# The Johns Hopkins Health System Corporation and Affiliates

**Reports on Federal and Florida State Awards in Accordance with OMB Circular A-133**
**June 30, 2012**

# The Johns Hopkins Health System Corporation and Affiliates
## Index
## June 30, 2012

# Part I

## Financial Statements and
## Schedules of Expenditures of Federal Awards and Florida State Financial Assistance

## Year Ended June 30, 2012

## Report of Independent Auditors

To the Board of Trustees of
The Johns Hopkins Health System Corporation and Affiliates:

In our opinion, the accompanying combined balance sheets and the related combined statements of operations and changes in net assets and cash flows present fairly, in all material respects, the financial position of The Johns Hopkins Health System Corporation and Affiliates ("JHHS") as of June 30, 2012, and the June 30, 2011 for the year then ended, in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of JHHS' management. Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit of these statements in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 28, 2012 on our consideration of JHHS' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters for the year ended June 30, 2012. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying Schedules of Expenditures of Federal Awards and State Financial Assistance for the year ended June 30, 2012 are presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements. The information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The Schedule of Expenditures of Federal Awards has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or the financial statements themselves and other additional procedures, in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

PricewaterhouseCoopers LLP

September 28, 2012

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# The Johns Hopkins Health System Corporation and Affiliates
## Combined Balance Sheets
## June 30, 2012 and 2011
## (in thousands)

| ASSETS | 2012 | 2011 |
|---|---|---|
| Current assets: | | |
| Cash and cash equivalents | $ 387,039 | $ 406,717 |
| Short-term investments | 37,471 | 127,456 |
| Assets whose use is limited - used for current liabilities | 20,762 | 26,933 |
| Patient accounts receivables, net of estimated uncollectibles of $171,414 and $208,571 as of June 30, 2012 and 2011, respectively | 430,508 | 379,495 |
| Due from others - current portion | 71,116 | 57,372 |
| Due from affiliates - current portion | 28,505 | 6,112 |
| Inventories of supplies | 78,170 | 68,105 |
| Prepaid expenses and other current assets | 78,642 | 37,436 |
| Total current assets | 1,132,213 | 1,109,626 |
| Assets whose use is limited | | |
| By long-term debt agreement for: | | |
| Debt service reserve funds | 4,955 | 4,953 |
| Construction fund | - | 1,713 |
| By donors or grantors for: | | |
| Future campus development | 644 | 7,516 |
| Pledges receivable | 26,622 | 33,672 |
| Other | 82,935 | 75,994 |
| By Board of Trustees | 696,945 | 377,493 |
| Malpractice funding arrangement | - | 24,161 |
| Interest in net assets of Howard Hospital Foundation | 13,228 | 14,439 |
| Other | 19,965 | 18,938 |
| Total assets whose use is limited | 845,294 | 558,879 |
| Investments | 1,106,793 | 1,501,464 |
| Property, plant and equipment | 4,167,276 | 3,850,892 |
| Less: allowance for depreciation and amortization | (1,314,015) | (1,172,782) |
| Total property, plant and equipment, net | 2,853,261 | 2,678,110 |
| Due from affiliates, net of current portion | 10,925 | 2,082 |
| Due from others, net of current portion | 4,796 | 5,796 |
| Net pension asset | - | 2,742 |
| Other assets | 226,747 | 88,621 |
| Total assets | $ 6,180,029 | $ 5,947,320 |

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

# The Johns Hopkins Health System Corporation and Affiliates
## Combined Balance Sheets, continued
## June 30, 2012 and 2011
## (in thousands)

| LIABILITIES AND NET ASSETS | 2012 | 2011 |
|---|---|---|
| Current liabilities: | | |
| Current portion of long-term debt and obligations under capital leases | $ 287,181 | $ 144,598 |
| Accounts payable and accrued liabilities | 462,375 | 456,720 |
| Medical claims reserve | 80,524 | 75,549 |
| Deferred revenue | 72,199 | 242 |
| Due to affiliates | 3,445 | 4,577 |
| Accrued vacation | 62,629 | 58,198 |
| Advances from third-party payors | 129,037 | 109,585 |
| Current portion of estimated malpractice costs | 38,580 | 8,941 |
| Total current liabilities | 1,135,970 | 858,410 |
| Long-term debt and obligations under capital leases, net of current portion | 1,165,792 | 1,337,158 |
| Estimated malpractice costs, net of current portion | 120,656 | 92,024 |
| Net pension liability | 545,843 | 311,445 |
| Other long-term liabilities | 339,816 | 190,512 |
| Total liabilities | 3,308,077 | 2,789,549 |
| Net assets: | | |
| Unrestricted | 2,667,923 | 2,513,523 |
| Temporarily restricted | 151,692 | 593,638 |
| Permanently restricted | 52,337 | 50,610 |
| Total net assets | 2,871,952 | 3,157,771 |
| Total liabilities and net assets | $ 6,180,029 | $ 5,947,320 |

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

# The Johns Hopkins Health System Corporation and Affiliates
## Combined Statements of Operations and Changes in Net Assets
## for the years ended June 30, 2012 and 2011
## (in thousands)

| | 2012 | 2011 |
|---|---|---|
| Operating revenues: | | |
| Net patient service revenue | $ 4,294,941 | $ 3,719,955 |
| Other revenue | 400,616 | 325,989 |
| Investment income | 56,388 | 47,109 |
| Net assets released from restrictions used for operations | 8,729 | 4,283 |
| Total operating revenues | 4,760,674 | 4,097,336 |
| Operating expenses: | | |
| Salaries, wages and benefits | 1,884,254 | 1,561,047 |
| Purchased services | 1,621,131 | 1,458,120 |
| Supplies and other | 687,182 | 585,576 |
| Interest | 28,384 | 24,461 |
| Provision for bad debts | 116,103 | 92,591 |
| Depreciation and amortization | 215,152 | 159,778 |
| Total operating expenses | 4,552,206 | 3,881,573 |
| Income from operations | 208,468 | 215,763 |
| Non-operating revenues and expenses: | | |
| Interest expense on swap agreements | (27,891) | (25,471) |
| Change in market value of swap agreements | (142,770) | 26,002 |
| Change in realized and unrealized gains (losses) on investments | (26,297) | 73,749 |
| Contribution received in donation of SMH, ACH and ACHS | - | 1,250,152 |
| Other revenue (expense) | (17,609) | (3,014) |
| Excess of revenues (under) over expenses | (6,099) | 1,537,181 |
| Noncontrolling interests | (15,880) | (15,826) |
| Excess of revenues (under) over expenses after noncontrolling interests | (21,979) | 1,521,355 |
| Contributions to affiliates | (7,954) | (10,746) |
| Changes in unrealized gains on investments | - | 6,556 |
| Change in funded status of defined benefit plans | (284,303) | 68,630 |
| Net assets released from restrictions used for purchases of property, plant, and equipment | 453,205 | 8,560 |
| Noncontrolling interests | 15,880 | 15,562 |
| Other | (449) | - |
| Increase in unrestricted net assets | 154,400 | 1,609,917 |
| Changes in temporarily restricted net assets: | | |
| Gifts, grants and bequests | 36,366 | 81,603 |
| Net change in Howard Hospital Foundation | (1,261) | 542 |
| Net assets released from restrictions used for purchases of property, plant, and equipment | (453,205) | (8,560) |
| Net assets released from restrictions used for operations | (8,729) | (4,283) |
| Contribution received in donation of SMH, ACH and ACHS | - | 95,895 |
| Other | (15,117) | - |
| Increase (decrease) in temporarily restricted net assets | (441,946) | 165,197 |
| Changes in permanently restricted net assets: | | |
| Gifts, grants and bequests | 1,679 | 269 |
| Net change in HHF and ACF | 48 | - |
| Contribution received in donation of SMH, ACH and ACHS | - | 33,064 |
| Increase in permanently restricted net assets | 1,727 | 33,333 |
| Change in net assets | (285,819) | 1,808,447 |
| Net assets at beginning of year | 3,157,771 | 1,349,324 |
| Net assets at end of year | $ 2,871,952 | $ 3,157,771 |

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

# The Johns Hopkins Health System Corporation and Affiliates
## Combined Statements of Cash Flows
## for the years ended June 30, 2012 and 2011
## (in thousands)

| | 2012 | 2011 |
|---|---|---|
| Operating activities: | | |
| Change in net assets | $ (285,819) | $ 1,808,447 |
| Adjustments to reconcile change in net assets to net cash and cash equivalents provided by operating activities: | | |
| Depreciation and amortization | 217,476 | 164,056 |
| Provision for bad debts | 116,103 | 92,591 |
| Net realized and changes in unrealized (gains) losses on investments | 24,083 | (87,100) |
| Change in market value of swap agreements | 142,770 | (26,002) |
| Change in funded status of defined benefit plans | 284,303 | (68,630) |
| Increase in net assets from SMH, ACH and ACHS acquisitions | - | (1,379,111) |
| Restricted contributions and investment income received | (46,592) | (73,183) |
| Gains on and returns of equity investments | (9,142) | (15,745) |
| Other operating activities | 21,501 | 15,056 |
| Change in assets and liabilities: | | |
| Patient accounts receivables | (180,954) | (160,665) |
| Inventories of supplies, prepaid expenses and other current assets | (21,257) | 4,021 |
| Due from affiliates, net | (3,618) | (1,445) |
| Pledges receivable | 7,022 | (1,798) |
| Other assets | (95,172) | 12,982 |
| Accounts payable, accrued liabilities and accrued vacation | 37,003 | 16,726 |
| Medical claims reserve | 8,586 | 7,433 |
| Deferred revenue | 65,115 | (55,237) |
| Advances from third-party payors | 19,452 | (5,980) |
| Accrued pension benefit costs | (47,162) | 7,281 |
| Estimated malpractice costs | (12,447) | 6,880 |
| Other long-term liabilities | 2,153 | 14,189 |
| Net cash and cash equivalents provided by operating activities | 243,404 | 274,766 |
| Investing activities: | | |
| Purchases of property, plant and equipment | (405,035) | (289,522) |
| Return of equity investments | 3,188 | 1,855 |
| Purchases of investment securities | (2,353,919) | (2,496,888) |
| Sales of investment securities | 2,533,350 | 2,359,681 |
| Cash acquired as a result of acquisitions of SMH, ACH and ACHS | - | 119,471 |
| Other investing activities | (9,902) | (9,714) |
| Net cash and cash equivalents used in investing activities | (232,318) | (315,117) |
| Financing activities: | | |
| Proceeds from restricted contributions and investment income received | 46,592 | 73,183 |
| Proceeds from long-term borrowings | 386,987 | - |
| Repayment of long-term debt and obligations under capital lease | (437,761) | (28,101) |
| Proceeds (advances/repayments) on Affiliate notes | (27,558) | - |
| Other financing activities | 976 | 789 |
| Net cash and cash equivalents (used in) provided by financing activities | (30,764) | 45,871 |
| Change in cash and cash equivalents | (19,678) | 5,520 |
| Cash and cash equivalents at beginning of year | 406,717 | 401,197 |
| Cash and cash equivalents at end of year | $ 387,039 | $ 406,717 |

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

## 1. Organization and Summary of Significant Accounting Policies

*Organization*. The Johns Hopkins Health System Corporation ("JHHSC") is incorporated in the State of Maryland to, among other things, formulate policy among and provide centralized management for JHHSC and Affiliates ("JHHS"). In addition, it provides certain shared services including purchasing, legal, advertising, finance and other functions. JHHS is organized and operated for the purpose of promoting health by functioning as a parent holding company of affiliates whose combined 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 this country or abroad.

JHHSC is the sole member of The Johns Hopkins Hospital ("JHH"), an academic medical center, Johns Hopkins Bayview Medical Center, Inc. ("JHBMC"), a community based teaching hospital and long-term care facility, Howard County General Hospital, Inc. ("HCGH"), a community based hospital, Suburban Hospital, Inc. ("SHI"), a community based hospital, Sibley Memorial Hospital ("SMH"), a community based hospital, All Children"s" Hospital, Inc. ("ACH"), an academic children"s hospital, Suburban Hospital Healthcare System, Inc. ("SHHS"), a diverse healthcare system, All Children"s Health System ("ACHS"), a diverse healthcare system, Johns Hopkins Community Physicians ("JHCP"), a community based physician practice group, The Johns Hopkins Medical Services Corporation ("JHMSC"), the contracting entity for the Uniformed Services Family Health Plan contract, and the HCGH OB/GYN Associates Series, LLC ("HCOB"), a taxable community based obstetrics and gynecology practice. JHHSC is also the sole shareholder of Howard County Health Services, Inc. ("HSI"), a taxable entity organized to hold interests in various health care enterprises, Johns Hopkins Medical Management Corp. ("JHMMC"), a taxable entity organized to provide temporary nursing and clerical staffing and to promote ambulatory care arrangements in support of JHHS, and Johns Hopkins Employer Health Programs, Inc. ("EHP"), a taxable third-party administrator for employee health benefit plans self-funded by the constituent employee sponsors. JHHSC owns a 99.7% interest in Ophthalmology Associates, LLC ("OA"), a taxable professional services organization which operates an ophthalmology center at Green Spring Station. JHHSC and the Johns Hopkins University (the "University") each own a 50% membership interest in Johns Hopkins HealthCare LLC ("JHHC"), a taxable managed care entity supporting JHHS and the University in cooperative strategies by which patient care, education, and research may be advanced. JHHSC consolidates JHHC. These entities are all operating entities and are collectively known as the "Affiliates".

*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 combined 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 combination.* The combined financial statements include the accounts of JHHSC and all Affiliates after elimination of all significant intercompany accounts and transactions.

*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. JHHS 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 accompanying combined Statements of Operations 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 the donor are recorded at fair value at the date of donation, which is then considered cost. Investment income or losses on investments of temporarily or permanently restricted assets is recorded as an increase or decrease in temporarily or permanently restricted net assets to the extent restricted by the donor or law. The cost of securities sold is based on the specific identification method.

Assets whose use is limited include assets set aside for future capital improvements, assets held by trustees under debt agreements, assets restricted by the board of trustees, pledges receivable, and assets held for malpractice funding. These assets consist primarily of cash and short term investments, accrued interest and pledges receivable. The carrying amounts reported in the Combined Balance Sheets approximate 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 Combined Balance Sheets. Debt and equity securities traded on a national securities and international exchange are valued as of the last reported sales price on the last business day of the fiscal year; investments traded on the over-the-counter market and listed securities for which no sale was reported on that date are valued at the average of the last reported bid and ask prices.

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

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

Investment income earned on cash balances (interest and dividends) is reported in the operating income section of the Combined 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 realized gains or losses on alternative investments, are included in the non-operating section of the Combined Statements of Operations and Changes in Net Assets in excess of revenues over expenses unless the income or loss is restricted by donor or law. Prior to April 1, 2011, unrealized gains or losses on investments other than alternative investments are excluded from excess of revenue over expenses.

On April 1, 2011, JHHS changed the classification of certain investments to a trading portfolio from available for sale. Certain JHHSC affiliates already held a trading portfolio. Accordingly, cumulative unrealized gains of $29.8 million were reclassified from below excess of revenues over expenses to non-operating income included in the „realized and unrealized gains on investments" within the Consolidated Statement of Operations and Changes in Net Assets in 2011. This change was made as management"s intent with respect to the nature of the investment portfolios has changed.

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

*Property, plant and equipment*. Property, plant and equipment acquisitions are recorded at cost. Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed using the straight-line method. Equipment under capital lease obligations is amortized on the straight-line method over the shorter period of lease term or estimated useful life of the equipment. Estimated useful lives assigned by JHHS range from 3 to 25 years for land improvements, 3 to 40 years for buildings and improvements, 3 to 25 years for fixed and movable equipment, and 4 to 20 years for leasehold improvements. Interest costs incurred on borrowed funds, net of income 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 of the project is at least $30 thousand ($100 thousand for JHH) 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 incurred before the software purchase are expensed. Capitalization of costs ends when the project is completed and is ready to be used. Where implementation of the project is in phases, only those costs incurred which further the development of the project will be capitalized. Costs incurred to maintain the system are expensed.

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

*Impairment of long-lived assets.* Long-lived assets are reviewed for impairment when events and circumstances indicate that the carrying amount of an asset may not be recoverable. JHHS" policy is to record an impairment loss when it is determined that the carrying amount of the asset exceeds the sum of the expected undiscounted future cash flows resulting from use of the asset and its eventual disposition. Impairment losses are measured as the amount by which the carrying amount of the asset exceeds its fair value and are reported in the non-operating section of the Statements of Operations and Changes in Net Assets. Long-lived assets to be disposed of are reported at the lower of the carrying amount or fair value less cost to sell. No impairment charges were recorded in 2012 or 2011.

*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. These expenses are being amortized over the terms of the related bond issues using the effective interest method.

*Medical claims reserve.* JHHC‟s medical claims reserve is an estimate of payments to be made for reported claims and losses incurred but not reported. The estimate was developed using actuarial methods based upon historical data for payment patterns, cost trends, and other relevant factors. The estimate is continually reviewed and adjusted as necessary as experience develops or new information becomes known; such adjustments are included in current operations.

*Deferred revenue.* JHHC‟s capitated receipts received in advance for future services to be provided are recorded as deferred revenue.

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

*Estimated malpractice costs*. The provision for estimated medical malpractice claims includes estimates of the ultimate 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.

*Noncontrolling interests.* JHHC is owned by JHHSC and the University, each member having a 50% interest. JHHC‟s profits are divided between the members based on product line. JHHSC consolidates JHHC and records noncontrolling interests for the profits attributable to the University. Additionally, JHHC owns a 50% interest in Priority Partners Managed Care Organization, Inc. ("Priority Partners"), a for-profit joint venture. JHHC consolidates Priority Partners and records noncontrolling interests for 50% of the profits.

*Asset retirement obligations.* The Financial Accounting Standards Board‟s 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. JHHS 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 interest expense in JHHS‟ Combined Statements of Operations and Changes in Net Assets.

*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 JHHS 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 Combined 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 combined financial statements.

*Grants*. JHHS receives various grants from individuals and agencies of 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. Grant receivables are included in due from others and grant income is included in other revenue in the accompanying combined financial statements.

*Excess of revenues over expenses*. The Combined 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.* JHHSC and the Affiliates, except JHMMC, EHP, HSI, OA, HCOB, and JHHC are not-for-profit organizations that qualify under Section 501(c)(3) of the Internal Revenue Code, and are therefore not subject to tax under current income tax regulations.

JHHC is classified as a partnership for Federal and State income tax purposes and accordingly, there is no provision for income taxes in the accompanying combined financial statements. Taxable income or loss passes through to and is reported by the members in their respective tax returns. Taxable subsidiaries of Affiliates account for income taxes in accordance with Financial Accounting Standards Board ("FASB") guidance on accounting for income taxes. Deferred income taxes are recognized for the tax consequences in future years for differences between the tax basis of assets and liabilities and their financial reporting amounts at each year end. Affiliate subsidiaries otherwise exempt from Federal and State taxation are nonetheless subject to taxation at corporate tax rates at both the Federal and State levels on their unrelated business income.

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. The guidance also provides guidance on the measurement, classification and disclosure of tax return positions in the financial statements. There was no impact on JHHS" financial statements during the years ended June 30, 2012 and 2011.

*Acquisition of SMH.* Effective November 1, 2010, JHHSC became the sole member of SMH. SMH is a not-for-profit corporation that operates a general acute care community based hospital located in northwest Washington D.C. SMH also operates an assisted living residence, skilled nursing care and an Alzheimer"s unit. No consideration was given for this transaction that was accounted for using the acquisition method of accounting, which requires all the assets and liabilities of SMH to be revalued at their fair value as of the acquisition date. The acquisition date fair values have been determined using various fair value techniques including independent appraisals for property and equipment, quotations from independent market sources for investments and debt, and independent actuarial projections for pension, workers compensation, and medical malpractice liabilities. Since the fair value of SMH"s assets was larger than its liabilities, inherent contributions received were recorded by JHHSC. The table below discloses each major class of asset and liability at fair value as of November 1, 2010 and the inherent contributions received from this transaction (in thousands):

| | |
|---|---|
| Cash | $ 15,913 |
| Accounts receivable | 28,213 |
| Assets whose use is limited | 180,056 |
| Investments | 441,086 |
| Property and equipment | 248,745 |
| Other assets | 8,058 |
| Total assets | 922,071 |
| Accounts payable and other current liabilities | 35,386 |
| Estimated malpractice costs | 19,319 |
| Net pension liability | 15,455 |
| Long-term debt | 117,411 |
| Other liabilities | 15,973 |
| Total liabilities | 203,544 |
| Unrestricted contribution received | 692,164 |
| Temporarily restricted contribution received | 14,102 |
| Permanently restricted contribution received | 12,261 |
| Total contributions received | $ 718,527 |

*Acquisition of ACH and ACHS.* Effective April 1, 2011, JHHSC became the sole member of ACH and ACHS. No consideration was given for this transaction that was accounted for using the acquisition method of accounting, which requires all the assets and liabilities of ACH and ACHS to be revalued at their fair value as of the acquisition date. The acquisition date fair values have been determined using various fair value techniques including independent appraisals for property and equipment, quotations from independent market sources for investments and debt, and independent actuarial projections for workers compensation and medical malpractice liabilities. Since the fair value of ACH and ACHS" assets was larger than its liabilities, inherent contributions received were recorded by JHHSC. The table below discloses each major class of asset and liability at fair value as of April 1, 2011 and the inherent contributions received from this transaction (in thousands):

| | ACH | ACHS |
|---|---|---|
| Cash | $ 81,763 | $ 21,795 |
| Accounts receivable | 35,005 | 6,805 |
| Assets whose use is limited | 94,924 | 15,788 |
| Investments | 197,190 | 72,502 |
| Property and equipment | 468,104 | 35,414 |
| Other assets | 32,019 | 4,232 |
| Total assets | 909,005 | 156,536 |
| Accounts payable and other current liabilities | 54,261 | 2,612 |
| Estimated malpractice costs | 20,052 | - |
| Long-term debt | 225,435 | - |
| Other liabilities | 30,053 | 4,864 |
| Total liabilities | 329,801 | 7,476 |
| Unrestricted contribution received | 552,806 | 60,755 |
| Temporarily restricted contribution received | 13,248 | 69,725 |
| Permanently restricted contribution received | 13,150 | 18,580 |
| Total contributions received | $ 579,204 | $ 149,060 |

*New Accounting Standards.* Effective July 1, 2011, JHHS adopted the provisions of ASU 2010-06, "Improving Disclosures about Fair Value Measurements", which affects entities required to make disclosures about recurring and nonrecurring fair value measurements. This ASU requires that the Level 3 fair value roll forward activity be displayed gross, breaking out the purchases, issuances, sales and settlement activity. The adoption of this ASU did not have a significant impact on JHHS" disclosures.

Effective July 1, 2011, JHHS 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 JHHS" financial condition, results of operations or cash flows.

Effective July 1, 2011, JHHS 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, JHHS recorded an increase in its assets and liabilities in the accompanying consolidated Balance Sheet as of June 30, 2012 as follows:

| Caption on Combined Balance Sheet | 2012 |
|---|---|
| Prepaid expenses and other current assets | $ 33,885 |
| Other assets | 46,390 |
| Total assets | $ 80,275 |
| Current portion of estimated malpractice costs | $ 33,885 |
| Estimated malpractice costs, net of current portion | 46,390 |
| Total liabilities | $ 80,275 |

The assets and liabilities represent JHHS" 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 JHHS" results of operations or cash flows.

## 2. Net Patient Service Revenue

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

SMH and ACH operate outside of the State of Maryland, and are paid prospectively based upon negotiated rates for commercial insurance carriers, and predetermined rates per discharge for Medicaid and Medicare program beneficiaries.

JHHS' not-for-profit Affiliates provide 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 Affiliates do not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. Direct and indirect costs for these services amounted to $83.2 million and $58.9 million for the years ended June 30, 2012 and 2011, 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 JHHS" total expenses (less bad debt expense) divided by gross patient service revenue.

Capitation payments included in net patient service revenue are recognized as premium revenues during the period in which JHHS Affiliates are obligated to provide services to its enrollees at contractually determined rates.

Approximately 18% and 15.9% of patient accounts receivable were due from the Medicare program, 14.2% and 16.9% from the Medicaid program, 14.9% and 15.9% and from Blue Cross and Blue Shield, 47.5% and 43.5% from self pay and other third-party payers, and 5.4% and 7.8% from Medicaid managed care organizations as of June 30, 2012 and 2011, respectively.

## 3. Pledges Receivable

As of June 30, 2012 and 2011, the total value of pledges receivable was $26.6 million and $33.7 million, respectively. Pledges receivable have been discounted at rates ranging from 1.4% to 6.0% and consist of the following (in thousands):

| As of June 30, 2012 | 1 Year | 2 –5 Years | 5 Years or Greater | Totals |
|---|---|---|---|---|
| Departmental capital campaigns | $ 719 | $ 1,762 | $ 289 | $ 2,770 |
| Future campus development | 9,118 | 13,101 | 1,633 | 23,852 |
| | $ 9,837 | $ 14,863 | $ 1,922 | $ 26,622 |

| As of June 30, 2011 | 1 Year | 2 –5 Years | 5 Years or Greater | Totals |
|---|---|---|---|---|
| Departmental capital campaigns | $ 1,038 | $ 1,257 | $ 338 | $ 2,633 |
| Future campus development | 17,707 | 13,134 | 198 | 31,039 |
| | $18,745 | $ 14,391 | $ 536 | $ 33,672 |

Pledges are deemed to be fully collectible and therefore, no allowance for uncollectible pledges has been recorded.

## 4. Investments and Assets Whose Use is Limited

Investments (short and long-term) as of June 30 consisted of the following (in thousands):

| | 2012 Carrying Amount | 2011 Carrying Amount |
|---|---|---|
| Investments in affiliates | $ 128,886 | $ 105,874 |
| U.S. Treasuries | 115,606 | 217,996 |
| Certificates of deposit | 2,024 | 858 |
| Corporate bonds | 192,376 | 319,278 |
| Asset backed securities | 71,212 | 204,080 |
| Fixed income funds | 72,208 | 43,472 |
| Equities and equity funds | 362,078 | 623,028 |
| Alternative investments | 199,874 | 114,334 |
| | $ 1,144,264 | $ 1,628,920 |

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

| | 2012 Carrying Amount | 2011 Carrying Amount |
|---|---|---|
| Cash and cash equivalents | $ 42,350 | $ 22,074 |
| U.S. Treasuries | 125,034 | 76,428 |
| Corporate bonds | 109,918 | 68,749 |
| Asset backed securities | 51,369 | 52,811 |
| Fixed income funds | 13,047 | - |
| Equities and equity funds | 403,169 | 242,304 |
| Alternative investments | 65,426 | 51,740 |
| Pledges receivable | 26,622 | 33,672 |
| Beneficial interest remainder trust | 15,658 | 23,360 |
| Interest in net assets of HHF/ACF | 13,228 | 14,439 |
| Other | 235 | 235 |
| | $ 866,056 | $ 585,812 |

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

| | 2012 | 2011 |
|---|---|---|
| Realized gains (losses) on investments | $ 7,991 | $ 11,364 |
| Unrealized gains (losses) on investments | (34,288) | 62,385 |
| Total | $(26,297) | $ 73,749 |

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

| Affiliate | Cost / Equity | % | 2012 | 2011 |
|---|---|---|---|---|
| Johns Hopkins International, LLC (“JHI”) | Equity | 50.00% | $ 17,958 | $ 17,597 |
| Johns Hopkins Home Care Group, Inc. (“JHHCG”) | Equity | 50.00% | 7,038 | 7,218 |
| FSK Land Corporation | Equity | 50.00% | 4,569 | 5,425 |
| Broadway Development Corp. | Equity | 50.00% | 2,081 | 2,215 |
| Mt. Washington Pediatric Hospital and Foundation | Equity | 50.00% | 18,942 | 15,990 |
| Dome Corporation | Equity | 50.00% | 3,836 | 2,804 |
| JHMI Utilities, LLC | Equity | 50.00% | 5,666 | 3,862 |
| Sibley-Suburban Home Health Agency, Inc. | Equity | 50.00% | 2,315 | 5,440 |
| Suburban/NRH Medical Rehabilitation, Inc. | Equity | 50.00% | 1,459 | 968 |
| Germantown Wellness and Fitness, LLC | Equity | 50.00% | 233 | 531 |
| Rockville Imaging, LLC | Equity | 40.00% | 546 | 372 |
| Chevy Chase Imaging, LLC | Equity | 27.00% | 693 | 620 |
| Ten Acres Medical Center, LLC | Equity | 25.00% | 1,948 | 2,074 |
| Sleep Services of America | Equity | 24.30% | 3,330 | 3,581 |
| Central Maryland Radiation Oncology, LLC | Equity | 20.00% | 1,537 | 1,469 |
| Suburban Endoscopy, LLC | Equity | 20.00% | 2,911 | 118 |
| Johns Hopkins Suburban Health Center, L.P. | Cost | 19.00% | 1,439 | 1,407 |
| MCIC Bermuda | Cost | 10.00% | 45,381 | 29,635 |
| MCIC Vermont | Cost | 10.00% | 1,000 | 1,000 |
| Patient First Corporation | Cost | 3.00% | 750 | 750 |
| Other | | | 5,254 | 2,798 |
| | | | $ 128,886 | $ 105,874 |

JHHS consolidates certain affiliates that it owns 50% or more, but less than 100%. The net asset activity attributable to the noncontrolling interests consisted of the following as of June 30 (in thousands):

| | 2012 | 2011 |
|---|---|---|
| Net assets attributable to noncontrollling interests at beginning of period | $ 42,255 | $ 36,658 |
| Income attributable to noncontrolling interests | 15,880 | 15,826 |
| Distributions attributable to noncontrolling interests | (7,265) | (9,833) |
| Other comprehensive (loss) income attributable to noncontrolling interests | - | (396) |
| Net assets attributable to noncontrolling interests at end of period | $ 50,870 | $ 42,255 |

## 5. Fair Value Measurements

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

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

The FASB‟s guidance establishes valuation techniques such as the market approach, cost approach and income approach. The 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.

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, 2012 grouped by hierarchy level:

| Assets | Total Fair Value | Level 1 | Level 2 |
|---|---|---|---|
| Cash equivalents (1) | $ 292,816 | $ 124,750 | $ 168,066 |
| Certificates of deposit (1) | 2,636 | - | 2,636 |
| U.S. Treasuries (2) | 241,195 | - | 241,195 |
| Corporate bonds (2) | 306,749 | - | 306,749 |
| Asset backed securities (2) | 116,976 | - | 116,976 |
| Equities and equity funds (3) | 745,169 | 435,319 | 309,850 |
| Fixed income funds (4) | 105,317 | 34,000 | 71,317 |
| Totals | $ 1,810,858 | $ 594,069 | $ 1,216,789 |
| Liabilities | | | |
| Interest rate swap agreements (5) | $ 279,519 | $ - | $ 279,519 |

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

| Assets | Total Fair Value | Level 1 | Level 2 |
|---|---|---|---|
| Cash equivalents (1) | $ 233,825 | $ 43,552 | $ 190,273 |
| Certificates of deposit (1) | 2,260 | - | 2,260 |
| U.S. Treasuries (2) | 291,439 | - | 291,439 |
| Corporate bonds (2) | 374,793 | - | 374,793 |
| Asset backed securities (2) | 285,878 | - | 285,878 |
| Equities and equity funds (3) | 932,334 | 623,509 | 308,825 |
| Fixed income funds (4) | 40,911 | - | 40,911 |
| Totals | $ 2,161,440 | $ 667,061 | $ 1,494,379 |
| Liabilities | | | |
| Interest rate swap agreements (5) | $ 136,750 | $ - | $ 136,750 |

(1) Cash equivalents, commercial paper, and money market funds include investments with original maturities of three months or less, including certificates of deposit and overnight investments. Certificates of deposit, overnight investments and commercial paper that are carried at amortized cost, which approximates fair value, are classified as level 2. Money market funds are valued based on the NAV and are classified as level 2.

(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 or ask prices; therefore these investments are rendered level 2. These investments fluctuate in value based upon changes in interest rates. Until April 1, 2011, significant changes in the credit quality of the underlying entity were analyzed and any other than temporary impairments was recorded upon that determination, if any.

(3) Equities include individual equities and investments in mutual funds, commingled trusts and hedge funds. 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. See footnote 9.

During 2012 and 2011, there were no transfers between level 1 and 2.

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

The estimated total fair value of long-term debt excluding capital leases, based on quoted market prices for the same or similar issues, was approximately $1.5 billion and $1.5 billion as of June 30, 2012, and 2011, respectively.

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

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

| Description | Fair Market Value | Liquidity | Notice Period | Receipt of Proceeds |
|---|---|---|---|---|
| Global asset allocation | $ 146,337 | Monthly | 5-15 days | Within 15-30 days, or 95% within 1 business day of the redemption date; 5% after the 12th business day of the month |
| Fund of funds | $ 113,330 | Monthly, quarterly or annually, or December 31, 2011 | 30-60 days | Within 5 days, or 95% in 1 - 30 days, 5% within 60 days or after annual audit |
| Hedge Funds | $ 5,633 | Quarterly - last day of the calendar quarter | 60 days | 95% within 30 days of redemption date; 5% within 120 days of redemption date |
| Total | $ 265,300 | | | |

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

| Description | Fair Market Value | Liquidity | Notice Period | Receipt of Proceeds |
|---|---|---|---|---|
| Global asset allocation | $ 103,838 | Monthly | 5-15 days | Within 15-30 days, or 95% within 1 business day of the redemption date; 5% after the 12th business day of the month |
| Fund of funds | $ 56,727 | Monthly, quarterly or annually, or December 31, 2011 | 30-60 days | Within 5 days, or 95% in 1 - 30 days, 5% within 60 days or after annual audit |
| Hedge Funds | $ 5,509 | Quarterly - last day of the calendar quarter | 60 days | 95% within 30 days of redemption date; 5% within 120 days of redemption date |
| Total | $ 166,074 | | | |

Financial instruments are reflected in the Combined Balance Sheets as of June 30, 2012 and 2011 as follows (in thousands):

| | 2012 | 2011 |
|---|---|---|
| Cash equivalents measured at fair value | $ 237,783 | $ 213,507 |
| Cash | 149,256 | 193,210 |
| Total cash and cash equivalents | $ 387,039 | $ 406,717 |
| | | |
| Short and long-term investments measured at fair value | $ 815,504 | $ 1,408,712 |
| Investments accounted for under equity method | 328,760 | 220,208 |
| Total short and long-term investments | $ 1,144,264 | $ 1,628,920 |
| | | |
| Assets whose use is limited measured at fair value | $ 725,921 | $ 455,214 |
| Investments accounted for under equity method | 65,426 | 69,906 |
| Pledges receivable | 26,622 | 33,672 |
| Interest in net assets of HHF | 13,228 | 14,439 |
| Beneficial interest remainder trust | 15,657 | 7,457 |
| Other | 19,202 | 5,124 |
| Total assets whose use is limited | $ 866,056 | $ 585,812 |

## 6. Property, Plant and Equipment

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

| | 2012 | | 2011 | |
|---|---|---|---|---|
| | Cost | Accumulated Depreciation and Amortization | Cost | Accumulated Depreciation and Amortization |
| Land and land improvements | $ 142,871 | $ 7,153 | $ 127,400 | $ 6,389 |
| Buildings and improvements | 2,161,187 | 627,386 | 1,574,869 | 549,687 |
| Fixed and moveable equipment | 1,617,595 | 591,665 | 1,027,617 | 547,288 |
| Capitalized software | 146,400 | 87,811 | 135,103 | 69,418 |
| Construction in progress | 99,223 | - | 985,903 | - |
| | $ 4,167,276 | $ 1,314,015 | $ 3,850,892 | $ 1,172,782 |

Accruals for purchases of property, plant and equipment as of June 30, 2012 and 2011 amounted to $38.2 million and $62.1 million, respectively, and are included in accounts payable and accrued liabilities in the Combined Balance Sheets. Depreciation and amortization expense for the years ended June 30, 2012 and 2011 amounted to $215.2 million and $159.8 million, respectively.

No impairments of long-lived assets were recorded in 2012 or 2011.

During the year ended June 30, 2012 and 2011, JHHS retired long-lived assets determined to have no future value. During 2012, the original cost and corresponding accumulated depreciation of these long-lived assets was $68.2 million and $67.7 million, respectively. No proceeds from retirement were received in 2012. During 2011, the original cost and corresponding accumulated depreciation of these long-lived assets was $85.3 million and $85.3 million, respectively. No proceeds from retirement were received in 2011.

JHH and the University share various facilities, equipment, software, and services. The costs related to these facilities, equipment, software, 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 the University, these costs are allocated to both institutions on the basis of usage. The University leased approximately 20.0% and 26.6% of the net square footage within JHH"s buildings as of June 30, 2012 and 2011, respectively.

## 7. Medical Claims Reserves

JHHC"s activity related to its liability for unpaid health claims for the years ended June 30 are summarized in the table below (in thousands):

| | 2012 | 2011 |
|---|---|---|
| Balance, July 1 | $ 91,462 | $ 84,029 |
| Incurred related to: | | |
| Current year | 913,103 | 850,076 |
| Prior year | (24,530) | (26,177) |
| Total incurred | 888,573 | 823,899 |
| Paid related to: | | |
| Current year | 813,054 | 758,615 |
| Prior year | 66,933 | 57,851 |
| Total paid | 879,987 | 816,466 |
| Balance, June 30 | $ 100,048 | $ 91,462 |

The medical claims reserve is inherently subject to a number of highly variable circumstances, including changes in payment patterns, cost trends and other relevant factors. Consequently, the actual experience may vary materially from the original estimate. The above medical claims reserves include intercompany activity that is eliminated in combination.

## 8. Debt

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

| | 2012 | | 2011 | |
|---|---|---|---|---|
| | Current Portion | Long-term Portion | Current Portion | Long-term Portion |
| MHHEFA Bonds and Notes: | | | | |
| 1985 Series A and B – Pooled Loan Program Issue (JHBMC, JHHS and JHCP) | $ 4,477 | $ 3,932 | $ 1,284 | $ 8,409 |
| 1990 Series - Revenue Bonds (JHH) | 9,370 | 49,589 | 9,370 | 54,850 |
| 1996 Series - Revenue Bonds (SMH) | 1,500 | 5,062 | 1,500 | 6,545 |
| 1998 Series - Revenue Bonds (HCGH) - net of original issue discount of $1,703 as of June 30, 2011 | - | - | 2,800 | 110,877 |
| 2001 Series – Revenue Bonds (JHH) – net of original issue discount of $790 as of June 30, 2011 | - | - | 2,755 | 78,514 |
| 2002 Series - Revenue Bonds (SMH) | 982 | 33,738 | 907 | 34,806 |
| 2002 Series - Revenue Bonds (ACH) | 1,730 | 20,591 | 1,660 | 22,370 |
| 2004 Series A - Revenue Bonds (SHI) – including original issue premium of $223 and $311 as of June 30, 2012 and 2011, respectively | 2,660 | 13,268 | 2,200 | 16,016 |
| 2004 – Commercial Paper Series A (JHH) | - | - | 54,625 | - |
| 2004 – Commercial Paper Series B (JHBMC) | 4,005 | 78,140 | 3,815 | 82,145 |
| 2004 – Commercial Paper Series C (JHH) | 60,000 | - | 10,000 | 50,000 |
| 2005 Series - Revenue Bonds (ACH) | - | - | 1,575 | 102,352 |
| 2007 – Commercial Paper Series D (JHH) | 40,000 | - | - | 40,000 |
| 2007 Series B – Revenue Refunding Bonds (ACH) | 750 | 26,650 | 700 | 27,400 |
| 2008 – Commercial Paper Series E (JHH) | 325 | 83,775 | - | 84,100 |
| 2008 – Commercial Paper Series F (JHH) | 400 | 84,150 | - | 84,550 |
| 2008 Variable Rate Demand Bonds – Series A (JHBMC) | 10,545 | - | 505 | 10,545 |
| 2008 Series – Revenue Bonds (HCGH) | 40,000 | - | - | 40,000 |
| 2008 Series - Revenue Bonds (JHH) – including original issue premium of $2,108 and $4,806 as of June 30, 2012 and 2011, respectively | 48,250 | 50,353 | 48,245 | 101,301 |
| 2008 Series – Revenue Bonds (SHI) | 54,855 | - | 1,435 | 54,855 |
| 2009 Series - Revenue Bonds (SMH) | - | 71,084 | - | 71,648 |
| 2009 Series A – Revenue Refunding Bonds (ACH) | 165 | 67,001 | 215 | 67,474 |
| 2010 Series - Revenue Bonds (JHH) – including original issue premium of $1,679 and $1,742 as of June 30, 2012 and 2011, respectively | - | 149,874 | - | 149,937 |
| 2011 Series A - Revenue Bonds (JHH) – including original issue premium of $7,083 as of June 30, 2012 | 2,260 | 79,438 | - | - |
| 2011 Series B – Revenue Bonds (JHH) | - | 48,245 | - | - |
| 2012 Series A – Note (JHH) | 1,320 | 52,190 | - | - |
| 2012 Series B - Revenue Bonds (JHH) – including original issue premium of $13,724 as of June 30, 2012 | 700 | 110,584 | - | - |
| 2012 Series A – Revenue Refunding Bonds (ACH) | 1,625 | 100,775 | - | - |
| Other debt: | | | | |
| Capital leases (SHHS and ACH) | 883 | 35,078 | 650 | 35,811 |
| Johns Hopkins Endowment (JHHS) | 379 | 2,275 | 357 | 2,653 |
| | $ 287,181 | $ 1,165,792 | $ 144,598 | $ 1,337,158 |

The above debt amounts for SMH and ACH includes an adjustment made at the time of acquisition to increase the value of the debt to fair market value and is being amortized to interest expense over the life of the respective debt. As of June 30, 2012 the unamortized fair market value adjustment was $8.7 million and $3.7 million for SMH and ACH, respectively. As of June 30, 2011 the unamortized fair market value adjustment was $9.3 million and $4.0 million for SMH and ACH, respectively.

**Obligated Groups**
The Johns Hopkins Health System Obligated Group ("JHHS Obligated Group") consists of JHH, JHBMC, HCGH, SHHS and SHI. 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 a JHH debt issuance. HCGH was admitted to the JHHS Obligated Group in May 2012 as part of a JHH debt issuance. All of the debt of JHH, JHBMC, HCGH, 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, SHI"s, and SHHS" receipts as defined in the Master Loan Agreement with MHHEFA. JHH, JHBMC, HCGH, SHI and SHHS are required to achieve a defined minimum debt service coverage ratio each year, maintain adequate insurance coverage, and comply with certain restrictions on their ability to incur additional debt. As of June 30, 2012, JHH, JHBMC, HCGH, SHI, and SHHS were in compliance with these requirements. As of June 30, 2012 the outstanding JHH, JHBMC, HCGH, SHI, and SHHS parity debt was $1.1 billion. As of June 30, 2011 the outstanding JHH, JHBMC, SHI, and SHHS parity debt was $946.0 million.

The Sibley Memorial Hospital Obligated Group ("SMH Obligated Group") consists of SMH, a new medical office building on the SMH campus, SMH"s Grand Oaks assisted living facility, and the Stacy Mark Reed Foundation. The 1996, 2002, and 2009 Series Revenue Bonds are parity debt, and as such are collateralized equally and ratably by a claim on and a security interest in all of SMH"s gross receipts. SMH is 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, 2012, SMH was in compliance with these requirements. As of June 30, 2012, the total amount of debt outstanding under the SMH Obligated Group was $112.4 million.

The All Children"s Hospital Obligated Group ("ACH Obligated Group") consists of ACH. ACH is 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, 2012, ACH was in compliance with these requirements. As of June 30, 2012, the total amount of debt outstanding under the ACH Obligated Group was $220.6 million.

**1985A and B – Pooled Loan Program – JHBMC, JHHS & JHCP**
JHBMC, JHHS and JHCP entered into loan agreements by borrowing through draws from the $175.0 million MHHEFA Revenue Bonds, Pooled Loan Program Issue, Series 1985A and Series 1985B. The debt bears interest at a variable rate. The interest rate in effect for the years ended June 30, 2012 and 2011 was 0.50% and 1.00%, respectively. The JHBMC and JHHS loans are due June 30, 2013. The JHCP loan is payable in monthly installments through May 15, 2026, and is guaranteed by JHBMC.

**1990 Series – Revenue Bonds – JHH**
The bonds outstanding consist of Capital Appreciation Bonds which pay non-current interest until maturity. 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 $33.7 million and $40.8 million as of June 30, 2012 and 2011, 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 2012 to 2015. Term Capital Appreciation Bonds of $25.2 million and $23.4 million as of June 30, 2012 and 2011, respectively, are due July

1, 2019 and bear interest, compounded semi-annually at a rate of 7.40%. Annual sinking fund installments for the Term Capital Appreciation Bonds are $9.4 million from July 1, 2016 to July 1, 2019.

**1996 Series – Revenue Bonds – SMH**
In October 1996, SMH obtained a loan in the amount of $30.0 million representing proceeds of tax-exempt Revenue Bonds issued by the District of Columbia, maturing November 1, 2016. SMH is required to make monthly principal payments of $125 thousand plus accrued interest. Interest was paid at a rate of 5.14% and 6.22% for the years ended June 30, 2012 and 2011, respectively.

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

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

**2001 Series – Revenue Bonds – JHH**
The outstanding 2001 bonds consist of Serial Bonds of $14.6 million and Term Bonds of $67.5 million as of June 30, 2011. The Serial Bonds bore interest at rates ranging from 4.06% to 5.00%, and the Term Bonds paid interest semi-annually at a rate of 5.0%. In November 2011, these bonds were refinanced through the issuance of the 2011 Series A Revenue Bonds – JHH described below.

**2002 Series – Revenue Bonds – SMH**
In July 2002, SMH obtained a loan in the amount of $40.0 million representing proceeds of tax-exempt Revenue Bonds issued through a private placement offering by the District of Columbia, maturing August 1, 2032. The loan requires monthly payments of $277 thousand including principal and accrue interest at an effective interest rate of 5.19% per annum.

**2002 Series – Revenue Bonds – ACH**
In December 2002, ACH obtained a loan in the amount of $35.0 million representing proceeds of tax-exempt Revenue Bonds issued through the City of St. Petersburg Health Facilities Authority. The loan requires annual principal payments ranging from $1.7 million to $2.7 million through 2021, plus semi-annual interest payments at fixed rates ranging from 4.0% to 5.5%.

**2004 Series A – Revenue Bonds – SHI**
In June 2004, SHI issued $72.4 million principal amount of Revenue Bonds, 2004 Series A ("2004 Series A Bonds"). The 2004 Series A Bonds consist of $7.5 million of Serial bonds due in annual installments beginning July 1, 2005 at interest rates between 4.4% and 5.5%, and $8.2 million Term bonds 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 2004 Series A Bonds. The bond premium is being amortized over the term of the remaining 2004 Series A bonds.

**2004 Commercial Paper Revenue Notes – Series A – JHH**
The Commercial Paper Revenue Notes - Series A ("2004 Series A Notes") paid interest as the notes mature 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, 2012 and 2011 were approximately 0.17% and 0.31%, respectively. In February 2012, the 2004 Series A Notes were refinanced through the issuance of the 2012 Series A Note – JHH described below.

**2004 Commercial Paper Revenue Notes – Series B – JHBMC**
The Commercial Paper Revenue Notes - Series B ("2004 Series B Notes") pay interest as the notes mature 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, 2012 and 2011 were approximately 0.16% and 0.24%, respectively. Annual payments of principal began July 1, 2004 and range in amounts from $425 thousand on July 1, 2004 to $8.3 million on July 1, 2025.

In connection with the 2004 Series B Notes, JHBMC entered into an $89.6 million line of credit agreement with Wachovia Bank, National Association to provide for payment of such commercial paper at maturity, subject to certain conditions described therein. This agreement expires on October 31, 2016 subject to extension or earlier termination.

Amounts advanced under the line of credit agreement bear interest at a variable rate based upon the overnight Federal funds rate plus .30% for the first 90 days outstanding and at a prime rate plus 2% thereafter. The advances are repayable on the earliest of the date that is 365 days from the date of such advance, the date of termination, or the date of receipts by JHBMC of the proceeds of any subsequent issuances of notes and the final date. No amounts were outstanding as of June 30, 2012 or 2011.

**2004 Commercial Paper Revenue Notes – Series C – JHH**
The Commercial Paper Revenue Notes - Series C ("2004 Series C Notes") pay interest as the notes mature 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 rate for the year ended June 30, 2012 and 2011 was approximately 0.37% and 0.46%, respectively.

In connection with the 2004 Series C Notes, JHH entered into a $60.0 million line of credit agreement dated March 1, 2004 with SunTrust Bank to provide for payment of such commercial paper at maturity subject to certain conditions described therein. This agreement expires on November 1, 2012, subject to extension or earlier termination. In connection with the expiration of this line of credit, JHH plans to refinance this commercial paper through a variable interest rate debt issuance. Accordingly, $60.0 million of the 2004 Series C Notes have been reclassified as short-term in the Combined Balance Sheet.

Amounts advanced under the line of credit agreement bear interest at a variable rate based upon the higher of the prime rate and the Federal funds rate plus 0.50% for the first 60 days outstanding and the higher of these two rates plus 2.00% thereafter. The advances are repayable on the earliest of the date that is 360 days from the date of receipt by JHH of the proceeds of subsequent issuances of notes and the final date. No amounts were outstanding as of June 30, 2012 or 2011.

**2005 Series – Revenue Bonds – ACH**
In April 2005, ACH obtained a loan in the amount of $140.0 million representing proceeds of tax-exempt Revenue Bonds ("2005 Series Bonds") issued through the City of St. Petersburg Health Facilities Authority. The loan required annual principal payments ranging from $1.5 million to $8.0 million through 2034, plus interest at a weekly rate paid monthly. The rate for the year ended June 30, 2012 was 0.16%; the rate for the three months ended June 30, 2011 was 0.19%.

In June 2012, the 2005 Series Bonds were advance refunded with the 2012 Series Refunding Bonds – ACH as described below.

**2007 Commercial Paper Revenue Notes – Series D – JHH**
The Commercial Paper Revenue Notes - Series D ("2007 Series D Notes") pay interest monthly 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, 2012 and 2011 were approximately 0.33% and 0.43%, respectively.

In connection with the 2007 Commercial Paper Revenue Series D, JHH entered into a $40.0 million line of credit agreement dated November 1, 2007 with SunTrust Bank to provide for payment of such commercial paper at maturity subject to certain conditions described therein. This agreement expires on November 1, 2012 subject to extension or earlier termination. In connection with the expiration of this line of credit, JHH plans to refinance the 2007 Series D Notes through a variable interest rate debt issuance. Accordingly, $40.0 million of the 2007 Series D Notes have been reclassified as short term in the Combined Balance Sheet.

Amounts advanced under the line of credit agreement bear interest at a variable rate based upon the higher of the prime rate and the Federal funds rate plus 0.50% for the first 60 days outstanding and the higher of these two rates plus 2.00% thereafter. The advances are repayable on the earliest date that is 360 days from the date of such advance, the date of termination, the date of receipts by JHH of proceeds of any subsequent issuances of notes or the final date. No amounts were outstanding as of June 30, 2012 or 2011.

**2007 Series – Revenue Bonds – ACH**
In October 2007, ACH obtained a loan in the amount of $92.2 million representing proceeds of tax-exempt Revenue Bonds issued through the City of St. Petersburg Health Facilities Authority ("2007 Series Bonds"). The loan requires annual principal payments ranging from $750 thousand to $1.8 million through 2034, plus interest at a weekly rate paid monthly. The rate for the year ended June 30, 2012 was 0.49%. The rate for the three months ended June 30, 2011 was 1.063%.

**2008 Commercial Paper Revenue Notes – Series E and Series F – JHH**
In April 2008, JHH issued $84.1 million and $84.6 million 2008 Commercial Paper Revenue Notes Series E and Series F ("2008 Series E & F Notes"), respectively. This debt was issued to retire the 2007 Series A and Series B Revenue Bonds. The Notes are due May 15, 2038 and pay interest as they mature at a variable rate based on the commercial paper sold by a designated remarketing agent for terms ranging from 1 to 270 days. The interest rates for the year ended June 30, 2012 were approximately 0.21% and 0.28% for the Series E and Series F notes, respectively. The interest rates for the year ended June 30, 2011 were approximately 0.21% and 0.29% for the Series E and Series F notes, respectively.

In connection with the 2008 Commercial Paper Revenue Notes Series E and Series F, JHH entered into a $170.5 million letter of credit agreement dated April 1, 2008 with Bank of America, National Association equal to the principal amount of the Notes plus thirty-four days of interest at the maximum rate of 12.0%. This agreement expires on June 30, 2015, subject to extension or earlier termination.

Amounts advanced under the line of credit agreements bear interest at the prime rate for the first 90 days outstanding and the prime rate plus 1.00% thereafter. The advances are repayable on the earliest date that is 366 days from the date of the advance or the date of receipt by JHH of proceeds of subsequent issuances of notes in excess of the principal of notes maturing or the expiration date. No amounts were outstanding as of June 30, 2012 or 2011.

In August 2012, the 2008 Series E & F Notes was refinanced through the issuance of the 2012 Series C and Series D Revenue Bonds described in this footnote.

**2008 Variable Rate Demand Bonds – Series A – JHBMC**
The Variable Rate Demand Bonds - Series A ("2008 Series A Bonds") pay interest monthly at a variable rate based on the bonds sold by a designated re-marketing agent on a weekly basis. The rates for the years ended June 30, 2012 and 2011 were approximately 0.16% and 0.12%, respectively. Annual payments of principal will begin May 15, 2009 and range in amount from $210 thousand on May 15, 2009 to $915 thousand on May 15, 2027.

In connection with the 2008 Variable Rate Demand Bonds - Series A, JHBMC entered into an initial $12.2 million letter of credit agreement (367 day repayment terms) with PNC Bank, National Association to provide for payment of such bonds at maturity, subject to certain conditions described therein. The letter of credit has been reduced to the total outstanding principal of $10.5 million as of June 30, 2012. This agreement expires on April 23, 2013 subject to extension or earlier termination. The cost of the letter of credit is 0.40% per annum. There have been no amounts drawn on the letter of credit as of June 30, 2012 or 2011. Since this letter of credit expires before June 30, 2013, the outstanding balance of $10.5 million has been reclassified as short-term in the Combined Balance Sheet.

**2008 Series-Revenue Bonds – HCGH**
In May 2008, HCGH borrowed $40.0 million through the issuance by MHHEFA of its 2008 Series Revenue Bonds ("2008 Bonds") to finance the expansion, renovation and equipping of HCGH"s acute care hospital. The 2008 Bonds are due July 1, 2046, and bear interest at a weekly rate and pay interest monthly. The rates for the years ended June 30, 2012 and 2011 were approximately 0.13% and 0.23%, respectively. Annual sinking fund installments begin July 1, 2034, ranging from $2.3 million to $3.9 million. HCGH entered the JHHS Obligated Group in May 2012.

In connection with the 2008 Bonds, HCGH entered into a $40.5 million direct-pay letter of credit agreement with PNC Bank, National Association to provide for the payment of principal and interest on the 2008 Bonds. This agreement includes the principal amount of the debt plus 42 days of interest at the maximum rate of 10%, and expires on May 8, 2013, subject to extension or earlier termination. The advances are repayable on the earliest of the date that is 367 days from the date of such advance, the date of termination, the date of receipts by HCGH of the proceeds of any subsequent issuances of notes and the final due date. There have been no amounts drawn on the letter of credit as of June 30, 2012 or 2011. Since this letter of credit expires before June 30, 2013, the outstanding balance of $40.0 million has been reclassified as short-term in the Combined Balance Sheet.

**2008 Series Revenue Bonds – JHH**
In June 2008 JHH issued $144.7 million of Revenue Bonds ("2008 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 that begin in 2036 in amounts of $2.3 million to $20.2 million in 2048. 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 2008 Revenue Bonds are subject to mandatory repurchase by JHH. Accordingly, $48.2 million of debt has been reclassified to current on the June 30, 2012 and 2011 Combined Balance Sheets. The first tranche of term bonds was purchased by JHH on November 14, 2011 through the issuance of the 2011 Series B Revenue Bonds described below. JHH plans to refinance the second tranche of term bonds through a tax-exempt floating rate note issuance. 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. JHH also has the right to

retire the bonds at par value at the end of each term period. The 2008 Revenue Bonds were sold at a premium of $5.3 million which is being accounted for using the bond outstanding method.

**2008 Series Revenue Bonds – SHI**
In November 2008, SHI issued $58.5 million principal amount of MHHEFA Revenue Bonds, 2008 Series Revenue Bonds ("2008 Series Bonds"). The 2008 Series Bonds are due in annual installments beginning July 1, 2009 and bear interest at a daily rate, weekly rate, commercial paper rates, or long term rate as selected by the issuer and payable at varying periods depending on the interest rate type. The rates for the years ended June 30, 2012 and 2011 were approximately 0.15% and 0.08%, respectively. Annual sinking fund installments began July 1, 2009 and range from $1.4 million to $6.2 million. The proceeds of the bonds were used to finance the acquisition, construction, renovations or equipping of healthcare facilities.

In connection with the 2008 Series Bonds, SHI entered into a $58.4 million letter of credit agreement dated June 16, 2010 with PNC Bank, N.A. to provide for the payment of such interest as well as principal at maturity subject to certain conditions described therein. This agreement expires on June 13, 2013 subject to extension or earlier termination. Amounts advanced under the letter of credit bear interest at a variable rate based upon the prime rate plus 1.0% for the first 90 days outstanding, and prime rate plus 2.0% thereafter. No amounts were outstanding as of June 30, 2012 and 2011. Since this letter of credit expires before June 30, 2013, the outstanding balance of $54.9 million has been reclassified as short-term in the Combined Balance Sheet.

**2008 Series Revenue Bonds – SMH**
In July 2009, SMH obtained a loan in the amount of $63.0 million representing proceeds of tax-exempt Revenue Bonds issued through a public offering by the District of Columbia, with stated interest rates ranging from 4.00% to 6.50%, maturing October 1, 2039. The loan requires semi-annual interest payments until October 1, 2013, at which time SMH will begin making annual principal payments ranging from $1.0 million to $4.6 million until maturity.

**2009 Series – Revenue Refunding Bonds – ACH**
In April 2009, ACH obtained a loan in the amount of $64.4 million representing proceeds of tax-exempt Revenue Bonds issued through the City of St. Petersburg Health Facilities Authority. The loan requires annual principal payments ranging from $165 thousand to $13.3 million through 2039, plus semi-annual interest payments at fixed rates ranging from 3.50% to 6.50%.

**2010 Series Revenue Bonds – JHH**
In June 2010, JHH issued $148.2 million of 2010 Series Revenue Bonds ("2010 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 Revenue 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 $500 thousand 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 Revenue Bonds – Series A – JHH**
In November 2011, JHH issued $74.6 million of 2011 Series A Revenue Bonds ("2011 Series A Bonds") to refinance the existing JHH 2001 Series Revenue Bonds. The 2011 Series A Bonds are serial bonds with maturities from 2013 through 2026 and pay a fixed rate of interest ranging from 2.00% to 5.00%. The repayment terms require semi-annual interest payments on May 15$^{th}$ and November 15$^{th}$. Principal payments range from $100 thousand to $13.5 million, and are due upon maturity beginning May 15, 2013. The 2011 Series A Bonds were sold at a premium of $7.6 million.

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

**2012 Series A Note - JHH**
In February 2012, JHH issued a $53.5 million 2012 Floating Rate Note ("2012 Note") in a private placement to refinance its Series 2004A Commercial Paper that had a balance of $53.5 million. The 2012 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 0.44% that rests and is payable monthly. The interest rate for the year ended June 30, 2012 was approximately 0.60%.

**2012 Revenue Bonds – Series B – JHH**
In May 2012, JHH issued $97.6 million of 2012 Series B Revenue Bonds ("2012 Series B Bonds") to finance the construction of its two new clinical buildings. The 2012 Series B Bonds are serial bonds and mature annually from 2012 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 Bonds were sold at a premium of$13.9 million.

**2012 Revenue Refunding Bonds – Series A – ACH**
In June 2012, ACH issued 2012 Series A Revenue Refunding Bonds ("2012 Refunding Bonds") in the amount of $102.4 million representing proceeds of tax-exempt Revenue Bonds issued through the City of St. Petersburg Health Facilities Authority. The 2012 Refunding Bonds refunded the Series 2005 Bonds. The 2012 Refunding Bonds were issued as a direct bank placement with a five year term, and require annual principal payments ranging from $1.6 million to $7.9 million through 2035. Interest is calculated and paid monthly at the one-month LIBOR plus a spread of 0.50%. Interest for the year ended June 30, 2012 was 0.70%.

**Johns Hopkins Endowment Loan – JHHS**
JHHS has a $6.1 million loan from The Johns Hopkins Endowment Fund, Incorporated ("Endowment Corporation"). The proceeds of this loan were used for the renovation of the Pavilions II building at Green Spring Station. The loan is payable in monthly installments beginning July 1, 1998 and bears an interest rate of 6%. The amount outstanding on the loan was $2.7 million and $3.0 million as of June 30, 2012 and 2011, respectively.

For the debt of JHHS and Affiliates, 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, 2012 (in thousands):

| | |
|---|---|
| 2013 | 286,298 |
| 2014 | 32,132 |
| 2015 | 81,227 |
| 2016 | 34,001 |
| 2017 | 73,040 |
| Thereafter | 873,078 |
| | $ 1,379,776 |

For the debt of JHHS and Affiliates described above, interest costs incurred, paid and capitalized in the years ended June 30 are as follows (in thousands):

| | 2012 | 2011 |
|---|---|---|
| Net interest costs: | | |
| Capitalized | $ 15,798 | $ 18,332 |
| Expensed | 56,275 | 49,932 |
| Allocated to others | 64 | 64 |
| | $ 72,137 | $ 68,328 |
| Interest costs paid | $ 68,328 | $ 62,033 |

**Capital Leases**

On November 2, 1999, SHHS entered into a lease agreement with an unrelated party for the lease of real property. The leased property consists of land and a building, located in north Bethesda, Maryland, which is known as the Suburban Outpatient Medical Center (“SOMC”). The lease term began on August 1, 2001 and will continue through December 31, 2026. The base rent escalates 2.25% per year, in accordance with the lease agreement. The lease contains four optional renewal periods for five years each.

The SOMC lease has been recorded as a capital lease, as the SOMC lease agreement satisfies the requirements for capitalization under accounting principles generally accepted in the United States. Accordingly, the leased property of $36.8 million is reflected in property, plant and equipment as of June 30, 2012 and 2011. Accumulated depreciation on the SOMC asset was $15.5 million and $14.0 million as of June 30, 2012 and 2011, respectively.

Depreciation expense on these assets is included within depreciation expense in the Combined Statements of Operations and Changes in Net Assets.

The future minimum lease payments required under JHHS capital leases are as follows as of June 30, 2012 (in thousands):

| | Capital Lease Payments |
|---|---|
| 2013 | $ 4,677 |
| 2014 | 4,763 |
| 2015 | 4,411 |
| 2016 | 4,069 |
| 2017 | 4,161 |
| 2018 and thereafter | 44,492 |
| Minimum lease payments | 66,573 |
| Interest on capital lease obligations | (30,584) |
| Net minimum payments | 35,989 |
| Current portion of capital lease obligation | (883) |
| Capital lease obligation, less current | $ 35,106 |

## 9. Derivative Financial Instruments

JHHS" 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 $779 million and $785 million as of June 30, 2012 and 2011, respectively.

JHHS 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. All of JHHS" derivative financial instruments are interest rate swap agreements without hedge accounting designation.

The value of interest rate swap agreements entered into by JHHS 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 Combined 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. JHHS 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. JHHS recognizes gains and losses from changes in fair values of interest rate swap agreements as a non-operating revenue or expense within excess of revenues over expenses on the Combined Statements 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 by JHHS with the swap counterparty for the difference between the threshold amount and the fair value. As of June 30, 2012 and 2011, the amount of required collateral was $140.5 million and $54.4 million, respectively. The collateral is included in other long-term assets on the Combined Balance Sheets.

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

| | Derivatives reported as liabilities | | | |
|---|---|---|---|---|
| | 2012 | | 2011 | |
| | Balance Sheet Caption | Fair Value | Balance Sheet Caption | Fair Value |
| Interest rate swaps not designated as hedging instruments | Other long-term liabilities | $ 279,519 | Other long-term liabilities | $ 136,750 |

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

| Classification of derivative loss in Statement of Operations | Amount of loss recognized in change in unrestricted net assets | |
|---|---|---|
| | 2012 | 2011 |
| Interest rate swaps: | | |
| Non-operating expense | $ (142,770) | $ 26,002 |

The following is a description of JHHS" interest rate swap agreements:

In January 2004, JHH entered into a fixed payor interest swap with J.P. Morgan. The notional amount on this swap agreement was $53.5 million and $54.6 million as of June 30, 2012 and 2011, respectively. JHH will pay J.P. Morgan a fixed annual rate of 3.329% 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, 2012 and 2011 were 0.24% and 0.13%, respectively.

In January 2004, JHBMC entered into a fixed payor interest rate swap agreement with Bank of America. The notional amount on this swap agreement was $82.1 million and $86.0 million as of June 30, 2012 and 2011, respectively, and carries a term of 21 years with payments beginning on February 1, 2004. JHBMC will pay Bank of America a fixed annual rate of 3.3265% 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, 2012 and 2011 were 0.16% and 0.13%, respectively.

In May 2004, SHI entered into a fixed payor interest rate swap agreement with J.P. Morgan. The notional amount on this swap agreement was $25.0 million as of June 2012 and 2011, and carries a term of 17 years. SHI will pay J.P. Morgan a fixed annual rate of 3.919% 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 rates as of June 30, 2012 and 2011 were 0.15% and 0.08%, respectively.

In May 2005, ACH entered into two fixed payor interest rate swap agreements. The first swap agreement with the Royal Bank of Canada (“RBC”) had a notional amount of $14.7 million as of June 30, 2012. The second swap agreement with Citibank, N.A. (“Citibank”), had a notional amount of $24.6 million as of June 30, 2012. Payments under these swap agreements began May 1, 2005. These agreements carry a term of 29 years. ACH will pay RBC and Citibank a fixed annual rate of 3.6235% on the notional amount of the swap agreements in return for the receipt of a floating rate of interest equal to 62.2% of the one-month LIBOR plus 0.27%. The floating rate as of June 30, 2012 was 0.42% under these swap agreements.

In April 2006, JHH entered into two fixed payor interest rate swap agreements with Goldman Sachs Capital Markets, L.P. ("GSCM"). The notional amount on these swap agreements is $150.0 million each. Payments under the first of the swap agreements began May 1, 2007 and payments under the second agreement began May 1, 2008. These agreements carry a term of 32 years. JHH will pay GSCM a fixed annual rate of 3.911% on the notional amount of the swap agreement in return for the receipt of a floating rate of interest equal to 67% of the one-month LIBOR rate. Under the second swap agreement, JHH will pay GSCM a fixed annual rate of 3.922% on the notional amount of the swap agreement in return for the receipt of a floating rate of interest equal to 67% of the one-month LIBOR rate. The floating rates as of June 30, 2012 and 2011 were 0.16% and 0.13%, respectively.

In May 2006, HCGH entered into a forward start fixed payor interest rate swap agreement with GSCM. The notional amount on this swap agreement is $40.0 million. Payments began June 1, 2007 and carry a term of 32 years. HCGH will pay GSCM a fixed annual rate of 3.946% on the notional amount of the swap agreement in return for the receipt of a floating rate of interest equal to 67% of the one month LIBOR rate. JHHS has guaranteed the prompt payment of this interest rate swap agreement. The floating rates as of June 30, 2012 and 2011 were 0.16% and 0.13%, respectively.

In July 2007, JHH entered into two fixed payor interest rate swap agreements. One with GSCM in a notional amount of $84.1 million and another 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. The floating rates as of June 30, 2012 and 2011 were 0.16% and 0.13%, respectively.

In July 2007, JHBMC entered into a forward start fixed payor interest rate swap agreement with GSCM with a notional amount of $11.1 million. This swap agreement carries a term of 19.5 years with payments beginning November 15, 2007. JHBMC will pay GSCM a fixed annual rate of 3.691% on the notional amount of the swap agreement in return for the receipt of a floating rate of interest equal to 67% of the one month LIBOR rate. The floating rates as of June 30, 2012 and 2011 were 0.16% and 0.13%, respectively.

In October 2007, ACH entered into a fixed payor interest rate swap agreement with Citibank with a notional amount of $60.0 million as of June 30, 2012. Payments under this swap agreement began October 1, 2007. This agreement carries a term of 40 years. ACH will pay Citibank a fixed annual rate of 3.8505% on the notional amount of the swap agreement in return for the receipt of a floating rate of interest equal to 61.8% of the one-month LIBOR plus 0.25%. The floating rates under this agreement as of June 30, 2012 and 2011 were 0.40% and 0.38%, respectively.

## 10. Temporarily and Permanently Restricted Net Assets

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

| | 2012 | 2011 |
|---|---|---|
| Purchase of property, plant, and equipment | $ 44,475 | $ 480,522 |
| Health care services | 102,861 | 106,236 |
| Health education and counseling | 3,272 | 5,624 |
| Indigent care | 1,084 | 1,256 |
| | $ 151,692 | $ 593,638 |

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

| | 2012 | 2011 |
|---|---|---|
| Health care services | $ 40,094 | $ 39,478 |
| Health education and counseling | 12,243 | 11,132 |
| | $ 52,337 | $ 50,610 |

The JHHS endowments do not include amounts designated by the Board of Trustees to function as endowments. As required by generally accepted accounting principles, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The Board of Trustees of the JHHS has interpreted UPMIFA in the State of Maryland, the State of Florida, and the District of Columbia as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds, absent explicit donor stipulations to the contrary. As a result of this interpretation, the JHHS 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.

## 11. Pension Plans

The Affiliates sponsor a variety of defined benefit pension plans (the “Plans”) 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 JHHS‟ Combined Balance Sheets, and changes in the funded status be reflected as a change in net assets.

The funding policy of all Affiliates is to make sufficient contributions to meet the Internal Revenue Service minimum funding requirements. Assets in the plans as of June 30, 2012 and 2011 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 Plans is shown below (in thousands):

| | 2012 | 2011 |
|---|---|---|
| Change in benefit obligation | | |
| Benefit obligation as of beginning of year | $ 1,120,773 | $ 946,311 |
| SMH benefit obligation as of 11/1/10 | - | 81,614 |
| Service cost | 45,435 | 41,938 |
| Interest cost | 65,711 | 58,939 |
| Actuarial loss (gain) | 266,832 | 20,526 |
| Benefits paid | (32,936) | (28,555) |
| Benefit obligation as of June 30 | $ 1,465,815 | $ 1,120,773 |
| Change in plan assets | | |
| Fair value of plan assets as of beginning of year | $ 812,070 | $ 603,049 |
| SMH fair value of plan assets as of 11/1/10 | - | 66,159 |
| Actual return on plan assets | 12,534 | 112,611 |
| Employer contribution | 129,593 | 59,363 |
| Benefits paid | (34,225) | (29,112) |
| Fair value of plan assets as of June 30 | $ 919,972 | $ 812,070 |
| Funded Status as of June 30 | | |
| Fair value of plan assets | $ 919,972 | $ 812,070 |
| Projected benefit obligation | (1,465,815) | (1,120,773) |
| Funded status | $ (545,843) | $ (308,703) |

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

| Amounts recognized on balance sheets | 2012 | 2011 |
|---|---|---|
| Net pension asset | $ - | $ 2,742 |
| Net pension liability | (545,843) | (311,445) |
| Net amount recognized | $ (545,843) | $ (308,703) |

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

| Amounts not yet recognized | 2012 | 2011 |
|---|---|---|
| Actuarial net loss | $ 653,838 | $ 367,755 |
| Prior service cost | 2,724 | 4,712 |
| | $ 656,562 | $ 372,467 |
| Accumulated benefit obligation | $ 1,299,219 | $ 982,262 |

**Net Periodic Pension Cost**
Components of net periodic pension cost (in thousands):

| Net periodic pension cost | 2012 | 2011 |
|---|---|---|
| Service cost | $ 45,435 | $ 41,938 |
| Interest cost | 65,711 | 58,939 |
| Expected return on plan assets | (68,599) | (59,341) |
| Amortization of prior service cost | 1,988 | 2,003 |
| Recognized net actuarial loss | 36,561 | 33,902 |
| Net periodic pension cost | $ 81,096 | $ 77,441 |

The actuarial net loss and prior service cost for the defined benefit plans that will be amortized from unrestricted net assets into net periodic pension cost in 2012 are $27.4 million and $1.5 million, respectively.

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

| | 2012 | 2011 |
|---|---|---|
| Discount rate | 6.03% | 6.04% |
| Expected return on plan assets | 8.25% | 8.25% |
| Rate of compensation increase | 2.50 %- 3.00 % (1) | 2.00% - 3.00% (2) |

(1) The rate of compensation increase is 2.50% for July 1, 2011, and 3.00% thereafter.
(2) The rate of compensation increase is 2.00% for July 1, 2010, and 2.50% for July 1, 2011, and 3.00% thereafter.

The SMH plan utilized a discount rate of 5.25% and 6.00%, and an expected rate of return on assets of 7.5% and 8.00% for the year ended June 30, 2012, and for the eight months ended June 30, 2011, respectively, due to the nature of the plan being frozen and management"s future expectations surrounding this plan.

The assumptions used in determining the benefit obligations for all plans except the SMH plan are as follows as of July 1:

| | 2012 | 2011 |
|---|---|---|
| Discount rate | 4.66% | 6.03% |
| Expected return on plan assets | 8.00% | 8.25% |
| Rate of compensation increase | 2.00 %- 3.00% (3) | 2.50% - 3.00% (4) |

(3) The rate of compensation increase was 2.00% for July 1, 2012, 2.50% for July 1, 2013, and 3.00% thereafter.
(4) The rate of compensation increase was 2.50% for July 1, 2011, 3.00% thereafter.

The SMH plan utilized a discount rate of 4.66% and 5.25%, and an expected rate of return on assets of 7.50% as of June 30, 2012 and 2011, respectively, due to the nature of the plan being frozen and management"s future expectations surrounding this plan.

The expected rate of return on plan assets assumption, excluding SMH, 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**
Pension plan weighted average asset allocations as of June 30 by asset class are as follows:

| Asset Class | 2012 | 2011 |
|---|---|---|
| Cash and cash equivalents | 5.31% | 4.88% |
| Equities and equity funds | 31.14% | 36.65% |
| Fixed income funds | 28.16% | 18.00% |
| Alternative investments | 35.39% | 40.47% |
| Total | 100.00% | 100.00% |

The Plans assets are invested among and within various asset classes in order to achieve sufficient diversification in accordance with JHHS" 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) 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.

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

| Assets | Total Fair Value | Level 1 | Level 2 |
|---|---|---|---|
| Cash equivalents (1) | $ 48,847 | $ - | $ 48,847 |
| Equities and equity funds (2) | 286,507 | 51,692 | 234,815 |
| Fixed income funds (3) | 259,055 | 196,027 | 63,028 |
| Alternative investments (4) | 325,563 | - | 325,563 |
| Totals | $ 919,972 | $ 247,719 | $ 672,253 |

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

| Assets | Total Fair Value | Level 1 | Level 2 |
|---|---|---|---|
| Cash equivalents (1) | $ 39,589 | $ - | $ 39,589 |
| Equities and equity funds (2) | 297,664 | 30,739 | 266,925 |
| Fixed income funds (3) | 146,167 | 106,814 | 39,353 |
| Alternative investments (4) | 328,650 | - | 328,650 |
| Totals | $ 812,070 | $ 137,553 | $ 674,517 |

(1) Cash equivalents, commercial paper, and money market funds include investments with original maturities of three months or less, including certificates of deposit and overnight investments. Certificates of deposit, overnight investments, and commercial paper are carried at amortized cost, which approximates fair value, and are classified as level 2. Money market funds are valued based on the NAV and are classified as level 2.

(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 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 coupled with short term redemption notice periods renders these investments level 2.

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

| Description | Fair Market Value | Liquidity | Notice Period | Receipt of Proceeds |
|---|---|---|---|---|
| Global asset allocation | $ 149,464 | Monthly | 5 to 30 days | Within 15 days, or 95% on redemption date and 5% on third business day |
| Fund of funds | 67,619 | Quarterly | 45 days | 90% within 30, 10% within 60 days |
| Hedge funds | 71,978 | Monthly, quarterly or bi-annually | 30 to 65 days | 90-95% within 3 to 30 days, 5-10% after 10 to 30 days or after annual audit |
| Credit funds | 26,370 | Annual | 60 to 90 days | Within 30 days, or 90% within 10 days, 10% after annual audit |
| Distressed credit | 10,132 | December 31, 2013 | | |
| Total | $ 325,563 | | | |

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

| Description | Fair Market Value | Liquidity | Notice Period | Receipt of Proceeds |
|---|---|---|---|---|
| Global asset allocation | $ 143,908 | Monthly | 5 to 30 days | Within 15 days, or 95% on redemption date and 5% on third business day |
| Fund of funds | 102,622 | Monthly, quarterly, or annually | 30 to 65 days | Within 5 days, or 90% within 30 to 60 days, 10% after annual audit |
| Hedge funds | 38,341 | Monthly or Quarterly | 30 to 65 days | 90-95% within 30 days, 5-10% after 10 days or after annual audit |
| Credit funds | 29,526 | Annual | 60 to 90 days | Within 30 days, or 90% within 10 days, 10% after annual audit |
| Distressed credit | 14,253 | December 31, 2013 | | |
| Total | $ 328,650 | | | |

**Contributions and Estimated Future Benefit Payments (unaudited)**
JHHS expects to contribute $91.6 million to its pension plans in the fiscal year ending June 30, 2012.

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid in each of the following fiscal years as of June 30, 2012 (in thousands):

| | |
|---|---|
| 2013 | $ 45,067 |
| 2014 | 46,606 |
| 2015 | 51,390 |
| 2016 | 56,488 |
| 2017 | 62,078 |
| Thereafter | 396,770 |

HCGH also has a 401(k) savings plan available to all employees, which was amended during 1996. The revised plan provides that HCGH will contribute 1% to 2% of each employee"s total compensation in addition to contributing from fifty cents to one dollar and fifty cents, based on years of service, for each dollar contributed by the employee. HCGH"s contribution match basis is limited to 6% of the employee"s total compensation. HCGH funded $3.1 million and $2.9 million for the years ended June 30, 2012 and 2011, respectively.

ACH participates in a defined contribution retirement plan of ACHS covering substantially all of its employees. Contributions are determined at the discretion of the Board of Directors of ACHS. Defined contribution plan expenses represent approximately 4.0% and 4.5% of eligible salaries for the year ended June 30, 2012 and the three months ended June 30, 2011, respectively. Expenses recorded by ACH were approximately $5.7 million and $1.5 million for year ended June 30, 2012 and the three months ended June 30, 2012.

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

JHH, JHBMC, HCGH, and SHI charges are subject to review and approval by the Commission. JHHS" management has filed the required forms with the Commission and believes JHHS 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, 2013. Effective April 1, 1999, the Commission developed a methodology to control inpatient hospital charges and JHHS 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. It is expected that some type of outpatient constraint system will be put in place sometime during fiscal 2013.

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

The University and JHHS and 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 the University each have a 10% ownership interest in the RRG and the captive insurance company, which is included in investments on the Combined 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 range between $1.0 million and $5.0 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 using 0.73% and 1.2% as of June 30, 2012 and 2011, respectively.

SMH has established the Sibley Memorial Hospital Self-insurance Trust (the “Self-insurance Trust”), to accumulate the necessary funds for self-insured malpractice, general liability, and workers‟ compensation claims, should any occur. An independent trustee manages the Self-insurance Trust. SMH accrues the ultimate cost of asserted and unasserted claims in the year of occurrence using past experience, and other known information, in developing estimates. Of the total liability of $19.3 million, approximately $16.9 million represents the estimated malpractice liability, and $2.4 million represents the total workers‟ compensation liability as of June 30, 2011. The estimated malpractice liability has been discounted at 1.2% as of June 30, 2011. SMH carries an excess liability insurance policy with a limit of $10.0 million per claim and $10.0 million in the aggregate that covers amounts in excess of agreed upon deductibles. During 2012, SMH terminate its Self-Insurance Trust and joined JHHS‟ RRG.

ACH maintains a claims-made commercial insurance policy. Losses from asserted and unasserted claims identified under the ACH‟s incident reporting systems are accrued based on estimates that incorporate ACH‟s past experience, as well as other considerations, including the nature of each claim or incident and relevant trend factors.

Professional and general liability insurance expense incurred by JHHS and Affiliates was $33.0 million and $37.8 million for the years ended June 30, 2012 and 2011, respectively. Reserves were $159.2 million and $101.0 million as of June 30, 2012 and 2011, respectively. These reserves include a corresponding receivable for insurance recoveries in the amount of $80.3 million.

### 14. Related Party Transactions

During the years ended June 30, 2012 and 2011, JHHS and its Affiliates engaged in various related party transactions. These transactions were not eliminated because these entities are not consolidated. There were no significant intercompany profits that were eliminated. The following is a summary of the significant related party transactions and balances for the year ended June 30:

Revenue/(expense) transactions (in thousands):

| | 2012 | 2011 |
|---|---|---|
| Cost recoveries for fringe benefits and various support services from JHHCG | $ 16,658 | $ 13,807 |
| Security and management of housekeeping and parking garage services from BSI | 21,524 | 19,365 |
| Telecommunication services provided by JHMI Utilities | (29,507) | (27,661) |

Due from/(to) related party balances as of June 30 (in thousands):

| | 2011 | 2011 |
|---|---|---|
| Due from (to) JHHCG | $ 1,675 | $ (499) |
| Due from (to) JHMI Utilities | 19,838 | (1,306) |
| Due to JHI | (1,057) | (142) |
| Due from others | 4,604 | 5,564 |

In March 2012, JHH and HCGH entered into a short term Promissory Note ("Affiliate Note") in the amount of $110.6 million, and carried an interest rate of 2.75%. The Affiliate Note principal and accrued interest was due on May 31, 2012, or upon an earlier long-term extension. The proceeds of the Affiliate Note were placed in HCGH"s debt service reserve trust for the purpose of redeeming the 1998 Series Revenue Bonds. 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.

## 15. Contracts, Commitments and Contingencies

**JHHS and Affiliates**

JHHS has made an indirect guarantee with the University in connection with debt issued by the East Baltimore Development Inc. ("EBDI"). EBDI entered into two loan commitments, one for $15.0 million that is due on October 1, 2014, and another for $3.9 million that was forgiven in full as of June 30, 2011. In connection with the terms of the loan, the Annie E. Casey Foundation ("the Foundation") guaranteed the loans. To mitigate the risks associated with this guarantee, the Foundation solicited other guarantors. The University signed an agreement to participate and provide a guarantee to the Foundation for repayment up to 25% of the principal amount of the loans. The University guarantee was structured such that any payment that might be triggered by this guarantee would not be due for 10 years from the initial close of the loans. In the event that the University would be called to fulfill its guarantee, there is reasonable likelihood that JHHS would share in 50% of any payments made by the University.

JHHS has agreements with the University, under which the University provides medical administration and educational services, conducts medical research programs, provides patient care medical services, and provides certain other administrative and technical support services through the physicians employed by The Johns Hopkins University School of Medicine ("JHUSOM"). Compensation for providing medical administration and educational services is paid to the University by JHHS; funding for services in conducting medical research is paid from grant funds and by JHHS; compensation for patient care medical care services is derived from billings to patients (or third-party payors) by the University; and compensation for other support services is paid to the University by JHHS.

The aggregate amount of purchased services incurred by JHHS under these agreements was $239.3 million and $241.3 million for the years ended June 30, 2012 and 2011, respectively.

JHHS has an agreement with the University under which the University recruits and pays interns and resident physicians who furnish services to JHHS on a rotating basis. Included in supplies and other expenses in the accompanying Combined Statements of Operations and Changes in Net Assets for services under this agreement is $5.2 million for the years ended June 30, 2012 and 2011, for physicians providing services on a rotating basis $4.1 million and $3.6 million for the years ended June 30, 2012 and 2011, respectively, for physicians providing services on a non-rotating basis.

JHHS provides departmental support for Chiefs of Service based on personal recruitment agreements between JHHS, JHUSOM and the respective Chief of Service. These commitments to the department are conditional to the extent the Chief of Service remains in the position. Future expected payments related to agreements currently in place were $5.6 million and $3.1 million as of June 30, 2012 and 2011, respectively.

JHHS is leasing space to the University for which payments totaled $3.1 and $3.4 million for the year ended June 30, 2012 and 2011, respectively.

JHH had non-cancellable commitments under construction contracts of $73.0 million and $238.2 million as of June 30, 2012 and 2011, respectively, relating primarily to its campus redevelopment plan 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 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, 2012, that have initial or remaining lease terms in excess of one year (in thousands).

| | |
|---|---|
| 2013 | $ 20,634 |
| 2014 | 18,088 |
| 2015 | 12,664 |
| 2016 | 11,049 |
| 2017 | 9,559 |

Rental expense for all operating leases for the years ended June 30, 2012 and 2011 amounted to $43.7 million and $34.5 million, respectively.

**Asset Retirement Obligations**
During 2006, JHHS recorded asset retirement obligations associated with the abatement of asbestos in several of its buildings constructed prior to 1980. The fair value of the estimated asset retirement obligations as of June 30, 2012 and 2011 was $20.0 million and $19.6 million, respectively.

The change in asset retirement obligation for the years ended June 30 consisted of the following (in thousands):

| | 2012 | 2011 |
|---|---|---|
| Retirement obligation at beginning of year | $ 19,616 | $ 17,970 |
| Addition of SMH asset retirement obligation | | 1,262 |
| Liabilities settled | (167) | (220) |
| Accretion expense | 588 | 604 |
| Retirement obligation at end of year | $ 20,037 | $ 19,616 |

**The Johns Hopkins Hospital**

In 2005, JHH and the University 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 existing JHH utility assets have been transferred at cost to the LLC. The LLC has also assumed the liability for the JHH‟s 1985 Pooled Loan obligation of $8.4 million. 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 the University have guaranteed the total debt issued by MHHEFA. As of June 30, 2012, the amount of the debt guarantee by JHH was $44.6 million. JHH accounts for this investment under the equity method of accounting.

JHH has pledged investments having an aggregate market value of $24.5 million and $23.7 million as of June 30, 2012 and 2011, 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 Combined Balance Sheet.

**Department of Defense Agreement - MSC**

Commencing June 1, 1998, and renewed on June 1, 2003 and again on June 1, 2008, JHMSC entered into a contract with the Department of Defense to provide the TRICARE Prime benefit to eligible beneficiaries enrolled in the Johns Hopkins Uniformed Services Family Health Plan (“USFHP”). Under the USFHP contract, JHMSC provides services covered under the TRICARE Designated Provider Contract to enrollees for a monthly capitation fee. Revenues generated under the contract were $309.1 million and $291.8 million for the years ended June 30, 2012 and 2011, respectively. The current sole source commercial contract was awarded for an initial period commencing October 1, 2008 through September 30, 2009, with four on-year option periods to be exercised at the Government‟s discretion. Three of the option periods have been exercised and, accordingly, the current contract covers the initial period through September 30, 2012.

## 16. Functional Expenses

JHHS 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):

| | 2012 | 2011 |
|---|---|---|
| Health care services | $ 3,785,925 | $ 3,218,197 |
| General and administrative services | 759,203 | 660,119 |
| Fundraising | 5,592 | 3,257 |
| Program service | 1,486 | - |
| Total expenses | $ 4,552,206 | $ 3,881,573 |

## 17. 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. 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 Board of Trustees may, in its discretion, award funds from the Endowment Corporation to organizations other than JHHS if the Board of Trustees determines that doing so is for the support, benefit of, or in furtherance of the mission of JHHS. Accordingly, these amounts are not presented in the combined financial statements of JHHS and its Affiliates until they are subsequently distributed to JHHS and its affiliates from the Endowment Corporation. The Endowment Corporation"s net assets were $547.2 million and $553.2 million as of June 30, 2012 and 2011, respectively. The Endowment Corporation"s distributions from net assets to JHHS and its affiliates were $10.8 million and $10.3 million for the years ended June 30, 2012 and 2011, respectively, and were recorded as other revenue.

## 18. Howard Hospital Foundation, Inc.

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

Interest in net assets of HHF of $13.2 million and $14.4 million as of June 30, 2012 and 2011, respectively, are presented within the assets whose use is limited on the Combined Balance Sheets of JHHS.

HHF assets consist of cash and cash equivalents of $1.0 million and $874 thousand, marketable securities of $6.9 million and $7.8 million, and other assets of $5.7 million and $5.9 million as of June 30, 2012 and 2011, respectively.

Liabilities of HHF were $300 thousand and $163 thousand as of June 30, 2012 and 2011, respectively. The change in net assets was $(1.2) million and $542 thousand for the years ended June 30, 2012 and 2011, respectively.

## 19. Subsequent Events

JHHS has performed an evaluation of subsequent events through September 28, 2012, which is the date the financial statements were issued.

**Schedules of Expenditures of Federal Awards and Florida State Financial Assistance**

**and**

**Notes to Schedules of Expenditures of Federal Awards and Florida State Financial Assistance**

# The Johns Hopkins Health System Corporation and Affiliates
## Schedule of Expenditures of Federal Awards
## Year Ended June 30, 2012

| FEDERAL GRANTOR/ PASS-THROUGH GRANTOR/PROGRAM TITLE | FEDERAL CFDA NUMBER | PASS-THROUGH ENTITY OR AWARD IDENTIFICATION NUMBER | EXPENDITURES BY AFFILIATE JHH | JHBMC | SHI | ACH | JHCP | JHHS | TOTAL FEDERAL EXPENDITURES |
|---|---|---|---|---|---|---|---|---|---|
| *DEPARTMENT OF AGRICULTURE:* | | | | | | | | | |
| PASS-THROUGH PROGRAMS FROM THE STATE OF MARYLAND | | | | | | | | | |
| MARYLAND STATE DEPARTMENT OF EDUCATION | 10.558 | None | $ 156,213 | $ 70,479 | | | | | $ 226,692 |
| *TOTAL DEPARTMENT OF AGRICULTURE* | | | 156,213 | 70,479 | | | | | 226,692 |
| *DEPARTMENT OF EDUCATION:* | | | | | | | | | |
| PASS-THROUGH PROGRAMS FROM THE STATE OF FLORIDA | | | | | | | | | |
| FLORIDA DEPARTMENT OF HEALTH | | | | | | | | | |
| SPECIAL EDUCATION - GRANTS FOR INFANTS AND FAMILIES WITH DISABILITIES | 84.181 | COQKD/COQTT | | | | $ 1,224,642 | | | 1,224,642 |
| *TOTAL DEPARTMENT OF EDUCATION* | | | | | | 1,224,642 | | | 1,224,642 |
| *DEPARTMENT OF HEALTH AND HUMAN SERVICES:* | | | | | | | | | |
| RESEACH AND DEVELOPMENT CLUSTER | | | | | | | | | |
| NATIONAL INSTITUTE OF NEUROLOGICAL DISORDERS AND STROKE | 93.HHSN | 93.HHSN271200625011C | | | $ 1,104,549 | | $ 176,318 | | 1,280,868 |
| NATIONAL HEART, LUNG, AND BLOOD INSTITUTE - MRI | 93.HHSN | 93.HHSN268200900021C | | | 872,436 | | | | 872,436 |
| NATIONAL HEART, LUNG, AND BLOOD INSTITUTE - OPEN HEART SURGERY | 93.HHSN | 93.HHSN268200564265/N02-HL-5-4265 | | | 2,754,090 | | 933,580 | | 3,687,670 |
| TOTAL RESEARCH AND DEVELOPMENT CLUSTER | | | | | 4,731,075 | | 1,109,899 | | 5,840,974 |
| HEALTH CARE AND OTHER FACILITIES GRANTS FOR CONSTRUCTION AND RENOVATION | 93.887 | C76HF19378 | | | | 346,500 | | | 346,500 |
| PASS-THROUGH PROGRAMS FROM JOHNS HOPKINS UNIVERSITY | | | | | | | | | |
| SICKLE CELL TREATMENT DEMONSTRATION PROGRAM | 93.365 | U1EMC17183 | | | | | 51,556 | | 51,556 |
| CARDIOVASCULAR HEALTH DISPARITIES | 93.837 | 1P50HL106187-01 | | | | | 54,163 | | 54,163 |
| TRANSITIONS AT DISCHARGE | 93.226 | R21HS019519 | | | | | 4,990 | | 4,990 |
| PASS-THROUGH PROGRAMS FROM THE CENTERS FOR DISEASE CONTROL AND PREVENTION | | | | | | | | | |
| PASS-THROUGH PROGRAMS FROM THE AMERICAN THROMBOSIS AND HEMOSTASIS NETWORK | | | | | | | | | |
| PASS-THROUGH PROGRAMS FROM HEMOPHILIA OF GEORGIA, INC. | | | | | | | | | |
| CENTERS FOR DISEASE CONTROL AND PREVENTION - DISABILITIES PREVENTION | 93.184 | 1U27DD000862-01 | | | | 34,000 | | | 34,000 |
| PASS-THROUGH PROGRAMS FROM THE CITY OF BALTIMORE | | | | | | | | | |
| HEAD START PROGRAM | | | | | | | | | |
| BALTIMORE CITY HEAD START / DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT | 93.600 | 03CH0207/46 | 2,699,484 | | | | | | 2,699,484 |
| BALTIMORE CITY HEALTH DEPARTMENT | 93.977 | 33885 | | 47,327 | | | | | 47,327 |
| BALTIMORE SUBSTANCE ABUSE PROGRAMS | 93.959 | ABG-5413-121/5414-12/5415-12 | 698,869 | 1,639,454 | | | | | 2,338,323 |
| PASS-THROUGH PROGRAMS FROM THE MATERNAL AND CHILD HEALTH BUREAU | | | | | | | | | |
| PASS-THROUGH PROGRAMS FROM HEMOPHILIA OF GEORGIA, INC. | | | | | | | | | |
| MATERNAL AND CHILD HEALTH FEDERAL CONSOLIDATED PROGRAMS | 93.110 | 5 H30 MC 00011 | | | | 12,072 | | | 12,072 |
| PASS-THROUGH PROGRAMS FROM THE STATE OF FLORIDA | | | | | | | | | |
| FLORIDA DEPARTMENT OF HEALTH | | | | | | | | | |
| HEALTHY-START INITIATIVE | 93.926 | PSA34/PSA48 | | | | 199,460 | | | 199,460 |
| TEMPORARY ASSISTANCE FOR NEEDY FAMILIES | 93.558 | COQKD/COQTT | | | | 516,002 | | | 516,002 |
| PASS-THROUGH PROGRAMS FROM THE STATE OF MARYLAND | | | | | | | | | |
| MARYLAND DEPARTMENT OF HEALTH AND MENTAL HYGIENE | 93.003 | Not Available | 130,000 | | 28,144 | | | | 158,144 |
| PASS-THROUGH PROGRAMS FROM THE UNIVERSITY OF SOUTH FLORIDA | | | | | | | | | |
| COORDINATED SERVICES & ACCESS TO RESEARCH FOR WOMEN, INFANTS, CHILDREN, AND YOUTH | 93.153 | 6410-1010-20-A/6410-1010-30-A | | | | 83,886 | | | 83,886 |
| TRANSLATIONAL MOLECULAR IMAGING CENTER - ARRA | 93.701 | 1G20RR031203-01 | | 292,419 | | | | | 292,419 |
| *TOTAL DEPARTMENT OF HEALTH AND HUMAN SERVICES* | | | 3,528,353 | 1,979,200 | 28,144 | 1,191,920 | 110,709 | | 6,838,327 |

# The Johns Hopkins Health System Corporation and Affiliates
## Schedule of Expenditures of Federal Awards
## Year Ended June 30, 2012

| FEDERAL GRANTOR/ PASS-THROUGH GRANTOR/PROGRAM TITLE | FEDERAL CFDA NUMBER | PASS-THROUGH ENTITY OR AWARD IDENTIFICATION NUMBER | EXPENDITURES BY AFFILIATE JHH | JHBMC | SHI | ACH | JHCP | JHHS | TOTAL FEDERAL EXPENDITURES |
|---|---|---|---|---|---|---|---|---|---|
| *DEPARTMENT OF HOUSING AND UBAN DEVELOPMENT:* | | | | | | | | | |
| PASS-THROUGH PROGRAMS FROM THE CITY OF BALTIMORE | | | | | | | | | |
| BALTIMORE MENTAL HEALTH SYSTEMS | 14.235 | MD0049B3B010802/011003 | 217,088 | | | | | | 217,088 |
| *TOTAL DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT* | | | 217,088 | | | | | | 217,088 |
| *DEPARTMENT OF JUSTICE:* | | | | | | | | | |
| JOHNS HOPKINS CAREER REENTRY PROGRAM | 16.580 | 2008-DB-BX-0538 | | | | | | $ 12,627 | 12,627 |
| *TOTAL DEPARTMENT OF JUSTICE* | | | | | | | | 12,627 | 12,627 |
| *DEPARTMENT OF LABOR:* | | | | | | | | | |
| PASS-THROUGH PROGRAMS FROM THE CITY OF BALTIMORE | | | | | | | | | |
| MAYOR'S OFFICE OF EMPLOYMENT DEVELOPMENT | 17.259 | 4000-896410-6310-468005-603051 | 58,643 | | | | | | 58,643 |
| *TOTAL DEPARTMENT OF LABOR* | | | 58,643 | | | | | | 58,643 |
| *DEPARTMENT OF TRANSPORTATION:* | | | | | | | | | |
| PASS-THROUGH PROGRAMS FROM THE STATE OF FLORIDA | | | | | | | | | |
| FLORIDA DEPARTMENT OF TRANSPORTATION | | | | | | | | | |
| OCCUPANT PROTECTION - TRANSPORTATION GRANTS | 20.602 | AQ784/AQJ09 | | | | 89,796 | | | 89,796 |
| *TOTAL DEPARTMENT OF TRANSPORTATION* | | | | | | 89,796 | | | 89,796 |
| **TOTAL EXPENDITURES OF FEDERAL AWARDS** | | | **$ 3,960,297** | **$ 2,049,679** | **$ 4,759,219** | **$ 2,506,358** | **$ 1,220,608** | **$ 12,627** | **$ 14,508,789** |

# The Johns Hopkins Health System Corporation and Affiliates
## Schedule of Expenditures of State Financial Assistance
## Year Ended June 30, 2012

| STATE GRANTOR/ PASS-THROUGH GRANTOR/PROGRAM TITLE | STATE CSFA NUMBER | PASS-THROUGH ENTITY OR AWARD IDENTIFICATION NUMBER | EXPENDITURES BY AFFILIATE: JHH JHBMC SHI | ACH | JHCP JHHS | TOTAL STATE EXPENDITURES |
|---|---|---|---|---|---|---|
| *STATE OF FLORIDA:* | | | | | | |
| DIRECT PROGRAM | | | | | | |
| FLORIDA DEPARTMENT OF HEALTH | | | | | | |
| TRAUMA CENTER FINANCIAL SUPPORT | 64.075 | TRA-01 | | $ 82,413 | | $ 82,413 |
| *MAINTENANCE OF EFFORT:* | | | | | | |
| PASS-THROUGH PROGRAMS FROM THE STATE OF FLORIDA | | | | | | |
| FLORIDA DEPARTMENT OF HEALTH | | | | | | |
| SPECIAL EDUCATION - GRANTS FOR INFANTS AND FAMILIES WITH DISABILITIES | None | COQKD/COQTT | | 1,485,014 | | 1,485,014 |
| **TOTAL EXPENDITURES OF STATE FINANCIAL ASSISTANCE** | | | | **$ 1,567,427** | | **$ 1,567,427** |

## 1. Basis of Presentation

The accompanying schedules of expenditures of federal awards and Florida state financial assistance (the "Schedules") includes the federal and state grant transactions of The Johns Hopkins Health System Corporation and Affiliates ("JHHS") under programs of the federal government and state of Florida for the year ended June 30, 2012. Because the Schedules present only a selected portion of the operations of JHHS, it is not intended to and does not present the financial position, change in net assets, or cash flows of JHHS.

For purposes of the Schedules, federal and state awards include all awards in the form of grants, contracts, and similar agreements entered into directly between JHHS and agencies and departments of the federal government, non-federal pass-through entities, and the state of Florida. Federal CFDA, State CSFA, and pass-through identification numbers are included when available.

## 2. Summary of Significant Accounting Policies

The Schedules reflect federal and state award program expenditures recognized on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

## 3. Subrecipients

JHHS passed on $1,220,608 to a subrecipient in the research and development cluster within the consolidated health system.

## 4. Classification of Certain Expenditures as Maintenance of Effort

For the contract period beginning July 1, 2009, the State of Florida (“the State”) determined that State funds expended under contract COQKD ($1,485,014 as noted on the accompanying Schedule of Expenditures of State Financial Assistance) were considered maintenance of effort for a federal program (CFDA numbers 84.181 and 93.558 as presented on the accompanying Schedule of Expenditures of Federal Awards) rather than state financial assistance.

# Part II

# Reports on Compliance and Internal Control

**Report of Independent Auditors on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards***

To the Board of Trustees of
The Johns Hopkins Health System Corporation and Affiliates:

We have audited the financial statements of The Johns Hopkins Health System Corporation and Affiliates ("JHHS") as of and for the year ended June 30, 2012, and have issued our report thereon dated September 28, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered JHHS' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of JHHS' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of JHHS' internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether JHHS' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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We noted certain matters that we reported to management of JHHS in a separate report on November 12, 2012**.**

This report is intended solely for the information and use of JHHS' management, Board of Trustees, others within the entity, and federal and state awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

PricewaterhouseCoopers LLP

September 28, 2012

**Report of Independent Auditors on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133; Section 215.97, Florida Statutes; and Chapter 10.650 Rules of the Auditor General**

To the Board of Trustees of
The Johns Hopkins Health System Corporation and Affiliates:

Compliance

We have audited the compliance of The Johns Hopkins Health System Corporation and Affiliates ("JHHS") with the types of compliance requirements described in the OMB *Circular A-133 Compliance Supplement* and the requirements described in the Executive Office of the Governor's State Project Compliance Supplement that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012. JHHS' major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs and state financial assistance projects is the responsibility of JHHS' management. Our responsibility is to express an opinion on JHHS' compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations;* Section 215.97, *Florida Statutes*; and Chapter 10.650 *Rules of the Auditor General*. Those standards and OMB Circular A-133; Section 215.97, *Florida Statutes*; and Chapter 10.650 *Rules of the Auditor General* require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program or state financial assistance occurred. An audit includes examining, on a test basis, evidence about JHHS' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of JHHS' compliance with those requirements.

In our opinion, JHHS complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal programs and state financial assistance for the year ended June 30, 2012.

Internal Control Over Compliance

Management of JHHS is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs and state financial assistance projects. In planning and performing our audit, we considered JHHS' internal control over compliance with the requirements that could have a direct and material effect on a major federal program or state financial assistance project in order to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133*;* Section 215.97, *Florida Statutes*; and Chapter 10.650 *Rules of the Auditor General*, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly we do not express an opinion on the effectiveness of JHHS' internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct noncompliance with a type of compliance requirement of a federal program or state financial assistance project on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program or state financial assistance project will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, Board of Trustees, others within the entity, federal and state awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

PricewaterhouseCoopers LLP

December 6, 2012

# Part III

# Findings

## Section I - Summary of Auditor's Results

*Financial Statements*

| | |
|---|---|
| Type of auditor's report issued: | Unqualified |
| **Internal Control over financial reporting**: | |
| Material weakness(es) identified? | None reported |
| Significant deficiency(ies) identified that are not considered to be material weaknesses? | None reported |
| Noncompliance material to financial statements noted? | None reported |

*Federal Awards*

| | |
|---|---|
| **Internal Control over major programs:** | |
| Material weakness identified? | None reported |
| Significant deficiency(ies) identified that are not considered to be material weaknesses? | None reported |
| Type of auditor's report issued on compliance for major programs: | Unqualified |
| Any audit findings disclosed that are required to be reported in accordance with OMB Circular A-133 section .510(a) | None reported |

Identification of major Federal programs:

| Federal CFDA Number | Name of Federal Program or Cluster |
|---|---|
| Various | Research and Development Cluster |
| 93.701 | Translational Molecular Imaging Center Core Facility |
| 93.558 | Temporary Assistance for Needy Families |
| 84.181 | Special Education - Grants for Infants and Families |
| 93.887 | Health Care and Other Facilities Grants for Construction and Renovation |

| | |
|---|---|
| Dollar threshold used to distinguish between Federal governmental assistance Type A and Type B programs: | $435,264 |
| Auditee qualified as low-risk auditee? | No |

*State Awards*

| | |
|---|---|
| **Internal Control over major programs:** | |
| Material weakness identified? | None reported |
| Significant deficiency(ies) identified that are not considered to be material weaknesses? | None reported |

| | |
|---|---|
| Type of auditor's report issued on compliance for major programs: | Unqualified |
| Any audit findings disclosed that are required to be reported in accordance with Section .510(a) and/or Section 215.97, *Florida Statutes*; and Chapter 10.650 *Rules of the Auditor General* | None reported |

Identification of major State programs:

| State CSFA Number | Name of State Program or Cluster |
|---|---|
| None | Special Education - Grants for Infants and Families with Disabilities |

| | |
|---|---|
| Dollar threshold used to distinguish between State Financial AssistanceType A and Type B programs: | $300,000 |
| Auditee qualified as low-risk auditee? | No |

**Section II – Financial Statement Findings**

No matters were reported.

**Section III – Federal Award Findings and Questioned Costs**

There were no findings required to be reported under OMB Circular A-133.

**Section IV – State Award Findings and Questioned Costs**

There were no findings for the year ended June 30, 2012 and no prior year audit findings required to be reported under Section 215.97, Florida Statutes; or Chapter 10.650 Rules of the Auditor General.

| | |
|---|---|
| **Finding 2011-1:** | **Allowable Costs/Costs Principles - Suburban Hospital** |
| Federal Agency: | National Institutes of Health |
| Program: | Research and Development Cluster |
| Contract #: | 93.HHSN271200625011C, 93.HHSN268200900021C,<br>93.HHSN268200564265/N02-HL-5-4265 |
| Award Year: | July 1, 2010 to June 30, 2011 |

During PwC's testing of compensation, the auditors noted that management was able to provide effort certifications for only one month of the fiscal year, May 2011, which is equivalent to 5 individual samples out of 60 selected for testing. PwC notes the cause of this finding is attributable to the fact that JHHS does not have adequate systems in place to calculate effort reporting and as such this process is done manually. There were no questioned costs as a result of this finding.

***Status***

Management implemented a formal effort certification process as of May 2011 which requires all physicians or other staff members supported in part or whole by Federal awards to make a positive attestation regarding the percentage of effort expended on each award. For the fiscal year 2012 A-133 audit, PwC selected and tested 60 individuals' compensation charged to Federal awards and verified the accuracy and timeliness of the certified effort reports without exception. As such, this finding is considered to be remediated.

| | |
|---|---|
| **Finding 2011-2:** | **Reporting - Suburban Hospital** |
| Federal Agency: | Department of Health and Human Services |
| Program: | Research and Development Cluster, Transmolecular Imaging Center Renovation<br>Maryland Hospital Preparedness Program |
| CFDA #: | Various |
| Award #: | Various |
| Award Year: | July 1, 2010 to June 30, 2011 |

During PwC's testing of reporting compliance for the Research and Development cluster, PwC noted that JHHS management was unable to provide evidence of timely submission for one annual progress report for the MRI contract. We also noted one semi-annual report for Stroke contract was submitted late.

During PwC's testing of reporting compliance for the Transmolecular Imaging Center Renovation award, PwC noted the management of JHHS filed one quarterly federal financial report (Form 425) late.

***Status***

For the fiscal year 2012 A-133 audit, PwC selected and tested all required reports as specified in the award documents. PwC verified that all reports were submitted on time with the requisite information. As such, this finding is considered to be remediated.

**Finding 2011-3:** **Travel Costs - Suburban Hospital**

| | |
|---|---|
| Federal Agency: | National Institutes of Health |
| Program: | Research and Development Cluster |
| Contract #: | HHSN268200564265 |
| Contract Year: | September 30, 2010 to September 29, 2011 |

During PwC's testing of travel, PwC noted that JHHS management was unable to provide evidence of written approval of the Contracting Officer for travel related to scientific meetings in a foreign country.

***Status***

Management implemented a new travel policy whereby travel costs are moved to an unallowable cost center and not billed to the NIH until written approval is received from the contracting officer. For the fiscal year 2012 A-133 audit, PwC selected and tested travel expenditures within the Research and Development cluster. For each travel selection, PwC verified that each travel selection was approved in writing by the contracting officer. As such, this finding is considered to be remediated.