



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

Consolidated Financial Statements and Schedules

June 30, 2016 and 2015

(With Independent Auditors' Report Thereon)

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

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KPMG LLP  
1 East Pratt Street  
Baltimore, MD 21202-1128

## **Independent Auditors' Report**

The Board of Directors  
University of Maryland Medical System Corporation:

We have audited the accompanying consolidated financial statements of the University of Maryland Medical System Corporation and Subsidiaries (the Corporation), which comprise the consolidated balance sheets as of June 30, 2016 and 2015, and the related consolidated statements of operations and changes in net assets, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditors' Responsibility***

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

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### ***Opinion***

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the University of Maryland Medical System Corporation and Subsidiaries as of June 30, 2016 and 2015, and the results of their operations and their cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.



***Other Matter***

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

**KPMG LLP**

October 27, 2016

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

Consolidated Balance Sheets

June 30, 2016 and 2015

(In thousands)

<b>Assets</b>	<b>2016</b>	<b>2015</b>
Current assets:		
Cash and cash equivalents	\$ 523,169	462,506
Assets limited as to use, current portion	51,412	50,417
Accounts receivable:		
Patient accounts receivable, less allowance for doubtful accounts of \$202,298 and \$248,054 as of June 30, 2016 and 2015, respectively	331,055	325,563
Other	97,887	68,949
Inventories	59,738	59,254
Prepaid expenses and other current assets	25,381	25,279
Total current assets	1,088,642	991,968
Investments	645,534	500,931
Assets limited as to use, less current portion	750,179	888,585
Property and equipment, net	2,086,546	2,058,129
Investments in joint ventures	71,906	74,600
Other assets	323,275	218,633
Total assets	\$ 4,966,082	4,732,846
<b>Liabilities and Net Assets</b>		
Current liabilities:		
Trade accounts payable	\$ 249,543	261,239
Accrued payroll and benefits	253,337	243,848
Advances from third-party payors	124,717	129,212
Lines of credit	180,000	144,400
Short-term financing	150,000	—
Other current liabilities	147,522	115,295
Long-term debt subject to short-term remarketing arrangements	32,515	51,732
Current portion of long-term debt	37,592	33,298
Total current liabilities	1,175,226	979,024
Long-term debt, less current portion and amount subject to short-term remarketing arrangements	1,422,604	1,559,144
Other long-term liabilities	352,605	259,225
Interest rate swap liabilities	273,037	196,372
Total liabilities	3,223,472	2,993,765
Net assets:		
Unrestricted	1,459,280	1,457,227
Temporarily restricted	246,265	245,653
Permanently restricted	37,065	36,201
Total net assets	1,742,610	1,739,081
Total liabilities and net assets	\$ 4,966,082	4,732,846

See accompanying notes to consolidated financial statements.

**UNIVERSITY OF MARYLAND MEDICAL SYSTEM CORPORATION  
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Consolidated Statements of Operations

Years ended June 30, 2016 and 2015

(In thousands)

	<b>2016</b>	<b>2015</b>
Unrestricted revenues, gains and other support:		
Patient service revenue (net of contractual adjustments)	\$ 3,544,050	3,373,236
Provision for bad debts	(176,198)	(145,328)
Net patient service revenue	3,367,852	3,227,908
Other operating revenue:		
State support	3,200	3,200
Premium revenue	140,958	—
Other revenue	156,939	142,436
Total unrestricted revenues, gains and other support	3,668,949	3,373,544
Operating expenses:		
Salaries, wages and benefits	1,751,856	1,648,338
Expendable supplies	674,994	639,828
Purchased services	680,062	512,287
Contracted services	216,562	214,214
Depreciation and amortization	200,764	182,231
Interest expense	57,464	58,936
Total operating expenses	3,581,702	3,255,834
Operating income	87,247	117,710
Nonoperating income and expenses, net:		
Contributions	3,769	11,385
St. Joseph escrow settlement	34,275	—
Equity in net income (loss) of joint ventures	(298)	8,603
Gain on sale of joint venture interest	—	39,350
Investment income, net	21,111	28,273
Change in fair value of investments	(36,443)	(30,029)
Change in fair value of undesignated interest rate swaps	(78,429)	(22,237)
Fair value impairment adjustment	—	(11,483)
Loss on early extinguishment of debt	—	(8,794)
Other nonoperating losses, net	(31,033)	(37,676)
Excess of revenues over expenses	\$ 199	95,102

See accompanying notes to consolidated financial statements.

**UNIVERSITY OF MARYLAND MEDICAL SYSTEM CORPORATION  
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Consolidated Statements of Changes in Net Assets

Years ended June 30, 2016 and 2015

(In thousands)

	<b>Unrestricted net assets</b>	<b>Temporarily restricted net assets</b>	<b>Permanently restricted net assets</b>	<b>Total</b>
Balance at June 30, 2014	\$ 1,351,895	241,386	36,050	1,629,331
Excess of revenues over expenses	95,102	—	—	95,102
Capital distribution to minority interest holders	(1,011)	—	—	(1,011)
Investment gains, net	—	1,350	29	1,379
State support for capital	—	14,261	—	14,261
Contributions, net	—	14,597	662	15,259
Net assets released from restrictions used for operations and nonoperating activities	—	(5,813)	—	(5,813)
Net assets released from restrictions used for purchase of property and equipment	17,654	(17,654)	—	—
Change in economic and beneficial interests in the net assets of related organizations	—	(2,114)	—	(2,114)
Change in ownership interest of joint ventures	(173)	(61)	—	(234)
Amortization of accumulated loss of discontinued designated interest rate swap	1,812	—	—	1,812
Change in funded status of defined benefit pension plans	(7,992)	—	—	(7,992)
Asset reclassifications at request of donor	293	244	(537)	—
Other	(353)	(543)	(3)	(899)
Increase in net assets	<u>105,332</u>	<u>4,267</u>	<u>151</u>	<u>109,750</u>
Balance at June 30, 2015	1,457,227	245,653	36,201	1,739,081
Excess of revenues over expenses	199	—	—	199
Investment gains, net	—	(968)	(52)	(1,020)
State support for capital	—	4,364	—	4,364
Contributions, net	—	15,884	469	16,353
Net assets released from restrictions used for operations and nonoperating activities	—	(7,067)	—	(7,067)
Net assets released from restrictions used for purchase of property and equipment	10,417	(10,417)	—	—
Change in economic and beneficial interests in the net assets of related organizations	—	(1,545)	—	(1,545)
Change in ownership interest of joint ventures	566	(36)	—	530
Amortization of accumulated loss of discontinued designated interest rate swap	1,765	—	—	1,765
Change in funded status of defined benefit pension plans	(10,643)	—	—	(10,643)
Asset reclassifications at request of donor	(847)	400	447	—
Other	596	(3)	—	593
Increase in net assets	<u>2,053</u>	<u>612</u>	<u>864</u>	<u>3,529</u>
Balance at June 30, 2016	<u>\$ 1,459,280</u>	<u>246,265</u>	<u>37,065</u>	<u>1,742,610</u>

See accompanying notes to consolidated financial statements.

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

Years ended June 30, 2016 and 2015

(In thousands)

	<b>2016</b>	<b>2015</b>
Cash flows from operating activities:		
Increase in net assets	\$ 3,529	109,750
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation and amortization	200,764	182,231
Provision for bad debts	176,198	145,328
Amortization of bond premium and deferred financing costs	1,944	1,153
Net realized gains and change in fair value of investments	28,046	15,813
Loss on early extinguishment of debt	—	8,794
Gain on sale of joint venture interest	—	(39,350)
Equity in net income of joint ventures	298	(8,603)
Decrease in economic and beneficial interests in net assets of related organizations	1,545	2,114
Fair value impairment adjustment	—	11,483
Change in fair value of interest rate swaps	76,665	20,425
Change in funded status of defined benefit pension plans	10,643	7,992
Restricted contributions, grants and other support	(16,353)	(15,259)
Change in operating assets and liabilities:		
Patient accounts receivable	(174,069)	(112,846)
Other receivables, prepaid expenses, other current assets and other assets	(45,510)	31,793
Inventories	(484)	(2,702)
Trade accounts payable, accrued payroll and benefits, other current liabilities and other long-term liabilities	22,842	14,759
Advances from third-party payors	(4,495)	5,600
Net cash provided by operating activities	281,563	378,475
Cash flows from investing activities:		
Purchases and sales of investments and assets limited as to use, net	47,619	73,863
Purchases of alternative investments	(120,788)	(106,489)
Sales of alternative investments	46,544	41,893
Acquisition of UM Health Plans, net of cash acquired	(30,747)	—
Purchases of property and equipment	(215,691)	(208,729)
Distributions from joint ventures	3,031	4,796
Net cash used in investing activities	(270,032)	(194,666)

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Consolidated Statements of Cash Flows

Years ended June 30, 2016 and 2015

(In thousands)

	<b>2016</b>	<b>2015</b>
Cash flows from financing activities:		
Proceeds from long-term debt	\$ 51,350	86,604
Repayment of long-term debt and capital leases	(54,171)	(139,347)
Draws on lines of credit, net	35,600	27,400
Payment of debt issuance costs	—	1,059
Restricted contributions, grants and other support	16,353	15,259
	49,132	(9,025)
Net cash provided by (used in) financing activities		
Net increase in cash and cash equivalents	60,663	174,784
Cash and cash equivalents, beginning of year	462,506	287,722
Cash and cash equivalents, end of year	\$ 523,169	462,506
Supplemental disclosures of cash flow information:		
Cash paid during the year for interest, net of amounts capitalized	\$ 56,478	54,482
Amount included in accounts payable for construction in progress	23,213	32,953
Supplemental disclosures of noncash information:		
Capital leases	\$ 2,309	—

See accompanying notes to consolidated financial statements.

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Notes to Consolidated Financial Statements

June 30, 2016 and 2015

**(1) Organization and Summary of Significant Accounting Policies**

**(a) Organization**

The University of Maryland Medical System Corporation (the Corporation or UMMS) is a private, not-for-profit corporation providing comprehensive healthcare services through an integrated regional network of hospitals and related clinical enterprises. UMMS was created in 1984 when its founding hospital was privatized by the State of Maryland. Over its 30 year history, UMMS evolved into a multi-hospital system with academic, community and specialty service missions reaching primarily across Maryland. In continuing partnership with the University of Maryland School of Medicine, UMMS operates healthcare programs that improve the physical and mental health of thousands of people each day.

The accompanying consolidated financial statements include the accounts of the Corporation, its wholly owned subsidiaries, and entities controlled by the Corporation. In addition, the Corporation maintains equity interests in various unconsolidated joint ventures, which are described in note 4. The significant operating divisions of the Corporation are described in further detail below.

All material intercompany balances and transactions have been eliminated in consolidation.

**Recent Acquisitions & Divestitures**

University of Maryland Health Ventures, LLC (UMHV), a wholly owned subsidiary of UMMS, acquired 100% of the stock of Riverside Health, Inc. (Riverside) and its affiliates on August 17, 2015 (the Purchase Date). Concurrent with the transaction, Riverside Health, Inc. was renamed University of Maryland Medical System Health Plans, Inc. (UM Health Plans).

UM Health Plans is a holding company that operates as a managed healthcare and insurance organization in the State of Maryland and includes the following subsidiaries: Riverside Health of Maryland, Inc. (RHMI), University of Maryland Health Advantage, Inc., formerly Riverside Advantage, Inc. (UMHA), Riverside Health of Delaware, Inc. (RHDE), and Riverside Health DC, Inc.

The transaction is described in more detail below.

**University of Maryland Medical Center (Medical Center)**

The University of Maryland Medical Center, which is a major component of UMMS, is an 816-bed academic medical center located in Baltimore. The Medical Center has served as the teaching hospital of the School of Medicine of the University System of Maryland, Baltimore since 1823. While the Corporation is not affiliated with the University System of Maryland, clinical faculty members of the School of Medicine serve as medical staff of the Medical Center.

The Medical Center is comprised of two operating divisions: University Hospital, which includes the Greenebaum Cancer Center, and Shock Trauma Center. University Hospital, which generates approximately 80% of the Medical Center's admissions and patient days, is a tertiary teaching hospital providing over 70 clinical services and programs. The Greenebaum Cancer Center specializes in the treatment of cancer patients and is a site for clinical cancer research. The Shock Trauma Center, which

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specializes in emergency treatment of patients suffering severe trauma, generates approximately 20% of admissions and patient days.

The Medical Center's operations include UniversityCARE, LLC (UCARE), a physician hospital organization of which the Corporation has a majority ownership interest and therefore consolidates, and 36 South Paca Street, LLC, a wholly owned subsidiary of the Corporation that operates a residential apartment building.

The Corporation has certain agreements with various departments of the University of Maryland School of Medicine concerning the provision of professional and administrative services to the Corporation and its patients. Total expense under these agreements in the years ended June 30, 2016 and 2015 was approximately \$152,155,000 and \$146,831,000, respectively.

**University of Maryland Rehabilitation and Orthopaedic Institute (ROI)**

ROI is comprised of a medical/surgical and rehabilitation hospital in Baltimore with 134 licensed beds, including 88 rehabilitation beds, 36 chronic care beds, 10 medical/surgical beds, and off-site physical therapy facilities.

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

**University of Maryland Medical Center Midtown Campus (Midtown)**

Midtown is located in Baltimore city and is comprised of University of Maryland Midtown Hospital (UM Midtown), a 208-bed acute care hospital and a wholly owned subsidiary providing primary care.

**University of Maryland Baltimore Washington Medical System, Inc. (Baltimore Washington)**

Baltimore Washington is located in Anne Arundel County, a suburb of Baltimore city, and is a health system comprised of University of Maryland Baltimore Washington Medical Center (UM Baltimore Washington), a 319-bed acute care hospital providing a broad range of services, and several wholly owned subsidiaries providing emergency physician and other services.

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

**University of Maryland Shore Regional Health System (Shore Regional)**

Shore Regional is a health system located on the Eastern Shore of Maryland. Shore Regional owns and operates University of Maryland Memorial Hospital (UM Memorial), a 132-bed acute care hospital providing inpatient and outpatient services in Easton, Maryland; University of Maryland Dorchester Hospital (UM Dorchester), a 41-bed acute care hospital providing inpatient and outpatient

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services in Cambridge, Maryland; University of Maryland Chester River Hospital Center (UM Chester River), a 41-bed acute care hospital providing inpatient and outpatient services to the residents of Kent and Queen Anne's counties; Shore Emergency Center at Queenstown (Shore Emergency Center), a free-standing emergency center; Memorial Hospital Foundation (Memorial Foundation), a nonprofit corporation established to solicit donations for the benefit of UM Memorial; Chester River Health Foundation (Chester River Foundation), a nonprofit corporation established to solicit donations for the benefit of UM Chester River; and several other subsidiaries providing various outpatient and home care services.

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

**University of Maryland Charles Regional Health System, Inc. (Charles Regional)**

Charles Regional owns and operates University of Maryland Charles Regional Medical Center (UM Charles Regional), which is comprised of a 121-bed acute care hospital and other community healthcare resources providing inpatient and outpatient services to the residents of Charles County in Southern Maryland.

**University of Maryland St. Joseph Health System, LLC (St. Joseph)**

St. Joseph owns and operates University of Maryland St. Joseph Medical Center (UM St. Joseph), a 232-bed, Catholic acute care hospital located in Towson, Maryland, as well as other subsidiaries providing inpatient and outpatient services to the residents of Baltimore County.

**University of Maryland Upper Chesapeake Health System (Upper Chesapeake)**

Upper Chesapeake is a health system located in Harford County, Maryland. Upper Chesapeake's healthcare delivery system includes two acute care hospitals, University of Maryland Upper Chesapeake Medical Center (UM Upper Chesapeake), a 181-bed acute care hospital and University of Maryland Harford Memorial Hospital (UM Harford Memorial), an 89 – bed acute care hospital; a physician practice; a captive insurance company; a land holding company; and Upper Chesapeake Health Foundation.

**University of Maryland Medical System Foundation, Inc. (UMMS Foundation)**

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

**University of Maryland Community Medical Group, LLC (CMG)**

CMG is a physician network that employs more than 300 primary care physicians, specialists and advanced practice providers. CMG is a wholly owned subsidiary of UMMS and has over 75 locations across the state of Maryland.

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**University of Maryland Medical System Health Plans Inc. (UM Health Plans)**

UM Health Plans (formerly Riverside Health Inc.), a Delaware corporation, is a public sector managed healthcare company based in Baltimore, Maryland. UM Health Plans is the parent company of: Riverside Health of Maryland, Inc. (RHMI) which provides managed care health coverage to Medicaid recipients throughout Maryland; University of Maryland Health Advantage, Inc. (UMHA), a Medicare Advantage Plan; Riverside Health of Delaware Inc. (RHDE) and Riverside Health DC, Inc.

On August 17, 2015, UMHV, a wholly owned subsidiary of UMMS, purchased all of the outstanding shares of UM Health Plans for approximately \$42,250,000 in cash, net working capital and convertible promissory notes. In addition, the Stock Purchase Agreement included an earn-out payment clause for the previous stockholders of UM Health Plans, the final computation of which is not to be determined until March 31, 2020. This earn-out could result in an undiscounted payment ranging from \$7,000,000 to \$106,500,000 depending on the performance and membership of both plans. UMHV recorded a contingent consideration representing a discounted estimate of the future payment of the earn-out provision of approximately \$35,700,000 at the acquisition date, which is included within other long-term liabilities in the accompanying consolidated balance sheets.

The acquisition was accounted for under the purchase accounting method for business combinations and the financial position and results of operations of UM Health Plans were consolidated by the Corporation beginning on August 17, 2015.

The following table summarizes the estimated fair value of UM Health Plan's assets acquired and liabilities assumed at August 17, 2015 (the acquisition date).

Assets:	
Current assets	\$ 29,786
Property and equipment	3,750
Goodwill	42,020
Other long-term assets	46,638
Total assets	\$ 122,194
Liabilities:	
Current liabilities	\$ 28,226
Long-term liabilities	16,249
Total liabilities	44,475
Net assets:	
Unrestricted	77,719
Temporarily restricted	—
Total net assets	77,719
Total liabilities and net assets	\$ 122,194

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Notes to Consolidated Financial Statements

June 30, 2016 and 2015

The following table summarizes the Corporation's pro forma consolidated results as though the acquisition date occurred at July 1:

	<b>2016</b>	<b>2015</b>
Operating revenues	\$ 3,685,503	3,503,844
Net operating income	85,969	118,371
Changes in net assets:		
Unrestricted	775	105,993
Temporarily restricted	612	4,267
Permanently restricted	864	151
Total changes in net assets	\$ 2,251	110,411

**(b) Basis of Presentation**

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

**(c) Cash Equivalents**

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

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

The Corporation's investment portfolio is classified as trading, and is reported in the consolidated balance sheets at its fair value, based on quoted market prices, at June 30, 2016 and 2015. Unrealized holding gains and losses on trading securities with readily determinable market values are included in nonoperating income. Investment income, including realized gains and losses, is included in nonoperating income in the accompanying consolidated statements of operations.

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

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

Alternative investments are recorded under the equity method of accounting. Underlying securities of these alternative investments may include certain debt and equity securities that are not readily marketable. Because certain investments are not readily marketable, their fair value is subject to

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additional uncertainty, and therefore values realized upon disposition may vary significantly from current reported values.

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

**(e) Inventories**

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

**(f) Economic Interests in Financially Interrelated Organizations**

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

**(g) Property and Equipment**

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

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

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

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

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**(h) *Deferred Financing Costs***

Costs incurred related to the issuance of long-term debt, which are included in other assets, are deferred and are amortized over the life of the related debt agreements or the related letter of credit agreements using the effective interest method.

**(i) *Goodwill***

Goodwill is an asset representing the future economic benefits arising from other assets acquired in a business combination that are not individually identified and separately recognized. Goodwill is reviewed for impairment at least annually. A qualitative assessment of whether it is more likely than not that the fair value of the reporting unit is less than its carrying value is performed, which determines whether a quantitative goodwill impairment test is necessary. The goodwill impairment test is a two-step test. Under the first step, the fair value of the reporting unit is compared with its carrying value (including goodwill). If the fair value of the reporting unit is less than its carrying value, an indication of goodwill impairment exists for the reporting unit and the entity must perform step two of the impairment test (measurement). Under step two, an impairment loss is recognized for any excess of the carrying amount of the reporting unit's goodwill over the implied fair value of that goodwill. The implied fair value of goodwill is determined by allocating the fair value of the reporting unit in a manner similar to a purchase price allocation and the residual fair value after this allocation is the implied fair value of the reporting unit goodwill. Fair value of the reporting unit is determined using a discounted cash flow analysis. If the fair value of the reporting unit exceeds its carrying value, step two does not need to be performed.

No impairment loss was recorded for the years ended June 30, 2016 or 2015.

**(j) *Contingent Consideration for Business Acquisitions***

Acquisitions may include contingent consideration payments based on future financial measures of an acquired company. Contingent consideration is required to be recognized at fair value as of the acquisition date. We estimate the fair value of these liabilities based on financial projections of the acquired companies and estimated probabilities of achievement and discount the liabilities to present value using a weighted average cost of capital. Contingent consideration is valued using significant inputs that are not observable in the market which are defined as Level 3 inputs pursuant to fair value measurement accounting. At each reporting date, the contingent consideration obligation is revalued to estimated fair value and changes in fair value subsequent to the acquisition are reflected in operating income in the consolidated statements of operations. Changes in the fair value of contingent consideration obligations may result from changes in discount periods and rates, changes in the timing and amount of revenue and/or earnings estimates and changes in probability assumptions with respect to the likelihood of achieving the various earn-out criteria.

**(k) *Impairment of Long-Lived Assets***

Long-lived assets, such as property, plant, and equipment, and purchased intangibles subject to amortization, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by comparing the carrying amount of an asset to estimated undiscounted future cash flows

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expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized in the amount by which the carrying amount of the asset exceeds the fair value of the asset. Assets to be disposed of would be separately presented in the consolidated balance sheets and reported at the lower of the carrying amount or fair value less costs to sell, and are no longer depreciated. The assets and liabilities of a disposed group classified as held for sale would be presented separately in the appropriate asset and liability sections of the consolidated balance sheets.

No impairment losses were recorded other than those disclosed specifically in the financial statements for the years ended June 30, 2016 or 2015.

**(l) *Investments in Joint Ventures***

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

**(m) *Self-Insurance***

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

**(n) *Net Assets***

The Corporation classifies net assets based on the existence or absence of donor-imposed restrictions. Unrestricted net assets represent contributions, gifts and grants, which have no donor-imposed restrictions or which arise as a result of operations. Temporarily restricted net assets are subject to donor-imposed restrictions that must or will be met either by satisfying a specific purpose and/or passage of time. Permanently restricted net assets are subject to donor-imposed restrictions that must be maintained in perpetuity. Generally, the donors of these assets permit the use of all or part of the income earned on related investments for specific purposes. The restrictions associated with these net assets generally pertain to patient care, specific capital projects and funding of specific hospital operations and community outreach programs.

**(o) *Net Patient Service Revenue and Provision for Uncollectible Accounts***

Patient service revenue for the Medical Center, ROI, Midtown, Baltimore Washington, Shore Regional, Charles Regional, St. Joseph, and Upper Chesapeake reflects actual charges to patients based on rates established by the State of Maryland Health Services Cost Review Commission (HSCRC) in effect during the period in which the services are rendered, net of contractual adjustments. Contractual adjustments represent the difference between amounts billed as patient service revenue and amounts allowed by third-party payors. Such adjustments include discounts on charges as permitted by the HSCRC. See note 18 for further discussion on the HSCRC and regulated rates.

The Corporation records revenues and accounts receivable from patients and third-party payors at their estimated net realizable value. Revenue is reduced for anticipated discounts under contractual

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arrangements and for charity care. An estimated provision for bad debts is recorded in the period the related services are provided based upon anticipated uncompensated care, and is adjusted as additional information becomes available.

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

For receivables associated with services provided to patients who have third-party coverage, the Corporation analyzes contractually due amounts and provides an allowance for bad debts, allowance for contractual adjustments, provision for bad debts, and contractual adjustments on accounts for which the third-party payor has not yet paid or for payors who are known to be having financial difficulties that make the realization of amounts due unlikely. For receivables associated with self-pay patients or with balances remaining after the third-party coverage has already paid, the Corporation records a significant provision for bad debts in the period of service on the basis of its historical collections, which indicates that many patients ultimately do not pay the portion of their bill for which they are financially responsible. The difference between the discounted rates and the amounts collected after all reasonable collection efforts have been exhausted is charged against the allowance for doubtful accounts. The change in the allowance for doubtful accounts was as follows during the years ended June 30:

	<b>2016</b>	<b>2015</b>
Beginning allowance for doubtful accounts	\$ (248,054)	(210,958)
Plus provision for bad debt	(176,198)	(145,328)
Less bad debt write-offs	221,954	108,232
Ending allowance for doubtful accounts	\$ (202,298)	(248,054)

The change in the allowance for doubtful accounts during 2016 is attributable to changes in trends experienced in the collection of the related patient receivables.

The Health Information Technology for Economic and Clinical Health (HITECH) Act was signed into law in February 2009. In the context of the HITECH Act, certain healthcare entities must implement a certified Electronic Health Record (EHR) in an effort to promote the adoption and “meaningful use” of health information technology (HIT). The HITECH Act includes significant monetary incentives meant to encourage the adaptation of an EHR system. During the years ended June 30, 2016 and 2015, the Corporation recognized “meaningful use” incentive payments totaling \$7,948,000 and \$12,126,000, respectively, which are included in other operating revenue in the consolidated statements of operations.

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**(p) Premium Revenue and Medical Claims Expense**

Premium revenue consists of amounts received from the State of Maryland and the Centers for Medicare and Medicaid Services (CMS) by the Corporation's managed care organization for providing medical services to subscribing participants, regardless of services actually performed. The managed care organization provides services primarily to enrolled Medicaid and Medicare beneficiaries. This revenue is recognized ratably over the contractual period for the provision of services. Medical expenses of the managed care organization include actuarially determined estimates of the ultimate costs for both reported claims and claims incurred but unreported and are included in purchased services on the consolidated statements of operations and changes in net assets.

**(q) Charity Care**

The Corporation is committed to providing quality healthcare to all, regardless of their ability to pay. Patients who meet the criteria of its charity care policy receive services without charge or at amounts less than its established rates. The criteria for charity care consider the household income in relation to the federal poverty guidelines. The Corporation provides services at no charge for patients with adjusted gross income equal to or less than 200% of the federal poverty guidelines. For uninsured patients with adjusted gross income greater than 200% of the federal poverty guidelines, a sliding scale discount is applied. Income and asset information obtained from patient credit reporting data are used to determine patients' ability to pay. The Corporation maintains records to identify and monitor the level of charity care it furnished under its charity care policy. The charity care policies of the new affiliates are generally consistent with that of the Corporation's policy.

Due to the complexity of the eligibility process, the Corporation provides eligibility services to patients free of charge to assist in the qualification process. These eligibility services include, but are not limited to, the following:

- Financial assistance brochures and other information are posted at each point of service. When patients have questions or concerns, they are encouraged to call a toll-free number to reach customer service representatives during the business day. Financial assistance programs are published on the Corporation's Web site and included on the statements provided to patients.
- The Corporation offers assistance to patients in completing the applications for Medicaid or other government payment assistance programs, or applying for care under the Corporation's charity care policy, if applicable. The Corporation also employs an external firm to assist in the eligibility process.
- Any patient, whether covered by insurance or not, may meet with a UMMS representative and receive financial counseling from UMMS' dedicated financial assistance unit.

The Corporation recognizes that a large number of uninsured and insured patients meet the charity care guidelines but do not respond to the Corporation's attempts to obtain necessary financial information. In these instances, the Corporation uses credit reporting data to properly classify these unpaid balances as charity care as opposed to bad debt expense. Utilization of income and asset information and credit reporting data indicate the vast majority of amounts reported as provision for bad debts represent amounts due from patients that would otherwise qualify for charity benefits but do

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not respond to the Corporation's attempts to obtain the necessary financial information. In these cases, reasonable collection efforts are pursued, but yield few collections. Amounts determined to meet the criteria under the charity care policy are not reported as net patient service revenue.

The amounts reported as charity care represent the cost of rendering such services. Costs incurred are estimated based on the cost-to-charge ratio for each hospital and applied to charity care charges. The Corporation estimates the total direct and indirect costs to provide charity care were \$48,149,000 and \$73,851,000 for the years ended June 30, 2016 and 2015, respectively.

**(r) *Nonoperating Income and Expenses, Net***

Other activities that are only indirectly related to the Corporation's primary business of delivering healthcare services are recorded as nonoperating income and expenses, and include investment income, equity in the net income of joint ventures, general donations and fund-raising activities, escrow settlements, gains on sale of joint venture interest, changes in fair value of investments, changes in fair value of undesignated interest rate swaps, settlement payments on interest rate swaps that do not qualify for hedge accounting treatment, and loss on early extinguishment of debt. Settlement payments on interest rate swaps were approximately \$25,289,000 and \$26,241,000 for the years ended June 30, 2016 and 2015, respectively, and are included in other nonoperating losses on the accompanying statements of operations.

**(s) *Derivative Financial Instruments***

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

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

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

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

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hedge's inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

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

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

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

**(t) *Excess of Revenue over Expenses***

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

**(u) *Income Taxes***

The Corporation and most of its subsidiaries are not-for-profit corporations formed under the laws of the State of Maryland, organized for charitable purposes and recognized by the Internal Revenue Service as tax-exempt organizations under Section 501(c)(3) of the Internal Revenue Code pursuant to Section 501(a) of the Code. The effect of the taxable status of its for-profit subsidiaries is not material to the consolidated financial statements.

The Corporation has net operating loss carryforwards on for-profit and unrelated business activities of approximately \$51,888,000 as of June 30, 2016, which expire at various dates through 2031. The Corporation's remaining deferred tax assets, which consist primarily of the net operating loss

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carryforwards, of approximately \$20,755,000 at June 30, 2016 are fully reserved as they are not expected to be utilized. The Corporation has a deferred tax liability in the amount of \$17,361,000 related to indefinite lived intangibles, at June 30, 2016, which is included in other long-term liabilities on the accompanying consolidated balance sheets.

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

**(v) Donor-Restricted Gifts**

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

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

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

**(w) Fair Value Measurements**

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

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

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

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*Long-term debt* – The fair value of the long-term debt issued through the Maryland Health and Higher Educational Facilities Authority (Authority or MHHEFA), based on quoted market prices, at June 30, 2016 and 2015, was approximately \$1,485,865,000 and \$1,472,007,000, respectively. The carrying amounts of other long-term debt reported in note 7 and on the consolidated balance sheets approximate the related fair values.

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

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

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

The level in the fair value hierarchy within which a fair measurement in its entirety falls is based on the lowest level input that is significant to the fair value measurement in its entirety.

As of June 30, 2016 and 2015, the Level 2 assets and liabilities listed in the fair value hierarchy tables below utilize the following valuation techniques and inputs:

**(i) Cash Equivalents**

The fair value of investments in cash equivalent securities, with maturities within three months of the date of purchase, is determined using techniques that are consistent with the market approach. Significant observable inputs include reported trades and observable broker-dealer quotes.

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**(ii) U.S. Government and Agency Securities**

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

**(iii) Corporate Bonds**

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

**(iv) Collateralized Corporate Obligations**

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

**(v) Derivative Liabilities**

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

**(x) *Commitments and Contingencies***

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

**(y) *Use of Estimates***

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

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(z) ***New Accounting Pronouncements***

The Financial Accounting Standards Board (FASB) issued Accounting Standards update (ASU) 2014-09, *Revenue from Contracts with Customers (Topic 606)*. This ASU establishes principles for reporting useful information to users of financial statements about the nature, amount, timing, and uncertainty of revenue and cash flows arising from the entity's contracts with customers. The ASU requires that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. ASU 2014-09 is effective for fiscal year 2019. The Corporation expects to record a decrease in net patient service revenue related to self-pay patients and a corresponding decrease in bad debt expense upon the adoption of the standard.

The FASB issued ASU 2015-03, *Interest – Imputation of Interest*. This ASU requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The recognition and measurement guidance for debt issuance costs are not affected by the amendments in this ASU. ASU 2015-03 is effective for fiscal year 2017. The Corporation does not anticipate that the adoption of this ASU will have a material impact on its financial position or its results of operations.

The FASB issued ASU 2015-07, *Fair Value Measurement (Topic 820) Disclosures for Investments in Certain Entities that Calculate Net Asset Value per Share*. This ASU removes the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the net asset value per share practical expedient. The amendments also remove the requirement to make certain disclosures for all investments that are eligible to be measured at fair value using the net asset value per share practical expedient. Rather, those disclosures are limited to investments for which the entity has elected to measure the fair value using that practical expedient. ASU 2015-07 is effective for fiscal year 2017. The Corporation does not anticipate that the adoption of this ASU will have a material impact on its financial position or its results of operations.

The FASB issued ASU No. 2016-02, *Leases (ASU 2016-02)*, which will require lessees to recognize most leases on-balance sheet, increasing their reported assets and liabilities – sometimes very significantly. This update was developed to provide financial statement users with more information about an entity's leasing activities, and will require changes in processes and internal controls. The adoption of ASU 2016-02 is effective fiscal year 2020, and will require application of the new guidance at the beginning of the earliest comparable period presented. Early adoption is permitted. The Corporation is in the process of assessing the impact the adoption of this standard will have on the consolidated financial statements.

The FASB issued ASU No. 2016-14, *Not-for-Profit Entities (ASU 2016-14)*, to improve the current net asset classification requirements and information presented in financial statements and notes about a not-for-profit entity's liquidity, financial performance, and cash flows. This update requires not-for-profit entities to present two classes of net assets (net assets with donor restrictions and net assets without donor restrictions), rather than the three classes of net assets currently required, and other qualitative information regarding the entity's liquidity, financial performance, and cash flows. The amendments in this update are effective for annual financial statements issued for fiscal years

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beginning after December 15, 2017 and for interim periods within fiscal years beginning after December 15, 2018. Early adoption is permitted. The Corporation is in the process of assessing the impact the adoption of this standard will have on the consolidated financial statements.

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

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

	<b>2016</b>	<b>2015</b>
Investments held for collateral	\$ 177,998	119,320
Debt service and reserve funds	66,712	64,588
Construction funds – held by trustee	—	7,852
Construction funds – held by the Corporation	41,986	119,782
Board designated funds	117,502	231,945
Self-insurance trust funds	154,327	150,052
Funds restricted by donors	55,181	56,033
Economic and beneficial interests in the net assets of related organizations (note 12)	187,885	189,430
Total assets limited as to use	801,591	939,002
Less amounts available for current liabilities	(51,412)	(50,417)
Total assets limited as to use, less current portion	\$ 750,179	888,585

The carrying values of assets limited as to use were as follows at June 30, 2016 (in thousands):

	Investments held for collateral	Debt service and reserve funds	Construction funds	Board designated funds	Self-insurance trust funds	Funds restricted by donors	Economic and beneficial interests	Total
Cash and cash equivalents	\$ 52,568	41,826	32,385	16,656	11,178	7,567	—	162,180
Corporate bonds	—	—	680	18,212	2,904	6,690	—	28,486
Collateralized corporate obligations	—	—	91	45	—	153	—	289
U.S. government and agency securities	125,430	24,886	268	133	204	449	—	151,370
Common stocks, including mutual funds	—	—	2,513	46,114	—	16,601	—	65,228
Alternative investments	—	—	6,049	36,342	—	23,721	—	66,112
Assets held by other organizations	—	—	—	—	140,041	—	187,885	327,926
Total assets limited as to use	\$ 177,998	66,712	41,986	117,502	154,327	55,181	187,885	801,591

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The carrying values of assets limited as to use were as follows at June 30, 2015 (in thousands):

	Investments held for collateral	Debt service and reserve funds	Construction funds	Board designated funds	Self- insurance trust funds	Funds restricted by donors	Economic and beneficial interests	Total
Cash and cash equivalents	\$ —	31,799	94,556	36,570	9,835	6,615	—	179,375
Corporate bonds	—	—	3,292	39,071	2,434	8,783	—	53,580
Collateralized corporate obligations	—	—	931	736	—	65	—	1,732
U.S. government and agency securities	119,320	32,789	1,783	19,557	645	125	—	174,219
Common stocks, including mutual funds	—	—	10,146	85,272	—	23,313	—	118,731
Alternative investments	—	—	16,926	50,739	—	17,132	—	84,797
Assets held by other organizations	—	—	—	—	137,138	—	189,430	326,568
Total assets limited as to use	<u>\$ 119,320</u>	<u>64,588</u>	<u>127,634</u>	<u>231,945</u>	<u>150,052</u>	<u>56,033</u>	<u>189,430</u>	<u>939,002</u>

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

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

	<u>2016</u>	<u>2015</u>
Cash and cash equivalents	\$ 42,382	9,404
Corporate bonds	52,175	49,567
Collateralized corporate obligations	5,567	12,543
U.S. government and agency securities	19,274	25,594
Common stocks	158,936	150,761
Alternative investments	367,200	253,062
	<u>\$ 645,534</u>	<u>500,931</u>

Alternative investments include hedge fund, private equity, and commingled investment funds, which are valued using the equity method of accounting. The majority of these alternative investments are subject to 30 day or less notice requirements and are available to be redeemed on at least a monthly basis. There are funds, totaling approximately \$6,000,000, which are subject to 31-60 day notice requirements and can be redeemed on at least a monthly basis. Of the funds with 31-60 day notice requirements, approximately

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\$3,700,000 are subject to lockup restrictions and are not available to be redeemed until certain time restrictions are met, which range from one to three years. Other funds, totaling approximately \$80,700,000, are subject to over 60-day notice requirements and can be redeemed monthly, quarterly, or annually. Of the funds with over 60-day notice requirements, approximately \$17,700,000 are subject to lockup restrictions and are not available to be redeemed until certain time restrictions are met, which range from one to three years. In addition, there are approximately \$9,200,000 of other funds that are subject to lockup restrictions and are not available to be redeemed until certain time restrictions are met, which range from one to three years.

The following table presents investments and assets limited as to use that are measured at fair value on a recurring basis excluding alternative investments in the amount of \$367,200 and \$66,112, respectively, which are accounted for under the equity method, at June 30, 2016 (in thousands):

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Assets:				
Investments:				
Cash and cash equivalents	\$ 42,382	—	—	42,382
Corporate bonds	39,215	12,960	—	52,175
Collateralized corporate obligations	—	5,567	—	5,567
U.S. government and agency securities	8,879	10,395	—	19,274
Common and preferred stocks, including mutual funds	158,817	119	—	158,936
	<u>249,293</u>	<u>29,041</u>	<u>—</u>	<u>278,334</u>
Assets limited as to use:				
Cash and cash equivalents	120,371	41,809	—	162,180
Corporate bonds	25,137	3,349	—	28,486
Collateralized corporate obligations	—	289	—	289
U.S. government and agency securities	125,922	25,448	—	151,370
Common and preferred stocks, including mutual funds	65,228	—	—	65,228
Investments held by other organizations	—	327,926	—	327,926
	<u>336,658</u>	<u>398,821</u>	<u>—</u>	<u>735,479</u>
	<u>\$ 585,951</u>	<u>427,862</u>	<u>—</u>	<u>1,013,813</u>

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The following table presents investments and assets limited as to use that are measured at fair value on a recurring basis excluding alternative investments in the amount of \$253,062 and \$84,797, respectively, which are accounted for under the equity method, at June 30, 2015 (in thousands):

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Assets:				
Investments:				
Cash and cash equivalents	\$ 9,404	—	—	9,404
Corporate bonds	32,513	17,054	—	49,567
Collateralized corporate obligations	—	12,543	—	12,543
U.S. government and agency securities	19,792	5,802	—	25,594
Common and preferred stocks, including mutual funds	150,761	—	—	150,761
	<u>212,470</u>	<u>35,399</u>	<u>—</u>	<u>247,869</u>
Assets limited as to use:				
Cash and cash equivalents	139,726	39,649	—	179,375
Corporate bonds	48,791	4,789	—	53,580
Collateralized corporate obligations	—	1,732	—	1,732
U.S. government and agency securities	139,984	34,235	—	174,219
Common and preferred stocks, including mutual funds	118,731	—	—	118,731
Investments held by other organizations	—	326,568	—	326,568
	<u>447,232</u>	<u>406,973</u>	<u>—</u>	<u>854,205</u>
	<u>\$ 659,702</u>	<u>442,372</u>	<u>—</u>	<u>1,102,074</u>

Changes to Level 1 and Level 2 securities between June 30, 2016 and 2015 were the result of strategic investments and reinvestments, interest income earnings, and changes in the fair value of investments.

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

	<u>2016</u>	<u>2015</u>
Dividends and interest, net of fees	\$ 11,694	15,436
Net realized gains	11,559	15,277
Change in fair value of trading securities	<u>(39,605)</u>	<u>(31,090)</u>
Total investment return	<u>\$ (16,352)</u>	<u>(377)</u>

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

	<u>2016</u>	<u>2015</u>
Nonoperating investment income	\$ 21,111	28,273
Change in fair value of unrestricted investments	(36,443)	(30,029)
Investment gains on restricted net assets	<u>(1,020)</u>	<u>1,379</u>
Total investment return	<u>\$ (16,352)</u>	<u>(377)</u>

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

**(3) Property and Equipment**

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

	<u>2016</u>	<u>2015</u>
Land	\$ 142,256	140,549
Buildings	1,465,218	1,468,578
Building and leasehold improvements	775,638	698,128
Equipment	1,596,086	1,365,897
Construction in progress	<u>119,031</u>	<u>220,407</u>
	4,098,229	3,893,559
Less accumulated depreciation and amortization	<u>(2,011,683)</u>	<u>(1,835,430)</u>
	<u>\$ 2,086,546</u>	<u>2,058,129</u>

Interest cost capitalized was \$0 for the years ended June 30, 2016 and 2015.

Remaining commitments on construction projects were approximately \$47,591,000 at June 30, 2016.

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

Depreciation expense was \$200,764,000 and \$182,231,000, for the years ended June 30, 2016 and 2015, respectively.

**(4) Investments in Joint Ventures**

The Corporation has investments of \$71,906,000 and \$74,600,000 at June 30, 2016 and 2015, respectively, in the following unconsolidated joint ventures:

<u>Joint venture</u>	<u>Business purpose</u>	<u>Ownership percentage</u>	
		<u>FY2016</u>	<u>FY2015</u>
Shipley's Imaging Center, LLC	Freestanding imaging center	50%	50%
Maryland Care, Inc.	Managed care organization	(b)	20
Innovative Health Services, LLC	Third-party insurance claims processor	50	50
NAH/Sunrise of Severna Park, LLC	Senior living facility	(a)	(a)
Terrapin Insurance Company (Terrapin)	Healthcare professional liability insurance company	50	50
Mt. Washington Pediatric Hospital, Inc. (Mt. Washington)	Healthcare services	50	50
Central Maryland Radiation Oncology Center LLC	Healthcare services	50	50
Chesapeake-Potomac Healthcare Alliance	Healthcare services	33	33
Civista Ambulatory Surgery Center, Inc.	Ambulatory surgical services	50	50
NRH/CPT/St. Mary's/Civista Regional Rehab, LLC	Medical rehabilitative and therapy services	15	15
UM SJMC Choice One Urgent Care Centers	Urgent Care Centers	25	—
UM UCHS Choice One Urgent Care Centers	Urgent Care Centers	49	—
UM SRH Choice One Urgent Care Centers	Urgent Care Centers	49	—
Maryland eCare, LLC	Remote monitoring technology	14	14

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Joint venture	Business purpose	Ownership percentage	
		FY2016	FY2015
MRI at St. Joseph Medical Center, LLC	Healthcare services	51%	51%
Advanced/Upper Chesapeake Health Center, LLC	Imaging Center	10	10

(a) UMMS sold its 50% ownership interest during June 2015.

(b) UMMS sold its 20% ownership interest during August 2015.

The Corporation recorded equity in net income (losses) of \$(298,000) and \$8,603,000 related to these joint ventures for the years ended June 30, 2016 and 2015, respectively.

During the year ended June 30, 2015, the Corporation sold its interest in North Arundel Senior Living, LLC and NAH/Sunrise of Severna Park, LLC (collectively referred to as Sunrise) and recognized a gain of approximately \$39,500,000, which is recorded as a gain on sale of joint venture in the accompanying consolidated statements of operations.

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

	2016				
	Mt. Washington	Terrapin	Choice One*	Others	Total
Current assets	\$ 24,976	9,513	2,759	19,184	56,432
Noncurrent assets	83,436	199,572	3,620	16,121	302,749
Total assets	<u>\$ 108,412</u>	<u>209,085</u>	<u>6,379</u>	<u>35,305</u>	<u>359,181</u>
Current liabilities	\$ 14,437	105	448	4,947	19,937
Noncurrent liabilities	8,492	207,030	32	972	216,526
Net assets	<u>85,483</u>	<u>1,950</u>	<u>5,899</u>	<u>29,386</u>	<u>122,718</u>
Total liabilities and net assets	<u>\$ 108,412</u>	<u>209,085</u>	<u>6,379</u>	<u>35,305</u>	<u>359,181</u>
Total operating revenue	\$ 56,811	34,150	2,659	57,925	151,545
Total operating expenses	(53,853)	(31,515)	(3,137)	(52,071)	(140,576)
Total nonoperating gains/(losses), net	455	(2,635)	(6)	(5,560)	(7,746)
Contributions from owners	—	—	1,365	(3,971)	(2,606)
Other changes in net assets, net	<u>(1,516)</u>	<u>—</u>	<u>5,018</u>	<u>(1,552)</u>	<u>1,950</u>
Increase in net assets	<u>\$ 1,897</u>	<u>—</u>	<u>5,899</u>	<u>(5,229)</u>	<u>2,567</u>

\* Choice One is the combination of UM SJMC, UM UCHS, and UM SRH Choice One Urgent Care Centers

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		<b>2015</b>			
		<b>Mt. Washington</b>	<b>Terrapin</b>	<b>Others</b>	<b>Total</b>
Current assets	\$	25,755	6,883	220,873	253,511
Noncurrent assets		79,335	192,522	90,715	362,572
Total assets	\$	105,090	199,405	311,588	616,083
Current liabilities	\$	13,850	638	173,772	188,260
Noncurrent liabilities		7,971	196,817	1,535	206,323
Net assets		83,269	1,950	136,281	221,500
Total liabilities and net assets	\$	105,090	199,405	311,588	616,083
Total operating revenue	\$	59,131	39,598	756,934	855,663
Total operating expenses		(54,086)	(41,228)	(718,161)	(813,475)
Total nonoperating gains/(losses), net		633	1,630	(13,566)	(11,303)
Contributions from owners		—	—	(9,079)	(9,079)
Other changes in net assets, net		(494)	—	(331)	(825)
Increase in net assets	\$	5,184	—	15,797	20,981

**(5) Leases**

The Corporation rents various equipment and facility space. Rent expense under these operating leases for the years ended June 30, 2016 and 2015 was approximately \$24,594,000 and \$26,684,000, respectively.

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

2017		\$	12,177
2018			9,537
2019			9,191
2020			6,775
2021			6,133
Thereafter			17,928
		\$	61,741

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The Corporation rents property used for administration under a 99-year lease. The lease was recorded as a capital lease, and the Corporation recorded assets at their respective fair values of \$3,770,000 and \$29,230,000 for land and buildings, respectively. The lease includes an option for the Corporation to purchase the property during the period from April 20, 2017 to February 28, 2021 for a purchase price of not less than \$37,000,000 but not more than \$45,000,000 as determined by appraisals. In addition, the lease agreement includes a put option exercisable through February 28, 2021, whereby the lessor may require the Corporation to purchase the building for \$37,000,000. As of June 30, 2016 and 2015, amounts of \$36,744,000 and \$36,353,000, respectively, representing obligations under the lease, have been recorded in other current liabilities.

As of June 30, 2016, amounts of \$2,095,000 and \$16,043,000 representing obligations under all other capital leases are included in other current liabilities and other long-term liabilities, respectively.

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

	<b>2016</b>	<b>2015</b>
Land	\$ 3,770	3,770
Buildings	29,230	29,230
Equipment	23,899	23,223
	56,899	56,223
Less accumulated amortization	(12,338)	(10,864)
	\$ 44,561	45,359

Future minimum lease payments under capital leases, together with the present value of the net minimum lease payments, are as follows as of June 30, 2016 (in thousands):

2017*	\$ 42,544
2018	2,526
2019	2,024
2020	2,023
2021	1,164
Thereafter	14,774
Total minimum lease payments	65,055
Less amounts representing interest	(10,174)
Present value of net minimum lease payments	\$ 54,881

\* Presumes that the put option on the 99-year lease is exercised by the lessor.

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**(6) Lines of Credit**

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

<b>2016</b>					
<b>Line number</b>	<b>Interest rate calculation</b>	<b>Interest rate as of June 30, 2016</b>	<b>Date of expiration</b>	<b>Total available</b>	<b>Outstanding amount</b>
1	1-mo LIBOR + 2.20%	2.30%	Annually renewing	\$ 75,000	75,000
2	1, 2 or 3 month LIBOR + 0.75%	3.50	10/3/2016	20,000	20,000
3	1-mo LIBOR + 0.20%	—	4/30/2016	—	—
4	1-mo LIBOR + 2.20%	—	Annually renewing	—	—
5	Prime + 0.50%	—	5/31/2016	—	—
6	Prime, LIBOR (1, 2, 3 or 6 month) or LIBOR w/daily reset	—	1/13/2016	—	—
7	1-mo LIBOR + 0.75%	1.24	12/31/2016	60,000	60,000
8	1-mo LIBOR + 0.85%	1.27	3/28/2017	25,000	25,000
Total lines of credit				<u>\$ 180,000</u>	<u>180,000</u>

<b>2015</b>					
<b>Line number</b>	<b>Interest rate calculation</b>	<b>Interest rate as of June 30, 2015</b>	<b>Date of expiration</b>	<b>Total available</b>	<b>Outstanding amount</b>
1	1-mo LIBOR + 2.20%	2.39%	Annually renewing	\$ 20,000	7,500
2	1, 2 or 3 month LIBOR + 0.75%	0.94	7/15/2016	20,000	20,000
3	1-mo LIBOR + 0.20%	0.99	4/30/2016	10,000	10,000
4	1-mo LIBOR + 2.20%	2.39	Annually renewing	5,000	—
5	Prime + 0.50%	3.75	5/31/2016	12,000	12,000
6	Prime, LIBOR (1, 2, 3 or 6 month) or LIBOR w/daily reset	3.25	1/13/2016	10,000	10,000
7	1-mo LIBOR + 0.75%	0.94	12/31/2015	60,000	60,000
8	1-mo LIBOR + 0.85%	1.04	3/29/2016	25,000	24,900
Total lines of credit				<u>\$ 162,000</u>	<u>144,400</u>

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**(7) Long-Term Debt and Other Borrowings**

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

	<u>Interest rate</u>	<u>Payable in fiscal year(s)</u>	<u>2016</u>	<u>2015</u>
MHHEFA project revenue bonds:				
Corporation issue, payments due annually on July 1:				
Series 2015 Bonds	2.00%–5.00%	2016–2042	\$ 79,010	80,145
Series 2013 Bonds	2.00%–5.00%	2014–2044	350,300	353,650
Series 2012A-D Bonds	Variable rate	2014–2042 <sup>1</sup>	213,200	214,290
Series 2010 Bonds	2.50%–5.25%	2011–2040	209,675	215,465
Series 2008D/E Bonds	Variable rate	2025–2042	105,000	105,000
Series 2008F Bonds	4.00%–5.25%	2009–2024	46,360	53,510
Series 2007A Bonds	Variable rate	2008–2035	87,750	90,295
Series 2005 Bonds	4.00%–5.50%	2006–2032	119,675	121,225
Series 1991B Bonds	7.00%	1992–2023	21,840	23,350
Upper Chesapeake issue, payments due annually on January 1:				
Series 2011B/C Bonds	Variable rate	2013–2040 <sup>1</sup>	108,929	111,129
Series 2011A Bonds	3.67%	2012–2043 <sup>1</sup>	47,090	48,095
Other long-term debt:				
UCHS Term Loan	Variable rate	2017	150,000	150,000
Charles County Government	3.05	Monthly, 2004–2021	5,456	6,486
Community Bank note payable	4.50	Monthly, 2014–2024	4,696	5,218
O’Dea Medical Arts L.P. mortgage	4.66	2009–2019	8,869	9,081
Term loans	1.62%–3.95%	2009–2022	60,018	30,557
Other loans and notes payable	3.25%–7.00%	Monthly, 1991–2025	2,498	2,975
			<u>1,620,366</u>	<u>1,620,471</u>
Total debt			1,620,366	1,620,471
Less current portion of long-term debt			37,592	33,298
Less short-term financing			150,000	—
Less long-term debt subject to short-term remarketing agreements			32,515	51,732
			<u>1,400,259</u>	<u>1,535,441</u>
Plus unamortized premiums and discounts, net				
			<u>22,345</u>	<u>23,703</u>
			<u>\$ 1,422,604</u>	<u>1,559,144</u>

<sup>1</sup> Mandatory purchase options are due in the following (fiscal years), unless the bank and the Obligated Group agree to an extension: Series 2012A (2023), 2012B&C (2018), 2012D (2020), 2011A (2022), 2011B (2022), and 2011C (2018).

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Pursuant to an Amended and Restated Master Loan Agreement dated August 1, 2012 (UMMS Master Loan Agreement), the Corporation and several of its subsidiaries have issued debt through MHHEFA. As security for the performance of the bond obligation under the Master Loan Agreement, the Authority maintains a security interest in the revenue of the obligors. The UMMS Master Loan Agreement contains certain restrictive covenants. These covenants require that rates and charges be set at certain levels, limit incurrence of additional debt, require compliance with certain operating ratios and restrict the disposition of assets.

The Obligated Group under the UMMS Master Loan Agreement includes the Medical Center, ROI, UM Midtown, UM Baltimore Washington, Shore Health (UM Memorial and UM Dorchester), UM Chester River, UM Charles Regional, UM St. Joseph, UM Upper Chesapeake, UM Harford Memorial, and the UMMS Foundation. Each member of the Obligated Group is jointly and severally liable for the repayment of the obligations under the UMMS Master Loan Agreement.

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

In May 2015, the Corporation refunded \$45,000,000 of the Series 2006A Bonds and \$49,485,000 of the Series 2008C – UCHS Bonds. The refunding was completed using the proceeds of a new \$80,145,000 fixed rate MHHEFA bond issue (the Series 2015 Bonds).

The Corporation has a term loan in the amount of \$150,000,000 related to the acquisition of Upper Chesapeake, which expires on December 10, 2016. The Corporation intends to refinance this obligation prior to its maturity date, and has classified this obligation as a short-term financing and long-term debt at June 30, 2016 and 2015, respectively, in the consolidated balance sheets.

The payment of principal and interest on the Corporation's issue Series 1991B Bonds and its Series 2005 Bonds are each insured under a financial guaranty insurance policy. These policies insure the payment of principal, sinking fund installments and interest on the corresponding bonds. The insurance policies require the Obligated Group to adhere to the same covenants as those in the UMMS Master Loan Agreement.

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

2017	\$	187,592
2018		38,860
2019		48,917
2020		41,665
2021		65,507
Thereafter		1,237,825
	\$	1,620,366

The Corporation's Series 2007A and 2008D-E Bonds are variable rate demand bonds requiring remarketing agents to purchase and remarket any bonds tendered before the stated maturity date. The reimbursement obligations with respect to the letters of credit are evidenced and secured by the respective bonds. To provide

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liquidity support for the timely payment of any bonds that are not successfully remarketed, the Corporation has entered into letter of credit agreements with three banking institutions. These agreements have terms that expire in 2016 through 2018. If the bonds are not successfully remarketed, the Corporation is required to pay an interest rate specified in the letter of credit agreement, and the principal repayment of bonds may be accelerated to require repayment in periods ranging from 20 to 60 months from the date of the failed remarketing. The Corporation has reflected the amount of its long-term debt that is subject to these short-term remarketing arrangements as a separate component of current liabilities in its consolidated balance sheets. In the event that bonds are not remarketed, the Corporation maintains available letters of credit and has the ability to access other sources to obtain the necessary liquidity to comply with accelerated repayment terms. All variable rate demand bonds were successfully remarketed as of June 30, 2016.

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

2017	\$	220,107
2018		153,892
2019		77,282
2020		55,848
2021		65,507
Thereafter		1,047,730
	\$	1,620,366

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

	<b>2016</b>	<b>2015</b>
Series 2011B Bonds – UCHS Issue	1.51%	1.30%
Series 2011C Bonds – UCHS Issue	1.19	0.99
Series 2008D Bonds	0.38	0.02
Series 2008E Bonds	0.41	0.08
Series 2007A Bonds	0.46	0.07
Series 2012A Bonds	1.37	1.18
Series 2012B Bonds	1.07	0.88
Series 2012C Bonds	1.39	1.98
Series 2012D Bonds	1.31	1.13

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

	<u>Interest rate</u>	<u>Interest rate as of June 30, 2016</u>	<u>Payable in fiscal year(s)</u>	<u>2016</u>	<u>2015</u>
Term loan 1:					
Payable monthly beginning February 2012	1-mo LIBOR + 2.75%	—%	2012–2018	\$ —	16,691
Term loan 2:					
Payable monthly beginning March 2012	Fixed rate	3.95	2012–2022	8,400	9,200
Term loan 3:					
Payable monthly beginning January 2012	Fixed rate	3.19	2012–2017	142	427
Term loan 4:					
Payable monthly beginning April 2012	Fixed rate	3.10	2012–2017	196	458
Term loan 5:					
Payable monthly beginning February 2010	1-mo LIBOR + 1.75%	2.46	2010–2018	3,056	3,281
Term loan 6:					
Payable monthly beginning October 2012	Fixed rate	2.80	2013–2018	228	411
Term loan 7:					
Payable monthly beginning November 2012	Fixed rate	2.80	2013–2018	52	89
Term loan 8:					
Payable monthly beginning November 2015	1-mo LIBOR + 1.95%	2.45	2016–2021	46,667	—
Term loan 9:					
Payable monthly beginning May 2016	Fixed rate	1.86	2016–2019	1,277	—
Total term loans (included in long-term debt)				<u>\$ 60,018</u>	<u>30,557</u>

**(8) Interest Rate Risk Management**

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

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At June 30, 2016 and 2015, the Corporation's notional values of outstanding interest rate swaps were \$782,455,000 and \$791,936,000, respectively, the details of which were as follows (in thousands):

	<u>Notional amount</u>	<u>Pay rate</u>	<u>Receive rate</u>	<u>Maturity date</u>	<u>Mark to market</u>	<u>Qualifies for hedge accounting treatment?</u>
As of June 30, 2016:						
Swap #1	\$ 88,090	3.59%	70% 1-month LIBOR	7/1/2031	\$ (20,115)	No
Swap #2	84,000	3.93	68% 1-month LIBOR	7/1/2014	(41,582)	No
Swap #3	21,000	4.24	68% 1-month LIBOR	7/1/2041	(11,603)	No
Swap #4	36,425	3.99	67% 1-month LIBOR	7/1/2034	(10,921)	No
Swap #5	27,400	3.54	70% 1-month LIBOR	7/1/2031	(6,128)	No
Swap #6	196,000	3.93	68% 1-month LIBOR	7/1/2041	(97,040)	No
Swap #7	49,000	4.24	68% 1-month LIBOR	7/1/2041	(27,077)	No
Swap #8	84,975	4.00	67% 1-month LIBOR	7/1/2034	(25,554)	No
Swap #9	3,970	3.63	67% 1-month LIBOR	7/1/2032	(590)	No
Swap #10	106,625	3.92	67% 1-month LIBOR	1/1/2043	(39,754)	No
Swap #11	<u>84,970</u>	0.51	67% 1-month LIBOR + 0.5133%	1/1/2038	<u>1,803</u>	No
					(278,561)	
				Valuation adjustments	<u>5,524</u>	
Total	<u>\$ 782,455</u>				<u>\$ (273,037)</u>	

	<u>Notional amount</u>	<u>Pay rate</u>	<u>Receive rate</u>	<u>Maturity date</u>	<u>Mark to market</u>	<u>Qualifies for hedge accounting treatment?</u>
As of June 30, 2015:						
Swap #1	\$ 89,171	3.59%	70% 1-month LIBOR	7/1/2031	\$ (15,444)	No
Swap #2	84,000	3.93	68% 1-month LIBOR	7/1/2014	(28,822)	No
Swap #3	21,000	4.24	68% 1-month LIBOR	7/1/2041	(8,314)	No
Swap #4	37,400	3.99	67% 1-month LIBOR	7/1/2034	(8,612)	No
Swap #5	27,730	3.54	70% 1-month LIBOR	7/1/2031	(4,666)	No
Swap #6	196,000	3.93	68% 1-month LIBOR	7/1/2041	(67,262)	No
Swap #7	49,000	4.24	68% 1-month LIBOR	7/1/2041	(19,403)	No
Swap #8	87,275	4.00	67% 1-month LIBOR	7/1/2034	(20,168)	No
Swap #9	4,330	3.63	67% 1-month LIBOR	7/1/2032	(532)	No
Swap #10	109,050	3.92	67% 1-month LIBOR	1/1/2043	(29,445)	No
Swap #11	<u>86,980</u>	0.51	67% 1-month LIBOR + 0.5133%	1/1/2038	<u>592</u>	No
					(202,076)	
				Valuation adjustments	<u>5,704</u>	
Total	<u>\$ 791,936</u>				<u>\$ (196,372)</u>	

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

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On January 1, 2013, in accordance with ASC 815, *Derivatives and Hedging*, the Corporation elected to discontinue the cash flow hedging relationship for Swap #8. As of that date, the accumulated losses included in unrestricted net assets will be reclassified into earnings over the life of the Series 2007 bonds. For the years ended June 30, 2016 and 2015, \$1,764,000 and \$1,812,000, respectively, were reclassified from other changes in net assets into change in fair value of undesignated interest rate swaps. The accumulated losses included in unrestricted net assets were \$(19,650,000) and \$(21,415,000) at June 30, 2016 and 2015, respectively.

The Corporation recorded a net nonoperating loss on changes in the fair value of nonqualifying interest rate swaps of \$(78,429,000) and \$(22,237,000) for the years ended June 30, 2016 and 2015, respectively.

The swap agreements are included in the consolidated balance sheets at their fair value of \$(273,037,000) and \$(196,372,000) as of June 30, 2016 and 2015, respectively, an amount that is based on observable inputs other than quoted market prices in active markets for identical liabilities (Level 2 in the fair value hierarchy).

The Corporation is subject to a collateral posting requirement with two of its swap counterparties. Collateral posting requirements are based on the Corporation's long-term debt credit ratings, as well as the net liability position of total interest rate swap agreements outstanding with that counterparty. The amount of such posted collateral was \$174,661,000 and \$110,740,000 at June 30, 2016 and 2015, respectively. As of June 30, 2016 and 2015, the Corporation met its collateral posting requirement through the use of collateralized investments, which were selected and purchased by the Corporation and subsequently transferred to the custody of the swap counterparty. The amount of posted investments that is required to meet the collateral requirement is computed daily, and is accounted for as a component of the Corporation's assets limited as to use on the accompanying consolidated balance sheets as of that date. Any excess investment value is considered a component of the Corporation's unrestricted investment portfolio, and is included in investments on the accompanying consolidated balance sheets as of that date.

**(9) Other Liabilities**

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

	<u>2016</u>	<u>2015</u>
Professional and general malpractice liabilities	\$ 235,871	206,072
Capital lease obligations	54,881	55,585
Accrued pension obligations	42,761	25,481
Contingent consideration	35,700	—
Accrued interest payable	20,659	19,616
Deferred tax liability	17,361	—
Other miscellaneous	92,894	67,766
Total other liabilities	<u>500,127</u>	<u>374,520</u>
Less current portion	<u>(147,522)</u>	<u>(115,295)</u>
Other long-term liabilities	<u>\$ 352,605</u>	<u>259,225</u>

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Other miscellaneous liabilities primarily consist of unearned revenue, medical claims payable and patient credit balance liabilities.

**(10) Retirement Plans**

Employees of the Corporation are included in various retirement plans established by the Corporation, the Medical Center, ROI, Midtown, Baltimore Washington, Shore Regional, Charles Regional, St. Joseph, and Upper Chesapeake. Participation by employees in their specific plan(s) has evolved based upon the organization by which they were first employed and the elections that they made at the times when their original employers became part of the Corporation. Following is a brief description of each of the retirement plans in which employees of the Corporation participate.

**(a) Defined Benefit Plans**

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

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

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

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

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

*Upper Chesapeake Health System, Inc. Pension Plan and Trust* – A noncontributory defined benefit pension plan covering substantially all employees of the various affiliates of Upper Chesapeake who have completed six months of employment and attained the age of twenty and a half years. Upper Chesapeake makes annual contributions to the plan equal to the minimum funding requirements pursuant to ERISA regulations. On December 31, 2005, Upper Chesapeake froze the defined benefit pension plan. On June 30, 2015, Upper Chesapeake terminated the defined benefit pension plan and

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liquidation of its remaining benefit obligation using its plan assets will be completed by June 30, 2017. The benefit obligations for the year ended June 30, 2016 represents the annuities to be transferred.

On June 30, 2015, the Corporation amended the *Baltimore Washington Medical Center Pension Plan* to provide for the merger of the Midtown Plan and the Charles Regional Plan into the Baltimore Washington Plan and to change the name of the newly consolidated plan to the *University of Maryland Medical System Corporate Pension Plan* (the Corporate Plan). All provisions of the respective previous plans shall continue to apply to the respective applicable participants. In addition, as of June 30, 2015, all of the assets of the three formerly separate plans that were previously available only to pay benefits for their separate plan participants are now available to pay benefits for all participants under the newly consolidated Corporate Plan.

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

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

	<b>2016</b>	<b>2015</b>
Change in projected benefit obligations:		
Benefit obligations at beginning of year	\$ 259,170	256,487
Settlements	(29,962)	(1,551)
Service cost	4,146	4,296
Interest cost	10,698	11,318
Actuarial loss	20,072	5,090
Benefit payments	(18,438)	(16,470)
Projected benefit obligations at end of year	\$ 245,686	259,170
	<b>2016</b>	<b>2015</b>
Change in plan assets:		
Fair value of plan assets at beginning of year	\$ 233,689	233,218
Actual return on plan assets	5,688	6,919
Settlements	(29,962)	(1,551)
Employer contributions	11,948	11,573
Benefit payments	(18,438)	(16,470)
Fair value of plan assets at end of year	\$ 202,925	233,689

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

	<u>2016</u>	<u>2015</u>
Funded status, end of period:		
Fair value of plan assets	\$ 202,925	233,689
Projected benefit obligations	<u>245,686</u>	<u>259,170</u>
Net funded status	<u>\$ (42,761)</u>	<u>(25,481)</u>
Accumulated benefit obligation at end of year	\$ 239,375	253,362
Amounts recognized in consolidated balance sheets at June 30:		
Accrued payroll and benefits	\$ (1,250)	—
Accrued pension obligation	<u>(41,511)</u>	<u>(25,481)</u>
	<u>\$ (42,761)</u>	<u>(25,481)</u>
	<u>2016</u>	<u>2015</u>
Amounts recognized in unrestricted net assets at June 30:		
Net actuarial loss	\$ (96,423)	(85,613)
Prior service cost	<u>(648)</u>	<u>(815)</u>
	<u>\$ (97,071)</u>	<u>(86,428)</u>

The estimated amounts that will be amortized from unrestricted net assets into net periodic pension cost in fiscal 2016 are as follows:

Net actuarial loss	\$ 6,049	
Prior service cost	<u>162</u>	
	<u>\$ 6,211</u>	

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

	<u>2016</u>	<u>2015</u>
Service cost	\$ 4,146	4,295
Interest cost	10,698	11,318
Expected return on plan assets	(14,169)	(16,084)
Prior service cost recognized	67	171
Recognized gains or losses	17,743	6,094
Net periodic pension cost	<u>\$ 18,485</u>	<u>5,794</u>

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

	<u>2016</u>	<u>2015</u>
Discount rate	2.00%–3.95%	3.00%–4.61%
Rate of compensation increase (for nonfrozen plan)	2.50–4.50	2.50–4.50

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

	<u>2016</u>	<u>2015</u>
Discount rate	3.00%–4.62%	4.40%–4.62%
Expected long-term return on plan assets	4.75–6.75	6.50–7.00
Rate of compensation increase (for nonfrozen plan)	2.50–4.50	2.50–4.50

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

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The Corporation's pension plans' target allocation and weighted average asset allocations at the measurement date of June 30, 2016 and 2015, by asset category, are as follows:

<u>Asset category</u>	<u>Target allocation</u>	<u>Percentage of plan assets as of June 30</u>	
		<u>2016</u>	<u>2015</u>
Cash and cash equivalents	0–10%	9%	3%
Fixed income securities	40–60	47	42
Equity securities	10–30	20	34
Global asset allocation	10–20	20	16
Hedge funds	5–15	4	5
		<u>100%</u>	<u>100%</u>

Equity and fixed income securities include investments in hedge fund of funds that are categorized in accordance with each fund's respective investment holdings.

The table below presents the Corporation's combined investable assets of the defined benefit pension plans as of June 30, 2016 aggregated by the three level valuation hierarchy as described in note 1(w) (in thousands):

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Cash and cash equivalents	\$ 10,919	7,250	—	18,169
Corporate bonds	22,419	—	—	22,419
Gov't and agency bonds	21,218	—	—	21,218
Fixed income mutual funds	11,763	—	—	11,763
Common and preferred stocks	11,736	—	—	11,736
Equity mutual funds	19,627	—	—	19,627
Other mutual funds	11,852	—	—	11,852
Alternative investments	—	48,896	37,245	86,141
	<u>\$ 109,534</u>	<u>56,146</u>	<u>37,245</u>	<u>202,925</u>

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The table below presents the Corporation's combined investable assets of the defined benefit pension plans as of June 30, 2015, aggregated by the three level valuation hierarchy as described in note 1(w) (in thousands):

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Cash and cash equivalents	\$ 3,931	3,533	—	7,464
Corporate bonds	27,213	—	—	27,213
Gov't and agency bonds	15,619	—	—	15,619
Fixed income mutual funds	30,183	—	—	30,183
Common and preferred stocks	30,051	—	—	30,051
Equity mutual funds	41,710	—	—	41,710
Other mutual funds	8,834	—	—	8,834
Alternative investments	—	31,208	41,407	72,615
	<u>\$ 157,541</u>	<u>34,741</u>	<u>41,407</u>	<u>233,689</u>

Changes to Level 1 and Level 2 inputs between June 30, 2016 and 2015 were the result of strategic investments and reinvestments, interest income earnings, and changes in the fair value of investments.

Changes to the fair values based on the Level 3 inputs are summarized as follows (in thousands):

	<u>Hedge funds</u>
Balance as of June 30, 2014	\$ 19,954
Additions/purchases	21,255
Withdrawals/sales	(151)
Net change in value	<u>349</u>
Balance as of June 30, 2015	41,407
Additions/purchases	2,830
Withdrawals/sales	(4,528)
Net change in value	<u>(2,464)</u>
Balance as of June 30, 2016	<u>\$ 37,245</u>

The hedge fund-of-funds alternative investments held as of June 30, 2016 are subject to notice requirements of 30 days or less and are available to be redeemed on at least a monthly basis with the exception of one fund, totaling \$7,300,000, which is subject to 70-day notice requirements and can be redeemed on a quarterly basis. None of the alternative investments are subject to any lock-up restrictions.

The Corporation expects to contribute \$8,000,000 to its defined benefit pension plans for the fiscal year ending June 30, 2017.

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

2017	\$	66,685
2018		10,576
2019		10,597
2020		11,173
2021		11,267
2022–2026		70,928

The expected benefits to be paid are based on the same assumptions used to measure the Corporation's benefit obligation at June 30, 2016.

**(b) Defined Contribution Plans**

*Corporation Pension Plan* – A noncontributory defined contribution plan for all eligible Corporation employees not participating in the ROI Plan or the Midtown Plan described below. Contributions to this plan by the Corporation are determined as a fixed percentage of total employees' base compensation.

*Corporation Salary Reduction 403(b) Plan* – A contributory benefit plan covering substantially all employees not participating in the ROI Plan or the Midtown Plan described below. Employees are immediately eligible for elective deferrals of compensation as contributions to the plan.

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

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

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

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

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

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

*Upper Chesapeake Retirement Plan* – A defined contribution benefit plan which allows employees of Upper Chesapeake to contribute amounts tax-deferred up to certain limits allowable under IRS guidelines. Upper Chesapeake is required to match up to 100% of employee contributions up to 4% of employees’ salaries, based on years of service. Upper Chesapeake is also required to make a contribution of 1% of each employee’s salary for all employees who work more than 1,000 hours annually. Additional contributions are required to be made by Upper Chesapeake for employees aged 50 and older, who have completed 10 years of service. Employees vest in amounts contributed by Upper Chesapeake ratably over a five-year period.

Total annual retirement costs incurred by the Corporation for the previously discussed defined contribution plans were \$40,064,000 and \$38,163,000 for the years ended June 30, 2016 and 2015, respectively. Such amounts are included in salaries, wages and benefits in the accompanying consolidated statements of operations.

**(11) Temporarily and Permanently Restricted Net Assets**

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

	<b>2016</b>	<b>2015</b>
Facility construction and renovations, research, education, and other	\$ 58,380	56,223
Economic and beneficial interests in the net assets of related organizations	187,885	189,430
	\$ 246,265	245,653

Net assets were released from donor restrictions during the years ended June 30, 2016 and 2015 by expending funds satisfying the restricted purposes or by occurrence of other events specified by donors as follows (in thousands):

	<b>2016</b>	<b>2015</b>
Purchases of equipment and construction costs	\$ 10,417	17,654
Research, education, uncompensated care, and other	7,067	5,813
	\$ 17,484	23,467

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

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

**(a) Interpretation of Relevant Law**

The Corporation has interpreted the Maryland Uniform Prudent Management of Institutional Funds Act (MUPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Corporation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the organization in a manner consistent with the standard of prudence prescribed by MUPMIFA. In accordance with MUPMIFA, the Corporation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

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

Endowment net assets are as follows (in thousands):

		<b>June 30, 2016</b>			
		<b>Unrestricted</b>	<b>Temporarily restricted</b>	<b>Permanently restricted</b>	<b>Total</b>
Donor-restricted					
endowment funds	\$	—	11,232	37,065	48,297
		<b>June 30, 2015</b>			
		<b>Unrestricted</b>	<b>Temporarily restricted</b>	<b>Permanently restricted</b>	<b>Total</b>
Donor-restricted					
endowment funds	\$	—	13,265	36,201	49,466

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**(b) *Funds with Deficiencies***

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

**(c) *Investment Strategies***

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

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

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

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

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

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

	<b>2016</b>	<b>2015</b>
Economic interests in:		
UCH Legacy Funding Corporation	\$ 150,000	150,000
The James Lawrence Kernan Hospital Endowment Fund, Incorporated	26,821	29,304
Baltimore Washington Medical Center Foundation, Inc.	7,960	7,022
Total economic interests	184,781	186,326
Beneficial interest in the net assets of Dorchester General Hospital Foundation, Inc.	3,104	3,104
	\$ 187,885	189,430

The UCH Legacy Funding Corporation was formed in December 2013 to hold funds restricted for the benefit of Upper Chesapeake.

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

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

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

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

	<b>2016</b>	<b>2015</b>
Current assets	\$ 2,891	3,700
Noncurrent assets	185,672	186,211
Total assets	\$ 188,563	189,911
Current liabilities	\$ 452	128
Noncurrent liabilities	226	353
Net assets	187,885	189,430
Total liabilities and net assets	\$ 188,563	189,911

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	<b>2016</b>	<b>2015</b>
Total operating revenue	\$ 2,165	1,355
Total operating expense	(4,344)	(3,997)
Other changes in net assets	634	528
Total decrease in net assets	\$ (1,545)	(2,114)

**(13) State Support**

The Corporation received \$3,200,000 in support for the Shock Trauma Center operations from the State of Maryland, for the years ended June 30, 2016 and 2015.

The State of Maryland appropriates funds for construction costs incurred, equipment purchases made, and other capital support. The Corporation recognizes this support as the funds are expended for the intended projects. The Corporation expended and recorded \$4,364,000 and \$14,261,000 during the years ended June 30, 2016 and 2015, respectively.

**(14) Functional Expenses**

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

	<b>2016</b>	<b>2015</b>
Healthcare services	\$ 3,144,882	2,876,799
General and administrative	436,820	379,035
	\$ 3,581,702	3,255,834

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**(15) Insurance**

The Corporation maintains self-insurance programs for professional and general liability risks, employee health, employee long-term disability, and workers' compensation. Estimated liabilities have been recorded based on actuarial estimation of reported and incurred but not reported claims. The accrued liabilities for these programs as of June 30, 2016 and 2015 were as follows (in thousands):

	<b>2016</b>	<b>2015</b>
Professional and general malpractice liabilities	\$ 235,871	206,072
Employee health	27,656	27,323
Employee long-term disability	12,661	15,219
Workers' compensation	17,610	19,027
Total self-insured liabilities	293,798	267,641
Less current portion	(68,500)	(68,596)
	\$ 225,298	199,045

The Corporation provides for and funds the present value of the costs for professional and general liability claims and insurance coverage related to the projected liability from asserted and unasserted incidents, which the Corporation believes may ultimately result in a loss. These accrued malpractice losses are discounted using a discount rate of 2.5%. In management's opinion, these accruals provide an adequate and appropriate loss reserve. The professional and general malpractice liabilities presented above include \$141,625,000 and \$129,185,000 as of June 30, 2016 and 2015, respectively, for which related insurance receivables have been recorded within other assets on the accompanying consolidated balance sheets.

The Corporation and each of its affiliates are self-insured for professional and general liability claims up to the limits of \$1.0 million on individual claims and \$3.0 million in the aggregate on an annual basis. For amounts in excess of these limits, the risk of loss has been transferred to the Terrapin Insurance Company (Terrapin), an unconsolidated joint venture. Terrapin provides insurance for claims in excess of \$1 million individually and \$3 million in the aggregate up to \$125 million individually and \$125 million in the aggregate under claims made policies between the Corporation and Terrapin. For claims in excess of Terrapin's coverage limits, if any, the Corporation retains the risk of loss.

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

Total malpractice insurance expense for the Corporation during the years ended June 30, 2016 and 2015 was approximately \$40,359,000 and \$46,112,000, respectively.

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AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

June 30, 2016 and 2015

**(16) Business and Credit Concentrations**

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

The Corporation maintains cash accounts with highly rated financial institutions, which generally exceed federally insured limits. The Corporation has not experienced any losses from maintaining cash accounts in excess of federally insured limits, and as such, management does not believe the Corporation is subject to any significant credit risks related to this practice.

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

	<u>2016</u>	<u>2015</u>
Medicare	25%	24%
Medicaid	25	25
Commercial insurance and HMOs	19	18
Blue Cross	11	10
Self-pay and others	20	23
	<u>100%</u>	<u>100%</u>

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

	<u>2016</u>	<u>2015</u>
Medicare	38%	39%
Medicaid	23	22
Commercial insurance and HMOs	19	19
Blue Cross	14	15
Self-pay and others	6	5
	<u>100%</u>	<u>100%</u>

**(17) Certain Significant Risks and Uncertainties**

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

- Dependence on revenues derived from reimbursement by the Federal Medicare and state Medicaid programs;
- Regulation of hospital rates by the State of Maryland Health Services Cost Review Commission;

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

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- Government regulation, government budgetary constraints and proposed legislative and regulatory changes; and
- Lawsuits alleging malpractice and related claims.

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

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

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

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

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

The general healthcare industry environment is increasingly uncertain, especially with respect to the impact of Federal healthcare reform legislation, which was passed in 2010 and largely upheld by the U.S. Supreme Court in June 2012. Potential impacts of ongoing healthcare industry transformation include, but are not limited to (1) significant capital investments in healthcare information technology, (2) continuing volatility in the state and federal government reimbursement programs, (3) lack of clarity related to the health benefit exchange framework mandated by reform legislation, including important open questions regarding exchange reimbursement levels, and impact on the healthcare "demand curve" as the previously uninsured enter the insurance system, and (4) effective management of multiple major regulatory mandates, including the transition to ICD-10. This Federal healthcare reform legislation does not affect the consolidated financial statements for the year ended June 30, 2016.

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Notes to Consolidated Financial Statements

June 30, 2016 and 2015

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

Effective July 1, 2013, the Health System and the Health Services Cost Review Commission (HSCRC) agreed to implement the Global Budget Revenue (GBR) methodology for the following hospitals: Medical Center, ROI, Midtown, Baltimore Washington, Charles Regional, St. Joseph, Shore Emergency Center, and Upper Chesapeake. The agreements will continue each year and on July 1 of each year thereafter, the agreements will renew for a one-year period unless it is canceled by the HSCRC or by the Corporation. The agreements were in place for the years ended June 30, 2016 and 2015. The GBR model is a revenue constraint and quality improvement system designed by the HSCRC to provide hospitals with strong financial incentives to manage their resources efficiently and effectively in order to slow the rate of increase in healthcare costs and improve healthcare delivery processes and outcomes. The GBR model is consistent with the Corporation's mission to provide the highest value of care possible to its patients and the communities it serves.

The GBR agreements establish a prospective, fixed revenue base "GBR cap" for the upcoming year. This includes both inpatient and outpatient regulated services. Under GBR, a hospital's revenue for all HSCRC regulated services is predetermined for the upcoming year, regardless of changes in volume, service mix intensity, or mix of inpatient or outpatient services that occurred during the year. The GBR agreement allows the Corporation to adjust unit rates, within certain limits, to achieve the overall revenue base for the Corporation at year end. Any overcharge or undercharge versus the GBR cap is prospectively added to the subsequent year's GBR cap. Although the GBR cap does not adjust for changes in volume or service mix, the GBR cap is adjusted annually for inflation, and for changes in payor mix and uncompensated care. The Corporation will receive an annual adjustment to its cap for the change in population in the Corporation's service areas. GBR is designed to encourage hospitals to operate efficiently by reducing utilization and managing patients in the appropriate care delivery setting. The HSCRC also may impose various other revenue adjustments which could be significant in the future.

For the years ended June 30, 2016 and 2015, Memorial Hospital, Dorchester Hospital, and CRHC continued their participation in Total Patient Revenue (TPR) agreements with the HSCRC. The TPR agreements establish an approved aggregate inpatient and outpatient revenue for regulated services to provide care for the patient population in the geographic region without regard for patient acuity or volumes. GBR and TPR are generally the same concept.

The HSCRC utilizes a bad debt pool into which each of the regulated hospitals in Maryland participates. The funds in the bad debt pool are distributed to the hospitals that exceed the state average based upon the amount of uncompensated care delivered to patients during the year. For the years ended June 30, 2016 and 2015, the Corporation recognized a net distribution from the pool of \$11,521,000 and \$19,264,000, respectively, which is recorded as net patient service revenue.

**(19) Subsequent Events**

The Corporation evaluated all events and transactions that occurred after June 30, 2016 and through October 27, 2016, the date the consolidated financial statements were issued. Other than described below, the Corporation did not have any material recognizable subsequent events during the period.

**UNIVERSITY OF MARYLAND MEDICAL SYSTEM CORPORATION  
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Consolidating Balance Sheet Information by Division

June 30, 2016

(In thousands)

Assets	University of Maryland Medical Center & Affiliates	Rehabilitation & Orthopaedic Institute	Midtown	Baltimore Washington Medical System	Shore Regional	Charles Regional	St. Joseph Health	Upper Chesapeake	UM Health Plans	UMMS Foundation	Community Med. Group	ECARE	Eliminations	Consolidated total
Current assets:														
Cash and cash equivalents	\$ 385,209	6,218	11,907	28,231	22,038	13,790	3,910	49,428	1,540	—	898	—	—	523,169
Assets limited as to use, current portion	47,477	—	528	1,183	860	404	960	—	—	—	—	—	—	51,412
Accounts receivable:														
Patient accounts receivable, less allowance for doubtful accounts of \$202,183	168,672	9,849	16,255	35,459	17,894	7,721	34,817	35,816	—	—	4,572	—	—	331,055
Other	172,525	9,666	15,991	40,626	14,838	2,786	14,345	9,377	22,770	—	2,147	209	(207,393)	97,887
Inventories	28,226	1,072	2,860	6,150	4,776	1,487	5,560	9,607	—	—	—	—	—	59,738
Prepaid expenses and other current assets	12,806	128	325	1,480	1,550	477	1,833	4,140	776	1,500	324	42	—	25,381
Total current assets	814,915	26,933	47,866	113,129	61,956	26,665	61,425	108,368	25,086	1,500	7,941	251	(207,393)	1,088,642
Investments	195,252	25,304	—	121,768	80,315	30,003	10,341	172,343	10,208	—	—	—	—	645,534
Assets limited as to use, less current portion:														
Investments held for collateral	125,487	—	3,700	8,000	—	—	—	40,811	—	—	—	—	—	177,998
Debt service funds	22,290	—	—	—	—	—	—	—	—	—	—	—	—	22,290
Construction funds	335	10,360	5,259	4,995	4,772	10,449	5,816	—	—	—	—	—	—	41,986
Board designated and escrow funds	—	—	—	—	78,209	3,576	—	17,757	—	17,950	10	—	—	117,502
Self-insurance trust funds	53,064	—	16,337	23,205	28,738	4,820	10,107	11,066	—	—	—	—	—	147,337
Funds restricted by donor	—	—	1,113	—	29,598	—	1,057	—	—	23,413	—	—	—	55,181
Economic and beneficial interests in the net assets of related organizations	197,438	28,355	437	7,960	3,105	—	9,503	—	—	—	—	—	(58,913)	187,885
	398,614	38,715	26,846	44,160	144,422	18,845	26,483	69,634	—	41,363	10	—	(58,913)	750,179
Property and equipment, net	913,959	48,190	99,309	262,303	178,578	97,781	210,395	259,210	5,306	—	9,346	2,169	—	2,086,546
Investments in joint ventures and other assets	676,735	—	12,908	18,733	9,875	7,919	17,579	218,812	86,587	6,561	—	—	(660,528)	395,181
Total assets	\$ 2,999,475	139,142	186,929	560,093	475,146	181,213	326,223	828,367	127,187	49,424	17,297	2,420	(926,834)	4,966,082

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

Consolidating Balance Sheet Information by Division

June 30, 2016

(In thousands)

Liabilities and Net Assets	University of Maryland Medical Center & Affiliates	Rehabilitation & Orthopaedic Institute	Midtown	Baltimore Washington Medical System	Shore Regional	Charles Regional	St. Joseph Health	Upper Chesapeake	UM Health Plans	UMMS Foundation	Community Med. Group	ECARE	Eliminations	Consolidated total
Current liabilities:														
Trade accounts payable	\$ 127,944	7,961	14,452	21,089	17,971	9,361	29,367	16,663	109	14	4,461	151	—	249,543
Accrued payroll and benefits	119,204	5,181	12,501	25,273	22,335	3,944	28,124	25,470	1,656	—	9,649	—	—	253,337
Advances from third-party payors	72,546	2,910	9,660	9,667	6,789	3,735	10,633	8,777	—	—	—	—	—	124,717
Lines of credit	180,000	—	—	—	—	—	—	—	—	—	—	—	—	180,000
Short-term financing	150,000	—	—	—	—	—	—	—	—	—	—	—	—	150,000
Other current liabilities	86,581	1,268	7,565	43,706	7,304	7,742	82,502	63,259	40,129	—	5,685	9,174	(207,393)	147,522
Long-term debt subject to short-term remarketing arrangements	32,515	—	—	—	—	—	—	—	—	—	—	—	—	32,515
Current portion of long-term debt	11,846	465	719	3,870	3,213	2,875	5,159	4,445	5,000	—	—	—	—	37,592
Total current liabilities	780,636	17,785	44,897	103,605	57,612	27,657	155,785	118,614	46,894	14	19,795	9,325	(207,393)	1,175,226
Long-term debt, less current portion	566,363	20,991	33,022	168,096	88,243	60,306	242,609	201,307	41,667	—	—	—	—	1,422,604
Other long-term liabilities	124,130	144	29,724	47,978	22,971	16,918	15,652	41,788	53,300	—	—	—	—	352,605
Interest rate swap liabilities	273,037	—	—	—	—	—	—	—	—	—	—	—	—	273,037
Total liabilities	1,744,166	38,920	107,643	319,679	168,826	104,881	414,046	361,709	141,861	14	19,795	9,325	(207,393)	3,223,472
Net assets:														
Unrestricted	1,035,728	71,734	77,736	232,454	267,012	76,239	(97,860)	308,990	(14,674)	22,599	(2,498)	(6,905)	(511,275)	1,459,280
Temporarily restricted	217,892	28,488	1,550	7,960	23,811	93	9,375	156,392	—	7,594	—	—	(206,890)	246,265
Permanently restricted	1,689	—	—	—	15,497	—	662	1,276	—	19,217	—	—	(1,276)	37,065
Total net assets	1,255,309	100,222	79,286	240,414	306,320	76,332	(87,823)	466,658	(14,674)	49,410	(2,498)	(6,905)	(719,441)	1,742,610
Total liabilities and net assets	\$ 2,999,475	139,142	186,929	560,093	475,146	181,213	326,223	828,367	127,187	49,424	17,297	2,420	(926,834)	4,966,082

See accompanying independent auditors' report.

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

Consolidating Balance Sheet Information by Division – University of Maryland Medical Center & Affiliates (UMMC)

June 30, 2016

(In thousands)

Assets	University of Maryland Medical Center	University Specialty	36 South Paca	University CARE	Eliminations	University of Maryland Medical Center & Affiliates consolidated total
Current assets:						
Cash and cash equivalents	\$ 383,678	—	1,531	—	—	385,209
Assets limited as to use, current portion	44,007	—	—	3,470	—	47,477
Accounts receivable:						
Patient accounts receivable, less allowance for doubtful accounts of \$83,604	168,652	—	—	20	—	168,672
Other	178,002	—	97	22	(5,596)	172,525
Inventories	28,187	—	—	39	—	28,226
Prepaid expenses and other current assets	12,789	—	—	17	—	12,806
Total current assets	<u>815,315</u>	<u>—</u>	<u>1,628</u>	<u>3,568</u>	<u>(5,596)</u>	<u>814,915</u>
Investments	195,252	—	—	—	—	195,252
Assets limited as to use, less current portion:						
Investment held for collateral	125,487	—	—	—	—	125,487
Debt service funds	22,290	—	—	—	—	22,290
Construction funds	335	—	—	—	—	335
Board designated and escrow funds	—	—	—	—	—	—
Self-insurance trust funds	53,064	—	—	—	—	53,064
Funds restricted by donor	—	—	—	—	—	—
Economic interests in the net assets of related organizations	197,438	—	—	—	—	197,438
	<u>398,614</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>398,614</u>
Property and equipment, net	905,247	—	8,653	59	—	913,959
Investments in joint ventures and other assets	683,709	—	3,277	—	(10,251)	676,735
Total assets	<u>\$ 2,998,137</u>	<u>—</u>	<u>13,558</u>	<u>3,627</u>	<u>(15,847)</u>	<u>2,999,475</u>

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

Consolidating Balance Sheet Information by Division – University of Maryland Medical Center & Affiliates (UMMC)

June 30, 2015

(In thousands)

<b>Liabilities and Net Assets</b>	<b>University of Maryland Medical Center</b>	<b>University Specialty</b>	<b>36 South Paca</b>	<b>University CARE</b>	<b>Eliminations</b>	<b>University of Maryland Medical Center &amp; Affiliates consolidated total</b>
Current liabilities:						
Trade accounts payable	\$ 126,770	—	142	1,032	—	127,944
Accrued payroll and benefits	119,166	—	—	38	—	119,204
Advances from third-party payors	72,546	—	—	—	—	72,546
Lines of credit	180,000	—	—	—	—	180,000
Short-term financing	150,000	—	—	—	—	150,000
Other current liabilities	86,475	—	5,021	681	(5,596)	86,581
Long-term debt subject to short-term remarketing arrangements	32,515	—	—	—	—	32,515
Current portion of long-term debt	11,846	—	—	—	—	11,846
Total current liabilities	779,318	—	5,163	1,751	(5,596)	780,636
Long-term debt, less current portion	566,363	—	—	—	—	566,363
Other long-term liabilities	124,114	—	16	—	—	124,130
Interest rate swaps	273,037	—	—	—	—	273,037
Total liabilities	1,742,832	—	5,179	1,751	(5,596)	1,744,166
Net assets:						
Unrestricted	1,035,724	—	8,379	1,876	(10,251)	1,035,728
Temporarily restricted	217,892	—	—	—	—	217,892
Permanently restricted	1,689	—	—	—	—	1,689
Total net assets	1,255,305	—	8,379	1,876	(10,251)	1,255,309
Total liabilities and net assets	\$ 2,998,137	—	13,558	3,627	(15,847)	2,999,475

See accompanying independent auditors' report.

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

Consolidating Balance Sheet Information by Division – Midtown Health, Inc. (Midtown)

June 30, 2016

(In thousands)

Assets	UM Midtown Health Systems, Inc.	UMMC Midtown Campus	UM Midtown Clin. Prac. Group	Eliminations	Midtown consolidated total
Current assets:					
Cash and cash equivalents	\$ 145	11,362	400	—	11,907
Assets limited as to use, current portion	—	528	—	—	528
Accounts receivable:					
Patient accounts receivable, less allowance for doubtful accounts of \$17,676	—	15,268	987	—	16,255
Other	1,698	14,293	—	—	15,991
Inventories	—	2,860	—	—	2,860
Prepaid expenses and other current assets	6	319	—	—	325
Total current assets	<u>1,849</u>	<u>44,630</u>	<u>1,387</u>	<u>—</u>	<u>47,866</u>
Investments	—	—	—	—	—
Assets limited as to use, less current portion:					
Investment held for collateral	—	3,700	—	—	3,700
Debt service funds	—	—	—	—	—
Construction funds	—	5,259	—	—	5,259
Board designated and escrow funds	—	—	—	—	—
Self-insurance trust funds	—	16,337	—	—	16,337
Funds restricted by donor	—	1,113	—	—	1,113
Economic interests in the net assets of related organizations	—	437	—	—	437
	—	26,846	—	—	26,846
Property and equipment, net	2,007	97,302	—	—	99,309
Investments in joint ventures and other assets	5,103	7,805	—	—	12,908
Total assets	<u>\$ 8,959</u>	<u>176,583</u>	<u>1,387</u>	<u>—</u>	<u>186,929</u>

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

Consolidating Balance Sheet Information by Division – Midtown Health, Inc. (Midtown)

June 30, 2016

(In thousands)

<b>Liabilities and Net Assets</b>	<b>UM Midtown Health Systems, Inc.</b>	<b>UMMC Midtown Campus</b>	<b>UM Midtown Clin. Prac. Group</b>	<b>Eliminations</b>	<b>Midtown consolidated total</b>
Current liabilities:					
Trade accounts payable	\$ 16	14,432	4	—	14,452
Accrued payroll and benefits	—	12,501	—	—	12,501
Advances from third-party payors	—	9,660	—	—	9,660
Lines of credit	—	—	—	—	—
Other current liabilities	513	5,676	1,376	—	7,565
Current portion of long-term debt	—	719	—	—	719
Total current liabilities	529	42,988	1,380	—	44,897
Long-term debt, less current portion	368	32,654	—	—	33,022
Other long-term liabilities	—	29,724	—	—	29,724
Total liabilities	897	105,366	1,380	—	107,643
Net assets:					
Unrestricted	8,062	69,667	7	—	77,736
Temporarily restricted	—	1,550	—	—	1,550
Permanently restricted	—	—	—	—	—
Total net assets	8,062	71,217	7	—	79,286
Total liabilities and net assets	\$ 8,959	176,583	1,387	—	186,929

See accompanying independent auditors' report.

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

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

June 30, 2016

(In thousands)

Assets	Baltimore Washington Medical System, Inc.	Baltimore Washington Medical Center	Baltimore Washington Healthcare Services	Baltimore Washington Health Enterprises	North County Corporation	Shipley's	Eliminations	BWMS consolidated total
Current assets:								
Cash and cash equivalents	\$ —	27,186	489	—	556	—	—	28,231
Assets limited as to use, current portion	—	1,183	—	—	—	—	—	1,183
Accounts receivable:								
Patient accounts receivable, less allowance for doubtful accounts of \$33,925	—	29,646	5,007	806	—	—	—	35,459
Other	25,305	1,926	11,924	2,000	(529)	—	—	40,626
Inventories	—	6,150	—	—	—	—	—	6,150
Prepaid expenses and other current assets	—	1,261	22	281	(84)	—	—	1,480
Total current assets	<u>25,305</u>	<u>67,352</u>	<u>17,442</u>	<u>3,087</u>	<u>(57)</u>	<u>—</u>	<u>—</u>	<u>113,129</u>
Investments	—	121,768	—	—	—	—	—	121,768
Assets limited as to use, less current portion:								
Investment held for collateral	—	8,000	—	—	—	—	—	8,000
Debt service funds	—	—	—	—	—	—	—	—
Construction funds	—	4,995	—	—	—	—	—	4,995
Board designated and escrow funds	—	—	—	—	—	—	—	—
Self-insurance trust funds	—	23,205	—	—	—	—	—	23,205
Funds restricted by donor	—	—	—	—	—	—	—	—
Economic interests in the net assets of related organizations	—	7,960	—	—	—	—	—	7,960
	—	44,160	—	—	—	—	—	44,160
Property and equipment, net	—	241,592	—	3,030	17,681	—	—	262,303
Investments in joint ventures and other assets	223,636	18,703	—	1	26	—	(223,633)	18,733
Total assets	<u>\$ 248,941</u>	<u>493,575</u>	<u>17,442</u>	<u>6,118</u>	<u>17,650</u>	<u>—</u>	<u>(223,633)</u>	<u>560,093</u>

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

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

June 30, 2016

(In thousands)

<b>Liabilities and Net Assets</b>	<b>Baltimore Washington Medical System, Inc.</b>	<b>Baltimore Washington Medical Center</b>	<b>Baltimore Washington Healthcare Services</b>	<b>Baltimore Washington Health Enterprises</b>	<b>North County Corporation</b>	<b>Shipley's</b>	<b>Eliminations</b>	<b>BWMS consolidated total</b>
Current liabilities:								
Trade accounts payable	\$ —	21,886	257	672	(1,726)	—	—	21,089
Accrued payroll and benefits	1,302	23,101	870	—	—	—	—	25,273
Advances from third-party payors	—	9,667	—	—	—	—	—	9,667
Lines of credit	—	—	—	—	—	—	—	—
Other current liabilities	—	37,506	—	6,146	54	—	—	43,706
Current portion of long-term debt	—	3,645	—	—	225	—	—	3,870
Total current liabilities	1,302	95,805	1,127	6,818	(1,447)	—	—	103,605
Long-term debt, less current portion	—	165,078	—	—	3,018	—	—	168,096
Other long-term liabilities	—	46,874	—	1,291	(187)	—	—	47,978
Total liabilities	1,302	307,757	1,127	8,109	1,384	—	—	319,679
Net assets:								
Unrestricted	247,639	177,858	16,315	(1,991)	16,266	—	(223,633)	232,454
Temporarily restricted	—	7,960	—	—	—	—	—	7,960
Permanently restricted	—	—	—	—	—	—	—	—
Total net assets	247,639	185,818	16,315	(1,991)	16,266	—	(223,633)	240,414
Total liabilities and net assets	\$ 248,941	493,575	17,442	6,118	17,650	—	(223,633)	560,093

See accompanying independent auditors' report.

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

Consolidating Balance Sheet Information by Division – Shore Regional Health (Shore Regional)

June 30, 2016

(In thousands)

Assets	Shore Health System, Inc.	UM Shore Home Care	Queenstown ASC	UM Shore Nursing and Rehab.	Memorial Hospital Foundation, Inc. and Subsidiary	Chester River Consolidated Total	Eliminations	Shore Regional consolidated total
Current assets:								
Cash and cash equivalents	\$ 14,619	34	1	1,474	—	5,910	—	22,038
Assets limited as to use, current portion	627	—	—	—	—	233	—	860
Accounts receivable:								
Patient accounts receivable, less allowance for doubtful accounts of \$17,977	12,830	446	90	384	—	4,144	—	17,894
Other	6,296	2,007	—	5	3,502	3,028	—	14,838
Inventories	4,077	—	—	—	—	699	—	4,776
Prepaid expenses and other current assets	1,429	18	—	—	35	68	—	1,550
Total current assets	<u>39,878</u>	<u>2,505</u>	<u>91</u>	<u>1,863</u>	<u>3,537</u>	<u>14,082</u>	<u>—</u>	<u>61,956</u>
Investments	67,312	—	—	—	400	12,603	—	80,315
Assets limited as to use, less current portion:								
Debt service funds	—	—	—	—	—	—	—	—
Construction funds	234	—	—	—	—	4,538	—	4,772
Board designated and escrow funds	25,000	—	—	—	45,986	7,223	—	78,209
Self-insurance trust funds	22,603	—	—	84	—	6,051	—	28,738
Funds restricted by donor	4,683	—	—	—	22,004	2,911	—	29,598
Economic and beneficial interests in the net assets of related organizations	78,090	—	—	68	—	5,499	(80,552)	3,105
	<u>130,610</u>	<u>—</u>	<u>—</u>	<u>152</u>	<u>67,990</u>	<u>26,222</u>	<u>(80,552)</u>	<u>144,422</u>
Property and equipment, net	145,237	327	14	1,736	3,300	27,964	—	178,578
Investments in joint ventures and other assets	10,395	—	—	—	17	2,077	(2,614)	9,875
Total assets	<u>\$ 393,432</u>	<u>2,832</u>	<u>105</u>	<u>3,751</u>	<u>75,244</u>	<u>82,948</u>	<u>(83,166)</u>	<u>475,146</u>

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

Consolidating Balance Sheet Information by Division – Shore Regional Health (Shore Regional)

June 30, 2016

(In thousands)

<b>Liabilities and Net Assets</b>	<b>Shore Health System, Inc.</b>	<b>UM Shore Home Care</b>	<b>Queenstown ASC</b>	<b>UM Shore Nursing and Rehab.</b>	<b>Memorial Hospital Foundation, Inc. and Subsidiary</b>	<b>Chester River Consolidated Total</b>	<b>Eliminations</b>	<b>Shore Regional consolidated total</b>
Current liabilities:								
Trade accounts payable	\$ 13,688	7	10	642	6	3,618	—	17,971
Accrued payroll and benefits	18,990	219	—	274	24	2,828	—	22,335
Advances from third-party payors	5,946	—	—	65	—	778	—	6,789
Lines of credit	—	—	—	—	—	—	—	—
Other current liabilities	2,147	(8)	96	768	229	4,072	—	7,304
Current portion of long-term debt	3,087	—	—	30	—	96	—	3,213
Total current liabilities	43,858	218	106	1,779	259	11,392	—	57,612
Long-term debt, less current portion	83,786	—	—	45	—	4,412	—	88,243
Other long-term liabilities	12,696	—	—	266	—	10,009	—	22,971
Total liabilities	140,340	218	106	2,090	259	25,813	—	168,826
Net assets:								
Unrestricted	216,600	2,614	(1)	1,625	46,282	51,577	(51,685)	267,012
Temporarily restricted	22,283	—	—	36	17,490	2,982	(18,980)	23,811
Permanently restricted	14,209	—	—	—	11,213	2,576	(12,501)	15,497
Total net assets	253,092	2,614	(1)	1,661	74,985	57,135	(83,166)	306,320
Total liabilities and net assets	\$ 393,432	2,832	105	3,751	75,244	82,948	(83,166)	475,146

See accompanying independent auditors' report.

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

Consolidating Balance Sheet Information by Division – Chester River Health System, Inc. (CRHS) a subsidiary of Shore Regional Health

June 30, 2016

(In thousands)

Assets	<b>Chester River Hospital Center</b>	<b>Chester River Manor</b>	<b>UM Chester River Home Care</b>	<b>Chester River Health Foundation</b>	<b>Chester River consolidated total</b>
Current assets:					
Cash and cash equivalents	\$ 5,214	—	696	—	5,910
Assets limited as to use, current portion	233	—	—	—	233
Accounts receivable:					
Patient accounts receivable, less allowance for doubtful accounts of \$2,294	3,928	—	216	—	4,144
Other	2,964	—	42	22	3,028
Inventories	699	—	—	—	699
Prepaid expenses and other current assets	63	—	5	—	68
Total current assets	<u>13,101</u>	<u>—</u>	<u>959</u>	<u>22</u>	<u>14,082</u>
Investments	10,461	—	1,413	729	12,603
Assets limited as to use, less current portion:					
Debt service funds	—	—	—	—	—
Construction funds	4,538	—	—	—	4,538
Board designated and escrow funds	5,000	—	—	2,223	7,223
Self-insurance trust funds	6,051	—	—	—	6,051
Funds restricted by donor	105	—	—	2,806	2,911
Economic interests in the net assets of related organizations	5,196	—	303	—	5,499
	<u>20,890</u>	<u>—</u>	<u>303</u>	<u>5,029</u>	<u>26,222</u>
Property and equipment, net	27,736	—	228	—	27,964
Investments in joint ventures and other assets	2,077	—	—	—	2,077
Total assets	<u>\$ 74,265</u>	<u>—</u>	<u>2,903</u>	<u>5,780</u>	<u>82,948</u>

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

Consolidating Balance Sheet Information by Division – Chester River Health System, Inc. (CRHS) a subsidiary of Shore Regional Health

June 30, 2016

(In thousands)

<b>Liabilities and Net Assets</b>	<b>Chester River Hospital Center</b>	<b>Chester River Manor</b>	<b>UM Chester River Home Care</b>	<b>Chester River Health Foundation</b>	<b>Chester River consolidated total</b>
Current liabilities:					
Trade accounts payable	\$ 3,546	—	58	14	3,618
Accrued payroll and benefits	2,694	—	134	—	2,828
Advances from third-party payors	778	—	—	—	778
Lines of credit	—	—	—	—	—
Other current liabilities	3,873	—	—	199	4,072
Current portion of long-term debt	96	—	—	—	96
Total current liabilities	10,987	—	192	213	11,392
Long-term debt, less current portion	4,412	—	—	—	4,412
Other long-term liabilities	10,009	—	—	—	10,009
Total liabilities	25,408	—	192	213	25,813
Net assets:					
Unrestricted	46,082	—	2,707	2,788	51,577
Temporarily restricted	1,487	—	4	1,491	2,982
Permanently restricted	1,288	—	—	1,288	2,576
Total net assets	48,857	—	2,711	5,567	57,135
Total liabilities and net assets	\$ 74,265	—	2,903	5,780	82,948

See accompanying independent auditors' report.

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

Consolidating Balance Sheet Information by Division – Charles Regional Health System, Inc. (Charles Regional)

June 30, 2016

(In thousands)

Assets	Charles Regional Health, Inc.	Charles Regional Medical Center, Inc.	Charles Regional Urgent Care	Charles Regional Care Partners, Inc. and Subsidiary	Charles Regional Health Foundation, Inc.	Eliminations	Charles Regional consolidated total
Current assets:							
Cash and cash equivalents	\$ 79	11,285	614	431	1,381	—	13,790
Assets limited as to use, current portion	—	404	—	—	—	—	404
Accounts receivable:							
Patient accounts receivable, less allowance for doubtful accounts of \$6,908	—	7,390	331	—	—	—	7,721
Other	2,726	976	—	(921)	5	—	2,786
Inventories	—	1,487	—	—	—	—	1,487
Prepaid expenses and other current assets	—	478	2	—	(3)	—	477
Total current assets	<u>2,805</u>	<u>22,020</u>	<u>947</u>	<u>(490)</u>	<u>1,383</u>	<u>—</u>	<u>26,665</u>
Investments	—	27,923	—	—	2,080	—	30,003
Assets limited as to use, less current portion:							
Debt service funds	—	—	—	—	—	—	—
Construction funds	—	10,449	—	—	—	—	10,449
Board designated and escrow funds	3,576	—	—	—	—	—	3,576
Self-insurance trust funds	—	4,820	—	—	—	—	4,820
Funds restricted by donor	—	—	—	—	—	—	—
Economic interests in the net assets of related organizations	—	4,898	—	—	—	(4,898)	—
	<u>3,576</u>	<u>20,167</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(4,898)</u>	<u>18,845</u>
Property and equipment, net	20,016	74,373	753	—	2,639	—	97,781
Investments in joint ventures and other assets	904	6,985	—	30	—	—	7,919
Total assets	<u>\$ 27,301</u>	<u>151,468</u>	<u>1,700</u>	<u>(460)</u>	<u>6,102</u>	<u>(4,898)</u>	<u>181,213</u>

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

Consolidating Balance Sheet Information by Division – Charles Regional Health System, Inc. (Charles Regional)

June 30, 2016

(In thousands)

<b>Liabilities and Net Assets</b>	<b>Charles Regional Health, Inc.</b>	<b>Charles Regional Medical Center, Inc.</b>	<b>Charles Regional Urgent Care</b>	<b>Charles Regional Care Partners, Inc. and Subsidiary</b>	<b>Charles Regional Health Foundation, Inc.</b>	<b>Eliminations</b>	<b>Charles Regional consolidated total</b>
Current liabilities:							
Trade accounts payable	\$ —	8,996	196	—	169	—	9,361
Accrued payroll and benefits	—	3,944	—	—	—	—	3,944
Advances from third-party payors	—	3,735	—	—	—	—	3,735
Lines of credit	—	—	—	—	—	—	—
Other current liabilities	1,943	3,338	2,185	31	245	—	7,742
Current portion of long-term debt	643	2,207	—	—	25	—	2,875
Total current liabilities	2,586	22,220	2,381	31	439	—	27,657
Long-term debt, less current portion	4,744	54,797	—	—	765	—	60,306
Other long-term liabilities	—	16,918	—	—	—	—	16,918
Total liabilities	7,330	93,935	2,381	31	1,204	—	104,881
Net assets:							
Unrestricted	19,971	57,440	(681)	(491)	4,805	(4,805)	76,239
Temporarily restricted	—	93	—	—	93	(93)	93
Permanently restricted	—	—	—	—	—	—	—
Total net assets	19,971	57,533	(681)	(491)	4,898	(4,898)	76,332
Total liabilities and net assets	\$ 27,301	151,468	1,700	(460)	6,102	(4,898)	181,213

See accompanying independent auditors' report.

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

Consolidating Balance Sheet Information by Division – University of Maryland St. Joseph Health System (SJHS)

June 30, 2016

(In thousands)

Assets	St. Joseph Medical Center	St. Joseph Medical Group	St. Joseph Properties	St. Joseph Orthopaedics	O’Dea Medical Arts	St. Joseph Foundation	Eliminations	St. Joseph consolidated total
Current assets:								
Cash and cash equivalents	\$ 1,443	(156)	—	—	1,755	868	—	3,910
Assets limited as to use, current portion	960	—	—	—	—	—	—	960
Accounts receivable:								
Patient accounts receivable, less allowance for doubtful accounts of \$17,282	30,765	2,720	—	1,329	3	—	—	34,817
Other	12,345	209	—	50	—	1,741	—	14,345
Inventories	5,537	—	—	23	—	—	—	5,560
Prepaid expenses and other current assets	968	614	(2)	149	104	—	—	1,833
Total current assets	<u>52,018</u>	<u>3,387</u>	<u>(2)</u>	<u>1,551</u>	<u>1,862</u>	<u>2,609</u>	<u>—</u>	<u>61,425</u>
Investments	—	—	—	—	—	10,341	—	10,341
Assets limited as to use, less current portion:								
Debt service funds	—	—	—	—	—	—	—	—
Construction funds	5,816	—	—	—	—	—	—	5,816
Board designated and escrow funds	—	—	—	—	—	—	—	—
Self-insurance trust funds	10,107	—	—	—	—	—	—	10,107
Funds restricted by donor	—	—	—	—	—	1,057	—	1,057
Economic interests in the net assets of related organizations	9,503	—	—	—	—	—	—	9,503
	<u>25,426</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>1,057</u>	<u>—</u>	<u>26,483</u>
Property and equipment, net	197,090	897	177	584	11,647	—	—	210,395
Investments in joint ventures and other assets	14,207	—	2,532	2,846	—	526	(2,532)	17,579
Total assets	<u>\$ 288,741</u>	<u>4,284</u>	<u>2,707</u>	<u>4,981</u>	<u>13,509</u>	<u>14,533</u>	<u>(2,532)</u>	<u>326,223</u>

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

Consolidating Balance Sheet Information by Division – University of Maryland St. Joseph Health System (SJHS)

June 30, 2016

(In thousands)

<b>Liabilities and Net Assets</b>	<b>St. Joseph Medical Center</b>	<b>St. Joseph Medical Group</b>	<b>St. Joseph Properties</b>	<b>St. Joseph Orthopaedics</b>	<b>O’Dea Medical Arts</b>	<b>St. Joseph Foundation</b>	<b>Eliminations</b>	<b>St. Joseph consolidated total</b>
Current liabilities:								
Trade accounts payable	\$ 27,488	1,625	385	(284)	78	75	—	29,367
Accrued payroll and benefits	23,338	2,235	—	2,551	—	—	—	28,124
Advances from third-party payors	10,633	—	—	—	—	—	—	10,633
Lines of credit	—	—	—	—	—	—	—	—
Other current liabilities	2,984	50,793	4,572	23,990	36	127	—	82,502
Current portion of long-term debt	5,159	—	—	—	—	—	—	5,159
Total current liabilities	69,602	54,653	4,957	26,257	114	202	—	155,785
Long-term debt, less current portion	233,727	—	—	—	8,882	—	—	242,609
Other long-term liabilities	15,652	—	—	—	—	—	—	15,652
Total liabilities	318,981	54,653	4,957	26,257	8,996	202	—	414,046
Net assets:								
Unrestricted	(30,241)	(50,369)	(2,250)	(21,276)	4,513	4,295	(2,532)	(97,860)
Temporarily restricted	1	—	—	—	—	9,374	—	9,375
Permanently restricted	—	—	—	—	—	662	—	662
Total net assets	(30,240)	(50,369)	(2,250)	(21,276)	4,513	14,331	(2,532)	(87,823)
Total liabilities and net assets	\$ 288,741	4,284	2,707	4,981	13,509	14,533	(2,532)	326,223

See accompanying independent auditors’ report.

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

Consolidating Balance Sheet Information by Division – University of Maryland Upper Chesapeake Health System (UCHS)

June 30, 2016

(In thousands)

Assets	Upper Chesapeake Medical Center	Harford Memorial Hospital	UCHS Properties	Health Ventures	Medical Services	Residential Hospice House	Upper Chesapeake Health Foundation	Upper Chesapeake Health System	Hospice of Harford County	Upper Chesapeake Insurance Co.	Upper Chesapeake Land Trust	Eliminations	Upper Chesapeake consolidated total
Current assets:													
Cash and cash equivalents	\$ 29,652	19,400	12	—	319	27	18	—	—	—	—	—	49,428
Assets limited as to use, current portion	—	—	—	—	—	—	—	—	—	—	—	—	—
Accounts receivable:													
Patient accounts receivable, less allowance for doubtful accounts of \$19,036	24,013	6,765	—	—	5,035	3	—	—	—	—	—	—	35,816
Other	—	—	—	39	(2)	—	6,905	11	—	2,424	—	—	9,377
Inventories	6,289	2,696	—	—	622	—	—	—	—	—	—	—	9,607
Prepaid expenses and other current assets	1,121	2,144	24	—	829	5	—	17	—	—	—	—	4,140
Total current assets	<u>61,075</u>	<u>31,005</u>	<u>36</u>	<u>39</u>	<u>6,803</u>	<u>35</u>	<u>6,923</u>	<u>28</u>	<u>—</u>	<u>2,424</u>	<u>—</u>	<u>—</u>	<u>108,368</u>
Investments	100,941	70,924	—	—	—	478	—	—	—	—	—	—	172,343
Assets limited as to use, less current portion:													
Investments held for swap collateral	40,811	—	—	—	—	—	—	—	—	—	—	—	40,811
Debt service funds	—	—	—	—	—	—	—	—	—	—	—	—	—
Construction funds	—	—	—	—	—	—	—	—	—	—	—	—	—
Board designated and escrow funds	—	—	—	—	—	—	17,757	—	—	—	—	—	17,757
Self-insurance trust funds	—	—	—	—	—	—	—	—	—	11,066	—	—	11,066
Funds restricted by donor	—	—	—	—	—	—	—	—	—	—	—	—	—
Economic interests in the net assets of related organizations	—	—	—	—	—	—	—	—	—	—	—	—	—
Total assets limited as to use, less current portion	<u>40,811</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>17,757</u>	<u>—</u>	<u>—</u>	<u>11,066</u>	<u>—</u>	<u>—</u>	<u>69,634</u>
Property and equipment, net	220,906	29,442	—	10	2,222	2,019	46	1,564	—	—	3,001	—	259,210
Investments in joint ventures and other assets	225,127	—	—	3,948	5	—	94	—	—	9,079	—	(19,441)	218,812
Total assets	<u>\$ 648,860</u>	<u>131,371</u>	<u>36</u>	<u>3,997</u>	<u>9,030</u>	<u>2,532</u>	<u>24,820</u>	<u>1,592</u>	<u>—</u>	<u>22,569</u>	<u>3,001</u>	<u>(19,441)</u>	<u>828,367</u>

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

Consolidating Balance Sheet Information by Division – University of Maryland Upper Chesapeake Health System (UCHS)

June 30, 2016

(In thousands)

Liabilities and Net Assets	Upper Chesapeake Medical Center	Harford Memorial Hospital	UCHS Properties	Health Ventures	Medical Services	Residential Hospice House	Upper Chesapeake Health Foundation	Upper Chesapeake Health System	Hospice of Harford County	Upper Chesapeake Insurance Co.	Upper Chesapeake Land Trust	Eliminations	Upper Chesapeake consolidated total
Current liabilities:													
Trade accounts payable	\$ 7,192	6,795	—	—	2,223	—	—	421	—	32	—	—	16,663
Accrued payroll and benefits	21,574	2,421	—	—	—	—	—	1,475	—	—	—	—	25,470
Advances from third-party payors	6,718	2,059	—	—	—	—	—	—	—	—	—	—	8,777
Other current liabilities	23,059	18,301	12	—	5,442	229	7,918	2,479	—	2,664	3,090	65	63,259
Current portion of long-term debt	4,445	—	—	—	—	—	—	—	—	—	—	—	4,445
Total current liabilities	62,988	29,576	12	—	7,665	229	7,918	4,375	—	2,696	3,090	65	118,614
Long-term debt, less current portion	175,354	25,953	—	—	—	—	—	—	—	—	—	—	201,307
Other long-term liabilities	24,490	1,158	—	—	—	—	—	1	—	18,678	—	(2,539)	41,788
Total liabilities	262,832	56,687	12	—	7,665	229	7,918	4,376	—	21,374	3,090	(2,474)	361,709
Net assets:													
Unrestricted	219,126	74,684	24	3,997	1,365	1,825	9,712	(2,784)	—	1,195	(89)	(65)	308,990
Temporarily restricted	166,902	—	—	—	—	478	5,914	—	—	—	—	(16,902)	156,392
Permanently restricted	—	—	—	—	—	—	1,276	—	—	—	—	—	1,276
Total net assets	386,028	74,684	24	3,997	1,365	2,303	16,902	(2,784)	—	1,195	(89)	(16,967)	466,658
Total liabilities and net assets	\$ 648,860	131,371	36	3,997	9,030	2,532	24,820	1,592	—	22,569	3,001	(19,441)	828,367

See accompanying independent auditors' report.

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

Consolidating Balance Sheet Information by Division – University of Maryland Health Plans

June 30, 2016

(In thousands)

<b>Assets</b>	<b>UM Health Ventures</b>	<b>UM Health Plans</b>	<b>Eliminations</b>	<b>UM Health Plans consolidated total</b>
Current assets:				
Cash and cash equivalents	\$ —	1,540	—	1,540
Assets limited as to use, current portion	—	—	—	—
Accounts receivable:				
Patient accounts receivable, less allowance for doubtful accounts of \$0	—	—	—	—
Other	5,938	16,832	—	22,770
Inventories	—	—	—	—
Prepaid expenses and other current assets	417	359	—	776
Total current assets	<u>6,355</u>	<u>18,731</u>	<u>—</u>	<u>25,086</u>
Investments	—	10,208	—	10,208
Assets limited as to use, less current portion:				
Investment held for collateral	—	—	—	—
Debt service funds	—	—	—	—
Construction funds	—	—	—	—
Board designated and escrow funds	—	—	—	—
Self-insurance trust funds	—	—	—	—
Funds restricted by donor	—	—	—	—
Economic interests in the net assets of related organizations	—	—	—	—
	—	—	—	—
Property and equipment, net	—	5,306	—	5,306
Investments in joint ventures and other assets	83,050	89,089	(85,552)	86,587
Total assets	<u>\$ 89,405</u>	<u>123,334</u>	<u>(85,552)</u>	<u>127,187</u>

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

Consolidating Balance Sheet Information by Division – University of Maryland Health Plans

June 30, 2016

(In thousands)

Liabilities and Net Assets	UM Health Ventures	UM Health Plans	Eliminations	UM Health Plans consolidated total
Current liabilities:				
Trade accounts payable	\$ —	109	—	109
Accrued payroll and benefits	1,095	561	—	1,656
Advances from third-party payors	—	—	—	—
Lines of credit	—	—	—	—
Other current liabilities	10,560	29,569	—	40,129
Current portion of long-term debt	5,000	—	—	5,000
Total current liabilities	<u>16,655</u>	<u>30,239</u>	<u>—</u>	<u>46,894</u>
Long-term debt, less current portion	41,667	—	—	41,667
Other long-term liabilities	35,700	17,600	—	53,300
Total liabilities	<u>94,022</u>	<u>47,839</u>	<u>—</u>	<u>141,861</u>
Net assets:				
Unrestricted	(4,617)	75,495	(85,552)	(14,674)
Temporarily restricted	—	—	—	—
Permanently restricted	—	—	—	—
Total net assets	<u>(4,617)</u>	<u>75,495</u>	<u>(85,552)</u>	<u>(14,674)</u>
Total liabilities and net assets	<u>\$ 89,405</u>	<u>123,334</u>	<u>(85,552)</u>	<u>127,187</u>

See accompanying independent auditors' report.

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

Consolidating Balance Sheet Information by Division

June 30, 2015

(In thousands)

Assets	University of Maryland Medical Center & Affiliates	Rehabilitation & Orthopaedic Institute	Midtown	Baltimore Washington Medical System	Shore Regional	Charles Regional	St. Joseph Health	Upper Chesapeake	UMMS Foundation	ECARE	Eliminations	Consolidated total
Current assets:												
Cash and cash equivalents	\$ 251,525	10,222	15,899	61,841	11,980	22,797	3,768	84,474	—	—	—	462,506
Assets limited as to use, current portion	46,377	—	764	1,294	948	485	549	—	—	—	—	50,417
Accounts receivable:												
Patient accounts receivable, less allowance for doubtful accounts of \$248,054	143,905	13,920	24,921	35,366	24,507	8,364	39,694	34,886	—	—	—	325,563
Other	160,906	(81)	1,658	1,096	8,582	982	(79,696)	—	—	249	(24,747)	68,949
Inventories	26,756	1,106	3,533	6,759	3,659	1,675	5,535	10,231	—	—	—	59,254
Prepaid expenses and other current assets	6,197	110	219	537	1,142	443	1,479	13,508	1,500	144	—	25,279
Total current assets	<u>635,666</u>	<u>25,277</u>	<u>46,994</u>	<u>106,893</u>	<u>50,818</u>	<u>34,746</u>	<u>(28,671)</u>	<u>143,099</u>	<u>1,500</u>	<u>393</u>	<u>(24,747)</u>	<u>991,968</u>
Investments	284,743	28,515	—	72,447	82,215	22,429	10,582	—	—	—	—	500,931
Assets limited as to use, less current portion:												
Investments held for collateral	77,603	—	3,700	8,000	—	—	—	30,017	—	—	—	119,320
Debt service funds	21,197	—	—	—	—	—	—	—	—	—	—	21,197
Construction funds	47,014	10,755	6,045	26,538	15,810	11,000	10,472	—	—	—	—	127,634
Board designated and escrow funds	—	—	—	—	77,013	7,081	—	124,874	22,977	—	—	231,945
Self-insurance trust funds	52,637	—	15,896	23,321	26,380	5,943	9,370	9,479	—	—	—	143,026
Funds restricted by donor	—	—	1,173	—	31,376	—	1,101	—	22,383	—	—	56,033
Economic and beneficial interests in the net assets of related organizations	200,020	30,680	432	7,022	3,105	—	9,503	—	—	—	(61,332)	189,430
Total assets limited as to use, less current portion	<u>398,471</u>	<u>41,435</u>	<u>27,246</u>	<u>64,881</u>	<u>153,684</u>	<u>24,024</u>	<u>30,446</u>	<u>164,370</u>	<u>45,360</u>	<u>—</u>	<u>(61,332)</u>	<u>888,585</u>
Property and equipment, net	922,861	46,354	98,649	253,540	172,150	91,983	215,891	253,876	—	2,825	—	2,058,129
Investments in joint ventures and other assets	661,818	—	16,958	16,520	13,177	6,371	13,280	217,172	5,965	—	(658,028)	293,233
Total assets	<u>\$ 2,903,559</u>	<u>141,581</u>	<u>189,847</u>	<u>514,281</u>	<u>472,044</u>	<u>179,553</u>	<u>241,528</u>	<u>778,517</u>	<u>52,825</u>	<u>3,218</u>	<u>(744,107)</u>	<u>4,732,846</u>

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

Consolidating Balance Sheet Information by Division

June 30, 2015

(In thousands)

Liabilities and Net Assets	University of Maryland Medical Center & Affiliates	Rehabilitation & Orthopaedic Institute	Midtown	Baltimore Washington Medical System	Shore Regional	Charles Regional	St. Joseph Health	Upper Chesapeake	UMMS Foundation	ECARE	Eliminations	Consolidated total
Current liabilities:												
Trade accounts payable	\$ 133,454	7,124	15,124	29,130	20,518	8,844	25,929	18,433	996	1,687	—	261,239
Accrued payroll and benefits	110,937	5,470	12,745	28,754	26,051	5,405	28,391	26,095	—	—	—	243,848
Advances from third-party payors	76,099	3,427	9,520	9,057	6,020	4,162	13,102	7,825	—	—	—	129,212
Lines of credit	132,400	—	—	—	—	12,000	—	—	—	—	—	144,400
Other current liabilities	86,145	4,031	6,770	(13,894)	10,108	1,878	3,762	35,118	—	6,124	(24,747)	115,295
Long-term debt subject to short-term remarketing arrangements	51,732	—	—	—	—	—	—	—	—	—	—	51,732
Current portion of long-term debt	12,971	482	888	3,714	3,299	2,751	4,938	4,255	—	—	—	33,298
Total current liabilities	603,738	20,534	45,047	56,761	65,996	35,040	76,122	91,726	996	7,811	(24,747)	979,024
Long-term debt, less current portion	723,590	21,419	33,955	171,779	91,583	63,105	247,961	205,752	—	—	—	1,559,144
Other long-term liabilities	110,797	415	22,910	38,486	21,532	13,260	8,954	42,871	—	—	—	259,225
Interest rate swap liabilities	167,520	—	—	—	—	—	—	28,852	—	—	—	196,372
Total liabilities	1,605,645	42,368	101,912	267,026	179,111	111,405	333,037	369,201	996	7,811	(24,747)	2,993,765
Net assets:												
Unrestricted	1,075,715	68,400	86,330	240,233	252,714	68,055	(98,724)	251,536	26,336	(4,593)	(508,775)	1,457,227
Temporarily restricted	220,510	30,813	1,605	7,022	24,670	93	6,815	156,504	6,930	—	(209,309)	245,653
Permanently restricted	1,689	—	—	—	15,549	—	400	1,276	18,563	—	(1,276)	36,201
Total net assets	1,297,914	99,213	87,935	247,255	292,933	68,148	(91,509)	409,316	51,829	(4,593)	(719,360)	1,739,081
Total liabilities and net assets	\$ 2,903,559	141,581	189,847	514,281	472,044	179,553	241,528	778,517	52,825	3,218	(744,107)	4,732,846

See accompanying independent auditors' report.

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

Consolidating Operations Information by Division

Year ended June 30, 2016

(In thousands)

	University of Maryland Medical Center & Affiliates	Rehabilitation & Orthopaedic Institute	Midtown	Baltimore Washington Medical System	Shore Regional	Charles Regional	St. Joseph Health	UCHS	UM Health Plans	UMMS Foundation	Community Med. Group	ECARE	Eliminations	Consolidated total
Unrestricted revenues, gains and other support:														
Patient Service Revenue (net of contractual adjustments)	\$ 1,429,329	108,435	209,573	419,168	318,917	133,783	425,406	436,284	—	—	64,007	—	(852)	3,544,050
Provision for bad debts	(64,664)	(7,015)	(18,354)	(36,972)	(13,070)	(5,146)	(16,131)	(14,846)	—	—	—	—	—	(176,198)
Net patient service revenue	1,364,665	101,420	191,219	382,196	305,847	128,637	409,275	421,438	—	—	64,007	—	(852)	3,367,852
Other operating revenue:														
State support	3,200	—	—	—	—	—	—	—	—	—	—	—	—	3,200
Premium Revenue	—	—	—	—	—	—	—	—	140,958	—	—	—	—	140,958
Other revenue	121,601	5,719	2,970	5,507	3,240	666	6,839	3,364	3	—	49,525	2,975	(45,470)	156,939
Total unrestricted revenue, gains and other support	1,489,466	107,139	194,189	387,703	309,087	129,303	416,114	424,802	140,961	—	113,532	2,975	(46,322)	3,668,949
Operating expenses:														
Salaries, wages and benefits	725,096	50,763	89,088	179,444	139,771	58,728	195,905	221,243	14,358	—	77,460	—	—	1,751,856
Expendable supplies	343,261	14,096	23,206	61,958	40,614	17,075	81,820	81,781	—	—	11,087	96	—	674,994
Purchased services	138,443	23,430	45,671	91,785	77,612	29,432	97,257	56,262	137,240	—	24,901	4,351	(46,322)	680,062
Contracted services	130,634	9,126	20,881	9,469	13,941	5,086	7,437	15,309	—	—	4,679	—	—	216,562
Depreciation and amortization	91,131	5,675	12,515	24,616	19,979	6,056	17,598	19,893	1,663	—	984	654	—	200,764
Interest expense	23,923	766	1,232	6,156	3,320	2,143	10,110	8,580	1,047	—	187	—	—	57,464
Total operating expenses	1,452,488	103,856	192,593	373,428	295,237	118,520	410,127	403,068	154,308	—	119,111	5,288	(46,322)	3,581,702
Operating income (loss)	36,978	3,283	1,596	14,275	13,850	10,783	5,987	21,734	(13,347)	—	(5,579)	(2,313)	—	87,247
Nonoperating income and expenses, net:														
Loss on early extinguishment of debt	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Change in fair value of undesignated interest rate swaps	(78,429)	—	—	—	—	—	—	—	—	—	—	—	—	(78,429)
Other nonoperating gains and losses:														
Contributions	—	—	—	—	787	—	456	—	—	2,526	—	—	—	3,769
St. Joseph escrow settlement	34,275	—	—	—	—	—	—	—	—	—	—	—	—	34,275
Equity in net income of joint ventures	(1,629)	—	—	—	(178)	470	664	375	—	—	—	—	—	(298)
Investment income	10,642	636	38	2,343	6,153	316	145	409	148	281	—	—	—	21,111
Change in fair value of investments	(21,918)	(1,303)	23	(4,770)	(10,540)	(964)	(429)	4,446	—	(988)	—	—	—	(36,443)
Other nonoperating gains and losses	(10,392)	(390)	(605)	(3,297)	(3,077)	(675)	(5,246)	(3,384)	(1,614)	(2,353)	—	—	—	(31,033)
Total other nonoperating gains and losses	10,978	(1,057)	(544)	(5,724)	(6,855)	(853)	(4,410)	1,846	(1,466)	(534)	—	—	—	(8,619)
Excess (deficiency) of revenues over expenses	\$ (30,473)	2,226	1,052	8,551	6,995	9,930	1,577	23,580	(14,813)	(534)	(5,579)	(2,313)	—	199

See accompanying independent auditors' report.

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

Consolidating Operations Information by Division for University of Maryland Medical Center & Affiliates (UMMC)

Year ended June 30, 2016

(In thousands)

	<b>University of Maryland Medical Center</b>			<b>University Specialty</b>	<b>36 South Paca</b>	<b>University CARE</b>	<b>Eliminations</b>	<b>University of Maryland Medical Center &amp; Affiliates consolidated total</b>
	<b>University Hospital</b>	<b>Shock Trauma Center</b>	<b>Subtotal</b>					
Unrestricted revenues, gains and other support:								
Patient service revenue (net of contractual adjustments)	\$ 1,237,079	190,580	1,427,659	—	—	1,670	—	1,429,329
Provision for bad debts	(52,392)	(12,321)	(64,713)	199	—	(150)	—	(64,664)
Net patient service revenue	1,184,687	178,259	1,362,946	199	—	1,520	—	1,364,665
Other operating revenue:								
State support	—	3,200	3,200	—	—	—	—	3,200
Other revenue	119,019	178	119,197	—	964	1,440	—	121,601
Total unrestricted revenue, gains and other support	1,303,706	181,637	1,485,343	199	964	2,960	—	1,489,466
Operating expenses:								
Salaries, wages and benefits	655,710	67,728	723,438	(7)	142	1,523	—	725,096
Expendable supplies	314,729	28,222	342,951	(1)	190	121	—	343,261
Purchased services	92,085	42,338	134,423	3	804	3,213	—	138,443
Contracted services	118,522	12,112	130,634	—	—	—	—	130,634
Depreciation and amortization	78,734	11,963	90,697	—	434	—	—	91,131
Interest expense	23,559	—	23,559	—	364	—	—	23,923
Total operating expenses	1,283,339	162,363	1,445,702	(5)	1,934	4,857	—	1,452,488
Operating income (loss)	20,367	19,274	39,641	204	(970)	(1,897)	—	36,978
Nonoperating income and expenses, net:								
Loss on early extinguishment of debt	—	—	—	—	—	—	—	—
Change in fair value of undesignated interest rate swaps	(78,429)	—	(78,429)	—	—	—	—	(78,429)
Other nonoperating gains and losses:								
Contributions	—	—	—	—	—	—	—	—
St. Joseph escrow settlement	34,275	—	34,275	—	—	—	—	34,275
Equity in net income of joint ventures	(4,305)	—	(4,305)	—	—	—	2,676	(1,629)
Investment income	9,142	1,500	10,642	—	—	—	—	10,642
Change in fair value of investments	(21,918)	—	(21,918)	—	—	—	—	(21,918)
Other nonoperating gains and losses	(10,582)	—	(10,582)	—	—	—	190	(10,392)
Total other nonoperating gains and losses	6,612	1,500	8,112	—	—	—	2,866	10,978
Excess (deficiency) of revenues over expenses	\$ (51,450)	20,774	(30,676)	204	(970)	(1,897)	2,866	(30,473)

See accompanying independent auditors' report.

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

Consolidating Operations Information by Division for Midtown Health, Inc. (Midtown)

Year ended June 30, 2016

(In thousands)

	<b>UM Midtown Health Systems, Inc.</b>	<b>UMMC Midtown Campus</b>	<b>UM Midtown Clin. Prac. Group</b>	<b>Eliminations</b>	<b>Midtown consolidated total</b>
Unrestricted revenues, gains and other support:					
Patient service revenue (net of contractual adjustments)	\$ —	208,590	5,720	(4,737)	209,573
Provision for bad debts	—	(17,596)	(758)	—	(18,354)
Net patient service revenue	—	190,994	4,962	(4,737)	191,219
Other operating revenue:					
State support	—	—	—	—	—
Other revenue	962	1,990	18	—	2,970
Total unrestricted revenue, gains and other support	962	192,984	4,980	(4,737)	194,189
Operating expenses:					
Salaries, wages and benefits	—	89,088	—	—	89,088
Expendable supplies	—	23,206	—	—	23,206
Purchased services	798	44,630	243	—	45,671
Contracted services	—	20,881	4,737	(4,737)	20,881
Depreciation and amortization	242	12,273	—	—	12,515
Interest expense	47	1,185	—	—	1,232
Total operating expenses	1,087	191,263	4,980	(4,737)	192,593
Operating income (loss)	(125)	1,721	—	—	1,596
Nonoperating income and expenses, net:					
Loss on early extinguishment of debt	—	—	—	—	—
Change in fair value of undesignated interest rate swaps	—	—	—	—	—
Other nonoperating gains and losses:					
Contributions	—	—	—	—	—
Equity in net income of joint ventures	—	—	—	—	—
Investment income	—	38	—	—	38
Change in fair value of investments	—	23	—	—	23
Other nonoperating gains and losses	—	(605)	—	—	(605)
Total other nonoperating gains and losses	—	(544)	—	—	(544)
Excess of revenues over expenses	\$ (125)	1,177	—	—	1,052

See accompanying independent auditors' report.

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

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

Year ended June 30, 2016

(In thousands)

	Baltimore Washington Medical System, Inc.	Baltimore Washington Medical Center	Baltimore Washington Healthcare Services	Baltimore Washington Health Enterprises	North County Corporation	Shipley's	Eliminations	BWMS consolidated total
Unrestricted revenues, gains and other support:								
Patient service revenue (net of contractual adjustments)	\$ —	375,219	39,522	6,571	—	—	(2,144)	419,168
Provision for bad debts	—	(17,584)	(19,165)	(223)	—	—	—	(36,972)
Net patient service revenue	—	357,635	20,357	6,348	—	—	(2,144)	382,196
Other operating revenue:								
State support	—	—	—	—	—	—	—	—
Other revenue	3,654	3,596	—	—	2,702	—	(4,445)	5,507
Total unrestricted revenue, gains and other support	3,654	361,231	20,357	6,348	2,702	—	(6,589)	387,703
Operating expenses:								
Salaries, wages and benefits	3,637	162,722	11,837	1,248	—	—	—	179,444
Expendable supplies	—	61,531	1	296	130	—	—	61,958
Purchased services	14,559	67,989	5,153	9,311	1,362	—	(6,589)	91,785
Contracted services	—	9,469	—	—	—	—	—	9,469
Depreciation and amortization	—	23,109	—	815	692	—	—	24,616
Interest expense	—	6,003	—	73	80	—	—	6,156
Total operating expenses	18,196	330,823	16,991	11,743	2,264	—	(6,589)	373,428
Operating income (loss)	(14,542)	30,408	3,366	(5,395)	438	—	—	14,275
Nonoperating income and expenses, net:								
Loss on early extinguishment of debt	—	—	—	—	—	—	—	—
Change in fair value of undesignated interest rate swaps	—	—	—	—	—	—	—	—
Other nonoperating gains and losses:								
Contributions	—	—	—	—	—	—	—	—
Equity in net income of joint ventures	22,533	—	—	—	—	—	(22,533)	—
Investment income	—	2,343	—	—	—	—	—	2,343
Change in fair value of investments	—	(4,770)	—	—	—	—	—	(4,770)
Other nonoperating gains and losses	—	(3,064)	—	(233)	—	—	—	(3,297)
Total other nonoperating gains and losses	22,533	(5,491)	—	(233)	—	—	(22,533)	(5,724)
Excess (deficiency) of revenues over expenses	\$ 7,991	24,917	3,366	(5,628)	438	—	(22,533)	8,551

See accompanying independent auditors' report.

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

Consolidating Operations Information by Division for Shore Regional Health (Shore Regional)

Year ended June 30, 2016

(In thousands)

	Shore Health System, Inc.	UM Shore Home Care	Queenstown ASC	UM Shore Nursing and Rehab.	Shore Med. Group	Memorial Hospital Foundation, Inc. and Subsidiary	Chester River Consolidated Total	Eliminations	SHS consolidated total
Unrestricted revenues, gains and other support:									
Patient service revenue (net of contractual adjustments)	\$ 248,548	3,953	251	7,898	—	—	58,267	—	318,917
Provision for bad debts	(10,026)	(38)	(116)	(6)	—	—	(2,884)	—	(13,070)
Net patient service revenue	238,522	3,915	135	7,892	—	—	55,383	—	305,847
Other operating revenue:									
State support	—	—	—	—	—	—	—	—	—
Other revenue	2,758	—	220	7	—	—	255	—	3,240
Total unrestricted revenue, gains and other support	241,280	3,915	355	7,899	—	—	55,638	—	309,087
Operating expenses:									
Salaries, wages and benefits	112,434	2,885	304	4,449	—	—	19,699	—	139,771
Expendable supplies	34,184	77	102	739	—	—	5,512	—	40,614
Purchased services	41,225	1,420	19	2,580	16,539	—	15,829	—	77,612
Contracted services	8,569	—	(72)	9	—	—	5,435	—	13,941
Depreciation and amortization	15,662	76	2	256	—	—	3,983	—	19,979
Interest expense	3,154	—	—	6	—	—	160	—	3,320
Total operating expenses	215,228	4,458	355	8,039	16,539	—	50,618	—	295,237
Operating income (loss)	26,052	(543)	—	(140)	(16,539)	—	5,020	—	13,850
Nonoperating income and expenses, net:									
Loss on early extinguishment of debt	—	—	—	—	—	—	—	—	—
Change in fair value of undesignated interest rate swaps	—	—	—	—	—	—	—	—	—
Other nonoperating gains and losses:									
Contributions	71	—	—	—	—	310	406	—	787
Equity in net income of joint ventures	(178)	—	—	—	—	—	—	—	(178)
Investment income (loss)	3,716	—	—	—	—	2,045	392	—	6,153
Change in fair value of investments	(6,261)	—	—	—	—	(3,529)	(750)	—	(10,540)
Other nonoperating gains and losses	(1,437)	—	—	—	—	(545)	(1,095)	—	(3,077)
Total other nonoperating gains and losses	(4,089)	—	—	—	—	(1,719)	(1,047)	—	(6,855)
Excess (deficiency) of revenues over expenses	\$ 21,963	(543)	—	(140)	(16,539)	(1,719)	3,973	—	6,995

See accompanying independent auditors' report.

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

Consolidating Operations Information by Division for Chester River Health System, Inc. (CRHS) a subsidiary of Shore Regional Health

Year ended June 30, 2016

(In thousands)

	<b>Chester River Hospital Center</b>	<b>Chester River Manor</b>	<b>UM Chester River Home Care</b>	<b>Chester River Health Foundation</b>	<b>Chester River consolidated total</b>
Unrestricted revenues, gains and other support:					
Patient service revenue (net of contractual allowances)	\$ 56,080	—	2,187	—	58,267
Provision for bad debts	(2,774)	—	(110)	—	(2,884)
Net patient service revenue	53,306	—	2,077	—	55,383
Other operating revenue:					
State support	—	—	—	—	—
Other revenue	255	—	—	—	255
Total unrestricted revenue, gains and other support	53,561	—	2,077	—	55,638
Operating expenses:					
Salaries, wages and benefits	18,011	—	1,688	—	19,699
Expendable supplies	5,464	—	48	—	5,512
Purchased services	15,571	—	258	—	15,829
Contracted services	5,435	—	—	—	5,435
Depreciation and amortization	3,971	—	12	—	3,983
Interest expense	160	—	—	—	160
Total operating expenses	48,612	—	2,006	—	50,618
Operating income	4,949	—	71	—	5,020
Nonoperating income and expenses, net:					
Loss on early extinguishment of debt	—	—	—	—	—
Other nonoperating gains and losses:					
Contributions	333	—	—	73	406
Equity in net income of joint ventures	—	—	—	—	—
Investment income	57	—	5	330	392
Change in fair value of investments	(382)	—	(39)	(329)	(750)
Other nonoperating gains and losses	(411)	—	—	(684)	(1,095)
Total other nonoperating gains and losses	(403)	—	(34)	(610)	(1,047)
Excess of revenues over expenses	\$ 4,546	—	37	(610)	3,973

See accompanying independent auditors' report.

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

Consolidating Operations Information by Division for Charles Regional Health (Charles Regional)

Year ended June 30, 2016

(In thousands)

	Charles Regional Health, Inc.	Charles Regional Medical Center, Inc.	Charles Regional Urgent Care	Charles Regional Care Partners, Inc. and Subsidiary	Charles Regional Health Foundation, Inc.	Eliminations	Charles Regional consolidated total
Unrestricted revenues, gains and other support:							
Patient service revenue (net of contractual adjustments)	\$ —	132,762	1,021	—	—	—	133,783
Provision for bad debts	—	(4,903)	(67)	(176)	—	—	(5,146)
Net patient service revenue	—	127,859	954	(176)	—	—	128,637
Other operating revenue:							
State support	—	—	—	—	—	—	—
Other revenue	215	451	—	—	—	—	666
Total unrestricted revenue, gains and other support	215	128,310	954	(176)	—	—	129,303
Operating expenses:							
Salaries, wages and benefits	—	58,728	—	—	—	—	58,728
Expendable supplies	—	16,976	99	—	—	—	17,075
Purchased services	1,002	26,247	1,439	744	—	—	29,432
Contracted services	—	5,086	—	—	—	—	5,086
Depreciation and amortization	1,496	4,652	97	(189)	—	—	6,056
Interest expense	269	1,874	—	—	—	—	2,143
Total operating expenses	2,767	113,563	1,635	555	—	—	118,520
Operating income	(2,552)	14,747	(681)	(731)	—	—	10,783
Nonoperating income and expenses, net:							
Loss on early extinguishment of debt	—	—	—	—	—	—	—
Other nonoperating gains and losses:							
Contributions	—	—	—	—	—	—	—
Equity in net income of joint ventures	—	202	—	268	—	—	470
Investment income	66	206	—	—	44	—	316
Change in fair value of investments	—	(855)	—	—	(109)	—	(964)
Other nonoperating gains and losses	—	(740)	—	—	32	33	(675)
Total other nonoperating gains and losses	66	(1,187)	—	268	(33)	33	(853)
Excess of revenues over expenses	\$ (2,486)	13,560	(681)	(463)	(33)	33	9,930

See accompanying independent auditors' report.

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

Consolidating Operations Information by Division for University of Maryland St. Joseph Health System (SJHS)

Year ended June 30, 2016

(In thousands)

	<u>St. Joseph Medical Center</u>	<u>St. Joseph Medical Group</u>	<u>St. Joseph Properties</u>	<u>St. Joseph Orthopaedics</u>	<u>O'Dea Medical Arts</u>	<u>St. Joseph Foundation</u>	<u>Eliminations</u>	<u>St. Joseph consolidated total</u>
Unrestricted revenues, gains and other support:								
Patient service revenue (net of contractual adjustments)	\$ 361,730	35,188	—	28,488	—	—	—	425,406
Provision for bad debts	(13,109)	(1,482)	—	(1,540)	—	—	—	(16,131)
Net patient service revenue	348,621	33,706	—	26,948	—	—	—	409,275
Other operating revenue:								
State support	—	—	—	—	—	—	—	—
Other revenue	5,196	8,287	1,570	87	2,643	—	(10,944)	6,839
Total unrestricted revenue, gains and other support	353,817	41,993	1,570	27,035	2,643	—	(10,944)	416,114
Operating expenses:								
Salaries, wages and benefits	134,867	41,998	—	19,040	—	—	—	195,905
Expendable supplies	80,224	1,164	—	432	—	—	—	81,820
Purchased services	70,455	14,382	2,181	11,765	1,348	1	(2,875)	97,257
Contracted services	15,382	124	—	—	—	—	(8,069)	7,437
Depreciation and amortization	16,877	113	19	144	445	—	—	17,598
Interest expense	9,685	—	—	—	425	—	—	10,110
Total operating expenses	327,490	57,781	2,200	31,381	2,218	1	(10,944)	410,127
Operating income (loss)	26,327	(15,788)	(630)	(4,346)	425	(1)	—	5,987
Nonoperating income and expenses, net:								
Loss on early extinguishment of debt	—	—	—	—	—	—	—	—
Other nonoperating gains and losses:								
Contributions	—	—	—	—	—	456	—	456
Equity in net income of joint ventures	664	—	—	—	—	—	—	664
Investment income	—	—	—	—	—	145	—	145
Change in fair value of investments	—	—	—	—	—	(429)	—	(429)
Other nonoperating gains and losses	(4,166)	2	—	—	—	(1,082)	—	(5,246)
Total other nonoperating gains and losses	(3,502)	2	—	—	—	(910)	—	(4,410)
Excess (deficiency) of revenues over expenses	\$ 22,825	(15,786)	(630)	(4,346)	425	(911)	—	1,577

See accompanying independent auditors' report.

**UNIVERSITY OF MARYLAND MEDICAL SYSTEM CORPORATION  
AND SUBSIDIARIES**  
Consolidating Operations Information by Division for Upper Chesapeake Health System (UCHS)  
Year ended June 30, 2016  
(In thousands)

	Upper Chesapeake Medical Center	Harford Memorial Hospital	UCHS Properties	Health Ventures	Medical Services	Residential Hospice House	Upper Chesapeake Health Foundation	Upper Chesapeake Health System	Hospice of Harford County	Upper Chesapeake Insurance Co.	Upper Chesapeake Land Trust	Eliminations	Upper Chesapeake consolidated total
Unrestricted revenues, gains and other support:													
Patient service revenue (net of contractual adjustments)	\$ 293,812	93,717	—	—	48,449	306	—	—	—	—	—	—	436,284
Provision for bad debts	(8,082)	(4,511)	—	—	(2,234)	(19)	—	—	—	—	—	—	(14,846)
Net patient service revenue	285,730	89,206	—	—	46,215	287	—	—	—	—	—	—	421,438
Other operating revenue:													
State support	—	—	—	—	—	—	—	—	—	—	—	—	—
Other revenue	4,692	1,028	—	—	5,678	400	—	15,978	—	1,373	—	(25,785)	3,364
Total unrestricted revenue, gains and other support	290,422	90,234	—	—	51,893	687	—	15,978	—	1,373	—	(25,785)	424,802
Operating expenses:													
Salaries, wages and benefits	125,831	46,770	—	—	37,044	704	—	10,894	—	—	—	—	221,243
Expendable supplies	65,309	8,886	—	—	7,317	41	—	228	—	—	—	—	81,781
Purchased services	39,564	17,417	247	105	12,294	135	—	4,191	—	1,377	14	(19,082)	56,262
Contracted services	9,390	3,620	—	—	7,876	—	—	81	—	—	—	(5,658)	15,309
Depreciation and amortization	13,661	4,771	101	—	507	270	—	583	—	—	—	—	19,893
Interest expense	7,321	1,259	—	—	—	—	—	—	—	—	—	—	8,580
Total operating expenses	261,076	82,723	348	105	65,038	1,150	—	15,977	—	1,377	14	(24,740)	403,068
Operating income (loss)	29,346	7,511	(348)	(105)	(13,145)	(463)	—	1	—	(4)	(14)	(1,045)	21,734
Nonoperating income and expenses, net:													
Loss on early extinguishment of debt	—	—	—	—	—	—	—	—	—	—	—	—	—
Change in fair value of undesignated interest rate swaps	—	—	—	—	—	—	—	—	—	—	—	—	—
Other nonoperating gains and losses:													
Contributions	—	—	—	—	—	—	—	—	—	—	—	—	—
Equity in net income of joint ventures	—	—	—	375	—	—	—	—	—	—	—	—	375
Investment income	(42)	670	—	—	—	(9)	(214)	—	—	4	—	—	409
Change in fair value of investments	4,568	(180)	—	—	—	(3)	61	—	—	—	—	—	4,446
Other nonoperating gains and losses	(3,736)	—	—	—	—	—	352	—	—	—	—	—	(3,384)
Total other nonoperating gains and losses	790	490	—	375	—	(12)	199	—	—	4	—	—	1,846
Excess (deficiency) of revenues over expenses	\$ 30,136	8,001	(348)	270	(13,145)	(475)	199	1	—	—	(14)	(1,045)	23,580

See accompanying independent auditors' report.

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

Consolidating Operations Information by Division for University of Maryland Health Plans

Year ended June 30, 2016

(In thousands)

	<b>UM Health Ventures</b>	<b>UM Health Plans</b>	<b>Eliminations</b>	<b>UM Health Plans consolidated total</b>
Unrestricted revenues, gains and other support:				
Patient service revenue (net of contractual adjustments)	\$ —	—	—	—
Provision for bad debts	—	—	—	—
Net patient service revenue	—	—	—	—
Other operating revenue:				
State support	—	—	—	—
Premium revenue	—	140,958	—	140,958
Other revenue	—	3	—	3
Total unrestricted revenue, gains and other support	—	140,961	—	140,961
Operating expenses:				
Salaries, wages and benefits	1,966	12,392	—	14,358
Expendable supplies	—	—	—	—
Purchased services	—	137,240	—	137,240
Contracted services	—	—	—	—
Depreciation and amortization	—	1,663	—	1,663
Interest expense	1,047	—	—	1,047
Total operating expenses	3,013	151,295	—	154,308
Operating income (loss)	(3,013)	(10,334)	—	(13,347)
Nonoperating income and expenses, net:				
Loss on early extinguishment of debt	—	—	—	—
Change in fair value of undesignated interest rate swaps	—	—	—	—
Other nonoperating gains and losses:				
Contributions	—	—	—	—
Equity in net income of joint ventures	—	—	—	—
Investment income	—	148	—	148
Change in fair value of investments	—	—	—	—
Other nonoperating gains and losses	—	(1,614)	—	(1,614)
Total other nonoperating gains and losses	—	(1,466)	—	(1,466)
Excess of revenues over expenses	\$ (3,013)	(11,800)	—	(14,813)

See accompanying independent auditors' report.

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

Consolidating Operations Information by Division

Year ended June 30, 2015

(In thousands)

	<b>University of Maryland Medical Center &amp; Affiliates</b>	<b>Rehabilitation &amp; Orthopaedic Institute</b>	<b>Midtown</b>	<b>Baltimore Washington Medical System Washington</b>	<b>Shore Regional</b>	<b>Charles Regional</b>	<b>St. Joseph Health</b>	<b>UCHS</b>	<b>UMMS Foundation</b>	<b>ECARE</b>	<b>Eliminations</b>	<b>Consolidated total</b>
Unrestricted revenues, gains and other support:												
Patient Service Revenue (net of contractual adjustments)	\$ 1,353,182	108,225	209,569	426,622	328,052	135,840	394,008	418,724	—	—	(986)	3,373,236
Provision for bad debts	(40,129)	(6,738)	(17,319)	(25,158)	(15,820)	(8,390)	(11,520)	(20,254)	—	—	—	(145,328)
Net patient service revenue	1,313,053	101,487	192,250	401,464	312,232	127,450	382,488	398,470	—	—	(986)	3,227,908
Other operating revenue:												
State support	3,200	—	—	—	—	—	—	—	—	—	—	3,200
Other revenue	104,231	4,614	2,237	8,737	3,488	849	8,472	7,553	—	2,936	(681)	142,436
Total unrestricted revenue, gains and other support	1,420,484	106,101	194,487	410,201	315,720	128,299	390,960	406,023	—	2,936	(1,667)	3,373,544
Operating expenses:												
Salaries, wages and benefits	678,025	53,676	92,381	206,003	165,302	59,787	192,833	200,324	—	7	—	1,648,338
Expendable supplies	308,119	16,384	23,382	69,177	42,327	20,159	83,920	76,349	—	11	—	639,828
Purchased services	142,821	21,769	39,558	71,566	64,599	24,496	90,054	54,784	—	4,157	(1,517)	512,287
Contracted services	128,649	8,801	24,784	12,398	12,513	4,166	7,787	15,116	—	—	—	214,214
Depreciation and amortization	83,705	4,854	11,995	22,267	17,644	4,848	14,388	21,897	—	633	—	182,231
Interest expense	27,604	726	1,193	6,632	3,330	2,264	9,705	7,293	—	189	—	58,936
Total operating expenses	1,368,923	106,210	193,293	388,043	305,715	115,720	398,687	375,763	—	4,997	(1,517)	3,255,834
Operating income (loss)	51,561	(109)	1,194	22,158	10,005	12,579	(7,727)	30,260	—	(2,061)	(150)	117,710
Nonoperating income and expenses, net:												
Loss on early extinguishment of debt	(1,756)	—	—	—	—	—	—	(7,038)	—	—	—	(8,794)
Change in fair value of undesignated interest rate swaps	(21,235)	—	—	—	—	—	—	(1,002)	—	—	—	(22,237)
Other nonoperating gains and losses:												
Contributions	19	—	—	—	858	—	854	2,000	7,654	—	—	11,385
Gain on sale of joint venture	—	—	—	39,350	—	—	—	—	—	—	—	39,350
Equity in net income of joint ventures	2,510	—	3,783	—	222	74	1,617	397	—	—	—	8,603
Investment income	11,798	636	52	2,238	5,955	443	393	6,307	451	—	—	28,273
Change in fair value of investments	(15,404)	(792)	—	(2,846)	(5,429)	(592)	(485)	(3,712)	(769)	—	—	(30,029)
Fair value impairment adjustment	—	—	(11,483)	—	—	—	—	—	—	—	—	(11,483)
Other nonoperating gains and losses	(13,956)	(368)	(561)	(3,330)	(2,046)	(667)	(5,795)	(3,921)	(7,032)	—	—	(37,676)
Total other nonoperating gains and losses	(15,033)	(524)	(8,209)	35,412	(440)	(742)	(3,416)	1,071	304	—	—	8,423
Excess (deficiency) of revenues over expenses	\$ 13,537	(633)	(7,015)	57,570	9,565	11,837	(11,143)	23,291	304	(2,061)	(150)	95,102

See accompanying independent auditors' report.

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

Combining Balance Sheet Information – Obligated Group

June 30, 2016

(In thousands)

Assets	University of Maryland Medical Center	Rehabilitation & Orthopaedic Institute	University of Maryland Midtown Campus	Baltimore Washington Medical Center, Inc.	Shore Health System, Inc.	Chester River Medical Center	Charles Regional Medical Center	St. Joseph Medical Center	Upper Chesapeake Hospitals*	UMMS Foundation	Eliminations	Obligated group total
Current assets:												
Cash and cash equivalents	\$ 383,678	6,218	11,362	27,186	14,619	5,214	11,285	1,443	49,052	—	—	510,057
Assets limited as to use, current portion	44,007	—	528	1,183	627	233	404	960	—	—	—	47,942
Accounts receivable:												
Patient accounts receivable, less allowance for doubtful accounts of \$174,267	168,652	9,849	15,268	29,646	12,830	3,928	7,390	30,765	30,778	—	—	309,106
Other	178,002	333	14,293	1,926	6,296	2,964	976	12,345	—	—	(84,596)	132,539
Inventories	28,187	1,072	2,860	6,150	4,077	699	1,487	5,537	8,985	—	—	59,054
Prepaid expenses and other current assets	12,789	128	319	1,261	1,429	63	478	968	3,265	1,500	—	22,200
Total current assets	<u>815,315</u>	<u>17,600</u>	<u>44,630</u>	<u>67,352</u>	<u>39,878</u>	<u>13,101</u>	<u>22,020</u>	<u>52,018</u>	<u>92,080</u>	<u>1,500</u>	<u>(84,596)</u>	<u>1,080,898</u>
Investments	195,252	25,304	—	121,768	67,312	10,461	27,923	—	171,865	—	—	619,885
Assets limited as to use, less current portion:												
Investments held for collateral	125,487	—	3,700	8,000	—	—	—	—	40,811	—	—	177,998
Debt service funds	22,290	—	—	—	—	—	—	—	—	—	—	22,290
Construction funds	335	10,360	5,259	4,995	234	4,538	10,449	5,816	—	—	—	41,986
Board designated and escrow funds	—	—	—	—	25,000	5,000	—	—	—	17,950	—	47,950
Self-insurance trust funds	53,064	—	16,337	23,205	22,603	6,051	4,820	10,107	—	—	—	136,187
Funds restricted by donor	—	—	1,113	—	4,683	105	—	—	—	23,413	—	29,314
Economic interests in the net assets of related organizations	197,438	30,838	437	7,960	78,090	5,196	4,898	9,503	—	—	(58,913)	275,447
	398,614	41,198	26,846	44,160	130,610	20,890	20,167	25,426	40,811	41,363	(58,913)	731,172
Property and equipment, net	905,247	48,190	97,302	241,592	145,237	27,736	74,373	197,090	250,348	—	—	1,987,115
Investments in joint ventures and other assets	683,709	—	7,805	18,703	10,395	2,077	6,985	14,207	225,127	6,561	(660,528)	315,041
Total assets	<u>\$ 2,998,137</u>	<u>132,292</u>	<u>176,583</u>	<u>493,575</u>	<u>393,432</u>	<u>74,265</u>	<u>151,468</u>	<u>288,741</u>	<u>780,231</u>	<u>49,424</u>	<u>(804,037)</u>	<u>4,734,111</u>

\* Includes both Upper Chesapeake Medical Center and Harford Memorial Hospital

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

Combining Balance Sheet Information – Obligated Group

June 30, 2016

(In thousands)

Liabilities and Net Assets	University of Maryland Medical Center	Rehabilitation & Orthopaedic Institute	University of Maryland Midtown Campus	Baltimore Washington Medical Center, Inc.	Shore Health System, Inc.	Chester River Medical Center	Charles Regional Medical Center	St. Joseph Medical Center	Upper Chesapeake Hospitals*	UMMS Foundation	Eliminations	Obligated group total
Current liabilities:												
Trade accounts payable	\$ 126,770	7,949	14,432	21,886	13,688	3,546	8,996	27,488	13,987	14	—	238,756
Accrued payroll and benefits	119,166	5,076	12,501	23,101	18,990	2,694	3,944	23,338	23,995	—	—	232,805
Advances from third-party payors	72,546	2,910	9,660	9,667	5,946	778	3,735	10,633	8,777	—	—	124,652
Short-term financing	180,000	—	—	—	—	—	—	—	—	—	—	180,000
Lines of credit	150,000	—	—	—	—	—	—	—	—	—	—	150,000
Other current liabilities	86,475	(13,954)	5,676	37,506	2,147	3,873	3,338	2,984	41,360	—	(84,596)	84,809
Long-term debt subject to short-term remarketing arrangements	32,515	—	—	—	—	—	—	—	—	—	—	32,515
Current portion of long-term debt	11,846	465	719	3,645	3,087	96	2,207	5,159	4,445	—	—	31,669
Total current liabilities	779,318	2,446	42,988	95,805	43,858	10,987	22,220	69,602	92,564	14	(84,596)	1,075,206
Long-term debt, less current portion	566,363	20,991	32,654	165,078	83,786	4,412	54,797	233,727	201,307	—	—	1,363,115
Other long-term liabilities	124,114	144	29,724	46,874	12,696	10,009	16,918	15,652	25,648	—	—	281,779
Interest rate swap liabilities	273,037	—	—	—	—	—	—	—	—	—	—	273,037
Total liabilities	1,742,832	23,581	105,366	307,757	140,340	25,408	93,935	318,981	319,519	14	(84,596)	2,993,137
Net assets:												
Unrestricted	1,035,724	77,873	69,667	177,858	216,600	46,082	57,440	(30,241)	293,810	22,599	(511,275)	1,456,137
Temporarily restricted	217,892	30,838	1,550	7,960	22,283	1,487	93	1	166,902	7,594	(206,890)	249,710
Permanently restricted	1,689	—	—	—	14,209	1,288	—	—	—	19,217	(1,276)	35,127
Total net assets	1,255,305	108,711	71,217	185,818	253,092	48,857	57,533	(30,240)	460,712	49,410	(719,441)	1,740,974
Total liabilities and net assets	\$ 2,998,137	132,292	176,583	493,575	393,432	74,265	151,468	288,741	780,231	49,424	(804,037)	4,734,111

\* Includes both Upper Chesapeake Medical Center and Harford Memorial Hospital

See accompanying independent auditors' report.

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

Combining Balance Sheet Information – Obligated Group

June 30, 2015

(In thousands)

Assets	University of Maryland Medical Center	Rehabilitation & Orthopaedic Institute	University of Maryland Midtown Campus	Baltimore Washington Medical Center, Inc.	Shore Health System, Inc.	Chester River Medical Center	Charles Regional Medical Center	St. Joseph Medical Center	Upper Chesapeake Hospitals*	UMMS Foundation	Eliminations	Obligated group total
Current assets:												
Cash and cash equivalents	\$ 249,790	10,222	15,362	59,774	7,351	3,276	20,680	1,186	84,070	—	—	451,711
Assets limited as to use, current portion	46,377	—	764	1,294	605	343	485	549	—	—	—	50,417
Accounts receivable:												
Patient accounts receivable, less allowance for doubtful accounts of \$219,924	143,896	13,920	23,892	28,370	14,557	6,312	7,945	35,052	30,043	—	—	303,987
Other	164,633	(81)	2,777	1,143	958	1,035	535	(21,507)	—	—	(54,711)	94,782
Inventories	26,717	1,106	3,533	6,759	3,202	457	1,675	5,512	9,813	—	—	58,774
Prepaid expenses and other current assets	6,132	110	219	918	946	76	320	510	4,145	1,500	—	14,876
Total current assets	<u>637,545</u>	<u>25,277</u>	<u>46,547</u>	<u>98,258</u>	<u>27,619</u>	<u>11,499</u>	<u>31,640</u>	<u>21,302</u>	<u>128,071</u>	<u>1,500</u>	<u>(54,711)</u>	<u>974,547</u>
Investments	284,743	28,515	—	72,447	69,136	10,820	20,279	—	—	—	—	485,940
Assets limited as to use, less current portion:												
Investments held for collateral	77,603	—	3,700	8,000	—	—	—	—	30,017	—	—	119,320
Debt service funds	21,197	—	—	—	—	—	—	—	—	—	—	21,197
Construction funds	47,014	10,755	6,045	26,538	11,272	4,538	11,000	10,472	—	—	—	127,634
Board designated and escrow funds	—	—	—	—	25,000	5,000	—	—	106,724	22,977	—	159,701
Self-insurance trust funds	52,637	—	15,896	23,321	21,325	4,971	5,943	9,370	—	—	—	133,463
Funds restricted by donor	—	—	1,173	—	4,515	105	—	—	—	22,383	—	28,176
Economic interests in the net assets of related organizations	200,020	34,072	432	7,022	80,620	5,933	—	9,503	—	—	(61,332)	276,270
Total investments	<u>398,471</u>	<u>44,827</u>	<u>27,246</u>	<u>64,881</u>	<u>142,732</u>	<u>20,547</u>	<u>16,943</u>	<u>29,345</u>	<u>136,741</u>	<u>45,360</u>	<u>(61,332)</u>	<u>865,761</u>
Property and equipment, net	913,877	46,353	96,913	230,369	136,890	27,967	70,324	202,324	243,760	—	—	1,968,777
Investments in joint ventures and other assets	667,291	—	8,395	16,488	11,257	2,180	10,631	10,734	223,814	5,965	(658,028)	298,727
Total assets	<u>\$ 2,901,927</u>	<u>144,972</u>	<u>179,101</u>	<u>482,443</u>	<u>387,634</u>	<u>73,013</u>	<u>149,817</u>	<u>263,705</u>	<u>732,386</u>	<u>52,825</u>	<u>(774,071)</u>	<u>4,593,752</u>

\* Includes both Upper Chesapeake Medical Center and Harford Memorial Hospital

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

Combining Balance Sheet Information – Obligated Group

June 30, 2015

(In thousands)

Liabilities and Net Assets	University of Maryland Medical Center	Rehabilitation & Orthopaedic Institute	University of Maryland Midtown Campus	Baltimore Washington Medical Center, Inc.	Shore Health System, Inc.	Chester River Medical Center	Charles Regional Medical Center	St. Joseph Medical Center	Upper Chesapeake Hospitals*	UMMS Foundation	Eliminations	Obligated group total
Current liabilities:												
Trade accounts payable	\$ 131,978	7,108	15,053	26,530	15,265	4,083	8,522	24,576	15,185	996	—	249,296
Accrued payroll and benefits	110,905	5,365	12,745	25,538	18,384	3,395	5,174	22,542	24,411	—	—	228,459
Advances from third-party payors	76,099	3,427	9,520	9,057	5,217	709	4,162	13,102	7,825	—	—	129,118
Lines of credit	132,400	—	—	—	—	—	12,000	—	—	—	—	144,400
Other current liabilities	85,534	(1,617)	6,770	42,677	2,138	7,005	1,271	2,966	14,005	—	(54,711)	106,038
Long-term debt subject to short-term remarketing arrangements	51,732	—	—	—	—	—	—	—	—	—	—	51,732
Current portion of long-term debt	12,971	482	689	3,489	3,177	92	2,126	4,938	4,255	—	—	32,219
Total current liabilities	601,619	14,765	44,777	107,291	44,181	15,284	33,255	68,124	65,681	996	(54,711)	941,262
Long-term debt, less current portion	723,590	21,419	33,374	168,723	86,872	4,659	56,917	238,885	205,752	—	—	1,540,191
Other long-term liabilities	110,780	415	22,909	37,541	13,069	8,175	13,260	8,954	28,237	—	—	243,340
Interest rate swap liabilities	167,520	—	—	—	—	—	—	—	28,852	—	—	196,372
Total liabilities	1,603,509	36,599	101,060	313,555	144,122	28,118	103,432	315,963	328,522	996	(54,711)	2,921,165
Net assets:												
Unrestricted	1,076,219	74,301	76,436	161,866	206,300	41,947	46,292	(52,259)	235,736	26,336	(508,775)	1,384,399
Temporarily restricted	220,510	34,072	1,605	7,022	22,951	1,660	93	1	168,128	6,930	(209,309)	253,663
Permanently restricted	1,689	—	—	—	14,261	1,288	—	—	—	18,563	(1,276)	34,525
Total net assets	1,298,418	108,373	78,041	168,888	243,512	44,895	46,385	(52,258)	403,864	51,829	(719,360)	1,672,587
Total liabilities and net assets	\$ 2,901,927	144,972	179,101	482,443	387,634	73,013	149,817	263,705	732,386	52,825	(774,071)	4,593,752

\* Includes both Upper Chesapeake Medical Center and Harford Memorial Hospital

See accompanying independent auditors' report.

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

Combining Operations and Changes in Net Assets Information – Obligated Group

Year ended June 30, 2016

(In thousands)

	University of Maryland Medical Center	Rehabilitation & Orthopaedic Institute	University of Maryland Midtown Campus	Baltimore Washington Medical Center	Shore Health System				Chester River Hospital Center	Charles Regional Medical Center	St. Joseph Medical Center	Upper Chesapeake Hospitals*	UMMS Foundation	Eliminations	Obligated group total
					Memorial Hospital	Dorchester General	QAEC	Subtotal							
Unrestricted revenues, gains and other support:															
Patient service revenue (net of contractual adjustments)	\$ 1,427,659	107,692	208,590	375,219	196,846	46,056	5,646	248,548	56,080	132,762	361,730	387,529	—	(852)	3,304,957
Provision for bad debts	(64,713)	(6,948)	(17,596)	(17,584)	(7,230)	(2,101)	(695)	(10,026)	(2,774)	(4,903)	(13,109)	(12,593)	—	—	(150,246)
Net patient service revenue	1,362,946	100,744	190,994	357,635	189,616	43,955	4,951	238,522	53,306	127,859	348,621	374,936	—	(852)	3,154,711
Other operating revenue:															
State support	3,200	—	—	—	—	—	—	—	—	—	—	—	—	—	3,200
Other revenue	119,197	5,719	1,990	3,596	2,425	327	6	2,758	255	451	5,196	5,720	—	(441)	144,441
Total unrestricted revenue, gains and other support	1,485,343	106,463	192,984	361,231	192,041	44,282	4,957	241,280	53,561	128,310	353,817	380,656	—	(1,293)	3,302,352
Operating expenses:															
Salaries, wages, and benefits	723,438	50,054	89,088	162,722	86,401	22,826	3,207	112,434	18,011	58,728	134,867	172,601	—	—	1,521,943
Expendable supplies	342,951	14,078	23,206	61,531	30,320	3,255	609	34,184	5,464	16,976	80,224	74,195	—	—	652,809
Purchased services	134,423	23,244	44,630	67,989	32,420	8,074	731	41,225	15,571	26,247	70,455	56,981	—	(1,293)	479,472
Contracted services	130,634	9,126	20,881	9,469	5,388	2,285	896	8,569	5,435	5,086	15,382	13,010	—	—	217,592
Depreciation and amortization	90,697	5,674	12,273	23,109	11,965	2,784	913	15,662	3,971	4,652	16,877	18,432	—	—	191,347
Interest expense	23,559	766	1,185	6,003	2,484	155	515	3,154	160	1,874	9,685	8,580	—	—	54,966
Total operating expenses	1,445,702	102,942	191,263	330,823	168,978	39,379	6,871	215,228	48,612	113,563	327,490	343,799	—	(1,293)	3,118,129
Operating income (loss)	39,641	3,521	1,721	30,408	23,063	4,903	(1,914)	26,052	4,949	14,747	26,327	36,857	—	—	184,223
Nonoperating income and expenses, net:															
Loss on early extinguishment of debt	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Change in fair value of undesignated interest rate swaps	(78,429)	—	—	—	—	—	—	—	—	—	—	—	—	—	(78,429)
Other nonoperating gains and losses:															
Contributions	—	—	—	—	71	—	—	71	333	—	—	—	2,526	—	2,930
St. Joseph escrow settlement	34,275	—	—	—	(136)	—	—	—	—	—	—	—	—	—	34,275
Equity in net income of joint ventures	(4,305)	—	—	—	(136)	(37)	(5)	(178)	—	202	664	—	—	—	(3,617)
Investment income	10,642	636	38	2,343	3,716	—	—	3,716	37	206	—	628	281	—	18,547
Change in fair value of investments	(21,918)	(1,303)	23	(4,770)	(6,261)	—	—	(6,261)	(382)	(855)	—	4,388	—	—	(32,066)
Other nonoperating gains and losses	(10,582)	(390)	(605)	(3,064)	(1,111)	(287)	(39)	(1,437)	(411)	(740)	(4,166)	(3,736)	(2,353)	—	(27,484)
Total other nonoperating gains and losses	8,112	(1,057)	(544)	(5,491)	(3,721)	(324)	(44)	(4,089)	(403)	(1,187)	(3,502)	1,280	(534)	—	(7,415)
Excess (deficiency) of revenues over expenses	(30,676)	2,464	1,177	24,917	19,342	4,579	(1,958)	21,963	4,546	13,560	22,825	38,137	(534)	—	98,379
Net assets released from restrictions used for purchase of property and equipment	4,364	—	87	—	1,466	—	—	1,466	564	1,150	1,768	—	—	—	9,399
Change in unrealized gains on investments	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Change in economic and beneficial interest in the net assets of related organizations	—	—	—	—	(1,843)	—	—	(1,843)	(561)	133	—	—	—	—	(2,271)
Change in ownership interest of joint ventures	498	—	—	—	—	—	—	—	—	—	—	—	—	—	498
Capital transfers (to) from affiliate	(16,212)	1,100	400	(3,200)	(11,285)	—	—	(11,285)	—	—	(2,800)	12,331	(2,250)	(2,500)	(24,416)
Amortization of accumulated loss of discontinued designated interest rate swap	1,764	—	—	—	—	—	—	—	—	—	—	—	—	—	1,764
Change in funded status of defined benefit pension plans	—	—	(8,419)	(6,225)	—	—	—	—	(413)	(3,697)	—	8,111	—	—	(10,643)
Asset reclassifications at request of donor	—	—	—	—	—	—	—	—	—	—	—	—	(947)	—	(947)
Other	(233)	8	(14)	500	(1)	—	—	(1)	(1)	2	225	(505)	(6)	—	(25)
Increase (decrease) in unrestricted net assets	\$ (40,495)	3,572	(6,769)	15,992	7,679	4,579	(1,958)	10,300	4,135	11,148	22,018	58,074	(3,737)	(2,500)	71,738

\* Includes both Upper Chesapeake Medical Center and Harford Memorial Hospital

See accompanying independent auditors' report.

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

Combining Operations and Changes in Net Assets Information – Obligated Group

Year ended June 30, 2015

(In thousands)

	University of Maryland Medical Center	Rehabilitation & Orthopaedic Institute	University of Maryland Midtown Campus	Baltimore Washington Medical Center	Shore Health System				Chester River Hospital Center	Charles Regional Medical Center	St. Joseph Medical Center	Upper Chesapeake Hospitals*	UMMS Foundation	Eliminations	Obligated group total
					Memorial Hospital	Dorchester General	QAEC	Subtotal							
Unrestricted revenues, gains and other support:															
Patient service revenue (net of contractual adjustments)	\$ 1,351,245	107,600	208,848	370,789	187,400	47,289	4,489	239,178	55,231	132,650	334,910	374,214	—	(986)	3,173,679
Provision for bad debts	(40,038)	(6,679)	(16,602)	(15,358)	(8,574)	(2,283)	(166)	(11,023)	(4,788)	(8,221)	(8,171)	(18,149)	—	—	(129,029)
Net patient service revenue	1,311,207	100,921	192,246	355,431	178,826	45,006	4,323	228,155	50,443	124,429	326,739	356,065	—	(986)	3,044,650
Other operating revenue:															
State support	3,200	—	—	—	—	—	—	—	—	—	—	—	—	—	3,200
Other revenue	101,603	4,556	1,288	2,949	2,932	307	6	3,245	259	544	4,903	8,474	—	(681)	127,140
Total unrestricted revenue, gains and other support	1,416,010	105,477	193,534	358,380	181,758	45,313	4,329	231,400	50,702	124,973	331,642	364,539	—	(1,667)	3,174,990
Operating expenses:															
Salaries, wages, and benefits	676,198	53,044	92,381	169,483	80,850	22,058	3,270	106,178	23,535	56,041	133,674	154,959	—	—	1,465,493
Expendable supplies	307,929	16,369	23,382	60,784	30,395	3,459	486	34,340	5,449	19,998	82,672	71,174	—	—	622,097
Purchased services	139,169	21,568	38,758	62,269	33,994	8,631	1,167	43,792	11,586	23,095	66,272	56,837	—	(1,517)	461,829
Contracted services	128,649	8,801	24,784	9,287	4,455	1,960	658	7,073	5,184	4,390	15,534	10,810	—	—	214,512
Depreciation and amortization	83,275	4,852	11,642	20,435	9,974	2,354	1,182	13,510	3,456	4,196	13,717	20,531	—	—	175,614
Interest expense	27,272	726	1,134	5,928	2,293	352	526	3,171	152	1,964	9,251	7,292	—	—	56,890
Total operating expenses	1,362,492	105,360	192,081	328,186	161,961	38,814	7,289	208,064	49,362	109,684	321,120	321,603	—	(1,517)	2,996,435
Operating income (loss)	53,518	117	1,453	30,194	19,797	6,499	(2,960)	23,336	1,340	15,289	10,522	42,936	—	(150)	178,555
Nonoperating income and expenses, net:															
Loss on early extinguishment of debt	(1,756)	—	—	—	—	—	—	—	—	—	—	(7,038)	—	—	(8,794)
Change in fair value of undesignated interest rate swaps	(21,235)	—	—	—	—	—	—	—	—	—	—	(1,002)	—	—	(22,237)
Other nonoperating gains and losses:															
Contributions	19	—	—	—	15	—	—	15	—	—	—	—	7,654	—	7,688
Equity in net income of joint ventures	260	—	—	—	167	48	7	222	—	74	1,617	—	—	—	2,173
Investment income	11,798	636	52	2,238	3,347	26	4	3,377	360	193	—	5,129	451	—	24,234
Change in fair value of investments	(15,404)	(792)	—	(2,846)	(2,491)	(20)	(3)	(2,514)	(450)	(393)	—	(3,299)	(769)	—	(26,467)
Other nonoperating gains and losses	(14,130)	(368)	(561)	(2,999)	(1,334)	(10)	(1)	(1,345)	(77)	(879)	(4,414)	(3,976)	(7,032)	—	(35,781)
Total other nonoperating gains and losses	(17,457)	(524)	(509)	(3,607)	(296)	44	7	(2,45)	(167)	(1,005)	(2,797)	(2,146)	304	—	(28,153)
Excess (deficiency) of revenues over expenses	13,070	(407)	944	26,587	19,501	6,543	(2,953)	23,091	1,173	14,284	7,725	32,750	304	(150)	119,371
Net assets released from restrictions used for purchase of property and equipment	14,669	160	383	150	938	—	—	938	1,353	—	641	152	—	—	18,446
Change in unrealized gains on investments	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Change in economic and beneficial interest in the net assets of related organizations	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Change in ownership interest of joint ventures	278	—	—	—	—	—	—	—	—	—	—	—	—	—	278
Capital transfers (to) from affiliate	(3,452)	1,978	(600)	—	7,560	—	—	7,560	—	(15,051)	—	(12,751)	(2,702)	(2,500)	(27,518)
Amortization of accumulated loss of discontinued designated interest rate swap	1,812	—	—	—	—	—	—	—	—	—	—	—	—	—	1,812
Change in funded status of defined benefit pension plans	—	—	(2,499)	633	—	—	—	—	428	(992)	—	(5,562)	—	—	(7,992)
Asset reclassifications at request of donor	—	—	—	—	—	—	—	—	—	—	—	—	(201)	—	(201)
Other	(1)	(2)	1	2	1	—	—	1	4	(2,501)	77	315	—	150	(1,954)
Increase (decrease) in unrestricted net assets	\$ 26,376	1,729	(1,771)	27,372	13,238	6,543	(2,953)	16,828	3,203	(4,260)	7,522	14,904	(2,599)	(2,500)	86,804

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