UNIVERSITY OF MARYLAND MEDICAL SYSTEM CORPORATION AND SUBSIDIARIES

Consolidated Financial Statements

June 30, 2009 and 2008

(With Independent Auditors’ Report Thereon)

UNIVERSITY OF MARYLAND MEDICAL SYSTEM CORPORATION
AND SUBSIDIARIES

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

Independent Auditors' Report

The Board of Directors
University of Maryland Medical System Corporation:

We have audited the accompanying consolidated balance sheets of the University of Maryland Medical System Corporation and Subsidiaries (the Corporation) as of June 30, 2009 and 2008, and the related consolidated statements of operations, changes in net assets, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the University of Maryland Medical System Corporation and Subsidiaries as of June 30, 2009 and 2008, and the results of their operations, changes in their net assets, and their cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

As discussed in note 1 to the consolidated financial statements, the Corporation merged with Chester River Health System, Inc. effective July 1, 2008. The merger was accounted for using the "as-if" pooling of interests method of accounting for business combinations. The accompanying consolidated financial statements have been presented as though the merger occurred effective June 30, 2007. As discussed in notes 1 and 19 to the consolidated financial statements, the Corporation adopted the provisions of Statement of Financial Accounting Standards No. 157, *Fair Value Measurements*, as of July 1, 2008.

KPMG LLP

October 27, 2009

UNIVERSITY OF MARYLAND MEDICAL SYSTEM CORPORATION
AND SUBSIDIARIES

Consolidated Balance Sheets

June 30, 2009 and 2008

(In thousands)

Assets		2009	2008
Current assets:			
Cash and cash equivalents	$	207,037	160,406
Assets limited as to use, current portion		32,305	25,580
Accounts receivable:			
Patient accounts receivable, less allowance for doubtful accounts of $109,258 and $117,115 as of June 30, 2009 and 2008, respectively		241,779	292,592
Other		23,104	14,180
Inventories		31,553	29,377
Prepaid expenses and other current assets		46,361	21,467
Total current assets		582,139	543,602
Investments		243,786	310,830
Assets limited as to use, less current portion		356,902	440,328
Property and equipment, net		1,200,246	1,119,745
Deferred financing costs, net		8,733	11,769
Investments in joint ventures		73,165	38,795
Other assets		11,050	13,295
Total assets	$	2,476,021	2,478,364
Liabilities and Net Assets			
Current liabilities:			
Trade accounts payable	$	138,695	142,374
Accrued payroll and benefits		109,703	109,971
Advances from third-party payors		84,528	81,104
Lines of credit		27,800	17,800
Other current liabilities		75,962	67,208
Long-term debt subject to short-term remarketing arrangements		71,099	71,195
Current portion of long-term debt		19,879	18,065
Total current liabilities		527,666	507,717
Long-term debt, less current portion and amount subject to short-term remarketing arrangements		866,156	856,389
Other long-term liabilities		90,354	68,843
Interest rate swap liabilities		87,926	47,679
Total liabilities		1,572,102	1,480,628
Net assets:			
Unrestricted		799,555	882,091
Temporarily restricted		76,204	87,463
Permanently restricted		28,160	28,182
Total net assets		903,919	997,736
Total liabilities and net assets	$	2,476,021	2,478,364

See accompanying notes to consolidated financial statements.

UNIVERSITY OF MARYLAND MEDICAL SYSTEM CORPORATION AND SUBSIDIARIES

Consolidated Statements of Operations

Years ended June 30, 2009 and 2008

(In thousands)

	2009	2008
Unrestricted revenues, gains and other support:		
Net patient service revenue	$ 2,049,554	1,972,643
Other operating revenue:		
State support	3,634	6,764
Other revenue	63,672	66,311
Total unrestricted revenues, gains and other support	2,116,860	2,045,718
Operating expenses:		
Salaries, wages and benefits	947,448	911,462
Expendable supplies	354,620	337,928
Purchased services	325,579	315,900
Contracted services	124,869	109,663
Depreciation and amortization	118,786	116,002
Interest expense	36,369	48,752
Provision for bad debts	178,946	201,625
Total operating expenses	2,086,617	2,041,332
Operating income	30,243	4,386
Nonoperating income and expenses, net:		
Contributions	6,605	12,110
Equity in net income of joint ventures	2,178	1,388
Investment income	(33,782)	8,529
Change in fair value of investments	(14,050)	—
Change in fair value of undesignated interest rate swaps	(32,081)	(35,077)
Loss on early extinguishment of debt	(1,388)	(20,980)
Other nonoperating gains and losses	(13,060)	(7,435)
Deficit of revenues over expenses	(55,335)	(37,079)
Net assets released from restrictions used for the purchase of property and equipment	21,470	9,529
Change in unrealized gains on investments	(12,129)	(15,600)
Other	(36,542)	(16,973)
Decrease in unrestricted net assets	$ (82,536)	(60,123)

See accompanying notes to consolidated financial statements.

UNIVERSITY OF MARYLAND MEDICAL SYSTEM CORPORATION
AND SUBSIDIARIES

Consolidated Statements of Changes in Net Assets

Years ended June 30, 2009 and 2008

(In thousands)

	Unrestricted net assets	Temporarily restricted net assets	Permanently restricted net assets	Total
Balance at June 30, 2007	$ 942,214	99,129	26,041	1,067,384
Deficit of revenues over expenses	(37,079)	—	—	(37,079)
Investment income, net	—	963	16	979
State support for capital	—	5,619	—	5,619
Contributions, net	—	6,187	2,389	8,576
Net assets released from restrictions used for operations and nonoperating activities	—	(5,687)	—	(5,687)
Net assets released from restrictions used for purchase of property and equipment	9,529	(9,529)	—	—
Change in economic and beneficial interests in the net assets of related organizations	—	(3,572)	(45)	(3,617)
Change in ownership interest of joint ventures	3,804	(1,830)	(11)	1,963
Change in unrealized gains on investments	(15,600)	(3,723)	(225)	(19,548)
Change in fair value of designated interest rate swaps	(9,604)	—	—	(9,604)
Change in funded status of defined benefit pension plans	(10,723)	—	—	(10,723)
Other	(450)	(94)	17	(527)
Increase (decrease) in net assets	(60,123)	(11,666)	2,141	(69,648)
Balance at June 30, 2008	882,091	87,463	28,182	997,736
Deficit of revenues over expenses	(55,335)	—	—	(55,335)
Investment losses, net	—	(4,833)	(134)	(4,967)
State support for capital	—	18,731	—	18,731
Contributions, net	—	3,760	272	4,032
Net assets released from restrictions used for operations and nonoperating activities	—	(2,540)	—	(2,540)
Net assets released from restrictions used for purchase of property and equipment	21,470	(21,470)	—	—
Change in economic and beneficial interests in the net assets of related organizations	—	(6,735)	(104)	(6,839)
Change in ownership interest of joint ventures	(5,680)	3,332	—	(2,348)
Change in unrealized gains on investments	(12,129)	(1,355)	(56)	(13,540)
Change in fair value of designated interest rate swaps	(5,490)	—	—	(5,490)
Change in funded status of defined benefit pension plans	(25,807)	—	—	(25,807)
Other	435	(149)	—	286
Decrease in net assets	(82,536)	(11,259)	(22)	(93,817)
Balance at June 30, 2009	$ 799,555	76,204	28,160	903,919

See accompanying notes to consolidated financial statements.

UNIVERSITY OF MARYLAND MEDICAL SYSTEM CORPORATION AND SUBSIDIARIES

Consolidated Statements of Cash Flows

Years ended June 30, 2009 and 2008

(In thousands)

		2009	2008
Cash flows from operating activities:			
Decrease in net assets	$	(93,817)	(69,648)
Adjustments to reconcile decrease in net assets to net cash provided by operating activities:			
Depreciation and amortization		118,786	116,002
Provision for bad debts		178,946	201,625
Amortization of bond premium and deferred financing costs		2,462	1,022
Net realized and unrealized losses on investments		74,621	27,338
Loss on early extinguishment of debt		1,388	20,980
Gain on interest rate swap terminations		—	(26)
Equity in net income of joint ventures		(2,178)	(1,388)
Contribution of land held for sale		—	(2,463)
Decrease in economic and beneficial interests in net assets of related organizations		6,839	3,617
Change in fair value of interest rate swaps		40,247	44,681
Change in funded status of defined benefit pension plans		25,807	10,723
Increase in patient accounts receivable		(128,133)	(220,543)
Decrease in other receivables, prepaid expenses, other current assets and other assets		4,666	(272)
Increase in inventories		(2,176)	(2,489)
Increase in trade accounts payable, accrued payroll and benefits, other current liabilities and other long-term liabilities		(14,386)	8,401
Increase in advances from third-party payors		3,424	6,161
Restricted contributions, investment income and state support		(17,796)	(15,174)
Net cash provided by operating activities		198,700	128,547
Cash flows from investing activities:			
Reimbursements from construction fund		63,172	96,275
Decrease in other assets limited as to use		6,690	125,442
Purchases and sales of investments, net		(7,577)	(22,458)
Purchases of property and equipment		(184,134)	(204,936)
Distributions from joint ventures, net		1,950	1,552
Investment in UCHS/UMMS Venture, LLC		(31,500)	—
Deposit for undesignated interest rate swaps on hand with swap counterparty		(29,472)	(2,509)
Proceeds from repayment of Mt. Washington loan		—	7,695
Net cash (used) provided by investing activities		(180,871)	1,061

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UNIVERSITY OF MARYLAND MEDICAL SYSTEM CORPORATION AND SUBSIDIARIES

Consolidated Statements of Cash Flows

Years ended June 30, 2009 and 2008

(In thousands)

		2009	2008
Cash flows from financing activities:			
Proceeds from long-term debt	$	198,064	587,253
Repayment of long-term debt		(185,826)	(688,645)
Draws on lines of credit		10,000	—
Deposit for designated interest rate swaps on hand with swap counterparty		(9,409)	(801)
Deposits into escrow accounts for repayment of debt		—	(6,622)
Payment of debt issuance costs		(1,823)	(3,451)
Restricted contributions, investment income and state support		17,796	15,174
Net cash used by financing activities		28,802	(97,092)
Net increase in cash and cash equivalents		46,631	32,516
Cash and cash equivalents, beginning of year		160,406	127,890
Cash and cash equivalents, end of year	$	207,037	160,406
Supplemental disclosure of cash flow information:			
Cash paid during the year for interest, net of amounts capitalized	$	36,832	39,862
Amount included in accounts payable for construction in progress		14,897	13,648

See accompanying notes to consolidated financial statements.

(1) Organization and Summary of Significant Accounting Policies

(a) Organization

The University of Maryland Medical System Corporation (the Corporation) is engaged in providing comprehensive health care services through an integrated network of hospitals and other inpatient and outpatient clinical enterprises. The Corporation operates University Hospital, University of Maryland Marlene and Stewart Greenebaum Cancer Center (Greenebaum Cancer Center), and The R Adams Cowley Shock Trauma Center (Shock Trauma Center), collectively referred to as University of Maryland Medical Center (Medical Center) and is the sole member of The James Lawrence Kernan Hospital, Inc. (Kernan); University Specialty Hospital, Inc. (University Specialty); Maryland General Health Systems, Inc. (Maryland General); Baltimore Washington Medical System, Inc. (Baltimore Washington); Shore Health System, Inc. (Shore Health); Chester River Health System, Inc. (Chester River); University of Maryland Medical System Foundation, Inc. (UMMS Foundation); Shipley’s Choice Medical Park, Inc. (Shipley’s); and 36 South Paca Street, LLC (36 South Paca); each of which is described below. In addition, the Corporation has a majority interest in UniversityCARE, LLC (UCARE), and accordingly it is a consolidated subsidiary of the Corporation. The Corporation also maintains equity interests in various unconsolidated joint ventures which are described in note 4. All material intercompany balances and transactions have been eliminated in consolidation.

University of Maryland Medical Center

The Medical Center is comprised of three operating divisions: University Hospital, Greenebaum Cancer Center and Shock Trauma Center. University Hospital is a tertiary teaching hospital located in Baltimore with 527 licensed beds. The Greenebaum Cancer Center is a 51-bed program which specializes in the treatment of cancer patients. The Shock Trauma Center is a program with 111 licensed beds which provides both treatment to victims of trauma and training in establishing shock trauma systems.

The James Lawrence Kernan Hospital, Inc.

Kernan is comprised of a medical/surgical and rehabilitation hospital in Baltimore with 132 licensed beds, including 98 rehabilitation beds, 24 chronic care beds, 10 medical/surgical beds; and off-site physical therapy facilities.

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

University Specialty Hospital, Inc.

University Specialty is a 180-bed facility located in Baltimore providing chronic care.

Maryland General Health Systems, Inc.

Maryland General is a West Baltimore health system comprised of Maryland General Hospital, a 242-bed acute care hospital; a wholly owned subsidiary providing primary care; and a noncontrolling 25% interest in a managed care organization providing services primarily to Medicaid patients.

A related corporation, Maryland General Community Health Foundation, Inc. (Maryland General Foundation), is governed by a separate, independent board of directors and is required to hold investments and income derived therefrom for the exclusive benefit of Maryland General. Accordingly, the accompanying consolidated financial statements reflect an economic interest in the net assets of the Maryland General Foundation.

Baltimore Washington Medical System, Inc.

Baltimore Washington is a health system comprised of Baltimore Washington Medical Center, a 293-bed acute care hospital providing a broad range of services, and several wholly owned subsidiaries providing emergency physician and other services.

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

Shore Health System, Inc.

Shore Health is a two-hospital health system located on the Eastern Shore of Maryland. Shore Health owns and operates Memorial Hospital, a 161-bed acute care hospital providing inpatient and outpatient services in Easton, Maryland; Dorchester Hospital, a 49-bed acute care hospital providing inpatient and outpatient services in Cambridge, Maryland; Memorial Hospital Foundation (Memorial Foundation), a nonprofit corporation established to solicit donations for the benefit of Memorial Hospital; and several other subsidiaries providing various outpatient and home care services.

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

Chester River Health System, Inc.

Effective July 1, 2008, the Corporation became the sole member of Chester River. Chester River owns and operates Chester River Hospital Center (CRHC), a 53-bed acute care hospital providing inpatient and outpatient services to the residents of Kent and Queen Anne’s counties; Chester River Health Foundation (Chester River Foundation), a nonprofit corporation established to solicit donations for the benefit of Chester River; and two other subsidiaries providing outpatient and homecare services.

The Corporation and Chester River merged pursuant to an Affiliation Agreement dated July 1, 2008. No consideration was tendered in connection with the transaction. As part of the agreement, the Corporation transferred $1 million to Chester River for clinical programmatic enhancements and committed an additional $4 million in support of the enhancements over the next two years. In

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addition, the Corporation has committed no less than an additional $8.5 million for capital improvements. The affiliation was accounted for using the "as if" pooling of interests method of accounting for business combinations and the accompanying consolidated financial statements have been presented as though the merger had occurred effective June 30, 2007. Accordingly, the consolidated financial statements and financial information included in these notes to the consolidated financial statements for 2008 have been restated to combine the financial results of the Corporation and Chester River for that period.

University of Maryland Medical System Foundation, Inc.

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

36 South Paca Street, LLC

36 South Paca is a single-member limited liability company that owns and operates a residential apartment building near the Corporation's Baltimore campus.

UniversityCARE, LLC

UCARE, a physician hospital organization was established as a joint venture between the Corporation and University Physicians, Inc. (UPI). The purpose of UCARE is to operate an integrated health care services delivery system in a manner that integrates the teaching and research missions of the Corporation, UPI and their affiliates with the delivery of care in a cost efficient manner. The Corporation's ownership percentage and income (loss) sharing percentage is 90% and UPI's percentage is 10%. Accordingly, the assets, liabilities, unrestricted net assets and operations of UCARE are consolidated with the Corporation in the accompanying consolidated financial statements and UPI's ownership interest is treated as a minority interest.

Shipley's Choice Medical Park, Inc.

Shipley's, a wholly owned subsidiary, is a 501(c) (2) title holding corporation, formed for the purpose of managing property investments located in Anne Arundel County. The operations of Shipley's are solely comprised of the management of this property.

(b) Basis of Presentation

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

(c) Cash Equivalents

The Corporation considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

(d) Investments and Assets Limited as to Use

During the year ended June 30, 2009, the Corporation increased the purchase and sale activities of its investment portfolio due to market conditions, accordingly the Corporation determined that the classification of its investment portfolio should be changed from available for sale to trading, in accordance with Statement of Financial Accounting Standards (SFAS) No. 124, *Accounting for Certain Investments Held by Not-for-Profit Organizations* (SFAS 124). As a result of this change in classification, the Corporation transferred the portion of unrealized holding gains or losses which had previously been a component of net assets, into the deficit of revenues over expenses.

The Corporation's investment portfolio is classified as trading, and is reported in the consolidated balance sheets at its fair value, based on quoted market prices, at June 30, 2009. Unrealized holding gains and losses on trading securities with readily determinable market values are included in nonoperating income. Investment income, including realized gains and losses, is included in nonoperating income in the accompanying consolidated statement of operations.

The Corporation's investment portfolio was classified as other-than-trading, and reported in the consolidated balance sheets at its fair value, based on quoted market prices, at June 30, 2008. Changes in the fair value of securities with readily determinable market values below their recorded basis were recognized in the consolidated statements of operations as realized losses. Unrealized gains on investments in securities with readily determinable market values were recognized as a component of net assets. Investment income, including realized gains and losses, is included in nonoperating income in the accompanying consolidated statement of operations.

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

Assets limited as to use also include the Corporation's economic interests in financially interrelated organizations, as defined in Statement of Financial Accounting Standards (SFAS) No. 136, *Transfers of Assets to a Not-for-Profit Organization or Charitable Trust That Raises or Holds Contributions for Others* (see note 12).

Alternative investments are recorded under the equity method of accounting. Underlying securities of these alternative investments may include certain debt and equity securities that are not readily marketable. Because certain investments are not readily marketable, their fair value is subject to additional uncertainty, and therefore values realized upon disposition may vary significantly from current reported values.

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

(e) Inventories

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

(f) Economic Interests in Financially Interrelated Organizations

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

(g) Property and Equipment

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

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

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

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

(h) Deferred Financing Costs

Costs incurred related to the issuance of long-term debt are deferred and are amortized over the life of the related debt agreements using the effective interest method. Accumulated amortization of such costs amounted to $6,072,000 and $2,968,000 as of June 30, 2009 and 2008, respectively. In connection with the refinancing of certain debt in the years ended June 30, 2009 and 2008, the Corporation recorded a loss on early extinguishment of debt of $1,388,000 and $20,980,000, including the write-off of deferred financing costs of $1,388,000 and $17,837,000, respectively.

(i) Impairment of Long-Lived Assets

Long-lived assets, such as property, plant, and equipment, and purchased intangibles subject to amortization, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by comparing the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized in the amount by which the carrying amount of the asset exceeds the fair value of the asset. Assets to be disposed of would be separately presented in the consolidated balance sheets and reported at the lower of the carrying amount or fair value less costs to sell, and are no longer depreciated. The assets and liabilities of a disposed group classified as held for sale would be presented separately in the appropriate asset and liability sections of the consolidated balance sheets.

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(j) Investments in Joint Ventures

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

(k) Self Insurance

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

(l) Net Assets

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

(m) Net Patient Service Revenue and Provision for Uncollectible Accounts

Net patient service revenue for the Medical Center, Kernan, Maryland General, Baltimore Washington, Shore Health, Chester River, and University Specialty, reflects actual charges to patients based on rates established by the State of Maryland Health Services Cost Review Commission (HSCRC) in effect during the period in which the services are rendered, net of contractual adjustments. Contractual adjustments represent the difference between amounts billed as patient service revenue and amounts allowed by third-party payors. Such adjustments include discounts on charges as permitted by the HSCRC.

The Corporation records revenues and accounts receivable from patients and third-party payors at their estimated net realizable value. Revenue is reduced for anticipated discounts under contractual arrangements and for charity care. An estimated provision for bad debts is recorded in the period the related services are provided based upon anticipated uncompensated care, and is adjusted as additional information becomes available.

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

(n) Charity Care

The Corporation provides charity care to patients who are unable to pay. Such patients are identified based on information obtained from the patient and subsequent analysis. Because the Corporation does not expect collection of amounts determined to qualify as charity care, they are not reported as revenue. Based on established rates, the Corporation estimates $65,343,000 and $54,536,000 of charity care services were provided in the years ended June 30, 2009 and 2008, respectively.

(o) Nonoperating Income and Expenses, Net

Other activities which are largely unrelated to the Corporation's primary mission are recorded as nonoperating income and expenses, and include investment income, equity in the net income of joint ventures, general donations and fund-raising activities, and loss on early extinguishment of debt.

(p) Derivative Financial Instruments

The Corporation accounts for its derivative and hedging activities in accordance with Statement of Financial Accounting Standard (SFAS) No. 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended, and Statement of Position No. 02-2, *Accounting for Derivative Instruments and Hedging Activities for Not-for-Profit Health Care Organizations, and Clarification of the Performance Indicator,* which require that all derivative instruments be recorded on the balance sheet at their respective fair values.

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

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

All derivative instruments are reported as other assets or other long-term liabilities in the balance sheet and measured at fair value. On the date the derivative contract is entered into, the Corporation may designate the derivative as either a hedge of the fair value of a recognized or forecasted liability (fair value hedge) or a hedge of the variability of cash flows to be received or paid related to a recognized liability (cash flow hedge), provided the derivative instrument meets certain criteria related to its effectiveness. Derivatives not designated as hedges or not meeting effectiveness criteria are carried at fair value with changes in the fair value recognized in other nonoperating income and expenses.

The Corporation formally documents all hedge relationships between hedging instruments and hedged items, as well as its risk-management objective and strategy for undertaking various hedge transactions. This process includes linking all derivatives that are designated as fair value or cash flow hedges to specific liabilities on the balance sheet. The Corporation also formally assesses, both

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

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

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

(q) Deficit of Revenue over Expenses

The consolidated statement of operations includes a performance indicator, deficit of revenue over expenses. Changes in unrestricted net assets which are excluded from the performance indicator, consistent with industry practice, include unrealized gains on investments (other-than-trading securities, for the year ended June 30, 2008), permanent transfers of assets to and from affiliates for other than goods or services, contributions of long-lived assets (including assets acquired using contributions which, by donor restrictions, were to be used for the purpose of acquiring such assets), pension-related changes other than net periodic pension costs, change in fair value of derivatives that qualify for hedge accounting, and other items which are required by generally accepted accounting principles to be reported separately.

(r) Income Taxes

The Corporation and most of its subsidiaries are not-for-profit corporations formed under the laws of the State of Maryland, organized for charitable purposes and recognized by the Internal Revenue Service as tax exempt organizations under Section 501(c)(3) of the Internal Revenue Code pursuant to Section 501(a) of the Code. The effect of the taxable status of its for-profit subsidiaries is not material to the consolidated financial statements. The Corporation paid approximately $850,000 and $800,000 in income taxes on its unrelated business activities in the years ended June 30, 2009 and 2008, respectively.

The Corporation adopted the provisions of FASB Interpretations No. 48, *Accounting for Uncertainty in Income Taxes* (FIN 48), on July 1, 2007. FIN 48 prescribes a threshold of more-likely-than-not for recognition and derecognition of tax positions taken or expected to be taken in a tax return. FIN 48 also recognizes related guidance on measurement, classification, interest and penalties, and disclosure. The implementation of FIN 48 did not have a significant impact on the Corporation's balance sheet or statement of operations. Management does not believe that there are any unrecognized tax benefits that should be recognized.

(s) Donor-Restricted Gifts

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

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

The Corporation adopted the provisions of FASB Staff Position No. 117-1, *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds* (FSP No. 117-1) for the year ended June 30, 2009. FSP No. 117-1 provides guidance on classifying the net assets associated with donor-restricted endowment funds held by organizations that are subject to an enacted version of Uniform Prudent Management Institutional Funds Act of 2006 (UPMIFA), which serves as a model act for states to modernize their laws governing donor-restricted endowment funds. The FSP also requires additional disclosures about endowments for all organizations, including those that are not yet subject to an enacted version of UPMIFA. UPMIFA was adopted in Maryland in April 2009. The Corporation evaluated its donor-restricted funds and reclassified approximately $500,000 that had been recorded as unrestricted net assets to temporarily restricted net assets, in accordance with UPMIFA effective July 1, 2008.

(t) Fair Value Measurements

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements* (SFAS 157). SFAS 157 defines fair value, establishes a framework for the measurement of fair value, and enhances disclosures about fair value measurements. The Corporation was required to adopt SFAS 157 beginning on July 1, 2008. SFAS 157 is required to be applied prospectively, except for certain financial instruments. Any transition adjustment will be recognized as an adjustment to opening net assets in the year of adoption. In November 2007, the FASB proposed a one-year deferral of SFAS 157's fair value measurement requirements for nonfinancial assets and liabilities that are not required or permitted to be measured at fair value on a recurring basis. SFAS 157 did not have a material impact on the Corporation's consolidated financial statements for the year ended June 30, 2009.

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

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

Long-term debt – The fair value of the long-term debt issued through the Maryland Health and Higher Educational Facilities Authority (Authority or MHHEFA), based on quoted market prices for the same or similar issues, at June 30, 2009 and 2008, was approximately $893,364,000 and $913,285,000 respectively. The carrying amounts of other long-term debt reported in note 7 and on the consolidated balance sheet approximate the related fair values.

(u) New Accounting Pronouncements

In May 2009, the FASB issued SFAS No. 165, *Subsequent Events* (SFAS No. 165). SFAS No. 165 defines the period after the balance sheet date during which management shall evaluate events or transactions that may occur for potential recognition or disclosure, the circumstances under which an organization shall recognize events occurring after the balance sheet date and the disclosures that an organization shall make about those events or transactions. SFAS No. 165 defines two types of subsequent events. The first type consists of events or transactions that provide additional evidence about conditional that existed at the date of the balance sheet, including the estimates inherent to the process of preparing financial statements (i.e. recognized subsequent events). The second type consists of events that provide evidence about conditions that did not exist at the date of the balance sheet but arose after that date (i.e. non-recognized event). The Corporation adopted SFAS No. 165 on June 30, 2009.

Management evaluated all events and transactions that occurred after June 30, 2009 and through October 27, 2009. Other than described in note 21, the Corporation did not have any material recognizable subsequent events during this period.

In April 2009, the FASB issued SFAS No. 164, *Not-for-Profit Entities: Mergers and Acquisitions Including an Amendment of FASB Statement No. 142* (SFAS No. 164). SFAS No. 164 established principles and requirements for how a not-for-profit entity determines whether a combination is a merger or an acquisition and amends SFAS No. 142, *Goodwill and Other Intangible Assets*, to make it fully applicable to not-for-profit entities. SFAS No. 164 is effective for mergers for which the merger date is on or after the beginning of an initial reporting period beginning on or after December 15, 2009; therefore, effective for the Corporation January 1, 2010. SFAS No. 164 is effective for acquisitions for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2009; therefore, effective for the Corporation on July 1, 2010. It may not be applied to mergers or acquisitions before those dates.

(v) Use of Estimates

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

(w) Reclassifications

Certain amounts for 2008 have been reclassified to conform to the presentation for 2009.

(2) Investments and Assets Limited As to Use

The composition and fair value of assets limited as to use were as follows at June 30 (in thousands):

	2009	2008
Debt service and reserve funds:		
Cash and cash equivalents	$ 13,824	25,377
U.S. government and agency securities	40,623	36,845
	54,447	62,222
Construction funds – cash and cash equivalents	91,252	145,372
Board designated and escrow funds:		
Cash and cash equivalents	9,568	5,287
U.S. government and agency securities	4,897	5,408
Corporate obligations	11,314	7,386
Common and preferred stocks	26,957	41,030
Alternative investments	37,523	39,485
	90,259	98,596
Self-insurance trust funds:		
Cash and cash equivalents	305	440
Assets held by other organization	52,557	43,499
	52,862	43,939
Funds restricted by donors:		
Cash and cash equivalents	18,950	21,173
U.S. government and agency securities	1,125	1,199
Corporate obligations	4,582	1,710
Common and preferred stocks	12,277	17,844
Alternative investments	10,113	12,343
Assets held by other organizations	—	1,331
	47,047	55,600
Economic and beneficial interests in the net assets of related organizations (note 12)	53,340	60,179
Total assets limited as to use	389,207	465,908
Less amounts available for current liabilities	(32,305)	(25,580)
Total assets limited as to use, less current portion	$ 356,902	440,328

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

The composition and fair value of investments not limited as to use were as follows at June 30 (in thousands):

		2009	2008
Cash and cash equivalents	$	39,686	13,966
Corporate obligations and asset-backed securities		71,701	69,960
U.S. government and agency securities		39,316	48,428
Common and preferred stocks		25,695	87,552
Alternative investments		67,388	90,924
	$	243,786	310,830

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

		2009	2008
Dividends and interest, net of fees	$	13,663	24,898
Net realized losses		(45,923)	(7,790)
Change in unrealized gains on other-than trading securities		(13,540)	(19,548)
Change in market value of trading securities		(15,158)	—
Total investment loss	$	(60,958)	(2,440)

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

		2009	2008
Nonoperating investment income	$	(33,782)	8,529
Other operating revenue		5,381	7,600
Change in unrealized gains on other-than-trading securities in restricted net assets		(1,411)	(3,948)
Change in unrealized gains on other-than-trading securities classified as unrestricted		(12,129)	(15,600)
Change in fair value of investments		(14,050)	—
Investment income on restricted net assets		(4,967)	979
Total investment return	$	(60,958)	(2,440)

(Continued)

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

(3) Property and Equipment

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

		2009	2008
Land	$	71,402	66,851
Buildings		882,727	725,163
Building and leasehold improvements		415,733	367,509
Equipment		809,745	735,119
Construction in progress		129,774	217,475
		2,309,381	2,112,117
Less accumulated depreciation and amortization		(1,109,135)	(992,372)
	$	1,200,246	1,119,745

Interest cost capitalized was $3,028,000 and $3,204,000 (net of interest income of $1,213,000 and $3,959,000) for the years ended June 30, 2009 and 2008, respectively.

Remaining commitments on construction projects were approximately $22,083,000 at June 30, 2009.

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

Depreciation expense was $116,763,000 and $115,097,000 for the years ended June 30, 2009 and 2008, respectively.

(4) Investments in Joint Ventures

The Corporation has investments of $73,165,000 and $38,795,000 at June 30, 2009 and 2008, respectively, in the following unconsolidated joint ventures:

Joint venture	Type of tax status	Business purpose	Percent ownership FY2009	Percent ownership FY2008
Lithogroup, Inc.	For profit	Lithotripsy provider	25%	25%
Central Maryland Rehabilitation Center, Inc.	For profit	Rehabilitation therapy provider	50	50
Shipley's Imaging Center, LLC	For profit	Freestanding imaging center	50	50
Maryland Care, Inc.	For profit	Managed care organization	25	25
Innovative Health Services, LLC	For profit	Third party insurance claims processor	50	50
Helen P. Denit Cancer Treatment Center, LLC	For profit	Cancer treatment services	50	50
NAH/Sunrise of Severna Park, LLC	For profit	Senior living facility	50	50
Terrapin Insurance Company	Not taxable	Healthcare professional liability insurance company	50	50
Mt. Washington Pediatric Hospital, Inc. (Mt. Washington)	Not for profit	Healthcare services	50	50
UCHS/UMMS Venture, LLC	Not for profit	Healthcare services	20	—

The Corporation recorded equity in net earnings of $2,178,000 and $1,388,000 related to these joint ventures for the years ended June 30, 2009 and 2008, respectively.

Effective June 26, 2009, the Corporation entered into a Membership Interest Purchase Agreement (Membership Agreement) with Upper Chesapeake Health System, Inc. (UCHS), a healthcare system located in Harford County, Maryland, whereby the Corporation purchased a 20% interest in the Upper Chesapeake Health System/University of Maryland Medical System Venture, LLC (UCHS/UMMS Venture, LLC) for $31,500,000.

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

		2009				
		Mt. Washington	**Terrapin**	**UCHS/UMMS Venture, LLC**	**Others**	**Total**
Current assets	$	19,904	21,082	65,269	93,308	199,563
Noncurrent assets		34,536	86,542	231,602	37,617	390,297
Total assets	$	54,440	107,624	296,871	130,925	589,860
Current liabilities	$	9,198	145	52,774	88,762	150,879
Noncurrent liabilities		8,884	105,529	206,907	(5,742)	315,578
Net assets		36,358	1,950	37,190	47,905	123,403
Total liabilities and net assets	$	54,440	107,624	296,871	130,925	589,860
Total operating revenue	$	46,613	20,910	144,719	438,592	650,834
Total operating expenses		(44,665)	(12,958)	(137,624)	(432,988)	(628,235)
Total nonoperating revenue, net		(670)	1,136	2,329	2,554	5,349
Other changes in net assets, net		(4,712)	(7,465)	(1,954)	(2,714)	(16,845)
Increase (decrease) in net assets	$	(3,434)	1,623	7,470	5,444	11,103

		2008			
		Mt. Washington	**Terrapin**	**Others**	**Total**
Current assets	$	15,942	22,916	82,563	121,421
Noncurrent assets		40,233	77,329	36,556	154,118
Total assets	$	56,175	100,245	119,119	275,539
Current liabilities		8,553	83	80,983	89,619
Noncurrent liabilities	$	7,830	99,835	(4,325)	103,340
Net assets		39,792	327	42,461	82,580
Total liabilities and net assets	$	56,175	100,245	119,119	275,539
Total operating revenue	$	43,013	23,087	378,783	444,883
Total operating expenses		(42,207)	(26,294)	(377,456)	(445,957)
Total nonoperating revenue, net		743	(1,321)	(36)	(614)
Other changes in net assets, net		961	1,932	11,231	14,124
Increase (decrease) in net assets	$	2,510	(2,596)	12,522	12,436

(Continued)

(5) Leases

The Corporation rents various equipment and facility space. Rent expense under these operating leases for the years ended June 30, 2009 and 2008 was approximately $14,929,000 and $13,812,000, respectively.

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

2010	$	9,129
2011		5,436
2012		2,486
2013		1,515
2014		1,106
Thereafter		2,536
	$	22,208

The Corporation rents property used for administration under a 99-year lease. The lease was recorded as a capital lease, and the Corporation recorded assets at their respective fair values of $3,770,000 and $29,230,000 for land and buildings, respectively. The lease includes an option for the Corporation to purchase the property during the period from April 20, 2017 to February 28, 2021 for a purchase price of not less than $37,000,000 but not more than $45,000,000 as determined by appraisals. In addition, the lease agreement includes a put option exercisable through February 28, 2013, whereby the lessor may require the Corporation to purchase the building for $37,000,000. As of June 30, 2009 and 2008, amounts of $34,457,000 and $34,229,000, respectively, representing obligations under the lease have been recorded in other current liabilities.

As of June 30, 2009, amounts of $1,367,000 and $2,717,000 representing obligations under all other capital leases are included in other current liabilities and other long-term liabilities, respectively.

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

		2009	2008
Land	$	3,770	3,770
Buildings		29,230	29,230
Equipment		10,310	10,202
		43,310	43,202
Less accumulated amortization		(10,069)	(7,485)
	$	33,241	35,717

Future minimum lease payments under capital leases, together with the present value of the net minimum lease payments, are as follows as of June 30, 2009 (in thousands):

2010	$	4,681
2011		4,180
2012		3,976
2013		3,452
2014		3,154
Thereafter		46,020
Total minimum lease payments		65,463
Less amounts representing interest		(26,922)
Present value of net minimum lease payments	$	38,541

(6) Lines of Credit

The Medical Center had unsecured credit lines totaling $65,000,000 at June 30, 2009 and 2008 available for working capital purposes under bank credit agreements, of which $23,300,000 and $13,300,000 was outstanding at June 30, 2009 and 2008, respectively. Interest is charged on the outstanding balance based on 1-month LIBOR plus a percentage spread (rates ranged from 1.11% – 3.25% at June 30, 2009).

Maryland General maintained an unsecured line of credit arrangement with a bank of $5,000,000, of which there was no outstanding balance as of June 30, 2009 or 2008. Interest is charged on the outstanding balance at 1-month LIBOR plus 2.20% (2.51% at June 30, 2009).

Baltimore Washington maintained an unsecured line of credit arrangement with a bank of $10,000,000 at June 30, 2009 and 2008, of which there was $4,500,000 outstanding at June 30, 2009 and 2008. Interest is charged on the outstanding balance at 1-month LIBOR plus 1.75% (2.05% at June 30, 2009).

Shore Health maintained a line of credit with a bank of up to $5,000,000 at June 30, 2009 and 2008, of which there was no outstanding balance at June 30, 2009 or 2008. Interest is charged monthly on the outstanding balance at 1-month LIBOR plus 1.50% (1.81% at June 30, 2009).

(7) Long-Term Debt and Other Borrowings

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

	Interest rate	Payable in fiscal year(s)	2009	2008
MHHEFA project revenue bonds:				
Corporation issue, payments due annually on July 1:				
Series 2008A-E Bonds	Variable rate	2025 – 2042	$ 280,000	280,000
Series 2008F Bonds	4.00% – 5.25%	2009 – 2023	87,345	—
Series 2008G/H Bonds	Variable rate	2009 – 2032	76,800	—
Series 2007A/B Bonds	Variable rate	2008 – 2035	137,520	137,795
Series 2006A Bonds	4.50% – 5.00%	2026 – 2042	45,000	45,000
Series 2005 Bonds	4.00% – 5.50%	2006 – 2031	142,715	142,715
Series 2004A Bonds	Variable rate	2005 – 2024	—	95,490
Series 2004B Bonds	2.35% – 5.00%	2005 – 2025	30,930	32,260
Series 2004C Bonds	Variable rate	2005 – 2033	—	38,775
Series 2004D Bonds	Variable rate	2005 – 2024	—	42,325
Series 2002 Bonds	5.00% – 6.00%	2004 – 2033	5,375	6,710
Series 2001 Bonds	4.25% – 5.75%	2006 – 2035	3,440	4,320
Series 1991B Bonds	7.00%	1992 – 2022	27,315	27,315
Shore Health issue, payments due annually on July 1:				
Series 2004A Bonds	Variable rate	2007 – 2030	24,335	25,140
Series 1999 Bonds	5.00%	2000 – 2010	525	1,030
Series 1998 Bonds	4.00% – 5.25%	2000 – 2020	24,195	25,385
MHHEFA pooled loan program:				
Chester River Issue, payments due semi-annually on July and January 1				
Commerical paper series	Variable rate	1990 – 2013	1,095	1,320
MHHEFA variable rate demand bonds:				
Chester River Issue, payments due semi-annually on July and January 1				
MHHEFA D	Variable rate	2004 – 2024	2,695	2,980
MHHEFA master lease and sublease	4.40%	2006 – 2013	2,332	2,871

	Interest rate	Payable in fiscal year(s)	2009	2008
Other long-term debt:				
North Arundel Senior Living, LLC Mortgage	Variable rate	Monthly, 2014	$ 11,409	11,636
Term loans	Variable rate	2010 – 2012	43,500	12,000
Other loans and notes payable	5.00% – 7.00%	Monthly, 1991 – 2023	5,159	6,801
			951,685	941,868
Less current portion of long-term debt			19,879	18,065
Less long-term debt subject to short-term remarketing agreements			71,099	71,195
			860,707	852,608
Plus unamortized premiums and discounts, net			5,449	3,781
			$ 866,156	856,389

Pursuant to a Master Loan Agreement dated June 20, 1991 (Master Loan Agreement), as amended, the Corporation and several of its subsidiaries have issued debt through MHHEFA. As security for the performance of the bond obligation under the Master Loan Agreement, the Authority maintains a security interest in the revenue of the obligors. The Master Loan Agreement contains certain restrictive covenants. These covenants require that rates and charges be set at certain levels, limit incurrence of additional debt, require compliance with certain operating ratios and restrict the disposition of assets.

The Obligated Group under the Master Loan Agreement includes the Medical Center, University Specialty, Kernan Hospital, Maryland General Hospital, Baltimore Washington Medical Center, and Shore Health. Each member of the Obligated Group is jointly and severally liable for the repayment of the obligations under the Master Loan Agreement.

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

In July 2008, the Corporation refunded $89,750,000 of the Series 2004A bonds. The refunding was completed using the proceeds of a new $87,345,000 MHHEFA bond issue (the Series 2008F Bonds). The unamortized portion of issuance costs was expensed and included in the Corporation's loss on early extinguishment of debt during the year ended June 30, 2009.

In July 2008, the Corporation refunded $76,850,000 of the Series 2004C and 2004D bonds. The refunding was completed using the proceeds of a new $76,800,000 borrowing under a MHHEFA bond issue (the Series 2008G/H Bonds). The Series 2008G/H Bonds are variable-rate bonds backed by letters of credit from two banks. The letter of credit agreement securing the Series 2008G Bonds expires in July 2013. The letter of credit agreement securing the Series 2008H Bonds expires in July 2011.

In June 2008, the Corporation converted the interest payment mode of its Series 2005 Bonds from variable rate to fixed rate.

In May 2008, the Corporation refunded the Series 2006 Bonds. The refunding was completed using the proceeds of a new $280,000,000 borrowing under a MHHEFA bond issue (collectively, the Series 2008A-E Bonds), plus an additional $70,000,000 of unspent funds in the Series 2006 construction account. The Series 2008A-E Bonds are variable-rate bonds backed by letters of credit from four lending institutions. The letter of credit agreements each have initial terms of three or five years. Proceeds of the Series 2008A-E issuances are being used to finance the construction and renovation of facilities at various hospitals owned by the Corporation. In connection with the refunding, the Corporation's bond insurance policy with Financial Guaranty Insurance Company related to the Series 2006B-F Bonds was terminated.

In May 2008, the Corporation converted the variable-rate mode of its Shore Health issue Series 2004A Bonds and entered into a bank letter of credit arrangement with an initial term of three years.

In September 2007, the Corporation refunded $138,700,000 of the Series 2001 and Series 2002 bonds. The refunding was completed using the proceeds of a $137,795,000 MHHEFA bond issue (the Series 2007 Bonds). In conjunction with the issuance of the Series 2007 Bonds, the Corporation entered into two bank letter of credit arrangements, both of which have an initial term of four years.

The payment of principal and interest on the Shore Health issue Series 2004A Bonds has been insured by Radian Asset Assurance Inc. The payment of principal and interest on the Series 2005 Bonds and the Series 2004 Bonds has been insured by the Ambac Assurance Corporation under a financial guaranty insurance policy. These policies insure the payment of principal, sinking fund installments and interest on the corresponding bonds. Premiums related to these policies as well as other costs incurred relating to the bond issuances were capitalized and are being amortized over the life of the bonds. The insurance policies also require the Obligated Group to adhere to the same covenants as those in the Master Loan Agreement.

As a result of these MHHEFA debt restructurings, the Corporation recorded a loss on early extinguishment of debt in the amount of $1,388,000 and $20,980,000 for the years ended June 30, 2009 and 2008, respectively. The unamortized portion of issuance costs for the Series 2004C and 2004D bonds was expensed and included in the Corporation's loss on early extinguishment of debt during the year ended June 30, 2009. The unamortized portion of issuance costs for the Series 2005 Bonds, the Series 2006 Bonds, the Shore Health Series 2004A bonds, and the Series 2001 and Series 2002 bonds was expensed and included in the Corporation's loss on early extinguishment of debt during the year ended June 30, 2008. Although these restructurings of debt resulted in a loss, the Corporation conducted these transactions to reduce the cost of capital and to improve the Corporation's ability to obtain financing in the future. In addition, these transactions resulted in a positive net present value of future cash flows relating to future debt service payments, thereby creating cash flow savings for the Corporation in future years.

Chester River's MHHEFA Series D and Pooled Loan notes are secured by CHRC's buildings and equipment, as well as an irrevocable letter of credit, which expires in April 2012. Under the terms of the related loan and letter of credit agreements, Chester River is required to comply with certain restrictive covenants including maintenance of debt to equity and other financial tests.

In May 2006, CRHC entered into a Master Lease and Sublease Agreement (the CRHC Agreement) with MHHEFA and a financial institution to provide financing for CRHC to lease certain equipment essential or convenient for the operation of CRHC. The CRHC Agreement expires in May 2013. During the term of the CRHC Agreement, MHHEFA has legal title to the equipment, including any software license components. At the end of the CRHC Agreement, CRHC has the option of purchase the equipment for a notional amount of $1.

The Medical Center had term loans outstanding totaling $43,500,000 and $12,000,000 at June 30, 2009 and 2008, respectively. One loan ($12,000,000) is due in December 2010 and is charged interest at a rate of 1-month LIBOR plus 0.29% (0.60% at June 30, 2009). The other loan ($31,500,000) is scheduled to be repaid commencing in June 2010 with 23 equal monthly installments of $262,000 and a final installment for the remaining balance. This loan is charged interest monthly at 1-month LIBOR plus 3.25% (3.56% at June 30, 2009).

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

2010	$	19,879
2011		36,294
2012		24,960
2013		47,824
2014		22,723
Thereafter		800,005
	$	951,685

The Corporation's Series 2007A/B, 2008A-E, and 2008G/H, as well as Shore Health's Series 2004A, are variable rate demand bonds requiring remarketing agents to purchase and remarket any bonds tendered before the stated maturity date. The reimbursement obligations with respect to the letters of credit are evidenced and secured by the respective bonds. To provide liquidity support for the timely payment of any bonds that are not successfully remarketed, the Corporation has entered into letter of credit agreements with six banking institutions. These agreements have terms that expire in 2011 or 2013. If the bonds are not successfully remarketed, the Corporation is required to pay an interest rate specified in the letter of credit agreement, and the principal repayment of bonds may be accelerated to require repayment in periods ranging from 20 to 60 months from the date of the failed remarketing. The Corporation has reflected the amount of its long-term debt that is subject to these short-term remarketing arrangements as a separate component of current liabilities in its balance sheets. In the event that bonds are not remarketed, the Corporation maintains available lines of credit and has the ability to access other sources to obtain the necessary liquidity to comply with accelerated repayment terms. As of June 30, 2009, the Corporation has approximately $17,400,000 outstanding on one of these liquidity facilities due to failed remarketing. All other variable rate demand bonds were successfully remarketed.

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

2010	$	90,978
2011		260,954
2012		117,791
2013		92,450
2014		76,262
Thereafter		313,250
	$	951,685

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

	2009	2008
Series 2008A Bonds	3.00%	1.55%
Series 2008B Bonds	0.32	1.50
Series 2008C Bonds	0.30	1.50
Series 2008D Bonds	0.90	2.50
Series 2008E Bonds	2.45	1.50
Series 2008G Bonds	0.32	—
Series 2008H Bonds	0.35	—
Series 2007A Bonds	0.25	1.47
Series 2007B Bonds	0.30	1.48
Series 2004A Bonds, Shore Health Issue	2.50	1.53
Series 2004A Bonds, Corporation Issue	—	10.00
Series 2004C Bonds	—	2.91
Series 2004D Bonds	—	2.91
Pooled Loan Program Series A and D, Chester River Issue	0.30	1.58

(8) Interest Rate Risk Management

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

In June and August 2007, the Corporation entered into three interest rate swap agreements (the 2007 Swaps) related to the Series 2007 Bonds, for a total notional amount of $137,795,000. Under these agreements, the Corporation receives a variable rate based on LIBOR and pays fixed rates ranging from 3.626% – 3.999%. These agreements became effective in September 2007, and will terminate no later than July 1, 2034.

The 2007 Swaps qualify as, and are designated as, cash flow hedges. Changes in the fair value of the 2007 Swaps that effectively offset the variability of cash flows associated with the variable rate debt obligation initially are excluded from the deficit of revenue over expenses and are reported as a change in the fair value of interest rate swap agreements included in the consolidated statement of operations. These amounts subsequently are reclassified into interest expense as a yield adjustment of the hedged debt obligation in the same period in which the related interest affects the deficit of revenues over expenses. The liability representing the fair value of the 2007 Swaps of $20,769,000 and $12,603,000 is included in other long-term liabilities as of June 30, 2009 and 2008, respectively. An unrealized loss on the 2007 Swaps of $5,469,000 and $9,604,000 is recorded in other changes in unrestricted net assets for the years ended June 30, 2009 and 2008, respectively.

In April 2006, the Corporation entered into two interest rate swap agreements (the 2006 Swaps), related to the Series 2006 Bonds, for a total notional amount of $350,000,000. Under these agreements, the Corporation receives a variable rate based on LIBOR and pays a fixed rate of 3.929%. These agreements became effective April 4, 2007, and will terminate on July 3, 2041. In May 2008, in conjunction with the restructuring of the Series 2006 Bonds, the Corporation partially amended the 2006 Swaps such that the existing agreements related to $70,000,000 of notional value were replaced with two forward starting interest rate swap agreements for $70,000,000 of notional value that take effect no later than July 1, 2010. Under these agreements, the Corporation will receive a variable rate based on LIBOR and will pay a fixed rate of 4.242%.

In October 2005, the Corporation entered into two interest rate swap agreements (the 2005 Swaps), related to the Series 2005 Bonds, for a total original notional amount of $149,700,000. Under these original agreements, the Corporation received a variable rate based on LIBOR and paid a fixed rate of 3.295%. These agreements terminate on July 1, 2031. In June 2008, in conjunction with the conversion of the interest mode of the Series 2005 Bonds, the Corporation amended the 2005 Swaps and terminated a small portion of the notional amount. Under the amended agreements, the Corporation replaced the existing agreements with two forward starting interest rate swap agreements: one for a notional amount of $30,000,000 having an effective date of no later than July 1, 2010, under which the Corporation will receive a variable rate based on LIBOR and will pay a fixed rate of 3.537%; and a second for a notional amount of $92,348,500 having an effective date of no later than July 1, 2012, under which the Corporation will receive a variable rate based on LIBOR and will pay a fixed rate of 3.594%. The Corporation also terminated a portion of the 2005 Swaps representing $14,453,000 of notional value and received a settlement payment of $26,000.

Prior to March 2008, the 2005 Swaps and 2006 Swaps qualified as, and were designated as, cash flow hedges. The 2005 Swaps and 2006 Swaps were dedesignated in March 2008 as a result of the restructuring of the underlying bonds and are currently treated as undesignated hedges. The Corporation recorded a net nonoperating loss on undesignated interest rate swaps of $32,081,000 and $35,077,000 for the years ended June 30, 2009 and 2008, respectively.

A liability of $67,157,000 and $35,076,000 representing the combined fair value of the 2005 Swaps and 2006 Swaps is included in other long-term liabilities as of June 30, 2009 and 2008, respectively.

For the years ended June 30, 2009 and 2008, the Corporation recognized a net loss of $2,676,000 and $4,746,000, respectively, representing hedge ineffectiveness on the 2005 Swaps (from the period prior to their dedesignation), 2006 Swaps (from the period prior to their dedesignation), and 2007 Swaps, which is included in interest expense.

The Corporation is subject to a collateral posting requirement with one of its swap counterparties. Under this agreement, when the fair value of the related swaps falls below a minimum threshold, the Corporation must transfer funds representing collateral to the counterparty. The amount of such posted collateral was $38,881,000 and $3,310,000 at June 30, 2009 and 2008, respectively, and is included as a component of other current assets on the Corporation's balance sheets.

(9) Other Liabilities

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

		2009	2008
Malpractice and other self-insurance liabilities	$	47,866	45,002
Capital lease obligations		38,541	36,906
Accrued pension obligations		40,518	22,816
Accrued interest payable		9,719	4,708
Other		29,672	26,619
Total other liabilities		166,316	136,051
Less current portion		(75,962)	(67,208)
Other long-term liabilities	$	90,354	68,843

(10) Retirement Plans

Employees of the Corporation are included in various retirement plans established by the Corporation, the Medical Center, Kernan, University Specialty, Maryland General, Baltimore Washington, Shore Health, Chester River, and the State of Maryland. Participation by employees in their specific plan(s) has evolved based upon the organization by which they were first employed and the elections that they made at the times when their original employers became part of the Corporation, if applicable. Following is a brief description of each of the retirement plans in which employees of the Corporation participate.

Defined Benefit Plans

State of Maryland Retirement – Defined benefit pension plans sponsored by the State of Maryland in which certain Medical Center and Kernan Hospital employees participate. As required by an agreement with the State of Maryland at the time the Medical Center became an independent not-for-profit organization, the Corporation makes annual contributions to these plans related to certain employees who participate in these plans. The total required contributions and annual installments were determined through actuarial analysis in 1984 and are being funded over a period of 32 years, which was the expected remaining service lives of the employees at that time. These contributions are for the purpose of funding the net periodic pension costs for all remaining employees participating in these plans. These contributions were fixed via agreement and the Corporation does not have any obligation to fund nor does it have the ability to reduce contributions if net periodic pension costs or the minimum funding requirements as defined by the Employee Retirement Income Security Act of 1974 (ERISA) differ from the fixed contribution. The Corporation expenses costs of this plan as related services are rendered by employees. At June 30, 2009 and 2008, the present value of the Corporation's remaining unfunded amounts under this agreement was $7,089,000 and $8,145,000, respectively. Information as to the funded status of these plans and their relationship to the accumulated benefit obligations as they relate specifically to the Corporation's employees is not available.

Kernan Pension Plan – A defined benefit pension plan for Kernan employees who elected in 1996 to not transfer their retirement benefits to a Corporation Retirement Plan. Contributions to this plan were made to satisfy the minimum funding requirements of ERISA. In 1999, Kernan terminated the defined benefit pension plan. In June 2009, Kernan settled all liabilities of the plan by lump sum payments and annuity purchases. At June 30, 2009 the Plan had no further liabilities.

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

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

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

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

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

The following table sets forth the combined benefit obligations and assets of the defined benefit plans (excluding the State of Maryland Retirement Plan) at June 30 (in thousands):

		2009	2008
Change in projected benefit obligations:			
Benefit obligations at beginning of year	$	108,331	106,930
Plan amendment		(389)	250
Impact of change in measurement date		—	436
Settlements		(2,713)	(2,241)
Curtailments		—	(3,174)
Service cost		1,977	2,808
Interest cost		6,297	6,196
Actuarial loss		1,877	1,171
Benefit payments		(4,525)	(4,045)
Projected benefit obligations at end of year	$	110,855	108,331
Change in plan assets:			
Fair value of plan assets at beginning of year	$	85,515	92,877
Impact of change in measurement date		—	(257)
Actual return on plan assets		(18,802)	(6,135)
Settlements		(2,713)	(2,238)
Employer contributions		10,862	5,313
Benefit payments		(4,525)	(4,045)
Fair value of plan assets at end of year	$	70,337	85,515

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

		2009	2008
Funded status, end of period:			
Fair value of plan assets	$	70,337	85,515
Projected benefit obligations		110,855	108,331
	$	(40,518)	(22,816)
Amounts recognized in the consolidated balance sheets, end of period:			
Other long-term liabilities	$	(40,518)	(22,816)
Amounts recognized in unrestricted net assets at June 30:			
Net actuarial loss	$	(56,982)	(30,702)
Prior service cost		(703)	(1,176)
		(57,685)	(31,878)

The estimated amounts that will be amortized from unrestricted net assets into net periodic pension cost in fiscal 2010 are as follows:

Net actuarial loss	$ (3,273)
Prior service cost	(85)
	$ (3,358)

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

	2009	2008
Service cost	$ 1,977	2,808
Interest cost	6,297	6,196
Expected return on plan assets	(7,088)	(7,075)
Settlement	—	339
Prior service cost recognized	85	90
Recognized gains or losses	1,521	1,065
Net periodic pension cost	$ 2,792	3,423

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

	2009	2008
Discount rate	6.00%	4.52% – 6.00%
Rate of compensation increase (for non-frozen plan)	5.00%	4.50% – 5.00%

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

	2009	2008
Discount rate	4.52% – 6.00%	4.69% – 6.25%
Expected long-term return on plan assets	3.25% – 8.00%	3.25% – 8.00%
Rate of compensation increase (for non-frozen plan)	5.00%	4.50% – 5.00%

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

(Continued)

The Corporation's pension plans' target allocation and weighted average asset allocations at the measurement date of June 30, 2009 and 2008, by asset category, are as follows:

Asset category	Target allocation	Percentage of plan assets as of June 30 2009	2008
Cash and cash equivalents	3% – 5%	20%	5%
Equity securities	60% – 70%	57	67
Fixed income securities	15% – 30%	23	28
		100%	100%

Equity and fixed income securities include investments in hedge fund of funds that are categorized in accordance with each fund's respective investment holdings. At the end of Fiscal 2009, the Corporation sold some of its investment holdings thus more cash was on hand at June 30, 2009 than targeted. This cash will be used to purchase additional securities in the near term in order to restore compliance with the target allocation.

The Corporation expects to contribute $4,746,000 to its defined benefit pension plans for the fiscal year ending June 30, 2010.

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

2010	$ 4,187
2011	4,484
2012	4,946
2013	6,247
2014	6,898
2015 – 2019	42,259

The expected benefits to be paid are based on the same assumptions used to measure the Corporation's benefit obligation at June 30, 2009.

Defined Contribution Plans

Corporation Pension Plan – A noncontributory defined contribution plan for all eligible Corporation employees not participating in the State of Maryland Retirement Plans, the Kernan plans, the University Specialty Retirement Plan or the Maryland General plans described below. Contributions to this plan by the Corporation are determined as a fixed percentage of total employees' base compensation.

Corporation Salary Reduction 403(b) Plan – A contributory benefit plan covering substantially all employees not participating in the State of Maryland Retirement Plans, the Kernan Plans, the University Specialty Retirement Plan or the Maryland General plans described below. Employees are immediately eligible for elective deferrals of compensation as contributions to the plan.

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

University Specialty Retirement Plan – A defined contribution plan for substantially all full-time employees of University Specialty. Employer contributions are made at the discretion of University Specialty's board of directors. Employees may also make optional contributions within limits specified by the plan agreement.

Maryland General Money Purchase Pension Plan for Union Employees – Noncontributory defined contribution plan for substantially all union employees of Maryland General. Contributions to this plan are determined based on years of service and hours worked.

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

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

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

Total annual retirement costs incurred by the Corporation for the previously discussed defined contribution plans and the State of Maryland Retirement Plans were $24,930,000 and $25,739,000 for the years ended June 30, 2009 and 2008, respectively. Such amounts are included in salaries, wages and benefits in the accompanying consolidated statements of operations.

(11) Temporarily and Permanently Restricted Net Assets

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

		2009	2008
Research, professional education, faculty support, and other	$	22,864	27,284
Economic and beneficial interests in the net assets of related organizations		53,340	60,179
	$	76,204	87,463

Net assets were released from donor restrictions during the years ended June 30, 2009 and 2008 by expending funds satisfying the restricted purposes or by occurrence of other events specified by donors as follows (in thousands):

		2009	2008
Purchases of equipment and construction costs	$	21,470	9,529
Research, professional education, faculty support, uncompensated care and other		2,540	5,687
	$	24,010	15,216

Included in net assets released from donor restrictions during the year ended June 30, 2009 for research, professional education, faculty support, uncompensated care and other is $2,023,000 related to nonoperating activities of the Foundation.

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

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

Interpretation of Relevant Law

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

(1) The duration and preservation of the fund

(2) The purposes of the Corporation and the donor-restricted endowment fund

(3) General economic conditions

(4) The possible effect of inflation and deflation

(5) The expected total return from income and the appreciation of investments

(6) Other resources of the Corporation

(7) The investment policies of the Corporation.

Endowment net assets are as follows (in thousands):

		June 30, 2009			
		Unrestricted	**Temporarily restricted**	**Permanently restricted**	**Total**
Donor-restricted endowment funds	$	—	4,248	28,160	32,408

		June 30, 2008			
		Unrestricted	**Temporarily restricted**	**Permanently restricted**	**Total**
Donor-restricted endowment funds	$	843	6,139	28,182	35,164

Funds with Deficiencies

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

Investment Strategies

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

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

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

(Continued)

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

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

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

		2009	2008
Economic interests in:			
The James Lawrence Kernan Hospital Endowment Fund, Incorporated	$	24,195	30,609
Baltimore Washington Medical Center Foundation, Inc.		6,984	7,342
Maryland General Community Health Foundation, Inc.		20,175	19,691
Total economic interests		51,354	57,642
Beneficial interest in the net assets of Dorchester General Hospital Foundation, Inc.		1,986	2,537
	$	53,340	60,179

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

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

The Maryland General Foundation is governed by a separate, independent board of directors and was originally required to hold the investments and the income derived therefrom to support activities to improve the health and lifestyle of needy citizens of Baltimore. The Maryland General Foundation operates exclusively for the benefit of Maryland General.

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

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

		2009	2008
Current assets	$	1,484	1,294
Noncurrent assets		52,765	59,836
Total assets	$	54,249	61,130
Current liabilities	$	113	101
Noncurrent liabilities		796	850
Net assets		53,340	60,179
Total liabilities and net assets	$	54,249	61,130
Total operating revenue	$	(1,568)	10,403
Total operating expense		(473)	(4,124)
Other changes in net assets		(4,798)	(9,896)
Total decrease in net assets	$	(6,839)	(3,617)

(13) State Support

The Corporation received $3,364,000 and $6,764,000 in support for the Shock Trauma Center from the State of Maryland in the years ended June 30, 2009 and 2008, respectively.

The State of Maryland appropriates funds for specific construction costs incurred and equipment purchases made. The Corporation recognizes this support as the funds are expended for the intended projects. The Corporation expended and recorded $17,981,000 and $2,682,000 in the years ended June 30, 2009 and 2008, respectively.

For the year ended June 30, 2009, the Corporation received $750,000 of capital support from the State of Maryland for Kernan. The Corporation received $2,937,000 in support for uncompensated care costs of Kernan from the State of Maryland in the years ended June 30, 2008.

(14) Functional Expenses

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

		2009	2008
Healthcare services	$	1,773,512	1,736,790
General and administrative		313,105	304,542
	$	2,086,617	2,041,332

(15) Insurance

The Corporation and its affiliates, except Chester River, are self insured for professional and general liability claims up to the limits of $1.0 million on individual claims and $3.0 million in the aggregate on an annual basis. For amounts in excess of these limits, the risk of loss has been transferred to the Terrapin Insurance Company, an unconsolidated joint venture. For the year ended June 30, 2009, Terrapin provided insurance for claims in excess of $1.0 million individually and $3.0 million in the aggregate up to $75.0 million individually and $75.0 million in the aggregate under claims made policies between the Corporation and Terrapin. For claims in excess of Terrapin's coverage limits, if any, the Corporation retains the risk of loss.

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

Based upon estimates made by independent actuaries, the Corporation provides for and funds the present value of the costs for professional and general liability claims and insurance coverage related to the projected liability from asserted and unasserted incidents which the Corporation believes may ultimately result in a loss, risk management expenses and the projected costs to adjudicate claims. These accrued malpractice losses are discounted using a discount rate of 2.5% and in management's opinion, provide an adequate and appropriate loss reserve.

Chester River is a member of Freestate Healthcare Insurance Company, Ltd. (Freestate), a licensed captive insurer from which Chester River purchases general and professional liability insurance on a claims-made basis, with per occurrence coverage of $1.0 million. In addition, Chester River purchases excess coverage of $10.0 million per occurrence and $10.0 million in the aggregate to reinsure claims in excess of the Freestate primary insurance.

Claims asserted based upon occurrences prior to the inception of the current insurance programs and those prior to certain of the Corporation's component hospitals becoming participants in the insurance programs are covered by other insurance arrangements.

Total malpractice insurance expense for the Corporation during the years ended June 30, 2009 and 2008 was approximately $36,820,000 and $44,044,000, respectively.

The Corporation is involved in claims and litigation on malpractice matters which arise in the normal course of business, none of which, in the opinion of management, is expected to result in losses in excess of insurance limits or have a materially adverse effect on the Corporation's financial position.

The Corporation, and substantially all of its subsidiaries, are self insured for worker's compensation and employee health claims.

(16) Business and Credit Concentrations

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

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

	2009	2008
Medicare	21%	17%
Medicaid	36	35
Commercial insurance and HMOs	17	19
Blue Cross	11	13
Self-pay and others	15	16
	100%	100%

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

	2009	2008
Medicare	35%	34%
Medicaid	23	22
Commercial insurance and HMOs	16	18
Blue Cross	15	15
Self-pay and others	11	11
	100%	100%

(17) Certain Significant Risks and Uncertainties

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

- Dependence on revenues derived from reimbursement by the Federal Medicare and state Medicaid programs;
- Regulation of hospital rates by the State of Maryland Health Services Cost Review Commission;
- Government regulation, government budgetary constraints and proposed legislative and regulatory changes; and
- Lawsuits alleging malpractice and related claims.

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

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

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

(Continued)

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

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

Patient service revenue for hospital services is regulated by the HSCRC and recorded at rates established by the HSCRC. The Medical Center, Kernan, Maryland General, Baltimore Washington, Shore Health, and Chester River have Charge Per Case (CPC) agreements with the HSCRC. The CPC agreements establish a prospectively approved average charge per inpatient case (inpatient cases are defined as hospital admissions plus births) and an estimated case mix index. These approved CPC targets are adjusted during the rate year for actual changes in case mix. The CPC agreements allow the hospital to adjust approved unit rates, within certain limits, to achieve the average charge per case targets for each rate year ending June 30.

The HSCRC utilizes a bad debt pool into which each of the regulated hospitals in Maryland participates. The funds in the bad debt pool are distributed to the hospitals that exceed the state average based upon the amount of uncompensated care delivered to patients during the year. For the years ended June 30, 2009 and 2008, the Corporation recognized a net distribution from the pool of $38,988,000 and $20,585,000, respectively, which is recorded as net patient service revenue.

(19) Fair Value of Financial Instruments

The Corporation adopted SFAS No. 157 on July 1, 2008 for fair value measurements of financial assets and financial liabilities and for fair value measurements of nonfinancial items that are recognized or disclosed at fair value in the consolidated financial statements on a recurring basis. SFAS No. 157 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted market prices in active markets for identical assets or liabilities (Level 1 measurement) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

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

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

The following table presents assets and liabilities that are measured at fair value on a recurring basis at June 30, 2009 (in thousands):

	Level 1	Level 2	Level 3	Total
Assets:				
Investments:				
Cash and cash equivalents	$ 39,686	—	—	39,686
Corporate obligations	26,442	45,259	—	71,701
U.S. government and agency securities	10,537	28,779	—	39,316
Common and preferred stocks	25,695	—	—	25,695
Subtotal	102,360	74,038	—	176,398
Assets limited as to use:				
Cash and cash equivalents	133,899	—	—	133,899
Corporate obligations	5,897	9,999	—	15,896
U.S. government and agency securities	12,501	34,144	—	46,645
Common and preferred stocks	39,234	—	—	39,234
Investments held by other organizations	—	52,557	—	52,557
Subtotal	191,531	96,700	—	288,231
	$ 293,891	170,738	—	464,629
Liabilities:				
Interest rate swap liabilities	$ —	87,926	—	87,926

(20) Related Party Agreements

The Corporation has certain agreements with various departments of the University of Maryland School of Medicine concerning the provision of professional and administrative services to the Corporation and its patients. Total expense under these agreements in the years ended June 30, 2009 and 2008 was approximately $89,217,000 and $77,560,000, respectively.

(21) Subsequent Events

As described in note 4, on October 1, 2009, the Corporation entered into an Affiliation Agreement with UCHS and the UCHS/UMMS Venture, LLC whereby the Corporation paid an additional $26,750,000 to UCHS/UMMS Venture, LLC for an additional 14% interest in the UCHS/UMMS Venture, LLC. This payment increased the Corporation's membership interest of the UCHS/UMMS Venture, LLC to 34%. In accordance with the Affiliation Agreement, the Corporation has designated $150 million for future capital improvements of UCHS/UMMS Venture, LLC. The Corporation has committed no less than $176 million to UCHS/UMMS Venture, LLC for future capital improvements over the next several years, which will increase the Corporation's membership interest in the UCHS/UMMS Venture, LLC to 100%.