and equipment	(10)	-
Total change in temporarily restricted net assets	5,147	(737)
Permanently restricted net assets		
Contributions	4	16
Other	19	29
Total change in permanently restricted net assets	23	45
Increase (decrease) in net assets	44,492	(2,514)
Net assets		
Beginning of year	154,661	157,175
End of year	$ 199,153	$ 154,661

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

Suburban Hospital, Inc. and Controlled Entities
Consolidated Statements of Cash Flows
Years Ended June 30, 2013 and 2012

(in thousands)	2013	2012
Operating activities		
Change in net assets	$ 44,492	$ (2,514)
Adjustments to reconcile change in net assets to cash and cash equivalents provided by operating activities		
Depreciation and amortization	15,201	15,115
Provision for bad debts	9,345	9,908
Change in funded status of defined benefit plans	(3,758)	4,911
Change in market value of swap agreements	(1,181)	1,243
Change in net realized and unrealized (gains) losses on investments	(7,184)	1,736
Proceeds from restricted contributions	(622)	(846)
Distributions from joint venture partners	368	2
Loss on impairment of long-lived assets	3,473	-
Contributions to affiliate	2,580	4,452
Change in assets and liabilities		
Patient accounts receivable and due from others	(12,836)	(7,069)
Pledges receivable	(3,113)	627
Other assets	561	1,271
Inventories of supplies, prepaid expenses and other current assets	(1,289)	(2,375)
Due from affiliates	2,102	382
Accounts payable and accrued liabilities	2,886	(4,529)
Accrued vacation	(314)	99
Advances from third party payors	(3,007)	2,322
Accrued pension costs	971	(1,198)
Estimated malpractice costs	425	(3,114)
Other long-term liabilities	(467)	612
Net cash and cash equivalents provided by operating activities	48,633	21,035
Investing activities		
Purchase of property, plant and equipment	(8,020)	(11,759)
Purchases of investment securities	(110,606)	(69,093)
Sales of investment securities	77,991	61,205
Net cash and cash equivalents used in investing activities	(40,635)	(19,647)
Financing activities		
Proceeds from restricted contributions	622	846
Contributions to affiliates	(2,580)	(4,452)
Repayment of long-term debt and obligations under capital lease	(57,899)	(4,021)
Proceeds from affiliate notes payable	51,825	-
Net cash and cash equivalents used in financing activities	(8,032)	(7,627)
Decrease in cash and cash equivalents	(34)	(6,239)
Cash and cash equivalents		
Beginning of year	12,822	19,061
End of year	$ 12,788	$ 12,822
Supplemental disclosures of cash flow information		
Cash paid for interest	$ 730	$ 962

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

1. Organization and Summary of Significant Accounting Policies

Organization

The Johns Hopkins Health System Corporation (“JHHS”) is the sole member Suburban Hospital, Inc. (the “Hospital” or “SHI”). JHHS is a not-for profit organization incorporated in the State of Maryland to, among other things, formulate policy among and provide centralized management for JHHS affiliates (“Affiliates”). In addition, JHHS provides certain shared services, including finance, payroll, accounts payable, patient financial services, legal, and other functions for which SHI is charged separately (Note 14).

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

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

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

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

Use of Estimates

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

Basis of Presentation

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

Principles of Consolidation

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

Other Operating Revenue
SHI entered into a binding arbitration with Healthcare Initiative Foundation (“HIF”), a separate foundation that holds SHI’s endowment funds, for breach of trust. On July 26, 2012, the arbitrator concluded a $25 million settlement to go to SHI. SHI received the $25 million settlement in October 2012 and recorded the revenue in other operating revenue.

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

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

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

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

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

Investments and Investment Income
Investments in equity securities with readily determinable fair values and all investments in debt securities are recorded at fair value in the Consolidated 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 in managed funds (collectively “alternative investments”), are accounted for under the equity method. The equity method income or loss from these alternative investments is included in the Statements of Operations and 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 the Hospital. These instruments may contain elements of both credit and market risk. Such risks include, but are not limited to, limited liquidity, absence of oversight, dependence upon key individuals, emphasis on speculative investments, and nondisclosure of portfolio composition.

Investment income earned on cash and investment balances (interest and dividends) is reported in the operating income section of the Consolidated Statement of Operations and Changes in Net Assets under 'Investment income'. Realized gains or losses related to the sale of investments, other than temporary impairments, and unrealized gains or losses on alternative investments are included in the nonoperating section of the Consolidated 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 the Hospital does not have control, but has the ability to exercise significant influence over operating and financial policies are accounted for using the equity method of accounting, and the related operating results are reported as investment income on the Consolidated Statement of Operations and Other Changes in Net Assets. Dividends paid are recorded as a reduction of the carrying amount of the investment.

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

Property, Plant and Equipment
Property, plant and equipment acquisitions are recorded at cost. Depreciation is provided over the estimated useful life of assets using, as a guideline, the American Hospital Associates publication, "Estimated Useful Lives of Depreciable Hospital Assets", and is computed using the straight-line method. Equipment under capital lease obligations is amortized on the straight-line method over the shorter period of lease term or estimated useful life of the equipment. Estimated useful lives assigned by the Hospital range from 5 to 10 years for land improvements, 5 to 40 years for buildings and improvements, 3 to 30 years for fixed and movable equipment, and over the shorter of the remaining life of the lease or the life of the asset for leasehold improvements. Interest costs incurred on borrowed funds, net of interest earned, during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets. Repair and maintenance costs are expensed as incurred. When property, plant and equipment are retired, sold or otherwise disposed of, the asset's carrying amount and related accumulated depreciation are removed from the accounts and any gain or loss is included in operations.

The cost of software is capitalized provided the cost is at least $30 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. Preliminary costs to document system requirements, vendor selection, and any costs before software purchase are expensed. Capitalization of costs will generally end when the project is completed and is ready for its intended use. Where implementation of the project is in phases, only those costs incurred which further the development of the project will be capitalized. Costs incurred to maintain the system are expensed.

Impairment of Long-Lived Assets
Long-lived assets are reviewed for impairment when events and circumstances indicate that the carrying amount of an asset may not be recoverable. The Hospital's policy is to record an impairment loss when it is determined that the carrying amount of the asset exceeds the sum of the expected undiscounted future cash flows resulting from use of the asset and its eventual disposition. Impairment losses are measured as the amount by which the carrying amount of the asset exceeds its fair value. Long-lived assets to be disposed of are reported at the lower of the carrying amount or fair value less cost to sell. There were $3.5 million and $0 impairment charges recorded for the year ended June 30, 2013 and 2012, respectively.

Financing Expenses
Financing expenses incurred in connection with the issuance of the Maryland Health and Higher Educational Facilities Authority ("MHHEFA") series bonds have been capitalized and are included in other assets in the Balance Sheet. Unamortized financing expenses were $56 thousand and $642 thousand as of June 30, 2013 and 2012, respectively. There was a write-off of unamortized costs of $530 thousand as a result of the May 2013 refinancing of the 2008 revenue bonds. These expenses are being amortized over the terms of the related bond issues using the effective interest method. Amortization expense for years ended June 30, 2013 and 2012 was $56 thousand and $68 thousand, respectively.

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

Advances from third-party payors
SHI 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 Agreement
The value of the interest rate swap agreement entered into by the Hospital (Note 9) is adjusted to market value monthly at the close of each accounting period based upon quotations from market makers. The change in market value, if any, is recorded in the Consolidated Statement of Operations and Changes in Net Assets. Entering into interest rate swap agreements involves, to varying degrees, elements of credit, default, prepayment, market and documentation risk in excess of the amounts recognized on the Consolidated Balance Sheets. Such risks involve the possibility that there will be no liquid market for these agreements, the counterparty to these agreements may default on its obligation to perform and there may be unfavorable changes in interest rates.

The swap agreement has certain collateral thresholds whereby, on a daily basis, if the market value of the swap agreement declines such that its devaluation exceeds the threshold, cash must be deposited by the Hospital with the swap counterparty for the difference between the threshold amount and the fair value. As of June 30, 2013 and 2012 the threshold has not been exceeded and no collateral has been deposited.

Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are those whose use has been limited by donors or law to a specific time period or purpose. Permanently restricted net assets have been restricted by donors to be maintained in perpetuity. Income generated from these assets is available as restricted by the donor or for general program support.

Donor Restricted Gifts

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

Grants

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

Excess of Revenues Over Expenses

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

Income Taxes

The Hospital, SPAA, and Foundation are exempt from federal income tax under section 501(c)(3) of the Internal Revenue Code as public charities. Federal tax law requires that the Hospital, SPAA, and Foundation be operated in a manner consistent with their initial exemption applications in order to maintain their exempt status. Management has analyzed the operations of the Hospital, SPAA, and Foundation concluded that they remain in compliance with the requirements for exemption. The state in which the Hospital, SPAA, and Foundation operate also recognizes this exemption for state income tax purposes.

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

New Accounting Standards

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

Effective July 1, 2012, SHI 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

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

The Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Such patients are identified based on information obtained from the patient and subsequent analysis. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. Effective July 1, 2011, SHI 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 SHI's financial condition, results of operations or cash flows. Direct and indirect costs for these services amounted to $4.2 million and $3.7 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 SHI's total expenses (less bad debt expense) divided by gross patient service revenue.

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

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

	Third-Party Payors	Self-pay	Total All Payors
Patient service revenue (net of contractual allowances)	$ 241,165	$ 3,636	$ 244,801

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

	Third-Party Payors	Self-pay	Total All Payors
Patient service revenue (net of contractual allowances)	$ 237,380	$ 7,357	$ 244,737

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

	2013	**2012**
Medicare Program	33 %	30 %
Medicaid Program	11 %	9 %
Blue Cross and Blue Shield	8 %	10 %
Other self-pay and third-party payors	46 %	49 %
Medicaid Managed Care Organizations	2 %	2 %

3. Pledges Receivable

The total value of pledges net of discount and allowance for uncollectible pledges for the years ended June 30, 2013 and 2012 was $4.4 and 1.3 million, respectively. These amounts have been discounted at rates ranging from .72% to 2.87% and consist of the following:

As of June 30, 2013

(in thousands)	1 Year	2-5 Years	5 Years or Greater	Totals
Building project/general fund	$ 799	$ 1,993	$ 1,250	$ 4,042
Community Health	1	-	-	1
Neurology	-	400	100	500
Nursing	61	220	-	281
Cardiovascular	6	29	-	35
	$ 867	$ 2,642	$ 1,350	4,859
Discount				(353)
Allowance for uncollectible				(78)
				$ 4,428

As of June 30, 2012

(in thousands)	1 Year	2-5 Years	5 Years or Greater	Totals
Building project/general fund	$ 300	$ 1,025	$ -	$ 1,325
ED/Trauma	7	-	-	7
Cardiovascular	37	29	7	73
	$ 344	$ 1,054	$ 7	1,405
Discount				(63)
Allowance for uncollectible				(27)
				$ 1,315

4. Fair Value Measurements

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

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

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

Level 1 Observable inputs such as quoted market prices for identical assets or liabilities in active markets;

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

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

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

(in thousands)	**Level 1**	**Level 2**	**Total Fair Value**
Assets			
Cash and Cash equivalents (1)	$ 21,659	$ -	$ 21,659
Certificate of Deposit (1)	-	203	203
Commercial Paper (1)	1,640	-	1,640
U.S. treasury notes and bonds (2)	-	16,192	16,192
Corporate bonds (2)	-	20,942	20,942
Mortgage backed securities (2)	-	4,765	4,765
Equity and equity funds (3)	15,228	31,983	47,211
Fixed income funds (4)	13,606	401	14,007
	$ 52,133	$ 74,486	$ 126,619
Liabilities			
Interest rate swap agreements (5)	$ -	$ 3,533	$ 3,533

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

(in thousands)	Level 1	Level 2	Total Fair Value
Assets			
Cash and Cash equivalents (1)	$ 13,258	$ -	$ 13,258
Certificate of Deposit (1)	-	200	200
U.S. treasury notes and bonds (2)	-	12,366	12,366
Corporate bonds (2)	-	13,217	13,217
Mortgage backed securities (2)	-	5,761	5,761
Equity and equity funds (3)	2,519	34,890	37,409
Fixed income funds (4)	-	11,462	11,462
	$ 15,777	$ 77,896	$ 93,673
Liabilities			
Interest rate swap agreements (5)	$ -	$ 4,714	$ 4,714

(1) Cash equivalents, commercial paper, money market funds, and overnight investments include investments with original maturities of three months or less. Certificates of deposit are carried at amortized cost. Certificates of deposit and commercial paper that have original maturities greater than three months are considered short-term investments. Cash and cash equivalents, commercial paper, money market funds, and overnight investments are rendered level 1 due to their frequent pricing and ease of converting to cash. Computed prices and frequent evaluation versus market value render the certificates of deposit level 2.
(2) For investments in U.S. Treasuries (notes, bonds, and bills), corporate bonds, and asset backed securities, fair value is based on quotes for similar securities; therefore these investments are rendered Level 2. These investments fluctuate in value based upon changes in interest rates.
(3) Equity includes 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, discussed further in footnote 9 “Derivative Financial Instruments,” are valued using a swap valuation model that utilizes an income approach using observable market inputs including credit default swap rates.

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

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

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

Description		Fair Market Value	Liquidity	Notice Period	Receipt of Proceeds
Global asset allocation	$	21,788	Monthly	5 days	Within 15 to 30 days, 95% in 5 days of redemption, 5% in 30 days after withdrawal
Fund of funds		13,138	Monthly or quarterly	25-70 days	Within 30 days, or 90% in 30 to 60 days, 10% after annual audit
Hedge fund		1,306	Quarterly	60 days	95% within 30 days of redemption date; 5% within 120 days of redemption date
	$	36,232			

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

Description		Fair Market Value	Liquidity	Notice Period	Receipt of Proceeds
Global asset allocation	$	18,314	Monthly	5 days	At least 95% within 15 days, remaining within 30 days of redemption date
Fund of funds		10,289	Monthly, quarterly or terminated	25 - 70 days	At least 90% within 60 days, remaining received after the audit or as SPV shares
Hedge fund		905	Quarterly - last day of the calendar quarter	60 days	95% within 30 days of redemption date; 5% within 120 days of redemption date
	$	29,508			

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

(in thousands)		2013		2012
Cash equivalents measured at fair value	$	21,659	$	13,258
Cash and cash equivalents included in AWUIL		(8,871)		(436)
Total cash and cash equivalents	$	12,788	$	12,822
Short and long-term investments measured at fair value	$	203	$	200
Investments accounted for under equity method		50		418
Total short and long-term investments	$	253	$	618
Assets whose use is limited measured at fair value	$	104,757	$	80,215
Pledges Receivable		4,428		1,315
Beneficial interest remainder trust		922		827
Cash in AWUIL reported in cash and equivalents on leveling table		8,871		436
Investments accounted for under equity method		36,232		29,508
Total assets whose use is limited	$	155,210	$	112,301

The estimated total fair value of long-term debt excluding capital leases, rendered level 2 based on quoted market prices for the same or similar issues, was $13.5 and $71.5 million as of June 30, 2013 and 2012, respectively.

5. Assets Whose Use is Limited

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

(in thousands)	Carrying Amount 2013	Carrying Amount 2012
Cash and cash equivalents	$ 8,871	$ 435
Commercial Paper	1,640	-
US treasury notes and bonds	16,192	12,366
Corporate bonds	20,942	13,217
Mortgage backed securities	4,765	5,761
Beneficial interest remainder trust	922	828
Equity and equity funds	47,211	37,409
Fixed Income Funds	14,007	11,462
Alternative investments	36,232	29,508
Pledges receivable	4,428	1,315
	$ 155,210	$ 112,301

Included in investments as of June 30, 2013 and 2012 are $145.0 million and $102.6 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 the nonoperating revenues and expenses section of the Statement of Operations consisted of the following:

	2013	2012
Realized gains (losses) on investments	$ 3,124	$ 472
Unrealized gains (losses) on alternative investments	4,060	(2,081)
	$ 7,184	$ (1,609)

6. Investments in Joint Ventures

Investments in joint ventures recorded under the cost method as of June 30 consisted of the following:

(in thousands)

Entity	Method	Ownership Percentage	2013	2012
Premier Purchasing Partners	Cost	0.2 %	$ -	$ 368
Colonial Regional Alliance	Cost	12.5 %	50	50
			$ 50	$ 418

Premier Purchasing Partners, L.P. ("Premier") is a California based for-profit, limited partnership in which the Hospital had an investment (0.2%). Premier provides group purchasing services principally by negotiating contracts for medical, surgical, and other supplies and services. In June 2013, JHHS purchased the Premier equity investment on the Hospital's books in the intent that JHHS will become the sole member of Premier. The Hospital will continue to receive a share back based on spending.

Colonial Regional Alliance ("CRA") is a Maryland based not-for-profit, limited liability company in which the Hospital has an investment (12.5%). CRA is a regional group purchasing organization serving healthcare facilities located in Maryland and Virginia for the purpose of purchasing healthcare supplies, equipment and services from both regional and national vendors.

7. Property, Plant and Equipment

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

	2013		2012	
(in thousands)	**Cost**	**Accumulated Depreciation**	**Cost**	**Accumulated Depreciation**
Land and land improvements	$ 573	$ 178	$ 996	$ 552
Building and improvements	113,084	56,343	152,480	87,054
Fixed and moveable equipment	85,245	58,716	119,705	96,777
Capitalized software	22,337	14,297	26,049	15,833
Construction in progress	10,848	-	13,537	-
	$ 232,087	$ 129,534	$ 312,767	$ 200,216

Accruals for purchases of property, plant and equipment as of June 30, 2013 and 2012 amounted to $932 thousand and $276 thousand, respectively, and are included in accounts payable and accrued liabilities in the Consolidated Balance Sheets. Depreciation expense for the years ended June 30, 2013 and 2012 amounted to $15.2 and $15.1 million, respectively. During the year ended June 30, 2013 and 2012, SHI retired long-lived assets determined to have no future value.

During 2013, the original cost and corresponding accumulated depreciation of these long-lived assets was $88.1 million and $84.6 million, respectively. No proceeds from retirement were received in 2013. During 2012, the original cost and corresponding accumulated depreciation of these long-lived assets was $2.0 million and $1.5 million, respectively. No proceeds from retirement were received in 2012.

8. Debt

Debt as of June 30 is summarized as follows:

	2013		2012	
(in thousands)	Current Portion	Long-Term Portion	Current Portion	Long-Term Portion
MHHEFA Bonds and Notes				
2004 Series - Revenue Bonds - including original issue premium of $150 and $223 as of June 30, 2013 and 2012, respectively	$ 2,400	$ 10,795	$ 2,660	$ 13,268
2008 Series - Revenue Bond	-	-	54,855	-
Capital leases	325	118	311	443
	$ 2,725	$ 10,913	$ 57,826	$ 13,711

Obligated Group

The Johns Hopkins Health System Obligated Group ("JHHS Obligated Group") consists of Johns Hopkins Hospital ("JHH"), Johns Hopkins Bayview Medical Center, Inc. ("JHBMC"), Howard County General Hospital ("HCGH"), Johns Hopkins Health System Corp ("JHHSC"), Suburban Hospital Healthcare System, Inc. ("SHHS"), and SHI. JHBMC was admitted into the JHHS Obligated Group in 2004 as part of a plan of debt refinancing. SHI and SHHS were admitted into the JHHS Obligated Group in 2010 as part of a JHH debt issuance. HCGH was admitted to the JHHS Obligated Group in May 2012 as part of the JHH debt issuance. JHHSC was admitted in May 2013 as part of a JHHSC debt issuance. All of the debt of JHH, JHBMC, HCGH, JHHSC, SHI, and SHHS are parity debt, and as such are collateralized equally and ratably by a claim on and a security interest in all of JHH's, JHBMC's, HCGH's, JHHSC's, SHI's, and SHHS' receipts as defined in the Master Loan Agreement with MHHEFA. JHHS Obligated Group members are required to achieve a defined minimum debt service coverage ratio each year, maintain adequate insurance coverage, and comply with certain restrictions on their ability to incur additional debt. As of June 30, 2013, JHHS Obligated Group were in compliance with these requirements. As of June 30, 2013, the outstanding JHHS Obligated Group parity debt was 1.2 billion. As of June 30, 2012, the outstanding JHH, JHBMC, SHI, and SHHS parity debt was $1.1 billion. See note 14 for affiliate note payable.

2004 Series A – Revenue Bonds

In June 2004, the Obligated Group which consisted of SHHS and the Hospital ("SHHS Obligated Group") issued $72.4 million principal amount of Revenue Bonds, Series 2004 A and B. The proceeds of the bonds were used to advance refund the remaining balance of the Series 1993 bonds. The 2004A bonds consist of $4.9 million of Serial bonds due in annual installments that began on July 1, 2005 at interest rates between 4.7% and 5.5%, and $8.2 million term bond due on July 1, 2016 at a rate of 5.5%. Interest is payable semiannually on January 1 and July 1 of each year on the fixed rate Series 2004A bonds. The bond premium is being amortized over the term of the remaining 2004 bond.

2008 Series Revenue Bonds

In November 2008, the SHHS Obligated Group issued $58.5 million principal amount of MHHEFA Revenue Bonds, Series 2008. The proceeds of the bonds were used to advance refund the remaining balance of the Series 2004B bonds and to finance or refinance the acquisition, construction, renovations or equipping of healthcare facilities.

In connection with the 2008 Series Revenue Bonds, SHI entered into a $58.4 million letter of credit agreement dated June 16, 2010 with PNC Bank, N.A. to provide for payment of such interest as well as principal at maturity subject to certain conditions described therein. This agreement was scheduled to expire on June 16, 2013 subject to extension or earlier termination.

In May 2013, the 2008 series revenue bond was refinanced as part of the JHHS 2013B bond issuance. See note 14.

For the debt of the Hospital described above, total maturities of debt and sinking fund requirements, excluding capital leases, during the next five fiscal years and thereafter are as follows as of June 30, 2013:

(in thousands)

2014	$ 2,400
2015	2,500
2016	4,835
2017	3,310
2018	-
Thereafter	-
	$ 13,045

For the debt of the Hospital described above, interest expense incurred in the years ended June 30, 2013 and 2012, in thousands, are $774 and $875, respectively. For the years ended June 30, 2013 and 2012 there are no interest costs capitalized.

Capital Leases
The Hospital leases certain equipment under capital leases. The original cost of the assets under capital leases included in property and equipment at June 30, 2013 and 2012 is $1.5 million. Accumulated depreciation on equipment held under capital leases was $1.1 million and $799 thousand at June 30, 2013 and 2012, respectively. Depreciation expense on these assets is included within depreciation expense in the Consolidated Statements of Operations and Other Changes in Unrestricted Net Assets.

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

(in thousands)		**Capital Lease Payments**
2014	$	339
2015		119
2016		-
2017		-
2018		-
Total minimum lease payments	$	458
Interest on capital lease obligations		(15)
Net minimum lease payments	$	443
Less: Current obligations under capital leases		325
Long term capital lease obligations	$	118

9. Derivative Financial Instruments

The Hospital's primary objective for holding derivative financial instruments is to manage interest rate risk. Derivative financial instruments are recorded at fair value and are included in other long-term liabilities. The total notional amount of interest rate swap agreements was $25 million as of June 30, 2013 and 2012, respectively.

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

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

Fair value of derivative instruments as of June 30:

	Derivatives Reported as Liabilities					
	2013			2012		
(in thousands)	Balance Sheet Caption		Fair Value	Balance Sheet Caption		Fair Value
Interest rate swaps not designated as hedging instruments	Other long-term liabilities	$	3,533	Other long-term liabilities	$	4,714

Derivatives not designated as hedging instruments as of June 30:

	Amount of gain (loss) recognized in change in unrestricted net assets			
(in thousands)		2013		2012
Classification of derivative loss in statement of operations				
Interest rate swaps				
Change in the market value of swap adjustments	$	1,181	$	(1,243)

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

In May 2004, SHI entered into a fixed payer interest rate swap agreement with J.P. Morgan, with a notional amount of $25.0 million. This swap agreement carries a term of 17 years from the effective date with payments beginning July 1, 2004. SHI will pay J.P. Morgan a fixed annual rate of 3.9% on the notional amount of the swap agreement in return for the receipt of a floating rate of interest equal to 68% of the one month LIBOR rate. The floating rate payments from the interest rate swap agreements are intended to substantially offset the floating rate of the debt issue. The floating rates as of June 30, 2013 and 2012 was .13% and .17%, respectively.

10. Temporarily and Permanently Restricted Net Assets

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

(in thousands)		2013		2012
Health care services	$	12,589	$	8,065
Property, plant, and equipment		3,520		3,013
Indigent care		16		6
Health education		379		273
	$	16,504	$	11,357

Permanently restricted net assets as of June 30 are restricted to:

(in thousands)	**2013**	**2012**
Student scholarships	$ 4,167	$ 4,162
Health education	718	718
Other healthcare services	5,974	5,956
	$ 10,859	$ 10,836

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

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

Endowment Funds With Deficits
From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the value of the initial and subsequent donor gift amounts (deficit). When donor endowment deficits exist, they are classified as a reduction of unrestricted net assets. Deficits of this nature reported in unrestricted net assets from unfavorable market conditions were $0 at June 30, 2013 and 2012, respectively. Future market gains will be used to restore this deficiency in unrestricted net assets before any net appreciation above the historical cost value of such funds increases temporarily restricted net assets.

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

Return Objectives and Risk Parameters and Strategies Employed for Achieving Investment Objectives

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

The endowment funds as of June 30 are as follows:

	2013		2012	
(in thousands)	**Permanently Restricted**	**Temporarily Restricted**	**Permanently Restricted**	**Temporarily Restricted**
Student scholarships	$ 4,167	$ 280	$ 4,162	$ 186
Health education	718	112	718	95
Other healthcare services	5,974	3,944	5,956	3,242
	$ 10,859	$ 4,336	$ 10,836	$ 3,523

The Foundation had the following endowment activities during the years ended June 30, 2013 and 2012 delineated by net asset class and donor restriction versus board designated funds:

	2013		2012	
(in thousands)	**Permanently Restricted**	**Temporarily Restricted**	**Permanently Restricted**	**Temporarily Restricted**
Net appreciation (depreciation)	$ -	$ 1,011	$ -	$ 75
Contributions	4	-	45	-
Amounts appropriated for expenditure	19	(198)	-	(294)
Total change in endowment funds	$ 23	$ 813	$ 45	$ (219)
Beginning balances	10,836	3,523	10,791	3,742
Ending balances	$ 10,859	$ 4,336	$ 10,836	$ 3,523

11. Pension Plan

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

The funding policy of the Hospital is to make sufficient contributions to meet the Internal Revenue Service minimum funding requirements. Assets in the plans as of June 30, 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 Plan is shown below:

(in thousands)	**2013**	**2012**
Change in benefit obligation		
Benefit obligation at beginning of the year	$ 49,231	$ 44,466
Service cost	2,597	2,710
Interest cost	2,157	2,532
Actuarial (gain) loss	(2,541)	2,564
Benefits paid	(1,930)	(3,041)
Benefit obligation as of June 30	$ 49,514	$ 49,231
Change in plan assets		
Fair value of plan assets at beginning of year	$ 40,667	$ 39,614
Return on plan assets	2,388	(4)
Employer contributions	2,612	4,098
Benefits paid	(1,930)	(3,041)
Fair value of plan assets at end of year	$ 43,737	$ 40,667
Funded Status as of June 30		
Fair value of plan assets	$ 43,737	$ 40,667
Projected benefit obligation	(49,514)	(49,231)
Unfunded Status	$ (5,777)	$ (8,564)

Amounts recognized in the Consolidated Balance Sheets consist of:

(in thousands)	**2013**	**2012**
Net pension liability	$ (5,777)	$ (8,564)

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

(in thousands)	**2013**	**2012**
Actuarial net loss	$ 14,332	$ 18,249
Prior service cost	(533)	(693)
	$ 13,799	$ 17,556
Accumulated benefit obligation	$ 49,279	$ 48,941

Net Periodic Pension Cost

Components of net periodic benefit pension cost:

(in thousands)	**2013**	**2012**
Service cost	$ 2,597	$ 2,710
Interest cost	2,157	2,532
Expected rate of return on plan assets	(2,774)	(3,378)
Amortization of prior service cost	(160)	(160)
Amortization of actuarial loss	1,764	1,195
Net periodic benefit cost	$ 3,584	$ 2,899

(in thousands)	**2013**	**2012**
Other changes in Plan Assets and Benefit Obligations Recognized in Unrestricted Net Assets:		
Net (gain) loss	$ (2,154)	$ 5,946
Amortization of net loss (gain)	(1,764)	(1,195)
Amortization of prior service cost	160	160
Total recognized in unrestricted net assets	$ (3,758)	$ 4,911
Total recognized in net periodic benefit cost and unrestricted net assets	$ (174)	$ 7,810

The estimated net loss and prior service cost (credit) for the Plan that will be amortized from unrestricted net assets into net periodic pension cost over the next fiscal year are $1.2 million and ($160) thousand, respectively.

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

	2013	**2012**
Discount rate	4.66 %	6.03 %
Expected return on plan assets	8.00 %	8.25 %
Rate of compensation increase - ultimate	3.00 %	3.00 %

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

	2013	**2012**
Discount rate	5.12 %	4.66 %
Expected return on plan assets	8.00 %	8.25 %
Rate of compensation increase	2.50 %	3.00 %

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

Plan Assets
The weighted average asset allocations as of June 30 by asset class are as follows:

(in thousands)	**2013**	**2012**
Asset class		
Cash equivalents	2.0 %	4.9 %
Equities and equity funds	32.4	30.2
Alternatives	29.2	38.6
Fixed income Funds	36.4	26.3
	100.0 %	100.0 %

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

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

Level 1 Observable inputs such as quoted market prices for identical assets or liabilities in active markets;

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

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

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

	June 30, 2013		
Assets	**Level 1**	**Level 2**	**Total Fair Value**
Cash equivalents (1)	$ 863	$ -	$ 863
Equities and equity funds (2)	965	13,221	14,186
Fixed income Funds (3)	11,484	1,283	12,767
Alternatives (4)	-	15,921	15,921
	$ 13,312	$ 30,425	$ 43,737

	June 30, 2012		
Assets	**Level 1**	**Level 2**	**Total Fair Value**
Cash equivalents (1)	$ -	$ 2,018	$ 2,018
Equities and equity funds (2)	970	11,306	12,276
Fixed income Funds (3)	9,441	1,252	10,693
Alternatives (4)	-	15,680	15,680
	$ 10,411	$ 30,256	$ 40,667

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

(2) 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.

(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.

There are no unfunded commitments related to the Plan’s alternative investments.

The following table displays information by major alternative investment category as of June 30, 2013 and 2012:

June 30, 2013					
Description		**Fair Market Value**	**Liquidity**	**Notice Period**	**Receipt of Proceeds**
Global asset allocation	$	7,964	Monthly	5 to 30 days	(1)
Fund of funds		130	Quarterly	45 days	(2)
Hedge Fund		6,328	Mothly, quarterly, or bi-annually	30 to 90 days	(3)
Credit Fund		1,473	Annually	60 to 90 days	(4)
Distressed Credit		26	December 31, 2013		(5)
	$	15,921			

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

June 30, 2012					
Description		**Fair Market Value**	**Liquidity**	**Notice Period**	**Receipt of Proceeds**
Global asset allocation	$	7,198	Monthly	5 - 30 days	(1)
Fund of funds		3,257	Quarterly	45 days or terminated	(2)
Hedge Fund		3,467	Mthly or Qtrly, or bi-annually	30-90 days	(3)
Credit Fund		1,270	Annual	60-90 days	(4)
Distressed Credit		488	December 31, 2013		(5)
	$	15,680			

(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 the annual audit.
(4) Within 30 days, or 90% within 10 days, 10% after annual audit.
(5) Locked up until December 2013.

Contributions and Estimated Future Benefit Payments (Unaudited)

The Hospital expects to contribute $3.5 million to the Plan in the fiscal year ending June 30, 2014.

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

(in thousands)

2014	$	5,368
2015		4,559
2016		4,400
2017		4,300
2018		4,308
2019 - 2022		20,425

12. Maryland Health Services Cost Review Commission ("Commission" or "HSCRC")

SHI's charges are subject to review and approval by the Commission. SHI management has filed the required forms with the Commission and believes SHI 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 SHI 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 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 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.

13. Professional and General Liability Insurance

JHU and JHHS and its Affiliates, including SHI, 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.

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 $1.0 million per incident. Primary coverage is insured under 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 .73% as of June 30, 2013 and 2012, respectively.

Professional and general liability insurance expense /(refund) incurred by the Hospital was $1.3 million and $450 thousand for the years ended June 30, 2013 and 2012, respectively, and is included in purchased services in the statement of operations. Reserves were $2.5 and $2.1 million as of June 30, 2013 and 2012, respectively, and are included in other long term liabilities on the balance sheet.

Effective July 1, 2011, SHI 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 JHHS' adoption of ASU 2010-24, SHI recorded an increase in its assets and liabilities in the accompanying consolidated Balance Sheet as of June 30, 2013 as follows:

(in thousands)	2013	2012
Caption on Combined Balance Sheet		
Prepaid expenses and other current assets	$ 630	$ 663
Estimated malpractice recoveries, net of current	1,105	837
Total assets	$ 1,735	$ 1,500
Current portion of estimated malpractice costs	$ 630	$ 663
Estimated malpractice costs, net of current portion	1,105	837
Total liabilities	$ 1,735	$ 1,500

The assets and liabilities represent SHI'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 SHI's results of operations or cash flows.

14. Related Party Transactions

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

Significant expense transactions (in thousands):

	2013	2012
JHCP Phyisican services	$ 6,612	$ 5,026
JHHS Shared Services	5,192	2,851
Utilities	1,275	1,265

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

	2013	2012
Due (to) from JHHS for chargebacks	$ (1,561)	$ (356)
Due (to) from JHCP for physician services provided	(951)	(261)
Due (to) from Utility for electricity and Epic	(137)	(115)
Due (to) from JHH for services provided	(79)	16
Due (to) from other	25	-
Total due to affiliates	$ (2,703)	$ (716)

In May 2013, SHI and JHHS entered into a long-term Promissory Note ("2013B Affiliate Note") in the amount of $51.8 million, and carries a variable rate of interest based on 67% of one month LIBOR plus a spread. The 2013B Affiliate Note comes due in 2029. Interest payments will be made at the end of each month. The rate was approximately 0.84% for the year ended June 30, 2013. Interest expense paid to JHHS was $48 thousand for the year ended June 30, 2013. Principle payments on the 2013B Affiliate Note begin in the year 2014, and range from $1.6 million to $6.2 million.

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

(in thousands)

2014	$ 1,595
2015	1,655
2016	1,710
2017	1,780
Thereafter	45,085
	$ 51,825

The current portion of affiliate notes was $1.6 million as of June 30, 2013.

15. Contracts, Commitments and Contingencies

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

(in thousands)	
2014	$ 655
2015	663
2016	567
2017	550
2018	432
Thereafter	797

Rental expense for all operating leases for the years ended June 30, 2013 and 2012 amounted to $3.1 and $3.5 million, respectively.

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

16. Functional Expenses

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

(in thousands)	**2013**	**2012**
Healthcare services	$ 211,809	$ 211,003
Management and general	35,883	38,933
Fundraising services	1,334	1,095
Program services	1,115	1,486
	$ 250,141	$ 252,517

17. Subsequent Events

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

Supplemental Information

Independent Auditor's Report on Supplemental Information

To the Board of Trustees of
Suburban Hospital, Inc. and Controlled Entities:

The report on our audit of the consolidated financial statements of Suburban Hospital, Inc. and Controlled Entities ("SHI") as of June 30, 2013 and for the year then ended appears on page 1 of this document. That audit was conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The consolidating information is presented for purposes of additional analysis of the consolidated financial statements rather than to present the results of operations of the individual entities. Accordingly, we do not express an opinion on the results of operations of the individual entities. However, the consolidating information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the consolidated financial statements taken as a whole.

PricewaterhouseCoopers LLP

September 27, 2013

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Suburban Hospital, Inc. and Controlled Entities
Consolidating Statement of Operations and Other Changes in Unrestricted Net Assets
Year Ended June 30, 2013

The 2013 operating performance for Suburban Hospital, Inc. and its Controlled Entities, Suburban Physicians Assistant Associates, LLC and Suburban Hospital Foundation, Inc. is presented below in a consolidating format.

	Suburban Hospital, Inc.	Suburban Hospital Foundation, Inc.	Suburban Physicians Assistant Associates, LLC	Eliminating Entries	Consolidated Suburban Hospital, Inc.
Operating revenues					
Net patient service revenue before bad debts expense	$ 244,690	$ -	$ 111	$ -	$ 244,801
Provision for bad debts	(9,345)	-	-	-	(9,345)
Net patient service revenue	$ 235,345	$ -	$ 111	$ -	$ 235,456
Other revenue	46,875	(120)	-	(564)	46,191
Investment income	1,497	316	-	-	1,813
Net assets released from restrictions used for operations	-	1,394	-	-	1,394
Total operating revenues	283,717	1,590	111	(564)	284,854
Operating expenses					
Salaries, wages and benefits	115,910	603	3,376	-	119,889
Purchased services and other	52,487	1,835	295	(564)	54,053
Supplies	60,206	10	8	-	60,224
Interest	774	-	-	-	774
Depreciation and amortization	15,200	1	-	-	15,201
Total operating expenses	244,577	2,449	3,679	(564)	250,141
Income from operations	39,140	(859)	(3,568)	-	34,713
Nonoperating revenues and expenses					
Interest expense on swap agreement	(941)	-	-	-	(941)
Change in market value of swap agreement	1,181	-	-	-	1,181
Realized and unrealized gains (losses) on investments	5,974	1,210	-	-	7,184
Loss on advance refunding of debt	(530)	-	-	-	(530)
Loss on impairment of long-lived assets	(3,473)	-	-	-	(3,473)
Excess of revenues over expenses	41,351	351	(3,568)	-	38,134
Unrestricted net assets					
Contribution to affiliates	(4,054)	(393)	1,867	-	(2,580)
Change in funded status of defined benefit plan	3,758	-	-	-	3,758
Net assets released from restrictions used for purchase of PPE	10	-	-	-	10
Total change in unrestricted net assets	$ 41,065	$ (42)	$ (1,701)	$ -	$ 39,322