THE JOHNS HOPKINS HEALTH SYSTEM CORPORATION AND AFFILIATES

Combined Financial Statements and Supplementary Combining Information
June 30, 2013 and 2012

The Johns Hopkins Health System Corporation and Affiliates
Index
June 30, 2013 and 2012

REPORT OF INDEPENDENT AUDITORS

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

We have audited the accompanying financial statements of The Johns Hopkins Health System Corporation and Affiliates ("JHHS"), which comprise the combined balance sheets as of June 30, 2013 and 2012, and the related combined statements of operations and changes in net assets and cash flows for the years then ended.

Management's Responsibility for the Combined Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on the combined 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 combined financial statements are free from material misstatement.

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

PricewaterhouseCoopers LLP

September 27, 2013

PricewaterhouseCoopers LLP, 100 East Pratt Street, Suite 1900, Baltimore, MD 21202-1096
T: (410) 783 7600, F: (410) 783 7680, www.pwc.com/us

The Johns Hopkins Health System Corporation and Affiliates
Combined Balance Sheets
June 30, 2013 and 2012
(in thousands)

ASSETS	2013	2012
Current assets:		
Cash and cash equivalents	$ 510,493	$ 387,039
Short-term investments	77,962	37,471
Assets whose use is limited - used for current liabilities	18,876	20,762
Patient accounts receivables, net of estimated uncollectibles of $162,384 and $144,427 as of June 30, 2013 and 2012, respectively	518,792	430,508
Due from others, current portion	41,046	71,116
Due from affiliates, current portion	26,861	28,505
Inventories of supplies	87,958	78,170
Prepaid expenses and other current assets	88,401	78,642
Total current assets	1,370,389	1,132,213
Assets whose use is limited		
By long-term debt agreement for:		
Debt service reserve funds	4,955	4,955
By donors or grantors for:		
Future campus development	984	644
Pledges receivable	28,540	26,622
Other	87,554	82,935
By Board of Trustees	746,170	696,945
Interest in net assets of Howard Hospital Foundation	13,903	13,228
Other	18,243	19,965
Total assets whose use is limited	900,349	845,294
Investments	1,318,855	1,106,793
Property, plant and equipment	4,188,895	4,167,276
Less: allowance for depreciation and amortization	(1,422,685)	(1,314,015)
Total property, plant and equipment, net	2,766,210	2,853,261
Due from affiliates, net of current portion	63,606	10,925
Due from others, net of current portion	3,796	4,796
Estimated malpractice recoveries, net of current portion	56,177	46,390
Swap counterparty deposit	72,840	140,470
Other assets	44,938	39,887
Total assets	$6,597,160	$6,180,029

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

The Johns Hopkins Health System Corporation and Affiliates
Combined Balance Sheets, continued
June 30, 2013 and 2012
(in thousands)

LIABILITIES AND NET ASSETS	2013	2012
Current liabilities:		
Current portion of long-term debt and obligations under capital leases	$ 43,496	$ 287,181
Accounts payable and accrued liabilities	463,864	462,375
Medical claims reserve	76,987	80,524
Deferred revenue	67,942	72,199
Due to affiliates, current portion	7,220	3,445
Accrued vacation	65,225	62,629
Advances from third-party payors	128,360	129,037
Current portion of estimated malpractice costs	41,218	38,580
Total current liabilities	894,312	1,135,970
Long-term debt and obligations under capital leases, net of current portion	1,488,320	1,165,792
Estimated malpractice costs, net of current portion	129,841	120,656
Net pension liability	408,124	545,843
Other long-term liabilities	246,956	339,816
Total liabilities	3,167,553	3,308,077
Net assets:		
Unrestricted	3,215,011	2,667,923
Temporarily restricted	157,874	151,692
Permanently restricted	56,722	52,337
Total net assets	3,429,607	2,871,952
Total liabilities and net assets	$ 6,597,160	$ 6,180,029

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

The Johns Hopkins Health System Corporation and Affiliates
Combined Statements of Operations and Changes in Net Assets
for the years ended June 30, 2013 and 2012
(in thousands)

	2013	2012
Operating revenues:		
Net patient service revenue before provision for bad debts	$ 4,577,945	$ 4,294,941
Provision for bad debts	144,051	116,103
Net patient service revenue	4,433,894	4,178,838
Other revenue	470,674	400,616
Investment income	48,609	56,388
Net assets released from restrictions used for operations	6,615	8,729
Total operating revenues	4,959,792	4,644,571
Operating expenses:		
Salaries, wages and benefits	2,017,016	1,884,254
Purchased services	1,748,391	1,621,131
Supplies and other	715,538	687,182
Interest	40,037	28,384
Depreciation and amortization	263,011	215,152
Total operating expenses	4,783,993	4,436,103
Income from operations	175,799	208,468
Non-operating revenues and expenses:		
Interest expense on swap agreements	(27,811)	(27,891)
Change in market value of swap agreements	95,103	(142,770)
Change in realized and unrealized gains (losses) on investments	129,701	(26,297)
Other non-operating expenses	(22,494)	(17,609)
Excess of revenues over (under) expenses before noncontrolling interests	350,298	(6,099)
Noncontrolling interests	(11,270)	(15,880)
Excess of revenues over (under) expenses	339,028	(21,979)
Contributions to affiliates	(4,314)	(7,954)
Change in funded status of defined benefit plans	185,360	(284,303)
Net assets released from restrictions used for purchases of property, plant, and equipment	16,064	453,205
Noncontrolling interests	11,270	15,880
Other	(320)	(449)
Increase in unrestricted net assets	547,088	154,400
Changes in temporarily restricted net assets:		
Gifts, grants and bequests	29,207	36,366
Net change in Howard Hospital Foundation	675	(1,261)
Net assets released from restrictions used for purchases of property, plant, and equipment	(16,064)	(453,205)
Net assets released from restrictions used for operations	(6,615)	(8,729)
Other	(1,021)	(15,117)
Increase (decrease) in temporarily restricted net assets	6,182	(441,946)
Changes in permanently restricted net assets:		
Gifts, grants and bequests	4,385	1,679
Net change in Howard Hospital Foundation	-	48
Increase in permanently restricted net assets	4,385	1,727
Increase (decrease) in net assets	557,655	(285,819)
Net assets at beginning of year	2,871,952	3,157,771
Net assets at end of year	$ 3,429,607	$ 2,871,952

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

The Johns Hopkins Health System Corporation and Affiliates
Combined Statements of Cash Flows
for the years ended June 30, 2013 and 2012
(in thousands)

	2013	2012
Operating activities:		
Change in net assets	$ 557,655	$ (285,819)
Adjustments to reconcile change in net assets to net cash and cash equivalents provided by operating activities:		
Depreciation and amortization	263,779	217,476
Provision for bad debts	144,051	116,103
Net realized and changes in unrealized (gains) losses on investments	(130,348)	24,083
Change in market value of swap agreements	(95,103)	142,770
Change in funded status of defined benefit plans	(185,360)	284,303
Restricted contributions and investment income received	(25,340)	(46,592)
Gains on and returns on equity investments	(10,363)	(9,142)
Other operating activities	5,702	21,501
Change in assets and liabilities:		
Patient accounts receivables	(222,036)	(180,954)
Inventories of supplies, prepaid expenses and other current assets	(10,872)	(21,257)
Due from affiliates, net	15,803	(3,618)
Pledges receivable	(1,810)	7,022
Swap counterparty deposit and other assets	53,104	(95,172)
Accounts payable, accrued liabilities and accrued vacation	23,522	37,003
Medical claims reserve	5,777	8,586
Deferred revenue	(2,533)	65,115
Advances from third-party payors	(554)	19,452
Accrued pension benefit costs	47,431	(47,162)
Estimated malpractice costs	15,562	(12,447)
Other long-term liabilities	(1,439)	2,153
Net cash and cash equivalents provided by operating activities	446,628	243,404
Investing activities:		
Purchases of property, plant and equipment	(195,702)	(405,035)
Return of equity investments	151	3,188
Purchases of investment securities	(2,479,155)	(2,353,919)
Sales of investment securities	2,316,412	2,533,350
Advances on Affiliate notes	(62,401)	-
Other investing activities	1,153	(9,902)
Net cash and cash equivalents used in investing activities	(419,542)	(232,318)
Financing activities:		
Proceeds from restricted contributions and investment income received	25,340	46,592
Proceeds from long-term borrowings	567,935	386,987
Repayment of long-term debt and obligations under capital lease	(490,162)	(465,319)
Distributions attributable to noncontrolling interests	(3,035)	(7,265)
Other financing activities	(3,710)	8,241
Net cash and cash equivalents (used in) provided by financing activities	96,368	(30,764)
Change in cash and cash equivalents	123,454	(19,678)
Cash and cash equivalents at beginning of year	387,039	406,717
Cash and cash equivalents at end of year	$ 510,493	$ 387,039

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

1. Organization and Summary of Significant Accounting Policies

Organization. The Johns Hopkins Health System Corporation ("JHHSC") is incorporated in the State of Maryland to, among other things, formulate policy among and provide centralized management for JHHSC and Affiliates ("JHHS"). In addition, it provides certain shared services including finance, payroll, accounts payable, purchasing, patient financial services, legal, and other functions. JHHS is organized and operated for the purpose of promoting health by functioning as a parent holding company of affiliates whose combined mission is to provide patient care in the treatment and prevention of human illness which compares favorably with that rendered by any other institution in this country or abroad.

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

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

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

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

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

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

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

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

Assets whose use is limited include assets held by trustees under debt agreements, assets restricted by the board of trustees, pledges receivable, interest in the net asset of Howard Hospital Foundation, and net asset set aside pursuant to their temporarily and permanently restricted nature. These assets consist primarily of cash and short term investments, accrued interest and pledges receivable. The carrying amounts reported in the Combined Balance Sheets represent fair value.

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

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

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

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

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

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

Property, plant and equipment. Property, plant and equipment acquisitions are recorded at cost. Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed using the straight-line method. Equipment under capital lease obligations is amortized on the straight-line method over the shorter period of lease term or estimated useful life of the equipment. Estimated useful lives assigned by JHHS range from 5 to 25 years for land improvements, 3 to 40 years for buildings and improvements, 2 to 25 years for fixed and movable equipment, and 5 to 20 years for leasehold improvements. Interest costs incurred on borrowed funds, net of income earned, during the period of construction of capital assets are capitalized as a component of the cost of acquiring those assets. Repair and maintenance costs are expensed as incurred. When property, plant and equipment are retired, sold or otherwise disposed of, the asset's carrying amount and related accumulated depreciation are removed from the accounts and any gain or loss is included in operating income.

The cost of software is capitalized provided the cost of the project is at least $30 thousand ($100 thousand for JHH) and the expected life is at least two years. Costs include payment to vendors for the purchase of software and assistance in its installation, payroll costs of employees directly involved in the software installation, and capitalized interest costs of the software project. Preliminary costs to document system requirements, vendor selection, and any costs incurred before the software purchase are expensed. Capitalization of costs ends when the project is completed and is ready to be used. Where implementation of the project is in phases, only those costs incurred which further the development of the project are capitalized. Costs incurred to maintain the system are expensed.

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

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

Financing expenses. Financing expenses incurred in connection with the issuance of Maryland Health and Higher Educational Facilities Authority ("MHHEFA") series bonds have been capitalized and are included in other assets in the Combined Balance Sheets. These expenses are being amortized over the terms of the related bond issues using the effective interest method.

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

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

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

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

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

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

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

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

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

Grants. JHHS receives various grants from individuals and agencies of the Federal and State Governments for the purpose of furthering its mission of providing patient care. Grants are recognized as support and the related project costs are recorded as expenses when services related to grants are incurred. Grant receivables are included in due from others and grant income is included in other revenue in the Combined Statements of Operations and Changes in Net Assets.

Other revenue. In July 2012, SHI was awarded a $25.0 million settlement from a binding arbitration case with Healthcare Initiative Foundation ("HIF"), a separate foundation that held SHI's endowment funds, for breach of trust. SHI received the $25.0 million settlement in October 2012 and recorded the revenue in other operating revenue.

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

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

JHHC is classified as a partnership for Federal and State income tax purposes and accordingly, there is no provision for income taxes in the accompanying combined financial statements. Taxable income or loss passes through to and is reported by the members in their respective tax returns. Taxable subsidiaries of Affiliates account for income taxes in accordance with Financial Accounting Standards Board ("FASB") guidance on accounting for income taxes. Deferred income taxes are recognized for the tax consequences in future years for differences between the tax basis of assets and liabilities and their financial reporting amounts at each year end. Affiliate subsidiaries otherwise exempt from Federal and State taxation are nonetheless subject to taxation at corporate tax rates at both the Federal and State levels on their unrelated business income. Total taxes paid to Federal and State tax authorities during the years ended June 30, 2013 and 2012 amounted to $22.6 million and $25.0 million, respectively.

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

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

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

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

2. Net Patient Service Revenue

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

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

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

JHHS' not-for-profit Affiliates provide care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Such patients are identified based on information obtained from the patient and subsequent analysis. Because the Affiliates do not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. Effective July 1, 2011, JHHS adopted the provisions of ASU 2010-23, "Measuring Charity Care for Disclosure", which states that direct and indirect cost be used as the measurement basis for charity care disclosure purposes and that the method used to determine such costs also be disclosed. The adoption of this ASU had no impact on JHHS' financial condition, results of operations or cash flows. Direct and indirect costs for these services amounted to $65.0 million and $83.2 million for the years ended June 30, 2013 and 2012, respectively. The costs of providing charity care services are based on a calculation which applies a ratio of costs to charges to the gross uncompensated charges associated with providing care to charity patients. The ratio of cost to charges is calculated based on JHHS' total expenses (less bad debt expense) divided by gross patient service revenue.

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

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

	Third-Party Payors	Self-pay	Total All Payors
Patient service revenue (net of contractual allowances)	$ 4,469,745	$ 108,200	$ 4,577,945

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

	Third-Party Payors	Self-pay	Total All Payors
Patient service revenue (net of contractual allowances)	$ 4,211,937	$ 83,004	$ 4,294,941

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

	2013	**2012**
Medicare	20.7%	18.0%
Medicaid	12.2%	14.2%
Blue Cross and Blue Shield	12.2%	14.9%
Medicaid managed care organizations	6.2%	5.4%
Self pay and other third-party payers	48.7%	47.5%
Total	100.0%	100.0%

3. Pledges Receivable

As of June 30, 2013 and 2012, the total value of pledges receivable was $30.4 million and $27.9 million, respectively. Pledges receivable have been discounted at rates ranging from 0.65% to 6.0% and consist of the following (in thousands):

As of June 30, 2013	1 Year	2 –5 Years	5 Years or Greater	Totals
Departmental capital campaigns	$ 1,912	$ 3,171	$ 1,716	$ 6,799
Future campus development	7,038	12,199	2,504	21,741
	$ 8,950	$ 15,370	$ 4,220	$ 28,540

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

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

4. Fair Value Measurements

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

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

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

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

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

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

Effective July 1, 2011, JHHS adopted the provisions of ASU 2010-06, "Improving Disclosure about Fair Value Measurements", which affects entities required to make disclosures about recurring and nonrecurring fair value measurements. This ASU requires the Level 3 fair value roll forward activity to be displayed gross, breaking out the purchases, issuances, sales and settlement activity. The adoption of this ASU did not have an impact of JHHS' disclosures.
The following table presents the financial instruments carried at fair value as of June 30, 2013 grouped by hierarchy level:

Assets	**Total Fair Value**	**Level 1**	**Level 2**
Cash equivalents (1)	$ 579,486	$ 579,486	$ -
Commercial paper (1)	28,588	28,588	-
Certificates of deposit (1)	2,322	-	2,322
U.S. Treasuries (2)	332,414	-	332,414
Corporate bonds (2)	338,616	-	338,616
Asset backed securities (2)	96,815	-	96,815
Equities and equity funds (3)	832,943	589,817	243,126
Fixed income funds (4)	117,106	110,394	6,712
Totals	$ 2,328,290	$ 1,308,285	$ 1,020,005
Liabilities			
Interest rate swap agreements (5)	$ 184,417	$ -	$ 184,417

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

Assets	**Total Fair Value**	**Level 1**	**Level 2**
Cash equivalents (1)	$ 415,352	$ 415,352	$ -
Certificates of deposit (1)	2,636	-	2,636
U.S. Treasuries (2)	241,195	-	241,195
Corporate bonds (2)	306,749	-	306,749
Asset backed securities (2)	116,976	-	116,976
Equities and equity funds (3)	745,169	435,319	309,850
Fixed income funds (4)	105,317	34,000	71,317
Totals	$ 1,933,394	$ 884,671	$ 1,048,723
Liabilities			
Interest rate swap agreements (5)	$ 279,519	$ -	$ 279,519

(1) Cash equivalents, commercial paper, money market funds, and overnight investments include investments with original maturities of three months or less. Certificates of deposit are carried at amortized cost. Certificates of deposit and commercial paper that have original maturities greater than three months are considered short-term investments. Cash and cash equivalents, commercial paper, money market funds, and overnight investments are rendered level 1 due to their frequent pricing and ease of converting to cash. Computed prices and frequent evaluation versus market value render the certificates of deposit level 2.
(2) For investments in U.S. Treasuries (notes, bonds, and bills), corporate bonds, and asset backed securities, fair value is based on quotes for similar securities; therefore these investments are rendered level 2. These investments fluctuate in value based upon changes in interest rates.
(3) Equities include individual equities and investments in mutual funds, commingled trusts and hedge funds. The individual equities and mutual funds are valued based on the closing price on the primary market and are rendered level 1. The commingled trusts and hedge funds are valued regularly within each month utilizing NAV per unit and are rendered level 2.
(4) Fixed income funds are investments in mutual funds and commingled trusts investing in fixed income instruments. The underlying fixed investments are principally U.S. Treasuries, corporate bonds, commercial paper, and mortgage backed securities. The mutual funds are valued based on the closing price on the primary market and are rendered level 1. The commingled trusts are valued regularly within each month utilizing NAV per unit and are rendered level 2.
(5) The interest rate swap agreements, discussed further in footnote 9 "Derivative Financial Instruments," are valued using a swap valuation model that utilizes an income approach using observable market inputs including long-term interest rates, LIBOR swap rates, and credit default swap rates.

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

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

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

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

Description	Fair Market Value	Liquidity	Notice Period	Receipt of Proceeds
Global asset allocation	$ 192,333	Monthly	5 days	Within 15 to 30 days, 95% in 5 days of redemption, 5% in 30 days after withdrawal
Fund of funds	$ 86,817	Monthly or quarterly	25 to 70 days	Within 30 days, or 90% in 30 to 60 days, 10% after annual audit
Hedge Funds	$ 7,155	Quarterly	60 days	95% within 30 days of redemption date; 5% within 120 days of redemption date
Total	$ 286,305			

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

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

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

	2013	2012
Cash equivalents measured at fair value	$ 579,486	$ 415,352
Cash and cash equivalents included in AWUIL	(68,993)	(28,313)
Total cash and cash equivalents	$ 510,493	$ 387,039
Short and long-term investments measured at fair value	$ 1,026,937	$ 815,504
Investments accounted for under equity method	369,880	328,760
Total short and long-term investments	$ 1,396,817	$ 1,144,264
Assets whose use is limited measured at fair value	$ 721,867	$ 702,538
Cash in AWUIL reported in cash and equivalents on leveling table	60,122	28,313
Investments accounted for under equity method	68,977	65,426
Pledges receivable	28,540	26,622
Interest in net assets of HHF	13,903	13,228
Beneficial interest remainder trust	16,710	15,657
Other	9,106	14,272
Total assets whose use is limited	$ 919,225	$ 866,056

The estimated total fair value of long-term debt excluding capital leases, rendered level 2 based on quoted market prices for the same or similar issues, was approximately $1.5 billion for each of the years ended June 30, 2013, and 2012.

5. Investments and Assets Whose Use is Limited

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

	2013 Carrying Amount	2012 Carrying Amount
Investments in affiliates	$ 152,552	$ 128,886
U.S. Treasuries	198,935	115,606
Commercial paper	24,914	-
Certificates of deposit	2,322	2,024
Corporate bonds	227,369	192,376
Asset backed securities	61,092	71,212
Fixed income funds	89,991	72,208
Equities and equity funds	422,314	362,078
Alternative investments	217,328	199,874
	$1,396,817	$1,144,264

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

	2013 Carrying Amount	2012 Carrying Amount
Cash and cash equivalents	$ 68,993	$ 42,350
Commercial paper	3,674	-
U.S. Treasuries	133,479	125,034
Corporate bonds	111,247	109,918
Asset backed securities	35,724	51,369
Fixed income funds	27,115	13,047
Equities and equity funds	410,628	403,169
Alternative investments	68,977	65,426
Pledges receivable	28,540	26,622
Beneficial interest remainder trust	16,710	15,658
Interest in net assets of HHF	13,903	13,228
Other	235	235
	$ 919,225	$ 866,056

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

	2013	2012
Realized gains on investments	$ 40,916	$ 7,991
Unrealized gains (losses) on investments	88,785	(34,288)
Total	$ 129,701	$(26,297)

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

Affiliate	Cost / Equity	%	2013	2012
Johns Hopkins International, LLC ("JHI")	Equity	50.00%	$ 17,642	$ 17,958
Johns Hopkins Home Care Group, Inc. ("JHHCG")	Equity	50.00%	8,320	7,038
FSK Land Corporation	Equity	50.00%	5,098	4,569
Broadway Development Corp.	Equity	50.00%	1,950	2,081
Mt. Washington Pediatric Hospital and Foundation	Equity	50.00%	24,921	18,942
Dome Corporation	Equity	50.00%	5,074	3,836
JHMI Utilities, LLC	Equity	50.00%	8,660	5,666
Sibley-Suburban Home Health Agency, Inc.	Equity	50.00%	5,579	2,315
Suburban/NRH Medical Rehabilitation, Inc.	Equity	50.00%	1,247	1,459
Germantown Wellness and Fitness, LLC	Equity	50.00%	99	233
Eagle Park Pharmacy and Health Services, LLC	Equity	49.00%	597	-
Rockville Imaging, LLC	Equity	40.00%	479	546
Chevy Chase Imaging, LLC	Equity	27.00%	545	693
Ten Acres Medical Center, LLC	Equity	25.00%	1,647	1,948
Sleep Services of America	Equity	24.30%	1,436	3,330
Central Maryland Radiation Oncology, LLC	Equity	20.00%	1,534	1,537
Suburban Endoscopy, LLC	Equity	20.00%	-	2,911
Johns Hopkins Suburban Health Center, L.P.	Cost	19.00%	1,721	1,439
MCIC Bermuda	Cost	10.00%	55,220	45,381
MCIC Vermont	Cost	10.00%	1,000	1,000
Patient First Corporation	Cost	3.00%	750	750
Other			9,033	5,254
			$152,552	$128,886

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

	2013	2012
Net assets attributable to noncontrollling interests at beginning of period	$ 50,870	$ 42,255
Income attributable to noncontrolling interests	11,270	15,880
Distributions attributable to noncontrolling interests	(3,035)	(7,265)
Net assets attributable to noncontrolling interests at end of period	$ 59,105	$ 50,870

6. Property, Plant and Equipment

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

	2013 Cost	2013 Accumulated Depreciation and Amortization	2012 Cost	2012 Accumulated Depreciation and Amortization
Land and land improvements	$ 155,699	$ 8,713	$ 142,871	$ 7,153
Buildings and improvements	2,101,862	651,547	2,161,187	627,386
Fixed and moveable equipment	1,668,412	658,311	1,617,595	591,665
Capitalized software	158,434	104,114	146,400	87,811
Construction in progress	104,488	-	99,223	-
	$ 4,188,895	$ 1,422,685	$ 4,167,276	$ 1,314,015

Accruals for purchases of property, plant and equipment as of June 30, 2013 and 2012 amounted to $21.9 million and $38.2 million, respectively, and are included in accounts payable and accrued liabilities in the Combined Balance Sheets. Depreciation and amortization expense for the years ended June 30, 2013 and 2012 amounted to $263.0 million and $215.2 million, respectively.

During the year ended June 30, 2013 and 2012, JHHS retired long-lived assets determined to have no future value. During 2013, the original cost and corresponding accumulated depreciation of these long-lived assets was $154.4 million and $149.6 million, respectively. No proceeds from retirement were received in 2013. During 2012, the original cost and corresponding accumulated depreciation of these long-lived assets was $68.2 million and $67.7 million, respectively. No proceeds from retirement were received in 2012.

JHH and the University share various facilities, equipment, software, and services. The costs related to these facilities, equipment, software, and services are generally paid for in their entirety by one institution. Under the provisions of a Joint Administrative Agreement and a lease agreement between JHH and the University, these costs are allocated to both institutions on the basis of usage. The University leased approximately 22.0% and 20.0% of the net square footage within JHH's buildings as of June 30, 2013 and 2012, respectively.

7. Medical Claims Reserves

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

	2013	2012
Balance, July 1	$ 100,048	$ 91,462
Incurred related to:		
Current year	958,566	913,103
Prior year	(29,289)	(24,530)
Total incurred	929,277	888,573
Paid related to:		
Current year	852,741	813,054
Prior year	70,759	66,933
Total paid	923,500	879,987
Balance, June 30	$ 105,825	$ 100,048

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

8. Debt

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

	2013		2012	
	Current Portion	Long-term Portion	Current Portion	Long-term Portion
MHHEFA Bonds and Notes:				
1985 Series A and B – Pooled Loan Program Issue (JHBMC, JHHSC and JHCP)	$ 1,284	$ 5,840	$ 4,477	$ 3,932
1990 Series - Revenue Bonds (JHH)	9,370	43,941	9,370	49,589
1996 Series - Revenue Bonds (SMH)	-	-	1,500	5,062
2002 Series - Revenue Bonds (SMH)	-	-	982	33,738
2002 Series - Revenue Bonds (ACH)	1,800	18,741	1,730	20,591
2004 Series A - Revenue Bonds (SHI) – including original issue premium of $150 and $223 as of June 30, 2013 and 2012, respectively	2,400	10,795	2,660	13,268
2004 – Commercial Paper Series B (JHBMC)	4,210	73,930	4,005	78,140
2004 – Commercial Paper Series C (JHH)	-	-	60,000	-
2007 – Commercial Paper Series D (JHH)	-	-	40,000	-
2007 Series B – Revenue Refunding Bonds (ACH)	775	25,875	750	26,650
2008 – Commercial Paper Series E (JHH)	-	-	325	83,775
2008 – Commercial Paper Series F (JHH)	-	-	400	84,150
2008 Variable Rate Demand Bonds – Series A (JHBMC)	-	-	10,545	-
2008 Series – Revenue Bonds (HCGH)	-	-	40,000	-
2008 Series - Revenue Bonds (JHH) – including original issue premium of $1,054 and $2,108 as of June 30, 2013 and 2012, respectively	-	49,299	48,250	50,353
2008 Series – Revenue Bonds (SHI)	-	-	54,855	-
2009 Series - Revenue Bonds (SMH)	1,010	69,539	-	71,084
2009 Series A – Revenue Refunding Bonds (ACH)	190	67,090	165	67,001
2010 Series - Revenue Bonds (JHH) – including original issue premium of $1,615 and $1,679 as of June 30, 2013 and 2012, respectively	-	149,810	-	149,874
2011 Series A - Revenue Bonds (JHH) – including original issue premium of $6,327 and $7,083 as of June 30, 2013 and 2012, respectively	2,600	76,082	2,260	79,438
2011 Series B – Revenue Bonds (JHH)	-	48,245	-	48,245
2012 Series A – Note (JHH)	1,345	50,845	1,320	52,190
2012 Series B - Revenue Bonds (JHH) – including original issue premium of $12,644 and $13,724 as of June 30, 2013 and 2012, respectively	2,770	106,734	700	110,584
2012 Series A – Revenue Refunding Bonds (ACH)	1,675	99,100	1,625	100,775
2012 Series C – Revenue Bonds (JHH)	375	83,975	-	-
2012 Series D – Revenue Bonds (JHH)	405	84,330	-	-
2012 Series E – Revenue Bonds (JHH)	9,000	91,000	-	-
2013 Series A – Revenue Bonds (JHHSC)	-	88,250	-	-
2013 Series B – Revenue Bonds (JHHSC)	2,140	59,710	-	-
2013 Series – Taxable Bonds (JHHSC)	-	148,165	-	-
Other debt:			-	-
Capital leases (SHHS, ACH and JHHC)	1,745	35,151	883	35,078
Johns Hopkins Endowment (JHHSC)	402	1,873	379	2,275
	$ 43,496	$1,488,320	$287,181	$1,165,792

The above debt amounts for SMH and ACH includes an adjustment made at the time of acquisition to increase the value of the debt to fair market value and is being amortized to interest expense over the life of the respective debt. As of June 30, 2013 the unamortized fair market value adjustment was $7.5 million and $3.9 million for SMH and ACH, respectively. As of June 30, 2012 the unamortized fair market value adjustment was $8.7 million and $3.7 million for SMH and ACH, respectively.

Obligated Groups

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

The Sibley Memorial Hospital Obligated Group ("SMH Obligated Group") consists of SMH, a new medical office building on the SMH campus, SMH's Grand Oaks assisted living facility, and the Stacy Mark Reed Foundation. The 1996, 2002, and 2009 Series Revenue Bonds are parity debt, and as such are collateralized equally and ratably by a claim on and a security interest in all of SMH's gross receipts. SMH is required to achieve a defined minimum debt service coverage ratio each year, maintain adequate insurance coverage, and comply with certain restrictions on their ability to incur additional debt. As of June 30, 2013, SMH was in compliance with these requirements. As of June 30, 2013, the total amount of debt outstanding under the SMH Obligated Group was $70.5 million. As of June 30, 2012, the total amount of debt outstanding under the SMH Obligated Group was $112.4 million. In August 2013, SMH was admitted into the JHHS Obligated Group pursuant to JHHSC debt issuance.

The All Children's Hospital Obligated Group ("ACH Obligated Group") consists of ACH. The 2002 and 2005 Series Revenue Bonds, and the 2007B and 2009A Revenue Refunding Bonds are parity debt, and as such are collateralized equally and ratably by a claim on and a security interest in all of ACH's gross receipts. ACH is required to achieve a defined minimum debt service coverage ratio each year, maintain adequate insurance coverage, and comply with certain restrictions on their ability to incur additional debt. As of June 30, 2013, ACH was in compliance with these requirements. As of June 30, 2013, the total amount of debt outstanding under the ACH Obligated Group was $216.1 million. As of June 30, 2012, the total amount of debt outstanding under the ACH Obligated Group was $220.6 million.

1985A and B – Pooled Loan Program – JHBMC, JHHSC & JHCP

JHBMC, JHHSC and JHCP entered into loan agreements by borrowing through draws from the $175.0 million MHHEFA Revenue Bonds, Pooled Loan Program Issue, Series 1985A and Series 1985B. The debt bears interest at a variable rate. The interest rate in effect for the years ended June 30, 2013 and 2012 was 1.00% and 0.50%, respectively. The JHBMC and JHHS loans are due July 1, 2014. The JHCP loan is payable in monthly installments through May 15, 2026, and is guaranteed by JHBMC.

1990 Series – Revenue Bonds – JHH
Portions of the 1990 Series Revenue Bonds have been advance refunded. The bonds outstanding consist of Capital Appreciation Bonds. Interest on the Capital Appreciation Bonds accrues interest from the date of delivery, is compounded semi-annually on each July 1, and January 1, and is to be paid at maturity or redemption. Serial Capital Appreciation Bonds of $26.2 million and $33.7 million as of June 30, 2013 and 2012, respectively, bearing interest at rates ranging from 7.30% to 7.35% per annum, are due each July 1 in the amount of $9.4 million from 2013 to 2015. Term Capital Appreciation Bonds of $27.1 million and $25.2 million as of June 30, 2013 and 2012, respectively, are due July 1, 2019 and bear interest, compounded semi-annually at a rate of 7.40%. Annual sinking fund installments for the Term Capital Appreciation Bonds are $9.4 million from July 1, 2016 to July 1, 2019.

1996 Series – Revenue Bonds – SMH
In October 1996, SMH obtained a loan in the amount of $30.0 million representing proceeds of tax-exempt Revenue Bonds issued by the District of Columbia, maturing November 1, 2016. SMH was required to make monthly principal payments of $125 thousand plus accrued interest. Interest was paid at a rate of 5.14% for each of the years ended June 30, 2013 and 2012. On April 1, 2013, SMH paid off the outstanding balance of $5.5 million.

1998 Series – Revenue Bonds – HCGH
In June 1998, Howard County Acquisition Corporation (now known as HCGH) borrowed $133.9 million through the issuance by MHHEFA of its 1998 Johns Hopkins Medicine Howard County General Hospital Series Revenue Bonds with stated interest rates ranging from 4.15% to 5.00%.

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

2002 Series – Revenue Bonds – SMH
In July 2002, SMH obtained a loan in the amount of $40.0 million representing proceeds of tax-exempt Revenue Bonds issued through a private placement offering by the District of Columbia, maturing August 1, 2032. The loan requires monthly payments of $277 thousand including principal and accrue interest at an effective interest rate of 5.19% per annum. On April 1, 2013, SMH paid off the outstanding balance of $33.3 million.

2002 Series – Revenue Bonds – ACH
In December 2002, ACH obtained a loan in the amount of $35.0 million representing proceeds of tax-exempt Revenue Bonds issued through the City of St. Petersburg Health Facilities Authority. The loan requires annual principal payments ranging from $1.8 million to $2.7 million through 2021, plus semi-annual interest payments at fixed rates ranging from 4.0% to 5.5%.

2004 Series A – Revenue Bonds – SHI
In June 2004, SHI issued $72.4 million principal amount of Revenue Bonds, 2004 Series A ("2004 Series A Bonds"). The 2004 Series A Bonds consist of $4.9 million of Serial bonds due in annual installments beginning July 1, 2005 at interest rates between 4.7% and 5.5%, and $8.2 million Term bonds due on July 1, 2016 at a rate of 5.5%. Interest is payable semiannually on January 1 and July 1 of each year on the fixed rate 2004 Series A Bonds. The bond premium is being amortized over the term of the remaining 2004 Series A bonds.

2004 Commercial Paper Revenue Notes – Series B – JHBMC

The Commercial Paper Revenue Notes - Series B ("2004 Series B Notes") pay interest as the notes mature at a variable rate based on the commercial paper sold by a designated re-marketing agent for terms ranging from 1 to 270 days. The rates for the years ended June 30, 2013 and 2012 were approximately 0.17% and 0.16%, respectively. Annual payments of principal began July 1, 2004 and range in amounts from $425 thousand on July 1, 2004 to $8.3 million on July 1, 2025.

In connection with the 2004 Series B Notes, JHBMC entered into an $89.6 million line of credit agreement with Wells Fargo to provide for payment of such commercial paper at maturity, subject to certain conditions described therein. This agreement expires on October 31, 2016 subject to extension or earlier termination. No amounts were outstanding as of June 30, 2013 or 2012.

2004 Commercial Paper Revenue Notes – Series C – JHH

The Commercial Paper Revenue Notes - Series C ("2004 Series C Notes") pay interest as the notes mature at a variable rate based on the commercial paper sold by a designated re-marketing agent for terms ranging from 1 to 270 days. The rate for the year ended June 30, 2013 and 2012 was approximately 0.32% and 0.37%, respectively. In November 2012, the 2004 Series C Notes were refinanced through the issuance of the 2012 Series E Revenue Bonds described below.

2007 Commercial Paper Revenue Notes – Series D – JHH

The Commercial Paper Revenue Notes - Series D ("2007 Series D Notes") pay interest monthly at a variable rate based on the commercial paper sold by a designated re-marketing agent for terms ranging from 1 to 270 days. The rates for the years ended June 30, 2013 and 2012 were approximately 0.32% and 0.33%, respectively. In November 2012, the 2007 Series D Notes were refinanced through the issuance of the 2012 Series E Revenue Bonds described below.

2007 Series – Revenue Bonds – ACH

In October 2007, ACH obtained a loan in the amount of $92.2 million representing proceeds of tax-exempt Revenue Bonds issued through the City of St. Petersburg Health Facilities Authority ("2007 Series Bonds"). The loan requires annual principal payments ranging from $775 thousand to $1.8 million through 2034, plus interest at a weekly rate paid monthly. The rates for the years ended June 30, 2013 and 2012 were 0.55% and 0.49%, respectively.

2008 Commercial Paper Revenue Notes – Series E and Series F – JHH

In April 2008, JHH issued $84.1 million and $84.6 million 2008 Commercial Paper Revenue Notes Series E and Series F ("2008 Series E and Series F Notes"), respectively. This debt was issued to retire the 2007 Series A and Series B Revenue Bonds. The Notes are due May 15, 2038 and pay interest as they mature at a variable rate based on the commercial paper sold by a designated remarketing agent for terms ranging from 1 to 270 days. The interest rates for the year ended June 30, 2013 were approximately 0.23% and 0.21% for the Series E and Series F Notes, respectively. The interest rates for the year ended June 30, 2012 were approximately 0.23% and 0.21% for the Series E and Series F Notes, respectively. In August 2012, the 2008 Series E and Series F Notes were refinanced through the issuance of the 2012 Series C and Series D Revenue Bonds described below.

2008 Variable Rate Demand Bonds – Series A – JHBMC

The Variable Rate Demand Bonds - Series A ("2008 Series A Bonds") pay interest monthly at a variable rate based on the bonds sold by a designated re-marketing agent on a weekly basis. The rates for the years ended June 30, 2013 and 2012 were approximately 0.14% and 0.16%, respectively. Annual payments of principal began on May 15, 2009 and range in amount from $210 thousand on May 15, 2009 to $520 thousand on May 2013. In May 2013, the 2008 Series A Bonds were refinanced through the issuance of a note payable to JHHSC.

2008 Series-Revenue Bonds – HCGH
In May 2008, HCGH borrowed $40.0 million through the issuance by MHHEFA of its 2008 Series Revenue Bonds ("2008 Bonds") to finance the expansion, renovation and equipping of HCGH's acute care hospital. The 2008 Bonds were due July 1, 2046, and boar interest at a weekly rate and pay interest monthly. The rates for the years ended June 30, 2013 and 2012 were approximately 0.12% and 0.13%, respectively. Annual sinking fund installments begin July 1, 2034, ranging from $2.3 million to $3.9 million. In May 2013, HCGH redeemed all of the outstanding principle of the 2008 Bonds that amounted to $40.0 million through the issuance of a note payable to JHHSC.

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

At the end of the initial term rate periods on November 15, 2011, May 15, 2013 and May 15, 2015, $48.2 million of 2008 Revenue Bonds are subject to mandatory repurchase by JHH. Accordingly, $48.3 million of debt has been reclassified to current on the June 30, 2012 Combined Balance Sheets. The first two tranches of term bonds have been purchased by JHH. The first tranche in November 2011 through the issuance of the 2011 Series B Revenue Bonds described below and the second in May 2013 through the issuance of a note payable to JHHSC. JHH has the option at the end of each term period to change the length of the term periods or extend the fixed rate period to the final maturity of the bonds. JHH also has the right to retire the bonds at par value at the end of each term period. The 2008 Revenue Bonds were sold at a premium of $5.3 million which is being accounted for using the bond outstanding method.

2008 Series Revenue Bonds – SHI
In November 2008, SHI issued $58.5 million principal amount of MHHEFA Revenue Bonds, 2008 Series Revenue Bonds ("2008 Series Bonds"). The proceeds of the bonds were used to finance the acquisition, construction, renovations or equipping of healthcare facilities. The 2008 Series Bonds were due in annual installments beginning July 1, 2009 and bear interest at a daily rate, weekly rate, commercial paper rates, or long term rate as selected by the issuer and payable at varying periods depending on the interest rate type. The rates for the years ended June 30, 2013 and 2012 were approximately 0.12% and 0.15%, respectively. Annual sinking fund installments began July 1, 2009 and range from $1.4 million to $6.2 million. In May 2013, the 2008 Series Bonds were refinanced through the issuance of a note payable to JHHSC.

2009 Series – Revenue Refunding Bonds – ACH
In April 2009, ACH obtained a loan in the amount of $64.4 million representing proceeds of tax-exempt Revenue Bonds issued through the City of St. Petersburg Health Facilities Authority. The loan requires annual principal payments ranging from $190 thousand to $13.3 million through 2039, plus semi-annual interest payments at fixed rates ranging from 3.50% to 6.50%.

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

2010 Series Revenue Bonds – JHH
In June 2010, JHH issued $148.2 million of 2010 Series Revenue Bonds (“2010 Revenue Bonds”) to further finance construction of the two new clinical buildings. $29.8 million of the bonds are serial bonds that mature in 2031 through 2035 and pay interest semi-annually at rates ranging from 4.38% to 4.63%. The remaining 2010 Revenue Bonds are Term Bonds amounting to $118.4 million paying interest semi-annually at a rate of 5.0% and maturing in 2040. The payment terms for the Term Bonds require sinking fund deposits in 2036 through 2040 in amounts ranging from $21.0 million to $26.3 million. The Serial Bonds were sold at a discount of $500 thousand and the Term Bonds were sold at a premium of $2.3 million both of which are being accounted for using the bond outstanding method.

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

2011 Revenue Bonds – Series B – JHH
In November 2011, JHH issued $48.2 million of 2011 Series B Revenue Bonds (“2011 Series B Bonds”). The 2011 Series B Bonds are variable rate bonds that were issued with a five year term, and a mandatory repurchase date of November 15, 2016. The 2011 Series B Bonds pay interest monthly based on 67% of LIBOR plus 1.15%. The LIBOR rate is rest on the first business day of each month. The interest rates for the years ended June 30, 2013 and 2012 were approximately 1.28% and 1.32%, respectively.

2012 Series A Note - JHH
In February 2012, JHH issued a $53.5 million 2012 Floating Rate Note (“2012 Note”) in a private placement. The 2012 Note has a term of five years, carries a variable rate of interest at 67% of the one-month LIBOR rate plus a spread of 0.44% that resets and is payable monthly. The interest rates for the years ended June 30, 2013 and 2012 were approximately 0.57% and 0.60%, respectively.

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

2012 Revenue Refunding Bonds – Series A – ACH
In June 2012, ACH issued 2012 Series A Revenue Refunding Bonds (“2012 Refunding Bonds”) in the amount of $102.4 million representing proceeds of tax-exempt Revenue Bonds issued through the City of St. Petersburg Health Facilities Authority. The 2012 Refunding Bonds were issued as a direct bank placement with a five year term, and require annual principal payments ranging from $1.7 million to $8.0 million through 2035. Interest is calculated and paid monthly at the one-month LIBOR plus a spread of 0.50%. Interest for the years ended June 30, 2013 and 2012 were 0.64% and 0.70%, respectively.

2012 Series C and Series D Revenue Bonds – JHH
In August 2012, JHH issued $84.6 million and $85.1 million of 2012 Series C and D Revenue Bonds (“2012 Series C Bonds and 2012 Series D Bonds”). The 2012 Series C Bonds and 2012 Series D Bonds were issued to refund JHH Series 2008 E and Series 2008 F Notes, and are due

in 2038. The 2012 Series C Bonds are subject to mandatory sinking fund installments ranging from $260 thousand to $8.7 million. The 2012 Series D Bonds are subject to mandatory sinking fund installments ranging from $325 thousand to $8.7 million. The 2012 Series C Bonds and 2012 Series D Bonds are variable rate bonds, and carry a mandatory repurchase date of November 15, 2017. The 2012 Series C Bonds and 2012 Series D Bonds pay interest monthly based on 67% of LIBOR plus a spread of 0.83% that resets and is payable monthly. The interest rate for the year ended June 30, 2013 was approximately 0.96%.

2012 Series E Floating Rate Note – JHH
In November 2012, JHH issued a $100.0 million Floating Rate Note ("2012 Series E Note") through a private placement to refinance its 2004 Series C Notes and 2007 Series D Notes. The 2012 Series E Note has a term of five years, carries a variable rate of interest at 67% of LIBOR plus a spread of 0.55% that resets and is payable monthly. The interest rate for the year ended June 30, 013 was approximately 0.68%.

2013 Series A Revenue Bonds - JHHSC
In May 2013, JHHSC issued $88.3 million of Revenue Bonds ("2013 Series A Bonds") to refinance $48.3 million of the JHH 2008 Revenue Bonds, as well as $40.0 million of the HCGH 2008 Bonds. The 2013 Series A Bonds are variable rate bonds that were issued with a five year term and a mandatory repurchase date of May 15, 2018. The 2013 Series A Bonds pay interest monthly based on 67% of LIBOR plus .60%. The LIBOR rate is reset on the first business day of each month. The interest rate for the year ended June 30, 2013 was approximately 0.73%.

2013 Series B Revenue Bonds – JHHSC
In May 2013, JHHSC issued $61.9 million of Revenue Bonds ("2013 Series B Bonds") to refinance $10.0 million of the JHBMC 2008 Series A Bonds, as well as $51.9 million of the SHI 2008 Series Bonds. The 2013 Series B Bonds are variable rate bonds that were issued with a five year term and a mandatory repurchase date of May 15, 2018. The 2013 Series B Bonds pay interest monthly based on 67% of LIBOR plus .58%. The LIBOR rate is reset on the first business day of each month. The interest rate for the year ended June 30, 2013 was approximately 0.71%.

2013 Series Taxable Bonds - JHHSC
In May 2013, JHHSC issued $148.2 million of Revenue Bonds ("2013 Taxable Bonds") in the taxable market to finance various capital projects. The 2013 Taxable Bonds are structured as two tranches with five and ten year bullet maturities. The five-year bullet of $48.2 million is due on May 15, 2018, and the ten-year bullet of $100.0 million is due on May 15, 2023. Interest is due semiannually beginning November 15, 2013 at a fixed interest rate of 1.424% for the five-year bullet and 2.767% for the ten-year bullet.

Johns Hopkins Endowment Loan – JHHSC
JHHSC has a $6.1 million loan from The Johns Hopkins Endowment Fund, Incorporated ("Endowment Corporation"). The proceeds of this loan were used for the renovation of the Pavilions II building at Green Spring Station. The loan is payable in monthly installments beginning July 1, 1998 and bears an interest rate of 6%. The amount outstanding on the loan was $2.3 million and $2.7 million as of June 30, 2013 and 2012, respectively.

For the debt of JHHS and Affiliates, total maturities of debt and sinking fund requirements, excluding capital leases, during the next five fiscal years and thereafter are as follows as of June 30, 2013 (in thousands):

2014	41,751
2015	94,047
2016	42,647
2017	85,721
2018	32,600
Thereafter	1,164,889
	$1,461,655

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

	2013	2012
Net interest costs:		
Capitalized	$ 583	$ 15,798
Expensed	67,848	56,275
Allocated to others	64	64
	$ 68,495	$ 72,137
Interest costs paid	$ 69,731	$ 68,328

Capital Leases

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

JHHC has a lease agreement with an unrelated party for the lease of equipment. The leased equipment consists of a Cat Scan machine. The lease term began in May 2013 and will continue through May 2018. The base rent is fixed in accordance with the lease agreement. The lease has been recorded as a capital lease.

The total leased property of $39.9 and $36.8 million is reflected in property, plant and equipment as of June 30, 2013 and 2012, respectively. Accumulated depreciation on the leased assets was $18.1 million and $15.5 million as of June 30, 2013 and 2012, respectively.

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

The future minimum lease payments required under JHHS capital leases are as follows as of June 30, 2013 (in thousands):

	Capital Lease Payments
2014	$ 5,181
2015	4,765
2016	4,419
2017	4,511
2018	4,604
2019 and thereafter	40,238
Minimum lease payments	63,718
Interest on capital lease obligations	(26,822)
Net minimum payments	36,896
Current portion of capital lease obligation	(1,745)
Capital lease obligation, less current	$ 35,151

9. Derivative Financial Instruments

JHHS' primary objective for holding derivative financial instruments is to manage interest rate risk. Derivative financial instruments are recorded at fair value and are included in other long-term liabilities. The total notional amount of interest rate swap agreements was $773.1 million and $779.0 million as of June 30, 2013 and 2012, respectively.

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

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

Each swap agreement has certain collateral thresholds whereby, on a daily basis, if the market value of the swap agreement declines such that its devaluation exceeds the threshold, cash must be deposited by JHHS with the swap counterparty for the difference between the threshold amount and the fair value. As of June 30, 2013 and 2012, the amount of required collateral was $72.8 million and $140.5 million, respectively.

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

	Derivatives reported as liabilities			
	2013		2012	
	Balance Sheet Caption	Fair Value	Balance Sheet Caption	Fair Value
Interest rate swaps not designated as hedging instruments	Other long-term liabilities	$ 184,417	Other long-term liabilities	$ 279,519

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

Classification of derivative loss in Statement of Operations	Amount of gain (loss) recognized in change in unrestricted net assets	
	2013	2012
Interest rate swaps:		
Non-operating expense	$ 95,103	$ (142,770)

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

In January 2004, JHH entered into a fixed payor interest swap with J.P. Morgan. The notional amount on this swap agreement was $52.2 million and $53.5 million as of June 30, 2013 and 2012, respectively. JHH will pay J.P. Morgan a fixed annual rate of 3.329% in return for the receipt of a floating rate of interest equal to 67% of the one month LIBOR rate. The floating rates as of June 30, 2013 and 2012 were 0.13% and 0.16%, respectively.

In January 2004, JHBMC entered into a fixed payor interest rate swap agreement with Bank of America. The notional amount on this swap agreement was $78.1 million and $82.1 million as of June 30, 2013 and 2012, respectively, and carries a term of 21 years with payments beginning on February 1, 2004. JHBMC will pay Bank of America a fixed annual rate of 3.3265% in return for the receipt of a floating rate of interest equal to 67% of the one month LIBOR rate. The floating rates as of June 30, 2013 and 2012 were 0.13% and 0.16%, respectively.

In May 2004, SHI entered into a fixed payor interest rate swap agreement with J.P. Morgan. The notional amount on this swap agreement was $25.0 million as of June 2013 and 2012, and carries a term of 17 years. SHI will pay J.P. Morgan a fixed annual rate of 3.919% on the notional amount of the swap agreement in return for the receipt of a floating rate of interest equal to 68% of the one month LIBOR rate. The floating rates as of June 30, 2013 and 2012 were 0.13% and 0.17%, respectively.

In May 2005, ACH entered into two fixed payor interest rate swap agreements. The first swap agreement with the Royal Bank of Canada ("RBC") had a notional amount of $14.6 million as of June 30, 2013 and 2012, respectively. The second swap agreement with Citibank, N.A. ("Citibank"), had a notional amount of $24.3 million as of June 30, 2013 and 2012, respectively. These agreements carry a term of 29 years. ACH will pay RBC and Citibank a fixed annual rate of 3.6235% on the notional amount of the swap agreements in return for the receipt of a floating rate of interest equal to 62.2% of the one-month LIBOR plus 0.27%. The floating rates as of June 30, 2013 and 2012 were 0.39% and 0.42%, respectively, under these swap agreements.

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

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

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

In July 2007, JHBMC entered into a forward start fixed payor interest rate swap agreement with GSCM with a notional amount of $10.0 million and carries a term of 19.5 years. JHBMC will pay GSCM a fixed annual rate of 3.691% on the notional amount of the swap agreement in return for the receipt of a floating rate of interest equal to 67% of the one month LIBOR rate. The floating rates as of June 30, 2013 and 2012 were 0.13% and 0.16%, respectively.

In October 2007, ACH entered into a fixed payor interest rate swap agreement with Citibank with a notional amount of $60.0 million as of June 30, 2012 and carries a term of 40 years. ACH will pay Citibank a fixed annual rate of 3.8505% on the notional amount of the swap agreement in return for the receipt of a floating rate of interest equal to 61.8% of the one-month LIBOR plus 0.25%. The floating rates under this agreement as of June 30, 2013 and 2012 were 0.37% and 0.40%, respectively.

10. Temporarily and Permanently Restricted Net Assets

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

	2013	2012
Purchase of property, plant, and equipment	$ 38,812	$ 44,475
Health care services	113,086	102,861
Health education and counseling	3,330	3,272
Indigent care	2,646	1,084
	$ 157,874	$ 151,692

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

	2013	2012
Health care services	$ 42,980	$ 40,094
Health education and counseling	13,742	12,243
	$ 56,722	$ 52,337

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

The Board of Trustees of the JHHS has interpreted UPMIFA in the State of Maryland, the State of Florida, and the District of Columbia as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds, absent explicit donor stipulations to the contrary. As a result of this interpretation, the JHHS classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the organization in a manner consistent with the standard of prudence prescribed by UPMIFA.

11. Pension Plans

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

The funding policy of all Affiliates is to make sufficient contributions to meet the Internal Revenue Service minimum funding requirements. Assets in the plans as of June 30, 2013 and 2012 consisted of cash and cash equivalents, equities and equity funds, fixed income funds, and alternative investments. All assets are managed by external investment managers, consistent with the plan's investment policy.

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

Change in benefit obligation	2013	2012
Benefit obligation as of beginning of year	$ 1,465,815	$ 1,120,773
Service cost	61,876	45,435
Interest cost	67,237	65,711
Actuarial (gain) loss	(137,269)	266,832
Benefits paid	(36,402)	(32,936)
Benefit obligation as of June 30	$ 1,421,257	$ 1,465,815

Change in plan assets	2013	2012
Fair value of plan assets as of beginning of year	$ 919,972	$ 812,070
Actual return on plan assets	57,838	12,534
Employer contribution	71,884	129,593
Benefits paid	(36,561)	(34,225)
Fair value of plan assets as of June 30	$ 1,013,133	$ 919,972

Funded Status as of June 30	2013	2012
Fair value of plan assets	$ 1,013,133	$ 919,972
Projected benefit obligation	(1,421,257)	(1,465,815)
Unfunded status	$ (408,124)	$ (545,843)

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

	2013	2012
Net pension liability	$ (408,124)	$ (545,843)
Net amount recognized	$ (408,124)	$ (545,843)

The projected benefit obligation is greater than the fair value of plan assets for all plans that are aggregated with these statements.

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

	2013	2012
Actuarial net loss	$ 470,927	$ 653,838
Prior service cost	1,066	2,724
	$ 471,993	$ 656,562
Accumulated benefit obligation	$ 1,322,577	$ 1,299,219

Net Periodic Pension Cost

Components of net periodic pension cost (in thousands):

	2013	2012
Service cost	$ 61,876	$ 45,435
Interest cost	67,237	65,711
Expected return on plan assets	(72,024)	(68,599)
Amortization of prior service cost	1,658	1,988
Recognized net actuarial loss	58,844	36,561
Settlement loss recognized	2,023	1,518
Net periodic pension cost	$ 119,614	$ 82,614

Other Changes in Plan Assets and Benefit Obligations Recognized in Unrestricted Net Assets	2013	2012
Net loss (gain)	$ (123,138)	$ 324,209
Amortization of net loss (gain)	(60,564)	(37,918)
Amortization of prior service cost	(1,658)	(1,988)
Total recognized in unrestricted net assets	$ (185,360)	$ 284,303
Total (gain) loss recognized in net periodic benefit cost and unrestricted net assets	$ (65,746)	$ 366,917

The estimated net loss and prior service cost that will be amortized from unrestricted net assets into net periodic pension cost over the next fiscal year are $39.5 million and $794 thousand, respectively.

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

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

The SMH plan utilized a discount rate of 4.66% and 5.25%, and an expected rate of return on assets of 7.00% and 7.50% for the years ended June 30, 2013 and 2012, respectively, due to the nature of the plan being frozen and management's future expectations surrounding this plan.

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

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

The SMH plan utilized an expected rate of return on assets of 7.00% and 7.50% for the years ended June 30, 2013 and 2012, respectively, due to the nature of the plan being frozen and management's future expectations surrounding this plan.

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

Plan Assets

Pension plan weighted average asset allocations as of June 30 by asset class are as follows:

Asset Class	2013	2012
Cash and cash equivalents	2.15%	5.31%
Equities and equity funds	33.55%	31.14%
Fixed income funds	30.82%	28.16%
Alternative investments	33.48%	35.39%
Total	100.00%	100.00%

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

Fair Value of Plan Assets

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

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

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

Assets	Total Fair Value	Level 1	Level 2
Cash equivalents (1)	$ 21,668	$ 21,668	$ -
Equities and equity funds (2)	339,974	58,309	281,665
Fixed income funds (3)	312,292	244,658	67,634
Alternative investments (4)	339,199	-	339,199
Totals	$ 1,013,133	$ 324,635	$ 688,498

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

Assets	Total Fair Value	Level 1	Level 2
Cash equivalents (1)	$ 48,847	$ 48,847	$ -
Equities and equity funds (2)	286,507	51,692	234,815
Fixed income funds (3)	259,055	196,027	63,028
Alternative investments (4)	325,563	-	325,563
Totals	$ 919,972	$ 296,566	$ 623,406

(1) Cash and cash equivalents, commercial paper, and money market funds include investments with original maturities of three months or less, and are rendered level 1 due to their frequent pricing and ease of converting to cash.
(2) Equities include individual equities and investments in mutual funds, commingled trusts and hedge funds. The individual equities and mutual funds are valued based on the closing price on the primary market and are rendered level 1. The commingled trusts and hedge funds are valued regularly within each month utilizing NAV per unit and are rendered level 2.
(3) Fixed income funds are investments in mutual funds and commingled trusts investing in fixed income instruments. The underlying fixed investments are principally U.S. Treasuries, corporate bonds, commercial paper, and mortgage backed securities. The mutual funds are valued based on the closing price on the primary market and are rendered level 1. The commingled trusts are valued regularly within each month utilizing NAV per unit and are rendered level 2.
(4) Alternative investments include investments that are not traded on national exchanges or over-the-counter markets. These investments are valued at net asset value per share that has been calculated in accordance with investment company rules, which among other things, indicates that the underlying investments be measured at fair value. This valuation technique coupled with short term redemption notice periods renders these investments level 2.

There are no unfunded commitments related to the Plans' alternative investments.

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

Description	Fair Market Value	Liquidity	Notice Period	Receipt of Proceeds
Global asset allocation	$ 169,657	Monthly	5 to 30 days	Within 15 days, or 95% on redemption date and 5% within 3 days
Fund of funds	2,756	Quarterly	45 days	90% within 30, 10% after annual audit
Hedge funds	134,842	Monthly, quarterly or bi-annually	30 to 65 days	90 to 95% within 3 to 30 days, 5 to 10% after annual audit or redemption date
Credit funds	31,384	Annual	60 to 90 days	Within 30 days, or 90% within 10 days, 10% after annual audit
Distressed credit	560	December 31, 2013		
Total	$ 339,199			

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

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

Contributions and Estimated Future Benefit Payments (unaudited)
JHHS expects to contribute $19.7 million to its pension plans in the fiscal year ending June 30, 2013.

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

2014	$ 49,606
2015	53,018
2016	59,155
2017	64,689
2018	70,238
Thereafter	435,794

HCGH participates in a defined contribution 401(k) savings plan available to all employees, which was amended during 1996. The revised plan provides that HCGH will contribute 1% to 2% of each employee's total compensation in addition to contributing from fifty cents to one dollar and fifty cents, based on years of service, for each dollar contributed by the employee. HCGH's contribution match basis is limited to 6% of the employee's total compensation. HCGH contributed approximately $3.2 million and $3.1 million to the plan for the years ended June 30, 2013 and 2012, respectively.

SMH participates in a defined contribution 401(k) savings plan available to all eligible employees. Under the plan, SMH matches one-half of a maximum 3% of employee contributions. SMH contributed approximately $1.0 million and $1.2 million to the plan for the years ended June 30, 2013 and 2012, respectively.

ACH participates in a defined contribution retirement plan of ACHS covering substantially all of its employees. Contributions are determined at the discretion of the Board of Directors of ACHS. ACH contributed approximately $5.6 million and $5.7 million to the plan for year ended June 30, 2013 and 2012, respectively.

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

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

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

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

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

13. Professional and General Liability Insurance

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

JHH and the University each have a 10% ownership interest in the RRG and the captive insurance company, which is included in investments on the Combined Balance Sheets. The medical institutions obtain primary and excess liability insurance coverage from commercial insurers and the RRG. The primary coverage is written by the RRG, and a portion of the risk is reinsured with the captive insurance company. Commercial excess insurance and reinsurance is purchased under a claims-made policy by the participating institutions for claims in excess of primary coverage retained by the RRG and the captive. Primary retentions range between $1.0 million and $5.0 million per incident. Primary coverage is insured under a retrospectively rated claims made policy; premiums are accrued based upon an estimate of the ultimate cost of the experience to date of each participating member institution. The basis for loss accruals for unreported claims under the primary policy is an actuarial estimate of asserted and unasserted claims including reported and unreported incidents and includes costs associated with settling claims. Projected losses were discounted using 0.57% and 0.73% as of June 30, 2013 and 2012, respectively.

SMH has established the Sibley Memorial Hospital Self-insurance Trust (the "Self-insurance Trust"), to accumulate the necessary funds for self-insured malpractice, general liability, and workers' compensation claims, should any occur. An independent trustee manages the Self-insurance Trust. SMH accrued the ultimate cost of asserted and unasserted claims in the year of occurrence using past experience, and other known information, in developing estimates. SMH carried an excess liability insurance policy with a limit of $10.0 million per claim and $10.0 million in the aggregate that covers amounts in excess of agreed upon deductibles. During 2012, SMH terminated its Self-Insurance Trust and joined JHHS' RRG.

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

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

Caption on Combined Balance Sheet	2013	2012
Prepaid expenses and other current assets	$ 28,590	$ 33,885
Estimated malpractice recoveries, net of current	56,177	46,390
Total assets	$ 84,767	$ 80,275
Current portion of estimated malpractice costs	$ 28,590	$ 33,885
Estimated malpractice costs, net of current portion	56,177	46,390
Total liabilities	$ 84,767	$ 80,275

The assets and liabilities represent JHHS' estimated self-insured captive insurance recoveries for claims reserves and certain claims in excess of self-insured retention levels. The insurance recoveries and liabilities have been allocated between short-term and long-term assets and liabilities based upon the expected timing of the claims payments. The adoption had no impact on JHHS' results of operations or cash flows.

Professional and general liability insurance expense incurred by JHHS and Affiliates was $49.6 million and $33.0 million for the years ended June 30, 2013 and 2012, respectively. Reserves were $171.1 million and $159.2 million as of June 30, 2013 and 2012, respectively.

14. Related Party Transactions

During the years ended June 30, 2013 and 2012, JHHS and its Affiliates engaged in various related party transactions. These transactions were not eliminated because these entities are not combined. There were no significant intercompany profits that were eliminated. The following is a summary of the significant related party transactions and balances for the year ended June 30:

Revenue/(expense) transactions (in thousands):

	2013	2012
Pharmacy management and patient discharge planning costs to JHHCG	$ (16,983)	$ (16,658)
Security and management of housekeeping and parking garage services provided by BSI	(23,642)	(21,524)
Telecommunication services provided by JHMI Utilities	(50,889)	(29,507)

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

	2013	2012
Due from JHHCG	$ 41	$ 1,675
Due from JHMI Utilities	15,020	19,838
Due from (to) JHI	66	(1,057)
Due from others	4,514	4,604

<u>Affiliate Notes Receivable:</u>

JHHS has made loans to certain affiliates that are accounted for under either the cost or equity method. Therefore, the loans to these affiliates do not eliminate in combination. The short-term portion of these notes receivable are included in Due from affiliates, current portion, and the long-term portion is included in Due from affiliates, net of current portion in the Combined Balance Sheets.

JHHSC has two affiliate notes receivable from White Marsh Surgery Center. One with a balance of $1.4 million as of June 30, 2013, that is due on June 1, 2023, accrues interest at a fixed rate of 6.5%. Another with a balance of $300 thousand as of June 30, 2013, that is due on July 1, 2014, accrues interest at a fixed rate of 6.0%. Principal and interest payments are made monthly on the first day of each month.

JHHSC has an affiliate note receivable from Johns Hopkins Suburban Health Center, L.P. with a balance of $2.3 million as of June 30, 2013. The note is due in full on June 30, 2021. Interest accrues at a variable rate equal to the Prime Rate, which was 3.25% for both years ended June 30, 2013 and 2013.

JHHSC has an affiliate note receivable from FSK Land Corporation with a balance of $2.4 million as of June 30, 2013, that is due on December 1, 2026, and accrues interest at 4.0%. Principal and interest payments are paid monthly.

JHH and JHHSC have affiliate notes receivable with JHMI Utilities, LLC. JHH's note receivable has a balance of $5.0 million and JHHSC's note receivable has a balance of $62.4 million as of June 30, 2013. The JHH note receivable has an initial repayment date of December 1, 2019, accrues interest in the initial period at a fixed rate of 6.0%, with interest payments paid monthly. The JHHSC note receivable is due in June 2023, accrues interest at a fixed rate of 5.85%, with principal and interest payments paid monthly.

15. Contracts, Commitments and Contingencies

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

In one such case, a physician formerly employed by JHHSC and leased to JHCP to provide obstetrical and gynecological services, illegally and without the knowledge of JHHS, photographed his patients and possibly others with what JHHS understands to be his personal photographic and video equipment and stored those images electronically. This occurred for an as yet unknown period of time. The employee was terminated and the matter continues to be under investigation by police and the Federal Bureau of Investigation, with the full cooperation of JHHS. Several lawsuits have been filed naming as defendants JHHSC and several of its affiliates, including JHH, asserting claims for damages and injunctive relief. JHHS maintain both primary and excess medical malpractice insurance coverage for 2013 on a claims-made basis through a captive insurer, MCIC, with commercial excess reinsurance policies providing additional protection. The exact amount of insurance coverage available to Johns Hopkins, though, cannot be determined until all claims from all claimants are known for the 2013 policy year. As of June 30, 2013, no liability amount is currently recorded for this matter as the outcome of the case is not yet known and any potential loss is not estimable.

JHHS and Affiliates
JHHS has made an indirect guarantee with the University in connection with debt issued by the East Baltimore Development Inc. ("EBDI"). EBDI entered into a loan commitment for $15.0 million that is due on October 1, 2014. In connection with the terms of the loan, the University entered into a participation agreement with an unrelated third party to provide a guarantee up to $3.8 million. In the event that the University would be called to fulfill its guarantee, there is reasonable likelihood that JHHS would share in 50% of any payments made by the University.

JHHS has agreements with the University, under which the University provides medical administration and educational services, conducts medical research programs, provides patient care medical services, and provides certain other administrative and technical support services through the physicians employed by The Johns Hopkins University School of Medicine ("JHUSOM"). Compensation for providing medical administration and educational services is paid to the University by JHHS; funding for services in conducting medical research is paid from grant funds and by JHHS; compensation for patient care medical care services is derived from billings to patients (or third-party payors) by the University; and compensation for other support services is paid to the University by JHHS. The aggregate amount of purchased services incurred by JHHS under these agreements was $255.5 million and $239.3 million for the years ended June 30, 2013 and 2012, respectively.

JHHS has an agreement with the University under which the University recruits and pays interns and resident physicians who furnish services to JHHS on a rotating basis. Included in supplies and other expenses in the accompanying Combined Statements of Operations and Changes in Net Assets for services under this agreement is $5.3 million and $5.2 million for the years ended June 30, 2013 and 2012, respectively, for physicians providing services on a rotating basis, and $3.7 million and $4.1 million for the years ended June 30, 2013 and 2012, respectively, for physicians providing services on a non-rotating basis.

JHHS provides departmental support for Chiefs of Service based on personal recruitment agreements between JHHS, JHUSOM and the respective Chief of Service. These commitments to the department are conditional to the extent the Chief of Service remains in the position. Future expected payments related to agreements currently in place were $4.2 million and $5.6 million as of June 30, 2013 and 2012, respectively.

JHHS is leasing space to the University for which payments totaled $2.9 and $3.1 million for the year ended June 30, 2013 and 2012, respectively.

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

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

2014	$ 20,998
2015	17,398
2016	15,751
2017	14,443
2018	11,207

Rental expense for all operating leases for the years ended June 30, 2013 and 2012 amounted to $44.1 million and $43.7 million, respectively.

Asset Retirement Obligations
During 2006, JHHS recorded asset retirement obligations associated with the abatement of asbestos in several of its buildings constructed prior to 1980. The fair value of the estimated asset retirement obligations as of June 30, 2013 and 2012 was $19.4 million and $20.0 million, respectively.

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

	2013	2012
Retirement obligation at beginning of year	$ 20,037	$ 19,616
Liabilities settled	(1,224)	(167)
Accretion expense	585	588
Retirement obligation at end of year	$ 19,398	$ 20,037

The Johns Hopkins Hospital
In 2005, JHH and the University created a Limited Liability Company (JHMI Utilities, LLC) to provide utility and telecommunication services for their East Baltimore Campus. Each member owns 50% of the LLC and shares equally in the governance of the LLC. The LLC has also assumed the liability for the JHH's 1985 Pooled Loan obligation of $8.5 million. The cost of acquiring and upgrading the existing utility facilities, the construction of a new power plant and an upgrade of the telecommunication system have been financed through the issuance of tax exempt bonds by MHHEFA and the proceeds of the Pooled Loan program sponsored by MHHEFA. JHH and the University have guaranteed the total debt issued by MHHEFA. As of June 30, 2013, the amount of the debt guarantee by JHH was $41.6 million. JHH accounts for this investment under the equity method of accounting.

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

Department of Defense Agreement - MSC
Commencing June 1, 1998, and renewed on June 1, 2003 and again on June 1, 2008, JHMSC entered into a contract with the Department of Defense to provide the TRICARE Prime benefit to eligible beneficiaries enrolled in the Johns Hopkins Uniformed Services Family Health Plan ("USFHP"). Under the USFHP contract, JHMSC provides services covered under the TRICARE Designated Provider Contract to enrollees for a monthly capitation fee. Revenues generated under the contract were $331.6 million and $309.1 million for the years ended June 30, 2013 and 2012, respectively. The current sole source commercial contract was awarded for an initial period commencing October 1, 2008 through September 30, 2009, with four one-year option periods to be exercised at the Government's discretion. Four of the option periods have been exercised and, accordingly, the current contract covers the initial period through September 30, 2013.

16. Functional Expenses

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

	2013	2012
Health care services	$ 3,944,284	$ 3,785,925
General and administrative services	833,599	759,203
Fundraising	5,995	5,592
Program service	1,115	1,486
Total expenses	$ 4,784,993	$ 4,552,206

17. The Johns Hopkins Hospital Endowment Fund, Incorporated

The Endowment Corporation was organized for the purpose of holding and managing the endowment and certain other funds transferred from and for the benefit of JHHS. The affairs of the Endowment Corporation are managed by a Board of Trustees, comprised of Trustees who are self-perpetuating. Neither JHHS nor any Affiliate holds legal title to any Endowment Corporation funds. The Board of Trustees may, in its discretion, award funds from the Endowment Corporation to organizations other than JHHS if the Board of Trustees determines that doing so is for the support, benefit of, or in furtherance of the mission of JHHS. Accordingly, these amounts are not presented in the combined financial statements of JHHS and its Affiliates until they are subsequently distributed to JHHS and its affiliates from the Endowment Corporation. The Endowment Corporation’s net assets were $603.5 million and $547.2 million as of June 30, 2013 and 2012, respectively. The Endowment Corporation’s distributions from net assets to JHHS and its affiliates were $8.9 million and $10.8 million for the years ended June 30, 2013 and 2012, respectively, and were recorded as other revenue.

19. Subsequent Events

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

In August 2013, JHHSC issued $238.0 million of Revenue Bonds (“2013 Series C Bonds”) to finance construction of a new hospital on the SMH campus, and construction of a new Cancer Center and Emergency Department expansion projects on the JHBMC campus. The 2013 Series C Bonds were structured as serial bonds with maturities from 2016 through 2033, as well as two term bonds maturing 2038 and 2043. The 2013 Series C Bonds pay a fixed rate of interest ranging from 3.00% to 5.00%. The 2013 Series C Bonds pay interest semi-annually on May 15th and November 15th. Principal and sinking fund payments range from $1.6 million to $39.5 million starting May 15, 2016.

SUPPLEMENTARY COMBINING INFORMATION
AND COMBINING SUPPLEMENTARY OPINION

REPORT OF INDEPENDENT AUDITORS
ON ACCOMPANYING COMBINING INFORMATION

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

The report on our audit of the combined financial statements of The Johns Hopkins Health System Corporation and Affiliates ("JHHS") as of June 30, 2013 and for the year then ended appears on page 1 of this document. That audit was conducted for the purpose of forming an opinion on the combined financial statements taken as a whole. The combining information is presented for purposes of additional analysis of the combined financial statements rather than to present the financial position and results of operations of the individual entities. Accordingly, we do not express an opinion on the financial position and results of operations of the individual entities. However, the combining information has been subjected to the auditing procedures applied in the audit of the combined financial statements and, in our opinion, is fairly stated in all material respects in relation to the combined financial statements taken as a whole.

PricewaterhouseCoopers LLP

September 27, 2013

PricewaterhouseCoopers LLP, 100 East Pratt Street, Suite 1900, Baltimore, MD 21202-1096
T: (410) 783 7600, F: (410) 783 7680, www.pwc.com/us

The Johns Hopkins Health System Corporation and Affiliates
Supplemental Combining Balance Sheet
June 30, 2013
(in thousands)

	The Johns Hopkins Hospital	Johns Hopkins Bayview Medical Center, Inc.	Howard County General Hospital, Inc.	Suburban Hospital, Inc.	Sibley Memorial Hospital	All Children's Hospital, Inc.	Johns Hopkins Community Physicians, Inc.	Johns Hopkins HealthCare LLC and Subsidiaries	The Johns Hopkins Health System Corporation	Suburban Hospital Healthcare System, Inc.	All Children's Health System, Inc.	The Johns Hopkins Medical Services Corporation	Howard County Health Services, Inc.	Johns Hopkins Medical Management Corporation	Ophthalmology Associates, L.L.C.	Johns Hopkins Employer Health Programs, Inc.	HCGH OB/GYN Associates Series, LLC	Eliminations	Combined Johns Hopkins Health System Corporation and Affiliates
ASSETS																			
Current assets:																			
Cash and cash equivalents	$ 88,752	$ 23,450	$ 22,670	$ 12,788	$ 20,472	$ 117,001	$ 8,807	$ 106,462	$ 65,276	$ 5,749	$ 29,580	$ 1,609	$ 1,115	$ 3,389	$ 905	$ 1,964	$ 504	$ -	$ 510,493
Short-term investments	22,353	9,050	4,629	203	7,199	776	-	24,056	8,936	-	760	-	-	-	-	-	-	-	77,962
Assets whose use is limited - used for curr liabs	13,485	-	-	4,381	1,010	-	-	-	-	-	-	-	-	-	-	-	-	-	18,876
Patient accounts receivables, net of estimated uncollectibles of $162,384	294,327	62,412	31,285	34,268	29,926	35,386	6,910	29,869	-	1,756	8,948	-	-	-	1,002	3	689	(17,989)	518,792
Due from others, current portion	9,475	6,332	1,385	6,424	3,010	-	-	5,788	5,757	101	1,362	121	-	811	-	480	-	-	41,046
Due from affiliates, current portion	22,440	701	4	27	-	9,614	3,199	23,709	31,819	41	-	3,556	500	1,445	-	-	-	(70,194)	26,861
Inventories of supplies	51,205	7,360	4,094	8,646	3,532	8,600	-	-	4,271	139	94	-	-	-	17	-	-	-	87,958
Prepaid expenses and other current assets	26,862	4,580	2,054	3,604	8,185	11,083	3,271	22,001	1,706	577	400	-	3,923	148	-	7	-	-	88,401
Total current assets	528,899	113,885	66,121	70,341	73,334	182,460	22,187	211,885	117,765	8,363	41,144	5,286	5,538	5,793	1,924	2,454	1,193	(88,183)	1,370,389
Assets whose use is limited																			
By long-term debt agreements for:																			
Debt service reserve funds	-	-	-	-	4,955	-	-	-	-	-	-	-	-	-	-	-	-	-	4,955
By donors or grantors for:																			
Future campus development	984	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	984
Pledges receivable	10,146	338	-	4,428	10,212	-	-	-	-	-	3,416	-	-	-	-	-	-	-	28,540
Other	-	7,612	-	22,935	31,012	11,993	-	-	-	-	14,002	-	-	-	-	-	-	-	87,554
By Board of Trustees	63,783	4,205	-	122,038	437,935	12,821	-	-	-	105,238	150	-	-	-	-	-	-	-	746,170
Interest in net assets of HHF/ACHF	-	-	13,903	-	-	70,850	-	-	-	-	-	-	-	-	-	-	-	(70,850)	13,903
Other	4,915	1,289	135	1,428	-	-	-	100	10,207	169	-	-	-	-	-	-	-	-	18,243
Total assets whose use is limited	79,828	13,444	14,038	150,829	484,114	95,664	-	100	10,207	105,407	17,568	-	-	-	-	-	-	(70,850)	900,349
Investments	537,097	56,176	54,019	50	162,219	213,089	-	74,626	166,647	4,842	79,848	-	1,436	-	-	-	-	(31,194)	1,318,855
Property, plant and equipment	2,103,401	440,949	268,353	232,087	321,532	505,385	30,294	25,280	88,756	88,432	30,300	47,496	-	1,926	2,582	3	2,119	-	4,188,895
Less: allowance for depreciation and amort	(631,132)	(277,765)	(97,846)	(129,534)	(42,581)	(83,268)	(15,199)	(12,306)	(43,346)	(40,153)	(2,910)	(43,176)	-	(869)	(2,066)	(3)	(531)	-	(1,422,685)
Total property, plant and equipment, net	1,472,269	163,184	170,507	102,553	278,951	422,117	15,095	12,974	45,410	48,279	27,390	4,320	-	1,057	516	-	1,588	-	2,766,210
Due from affiliates, net of current portion	190,317	1,313	-	-	-	-	-	1,416	225,566	-	-	309	-	-	-	-	-	(355,315)	63,606
Due from others, net of current portion	-	3,796	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	3,796
Estimated malpractice recoveries, net of current pc	31,126	5,249	1,522	1,105	5,687	6,008	4,380	1,100	-	-	-	-	-	-	-	-	-	-	56,177
Swap counterparty deposit	-	-	-	-	-	-	-	-	-	-	-	-	72,840	-	-	-	-	-	72,840
Other assets	11,420	64	338	700	5,038	11,867	7	5,967	2,695	1,936	1,540	-	-	1,115	2,251	-	-	-	44,938
Total assets	$ 2,850,956	$ 357,111	$ 306,545	$ 325,578	$ 1,009,343	$ 931,205	$ 41,669	$ 308,068	$ 568,290	$ 168,827	$ 167,490	$ 9,915	$ 79,814	$ 7,965	$ 4,691	$ 2,454	$ 2,781	$ (545,542)	$ 6,597,160
LIABILITIES AND NET ASSETS																			
Current liabilities:																			
Current portion of long-term debt and capital lease obligation	$ 25,865	$ 5,218	$ -	$ 2,725	$ 1,010	$ 5,022	$ 36	$ 316	$ 2,782	$ 522	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 43,496
Accounts payable and accrued liabilities	178,681	38,940	21,561	28,628	28,275	42,932	15,383	25,535	71,665	2,202	4,267	681	-	3,629	145	79	1,261	-	463,864
Medical claims reserve	-	-	-	-	-	-	-	105,825	-	-	-	-	-	-	-	-	-	(28,838)	76,987
Deferred revenue	-	-	-	-	-	-	331	62,543	-	-	-	5,068	-	-	-	-	-	-	67,942
Current portion of due to affiliates	13,862	6,216	8,759	4,325	1,813	-	1,546	12,843	1,525	51	9,614	1,128	1,100	1,669	161	1,304	649	(59,345)	7,220
Accrued vacation	18,505	6,399	6,621	6,738	9,255	7,321	-	-	10,198	188	-	-	-	-	-	-	-	-	65,225
Advances from third-party payors	84,998	18,097	8,630	7,721	-	8,914	-	-	-	-	-	-	-	-	-	-	-	-	128,360
Current portion of est malpractice costs	18,614	3,148	925	1,408	5,798	8,670	2,655	-	-	-	-	-	-	-	-	-	-	-	41,218
Total current liabilities	340,525	78,018	46,496	51,545	46,151	72,859	19,951	207,062	86,170	2,963	13,881	6,877	1,100	5,298	306	1,383	1,910	(88,183)	894,312
Long-term debt and capital lease obligation, net of current portion	784,261	76,114	-	10,913	69,539	211,119	429	1,332	301,225	33,388	-	-	-	-	-	-	-	-	1,488,320
Est malpractice costs, net of current portion	70,109	12,237	4,091	1,105	8,247	22,573	11,479	-	-	-	-	-	-	-	-	-	-	-	129,841
Net pension liability	201,400	106,552	1,295	5,777	8,654	-	-	-	84,446	-	-	-	-	-	-	-	-	-	408,124
Long-term note payable affiliate	48,250	12,480	161,930	50,230	-	-	309	6,547	-	-	-	2,729	72,840	-	-	-	-	(355,315)	-
Other long-term liabilities	164,100	12,978	14,072	6,855	15,614	24,770	1,799	2,536	1,857	946	541	309	-	551	28	-	-	-	246,956
Total liabilities	1,608,645	298,379	227,884	126,425	148,205	331,321	33,967	217,477	473,698	37,297	14,422	9,915	73,940	5,849	334	1,383	1,910	(443,498)	3,167,553
Net assets:																			
Unrestricted	1,226,496	50,782	64,625	171,790	821,753	577,157	7,619	90,591	93,802	131,530	54,797	-	5,874	2,116	4,357	1,071	871	(90,220)	3,215,011
Temporarily restricted	15,815	4,425	10,976	16,504	24,431	9,716	83	-	790	-	76,139	-	-	-	-	-	-	(1,005)	157,874
Permanently restricted	-	3,525	3,060	10,859	14,954	13,011	-	-	-	-	22,132	-	-	-	-	-	-	(10,819)	56,722
Total net assets	1,242,311	58,732	78,661	199,153	861,138	599,884	7,702	90,591	94,592	131,530	153,068	-	5,874	2,116	4,357	1,071	871	(102,044)	3,429,607
Total liabilities and net assets	$ 2,850,956	$ 357,111	$ 306,545	$ 325,578	$ 1,009,343	$ 931,205	$ 41,669	$ 308,068	$ 568,290	$ 168,827	$ 167,490	$ 9,915	$ 79,814	$ 7,965	$ 4,691	$ 2,454	$ 2,781	$ (545,542)	$ 6,597,160

The Johns Hopkins Health System Corporation and Affiliates
Supplemental Combining Balance Sheet
June 30, 2012
(in thousands)

	The Johns Hopkins Hospital	Johns Hopkins Bayview Medical Center, Inc.	Howard County General Hospital, Inc.	Suburban Hospital, Inc.	Sibley Memorial Hospital	All Children's Hospital, Inc.	Johns Hopkins Community Physicians, Inc.	Johns Hopkins HealthCare LLC and Subsidiaries	The Johns Hopkins Health System Corporation	Suburban Hospital Healthcare System, Inc.	All Children's Health System, Inc.	The Johns Hopkins Medical Services Corporation	Howard County Health Services, Inc.	Johns Hopkins Medical Management Corporation	Ophthalmology Associates, L.L.C.	Johns Hopkins Employer Health Programs, Inc.	HCGH OB/GYN Associates Series, LLC	Eliminations	Combined Johns Hopkins Health System Corporation and Affiliates
ASSETS																			
Current assets:																			
Cash and cash equivalents	$ 41,074	$ 26,376	$ 4,508	$ 12,822	$ 20,364	$ 102,913	$ 6,425	$ 104,794	$ 31,650	$ 3,121	$ 24,700	$ 1,638	$ -	$ 3,153	$ 986	$ 1,595	$ 920	$ -	$ 387,039
Short-term investments	8,950	1,288	1,262	200	7,617	805	-	16,564	-	-	785	-	-	-	-	-	-	-	37,471
Assets whose use is limited - used for curr liabs	12,152	-	-	6,128	2,482	-	-	-	-	-	-	-	-	-	-	-	-	-	20,762
Patient accounts receivables, net of estimated uncollectibles of $144,427	210,413	67,015	27,830	30,777	29,168	35,538	5,406	22,549	-	2,070	7,404	-	-	-	551	-	272	(8,485)	430,508
Due from others, current portion	29,362	10,623	1,571	4,403	8,250	-	118	12,792	1,238	-	978	549	-	648	-	584	-	-	71,116
Due from affiliates, current portion	31,015	850	-	64	-	6,989	2,149	23,355	26,224	27	-	5,329	462	700	41	-	1	(68,701)	28,505
Inventories of supplies	45,272	7,080	3,696	7,776	1,504	7,428	-	-	5,162	140	78	-	-	-	34	-	-	-	78,170
Prepaid expenses and other current assets	28,815	5,351	2,306	5,206	10,086	7,677	2,887	13,013	1,766	676	694	-	-	142	-	23	-	-	78,642
Total current assets	407,053	118,583	41,173	67,376	79,471	161,350	16,985	193,067	66,040	6,034	34,639	7,516	462	4,643	1,612	2,202	1,193	(77,186)	1,132,213
Assets whose use is limited																			
By long-term debt agreements for:																			
Debt service reserve funds	-	-	-	-	4,955	-	-	-	-	-	-	-	-	-	-	-	-	-	4,955
By donors or grantors for:																			
Future campus development	644	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	644
Pledges receivable	15,079	289	-	1,315	8,304	-	-	-	-	-	1,635	-	-	-	-	-	-	-	26,622
Other	-	7,416	-	20,878	27,199	14,226	-	-	-	-	13,216	-	-	-	-	-	-	-	82,935
By Board of Trustees	63,382	4,143	-	81,760	436,037	12,798	-	-	-	98,675	150	-	-	-	-	-	-	-	696,945
Interest in net assets of HHF/ACHF	-	-	13,228	-	-	68,401	-	-	-	-	-	-	-	-	-	-	-	(68,401)	13,228
Other	7,705	787	135	2,220	-	-	-	100	8,866	152	-	-	-	-	-	-	-	-	19,965
Total assets whose use is limited	86,810	12,635	13,363	106,173	476,495	95,425	-	100	8,866	98,827	15,001	-	-	-	-	-	-	(68,401)	845,294
Investments	459,589	45,647	48,380	418	134,967	192,411	-	82,822	81,478	5,205	73,355	-	3,330	-	-	-	-	(20,809)	1,106,793
Property, plant and equipment	2,072,864	427,149	248,479	312,767	305,922	490,388	25,119	19,188	84,651	90,830	35,863	47,630	-	1,400	2,533	3	2,490	-	4,167,276
Less: allowance for depreciation and amort	(552,048)	(258,574)	(81,278)	(200,216)	(24,815)	(48,187)	(13,178)	(9,568)	(36,776)	(40,972)	(2,599)	(42,113)	-	(746)	(1,869)	(3)	(1,073)	-	(1,314,015)
Total property, plant and equipment, net	1,520,816	168,575	167,201	112,551	281,107	442,201	11,941	9,620	47,875	49,858	33,264	5,517	-	654	664	-	1,417	-	2,853,261
Due from affiliates, net of current portion	264,213	1,970	-	-	-	-	-	1,888	6,040	-	-	330	-	-	-	-	-	(263,516)	10,925
Due from others, net of current portion	-	4,796	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	4,796
Estimated malpractice recoveries, net of current po	26,095	4,572	1,254	837	6,000	3,612	3,161	859	-	-	-	-	-	-	-	-	-	-	46,390
Swap counterparty deposit	-	-	-	-	-	-	-	-	140,470	-	-	-	-	-	-	-	-	-	140,470
Other assets	5,272	422	1,421	1,529	5,279	11,905	17	5,975	296	2,484	1,475	-	-	1,202	2,251	-	359	-	39,887
Total assets	$ 2,769,848	$ 357,200	$ 272,792	$ 288,884	$ 983,319	$ 906,904	$ 32,104	$ 294,331	$ 351,065	$ 162,408	$ 157,734	$ 13,363	$ 3,792	$ 6,499	$ 4,527	$ 2,202	$ 2,969	$ (429,912)	$ 6,180,029
LIABILITIES AND NET ASSETS																			
Current liabilities:																			
Current portion of long-term debt and capital lease obligation	$ 162,625	$ 18,751	$ 40,000	$ 57,826	$ 2,482	$ 4,770	$ 36	$ -	$ 619	$ 72	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 287,181
Accounts payable and accrued liabilities	197,090	39,515	21,256	25,086	32,166	44,137	9,790	28,711	54,305	2,682	3,250	609	-	2,210	127	395	1,046	-	462,375
Medical claims reserve	-	-	-	-	-	-	-	100,048	-	-	-	-	-	-	-	-	-	(19,524)	80,524
Deferred revenue	-	-	-	-	-	-	59	65,348	-	-	-	6,792	-	-	-	-	-	-	72,199
Current portion of due to affiliates	19,725	5,686	3,145	665	287	-	620	17,434	1,433	-	6,989	1,775	-	1,691	137	1,107	529	(57,778)	3,445
Accrued vacation	18,240	6,410	6,125	7,052	8,963	7,004	-	-	8,653	182	-	-	-	-	-	-	-	-	62,629
Advances from third-party payors	80,257	18,298	9,765	10,728	-	9,989	-	-	-	-	-	-	-	-	-	-	-	-	129,037
Current portion of est malpractice costs	21,846	3,795	1,073	1,251	4,810	2,748	2,657	-	-	-	400	-	-	-	-	-	-	-	38,580
Total current liabilities	499,783	92,455	81,364	102,608	48,708	68,648	13,162	211,541	65,010	2,936	10,639	9,176	-	3,901	264	1,502	1,575	(77,302)	1,135,970
Long-term debt and capital lease obligation, net of current portion	708,198	78,140	-	13,711	109,884	215,814	465	-	5,742	33,838	-	-	-	-	-	-	-	-	1,165,792
Est malpractice costs, net of current portion	64,121	11,923	3,824	837	8,416	21,858	9,677	-	-	-	-	-	-	-	-	-	-	-	120,656
Net pension liability	290,783	127,707	1,257	8,564	18,092	-	-	-	99,440	-	-	-	-	-	-	-	-	-	545,843
Long-term note payable affiliate	-	-	109,870	-	-	-	330	8,873	140,470	-	-	3,857	-	-	-	-	-	(263,400)	-
Other long-term liabilities	235,495	17,927	20,601	8,503	13,751	35,573	1,456	2,265	1,898	982	518	330	-	478	39	-	-	-	339,816
Total liabilities	1,798,380	328,152	216,916	134,223	198,851	341,893	25,090	222,679	312,560	37,756	11,157	13,363	-	4,379	303	1,502	1,575	(340,702)	3,308,077
Net assets:																			
Unrestricted	952,208	21,343	42,515	132,468	750,524	539,326	6,943	71,652	36,600	124,652	55,212	-	3,792	2,120	4,224	700	1,394	(77,750)	2,667,923
Temporarily restricted	19,260	4,131	10,301	11,357	20,490	13,231	71	-	1,905	-	72,086	-	-	-	-	-	-	(1,140)	151,692
Permanently restricted	-	3,574	3,060	10,836	13,454	12,454	-	-	-	-	19,279	-	-	-	-	-	-	(10,320)	52,337
Total net assets	971,468	29,048	55,876	154,661	784,468	565,011	7,014	71,652	38,505	124,652	146,577	-	3,792	2,120	4,224	700	1,394	(89,210)	2,871,952
Total liabilities and net assets	$ 2,769,848	$ 357,200	$ 272,792	$ 288,884	$ 983,319	$ 906,904	$ 32,104	$ 294,331	$ 351,065	$ 162,408	$ 157,734	$ 13,363	$ 3,792	$ 6,499	$ 4,527	$ 2,202	$ 2,969	$ (429,912)	$ 6,180,029

The Johns Hopkins Health System Corporation and Affiliates
Supplemental Combining Statements of Operations and Changes in Net Assets
June 30, 2013
(in thousands)

	The Johns Hopkins Hospital	Johns Hopkins Bayview Medical Center, Inc.	Howard County General Hospital, Inc.	Suburban Hospital, Inc.	Sibley Memorial Hospital	All Children's Hospital, Inc.	Johns Hopkins Community Physicians, Inc.	Johns Hopkins HealthCare LLC and Subsidiaries	The Johns Hopkins Health System Corporation	Suburban Hospital Healthcare System, Inc.	All Children's Health System, Inc.	The Johns Hopkins Medical Services Corporation	Howard County Health Services, Inc.	Johns Hopkins Medical Management Corporation	Ophthalmology Associates, L.L.C.	Johns Hopkins Employer Health Programs, Inc.	HCGH OB/GYN Associates Series, LLC	Eliminations	Combined Johns Hopkins Health System Corporation and Affiliates
Operating revenues:																			
Net patient service revenue before provision for bad debts	$ 1,841,096	$ 518,583	$ 243,058	$ 244,801	$ 221,360	$ 369,333	$ 145,019	$ 1,289,368	$ -	$ 10,741	$ 59,594	$ 331,593	$ -	$ -	$ 5,546	$ -	$ 12,168	$ (714,315)	$ 4,577,945
Provision for bad debts	59,693	29,289	10,608	9,345	8,409	10,370	8,124	4,428	-	79	3,490	-	-	-	24	-	192	-	144,051
Net patient service revenue	1,781,403	489,294	232,450	235,456	212,951	358,963	136,895	1,284,940	-	10,662	56,104	331,593	-	-	5,522	-	11,976	(714,315)	4,433,894
Other revenue	156,963	43,411	2,261	46,191	34,487	33,252	42,520	47,265	212,328	7,787	11,535	1,264	924	50,285	-	16,254	62	(236,115)	470,674
Investment income	9,185	1,258	1,284	1,813	12,789	3,933	-	2,036	65,260	1,381	1,407	-	258	-	1	-	-	(51,996)	48,609
Net assets released from restrict used for operations	671	554	-	1,394	1,488	649	-	-	152	-	1,707	-	-	-	-	-	-	-	6,615
Total operating revenues	1,948,222	534,517	235,995	284,854	261,715	396,797	179,415	1,334,241	277,740	19,830	70,753	332,857	1,182	50,285	5,523	16,254	12,038	(1,002,426)	4,959,792
Operating expenses:																			
Salaries, wages and benefits	753,909	254,390	111,984	119,889	136,680	193,949	119,610	88,265	123,770	4,162	67,471	-	-	39,331	1,382	-	7,331	(5,107)	2,017,016
Purchased services	572,375	174,553	48,734	54,053	51,047	78,888	48,635	1,172,849	108,147	7,145	11,753	331,660	-	8,136	1,766	15,883	3,229	(940,462)	1,748,391
Supplies and other	397,428	84,091	38,764	60,224	43,648	58,353	10,772	6,795	2,402	2,764	4,514	-	-	2,769	2,046	-	968	-	715,538
Interest	24,569	299	4,929	774	4,065	6,253	5	-	846	3,070	88	-	-	-	-	-	-	(4,861)	40,037
Depreciation and amortization	129,722	25,128	17,602	15,201	17,759	36,518	3,393	2,747	7,729	3,398	1,529	1,197	-	362	196	-	530	-	263,011
Total operating expenses	1,878,003	538,461	222,013	250,141	253,199	373,961	182,415	1,270,656	242,894	20,539	85,355	332,857	-	50,598	5,390	15,883	12,058	(950,430)	4,783,993
Income from operations	70,219	(3,944)	13,982	34,713	8,516	22,836	(3,000)	63,585	34,846	(709)	(14,602)	-	1,182	(313)	133	371	(20)	(51,996)	175,799
Non-operating revenues and expenses:																			
Interest expense on swap agreements	(19,155)	(2,852)	(1,520)	(941)	-	(3,343)	-	-	-	-	-	-	-	-	-	-	-	-	(27,811)
Change in market value of swap agreements	71,774	4,768	6,607	1,181	-	10,773	-	-	-	-	-	-	-	-	-	-	-	-	95,103
Change in realized and unrealized gains (losses) on investments	30,276	1,179	322	7,184	59,513	18,709	-	-	(7)	7,163	5,362	-	-	-	-	-	-	-	129,701
Other non-operating expenses	(8,220)	(311)	-	(4,003)	-	(3,915)	-	-	(2,244)	(104)	(1,612)	-	-	-	-	-	-	(2,085)	(22,494)
Excess of revenues over (under) expenses before noncontrolling int	144,894	(1,160)	19,391	38,134	68,029	45,060	(3,000)	63,585	32,595	6,350	(10,852)	-	1,182	(313)	133	371	(20)	(54,081)	350,298
Noncontrolling interests	-	-	-	-	-	-	-	(2,840)	-	319	-	-	-	-	-	-	-	(8,749)	(11,270)
Excess of revenues over (under) expenses	144,894	(1,160)	19,391	38,134	68,029	45,060	(3,000)	60,745	32,595	6,669	(10,852)	-	1,182	(313)	133	371	(20)	(62,830)	339,028
Contributions (to) from affiliates	-	-	(335)	(2,580)	(690)	(10,437)	3,676	(44,646)	(2,903)	847	10,437	-	900	309	-	-	(503)	41,611	(4,314)
Change in funded status of defined benefit plans	120,994	30,599	854	3,758	3,890	-	-	-	25,265	-	-	-	-	-	-	-	-	-	185,360
Net assets released from restrictions used for purchases of property, plant, and equipment	8,400	-	2,200	10	-	3,208	-	-	2,246	-	-	-	-	-	-	-	-	-	16,064
Noncontrolling interests	-	-	-	-	-	-	-	2,840	-	(319)	-	-	-	-	-	-	-	8,749	11,270
Other	-	-	-	-	-	-	-	-	(1)	(319)	-	-	-	-	-	-	-	-	(320)
Increase (decrease) in unrestricted net assets	274,288	29,439	22,110	39,322	71,229	37,831	676	18,939	57,202	6,878	(415)	-	2,082	(4)	133	371	(523)	(12,470)	547,088
Changes in temporarily restricted net assets:																			
Gifts, grants and bequests	6,647	848	2,200	6,551	5,429	477	12	-	1,283	-	5,760	-	-	-	-	-	-	-	29,207
Net change in HHF and ACF	-	-	675	-	-	(135)	-	-	-	-	-	-	-	-	-	-	-	135	675
Net assets released from restrictions used for purchases of property, plant, and equipment	(8,400)	-	(2,200)	(10)	-	(3,208)	-	-	(2,246)	-	-	-	-	-	-	-	-	-	(16,064)
Net assets released from restrict used for operations	(671)	(554)	-	(1,394)	(1,488)	(649)	-	-	(152)	-	(1,707)	-	-	-	-	-	-	-	(6,615)
Other	(1,021)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(1,021)
(Decrease) increase in temporarily restricted net assets	(3,445)	294	675	5,147	3,941	(3,515)	12	-	(1,115)	-	4,053	-	-	-	-	-	-	135	6,182
Changes in permanently restricted net assets:																			
Gifts, grants and bequests	-	(49)	-	23	1,500	58	-	-	-	-	2,853	-	-	-	-	-	-	-	4,385
Net change in HHF and ACF	-	-	-	-	-	499	-	-	-	-	-	-	-	-	-	-	-	(499)	-
Increase in permanently restricted net assets	-	(49)	-	23	1,500	557	-	-	-	-	2,853	-	-	-	-	-	-	(499)	4,385
Increase (decrease) in net assets	270,843	29,684	22,785	44,492	76,670	34,873	688	18,939	56,087	6,878	6,491	-	2,082	(4)	133	371	(523)	(12,834)	557,655
Net assets at beginning of year	971,468	29,048	55,876	154,661	784,468	565,011	7,014	71,652	38,505	124,652	146,577	-	3,792	2,120	4,224	700	1,394	(89,210)	2,871,952
Net assets at end of year	$ 1,242,311	$ 58,732	$ 78,661	$ 199,153	$ 861,138	$ 599,884	$ 7,702	$ 90,591	$ 94,592	$ 131,530	$ 153,068	$ -	$ 5,874	$ 2,116	$ 4,357	$ 1,071	$ 871	$ (102,044)	$ 3,429,607

The Johns Hopkins Health System Corporation and Affiliates
Supplemental Combining Statements of Operations and Changes in Net Assets
June 30, 2012
(in thousands)

	The Johns Hopkins Hospital	Johns Hopkins Bayview Medical Center, Inc.	Howard County General Hospital, Inc.	Suburban Hospital, Inc.	Sibley Memorial Hospital	All Children's Hospital, Inc.	Johns Hopkins Community Physicians, Inc.	Johns Hopkins HealthCare LLC and Subsidiaries	The Johns Hopkins Health System Corporation	Suburban Hospital Healthcare System, Inc.	All Children's Health System, Inc.	The Johns Hopkins Medical Services Corporation	Howard County Health Services, Inc.	Johns Hopkins Medical Management Corporation	Ophthalmology Associates, L.L.C.	Johns Hopkins Employer Health Programs, Inc.	HCGH OB/GYN Associates Series, LLC	Eliminations	Combined Johns Hopkins Health System Corporation and Affiliates
Operating revenues:																			
Net patient service revenue before provision for bad debts	$ 1,634,266	$ 505,487	$ 239,637	$ 244,737	$ 219,280	$ 355,685	$ 122,153	$ 1,243,775	$ -	$ 11,267	$ 53,741	$ 309,094	$ -	$ -	$ 4,064	$ -	$ 11,594	$ (659,839)	$ 4,294,941
Provision for bad debts	34,930	27,933	11,108	9,908	7,567	8,926	8,828	4,280	1	35	2,348	-	-	30	24	-	185	-	116,103
Net patient service revenue	1,599,336	477,554	228,529	234,829	211,713	346,759	113,325	1,239,495	(1)	11,232	51,393	309,094	-	(30)	4,040	-	11,409	(659,839)	4,178,838
Other revenue	143,362	46,703	3,194	15,721	32,949	34,159	35,502	43,248	176,669	5,822	9,745	1,765	-	45,478	1	16,772	189	(210,663)	400,616
Investment income	14,042	1,484	1,101	1,470	12,475	4,522	-	2,114	59,407	5,116	1,510	-	212	-	-	-	-	(47,065)	56,388
Net assets released from restrict used for operations	229	284	-	1,923	2,292	267	-	-	-	-	3,734	-	-	-	-	-	-	-	8,729
Total operating revenues	1,756,969	526,025	232,824	253,943	259,429	385,707	148,827	1,284,857	236,075	22,170	66,382	310,859	212	45,448	4,041	16,772	11,598	(917,567)	4,644,571
Operating expenses:																			
Salaries, wages and benefits	698,118	247,244	108,671	120,413	134,228	182,951	102,941	78,130	108,010	4,213	61,883	-	-	37,269	1,323	-	7,233	(8,373)	1,884,254
Purchased services	505,647	158,424	46,567	46,959	37,349	66,442	33,368	1,136,612	95,467	8,152	12,425	309,154	-	5,067	1,200	16,072	3,205	(860,979)	1,621,131
Supplies and other	374,736	82,437	40,685	59,247	43,061	56,578	10,138	5,860	2,567	1,730	4,347	-	-	3,076	1,335	-	1,385	-	687,182
Interest	8,349	299	5,836	875	4,857	5,933	4	-	195	3,129	57	-	-	-	-	-	-	(1,150)	28,384
Depreciation and amortization	84,892	24,002	17,315	15,115	15,348	38,730	2,642	1,635	6,511	3,859	2,083	1,705	-	333	106	-	876	-	215,152
Total operating expenses	1,671,742	512,406	219,074	242,609	234,843	350,634	149,093	1,222,237	212,750	21,083	80,795	310,859	-	45,745	3,964	16,072	12,699	(870,502)	4,436,103
Income from operations	85,227	13,619	13,750	11,334	24,586	35,073	(266)	62,620	23,325	1,087	(14,413)	-	212	(297)	77	700	(1,101)	(47,065)	208,468
Non-operating revenues and expenses:																			
Interest expense on swap agreements	(19,115)	(2,994)	(1,513)	(941)	-	(3,328)	-	-	-	-	-	-	-	-	-	-	-	-	(27,891)
Change in market value of swap agreements	(107,608)	(5,847)	(9,990)	(1,243)	-	(18,082)	-	-	-	-	-	-	-	-	-	-	-	-	(142,770)
Change in realized and unrealized gains (losses) on investments	(5,469)	(376)	64	(1,609)	(4,690)	(8,869)	-	-	-	(1,545)	(3,803)	-	-	-	-	-	-	-	(26,297)
Other non-operating revenues (expenses)	(8,436)	-	(3,581)	-	-	(4,744)	-	-	-	454	-	-	-	-	-	-	-	(1,302)	(17,609)
Excess of revenues (under) over expenses before noncontrolling inte	(55,401)	4,402	(1,270)	7,541	19,896	50	(266)	62,620	23,325	(4)	(18,216)	-	212	(297)	77	700	(1,101)	(48,367)	(6,099)
Noncontrolling interests	-	-	-	-	-	-	-	(5,811)	-	(325)	-	-	-	-	-	-	-	(9,744)	(15,880)
Excess of revenues (under) over expenses	(55,401)	4,402	(1,270)	7,541	19,896	50	(266)	56,809	23,325	(329)	(18,216)	-	212	(297)	77	700	(1,101)	(58,111)	(21,979)
Contributions (to) from affiliates	-	200	(1,733)	(4,452)	(643)	(15,913)	6,324	(54,784)	(1,666)	-	15,840	-	-	(510)	1,541	-	225	47,617	(7,954)
Change in funded status of defined benefit plans	(188,442)	(50,847)	(1,597)	(4,911)	(9,615)	-	-	-	(28,891)	-	-	-	-	-	-	-	-	-	(284,303)
Net assets released from restrictions used for purchases of property, plant, and equipment	447,657	-	3,323	-	-	620	-	-	811	-	794	-	-	-	-	-	-	-	453,205
Noncontrolling interests	-	-	-	-	-	-	-	5,811	-	325	-	-	-	-	-	-	-	9,744	15,880
Other	-	-	-	-	-	-	-	-	(253)	(196)	-	-	-	-	-	-	-	-	(449)
Increase (decrease) in unrestricted net assets	203,814	(46,245)	(1,277)	(1,822)	9,638	(15,243)	6,058	7,836	(6,674)	(200)	(1,582)	-	212	(807)	1,618	700	(876)	(750)	154,400
Changes in temporarily restricted net assets:																			
Gifts, grants and bequests	16,235	1,073	3,323	1,186	6,660	1,054	4	-	623	-	6,208	-	-	-	-	-	-	-	36,366
Net change in HHF and ACF	-	-	(1,260)	-	-	(86)	-	-	-	-	-	-	-	-	-	-	-	85	(1,261)
Net assets released from restrictions used for purchases of property, plant, and equipment	(447,657)	-	(3,323)	-	-	(620)	-	-	(811)	-	(794)	-	-	-	-	-	-	-	(453,205)
Net assets released from restrict used for operations	(229)	(284)	-	(1,923)	(2,292)	(267)	-	-	-	-	(3,734)	-	-	-	-	-	-	-	(8,729)
Other	(10,617)	(4,500)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(15,117)
(Decrease) increase in temporarily restricted net assets	(442,268)	(3,711)	(1,260)	(737)	4,368	81	4	-	(188)	-	1,680	-	-	-	-	-	-	85	(441,946)
Changes in permanently restricted net assets:																			
Gifts, grants and bequests	-	-	-	45	1,090	(114)	-	-	-	-	658	-	-	-	-	-	-	-	1,679
Net change in HHF and ACF	-	-	49	-	-	(612)	-	-	-	-	-	-	-	-	-	-	-	611	48
Increase (decrease) in permanently restricted net assets	-	-	49	45	1,090	(726)	-	-	-	-	658	-	-	-	-	-	-	611	1,727
(Decrease) increase in net assets	(238,454)	(49,956)	(2,488)	(2,514)	15,096	(15,888)	6,062	7,836	(6,862)	(200)	756	-	212	(807)	1,618	700	(876)	(54)	(285,819)
Net assets at beginning of year	1,209,922	79,004	58,364	157,175	769,372	580,899	952	63,816	45,367	124,852	145,821	-	3,580	2,927	2,606	-	2,270	(89,156)	3,157,771
Net assets at end of year	$ 971,468	$ 29,048	$ 55,876	$ 154,661	$ 784,468	$ 565,011	$ 7,014	$ 71,652	$ 38,505	$ 124,652	$ 146,577	$ -	$ 3,792	$ 2,120	$ 4,224	$ 700	$ 1,394	$ (89,210)	$ 2,871,952

REPORT OF INDEPENDENT AUDITORS
ON SUPPLEMENTAL FINANCIAL INFORMATION

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

The report on our audit of the basic financial statements of The Johns Hopkins Health System Corporation and Affiliates ("JHHS") as of June 30, 2013 and for the year then ended appears on page 1 of this document. That audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary Hopkins Elder Plus PACE Program Statement of Operations information is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

PricewaterhouseCoopers LLP

September 27, 2013

PricewaterhouseCoopers LLP, 100 East Pratt Street, Suite 1900, Baltimore, MD 21202-1096
T: (410) 783 7600, F: (410) 783 7680, www.pwc.com/us

The Johns Hopkins Health System Corporation and Affiliates
Hopkins Elder Plus - Pace Program
Statement of Operations
for the year ended June 30, 2013
(in thousands)

Revenue	
Output revenue	$ 11,751
Total revenue	11,751
Expenses	
Salaries, wages and benefits	3,568
Purchased services	5,325
Supplies and other	1,467
Total expenses	10,360
Excess of revenue over expenses	$ 1,391