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Form 990



Department of the Treasury
Internal Revenue Service

Return of Organization Exempt From Income Tax

Under section 501(c), 527, or 4947(a)(1) of the Internal Revenue Code (except black lung benefit trust or private foundation)

The organization may have to use a copy of this return to satisfy state reporting requirements

OMB No 1545-0047

2010

Open to Public Inspection

A For the 2010 calendar year, or tax year beginning 07-01-2010 and ending 06-30-2011

B Check if applicable

☐ Address change

☐ Name change

☐ Initial return

☐ Terminated

☐ Amended return

☐ Application pending

C Name of organization

Franklin Square Hospital Center Inc

Doing Business As

MedStar Franklin Square Medical Cent

Number and street (or P O box if mail is not delivered to street address)

9000 Franklin Square Drive

Room/suite

City or town, state or country, and ZIP + 4

Baltimore, MD 21237

F Name and address of principal officer

Adrienne Kirby

9000 Franklin Square Drive

Baltimore, MD 21237

H(a) Is this a group return for affiliates?

☐ Yes ☒ No

H(b) Are all affiliates included?

☐ Yes ☐ No

If "No," attach a list (see instructions)

H(c) Group exemption number

I Tax-exempt status

☒ 501(c)(3) ☐ 501(c) () ☐ (insert no) ☐ 4947(a)(1) or ☐ 527

J Website:

www.franklinsquare.org

K Form of organization

☒ Corporation ☐ Trust ☐ Association ☐ Other

L Year of formation

1898

M State of legal domicile

MD

Part I Summary			
Activities & Governance	1	Briefly describe the organization's mission or most significant activities MEDSTAR FRANKLIN SQUARE MEDICAL CENTER, A MEMBER OF MEDSTAR HEALTH, PROVIDES THE HIGHEST QUALITY HEALTHCARE AND EDUCATION TO OUR COMMUNITIES	
	2	Check this box <input type="checkbox"/> if the organization discontinued its operations or disposed of more than 25% of its net assets	
	3	Number of voting members of the governing body (Part VI, line 1a)	19
	4	Number of independent voting members of the governing body (Part VI, line 1b)	14
	5	Total number of individuals employed in calendar year 2010 (Part V, line 2a)	3,858
	6	Total number of volunteers (estimate if necessary)	400
	7a	Total unrelated business revenue from Part VIII, column (C), line 12	0
Revenue	b	Net unrelated business taxable income from Form 990-T, line 34	0
	8	Contributions and grants (Part VIII, line 1h)	4,212,704
	9	Program service revenue (Part VIII, line 2g)	428,134,103
	10	Investment income (Part VIII, column (A), lines 3, 4, and 7d)	143,132
	11	Other revenue (Part VIII, column (A), lines 5, 6d, 8c, 9c, 10c, and 11e)	6,863,857
	12	Total revenue—add lines 8 through 11 (must equal Part VIII, column (A), line 12)	439,353,796
	13	Grants and similar amounts paid (Part IX, column (A), lines 1–3)	0
Expenses	14	Benefits paid to or for members (Part IX, column (A), line 4)	0
	15	Salaries, other compensation, employee benefits (Part IX, column (A), lines 5–10)	206,636,133
	16a	Professional fundraising fees (Part IX, column (A), line 11e)	0
	b	Total fundraising expenses (Part IX, column (D), line 25) <input type="checkbox"/> 0	
	17	Other expenses (Part IX, column (A), lines 11a–11d, 11f–24f)	201,552,463
	18	Total expenses Add lines 13–17 (must equal Part IX, column (A), line 25)	408,188,596
	19	Revenue less expenses Subtract line 18 from line 12	31,165,200
Net Assets or Fund Balances	20	Total assets (Part X, line 16)	279,516,026
	21	Total liabilities (Part X, line 26)	72,667,918
	22	Net assets or fund balances Subtract line 21 from line 20	206,848,108

Part II Signature Block

Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete. Declaration of preparer (other than officer) is based on all information of which preparer has any knowledge.

Sign Here

Signature of officer

Marc R Berger AVP, Taxation/Financial Compliance

2012-05-07

Date

Preparer's signature

Date

Check if self-employed ☐

PTIN

Paid Preparer Use Only

Print/Type preparer's name

Firm's name ☐ KPMG LLP

Firm's address ☐ 440 Monticello Ave Suite 1900
Norfolk, VA 235102674

Firm's EIN ☐

Phone no ☐ (757) 616-7000

May the IRS discuss this return with the preparer shown above? (see instructions)

☐ Yes ☐ No

For Paperwork Reduction Act Notice, see the separate instructions.

Cat No 11282Y

Form 990 (2010)

Part III

Statement of Program Service Accomplishments

Check if Schedule O contains a response to any question in this Part III

☐ ☒

1

Briefly describe the organization's mission

AS A PROUD MEMBER OF MEDSTAR HEALTH, MEDSTAR FRANKLIN SQUARE MEDICAL CENTER'S MISSION IS TO PROVIDE SAFE, HIGH QUALITY CARE, EXCELLENT SERVICE, AND EDUCATION TO IMPROVE THE HEALTH OF THE COMMUNITY MEDSTAR FRANKLIN SQUARE MEDICAL CENTER (MFSMC) IS AN ACUTE-CARE TEACHING HOSPITAL LOCATED IN EASTERN BALTIMORE COUNTY, MARYLAND A NEW SEVEN-STORY PATIENT TOWER WAS OPENED IN FISCAL 2011 AND INCLUDES A NEW EMERGENCY DEPARTMENT AND 291 PRIVATE PATIENT ROOMS THE HOSPITAL'S CANCER INSTITUTE IS A 64,000 SQUARE FOOT FACILITY PROVIDING CANCER PATIENTS AND THEIR FAMILIES WITH A BROAD RANGE OF ONCOLOGY SERVICES, INCLUDING SCREENING, DIAGNOSIS AND TREATMENT IN FISCAL YEAR 2011, MFSMC HAD 24,283 INPATIENT ADMISSIONS, 204,026 OUTPATIENT VISITS AND 105,989 EMERGENCY VISITS

2

Did the organization undertake any significant program services during the year which were not listed on the prior Form 990 or 990-EZ?

☐ Yes ☒ No

If "Yes," describe these new services on Schedule O

3

Did the organization cease conducting, or make significant changes in how it conducts, any program services?

☐ Yes ☒ No

If "Yes," describe these changes on Schedule O

4

Describe the exempt purpose achievements for each of the organization's three largest program services by expenses Section 501(c)(3) and 501(c)(4) organizations and section 4947(a)(1) trusts are required to report the amount of grants and allocations to others, the total expenses, and revenue, if any, for each program service reported

4a

(Code) (Expenses \$ 346,617,386 including grants of \$ 0) (Revenue \$ 430,830,486)

MEDSTAR FRANKLIN SQUARE MEDICAL CENTER'S LARGEST PROGRAM IS ACCESS TO AND THE PROVISION OF ACUTE HOSPITAL SERVICES TO THE COMMUNITIES OF EASTERN BALTIMORE COUNTY, MARYLAND AND THE SURROUNDING AREAS IN ADDITION TO THE PROGRAM SERVICE EXPENSES LISTED ABOVE, MFSMC INCURRED \$55.6M OF MANAGEMENT AND GENERAL EXPENSES IN PROVIDING SERVICES TO ITS COMMUNITIES MFSMC OFFERS CLINICAL SERVICES IN MEDICINE, SURGERY, ONCOLOGY, OBSTETRICS, CARDIOLOGY (INCLUDING ANGIOPLASTY), PEDIATRICS, GYNECOLOGY, AND PSYCHIATRY FOR ADDITIONAL INFORMATION, SEE SCHEDULE O

4b

(Code) (Expenses \$ 17,499,067 including grants of \$ 0) (Revenue \$ 12,997,752)

MEDSTAR FRANKLIN SQUARE MEDICAL CENTER PROVIDED \$17.5M IN SUBSIDIZED (MISSION DRIVEN) HEALTH SERVICES IN FISCAL 2011 THESE CRITICAL SERVICES, WHICH ARE DRIVEN BY COMMUNITY NEEDS, OPERATE AT A LOSS THEY ADDRESS PRIORITIES PRIMARILY THROUGH DISEASE PREVENTION AND IMPROVEMENT OF HEALTH STATUS SERVICES INCLUDE OPERATION AND MANAGEMENT OF THE FAMILY HEALTH CENTER, HOMELESS HEALTH SERVICES, PRIMARY CARE SERVICES, HOSPITALISTS, AND EMERGENCY AND TRAUMA SERVICES

4c

(Code) (Expenses \$ 15,143,864 including grants of \$ 0) (Revenue \$ 0)

MEDSTAR FRANKLIN SQUARE MEDICAL CENTER PROVIDED \$15.1M IN HEALTH PROFESSIONS EDUCATION IN FISCAL YEAR 2011 THIS CATEGORY INCLUDES TRAINING IN GRADUATE MEDICAL EDUCATION, AND EDUCATION FOR PHYSICIANS, MEDICAL STUDENTS, NURSES, AND OTHER HEALTH PROFESSIONS

4d

Other program services (Describe in Schedule O)

(Expenses \$ including grants of \$) (Revenue \$)




















4e

Total program service expenses \$ 379,260,317

Form 990 (2010)

Part IV

Checklist of Required Schedules

		Yes	No
1	Is the organization described in section 501(c)(3) or 4947(a)(1) (other than a private foundation)? <i>If "Yes," complete Schedule A.</i> 	1	Yes
2	Is the organization required to complete Schedule B, Schedule of Contributors (see instruction)? 	2	Yes
3	Did the organization engage in direct or indirect political campaign activities on behalf of or in opposition to candidates for public office? <i>If "Yes," complete Schedule C, Part I.</i>	3	No
4	Section 501(c)(3) organizations. Did the organization engage in lobbying activities, or have a section 501(h) election in effect during the tax year? <i>If "Yes," complete Schedule C, Part II.</i>	4	No
5	Is the organization a section 501(c)(4), 501(c)(5), or 501(c)(6) organization that receives membership dues, assessments, or similar amounts as defined in Revenue Procedure 98-19? <i>If "Yes," complete Schedule C, Part III.</i>	5	
6	Did the organization maintain any donor advised funds or any similar funds or accounts where donors have the right to provide advice on the distribution or investment of amounts in such funds or accounts? <i>If "Yes," complete Schedule D, Part I.</i> 	6	No
7	Did the organization receive or hold a conservation easement, including easements to preserve open space, the environment, historic land areas or historic structures? <i>If "Yes," complete Schedule D, Part II.</i> 	7	No
8	Did the organization maintain collections of works of art, historical treasures, or other similar assets? <i>If "Yes," complete Schedule D, Part III.</i> 	8	No
9	Did the organization report an amount in Part X, line 21, serve as a custodian for amounts not listed in Part X, or provide credit counseling, debt management, credit repair, or debt negotiation services? <i>If "Yes," complete Schedule D, Part IV.</i> 	9	No
10	Did the organization, directly or through a related organization, hold assets in term, permanent, or quasi-endowments? <i>If "Yes," complete Schedule D, Part V.</i> 	10	No
11	If the organization's answer to any of the following questions is 'Yes,' then complete Schedule D, Parts VI, VII, VIII, IX, or X as applicable		
a	Did the organization report an amount for land, buildings, and equipment in Part X, line 10? <i>If "Yes," complete Schedule D, Part VI.</i> 	11a	Yes
b	Did the organization report an amount for investments—other securities in Part X, line 12 that is 5% or more of its total assets reported in Part X, line 16? <i>If "Yes," complete Schedule D, Part VII.</i> 	11b	No
c	Did the organization report an amount for investments—program related in Part X, line 13 that is 5% or more of its total assets reported in Part X, line 16? <i>If "Yes," complete Schedule D, Part VIII.</i> 	11c	No
d	Did the organization report an amount for other assets in Part X, line 15 that is 5% or more of its total assets reported in Part X, line 16? <i>If "Yes," complete Schedule D, Part IX.</i> 	11d	No
e	Did the organization report an amount for other liabilities in Part X, line 25? <i>If "Yes," complete Schedule D, Part X.</i> 	11e	Yes
f	Did the organization's separate or consolidated financial statements for the tax year include a footnote that addresses the organization's liability for uncertain tax positions under FIN 48 (ASC 740)? <i>If "Yes," complete Schedule D, Part X.</i> 	11f	Yes
12a	Did the organization obtain separate, independent audited financial statements for the tax year? <i>If "Yes," complete Schedule D, Parts XI, XII, and XIII.</i> 	12a	No
b	Was the organization included in consolidated, independent audited financial statements for the tax year? <i>If "Yes," and if the organization answered 'No' to line 12a, then completing Schedule D, Parts XI, XII, and XIII is optional.</i> 	12b	Yes
13	Is the organization a school described in section 170(b)(1)(A)(ii)? <i>If "Yes," complete Schedule E.</i>	13	No
14a	Did the organization maintain an office, employees, or agents outside of the United States?	14a	No
b	Did the organization have aggregate revenues or expenses of more than \$10,000 from grantmaking, fundraising, business, and program service activities outside the United States? <i>If "Yes," complete Schedule F, Parts I and IV.</i>	14b	No
15	Did the organization report on Part IX, column (A), line 3, more than \$5,000 of grants or assistance to any organization or entity located outside the U S ? <i>If "Yes," complete Schedule F, Parts II and IV.</i>	15	No
16	Did the organization report on Part IX, column (A), line 3, more than \$5,000 of aggregate grants or assistance to individuals located outside the U S ? <i>If "Yes," complete Schedule F, Parts III and IV.</i>	16	No
17	Did the organization report a total of more than \$15,000, of expenses for professional fundraising services on Part IX, column (A), lines 6 and 11e? <i>If "Yes," complete Schedule G, Part I (see instructions).</i> 	17	No
18	Did the organization report more than \$15,000 total of fundraising event gross income and contributions on Part VIII, lines 1c and 8a? <i>If "Yes," complete Schedule G, Part II.</i> 	18	Yes
19	Did the organization report more than \$15,000 of gross income from gaming activities on Part VIII, line 9a? <i>If "Yes," complete Schedule G, Part III.</i> 	19	No
20a	Did the organization operate one or more hospitals? <i>If "Yes," complete Schedule H.</i> 	20a	Yes
b	If "Yes" to line 20a, did the organization attach its audited financial statement to this return? Note. Some Form 990 filers that operate one or more hospitals must attach audited financial statements (see instructions)	20b	Yes

Part IV

Checklist of Required Schedules (continued)

21	Did the organization report more than \$5,000 of grants and other assistance to governments and organizations in the United States on Part IX, column (A), line 1? <i>If "Yes," complete Schedule I, Parts I and II</i>	21		No
22	Did the organization report more than \$5,000 of grants and other assistance to individuals in the United States on Part IX, column (A), line 2? <i>If "Yes," complete Schedule I, Parts I and III</i>	22		No
23	Did the organization answer "Yes" to Part VII, Section A, questions 3, 4, or 5, about compensation of the organization's current and former officers, directors, trustees, key employees, and highest compensated employees? <i>If "Yes," complete Schedule J</i>	23	Yes	
24a	Did the organization have a tax-exempt bond issue with an outstanding principal amount of more than \$100,000 as of the last day of the year, that was issued after December 31, 2002? <i>If "Yes," answer lines 24b–24d and complete Schedule K. If "No," go to line 25</i>	24a		No
b	Did the organization invest any proceeds of tax-exempt bonds beyond a temporary period exception?	24b		
c	Did the organization maintain an escrow account other than a refunding escrow at any time during the year to defease any tax-exempt bonds?	24c		
d	Did the organization act as an "on behalf of" issuer for bonds outstanding at any time during the year?	24d		
25a	Section 501(c)(3) and 501(c)(4) organizations. Did the organization engage in an excess benefit transaction with a disqualified person during the year? <i>If "Yes," complete Schedule L, Part I</i>	25a		No
b	Is the organization aware that it engaged in an excess benefit transaction with a disqualified person in a prior year, and that the transaction has not been reported on any of the organization's prior Forms 990 or 990-EZ? <i>If "Yes," complete Schedule L, Part I</i>	25b		No
26	Was a loan to or by a current or former officer, director, trustee, key employee, highly compensated employee, or disqualified person outstanding as of the end of the organization's tax year? <i>If "Yes," complete Schedule L, Part II</i>	26		No
27	Did the organization provide a grant or other assistance to an officer, director, trustee, key employee, substantial contributor, or a grant selection committee member, or to a person related to such an individual? <i>If "Yes," complete Schedule L, Part III</i>	27		No
28	Was the organization a party to a business transaction with one of the following parties? (see Schedule L, Part IV instructions for applicable filing thresholds, conditions, and exceptions)			
a	A current or former officer, director, trustee, or key employee? <i>If "Yes," complete Schedule L, Part IV</i>	28a		No
b	A family member of a current or former officer, director, trustee, or key employee? <i>If "Yes," complete Schedule L, Part IV</i>	28b		No
c	An entity of which a current or former officer, director, trustee, or key employee (or a family member thereof) was an officer, director, trustee, or direct or indirect owner? <i>If "Yes," complete Schedule L, Part IV</i>	28c	Yes	
29	Did the organization receive more than \$25,000 in non-cash contributions? <i>If "Yes," complete Schedule M</i>	29		No
30	Did the organization receive contributions of art, historical treasures, or other similar assets, or qualified conservation contributions? <i>If "Yes," complete Schedule M</i>	30		No
31	Did the organization liquidate, terminate, or dissolve and cease operations? <i>If "Yes," complete Schedule N, Part I</i>	31		No
32	Did the organization sell, exchange, dispose of, or transfer more than 25% of its net assets? <i>If "Yes," complete Schedule N, Part II</i>	32		No
33	Did the organization own 100% of an entity disregarded as separate from the organization under Regulations sections 301.7701-2 and 301.7701-3? <i>If "Yes," complete Schedule R, Part I</i>	33	Yes	
34	Was the organization related to any tax-exempt or taxable entity? <i>If "Yes," complete Schedule R, Parts II, III, IV, and V, line 1</i>	34	Yes	
35	Is any related organization a controlled entity within the meaning of section 512(b)(13)?	35	Yes	
a	Did the organization receive any payment from or engage in any transaction with a controlled entity within the meaning of section 512(b)(13)? <i>If "Yes," complete Schedule R, Part V, line 2</i> <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No			
36	Section 501(c)(3) organizations. Did the organization make any transfers to an exempt non-charitable related organization? <i>If "Yes," complete Schedule R, Part V, line 2</i>	36		No
37	Did the organization conduct more than 5% of its activities through an entity that is not a related organization and that is treated as a partnership for federal income tax purposes? <i>If "Yes," complete Schedule R, Part VI</i>	37		No
38	Did the organization complete Schedule O and provide explanations in Schedule O for Part VI, lines 11 and 19? Note. All Form 990 filers are required to complete Schedule O	38	Yes	

Part V Statements Regarding Other IRS Filings and Tax Compliance				
Check if Schedule O contains a response to any question in this Part V <input type="checkbox"/>				
			Yes	No
1a	Enter the number reported in Box 3 of Form 1096. Enter -0- if not applicable.	1a	0	
b	Enter the number of Forms W-2G included in line 1a. Enter -0- if not applicable.	1b	0	
c	Did the organization comply with backup withholding rules for reportable payments to vendors and reportable gaming (gambling) winnings to prize winners?	1c	Yes	
2a	Enter the number of employees reported on Form W-3, <i>Transmittal of Wage and Tax Statements</i> filed for the calendar year ending with or within the year covered by this return.	2a	3,858	
b	If at least one is reported on line 2a, did the organization file all required federal employment tax returns? Note. If the sum of lines 1a and 2a is greater than 250, you may be required to e-file (see instructions).	2b	Yes	
3a	Did the organization have unrelated business gross income of \$1,000 or more during the year?	3a		No
b	If "Yes," has it filed a Form 990-T for this year? If "No," provide an explanation in Schedule O.	3b		
4a	At any time during the calendar year, did the organization have an interest in, or a signature or other authority over, a financial account in a foreign country (such as a bank account, securities account, or other financial account)?	4a		No
b	If "Yes," enter the name of the foreign country: _____ See instructions for filing requirements for Form TD F 90-22.1, Report of Foreign Bank and Financial Accounts.			
5a	Was the organization a party to a prohibited tax shelter transaction at any time during the tax year?	5a		No
b	Did any taxable party notify the organization that it was or is a party to a prohibited tax shelter transaction?	5b		No
c	If "Yes" to line 5a or 5b, did the organization file Form 8886-T?	5c		
6a	Does the organization have annual gross receipts that are normally greater than \$100,000, and did the organization solicit any contributions that were not tax deductible?	6a		No
b	If "Yes," did the organization include with every solicitation an express statement that such contributions or gifts were not tax deductible?	6b		
7 Organizations that may receive deductible contributions under section 170(c).				
a	Did the organization receive a payment in excess of \$75 made partly as a contribution and partly for goods and services provided to the payor?	7a	Yes	
b	If "Yes," did the organization notify the donor of the value of the goods or services provided?	7b	Yes	
c	Did the organization sell, exchange, or otherwise dispose of tangible personal property for which it was required to file Form 8282?	7c		No
d	If "Yes," indicate the number of Forms 8282 filed during the year.	7d		
e	Did the organization receive any funds, directly or indirectly, to pay premiums on a personal benefit contract?	7e		No
f	Did the organization, during the year, pay premiums, directly or indirectly, on a personal benefit contract?	7f		No
g	If the organization received a contribution of qualified intellectual property, did the organization file Form 8899 as required?	7g		
h	If the organization received a contribution of cars, boats, airplanes, or other vehicles, did the organization file a Form 1098-C?	7h		
8	Sponsoring organizations maintaining donor advised funds and section 509(a)(3) supporting organizations. Did the supporting organization, or a donor advised fund maintained by a sponsoring organization, have excess business holdings at any time during the year?	8		
9 Sponsoring organizations maintaining donor advised funds.				
a	Did the organization make any taxable distributions under section 4966?	9a		
b	Did the organization make a distribution to a donor, donor advisor, or related person?	9b		
10 Section 501(c)(7) organizations. Enter				
a	Initiation fees and capital contributions included on Part VIII, line 12.	10a		
b	Gross receipts, included on Form 990, Part VIII, line 12, for public use of club facilities.	10b		
11 Section 501(c)(12) organizations. Enter				
a	Gross income from members or shareholders.	11a		
b	Gross income from other sources (Do not net amounts due or paid to other sources against amounts due or received from them).	11b		
12a	Section 4947(a)(1) non-exempt charitable trusts. Is the organization filing Form 990 in lieu of Form 1041?	12a		
b	If "Yes," enter the amount of tax-exempt interest received or accrued during the year.	12b		
13 Section 501(c)(29) qualified nonprofit health insurance issuers.				
a	Is the organization licensed to issue qualified health plans in more than one state? Note. See the instructions for additional information the organization must report on Schedule O.	13a		
b	Enter the amount of reserves the organization is required to maintain by the states in which the organization is licensed to issue qualified health plans.	13b		
c	Enter the amount of reserves on hand.	13c		
14a	Did the organization receive any payments for indoor tanning services during the tax year?	14a		No
b	If "Yes," has it filed a Form 720 to report these payments? If "No," provide an explanation in Schedule O.	14b		

Part VI

Governance, Management, and Disclosure For each "Yes" response to lines 2 through 7b below, and for a "No" response to lines 8a, 8b, or 10b below, describe the circumstances, processes, or changes in Schedule O. See instructions.
Check if Schedule O contains a response to any question in this Part VI ☒

Section A. Governing Body and Management			Yes	No
1a	Enter the number of voting members of the governing body at the end of the tax year	1a 19		
b	Enter the number of voting members included in line 1a, above, who are independent	1b 14		
2	Did any officer, director, trustee, or key employee have a family relationship or a business relationship with any other officer, director, trustee, or key employee?	2		No
3	Did the organization delegate control over management duties customarily performed by or under the direct supervision of officers, directors or trustees, or key employees to a management company or other person?	3		No
4	Did the organization make any significant changes to its governing documents since the prior Form 990 was filed?	4		No
5	Did the organization become aware during the year of a significant diversion of the organization's assets?	5		No
6	Does the organization have members or stockholders?	6	Yes	
7a	Does the organization have members, stockholders, or other persons who may elect one or more members of the governing body?	7a	Yes	
b	Are any decisions of the governing body subject to approval by members, stockholders, or other persons?	7b	Yes	
8	Did the organization contemporaneously document the meetings held or written actions undertaken during the year by the following			
a	The governing body?	8a	Yes	
b	Each committee with authority to act on behalf of the governing body?	8b	Yes	
9	Is there any officer, director, trustee, or key employee listed in Part VII, Section A, who cannot be reached at the organization's mailing address? If "Yes," provide the names and addresses in Schedule O	9		No

Section B. Policies (This Section B requests information about policies not required by the Internal Revenue Code.)			Yes	No
10a	Does the organization have local chapters, branches, or affiliates?	10a		No
b	If "Yes," does the organization have written policies and procedures governing the activities of such chapters, affiliates, and branches to ensure their operations are consistent with those of the organization?	10b		
11a	Has the organization provided a copy of this Form 990 to all members of its governing body before filing the form?	11a	Yes	
b	Describe in Schedule O the process, if any, used by the organization to review this Form 990			
12a	Does the organization have a written conflict of interest policy? If "No," go to line 13	12a	Yes	
b	Are officers, directors or trustees, and key employees required to disclose annually interests that could give rise to conflicts?	12b	Yes	
c	Does the organization regularly and consistently monitor and enforce compliance with the policy? If "Yes," describe in Schedule O how this is done	12c	Yes	
13	Does the organization have a written whistleblower policy?	13	Yes	
14	Does the organization have a written document retention and destruction policy?	14	Yes	
15	Did the process for determining compensation of the following persons include a review and approval by independent persons, comparability data, and contemporaneous substantiation of the deliberation and decision?			
a	The organization's CEO, Executive Director, or top management official	15a	Yes	
b	Other officers or key employees of the organization If "Yes" to line 15a or 15b, describe the process in Schedule O (See instructions)	15b	Yes	
16a	Did the organization invest in, contribute assets to, or participate in a joint venture or similar arrangement with a taxable entity during the year?	16a		No
b	If "Yes," has the organization adopted a written policy or procedure requiring the organization to evaluate its participation in joint venture arrangements under applicable federal tax law, and taken steps to safeguard the organization's exempt status with respect to such arrangements?	16b		

Section C. Disclosure	
17	List the States with which a copy of this Form 990 is required to be filed ► MD
18	Section 6104 requires an organization to make its Form 1023 (or 1024 if applicable), 990, and 990-T (501(c) (3)s only) available for public inspection. Indicate how you make these available. Check all that apply. <input type="checkbox"/> Own website <input type="checkbox"/> Another's website <input checked="" type="checkbox"/> Upon request
19	Describe in Schedule O whether (and if so, how), the organization makes its governing documents, conflict of interest policy, and financial statements available to the public. See Additional Data Table.
20	State the name, physical address, and telephone number of the person who possesses the books and records of the organization ► MARC BERGER 5565 STERRETT PLACE 5TH FLOOR COLUMBIA, MD 21044 (410) 772-6719

Part VII Compensation of Officers, Directors, Trustees, Key Employees, Highest Compensated Employees, and Independent Contractors

Check if Schedule O contains a response to any question in this Part VII ☒

Section A. Officers, Directors, Trustees, Key Employees, and Highest Compensated Employees

1a Complete this table for all persons required to be listed. Report compensation for the calendar year ending with or within the organization's tax year.

- List all of the organization's **current** officers, directors, trustees (whether individuals or organizations), regardless of amount of compensation, and **current** key employees Enter -0- in columns (D), (E), and (F) if no compensation was paid
- List all of the organization's **current** key employees, if any See instructions for definition of "key employee "
- List the organization's five **current** highest compensated employees (other than an officer, director, trustee or key employee) who received reportable compensation (Box 5 of Form W-2 and/or Box 7 of Form 1099-MISC) of more than \$100,000 from the organization and any related organizations
- List all of the organization's **former** officers, key employees, and highest compensated employees who received more than \$100,000 of reportable compensation from the organization and any related organizations
- List all of the organization's **former directors or trustees** that received, in the capacity as a former director or trustee of the organization, more than \$10,000 of reportable compensation from the organization and any related organizations

List persons in the following order: individual trustees or directors; institutional trustees; officers; key employees; highest compensated employees; and former such persons

☐ Check this box if neither the organization nor any related organization compensated any current officer, director, or trustee

[illegible]

Part VII

Section A. Officers, Directors, Trustees, Key Employees, and Highest Compensated Employees (continued)

(A) Name and Title	(B) Average hours per week (describe hours for related organizations in Schedule O)	(C) Position (check all that apply)						(D) Reportable compensation from the organization (W-2/1099-MISC)	(E) Reportable compensation from related organizations (W-2/1099-MISC)	(F) Estimated amount of other compensation from the organization and related organizations
		Individual trustee or director	Institutional Trustee	Officer	Key employee	Highest compensated employee	Former			
See Additional Data Table										
1b Sub-Total										
c Total from continuation sheets to Part VII, Section A										
d Total (add lines 1b and 1c)								3,902,475	4,185,429	338,632

2

Total number of individuals (including but not limited to those listed above) who received more than \$100,000 in reportable compensation from the organization

178

	Yes	No
3 Did the organization list any former officer, director or trustee, key employee, or highest compensated employee on line 1a? <i>If "Yes," complete Schedule J for such individual</i>	3 Yes	
4 For any individual listed on line 1a, is the sum of reportable compensation and other compensation from the organization and related organizations greater than \$150,000? <i>If "Yes," complete Schedule J for such individual</i>	4 Yes	
5 Did any person listed on line 1a receive or accrue compensation from any unrelated organization or individual for services rendered to the organization? <i>If "Yes," complete Schedule J for such person</i>	5	No

Section B. Independent Contractors

1	Complete this table for your five highest compensated independent contractors that received more than \$100,000 of compensation from the organization		
(A) Name and business address	(B) Description of services	(C) Compensation	
BOVIS LEND LEASE ONE PRESERVE PARKWAY SUITE 700 ROCKVILLE, MD 20852	CONSTRUCTION MGMT	34,934,639	
CHESAPEAKE PERIOPERATIVE SERVICES PO BOX 17568 BALTIMORE, MD 21297	MEDICAL SERVICES	9,646,824	
MORRISON MANAGEMENT SPECIALIST 4721 MORRISON DRIVE MOBILE, AL 36609	FOOD SRVC PROVIDER	4,001,002	
GKV CASCADE BUILDING 1030 HULL STREET BALTIMORE, MD 21230	MARKETING SERVICES	940,462	
SLEEP SERVICES OF AMERICA PO BOX 198320 ATLANTA, GA 30384	MEDICAL SERVICES	928,923	
2	Total number of independent contractors (including but not limited to those listed above) who received more than \$100,000 in compensation from the organization		34

Part VIII

Statement of Revenue

		(A) Total revenue	(B) Related or exempt function revenue	(C) Unrelated business revenue	(D) Revenue excluded from tax under sections 512, 513, or 514	
Contributions, gifts, grants and other similar amounts	1a Federated campaigns 1a					
	b Membership dues 1b					
	c Fundraising events 1c	95,451				
	d Related organizations 1d					
	e Government grants (contributions) 1e					
	f All other contributions, gifts, grants, and similar amounts not included above 1f	2,077,241				
	g Noncash contributions included in lines 1a-1f \$					
	h Total. Add lines 1a-1f	2,172,692				
	Program Service Revenue	2a	Business Code			
NET PATIENT SERVICE REVENUE		621300	443,828,238	443,828,238		
b PHARMACY		900099	3,864,337	3,864,337		
c HEALTH EDUCATION		900099	54,200	54,200		
d						
e						
f All other program service revenue						
g Total. Add lines 2a-2f		447,746,775				
Other Revenue		3 Investment income (including dividends, interest and other similar amounts)				
		13,341			13,341	
	4 Income from investment of tax-exempt bond proceeds	0				
	5 Royalties	0				
	6a Gross Rents	(i) Real	(ii) Personal			
		374,013				
	b Less rental expenses	0				
	c Rental income or (loss)	374,013				
	d Net rental income or (loss)			374,013		374,013
	7a Gross amount from sales of assets other than inventory	(i) Securities	(ii) Other			
		13,705				
	b Less cost or other basis and sales expenses					
	c Gain or (loss)	13,705				
	d Net gain or (loss)			13,705		13,705
	8a Gross income from fundraising events (not including \$ 95,451 of contributions reported on line 1c) See Part IV, line 18	a				
		26,182				
	b Less direct expenses b	33,314				
	c Net income or (loss) from fundraising events			-7,132		-7,132
	9a Gross income from gaming activities See Part IV, line 19 a					
	b Less direct expenses b					
	c Net income or (loss) from gaming activities			0		
	10a Gross sales of inventory, less returns and allowances					
		a				
b Less cost of goods sold b						
c Net income or (loss) from sales of inventory			0			
Miscellaneous Revenue	Business Code					
11a REBATE INCOME	900099	1,337,847			1,337,847	
b PARKING LOT REVENUE	812930	156,120			156,120	
c NSABP REVENUE	900099	156,019			156,019	
d All other revenue		956,486			956,486	
e Total. Add lines 11a-11d		2,606,472				
12 Total revenue. See Instructions		452,919,866	447,746,775	0	3,000,399	

Part IX

Statement of Functional Expenses

Section 501(c)(3) and 501(c)(4) organizations must complete all columns.

All other organizations must complete column (A) but are not required to complete columns (B), (C), and (D).

Do not include amounts reported on lines 6b, 7b, 8b, 9b, and 10b of Part VIII.		(A) Total expenses	(B) Program service expenses	(C) Management and general expenses	(D) Fundraising expenses
1	Grants and other assistance to governments and organizations in the U S See Part IV, line 21	0			
2	Grants and other assistance to individuals in the U S See Part IV, line 22	0			
3	Grants and other assistance to governments, organizations, and individuals outside the U S See Part IV, lines 15 and 16	0			
4	Benefits paid to or for members	0			
5	Compensation of current officers, directors, trustees, and key employees	1,867,505	1,782,630	84,875	
6	Compensation not included above, to disqualified persons (as defined under section 4958(f)(1)) and persons described in section 4958(c)(3)(B)	0			
7	Other salaries and wages	177,793,162	160,648,542	17,144,620	
8	Pension plan contributions (include section 401(k) and section 403(b) employer contributions)	4,163,920	3,764,599	399,321	
9	Other employee benefits	22,257,444	20,122,951	2,134,493	
10	Payroll taxes	12,254,987	11,229,550	1,025,437	
a	Fees for services (non-employees)				
	Management	25,720,380	0	25,720,380	
b	Legal	210,324	1,225	209,099	
c	Accounting	0			
d	Lobbying	0			
e	Professional fundraising services See Part IV, line 17	0			
f	Investment management fees	0			
g	Other	39,947,118	37,703,836	2,243,282	
12	Advertising and promotion	1,715,013	97,751	1,617,262	
13	Office expenses	3,514,936	2,299,497	1,215,439	
14	Information technology	90,007	76,212	13,795	
15	Royalties	0			
16	Occupancy	1,612,439	1,612,501	-62	
17	Travel	495,146	406,742	88,404	
18	Payments of travel or entertainment expenses for any federal, state, or local public officials	0			
19	Conferences, conventions, and meetings	67,590	61,767	5,823	
20	Interest	10,049,727	10,049,727	0	
21	Payments to affiliates	0			
22	Depreciation, depletion, and amortization	18,638,121	18,638,121	0	
23	Insurance	8,576,809	8,218,935	357,874	0
24	Other expenses Itemize expenses not covered above (List miscellaneous expenses in line 24f If line 24f amount exceeds 10% of line 25, column (A) amount, list line 24f expenses on Schedule O)				
a	DRUGS/PHARMACY	28,551,740	28,510,921	40,819	
b	MEDICAL/SURGICAL SUPPLIES	26,205,287	26,182,462	22,825	
c	BAD DEBTS	18,153,399	18,153,399		
d	IMPLANTS/PROST	9,414,279	9,414,220	59	
e	FOOD SERVICE	5,816,531	5,515,608	300,923	
f	All other expenses	17,714,493	14,769,121	2,945,372	
25	Total functional expenses. Add lines 1 through 24f	434,830,357	379,260,317	55,570,040	0
26	Joint costs. Check here <input checked="" type="checkbox"/> if following SOP 98-2 (ASC 958-720) Complete this line only if the organization reported in column (B) joint costs from a combined educational campaign and fundraising solicitation				

Part X

Balance Sheet

					(A)		(B)
					Beginning of year		End of year
Assets	1	Cash—non-interest-bearing			6,378	1	6,428
	2	Savings and temporary cash investments			774,224	2	194,039
	3	Pledges and grants receivable, net				3	
	4	Accounts receivable, net			46,884,632	4	61,540,128
	5	Receivables from current and former officers, directors, trustees, key employees, and highest compensated employees. Complete Part II of Schedule L				5	
	6	Receivables from other disqualified persons (as defined under section 4958(f)(1)), persons described in section 4958(c)(3)(B), and contributing employers, and sponsoring organizations of section 501(c)(9) voluntary employees' beneficiary organizations (see instructions). Schedule L				6	
	7	Notes and loans receivable, net				7	
	8	Inventories for sale or use			5,840,785	8	6,680,009
	9	Prepaid expenses and deferred charges			715,281	9	931,948
	10a	Land, buildings, and equipment: cost or other basis. Complete Part VI of Schedule D.	10a	447,810,781			
	b	Less: accumulated depreciation	10b	209,221,892	221,848,133	10c	238,588,889
	11	Investments—publicly traded securities				11	
	12	Investments—other securities. See Part IV, line 11			1,026,012	12	485,215
	13	Investments—program-related. See Part IV, line 11				13	
	14	Intangible assets				14	
	15	Other assets. See Part IV, line 11			2,420,581	15	1,734,362
16	Total assets. Add lines 1 through 15 (must equal line 34)			279,516,026	16	310,161,018	
Liabilities	17	Accounts payable and accrued expenses			42,259,717	17	40,284,965
	18	Grants payable				18	
	19	Deferred revenue			329,983	19	323,611
	20	Tax-exempt bond liabilities				20	
	21	Escrow or custodial account liability. Complete Part IV of Schedule D				21	
	22	Payables to current and former officers, directors, trustees, key employees, highest compensated employees, and disqualified persons. Complete Part II of Schedule L				22	
	23	Secured mortgages and notes payable to unrelated third parties				23	
	24	Unsecured notes and loans payable to unrelated third parties				24	
	25	Other liabilities. Complete Part X of Schedule D			30,078,218	25	32,624,191
	26	Total liabilities. Add lines 17 through 25			72,667,918	26	73,232,767
Net Assets or Fund Balances	Organizations that follow SFAS 117, check here <input checked="" type="checkbox"/> and complete lines 27 through 29, and lines 33 and 34.						
	27	Unrestricted net assets			206,422,096	27	236,443,036
	28	Temporarily restricted net assets			426,012	28	485,215
	29	Permanently restricted net assets				29	
	Organizations that do not follow SFAS 117, check here <input type="checkbox"/> and complete lines 30 through 34.						
	30	Capital stock or trust principal, or current funds				30	
	31	Paid-in or capital surplus, or land, building or equipment fund				31	
	32	Retained earnings, endowment, accumulated income, or other funds				32	
	33	Total net assets or fund balances			206,848,108	33	236,928,251
34	Total liabilities and net assets/fund balances			279,516,026	34	310,161,018	

Part XI Reconciliation of Net Assets

Check if Schedule O contains a response to any question in this Part XI

1	Total revenue (must equal Part VIII, column (A), line 12)	1	452,919,866
2	Total expenses (must equal Part IX, column (A), line 25)	2	434,830,357
3	Revenue less expenses Subtract line 2 from line 1	3	18,089,509
4	Net assets or fund balances at beginning of year (must equal Part X, line 33, column (A))	4	206,848,108
5	Other changes in net assets or fund balances (explain in Schedule O)	5	11,990,634
6	Net assets or fund balances at end of year Combine lines 3, 4, and 5 (must equal Part X, line 33, column (B))	6	236,928,251

Part XII Financial Statements and Reporting

Check if Schedule O contains a response to any question in this Part XII

		Yes	No
1	Accounting method used to prepare the Form 990 <input type="checkbox"/> Cash <input checked="" type="checkbox"/> Accrual <input type="checkbox"/> Other If the organization changed its method of accounting from a prior year or checked "Other," explain in Schedule O		
2a	Were the organization's financial statements compiled or reviewed by an independent accountant?		No
b	Were the organization's financial statements audited by an independent accountant?	Yes	
c	If "Yes," to 2a or 2b, does the organization have a committee that assumes responsibility for oversight of the audit, review, or compilation of its financial statements and selection of an independent accountant? If the organization changed either its oversight process or selection process during the tax year, explain in Schedule O	Yes	
d	If "Yes" to line 2a or 2b, check a box below to indicate whether the financial statements for the year were issued on a separate basis, consolidated basis, or both <input type="checkbox"/> Separate basis <input checked="" type="checkbox"/> Consolidated basis <input type="checkbox"/> Both consolidated and separated basis		
3a	As a result of a federal award, was the organization required to undergo an audit or audits as set forth in the Single Audit Act and OMB Circular A-133?		No
b	If "Yes," did the organization undergo the required audit or audits? If the organization did not undergo the required audit or audits, explain why in Schedule O and describe any steps taken to undergo such audits		

SCHEDULE A
(Form 990 or 990EZ)

Department of the Treasury
Internal Revenue Service

Public Charity Status and Public Support

Complete if the organization is a section 501(c)(3) organization or a section 4947(a)(1) nonexempt charitable trust.

► Attach to Form 990 or Form 990-EZ. ► See separate instructions.

OMB No 1545-0047

2010

Open to Public Inspection

Name of the organization Franklin Square Hospital Center Inc	Employer identification number 52-0608007
---	--

Part I

Reason for Public Charity Status (All organizations must complete this part.) See instructions

The organization is not a private foundation because it is (For lines 1 through 11, check only one box)

1

☐

A church, convention of churches, or association of churches described in **section 170(b)(1)(A)(i).**

2

☐

A school described in **section 170(b)(1)(A)(ii).** (Attach Schedule E)

3

☒

A hospital or a cooperative hospital service organization described in **section 170(b)(1)(A)(iii).**

4

☐

A medical research organization operated in conjunction with a hospital described in **section 170(b)(1)(A)(iii).** Enter the hospital's name, city, and state

5

☐

An organization operated for the benefit of a college or university owned or operated by a governmental unit described in **section 170(b)(1)(A)(iv).** (Complete Part II)

6

☐

A federal, state, or local government or governmental unit described in **section 170(b)(1)(A)(v).**

7

☐

An organization that normally receives a substantial part of its support from a governmental unit or from the general public described in **section 170(b)(1)(A)(vi)** (Complete Part II)

8

☐

A community trust described in **section 170(b)(1)(A)(vi)** (Complete Part II)

9

☐

An organization that normally receives (1) more than 33 1/3% of its support from contributions, membership fees, and gross receipts from activities related to its exempt functions—subject to certain exceptions, and (2) no more than 33 1/3% of its support from gross investment income and unrelated business taxable income (less section 511 tax) from businesses acquired by the organization after June 30, 1975 See **section 509(a)(2).** (Complete Part III)

10

☐

An organization organized and operated exclusively to test for public safety See**section 509(a)(4).**

11

☐

An organization organized and operated exclusively for the benefit of, to perform the functions of, or to carry out the purposes of one or more publicly supported organizations described in section 509(a)(1) or section 509(a)(2) See **section 509(a)(3).** Check the box that describes the type of supporting organization and complete lines 11e through 11h

a

☐

Type I

b

☐

Type II

c

☐

Type III - Functionally integrated

d

☐

Type III - Other

e

☐

By checking this box, I certify that the organization is not controlled directly or indirectly by one or more disqualified persons other than foundation managers and other than one or more publicly supported organizations described in section 509(a)(1) or section 509(a)(2)

f

☐

If the organization received a written determination from the IRS that it is a Type I, Type II or Type III supporting organization, check this box

g

☐

Since August 17, 2006, has the organization accepted any gift or contribution from any of the following persons?
(i) a person who directly or indirectly controls, either alone or together with persons described in (ii) and (iii) below, the governing body of the the supported organization?
(ii) a family member of a person described in (i) above?
(iii) a 35% controlled entity of a person described in (i) or (ii) above?

h

☐

Provide the following information about the supported organization(s)

	Yes	No
11g(i)		
11g(ii)		
11g(iii)		

(i) Name of supported organization	(ii) EIN	(iii) Type of organization (described on lines 1- 9 above or IRC section (see instructions))	(iv) Is the organization in col (i) listed in your governing document?		(v) Did you notify the organization in col (i) of your support?		(vi) Is the organization in col (i) organized in the U S ?		(vii) Amount of support
			Yes	No	Yes	No	Yes	No	
Total									

Part II

Support Schedule for Organizations Described in Sections 170(b)(1)(A)(iv) and 170(b)(1)(A)(vi)

(Complete only if you checked the box on line 5, 7, or 8 of Part I or if the organization failed to qualify under Part III. If the organization fails to qualify under the tests listed below, please complete Part III.)

Section A. Public Support						
Calendar year (or fiscal year beginning in) ▶	(a) 2006	(b) 2007	(c) 2008	(d) 2009	(e) 2010	(f) Total
1 Gifts, grants, contributions, and membership fees received (Do not include any "unusual grants.")						
2 Tax revenues levied for the organization's benefit and either paid to or expended on its behalf						
3 The value of services or facilities furnished by a governmental unit to the organization without charge						
4 Total. Add lines 1 through 3						
5 The portion of total contributions by each person (other than a governmental unit or publicly supported organization) included on line 1 that exceeds 2% of the amount shown on line 11, column (f)						
6 Public Support. Subtract line 5 from line 4						

Section B. Total Support						
Calendar year (or fiscal year beginning in) ▶	(a) 2006	(b) 2007	(c) 2008	(d) 2009	(e) 2010	(f) Total
7 Amounts from line 4						
8 Gross income from interest, dividends, payments received on securities loans, rents, royalties and income from similar sources						
9 Net income from unrelated business activities, whether or not the business is regularly carried on						
10 Other income Do not include gain or loss from the sale of capital assets (Explain in Part IV)						
11 Total support (Add lines 7 through 10)						
12 Gross receipts from related activities, etc (See instructions)					12	

13 First Five Years If the Form 990 is for the organization's first, second, third, fourth, or fifth tax year as a 501(c)(3) organization, check this box and stop here ▶

Section C. Computation of Public Support Percentage		
14 Public Support Percentage for 2010 (line 6 column (f) divided by line 11 column (f))	14	
15 Public Support Percentage for 2009 Schedule A, Part II, line 14	15	
16a 33 1/3% support test—2010. If the organization did not check the box on line 13, and line 14 is 33 1/3% or more, check this box and stop here. The organization qualifies as a publicly supported organization ▶		
b 33 1/3% support test—2009. If the organization did not check the box on line 13 or 16a, and line 15 is 33 1/3% or more, check this box and stop here. The organization qualifies as a publicly supported organization ▶		
17a 10%-facts-and-circumstances test—2010. If the organization did not check a box on line 13, 16a, or 16b and line 14 is 10% or more, and if the organization meets the "facts and circumstances" test, check this box and stop here. Explain in Part IV how the organization meets the "facts and circumstances" test The organization qualifies as a publicly supported organization ▶		
b 10%-facts-and-circumstances test—2009. If the organization did not check a box on line 13, 16a, 16b, or 17a and line 15 is 10% or more, and if the organization meets the "facts and circumstances" test, check this box and stop here. Explain in Part IV how the organization meets the "facts and circumstances" test The organization qualifies as a publicly supported organization ▶		
18 Private Foundation If the organization did not check a box on line 13, 16a, 16b, 17a or 17b, check this box and see instructions ▶		

Part IIIPart III

Support Schedule for Organizations Described in Section 509(a)(2)
(Complete only if you checked the box on line 9 of Part I or if the organization failed to qualify under Part II. If the organization fails to qualify under the tests listed below, please complete Part II.)

Section A. Public Support						
Calendar year (or fiscal year beginning in) ▶	(a) 2006	(b) 2007	(c) 2008	(d) 2009	(e) 2010	(f) Total
1 Gifts, grants, contributions, and membership fees received (Do not include any "unusual grants ")						
2 Gross receipts from admissions, merchandise sold or services performed, or facilities furnished in any activity that is related to the organization's tax-exempt purpose						
3 Gross receipts from activities that are not an unrelated trade or business under section 513						
4 Tax revenues levied for the organization's benefit and either paid to or expended on its behalf						
5 The value of services or facilities furnished by a governmental unit to the organization without charge						
6 Total. Add lines 1 through 5						
7a Amounts included on lines 1, 2, and 3 received from disqualified persons						
b Amounts included on lines 2 and 3 received from other than disqualified persons that exceed the greater of \$5,000 or 1% of the amount on line 13 for the year						
c Add lines 7a and 7b						
8 Public Support (Subtract line 7c from line 6)						

Section B. Total Support							
Calendar year (or fiscal year beginning in)		(a) 2006	(b) 2007	(c) 2008	(d) 2009	(e) 2010	(f) Total
9	Amounts from line 6						
10a	Gross income from interest, dividends, payments received on securities loans, rents, royalties and income from similar sources						
b	Unrelated business taxable income (less section 511 taxes) from businesses acquired after June 30, 1975						
c	Add lines 10a and 10b						
11	Net income from unrelated business activities not included in line 10b, whether or not the business is regularly carried on						
12	Other income Do not include gain or loss from the sale of capital assets (Explain in Part IV)						
13	Total support (Add lines 9, 10c, 11 and 12)						
14	First Five Years If the Form 990 is for the organization's first, second, third, fourth, or fifth tax year as a section501(c)(3) organization, check this box and stop here						

Section C. Computation of Public Support Percentage			
15	Public Support Percentage for 2010 (line 8 column (f) divided by line 13 column (f))	15	
16	Public support percentage from 2009 Schedule A, Part III, line 15	16	

Section D. Computation of Investment Income Percentage			
17	Investment income percentage for 2010 (line 10c column (f) divided by line 13 column (f))	17	
18	Investment income percentage from 2009 Schedule A, Part III, line 17	18	
19a	33 1/3% support tests—2010. If the organization did not check the box on line 14, and line 15 is more than 33 1/3% and line 17 is not more than 33 1/3%, check this box and stop here. The organization qualifies as a publicly supported organization ▶		
b	33 1/3% support tests—2009. If the organization did not check a box on line 14 or line 19a, and line 16 is more than 33 1/3% and line 18 is not more than 33 1/3%, check this box and stop here. The organization qualifies as a publicly supported organization ▶		
20	Private Foundation If the organization did not check a box on line 14, 19a or 19b, check this box and see instructions ▶		

Part IV

Supplemental Information. Supplemental Information. Complete this part to provide the explanations required by Part II, line 10; Part II, line 17a or 17b; and Part III, line 12. Also complete this part for any additional information. (See instructions).

Facts And Circumstances Test

Additional Data

Software ID:

Software Version:

EIN: 52-0608007

Name: Franklin Square Hospital Center Inc

Form 990, Part VII - Compensation of Officers, Directors, Trustees, Key Employees, Highest Compensated Employees, and Independent Contractors

(A) Name and Title	(B) Average hours per week	(C) Position (check all that apply)						(D) Reportable compensation from the organization (W-2/1099-MISC)	(E) Reportable compensation from related organizations (W-2/1099-MISC)	(F) Estimated amount of other compensation from the organization and related organizations
		Individual trustee or director	Institutional Trustee	Officer	Key employee	Highest compensated employee	Former			
HATEM S ABDO MD DIRECTOR	1 0	X						0	0	0
KHALID AL-TALIB MD DIRECTOR	1 0	X						0	0	0
MOHAMMAD M ALABRASH MD DIRECTOR	1 0	X						11,667	0	0
MICHAEL L DIETRICH DIRECTOR	1 0	X						0	0	0
DEBRA B DOYLE DIRECTOR	1 0	X						0	0	0
ELIZABETH S GLENN DIRECTOR	1 0	X						0	0	0
IRA GUBERNICK MD DIRECTOR	1 0	X						23,333	0	0
CLIFFORD M JOHNSON JR DIRECTOR	1 0	X						0	0	0
COLLEEN LOPRESTO DIRECTOR	1 0	X						0	0	0
VINCENT MARTORANA DPM DIRECTOR	1 0	X						0	0	0
PATRICIA R NORMAN DIRECTOR	1 0	X						0	0	0
CHARLES PICCININI DIRECTOR	1 0	X						0	0	0
KENNETH A SAMET DIRECTOR	1 0	X						0	3,125,094	132,265
RICHARD W SINGLE SR DIRECTOR	1 0	X						0	0	0
MICHAEL D SUTER MD DIRECTOR	1 0	X						0	0	0
DEBORAH M TURNER DIRECTOR	1 0	X						0	0	0
THOMAS S WINTZ DIRECTOR	1 0	X						0	0	0
ADRIENNE KIRBY PRESIDENT	40 0	X		X				355,177	0	4,882
GEORGE J JABAJI MD DIRECTOR	1 0	X						32,089	0	0
ANTHONY SCLAMA VICE PRESIDENT	40 0			X				487,274	0	17,946
ROBERT LALLY VICE PRESIDENT	40 0			X				345,081	0	36,044
LAWRENCE STRASSNER VICE PRESIDENT	40 0				X			221,219	0	10,297
GLENN VISBEEN SENIOR VICE PRESIDENT	40 0				X			306,790	0	15,706
YVONNE OTTAVIANO CHIEF	40 0					X		404,428	0	17,986
WILLIAM MCGUIRE PHYSICIAN DIR SERVICE LINE FSH	40 0					X		479,099	0	7,995

Form 990, Part VII - Compensation of Officers, Directors, Trustees, Key Employees, Highest Compensated Employees, and Independent Contractors

(A) Name and Title	(B) Average hours per week	(C) Position (check all that apply)						(D) Reportable compensation from the organization (W-2/1099-MISC)	(E) Reportable compensation from related organizations (W-2/1099-MISC)	(F) Estimated amount of other compensation from the organization and related organizations
		Individual trustee or director	Institutional Trustee	Officer	Key employee	Highest compensated employee	Former			
WILLIAM WATERFIELD CHIEF	40 0					X		395,542	0	17,472
SAMUEL SMITH MEDICAL DIRECTOR	40 0					X		395,777	0	22,944
ALBERT FLEISHER PHYSICIAN	40 0					X		444,999	0	16,717
CARL SCHINDELAR FORMER OFFICER	1 0						X	0	1,060,335	38,378

SCHEDULE D
(Form 990)

Department of the Treasury
Internal Revenue Service

Supplemental Financial Statements

Complete if the organization answered "Yes," to Form 990,
Part IV, line 6, 7, 8, 9, 10, 11, or 12.

Attach to Form 990. See separate instructions.

OMB No 1545-0047

2010

Open to Public
Inspection

Name of the organization Franklin Square Hospital Center Inc	Employer identification number 52-0608007
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Part I Organizations Maintaining Donor Advised Funds or Other Similar Funds or Accounts. Complete if the organization answered "Yes" to Form 990, Part IV, line 6.

	(a) Donor advised funds	(b) Funds and other accounts
1	Total number at end of year	
2	Aggregate contributions to (during year)	
3	Aggregate grants from (during year)	
4	Aggregate value at end of year	
5	Did the organization inform all donors and donor advisors in writing that the assets held in donor advised funds are the organization's property, subject to the organization's exclusive legal control?	
	<div>Yes</div> <div>No</div>	
6	Did the organization inform all grantees, donors, and donor advisors in writing that grant funds may be used only for charitable purposes and not for the benefit of the donor or donor advisor, or for any other purpose conferring impermissible private benefit	
	<div>Yes</div> <div>No</div>	

Part II Conservation Easements. Complete if the organization answered "Yes" to Form 990, Part IV, line 7.

1

Purpose(s) of conservation easements held by the organization (check all that apply)

☐ Preservation of land for public use (e g , recreation or pleasure)

☐ Protection of natural habitat

☐ Preservation of open space

☐ Preservation of an historically importantly land area

☐ Preservation of a certified historic structure

2

Complete lines 2a–2d if the organization held a qualified conservation contribution in the form of a conservation easement on the last day of the tax year

	Held at the End of the Year
a	Total number of conservation easements
b	Total acreage restricted by conservation easements
c	Number of conservation easements on a certified historic structure included in (a)
d	Number of conservation easements included in (c) acquired after 8/17/06

3

Number of conservation easements modified, transferred, released, extinguished, or terminated by the organization during the taxable year

4

Number of states where property subject to conservation easement is located

5

Does the organization have a written policy regarding the periodic monitoring, inspection, handling of violations, and enforcement of the conservation easements it holds?

Yes

No

6

Staff and volunteer hours devoted to monitoring, inspecting and enforcing conservation easements during the year

7

Amount of expenses incurred in monitoring, inspecting, and enforcing conservation easements during the year \$

8

Does each conservation easement reported on line 2(d) above satisfy the requirements of section 170(h)(4)(B)(i) and 170(h)(4)(B)(ii)?

Yes

No

9

In Part XIV, describe how the organization reports conservation easements in its revenue and expense statement, and balance sheet, and include, if applicable, the text of the footnote to the organization's financial statements that describes the organization's accounting for conservation easements

Part III Organizations Maintaining Collections of Art, Historical Treasures, or Other Similar Assets. Complete if the organization answered "Yes" to Form 990, Part IV, line 8.

1a

If the organization elected, as permitted under SFAS 116, not to report in its revenue statement and balance sheet works of art, historical treasures, or other similar assets held for public exhibition, education or research in furtherance of public service, provide, in Part XIV, the text of the footnote to its financial statements that describes these items

b

If the organization elected, as permitted under SFAS 116, to report in its revenue statement and balance sheet works of art, historical treasures, or other similar assets held for public exhibition, education, or research in furtherance of public service, provide the following amounts relating to these items

(i) Revenues included in Form 990, Part VIII, line 1

\$

(ii) Assets included in Form 990, Part X

\$

2

If the organization received or held works of art, historical treasures, or other similar assets for financial gain, provide the following amounts required to be reported under SFAS 116 relating to these items

a

Revenues included in Form 990, Part VIII, line 1

\$

b

Assets included in Form 990, Part X

\$

Part III

Organizations Maintaining Collections of Art, Historical Treasures, or Other Similar Assets (continued)

3

Using the organization's accession and other records, check any of the following that are a significant use of its collection items (check all that apply)

a

☐ Public exhibition

b

☐ Scholarly research

c

☐ Preservation for future generations

d

☐ Loan or exchange programs

e

☐ Other

4

Provide a description of the organization's collections and explain how they further the organization's exempt purpose in Part XIV

5

During the year, did the organization solicit or receive donations of art, historical treasures or other similar assets to be sold to raise funds rather than to be maintained as part of the organization's collection?

☐ Yes

☐ No

Part IV

Escrow and Custodial Arrangements. Complete if the organization answered "Yes" to Form 990, Part IV, line 9, or reported an amount on Form 990, Part X, line 21.

1a

Is the organization an agent, trustee, custodian or other intermediary for contributions or other assets not included on Form 990, Part X?

☐ Yes

☐ No

b

If "Yes," explain the arrangement in Part XIV and complete the following table

c

Beginning balance

d

Additions during the year

e

Distributions during the year

f

Ending balance

	Amount
1c	
1d	
1e	
1f	

2a

Did the organization include an amount on Form 990, Part X, line 21?

☐ Yes

☐ No

b

If "Yes," explain the arrangement in Part XIV

Part V

Endowment Funds. Complete if the organization answered "Yes" to Form 990, Part IV, line 10.

	(a)Current Year	(b)Prior Year	(c)Two Years Back	(d)Three Years Back	(e)Four Years Back
1a	Beginning of year balance				
b	Contributions				
c	Investment earnings or losses				
d	Grants or scholarships				
e	Other expenditures for facilities and programs				
f	Administrative expenses				
g	End of year balance				

2

Provide the estimated percentage of the year end balance held as

a

Board designated or quasi-endowment ▶

b

Permanent endowment ▶

c

Term endowment ▶

3a

Are there endowment funds not in the possession of the organization that are held and administered for the organization by

(i)

unrelated organizations

(ii)

related organizations

b

If "Yes" to 3a(ii), are the related organizations listed as required on Schedule R?

	Yes	No
3a(i)		
3a(ii)		
3b		

4

Describe in Part XIV the intended uses of the organization's endowment funds

Part VI

Investments—Land, Buildings, and Equipment. See Form 990, Part X, line 10.

Description of investment	(a) Cost or other basis (investment)	(b)Cost or other basis (other)	(c) Accumulated depreciation	(d) Book value
1a Land		386,702		386,702
b Buildings		156,835,402	70,480,986	86,354,416
c Leasehold improvements		2,211,560	1,353,414	858,146
d Equipment		259,153,527	131,780,461	127,373,066
e Other		29,223,590	5,607,031	23,616,559
Total. Add lines 1a-1e (Column (d) should equal Form 990, Part X, column (B), line 10(c).) ▶				238,588,889

Part XI Reconciliation of Change in Net Assets from Form 990 to Financial Statements		
1	Total revenue (Form 990, Part VIII, column (A), line 12)	1
2	Total expenses (Form 990, Part IX, column (A), line 25)	2
3	Excess or (deficit) for the year Subtract line 2 from line 1	3
4	Net unrealized gains (losses) on investments	4
5	Donated services and use of facilities	5
6	Investment expenses	6
7	Prior period adjustments	7
8	Other (Describe in Part XIV)	8
9	Total adjustments (net) Add lines 4 - 8	9
10	Excess or (deficit) for the year per financial statements Combine lines 3 and 9	10

Part XII Reconciliation of Revenue per Audited Financial Statements With Revenue per Return			
1	Total revenue, gains, and other support per audited financial statements	1	
2	Amounts included on line 1 but not on Form 990, Part VIII, line 12		
a	Net unrealized gains on investments		2a
b	Donated services and use of facilities		2b
c	Recoveries of prior year grants		2c
d	Other (Describe in Part XIV)		2d
e	Add lines 2a through 2d	2e	
3	Subtract line 2e from line 1	3	
4	Amounts included on Form 990, Part VIII, line 12, but not on line 1		
a	Investment expenses not included on Form 990, Part VIII, line 7b		4a
b	Other (Describe in Part XIV)		4b
c	Add lines 4a and 4b	4c	
5	Total Revenue Add lines 3 and 4c . (This should equal Form 990, Part I, line 12)	5	

Part XIII Reconciliation of Expenses per Audited Financial Statements With Expenses per Return			
1	Total expenses and losses per audited financial statements	1	
2	Amounts included on line 1 but not on Form 990, Part IX, line 25		
a	Donated services and use of facilities		2a
b	Prior year adjustments		2b
c	Other losses		2c
d	Other (Describe in Part XIV)		2d
e	Add lines 2a through 2d	2e	
3	Subtract line 2e from line 1	3	
4	Amounts included on Form 990, Part IX, line 25, but not on line 1 :		
a	Investment expenses not included on Form 990, Part VIII, line 7b		4a
b	Other (Describe in Part XIV)		4b
c	Add lines 4a and 4b	4c	
5	Total expenses Add lines 3 and 4c . (This should equal Form 990, Part I, line 18)	5	

Part XIV Supplemental Information

Complete this part to provide the descriptions required for Part II, lines 3, 5, and 9, Part III, lines 1a and 4, Part IV, lines 1b and 2b, Part V, line 4, Part X, Part XI, line 8, Part XII, lines 2d and 4b, and Part XIII, lines 2d and 4b. Also complete this part to provide any additional information.

Identifier	Return Reference	Explanation
FIN 48 FOOTNOTE	SCHEDULE D, PART X	INCOME TAXES ARE ACCOUNTED FOR UNDER THE ASSET AND LIABILITY METHOD. DEFERRED TAX ASSETS AND LIABILITIES ARE RECOGNIZED FOR THE FUTURE TAX CONSEQUENCES ATTRIBUTABLE TO DIFFERENCES BETWEEN THE FINANCIAL STATEMENT CARRYING AMOUNTS OF EXISTING ASSETS AND LIABILITIES AND THEIR RESPECTIVE TAX BASES AND OPERATING LOSS AND TAX CREDIT CARRYFORWARDS. DEFERRED TAX ASSETS AND LIABILITIES ARE MEASURED USING ENACTED TAX RATES EXPECTED TO APPLY TO TAXABLE INCOME IN THE YEARS IN WHICH THOSE TEMPORARY DIFFERENCES ARE EXPECTED TO BE RECOVERED OR SETTLED. THE EFFECT ON DEFERRED TAX ASSETS AND LIABILITIES OF A CHANGE IN TAX RATES IS RECOGNIZED IN THE PERIOD THAT INCLUDES THE ENACTMENT DATE. ANY CHANGES TO THE VALUATION ALLOWANCE ON THE DEFERRED TAX ASSET ARE REFLECTED IN THE YEAR OF CHANGE. THE CORPORATION ACCOUNTS FOR UNCERTAIN TAX POSITIONS IN ACCORDANCE WITH THE FASB ACCOUNTING STANDARDS CODIFICATION (ASC) TOPIC 740, INCOME TAXES. THERE WAS NO LIABILITY RECORDED FOR UNCERTAIN TAX POSITIONS AS OF JUNE 30, 2011.

SCHEDULE G
(Form 990 or 990-EZ)

Supplemental Information Regarding
Fundraising or Gaming Activities

OMB No 1545-0047

2010

Open to Public
Inspection

Department of the Treasury
Internal Revenue Service

Complete if the organization answered "Yes" to Form 990, Part IV, lines 17, 18, or 19,
or if the organization entered more than \$15,000 on Form 990-EZ, line 6a.
▶ Attach to Form 990 or Form 990-EZ. ▶ See separate instructions.

Name of the organization
Franklin Square Hospital Center Inc

Employer identification number
52-0608007

Part I Fundraising Activities. Complete if the organization answered "Yes" to Form 990, Part IV, line 17.

- 1

Indicate whether the organization raised funds through any of the following activities. Check all that apply.

a

☐

Mail solicitations

e

☐

Solicitation of non-government grants

b

☐

Internet and e-mail solicitations

f

☐

Solicitation of government grants

c

☐

Phone solicitations

g

☐

Special fundraising events

d

☐

In-person solicitations
- 2a

Did the organization have a written or oral agreement with any individual (including officers, directors, trustees or key employees listed in Form 990, Part VII) or entity in connection with professional fundraising services?

☐

Yes

☐

No
- b

If "Yes," list the ten highest paid individuals or entities (fundraisers) pursuant to agreements under which the fundraiser is to be compensated at least \$5,000 by the organization. Form 990-EZ filers are not required to complete this table.

(i) Name and address of individual or entity (fundraiser)	(ii) Activity	(iii) Did fundraiser have custody or control of contributions?		(iv) Gross receipts from activity	(v) Amount paid to (or retained by) fundraiser listed in col (i)	(vi) Amount paid to (or retained by) organization
		Yes	No			
Total ▶						

- 3

List all states in which the organization is registered or licensed to solicit funds or has been notified it is exempt from registration or licensing.

Part II Fundraising Events. Complete if the organization answered "Yes" to Form 990, Part IV, line 18, or reported more than \$15,000 on Form 990-EZ, line 6a. List events with gross receipts greater than \$5,000.

		(a) Event #1	(b) Event #2	(c) Other Events	(d) Total Events
		<u>GOLF TOURNAMENT</u> (event type)	<u>NONE</u> (event type)	<u>0</u> (total number)	(Add col (a) through col (c))
Revenue	1	Gross receipts	121,633		121,633
	2	Less Charitable contributions	95,451		95,451
	3	Gross income (line 1 minus line 2)	26,182		26,182
Direct Expenses	4	Cash prizes			
	5	Non-cash prizes			
	6	Rent/facility costs			
	7	Food and beverages			
	8	Entertainment			
	9	Other direct expenses	33,314		33,314
	10	Direct expense summary Add lines 4 through 9 in column (d) ▶			
	11	Net income summary Combine lines 3 and 10 in column (d). ▶			
					-7,132

Part III Gaming. Complete if the organization answered "Yes" to Form 990, Part IV, line 19, or reported more than \$15,000 on Form 990-EZ, line 6a.

		(a) Bingo	(b) Pull tabs/Instant bingo/progressive bingo	(c) Other gaming	(d) Total gaming
					(Add col (a) through col (c))
Revenue	1	Gross revenue			
	2	Cash prizes			
Direct Expenses	3	Non-cash prizes			
	4	Rent/facility costs			
	5	Other direct expenses			
	6	Volunteer labor	<div><input type="checkbox"/> Yes % <input type="checkbox"/> No</div>	<div><input type="checkbox"/> Yes % <input type="checkbox"/> No</div>	<div><input type="checkbox"/> Yes % <input type="checkbox"/> No</div>
	7	Direct expense summary Add lines 2 through 5 in column (d) ▶			
	8	Net gaming income summary Combine lines 1 and 7 in column (d) ▶			

9 Enter the state(s) in which the organization operates gaming activities _____

a Is the organization licensed to operate gaming activities in each of these states? ☐ Yes ☐ No

b If "No," Explain _____

10a Were any of the organization's gaming licenses revoked, suspended or terminated during the tax year? ☐ Yes ☐ No

b If "Yes," Explain _____

11

Does the organization operate gaming activities with nonmembers?

☐ Yes ☐ No

12

Is the organization a grantor, beneficiary or trustee of a trust or a member of a partnership or other entity formed to administer charitable gaming?

☐ Yes ☐ No

13

Indicate the percentage of gaming activity operated in

a	The organization's facility	13a
b	An outside facility	13b

14

Provide the name and address of the person who prepares the organization's gaming/special events books and records

Name

Address

15a

Does the organization have a contract with a third party from whom the organization receives gaming revenue?

☐ Yes ☐ No

b

If "Yes," enter the amount of gaming revenue received by the organization \$ and the amount of gaming revenue retained by the third party \$

c

If "Yes," enter name and address

Name

Address

16 Gaming manager information

Name

Gaming manager compensation \$

Description of services provided

☐ Director/officer

☐ Employee

☐ Independent contractor

17

Mandatory distributions

a

Is the organization required under state law to make charitable distributions from the gaming proceeds to retain the state gaming license?

☐ Yes ☐ No

b

Enter the amount of distributions required under state law distributed to other exempt organizations or spent in the organization's own exempt activities during the tax year \$

Part IV Complete this part to provide additional information for responses to question on Schedule G (see instructions.)

Identifier	ReturnReference	Explanation
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SCHEDULE H
(Form 990)

Department of the Treasury
Internal Revenue Service

Hospitals

▶ **Complete if the organization answered "Yes" to Form 990, Part IV, question 20.**
▶ **Attach to Form 990. ▶ See separate instructions.**

OMB No 1545-0047

2010

Open to Public
Inspection

Name of the organization
Franklin Square Hospital Center Inc

Employer identification number
52-0608007

Part I

Financial Assistance and Certain Other Community Benefits at Cost

		Yes	No
1a	Did the organization have a financial assistance policy during the tax year? If "No," skip to question 6a	Yes	
1b	If "Yes," is it a written policy?	Yes	
2	If the organization has multiple hospitals, indicate which of the following best describes application of the financial assistance policy to its various hospital facilities during the tax year <input checked="" type="checkbox"/> Applied uniformly to all hospitals <input type="checkbox"/> Applied uniformly to most hospitals <input type="checkbox"/> Generally tailored to individual hospitals		
3	Answer the following based on the the financial assistance eligibility criteria that applied to the largest number of the organization's patients during the tax year a Does the organization use Federal Poverty Guidelines (FPG) to determine eligibility for providing <i>free</i> care to low income individuals? If "Yes," indicate which of the following is the FPG family income limit for eligibility for free care <input type="checkbox"/> 100% <input type="checkbox"/> 150% <input checked="" type="checkbox"/> 200% <input type="checkbox"/> Other _____ % b Does the organization use FPG to determine eligibility for providing <i>discounted</i> care to low income individuals? If "Yes," indicate which of the following is the family income limit for eligibility for discounted care <input type="checkbox"/> 200% <input type="checkbox"/> 250% <input type="checkbox"/> 300% <input type="checkbox"/> 350% <input checked="" type="checkbox"/> 400% <input type="checkbox"/> Other _____ % c If the organization does not use FPG to determine eligibility, describe in Part VI the income based criteria for determining eligibility for free or discounted care Include in the description whether the organization uses an asset test or other threshold, regardless of income, to determine eligibility for free or discounted care 4 Did the organization's financial assistance policy that applied to the largest number of its patients during the tax year provide for free or discounted care to the "medically indigent"?	Yes	
5a	Did the organization budget amounts for free or discounted care provided under its financial assistance policy during the tax year?	Yes	
5b	If "Yes," did the organization's financial assistance expenses exceed the budgeted amount?	Yes	
5c	If "Yes" to line 5b, as a result of budget considerations, was the organization unable to provide free or discounted care to a patient who was eligible for free or discounted care?		No
6a	Does the organization prepare a community benefit report during the tax year?	Yes	
6b	If "Yes," did the organization make it available to the public? Complete the following table using the worksheets provided in the Schedule H instructions Do not submit these worksheets with the Schedule H	Yes	

7

Financial Assistance and Certain Other Community Benefits at Cost

Financial Assistance and Means-Tested Government Programs	(a) Number of activities or programs (optional)	(b) Persons served (optional)	(c) Total community benefit expense	(d) Direct offsetting revenue	(e) Net community benefit expense	(f) Percent of total expense
a Financial Assistance at cost (from Worksheets 1 and 2)			8,367,249	0	8,367,249	2 010 %
b Unreimbursed Medicaid (from Worksheet 3, column a)			0	0	0	0 %
c Unreimbursed costs—other means-tested government programs (from Worksheet 3, column b)			0	0	0	0 %
d Total Financial Assistance and Means-Tested Government Programs			8,367,249	0	8,367,249	2 010 %
Other Benefits						
e Community health improvement services and community benefit operations (from Worksheet 4)			2,125,443	46,931	2,078,512	0 500 %
f Health professions education (from Worksheet 5)			15,143,864	0	15,143,864	3 630 %
g Subsidized health services (from Worksheet 6)			17,499,067	12,997,752	4,501,315	1 080 %
h Research (from Worksheet 7)			1,434	0	1,434	0 %
i Cash and in-kind contributions to community groups (from Worksheet 8)			261,638	0	261,638	0 060 %
j Total Other Benefits			35,031,446	13,044,683	21,986,763	5 270 %
k Total. Add lines 7d and 7j			43,398,695	13,044,683	30,354,012	7 280 %

Part II

Community Building Activities during the tax year, and describe in Part VI how its community building activities during the tax year, and describe in Part VI how its community building activities promoted the health of the communities it serves.

	(a) Number of activities or programs (optional)	(b) Persons served (optional)	(c) Total community building expense	(d) Direct offsetting revenue	(e) Net community building expense	(f) Percent of total expense
1	Physical improvements and housing					
2	Economic development					
3	Community support		114,216	0	114,216	0 030 %
4	Environmental improvements					
5	Leadership development and training for community members		2,221	0	2,221	
6	Coalition building					
7	Community health improvement advocacy		47,834	0	47,834	0 010 %
8	Workforce development					
9	Other					
10	Total		164,271	0	164,271	0 040 %

Part III

Bad Debt, Medicare, & Collection Practices

Section A. Bad Debt Expense

		Yes	No
1	Did the organization report bad debt expense in accordance with Healthcare Financial Management Association Statement No. 15?	1	Yes
2	Enter the amount of the organization's bad debt expense (at cost)	2	11,791,844
3	Enter the estimated amount of the organization's bad debt expense (at cost) attributable to patients eligible under the organization's financial assistance policy	3	0
4	Provide in Part VI the text of the footnote to the organization's financial statements that describes bad debt expense. In addition, describe the costing methodology used in determining the amounts reported on lines 2 and 3, and rationale for including a portion of bad debt amounts as community benefit		

Section B. Medicare

5	Enter total revenue received from Medicare (including DSH and IME)	5	0
6	Enter Medicare allowable costs of care relating to payments on line 5	6	0
7	Subtract line 6 from line 5. This is the surplus or (shortfall)	7	0
8	Describe in Part VI the extent to which any shortfall reported in line 7 should be treated as community benefit. Also describe in Part VI the costing methodology or source used to determine the amount reported on line 6. Check the box that describes the method used. <input type="checkbox"/> Cost accounting system <input checked="" type="checkbox"/> Cost to charge ratio <input type="checkbox"/> Other		

Section C. Collection Practices

9a	Does the organization have a written debt collection policy?	9a	Yes
9b	If "Yes," does the organization's collection policy contain provisions on the collection practices to be followed for patients who are known to qualify for charity care or financial assistance? Describe in Part VI	9b	Yes

Part IV

Management Companies and Joint Ventures

(a) Name of entity	(b) Description of primary activity of entity	(c) Organization's profit % or stock ownership %	(d) Officers, directors, trustees, or key employees' profit % or stock ownership%	(e) Physicians' profit % or stock ownership %
1				
2				
3				
4				
5				
6				
7				
8				
9				
10				
11				
12				
13				

Section A. Hospital Facilities

How many hospital facilities did the organization operate during the tax year? 1

1	FRANKLIN SQUARE HOSPITAL CENTER 9000 FRANKLIN SQUARE DRIVE BALTIMORE, MD 212373901
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FAST TRACK ER

Section C. Other Facilities That Are Not Licensed, Registered, or Similarly Recognized as a Hospital Facility

(list in order of size, measured by total revenue per facility, from largest to smallest)

How many non-hospital facilities did the organization operate during the tax year? _____

Name and address	Type of Facility (Describe)
1	
1	
2	
3	
4	
5	
6	
7	
8	
9	
10	

Part VI

Supplemental Information

Complete this part to provide the following information

- 1
- Required descriptions.** Provide the description required for Part I, lines 3c, 6a, and 7, Part II, Part III, lines 4, 8, and 9b, and Part V, Section B, lines 1j, 3, 4, 5c, 6i, 7, 11h, 13g, 15e, 16e, 17e, 18d, 19d, 20, and 21
- 2
- Needs assessment.** Describe how the organization assesses the health care needs of the communities it serves, in addition to any needs assessments reported in Part V, Section B
- 3
- Patient education of eligibility for assistance.** Describe how the organization informs and educates patients and persons who may be billed for patient care about their eligibility for assistance under federal, state, or local government programs or under the organization's financial assistance policy
- 4
- Community information.** Describe the community the organization serves, taking into account the geographic area and demographic constituents it serves
- 5
- Promotion of community health.** Provide any other information important to describing how the organization's hospital facilities or other health care facilities further its exempt purpose by promoting the health of the community (e g, open medical staff, community board, use of surplus funds, etc)
- 6
- Affiliated health care system.** If the organization is part of an affiliated health care system, describe the respective roles of the organization and its affiliates in promoting the health of the communities served
- 7
- State filing of community benefit report.** If applicable, identify all states with which the organization, or a related organization, files a community benefit report

Identifier	ReturnReference	Explanation
CHARITY CARE AT COST	PART I, LINE 7A	MARYLAND'S REGULATORY SYSTEM CREATES A UNIQUE PROCESS FOR HOSPITAL PAYMENT THAT DIFFERS FROM THE REST OF THE NATION THE HEALTH SERVICES COST REVIEW COMMISSION (HSCRC), DETERMINES PAYMENT THROUGH A RATE-SETTING PROCESS AND ALL PAYORS, INCLUDING GOVERNMENTAL PAYORS, PAY THE SAME AMOUNT FOR THE SAME SERVICES DELIVERED AT THE SAME HOSPITAL MARYLAND'S UNIQUE ALL-PAYOR SYSTEM INCLUDES A METHOD FOR REFERENCING UNCOMPENSATED CARE IN EACH PAYORS' RATES, WHICH DOES NOT ENABLE MARYLAND HOSPITALS TO BREAKOUT ANY OFFSETTING REVENUE RELATED TO UNCOMPENSATED CARE

Identifier	ReturnReference	Explanation
UNREIMBURSED MEDICAID	PART I, LINE 7B	MARYLAND'S REGULATORY SYSTEM CREATES A UNIQUE PROCESS FOR HOSPITAL PAYMENT THAT DIFFERS FROM THE REST OF THE NATION. THE HEALTH SERVICES COST REVIEW COMMISSION (HSCRC), DETERMINES PAYMENT THROUGH A RATE-SETTING PROCESS AND ALL PAYORS, INCLUDING GOVERNMENTAL PAYORS, PAY THE SAME AMOUNT FOR THE SAME SERVICES DELIVERED AT THE SAME HOSPITAL. MARYLAND'S UNIQUE ALL-PAYOR SYSTEM INCLUDES A METHOD FOR REFERENCING UNCOMPENSATED CARE IN EACH PAYORS' RATES, WHICH DOES NOT ENABLE MARYLAND HOSPITALS TO BREAKOUT ANY OFFSETTING REVENUE RELATED TO UNCOMPENSATED CARE. COMMUNITY BENEFIT EXPENSES ARE EQUAL TO MEDICAID REVENUES IN MARYLAND, AS SUCH, THE NET EFFECT IS ZERO. THE EXCEPTION TO THIS IS THE IMPACT ON THE HOSPITAL OF ITS SHARE OF THE MEDICAID ASSESSMENT. IN RECENT YEARS, THE STATE OF MARYLAND HAS CLOSED FISCAL GAPS IN THE STATE MEDICAID BUDGET BY ASSESSING HOSPITALS THROUGH THE RATE-SETTING SYSTEM.

Identifier	ReturnReference	Explanation
HEALTH PROFESSIONS EDUCATION	PART I, LINE 7F	MARYLAND'S REGULATORY SYSTEM CREATES A UNIQUE PROCESS FOR HOSPITAL PAYMENT THAT DIFFERS FROM THE REST OF THE NATION THE HEALTH SERVICES COST REVIEW COMMISSION (HSCRC), DETERMINES PAYMENT THROUGH A RATE-SETTING PROCESS AND ALL PAYORS, INCLUDING GOVERNMENTAL PAYORS, PAY THE SAME AMOUNT FOR THE SAME SERVICES DELIVERED AT THE SAME HOSPITAL MARYLAND'S UNIQUE ALL-PAYOR SYSTEM INCLUDES A METHOD FOR REFERENCING UNCOMPENSATED CARE IN EACH PAYORS' RATES, WHICH DOES NOT ENABLE MARYLAND HOSPITALS TO BREAKOUT ANY OFFSETTING REVENUE RELATED TO UNCOMPENSATED CARE PERCENT OF TOTAL EXPENSE PART I, LINE 7, COLUMN(F) BAD DEBT EXPENSE OF \$18,153,399 HAS BEEN REMOVED FROM TOTAL EXPENSE TO CALCULATE THE PERCENTAGES IN COLUMN (F)

Identifier	ReturnReference	Explanation
BAD DEBT	PART III, LINE 4	MEDSTAR HEALTH AND ITS AFFILIATED ORGANIZATIONS REPORT BAD DEBT EXPENSE IN ACCORDANCE WITH GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (GAAP) AND HFMA 15 AMOUNTS THAT ARE NOT EXPECTED TO BE COLLECTED, FOR PATIENTS QUALIFYING UNDER MEDSTAR HEALTH'S FINANCIAL ASSISTANCE POLICY, ARE WRITTEN OFF TO CHARITY CARE AND REPORTED AS A REDUCTION TO REVENUE. BAD DEBT EXPENSE RESULTS FROM MANAGEMENT'S INABILITY TO COLLECT REVENUES THAT MEET THE GAAP CRITERIA FOR REVENUE RECOGNITION. BAD DEBT REPRESENTS AN OPERATING EXPENSE AND IS REFLECTED AS A SEPARATE LINE ITEM ON THE ORGANIZATION'S STATEMENT OF OPERATIONS. HOWEVER, MEDSTAR AND ITS AFFILIATED ENTITIES DO NOT MAKE A DETERMINATION AS TO WHETHER SELF PAY AMOUNTS ARE COLLECTIBLE IN DETERMINING REVENUE RECOGNITION. RESERVE MODELS, WHICH HAVE BEEN DEVELOPED BASED ON HISTORICAL COLLECTION RESULTS AND WHICH ARE ADJUSTED PERIODICALLY BASED ON ACTUAL COLLECTIONS EXPERIENCE, ARE USED TO ESTIMATE UNCOLLECTIBLE AMOUNTS ACROSS ALL PAYORS INCLUDING SELF PAY. BAD DEBT DETERMINATIONS ARE MADE ONLY AFTER SUFFICIENT EVIDENCE IS OBTAINED TO SUPPORT THAT AN AMOUNT IS NOT COLLECTIBLE.

Identifier	ReturnReference	Explanation
MEDICARE	PART III, LINE 8	MARYLAND'S REGULATORY SYSTEM CREATES A UNIQUE PROCESS FOR HOSPITAL PAYMENT THAT DIFFERS FROM THE REST OF THE NATION THE HEALTH SERVICES COST REVIEW COMMISSION (HSCRC) DETERMINES PAYMENT THROUGH A RATE-SETTING PROCESS AND ALL PAYORS, INCLUDING GOVERNMENTAL PAYORS, PAY THE SAME AMOUNT FOR THE SAME SERVICES DELIVERED AT THE SAME HOSPITAL MARYLAND'S UNIQUE ALL-PAYOR SYSTEM INCLUDES A METHOD FOR REFERENCING UNCOMPENSATED CARE IN EACH PAYORS' RATES, WHICH DOES NOT ENABLE MARYLAND HOSPITALS TO BREAKOUT ANY OFFSETTING REVENUE RELATED TO UNCOMPENSATED CARE AS SUCH, THE NET EFFECT FOR MEDICARE EXPENSES AND REVENUES IN MARYLAND IS ZERO

Identifier	ReturnReference	Explanation
NEEDS ASSESSMENT	PART VI, LINE 2	<p>AS A COMMUNITY PARTNER, MEDSTAR FRANKLIN SQUARE MEDICAL CENTER (MFSMC) WORKS COLLABORATIVELY WITH LOCAL PARTNERS TO IDENTIFY KEY HEALTH NEEDS PARTNERS INCLUDE, BUT ARE NOT LIMITED TO THE BALTIMORE COUNTY DEPARTMENT OF HEALTH, NOT-FOR-PROFIT AND SOCIAL SERVICE AGENCIES, SCHOOLS AND UNIVERSITIES, FAITH BASED ORGANIZATIONS AND COMMUNITY BASED COALITIONS LOCAL, STATE AND NATIONAL HEALTH GOALS ARE ALSO USED TO ASSESS THE NEEDS OF THE COMMUNITY IN ADDITION, HOSPITAL SERVICE UTILIZATION PATTERNS, SUCH AS THE CAUSES OF EMERGENCY ROOM VISITS AND INPATIENT ADMISSIONS HELP DETERMINE THE HEALTH NEEDS OF THE COMMUNITY THE HOSPITAL'S MOST RECENT COMMUNITY HEALTH ASSESSMENT WAS CONDUCTED IN 2007-2008 MFSMC LED AND FINANCIALLY SUPPORTED THE ASSESSMENT, WHICH FOCUSED ON THE SOUTHEASTERN PORTION OF BALTIMORE COUNTY THE PURPOSE OF THE PROJECT WAS THREEFOLD (1) TO ASSESS THE CURRENT HEALTH AND WELL-BEING OF SOUTHEAST BALTIMORE RESIDENTS, (2) TO IDENTIFY DISCREPANCIES IN SERVICE NEEDS AND OUTCOMES AMONG AREA RESIDENTS, AND (3) TO DEVISE A STRATEGIC PLAN FOR CORRECTING IDENTIFIED DISCREPANCIES IN APRIL 2008, MFSMC PUBLISHED AN ACTION PLAN FOR DEVELOPING COORDINATED AND COLLABORATIVE EFFORTS AND INVESTING IN ECONOMIC AND SOCIAL RESOURCES IN WAYS THAT IMPROVE THE HEALTH AND WELL-BEING FOR ALL OF SOUTHEASTERN BALTIMORE COUNTY'S RESIDENTS RESOURCES WHICH ARE CURRENTLY AVAILABLE TO MEET THE ACTION PLAN WERE IDENTIFIED IN FY2009 THROUGH A COLLABORATIVE EFFORT AMONG PROFESSIONAL NETWORKS, COUNTY AGENCIES AND COMMUNITY ORGANIZATIONS IN FY2010, BEST PRACTICES AND FUNDING SOURCES FOR ACTION ITEMS WERE ASSESSED IN FY2011 THE HOSPITAL AND ITS NETWORK PARTNERS COMPLETED SOME INITIATIVES AND CONTINUE TO DEVELOP OTHER PROGRAMS AS A PROUD MEMBER OF MEDSTAR HEALTH, REPRESENTATIVES FROM MFSMC ALSO PARTICIPATE IN THE MEDSTAR HEALTH COMMUNITY BENEFIT WORKGROUP THE WORKGROUP IS COMPRISED OF COMMUNITY HEALTH PROFESSIONALS WHO REPRESENT ALL NINE MEDSTAR HOSPITALS THE TEAM ANALYZES LOCAL AND REGIONAL COMMUNITY HEALTH DATA, ESTABLISHES SYSTEM-WIDE COMMUNITY HEALTH PROGRAMMING PERFORMANCE AND EVALUATION MEASURES AND SHARES BEST PRACTICES</p>

Identifier	ReturnReference	Explanation
PATIENT EDUCATION OF ELIGIBILITY FOR ASSISTANCE	PART VI, LINE 3	AS ONE OF THE REGION'S LEADING NOT-FOR-PROFIT HEALTHCARE SYSTEMS, MEDSTAR HEALTH IS COMMITTED TO ENSURING THAT UNINSURED PATIENTS WITHIN THE COMMUNITIES WE SERVE WHO LACK FINANCIAL RESOURCES HAVE ACCESS TO NECESSARY HOSPITAL SERVICES. MEDSTAR HEALTH AND ITS HEALTHCARE FACILITIES WILL " TREAT ALL PATIENTS EQUITABLY, WITH DIGNITY, WITH RESPECT AND WITH COMPASSION " SERVE THE EMERGENCY HEALTH CARE NEEDS OF EVERYONE WHO PRESENTS AT OUR FACILITIES REGARDLESS OF A PATIENT'S ABILITY TO PAY FOR CARE " ASSIST THOSE PATIENTS WHO ARE ADMITTED THROUGH OUR ADMISSIONS PROCESS FOR NON-URGENT, MEDICALLY NECESSARY CARE WHO CANNOT PAY FOR PART OR ALL OF THE CARE THEY RECEIVE " BALANCE NEEDED FINANCIAL ASSISTANCE FOR SOME PATIENTS WITH BROADER FISCAL RESPONSIBILITIES IN ORDER TO KEEP ITS HOSPITALS' DOORS OPEN FOR ALL WHO MAY NEED CARE IN THE COMMUNITY. IN MEETING ITS COMMITMENTS, MEDSTAR HEALTH'S FACILITIES WILL WORK WITH THEIR UNINSURED PATIENTS TO GAIN AN UNDERSTANDING OF EACH PATIENT'S FINANCIAL RESOURCES PRIOR TO ADMISSION (FOR SCHEDULED SERVICES) OR PRIOR TO BILLING (FOR EMERGENCY SERVICES) BASED ON THIS INFORMATION AND PATIENT ELIGIBILITY, MEDSTAR HEALTH'S FACILITIES WILL ASSIST UNINSURED PATIENTS WHO RESIDE WITHIN THE COMMUNITIES WE SERVE IN ONE OR MORE OF THE FOLLOWING WAYS " ASSIST WITH ENROLLMENT IN PUBLICLY-FUNDED ENTITLEMENT PROGRAMS (E G , MEDICAID) " ASSIST WITH ENROLLMENT IN PUBLICLY-FUNDED PROGRAMS FOR THE UNINSURED (E G , D C HEALTHCARE ALLIANCE) " ASSIST WITH CONSIDERATION OF FUNDING THAT MAY BE AVAILABLE FROM OTHER CHARITABLE ORGANIZATIONS " PROVIDE CHARITY CARE AND FINANCIAL ASSISTANCE ACCORDING TO APPLICABLE GUIDELINES " PROVIDE FINANCIAL ASSISTANCE FOR PAYMENT OF FACILITY CHARGES USING A SLIDING SCALE BASED ON PATIENT FAMILY INCOME AND FINANCIAL RESOURCES " OFFER PERIODIC PAYMENT PLANS TO ASSIST PATIENTS WITH FINANCING THEIR HEALTHCARE SERVICES. EACH MEDSTAR HEALTH FACILITY (IN COOPERATION AND CONSULTATION WITH THE FINANCE DIVISION OF MEDSTAR HEALTH) WILL SPECIFY THE COMMUNITIES IT SERVES BASED ON THE GEOGRAPHIC AREAS IT HAS SERVED HISTORICALLY FOR THE PURPOSE OF IMPLEMENTING THIS POLICY. EACH FACILITY WILL POST THE POLICY, INCLUDING A DESCRIPTION OF THE APPLICABLE COMMUNITIES IT SERVES, IN EACH MAJOR PATIENT REGISTRATION AREA AND IN ANY OTHER AREAS REQUIRED BY APPLICABLE REGULATIONS, WILL COMMUNICATE THE INFORMATION TO PATIENTS AS REQUIRED BY THIS POLICY AND APPLICABLE REGULATIONS AND WILL MAKE A COPY OF THE POLICY AVAILABLE TO ALL PATIENTS. MEDSTAR HEALTH BELIEVES THAT ITS PATIENTS HAVE PERSONAL RESPONSIBILITIES RELATED TO THE FINANCIAL ASPECTS OF THEIR HEALTHCARE NEEDS. THE CHARITY CARE, FINANCIAL ASSISTANCE, AND PERIODIC PAYMENT PLANS AVAILABLE UNDER THIS POLICY WILL NOT BE AVAILABLE TO THOSE PATIENTS WHO FAIL TO FULFILL THEIR RESPONSIBILITIES. FOR PURPOSES OF THIS POLICY, PATIENT RESPONSIBILITIES INCLUDE " COMPLETING FINANCIAL DISCLOSURE FORMS NECESSARY TO EVALUATE THEIR ELIGIBILITY FOR PUBLICLY-FUNDED HEALTHCARE PROGRAMS, CHARITY CARE PROGRAMS, AND OTHER FORMS OF FINANCIAL ASSISTANCE. THESE DISCLOSURE FORMS MUST BE COMPLETED ACCURATELY, TRUTHFULLY, AND TIMELY TO ALLOW MEDSTAR HEALTH'S FACILITIES TO PROPERLY COUNSEL PATIENTS CONCERNING THE AVAILABILITY OF FINANCIAL ASSISTANCE. " WORKING WITH THE FACILITY'S FINANCIAL COUNSELORS AND OTHER FINANCIAL SERVICES STAFF TO ENSURE THERE IS A COMPLETE UNDERSTANDING OF THE PATIENT'S FINANCIAL SITUATION AND CONSTRAINTS. " COMPLETING APPROPRIATE APPLICATIONS FOR PUBLICLY-FUNDED HEALTHCARE PROGRAMS. THIS RESPONSIBILITY INCLUDES RESPONDING IN A TIMELY FASHION TO REQUESTS FOR DOCUMENTATION TO SUPPORT ELIGIBILITY. " MAKING APPLICABLE PAYMENTS FOR SERVICES IN A TIMELY FASHION, INCLUDING ANY PAYMENTS MADE PURSUANT TO DEFERRED AND PERIODIC PAYMENT SCHEDULES. " PROVIDING UPDATED FINANCIAL INFORMATION TO THE FACILITY'S FINANCIAL COUNSELORS ON A TIMELY BASIS AS THE PATIENT'S CIRCUMSTANCES MAY CHANGE.

Identifier	ReturnReference	Explanation
COMMUNITY INFORMATION	PART VI, LINE 4	<p>GEOGRAPHIC LOCATED IN THE ROSEDALE SECTION OF EASTERN BALTIMORE COUNTY, MARYLAND, MEDSTAR FRANKLIN SQUARE MEDICAL CENTER'S SERVICE AREA INCLUDES NEIGHBORHOODS IN EASTERN BALTIMORE CITY, SOUTHEASTERN BALTIMORE COUNTY AND EXTENDING UP TO SOUTHERN HARFORD COUNTY, ADJACENT TO THE CHESAPEAKE BAY SIGNIFICANT DEMOGRAPHIC CHARACTERISTICS RELEVANT TO THE NEEDS THE HOSPITAL SEEKS TO MEET THIS AREA HAS A LARGE BASE POPULATION OF APPROXIMATELY 503,072, AND IS PROJECTED TO GROW BY 3.7% IN THE NEXT FIVE YEARS, TO ABOUT 521,728. THE SERVICE AREA HAS BECOME A MUCH MORE DIVERSE COMMUNITY OVER THE PAST FEW DECADES. THE AREA, PARTICULARLY EASTERN BALTIMORE CITY AND EASTERN BALTIMORE COUNTY, CAN BE DESCRIBED AS BLUE-COLLAR, HIGH SCHOOL EDUCATED, AND ECONOMICALLY DEPRESSED, WITH A DIVERSE POPULATION CONSISTING OF CAUCASIANS (71.2%), AFRICAN-AMERICANS (20.5%), ASIAN/PACIFIC ISLANDERS (2.6%), HISPANICS/LATINOS (3.2%), AND OTHERS (2.4%). FORTY-TWO PERCENT OF THE POPULATION IS EITHER VERY YOUNG OR ELDERLY, WITH 24% OF RESIDENTS UNDER THE AGE OF EIGHTEEN AND 18% OVER 65 YEARS OF AGE. POVERTY IS A SIGNIFICANT PROBLEM IN EASTERN BALTIMORE COUNTY. STATISTICS SHOW THAT 46% OF THE RESIDENTS ABOVE 24 YEARS OF AGE HAVE A HIGH SCHOOL OR LOWER LEVEL OF EDUCATION. STATISTICS ALSO SHOW THAT THE MEDIAN HOUSEHOLD INCOME IN THE ESSEX/MIDDLE RIVER/DUNDALK AREA OF APPROXIMATELY \$49,200 IS MUCH LOWER THAN THE OVERALL COUNTY MEDIAN OF \$74,750. BASED ON HOSPITAL UTILIZATION DATA, THE NUMBER OF INDIVIDUALS WHO ARE UNINSURED OR UNDERINSURED IN THE HOSPITAL'S CATCHMENT AREA IS ESTIMATED TO BE 38% AND GROWING. THIS IS A DIRECT RESULT OF THE DECLINE IN MANUFACTURING INDUSTRIES IN THE REGION, WHICH ARE BEING REDUCED OR DECLARING BANKRUPTCY (E.G., GENERAL MOTORS OLDSMOBILE ASSEMBLY PLANT AND BETHLEHEM STEEL CORPORATION, BOTH OF WHOM WERE PREVIOUSLY MAJOR EMPLOYERS IN THE AREA). CURRENTLY, THE LARGEST EMPLOYER IN THE AREA IS THE HOSPITAL. THE INCREASING NUMBER OF FAMILIES AND INDIVIDUALS WITH EITHER NO HEALTH INSURANCE OR SEVERELY CURBED HEALTH INSURANCE REPRESENTS A SERIOUS CONCERN FOR THE HEALTHCARE COMMUNITY AND GOVERNMENT AGENCIES.</p>

Identifier	ReturnReference	Explanation
PROMOTION OF COMMUNITY HEALTH	PART VI, LINE 5	<p>AS A COMMUNITY PARTNER, THE HOSPITAL ENGAGES IN A NUMBER OF COMMUNITY BENEFIT ACTIVITIES TO IMPROVE AND PROMOTE THE HEALTH AND WELLBEING OF THE COMMUNITY FOR EXAMPLE, IN PARTNERSHIP WITH BALTIMORE COUNTY AND HEALTHCARE FOR THE HOMELESS IN BALTIMORE CITY, MFSMC ESTABLISHED A NEW PRIMARY CARE ACCESS POINT FOR HOMELESS PERSONS IN BALTIMORE COUNTY THE HOSPITAL PROVIDES THE PRIMARY HEALTHCARE STAFF, IN-KIND SUPPORT IN TECHNICAL ASSISTANCE, INFORMATION TECHNOLOGY, FINANCE/BUDGET/BILLING, AND PUBLIC RELATIONS AND MARKETING MFSMC ALSO PROVIDES WRITE OFFS FOR LABS AND SPECIALTY SERVICES</p> <p>ADDITIONALLY, MFSMC EVALUATES OVER 300 CHILDREN EACH YEAR WHO ARE SUSPECTED OF BEING ABUSED CHILDREN IN EASTERN BALTIMORE COUNTY ARE ALMOST 50% MORE LIKELY AS CHILDREN IN THE REST OF THE COUNTY TO BE ABUSE VICTIMS IN RESPONSE TO THE HIGH INCIDENCE OF ABUSE, THE DEPARTMENT OF PEDIATRICS DEVELOPED A COMPREHENSIVE APPROACH TO DIAGNOSE AND PREVENT CHILD ABUSE THE FRANKLIN SQUARE HOSPITAL CHILD PROTECTION TEAM (CPT) BEGAN TO FUNCTION IN NOVEMBER, 2000 THE LEADERS OF THE CPT ARE A SOCIAL WORKER COORDINATOR, THE MEDICAL DIRECTOR, AND ON-CALL SOCIAL WORK AND MEDICAL STAFF THE TEAM PROVIDES 24/7 COVERAGE TO THE HOSPITAL AND EVALUATES ANY CHILD WHO IS SUSPECTED OF BEING PHYSICALLY OR SEXUALLY ABUSED THIS SERVICE HAS PROVEN TO BE A SIGNIFICANT CONTRIBUTION TO THE COMMUNITY - IMPACTING THOUSANDS OF PARENTS AND CHILDREN</p>

Identifier	ReturnReference	Explanation
AFFILIATED HEALTH CARE SYSTEM	PART VI, LINE 6	AS A PROUD MEMBER OF MEDSTAR HEALTH, MEDSTAR FRANKLIN SQUARE MEDICAL CENTER IS ABLE TO EXPAND ITS CAPACITY TO MEET THE NEEDS OF THE COMMUNITY BY PARTNERING WITH OTHER MEDSTAR HOSPITALS AND ASSOCIATED ENTITIES MEDSTAR HEALTH RESOURCES ASSIST THE HOSPITAL IN COMMUNITY HEALTH PLANNING TO MEET THE NEEDS OF THE UNINSURED AND OTHER VULNERABLE POPULATIONS THROUGH ITS COMMUNITY HEALTH FUNCTION, MEDSTAR HEALTH PROVIDES MFSMC WITH TECHNICAL SUPPORT TO ENHANCE COMMUNITY HEALTH PROGRAMMING AND EVALUATION MEDSTAR'S CORPORATE PHILANTHROPY DIVISION IDENTIFIES PUBLIC AND PRIVATE FUNDING SOURCES TO ENSURE THE AVAILABILITY OF HIGH QUALITY HEALTH SERVICES, REGARDLESS OF ABILITY TO PAY

Identifier	ReturnReference	Explanation
STATE FILING OF COMMUNITY BENEFIT REPORT	PART VI, LINE 7	THE COMMUNITY BENEFIT REPORT FOR MEDSTAR FRANKLIN SQUARE MEDICAL CENTER IS FILED IN THE STATE OF MARYLAND

Schedule J
(Form 990)

Compensation Information

OMB No 1545-0047

2010

Open to Public Inspection

For certain Officers, Directors, Trustees, Key Employees, and Highest Compensated Employees

▶ Complete if the organization answered "Yes" to Form 990, Part IV, question 23.

▶ Attach to Form 990. ▶ See separate instructions.

Name of the organization
Franklin Square Hospital Center Inc

Employer identification number
52-0608007

Part I

Questions Regarding Compensation

		Yes	No
1a	Check the appropriate box(es) if the organization provided any of the following to or for a person listed in Form 990, Part VII, Section A, line 1a Complete Part III to provide any relevant information regarding these items		
	<div><div><input type="checkbox"/> First-class or charter travel</div><div><input type="checkbox"/> Housing allowance or residence for personal use</div><div><input type="checkbox"/> Travel for companions</div><div><input type="checkbox"/> Payments for business use of personal residence</div><div><input type="checkbox"/> Tax idemnification and gross-up payments</div><div><input type="checkbox"/> Health or social club dues or initiation fees</div><div><input type="checkbox"/> Discretionary spending account</div><div><input type="checkbox"/> Personal services (e g , maid, chauffeur, chef)</div></div>		
b	If any of the boxes in line 1a are checked, did the organization follow a written policy regarding payment or reimbursement or provision of all the expenses described above? If "No," complete Part III to explain	1b	
2	Did the organization require substantiation prior to reimbursing or allowing expenses incurred by all officers, directors, trustees, and the CEO/Executive Director, regarding the items checked in line 1a?	2	
3	Indicate which, if any, of the following the organization uses to establish the compensation of the organization's CEO/Executive Director Check all that apply		
	<div><div><input checked="" type="checkbox"/> Compensation committee</div><div><input checked="" type="checkbox"/> Written employment contract</div><div><input checked="" type="checkbox"/> Independent compensation consultant</div><div><input checked="" type="checkbox"/> Compensation survey or study</div><div><input checked="" type="checkbox"/> Form 990 of other organizations</div><div><input checked="" type="checkbox"/> Approval by the board or compensation committee</div></div>		
4	During the year, did any person listed in Form 990, Part VII, Section A, line 1a with respect to the filing organization or a related organization		
a	Receive a severance payment or change-of-control payment from the organization or a related organization?	4a	No
b	Participate in, or receive payment from, a supplemental nonqualified retirement plan?	4b	Yes
c	Participate in, or receive payment from, an equity-based compensation arrangement?	4c	No
	If "Yes" to any of lines 4a-c, list the persons and provide the applicable amounts for each item in Part III		
	Only 501(c)(3) and 501(c)(4) organizations only must complete lines 5-9.		
5	For persons listed in form 990, Part VII, Section A, line 1a, did the organization pay or accrue any compensation contingent on the revenues of		
a	The organization?	5a	No
b	Any related organization?	5b	No
	If "Yes," to line 5a or 5b, describe in Part III		
6	For persons listed in form 990, Part VII, Section A, line 1a, did the organization pay or accrue any compensation contingent on the net earnings of		
a	The organization?	6a	No
b	Any related organization?	6b	No
	If "Yes," to line 6a or 6b, describe in Part III		
7	For persons listed in Form 990, Part VII, Section A, line 1a, did the organization provide any non-fixed payments not described in lines 5 and 6? If "Yes," describe in Part III	7	No
8	Were any amounts reported in Form 990, Part VII, paid or accrued pursuant to a contract that was subject to the initial contract exception described in Regs section 53 4958-4(a)(3)? If "Yes," describe in Part III	8	No
9	If "Yes" to line 8, did the organization also follow the rebuttable presumption procedure described in Regulations section 53 4958-6(c)?	9	

Part II Officers, Directors, Trustees, Key Employees, and Highest Compensated Employees. Use duplicate copies if additional space is needed.

For each individual whose compensation must be reported in Schedule J, report compensation from the organization on row (i) and from related organizations, described in the instructions on row (ii) Do not list any individuals that are not listed on Form 990, Part VII

Note. The sum of columns (B)(i)-(iii) must equal the applicable column (D) or column (E) amounts on Form 990, Part VII, line 1a

(A) Name		(B) Breakdown of W-2 and/or 1099-MISC compensation			(C) Retirement and other deferred compensation	(D) Nontaxable benefits	(E) Total of columns (B)(i)-(D)	(F) Compensation reported in prior Form 990 or Form 990-EZ
		(i) Base compensation	(ii) Bonus & incentive compensation	(iii) Other reportable compensation				
(1) KENNETH A SAMET	(i)	0	0	0	0	0	0	0
	(ii)	1,180,163	1,354,791	590,140	112,797	19,468	3,257,359	0
(2) ADRIENNE KIRBY	(i)	273,473	81,704	0	0	4,882	360,059	0
	(ii)	0	0	0	0	0	0	0
(3) YVONNE OTTAVIANO	(i)	351,176	53,252	0	4,054	13,932	422,414	0
	(ii)	0	0	0	0	0	0	0
(4) WILLIAM MCGUIRE	(i)	427,276	51,823	0	5,754	2,241	487,094	0
	(ii)	0	0	0	0	0	0	0
(5) WILLIAM WATERFIELD	(i)	365,540	30,002	0	4,989	12,483	413,014	0
	(ii)	0	0	0	0	0	0	0
(6) SAMUEL SMITH	(i)	362,714	33,063	0	7,612	15,332	418,721	0
	(ii)	0	0	0	0	0	0	0
(7) ALBERT FLEISHER	(i)	394,999	50,000	0	1,208	15,509	461,716	0
	(ii)	0	0	0	0	0	0	0
(8) ANTHONY SCLAMA	(i)	333,583	153,691	0	3,516	14,430	505,220	0
	(ii)	0	0	0	0	0	0	0
(9) ROBERT LALLY	(i)	235,183	109,898	0	16,873	19,171	381,125	0
	(ii)	0	0	0	0	0	0	0
(10) LAWRENCE STRASSNER	(i)	181,528	39,691	0	2,660	7,637	231,516	0
	(ii)	0	0	0	0	0	0	0
(11) GLENN VISBEEN	(i)	223,310	83,480	0	0	15,706	322,496	0
	(ii)	0	0	0	0	0	0	0
(12) CARL SCHINDELAR	(i)	0	0	0	0	0	0	0
	(ii)	577,942	482,393	0	19,315	19,063	1,098,713	0
(13)								
(14)								
(15)								
(16)								

Part IIISupplemental Information

Complete this part to provide the information, explanation, or descriptions required for Part I, lines 1a, 1b, 4c, 5a, 5b, 6a, 6b, 7, and 8. Also complete this part for any additional information.

Identifier	Return Reference	Explanation
RETIREMENT PLAN	SCHEDULE J, PART I, LINE 4B	KENNETH SAMET KENNETH SAMET'S OTHER REPORTABLE COMPENSATION IN PART II, COLUMN (B) (III) INCLUDES \$568,506 REPRESENTING MR SAMET'S ACCRUED BENEFIT IN A SUPPLEMENTAL RETIREMENT PLAN, WHICH WAS EARNED DURING THE PAST 22 YEARS OF SERVICE. THIS AMOUNT WAS NOT ACTUALLY PAID TO MR. SAMET, BUT WAS REPORTED AS COMPENSATION UNDER FICA TAX-REPORTING RULES.

Schedule L
(Form 990 or 990-EZ)

Transactions with Interested Persons

OMB No 1545-0047

2010

Open to Public Inspection

▶ Complete if the organization answered "Yes" on Form 990, Part IV, lines 25a, 25b, 26, 27, 28a, 28b, or 28c, or Form 990-EZ, Part V lines 38a or 40b.

▶ Attach to Form 990 or Form 990-EZ. ▶ See separate instructions.

Name of the organization
Franklin Square Hospital Center Inc

Employer identification number
52-0608007

Part I Excess Benefit Transactions (section 501(c)(3) and section 501 (c)(4) organizations only).

Complete if the organization answered "Yes" on Form 990, Part IV, line 25a or 25b, or Form 990-EZ, Part V, line 40b

1	(a) Name of disqualified person	(b) Description of transaction	(c) Corrected?	
			Yes	No

2 Enter the amount of tax imposed on the organization managers or disqualified persons during the year under section 4958 ▶ \$

3 Enter the amount of tax, if any, on line 2, above, reimbursed by the organization ▶ \$

Part II Loans to and/or From Interested Persons.

Complete if the organization answered "Yes" on Form 990, Part IV, line 26, or Form 990-EZ, Part V, line 38a

(a) Name of interested person and purpose	(b) Loan to or from the organization?		(c)Original principal amount	(d)Balance due	(e) In default?		(f) Approved by board or committee?		(g)Written agreement?	
	To	From			Yes	No	Yes	No	Yes	No
Total ▶ \$										

Part III Grants or Assistance Benefitting Interested Persons.

Complete if the organization answered "Yes" on Form 990, Part IV, line 27.

(a) Name of interested person	(b)Relationship between interested person and the organization	(c)Amount of grant or type of assistance

Part IV

Business Transactions Involving Interested Persons.
Complete if the organization answered "Yes" on Form 990, Part IV, line 28a, 28b, or 28c.

(a) Name of interested person	(b) Relationship between interested person and the organization	(c) Amount of transaction	(d) Description of transaction	(e) Sharing of organization's revenues?	
				Yes	No
(1) ORTHOPEDIC HAND SURGERY ASSOCIATE	SEE PART V	300,000	ORTHOPEDIC SERVICES		No

Part V

Supplemental Information
Complete this part to provide additional information for responses to questions on Schedule L (see instructions)

Identifier	Return Reference	Explanation
BUSINESS TRANSACTIONS INVOLVING INTERESTED PERSONS	SCHEDULE L, PART IV	DR IRA GUBERNICK, A BOARD MEMBER AT FRANKLIN SQUARE HOSPITAL, OWNS MORE THAN 5% OF ORTHOPEDIC & HAND SURGERY ASSOCIATES, P A (OHSA), WHICH PROVIDES MANAGEMENT AND SUPPORT SERVICES TO FRANKLIN SQUARE HOSPITAL'S ORTHODEPIC, SPORTS MEDICINE, AND EMERGENCY DEPARTMENTS OHSA'S GROSS REVENUES RECEIVED FROM THE HOSPITAL FOR THE YEAR WERE \$0.3 MILLION

<div>SCHEDULE O</div> <div>(Form 990 or 990-EZ)</div> <div> <div>Department of the Treasury</div> <div>Internal Revenue Service</div> </div>	<div>Supplemental Information to Form 990 or 990-EZ</div> <div> <div>Complete to provide information for responses to specific questions on Form 990 or to provide any additional information.</div> <div>▶ Attach to Form 990 or 990-EZ.</div> </div>	OMB No 1545-0047
		<div>2010</div> <div>Open to Public Inspection</div>
	<div>Name of the organization</div> <div>Franklin Square Hospital Center Inc</div>	<div>Employer identification number</div> <div>52-0608007</div>

Identifier	Return Reference	Explanation
DESCRIPTION OF EXEMPT PURPOSE ACHIEVEMENTS	PART III, IINE 4A	<p>MFSMC ATTAINED MAGNET RECOGNITION BY THE AMERICAN NURSES CREDENTIALING CENTER (ANCC) IN 2008 AND IS RECOGNIZED BY THE JOINT COMMISSION AS AN ADVANCED PRIMARY STROKE CENTER US NEWS AND WORLD REPORT RECOGNIZED MFSMC AS A HIGH PERFORMING HOSPITAL IN GASTROENTEROLOGY , PULMONOLOGY , CANCER, DIABETES, ENDOCRINOLOGY, EAR NOSE AND THROAT, GYNECOLOGY, ORTHOPEDICS, NEPHROLOGY, NEUROLOGY AND UROLOGY THE HOSPITAL WAS ALSO A THIRD-TIME RECIPIENT OF THE DELMARVA FOUNDATION MEDICARE EXCELLENCE AWARD FOR QUALITY IMPROVEMENT MFSMC WAS ALSO RECOGNIZED BY HEALTHGRADES AS ONE OF THE NATION'S 50 BEST HOSPITALS FOR ITS CLINICAL EXCELLENCE ORGANIZATION MEMBERS PART VI, LINE 6 THE ORGANIZATION IS AN AFFILIATE AND SUBSIDIARY OF MEDSTAR HEALTH, INC , A TAX-EXEMPT MARYLAND NON-STOCK CORPORATION MEDSTAR HEALTH, INC , OR ONE OF ITS AFFILIATES AND SUBSIDIARIES, IS THE SOLE MEMBER OF THE ORGANIZATION DESCRIPTION OF MEMBERS PART VI, LINE 7A AS AN AFFILIATE AND SUBSIDIARY OF MEDSTAR HEALTH, INC , A TAX-EXEMPT MARYLAND NON-STOCK CORPORATION, THE ORGANIZATION MAY RECOMMEND PERSON(S) FOR MEMBERSHIP ON THE ORGANIZATION'S GOVERNING BODY ANY SUCH RECOMMENDATION BY THE ORGANIZATION IS SUBJECT TO APPROVAL BY THE GOVERNANCE COMMITTEE OF THE BOARD OF DIRECTORS OF MEDSTAR HEALTH, INC THE BOARD OF MEDSTAR HEALTH, INC HAS DELEGATED CERTAIN APPROVAL AUTHORITY TO THE GOVERNANCE COMMITTEE AND THE PRESIDENT & CEO OF MEDSTAR HEALTH, INC</p>

Identifier	Return Reference	Explanation
DECISIONS OF GOVERNING BODY	PART VI, LINE 7B	AS AN AFFILIATE AND SUBSIDIARY OF MEDSTAR HEALTH, INC , A TAX-EXEMPT MARYLAND NON-STOCK CORPORATION, THE BYLAWS OF THE ORGANIZATION ARE SUBJECT TO CERTAIN RESERVED POWERS, WHICH PROVIDE THAT THE SOLE MEMBER OF THE ORGANIZATION MUST APPROVE CERTAIN DECISIONS, INCLUDING BUT NOT LIMITED TO MATTERS CONCERNING THE SALE OR PURCHASE OF REAL OR PERSONAL PROPERTY , CAPITAL BUDGETS, STRATEGIC PLANNING, INVESTMENTS, AND CORPORATE GOVERNANCE

Identifier	Return Reference	Explanation
PROCESS FOR REVIEWING FORM 990	PART VI, LINE 11A	THE PROCESS FOR REVIEWING THE FORM 990 INCLUDED EDUCATION AND TRANSPARENCY SENIOR FINANCIAL EXECUTIVES, WORKING WITH INDEPENDENT OUTSIDE EXPERTS, THOROUGHLY REVIEWED FORM 990 AND ACCOMPANYING INSTRUCTIONS IN ADDITION, SENIOR EXECUTIVES REVIEWED THE RELEVANT SECTIONS OF THE FORM 990 WITH THE FOLLOWING COMMITTEES OF THE ORGANIZATION'S GOVERNING BODY FINANCE, AUDIT, GOVERNANCE, STRATEGIC PLANNING, AND EXECUTIVE COMPENSATION FOLLOWING THESE MEETINGS, THE GOVERNING BODY WAS PROVIDED A COPY OF THE FORM 990 IN ITS FINAL FORM AND GIVEN AN OPPORTUNITY TO PROVIDE ANY INPUT OR COMMENTS RELATING TO THE FORM 990 PRIOR TO ITS FILING

Identifier	Return Reference	Explanation
CONFLICT OF INTEREST POLICY	PART VI, LINE 12C	APPOINTMENT OF BOARDS OF DIRECTORS MEDSTAR HEALTH (AND ITS SUBSIDIARIES) REQUIRE ALL NOMINATED DIRECTORS, PRIOR TO THEIR APPOINTMENT OR ELECTION, TO DISCLOSE THE EXISTENCE OF (OR POTENTIAL EXISTENCE OF) ANY TRANSACTION WITH MEDSTAR THAT WOULD RESULT IN A CONFLICT OF INTEREST SUCH DISCLOSURES (IF ANY) ARE REVIEWED BY THE GOVERNANCE COMMITTEE OF THE MEDSTAR HEALTH BOARD OF DIRECTORS WHICH DETERMINES HOW THE MATTER SHOULD BE RESOLVED ANNUAL DISCLOSURES - ALL OFFICERS, DIRECTORS, AND SENIOR MANAGERS ALL OFFICERS, DIRECTORS AND SENIOR MANAGERS ARE REQUIRED, NOT LESS THAN ANNUALLY , TO COMPLETE A SURVEY OF QUESTIONS CONCERNING ANY TRANSACTIONS OR RELATIONSHIPS WHICH WOULD OR COULD REPRESENT A CONFLICT OF INTEREST SUCH DISCLOSURES (IF ANY) ARE REVIEWED BY THE GOVERNANCE COMMITTEE OF THE MEDSTAR HEALTH BOARD OF DIRECTORS WHICH DETERMINES HOW THE MATTER SHOULD BE RESOLVED IN ADDITION, OFFICERS AND DIRECTORS OF MARYLAND HOSPITALS AND NURSING CENTERS ARE REQUIRED TO ANNUALLY DISCLOSE ADDITIONAL INFORMATION RELATING TO POTENTIAL CONFLICTS OF INTEREST AND SUCH DISCLOSURES ARE REPORTED TO THE MARYLAND HEALTH SERVICES COST REVIEW COMMISSION (HSCRC)

Identifier	Return Reference	Explanation
DESCRIPTION OF EXECUTIVE COMPENSATION	PART VI, LINE 15	<p>THE EXECUTIVE COMPENSATION COMMITTEE OF THE BOARD OF DIRECTORS OF MEDSTAR HEALTH, INC (THE "COMMITTEE") HAS OVERSIGHT OVER THE EXECUTIVE COMPENSATION PROGRAM (THE "PROGRAM") OF MEDSTAR HEALTH, INC AND ITS AFFILIATES. TOTAL COMPENSATION FOR THE TOP MANAGEMENT OFFICIALS, OFFICERS AND KEY EMPLOYEES OF MEDSTAR HEALTH, INC AND ITS AFFILIATES ARE REVIEWED AND APPROVED BY THE COMMITTEE WITH ASSISTANCE AND GUIDANCE FROM AN INDEPENDENT THIRD PARTY ADVISOR. THE MEMBERS OF THE COMMITTEE ARE INDEPENDENT FROM ALL OF THE PARTICIPANTS IN THE PROGRAM. THE MAIN OBJECTIVE OF THE PROGRAM IS TO PROVIDE MARKET COMPETITIVE TOTAL COMPENSATION THAT IS INTERNALLY EQUITABLE AND HAS A STRONG PAY-FOR-PERFORMANCE LINKAGE. PERFORMANCE IS EVALUATED AT THE SYSTEM, OPERATING UNIT, AND INDIVIDUAL LEVELS. THE OVERALL TOTAL COMPENSATION PHILOSOPHY IS MANAGED AT THE 75TH PERCENTILE OF THE COMPETITIVE MARKET FOR COMPARABLE SIZE (NET REVENUE) AND TYPE (TAX-EXEMPT HEALTHCARE ORGANIZATIONS) WHERE APPROPRIATE, ADDITIONAL INDUSTRY DATA IS CONSIDERED (GENERAL BUSINESS AND/OR TAXABLE HEALTHCARE) FOR SELECTED POSITIONS THAT CAN BE RECRUITED FROM OR POTENTIALLY LOST TO THESE INDUSTRIES (E.G., INFORMATION TECHNOLOGY, FINANCE, ETC.). THE COMMITTEE HAS ENGAGED ERNST & YOUNG LLP ("E&Y") TO SERVE AS AN ADVISOR ON THE REASONABLENESS AND COMPETITIVENESS OF THE PROGRAM. IN DETERMINING REASONABLENESS AND COMPETITIVENESS, E&Y REVIEWS MARKET PRACTICES AND TRENDS, AND MAKES RECOMMENDATIONS RELATED TO THE PROGRAM. E&Y UTILIZES INFORMATION FROM CUSTOM SURVEYS, NATIONAL COMPENSATION SURVEYS, PROPRIETARY DATABASES, AND CLIENT EXPERIENCES TO DETERMINE ITS FINAL RECOMMENDATIONS. E&Y PRESENTS THEIR FINDINGS AND RECOMMENDATIONS TO THE COMMITTEE. THE COMMITTEE MAKES THE FINAL DECISIONS ON ALL OF THE COMPENSATION DETERMINATIONS OF THE PROGRAM. ALL DECISIONS MADE BY THE COMMITTEE ARE CONTEMPORANEOUSLY DOCUMENTED.</p>

Identifier	Return Reference	Explanation
FINANCIAL STATEMENT AVAILABILITY	PART VI, LINE 19	MEDSTAR HEALTH POSTS ITS ANNUAL FINANCIAL AUDIT AND QUARTERLY FINANCIAL REPORTS TO THE ELECTRONIC MUNICIPAL MARKET ACCESS (EMMA) SYSTEM THE ORGANIZATION ALSO E-MAILS ITS ANNUAL AND QUARTERLY DISCLOSURES TO HOLDERS OF THE COMPANY'S PUBLICLY TRADED DEBT THE COMPANY'S GOVERNANCE DOCUMENTS AND CONFLICTS OF INTEREST POLICIES ARE AVAILABLE UPON REQUEST THROUGH ITS CORPORATE (OR AS APPLICABLE ENTITY) PUBLIC INFORMATION OFFICES

Identifier	Return Reference	Explanation
OTHER CHANGES IN NET ASSETS	PART XI, LINE 5	EQUITY TRANSFERS \$ 11,927,152 UNREALIZED GAIN ON INVESTMENTS 63,482 ===== TOTAL \$ 11,990,634

Identifier	Return Reference	Explanation
HOURS DEVOTED FOR RELATED ORGANIZATION	FORM 990 PART VII	NAME KENNETH A SAMET TITLE DIRECTOR HOURS 40

Identifier	Return Reference	Explanation
HOURS DEVOTED FOR RELATED ORGANIZATION	FORM 990 PART VII	NAME CARL SCHINDELAR TITLE FORMER OFFICER HOURS 40

SCHEDULE R
(Form 990)

Department of the Treasury
Internal Revenue Service

Related Organizations and Unrelated Partnerships

▶ Complete if the organization answered "Yes" to Form 990, Part IV, line 33, 34, 35, 36, or 37.
▶ Attach to Form 990. ▶ See separate instructions.

OMB No 1545-0047

2010

Open to Public Inspection

Name of the organization
Franklin Square Hospital Center Inc

Employer identification number
52-0608007

Part I

Identification of Disregarded Entities (Complete if the organization answered "Yes" on Form 990, Part IV, line 33.)

(a) Name, address, and EIN of disregarded entity	(b) Primary activity	(c) Legal domicile (state or foreign country)	(d) Total income	(e) End-of-year assets	(f) Direct controlling entity
(1) Medstar Health Anesthesia Services B LLC 9000 Franklin Square Drive Baltimore, MD 21237 20-5909703	Health Svcs	MD	8,736,444	926,231	NA

Part II

Identification of Related Tax-Exempt Organizations (Complete if the organization answered "Yes" on Form 990, Part IV, line 34 because it had one or more related tax-exempt organizations during the tax year.)

(a) Name, address, and EIN of related organization	(b) Primary activity	(c) Legal domicile (state or foreign country)	(d) Exempt Code section	(e) Public charity status (if section 501(c)(3))	(f) Direct controlling entity	(g) Section 512(b)(13) controlled organization	
						Yes	No
See Additional Data Table							

Part III

Identification of Related Organizations Taxable as a Partnership (Complete if the organization answered "Yes" on Form 990, Part IV, line 34 because it had one or more related organizations treated as a partnership during the tax year.)

(a) Name, address, and EIN of related organization	(b) Primary activity	(c) Legal domicile (state or foreign country)	(d) Direct controlling entity	(e) Predominant income (related, unrelated, excluded from tax under sections 512- 514)	(f) Share of total income	(g) Share of end-of-year assets	(h) Disproportionate allocations?		(i) Code V—UBI amount in box 20 of Schedule K-1 (Form 1065)	(j) General or managing partner?		(k) Percentage ownership
							Yes	No		Yes	No	
(1) Surgicenter at Pasadena LLC 5565 Sterrett Place 5th Floor Columbia, MD21044 52-2009504	Medical Servi	MD	NA					No			No	
(2) SJMC-RA LLC 5565 Sterrett Place 5th Floor Columbia, MD21044 75-3160895	Radiation The	MD	NA					No			No	
(3) Physician Imaging of Washington Hospital 6525 Belcrest Road Suite G 50 Hyattsville, MD20782 56-2616090	Lab Services	MD	NA					No			No	

Part IV

Identification of Related Organizations Taxable as a Corporation or Trust (Complete if the organization answered "Yes" on Form 990, Part IV, line 34 because it had one or more related organizations treated as a corporation or trust during the tax year.)

(a) Name, address, and EIN of related organization	(b) Primary activity	(c) Legal domicile (state or foreign country)	(d) Direct controlling entity	(e) Type of entity (C corp, S corp, or trust)	(f) Share of total income	(g) Share of end-of-year assets	(h) Percentage ownership
See Additional Data Table							

Part V

Transactions With Related Organizations (Complete if the organization answered "Yes" on Form 990, Part IV, line 34, 35, 35A, or 36.)

Note. Complete line 1 if any entity is listed in Parts II, III or IV

1 During the tax year, did the organization engage in any of the following transactions with one or more related organizations listed in Parts II-IV?

a Receipt of (i) interest (ii) annuities (iii) royalties (iv) rent from a controlled entity

b Gift, grant, or capital contribution to other organization(s)

c Gift, grant, or capital contribution from other organization(s)

d Loans or loan guarantees to or for other organization(s)

e Loans or loan guarantees by other organization(s)

f Sale of assets to other organization(s)

g Purchase of assets from other organization(s)

h Exchange of assets

i Lease of facilities, equipment, or other assets to other organization(s)

j Lease of facilities, equipment, or other assets from other organization(s)

k Performance of services or membership or fundraising solicitations for other organization(s)

l Performance of services or membership or fundraising solicitations by other organization(s)

m Sharing of facilities, equipment, mailing lists, or other assets

n Sharing of paid employees

o Reimbursement paid to other organization for expenses

p Reimbursement paid by other organization for expenses

q Other transfer of cash or property to other organization(s)

r Other transfer of cash or property from other organization(s)

Yes

No

1a

1b

1c

1d

1e

1f

1g

1h

1i

1j

1k

1l

1m

1n

1o

1p

1q

1r

No

No

No

No

No

No

No

No

No

No

No

No

No

No

Yes

Yes

No

No

2 If the answer to any of the above is "Yes," see the instructions for information on who must complete this line, including covered relationships and transaction thresholds

(a) Name of other organization	(b) Transaction type(a-r)	(c) Amount involved	(d) Method of determining amount involved
(1) CHURCH HOME AND HOSPITAL OF THE CITY OF BALTI	O	500,000	
(2) HH MEDSTAR HEALTH INC	P	285,309	
(3) THE GOOD SAMARITAN HOSPITAL OF MARYLAND	P	202,719	
(4) HARBOR HOSPITAL INC	P	65,419	
(5)			
(6)			

Schedule R (Form 990) 2010

Provide the following information for each entity taxed as a partnership through which the organization conducted more than five percent of its activities (measured by total assets or gross revenue) that was not a related organization. See instructions regarding exclusion for certain investment partnerships.

[illegible]

Part VII **Supplemental Information**

Complete this part to provide additional information for responses to questions on Schedule R (see instructions)

Identifier	Return Reference	Explanation
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Software ID:

Software Version:

EIN: 52-0608007

Name: Franklin Square Hospital Center Inc

Form 990, Schedule R, Part II - Identification of Related Tax-Exempt Organizations

(a) Name, address, and EIN of related organization	(b) Primary activity	(c) Legal domicile (state or foreign country)	(d) Exempt Code section	(e) Public charity status (if section 501(c)(3))	(f) Direct controlling entity	(g) Section 512 (b)(13) controlled organization	
						Yes	No
Church Home Corporation 5565 Sterrett Place 5th Floor Columbia, MD21044 23-7374724	Medical Fund	MD	501(c)(3)	PF	NA		
Harbor Hospital Inc 3001 South Hanover Street Baltimore, MD21225 52-0491660	Hospital	MD	501(c)(3)	3	NA		
Medstar Health Inc 5565 Sterrett Place 5th Floor Columbia, MD21044 52-2087445	Medical Svcs	MD	501(c)(3)	11b II	NA		
Montgomery General Hospital 18101 Prince Philip Drive Olney, MD20832 52-0646893	Hospital	MD	501(c)(3)	3	NA		
The Good Samaritan Hospital of Maryland 5601 Loch Raven Blvd Baltimore, MD21239 52-0591607	Hospital	MD	501(c)(3)	3	NA		
The Union Memorial Hospital 201 East University Parkway Baltimore, MD21218 52-0591685	Hospital	MD	501(c)(3)	3	NA		
Medstar Research Institute 108 Irving Street NW Washington, DC20010 52-6056274	Hospital	DC	501(c)(3)	3	NA		
The Medstar-Georgetown Medical Center I Hopsital Admin 1 Main Bldg Washington, DC20007 52-2218584	Hospital	DC	501(c)(3)	3	NA		
Washington Hospital Center Corporation 110 Irving Street NW Washington, DC20010 52-1272129	Hospital	DC	501(c)(3)	3	NA		
HH Medstar Health Inc 5565 Sterrett Place 5th Floor Columbia, MD21044 52-1542230	Medical Svcs	MD	501(c)(3)	11b II	NA		
Bay Development Corp 5565 Sterrett Place 5th Floor Columbia, MD21044 52-1132992	Foundation	MD	501(c)(3)	11a I	NA		
Bay Life Services Inc 5565 Sterrett Place 5th Floor Columbia, MD21044 52-1496539	Mental Health	MD	501(c)(3)	9	NA		

Form 990, Schedule R, Part II - Identification of Related Tax-Exempt Organizations

(a) Name, address, and EIN of related organization	(b) Primary activity	(c) Legal domicile (state or foreign country)	(d) Exempt Code section	(e) Public charity status (if section 501(c)(3))	(f) Direct controlling entity	(g) Section 512 (b)(13) controlled organization	
						Yes	No
MedStar Surgery Center Inc 4061 Powdermill Road Suite 210 Calverton, MD20705 52-1061679	Medical Svcs	MD	501(c)(3)	9	NA		
Church Home and Hospital of the City of 5565 Sterrett Place 5th Floor Columbia, MD21044 52-0591600	Hospital	MD	501(c)(3)	3	NA		
Foundation for Georgetown University Hos Hopsital Admin 1 Main Bldg Washington, DC20007 52-2339873	Foundation	DC	501(c)(3)	11a I	NA		
Good Samaritan Hospital Foundation Inc 5601 Loch Raven Blvd Baltimore, MD21239 52-2307122	Foundation	MD	501(c)(3)	11a I	NA		
Good Samaritan Nursing Center Inc 5601 Loch Raven Blvd Baltimore, MD21239 52-1672866	Medical Svcs	MD	501(c)(3)	9	NA		
GS Housing Inc 5601 Loch Raven Blvd Baltimore, MD21239 52-1481656	Elder Housing	MD	501(c)(3)	9	NA		
GS Properties Inc 5601 Loch Raven Blvd Baltimore, MD21239 52-1429853	Admin Svcs	MD	501(c)(3)	11a I	NA		
Harbor Hospital Foundation Inc 3001 South Hanover Street Baltimore, MD21225 52-1284532	Foundation	MD	501(c)(3)	11a I	NA		
Medstar Health Infusion Inc 4061 Powdermill Road Suite 210 Calverton, MD20705 52-1980510	Medical Svcs	MD	501(c)(3)	9	NA		
Medstar Health Visiting Nurses Associati 4061 Powdermill Road Calverton, MD20705 53-0196597	Medical Svcs	MD	501(c)(3)	9	NA		
Medstar Long Term Care Corporation 4061 Powdermill Road Suite 210 Calverton, MD20705 52-1489097	Hospital	MD	501(c)(3)	3	NA		
Medstar VNA Healthcare 4061 Powdermill Road Suite 210 Calverton, MD20705 52-1458516	Medical Svcs	MD	501(c)(3)	9	NA		

Form 990, Schedule R, Part II - Identification of Related Tax-Exempt Organizations

(a) Name, address, and EIN of related organization	(b) Primary activity	(c) Legal domicile (state or foreign country)	(d) Exempt Code section	(e) Public charity status (if section 501(c)(3))	(f) Direct controlling entity	(g) Section 512 (b)(13) controlled organization	
						Yes	No
MGH Community Health Inc 18101 Prince Philip Drive OIney, MD20832 52-1372467	Medical Svcs	MD	501(c)(3)	9	NA		
MGH Health Foundation Inc 18101 Prince Philip Drive OIney, MD20832 52-1129959	Foundation	MD	501(c)(3)	7	NA		
MGH Health Services Inc 18101 Prince Philip Drive OIney, MD20832 52-1366812	Foundation	MD	501(c)(3)	11a I	NA		
MGH Women's Board 18101 Prince Philip Drive OIney, MD20832 52-6039600	Foundation	MD	501(c)(3)	11a I	NA		
National Rehabilitation Hospital 102 Irving Street NW Washington, DC20010 52-1369749	Hospital	DC	501(c)(3)	3	NA		
Regional Rehab at OIney Inc 18101 Prince Philip Drive OIney, MD20832 52-2310902	Medical Svcs	MD	501(c)(3)	3	NA		
Suburban NRH Medical Rehabilitation I 102 Irving Street NW Washington, DC20010 52-1931151	Medical Svcs	DC	501(c)(3)	3	NA		
The Thomas O'Neil Catholic Health Care F 5601 Loch Raven Blvd Baltimore, MD21239 52-1104382	Foundation	MD	501(c)(3)	11a I	NA		
Union Memorial Hospital Foundation Inc 201 East University Parkway Baltimore, MD21218 52-1446828	Foundation	MD	501(c)(3)	11a I	NA		
VNA Inc 4061 Powdermill Road Suite 210 Calverton, MD20705 52-1332411	Admin Svcs	MD	501(c)(3)	11a I	NA		
WHC Foundation Inc 110 Irving Street NW Washington, DC20010 52-1791670	Foundation	DC	501(c)(3)	11a I	NA		
Woodbourne Woods Inc 5601 Loch Raven Blvd Baltimore, MD21239 52-2299070	Elder Housing	MD	501(c)(3)	9	NA		

Form 990, Schedule R, Part II - Identification of Related Tax-Exempt Organizations

(a) Name, address, and EIN of related organization	(b) Primary activity	(c) Legal domicile (state or foreign country)	(d) Exempt Code section	(e) Public charity status (if section 501(c)(3))	(f) Direct controlling entity	(g) Section 512 (b)(13) controlled organization	
						Yes	No
Hospice of St Mary's Inc PO Box 527 Leonardtown, MD20650 52-2153926	Support Org	MD	501(c)(3)	11 b II	NA		
St Mary's Hospital of St Mary's County 25500 Point Lookout Road Leonardtown, MD20650 52-0619006	Hospital	MD	501(c)(3)	3	NA		
St Mary's Hospital Foundation Inc PO Box 527 Leonardtown, MD20650 52-1051368	Support Org	MD	501(c)(3)	11 d III	NA		
FRANKLIN SQUARE HOSPITAL CENTER FDN 9000 FRANKLIN SQUARE DRIVE BALTIMORE, MD21237 52-2329546	FOUNDATION	MD	501(C)(3)	11 A I	NA		

Form 990, Schedule R, Part IV - Identification of Related Organizations Taxable as a Corporation or Trust

(a) Name, address, and EIN of related organization	(b) Primary activity	(c) Legal Domicile (State or Foreign Country)	(d) Direct Controlling Entity	(e) Type of entity (C corp, S corp, or trust)	(f) Share of total income (\$)	(g) Share of end-of-year assets (\$)	(h) Percentage ownership
MedStar Pharmacies Inc 5565 Sterrett Place 5th Floor Columbia, MD21044 52-1513056	Drug Sales	MD	NA	C Corp			
ExtenCare Inc 5565 Sterrett Place 5th Floor Columbia, MD21044 52-1556228	Medical Servi	MD	NA	C Corp			
Helix Resources Management Inc 5565 Sterrett Place 5th Floor Columbia, MD21044 52-1913070	Admin Service	MD	NA	C Corp			
HelixCare Medical Group LLC 5565 Sterrett Place 5th Floor Columbia, MD21044 52-1955580	Medical Servi	MD	NA	C Corp			
HelixCare Properties LLC 5565 Sterrett Place 5th Floor Columbia, MD21044 52-1966695	Medical Servi	MD	NA	C Corp			
Parkway Ventures Inc 5565 Sterrett Place 5th Floor Columbia, MD21044 52-1893569	Holding Compa	MD	NA	C Corp			
Physicians Administrative Services Inc 5565 Sterrett Place 5th Floor Columbia, MD21044 23-7042074	Billing Servi	MD	NA	C Corp			
MedStar Family Choice Inc 5565 Sterrett Place 5th Floor Columbia, MD21044 52-1995521	Managed Care	MD	NA	C Corp			
Medstar Enterprises Inc 4061 Powdermill Road Suite 210 Calverton, MD20705 52-2139841	Admin Service	MD	NA	C Corp			
Nascott Inc 4061 Powdermill Road Suite 210 Calverton, MD20705 52-1693808	Medical Servi	MD	NA	C Corp			
Star Billing Inc 4061 Powdermill Road Suite 210 Calverton, MD20705 52-1850113	Billing Servi	MD	NA	C Corp			
Washington Risk Network Management Inc 4061 Powdermill Road Suite 210 Calverton, MD20705 52-2132677	Medical Servi	MD	NA	C Corp			
Washington Hospital Center Physician Hos 100 Irving Street NW Washington, DC20010 52-1931000	Medical Servi	MD	NA	C Corp			
Medstar Physician Partners Inc 4061 Powdermill Road Suite 210 Calverton, MD20705 52-2030809	Medical Servi	MD	NA	C Corp			
NRH Ambulatory Services Inc 102 Irving Street NW Washington, DC20010 52-1930165	Rehab Service	MD	NA	C Corp			
Franklin Square Drive Land Condo Associa 5565 Sterrett Place 5th Floor Columbia, MD21044 76-0756352	Condo Owner A	MD	NA	C Corp			
MGH Diversified Services Inc 18101 Prince Philip Drive Olney, MD20832 52-1943602	Medical Servi	MD	NA	C Corp			
St Mary's Health Alliance Inc 25500 Point Lookout Road Leonardtown, MD20650 52-1930331	Medical Servi	MD	NA	C Corp			
Greenspring Financial Insurance Limited 23 Lime Tree Bay Avenue PO Box 1051 KY1-1102 Grand Cayman CJ 98-0188617	Insurance	CJ	NA	C Corp			



MEDSTAR HEALTH, INC.

Consolidated Financial Statements

June 30, 2011 and 2010

(With Independent Auditors' Report Thereon)

MEDSTAR HEALTH, INC.

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

Independent Auditors' Report

The Board of Directors
MedStar Health, Inc

We have audited the accompanying consolidated balance sheets of MedStar Health, Inc (the Corporation) as of June 30, 2011 and 2010 and the related consolidated statements of operations and 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 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 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 MedStar Health, Inc. as of June 30, 2011 and 2010, and the results of their operations and their cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

KPMG LLP

October 3, 2011

MEDSTAR HEALTH, INC.

Consolidated Balance Sheets

June 30, 2011 and 2010

(Dollars in millions)

Assets	2011	2010
Current assets		
Cash and cash equivalents	\$ 498.6	509.6
Investments	18.0	16.8
Assets whose use is limited or restricted	36.7	40.8
Receivables		
From patient services (less allowances for uncollectible accounts of \$238.6 in 2011 and \$211.0 in 2010)	515.5	438.1
Other	58.7	64.6
	<u>574.2</u>	<u>502.7</u>
Inventories	47.2	50.4
Prepays and other current assets	41.8	40.9
Total current assets	<u>1,216.5</u>	<u>1,161.2</u>
Investments	603.8	509.2
Assets whose use is limited or restricted	390.4	358.0
Property and equipment, net	1,031.8	1,023.4
Interest in net assets of foundation	49.2	41.1
Other assets	135.1	119.6
Total assets	<u>\$ 3,426.8</u>	<u>3,212.5</u>

MEDSTAR HEALTH, INC.

Consolidated Balance Sheets

June 30, 2011 and 2010

(Dollars in millions)

Liabilities and Net Assets	2011	2010
Current liabilities		
Accounts payable and accrued expenses	\$ 282 0	284 2
Accrued salaries, benefits, and payroll taxes	233 6	204 6
Amounts due to third-party payors, net	45 4	42 0
Current portion of long-term debt	37 0	265 8
Current portion of self insurance liabilities	58 0	56 3
Other current liabilities	94 2	81 9
Total current liabilities	750 2	934 8
Long-term debt, net of current portion	1,007 5	795 8
Self insurance liabilities, net of current portion	196 6	190 9
Pension liabilities	307 9	401 3
Other long-term liabilities, net of current portion	129 3	125 4
Total liabilities	2,391 5	2,448 2
Net assets		
Unrestricted net assets		
MedStar Health, Inc	904 4	643 9
Noncontrolling interests	7 8	9 4
Total unrestricted net assets	912 2	653 3
Temporarily restricted	85 4	74 0
Permanently restricted	37 7	37 0
Total net assets	1,035 3	764 3
Total liabilities and net assets	\$ 3,426 8	3,212 5

See accompanying notes to consolidated financial statements

MEDSTAR HEALTH, INC.

Consolidated Statements of Operations and Changes in Net Assets

Years ended June 30, 2011 and 2010

(Dollars in millions)

	<u>2011</u>	<u>2010</u>
Operating revenues		
Net patient service revenue		
Hospital inpatient services	\$ 2,157.6	2,176.6
Hospital outpatient services	1,227.6	1,100.8
Physician services	205.7	175.5
Other patient service revenue	<u>119.6</u>	<u>114.4</u>
Total net patient service revenue	3,710.5	3,567.3
Premium revenue	118.7	102.0
Other operating revenue	<u>182.5</u>	<u>186.1</u>
Net operating revenues	<u>4,011.7</u>	<u>3,855.4</u>
Operating expenses		
Personnel	2,057.1	1,988.7
Supplies	633.4	619.9
Purchased services	499.1	461.1
Other operating	360.8	354.7
Provision for bad debts	190.7	182.5
Interest expense	44.2	39.0
Depreciation and amortization	<u>153.0</u>	<u>146.5</u>
Total operating expenses	<u>3,938.3</u>	<u>3,792.4</u>
Earnings from operations	<u>73.4</u>	<u>63.0</u>
Nonoperating gains (losses)		
Investment income	28.5	21.3
Net realized gains on investments	9.1	0.7
Unrealized gain (loss) on derivative instruments	2.7	(4.1)
Unrealized gains on trading investments	89.4	60.9
Income tax benefit (provision)	0.5	(1.9)
Equity interest in net earnings of affiliates and other	<u>8.6</u>	<u>5.7</u>
Total nonoperating gains	<u>138.8</u>	<u>82.6</u>
Excess of revenue over expenses	<u>\$ 212.2</u>	<u>145.6</u>

See accompanying notes to consolidated financial statements

MEDSTAR HEALTH, INC.

Consolidated Statements of Operations and Changes in Net Assets

Years ended June 30, 2011 and 2010

(Dollars in millions)

	<u>2011</u>	<u>2010</u>
Unrestricted net assets		
Excess of revenue over expenses	\$ 212.2	145.6
Addition of St. Mary's net assets	—	72.2
Change in funded status of defined benefit plans	47.4	(121.3)
Distributions to noncontrolling interests	(5.7)	(2.4)
Change in unrealized gains on investments	—	0.1
Net assets released from restrictions used for purchase of property and equipment	5.0	7.6
	<u>258.9</u>	<u>101.8</u>
Increase in unrestricted net assets		
Temporarily restricted net assets		
Addition of St. Mary's net assets	—	3.8
Contributions	11.3	8.5
Realized net gains on restricted investments	7.2	2.1
Change in unrealized gains on restricted investments	5.3	4.9
Net assets released from restrictions	(12.4)	(14.3)
	<u>11.4</u>	<u>5.0</u>
Increase in temporarily restricted net assets		
Permanently restricted net assets		
Addition of St. Mary's net assets	—	0.1
Contributions	0.3	2.0
Realized net gains on marketable restricted investments	0.1	0.1
Change in unrealized gains on restricted investments	0.3	0.2
	<u>0.7</u>	<u>2.4</u>
Increase in permanently restricted net assets		
Increase in net assets	271.0	109.2
Net assets, beginning of year	<u>764.3</u>	<u>655.1</u>
Net assets, end of year	<u><u>\$ 1,035.3</u></u>	<u><u>764.3</u></u>

See accompanying notes to consolidated financial statements

MEDSTAR HEALTH, INC.
Consolidated Statements of Cash Flows
Years ended June 30, 2011 and 2010
(Dollars in millions)

	<u>2011</u>	<u>2010</u>
Cash flows from operating activities		
Change in net assets	\$ 271 0	109 2
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Net assets of St Mary's Hospital	—	(76 1)
Depreciation and amortization	153 0	146 5
Amortization of bond financing costs and bond premiums	0 4	0 3
Loss on sale of property and equipment	0 3	0 3
Change in funded status of defined benefit plans	(47 4)	121 3
Realized net gains on marketable investments	(16 4)	(2 9)
Change in unrealized gains of marketable investments	(95 0)	(66 1)
Unrealized (gain) loss on derivative instruments	(2 7)	4 1
Net settlement payment on derivative instrument	4 2	4 4
Distributions to noncontrolling interests	5 7	2 4
Deferred income tax (benefit) provision	(1 4)	1 4
Provision for bad debts	190 7	182 5
Temporarily and permanently restricted contributions	(11 6)	(10 5)
Changes in operating assets and liabilities		
Receivables	(262 2)	(244 0)
Inventories and other assets	(3 6)	(5 8)
Accounts payable and accrued expenses	30 3	27 5
Amounts due to third-party payors	3 4	(1 8)
Other liabilities	(23 3)	39 2
Net cash provided by operations	<u>195 4</u>	<u>231 9</u>
Cash flows from investing activities		
Cash from acquisition of St Mary's Hospital	—	20 9
Purchases of investments and assets whose use is limited or restricted, net	(20 8)	(47 6)
Net settlement payment on derivative instrument	(4 2)	(4 4)
Purchases of property and equipment and other	(170 2)	(203 6)
Net cash used in investing activities	<u>(195 2)</u>	<u>(234 7)</u>
Cash flows from financing activities		
Repayment of long-term borrowings	(17 1)	(56 4)
Temporarily and permanently restricted contributions	11 6	10 5
Distributions to noncontrolling interests	(5 7)	(2 4)
Net cash used in financing activities	<u>(11 2)</u>	<u>(48 3)</u>
Decrease in cash and cash equivalents	(11 0)	(51 1)
Cash and cash equivalents at beginning of year	<u>509 6</u>	<u>560 7</u>
Cash and cash equivalents at end of year	<u>\$ 498 6</u>	<u>509 6</u>
Supplemental disclosure of cash flow information		
Interest paid	\$ 45 5	44 8
Noncash investing and financing activities		
Accounts payable for fixed asset purchases	\$ 5 4	7 4

See accompanying notes to consolidated financial statements

MEDSTAR HEALTH, INC.

Notes to Consolidated Financial Statements

June 30, 2011 and 2010

(Dollars in millions)

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

(a) Organization

MedStar Health, Inc. (the Corporation) is a tax-exempt, Maryland membership corporation which, through its controlled entities and other affiliates, provides and manages healthcare services in the region encompassing Maryland, Washington D C and Northern Virginia. The Corporation became operational on June 30, 1998 by the transfer of the membership interests of Helix Health, Inc. (Helix – a not-for-profit Maryland Corporation) and Medlantic Healthcare Group, Inc. (Medlantic – a not-for-profit Delaware Corporation) in exchange for the guarantee of the debt of both Helix and Medlantic by the Corporation. The principal tax-exempt and taxable entities of the Corporation are

Tax-Exempt

- Bay Development Corporation
- Church Home and Hospital of the City of Baltimore, Inc.
- Franklin Square Hospital Center, Inc.
- Harbor Hospital, Inc.
- HH MedStar Health, Inc.
- MedStar-Georgetown Medical Center, Inc.
- MedStar Health Research Institute, Inc.
- MedStar Health Visiting Nurse Association, Inc.
- MedStar Surgery Center, Inc.
- Montgomery General Hospital, Inc.
- National Rehabilitation Hospital, Inc.
- The Good Samaritan Hospital of Maryland, Inc.
- The Union Memorial Hospital
- St. Mary's Hospital of St. Mary's County, Inc.
- Washington Hospital Center Corporation

Taxable

- Greenspring Financial Insurance, LTD
- MedStar Enterprises, Inc. and Subsidiaries
- MedStar Physician Partners, Inc.
- Parkway Ventures, Inc. and Subsidiaries

MEDSTAR HEALTH, INC.

Notes to Consolidated Financial Statements

June 30, 2011 and 2010

(Dollars in millions)

(b) *Changes in Organizational Structure*

On September 30, 2009, the Corporation and St Mary's Hospital of St Mary's County, Inc. and Subsidiaries (St Mary's Hospital) closed on an affiliation transaction that substituted the Corporation as sole member of St Mary's Hospital. St Mary's Hospital includes a 103-bed acute care hospital located in Leonardtown, Maryland, in St Mary's County.

The Corporation's affiliation with St Mary's Hospital was accounted for as an "as-if pooling of interests" in accordance with U.S. generally accepted accounting principles. Accordingly, the assets and liabilities of St Mary's Hospital and its subsidiaries were recorded at their carrying values. The financial position and results of operations of St Mary's Hospital are included in the accompanying consolidated financial statements for the period beginning on or after July 1, 2009. Net assets increased by \$76.1 on July 1, 2009 due to the affiliation.

(c) *Basis of Presentation*

The consolidated financial statements are prepared on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles. All majority owned and direct member entities are consolidated. All entities where the Corporation exercises significant influence but for which it does not have control are accounted for under the equity method. All other entities are accounted for under the cost method. All significant intercompany accounts and transactions have been eliminated.

(d) *Use of Estimates*

The preparation of 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 financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(e) *Cash Equivalents*

All highly liquid investments with a maturity date of three months or less when purchased are considered to be cash equivalents.

(f) *Investments and Assets whose use is Limited or Restricted*

The Corporation's investment portfolio is considered trading and is classified as current or noncurrent assets based on management's intention as to use. All debt and equity securities are reported at fair value principally based on quoted market prices on the consolidated balance sheets.

The Corporation has investments which under U.S. generally accepted accounting principles are considered alternative investments, including commingled equity funds totaling \$95.2 and \$32.4 at June 30, 2011 and 2010, respectively, inflation hedging equity, commodity, and fixed income funds totaling \$64.9 and \$35.5 at June 30, 2011 and 2010, respectively, and hedge fund of funds and private equity totaling \$108.4 and \$91.4 at June 30, 2011 and 2010, respectively. These funds utilize

MEDSTAR HEALTH, INC.

Notes to Consolidated Financial Statements

June 30, 2011 and 2010

(Dollars in millions)

various types of debt and equity securities and derivative instruments in their investment strategies. Alternative investments are recorded under the equity method.

Investments in unconsolidated affiliates are accounted for under the cost or equity method of accounting, as appropriate and are included in other assets in the consolidated balance sheets. The Corporation utilizes the equity method of accounting for its investments in entities over which it exercises significant influence. The Corporation's equity income or loss is recognized in nonoperating gains (losses).

Investments limited as to use or restricted include assets held by trustees under bond indenture, self-insurance trust arrangements, assets restricted by donor, and assets designated by the Board of Directors for future capital improvements and other purposes over which it retains control and may, at its discretion, use for other purposes. Amounts from these funds required to meet current liabilities have been classified in the consolidated balance sheets as current assets. Purchases and sales of securities are recorded on a trade-date basis.

Investment income (interest and dividends) including realized gains and losses on investment sales are reported as nonoperating gains or losses in the excess of revenues over expenses in the accompanying consolidated statements of operations and changes in net assets unless the income or loss is restricted by the donor or law. Investment income on funds held in trust for self-insurance purposes is included in other operating revenue. Investment income and net gains (losses) that are restricted by the donor are recorded as a component of changes in temporarily or permanently restricted net assets, in accordance with donor imposed restrictions. Realized gains and losses are determined based on the specific security's original purchase price or adjusted cost if the investment was previously determined to be other-than-temporarily impaired. Unrealized gains and losses are included in nonoperating gains (losses) within the excess of revenue over expenses.

(g) *Inventories*

Inventories, which primarily consist of medical supplies and pharmaceuticals at many of the operating entities, are stated at the lower of cost or market, with cost being determined primarily under the average cost or first-in, first-out methods.

MEDSTAR HEALTH, INC.

Notes to Consolidated Financial Statements

June 30, 2011 and 2010

(Dollars in millions)

(h) Property and Equipment

Property and equipment acquisitions are recorded at cost and are depreciated or amortized over the estimated useful lives of the assets. Estimated useful lives range from three to forty years. Amortization of assets held under capital leases are computed using the shorter of the lease term or the estimated useful life of the leased asset and is included in depreciation and amortization expense. Interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets. Interest expense capitalized totaled \$1.3 and \$7.0 for 2011 and 2010, respectively, which was offset by investment earnings of \$0.1 and \$1.2, respectively. Depreciation is computed on a straight-line basis. Major classes and estimated useful lives of property and equipment are as follows:

Leasehold improvements	Lease term
Buildings and improvements	10 – 40 years
Equipment	3 – 20 years

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

(i) Interest in Net Assets of Foundation

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 operations and changes in net assets as a component of changes in temporarily restricted net assets.

(j) Internal-Use Software

The Corporation capitalizes the direct costs, including internal personnel costs, associated with the implementation of new information systems for internal use. The Corporation capitalized \$1.1 and \$1.6 during the years ended June 30, 2011 and 2010, respectively. Capitalized amounts are amortized over the estimated lives of the software, generally three to five years.

(k) Financing Costs

Financing costs incurred in issuing bonds have been capitalized and included in other assets. These costs are being amortized over the estimated duration of the related debt using the effective interest method. Accumulated amortization totaled \$4.6 and \$4.2 at June 30, 2011 and 2010, respectively.

MEDSTAR HEALTH, INC.

Notes to Consolidated Financial Statements

June 30, 2011 and 2010

(Dollars in millions)

(l) *Estimated Professional Liability Costs*

The provision for estimated self-insured professional liability claims includes estimates of the ultimate costs for both reported claims and claims incurred but not reported. These estimates are based on actuarial analysis of historical trends, claims asserted and reported incidents.

(m) *Leases*

Lease arrangements, including assets under construction, are capitalized when such leases convey substantially all the risks and benefits incidental to ownership. Capital leases are amortized over either the lease term or the life of the related assets, depending upon available purchase options and lease renewal features. Amortization related to capital leases is included in the statements of operations within depreciation and amortization expense.

(n) *Derivatives*

The Corporation utilizes derivative financial instruments to manage its interest rate risks associated with tax-exempt debt. The Corporation does not hold or issue derivative financial instruments for trading purposes. The derivative instruments are recorded on the balance sheet at their respective fair values. The Corporation's current derivative investments do not qualify for hedge accounting; therefore, the changes in fair value have been recognized in the accompanying consolidated statements of operations and changes in net assets as mark-to-market adjustments. The fair market value of the derivative instruments are included in other long-term liabilities in the accompanying consolidated balance sheets.

(o) *Net Patient Service Revenue*

Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments due to future audits, reviews and investigations. The differences between the estimated and actual amounts are recorded as part of net patient service revenue in future periods as the amounts become known, or as years are no longer subject to audit, review or investigation. Payment arrangements include prospectively determined rates per discharge, fee-for-service, discounted charges, and per diem payments. Hospital inpatient services, hospital outpatient services, the physician component of physician/managed care networks, and other patient services consists of revenue, which is recognized when the services are rendered based on billable charges. Other patient service revenue primarily consists of home care, long-term care and other nonhospital patient services.

Premium revenue consists of amounts received from the State of Maryland by the Corporation's managed care organization for providing medical services to subscribing participants, regardless of services actually performed. The managed care organization provides services primarily to enrolled Medicaid beneficiaries. This revenue is recognized ratably over the contractual period for the provision of services. Medical expenses of the managed care organization include a provision for incurred but unreported claims.

MEDSTAR HEALTH, INC.

Notes to Consolidated Financial Statements

June 30, 2011 and 2010

(Dollars in millions)

(p) *Charity Care*

The Corporation provides care to patients who meet certain criteria under its charity care policies without charge or at amounts less than established rates. Because the Corporation does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue.

(q) *Grants*

Federal grants are accounted for as either an exchange transaction or as a contribution based on terms and conditions of the grant. If the grant is accounted for as an exchange transaction, revenue is recognized as other operating revenue when earned. If the grant is accounted for as a contribution, the revenues are recognized as either other operating revenue, or as temporarily restricted contributions depending on the restrictions within the grant.

(r) *Contributions*

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 gift is received. The gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the consolidated statement of operations as net assets released from restrictions in other operating revenue. Donor-restricted contributions whose restrictions are met within the same year as received are reported as unrestricted contributions in the accompanying consolidated financial statements.

(s) *Income Taxes*

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the period that includes the enactment date. Any changes to the valuation allowance on the deferred tax asset are reflected in the year of the change. The Corporation accounts for uncertain tax positions in accordance with the FASB Accounting Standards Codification (ASC) Topic 740, *Income Taxes*.

(t) *Excess of Revenue over Expenses*

The consolidated statements of operations and changes in net assets includes a performance indicator, which is the excess of revenue over expenses. Changes in unrestricted net assets that are excluded from excess of revenue over expenses, include unrealized gains and losses on investments classified as other-than-trading securities, contributions of long-lived assets (including assets acquired using contributions that by donor restriction were to be used for the purpose of acquiring

MEDSTAR HEALTH, INC.

Notes to Consolidated Financial Statements

June 30, 2011 and 2010

(Dollars in millions)

such assets). certain changes in accounting principle and defined benefit obligations in excess of recognized pension cost, among others

(u) Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are those whose use by the Corporation or individual operating units has been limited by donors to a specific time period or purpose. Permanently restricted net assets have been restricted by donors to be maintained by the Corporation or individual operating units in perpetuity.

(v) Fair Value of Financial Instruments

The following methods and assumptions were used to estimate the fair value of financial instruments:

Cash and cash equivalents, receivables, other current assets, other assets, current liabilities and long-term liabilities. The carrying amount reported in the consolidated balance sheets for each of these assets and liabilities approximates their fair value.

The fair value of investments, assets whose use is limited or restricted and the interest rate swap is discussed in note 3. The fair value of long term debt is discussed in note 6.

(w) Reclassifications

Certain prior year amounts have been reclassified to conform with current period presentation, the effect of which is not material.

(x) New Accounting Pronouncements

In July 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2011-07, *Health Care Entities (Topic 954), Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts, and the Allowance for Doubtful Accounts for Certain Health Care Entities (ASU 2011-07)*, which requires a health care entity to change the presentation of their statement of operations by reclassifying the provision for bad debts associated with patient service revenue from an operating expense to a deduction from patient service revenue (net of contractual allowances and discounts). Additionally, enhanced disclosures about an entity's policies for recognizing revenue, assessing bad debts, as well as qualitative and quantitative information about changes in the allowance for doubtful accounts are required. The adoption of ASU 2011-07 is effective for the Corporation beginning July 1, 2012.

In August 2010, the FASB issued ASU No. 2010-24, *Health Care Entities (Topic 954), Presentation of Insurance Claims and Related Insurance Recoveries (ASU 2010-24)*, which clarified that a health care entity should not net insurance recoveries against a related claim liability. Additionally, the amount of the claim liability should be determined without consideration of insurance recoveries. The adoption of ASU 2010-24 is effective beginning July 1, 2011 and is not expected to have an impact on the Corporation's consolidated financial statements.

MEDSTAR HEALTH, INC.

Notes to Consolidated Financial Statements

June 30, 2011 and 2010

(Dollars in millions)

In August 2010, the FASB issued ASU No. 2010-23, *Health Care Entities (Topic 954), Measuring Charity Care for Disclosure*. ASU 2010-23 is intended to reduce the diversity in practice regarding the measurement basis used in the disclosure of charity care. ASU 2010-23 requires that cost be used as the measurement basis for charity care disclosure purposes and that cost be identified as the direct and indirect cost of providing the charity care, and requires disclosure of the method used to identify or determine such costs. The adoption of ASU 2010-23 is effective for the Corporation beginning July 1, 2011.

In January 2010, FASB issued ASU No. 2010-07, *Not-for-Profit Entities (Topic 958), Not-for-Profit Entities: Mergers and Acquisition (ASU 2010-07)*, which codified previous guidance on accounting for a combination of not-for-profit entities and applies to a combination that meets the definition of either a merger of not-for-profit entities or an acquisition by a not-for-profit entity. ASU 2010-07 also amends previous guidance for the reporting of goodwill and other intangibles and noncontrolling interests in consolidated financial statements to make their provisions fully applicable to not-for-profit entities. This guidance establishes that goodwill be tested annually for impairment and an impairment loss be recognized if it is determined that the carrying amount of the reporting unit's net assets exceeds its fair value. Beginning on July 1, 2010, the Corporation applied the transition provisions of the guidance which requires the Corporation to cease amortization of previously recognized goodwill and to test goodwill for impairment annually or more frequently if events or circumstances indicate that the carrying value of an asset may not be recoverable. The Corporation completed a transitional and annual goodwill impairment test. No adjustments to the carrying value of previously recognized goodwill were recorded during the year ended June 30, 2011. The guidance also requires the presentation of noncontrolling interests in the net assets of consolidated subsidiaries be reported as a separate component of the appropriate class of net assets in the consolidated balance sheets and the amount of consolidated excess of revenues over expenses attributable to the Corporation and to the noncontrolling interest be disclosed. The provisions of the standard related to the presentation and disclosure of noncontrolling interests are to be applied retrospectively to all periods presented. The adoption of this standard did not have a material impact on the Corporation's consolidated financial statements, except the following:

- (a) Noncontrolling interests of \$8.2 as of July 1, 2009 were reclassified from other long-term liabilities to unrestricted net assets, separate from the Corporation's unrestricted net assets.
- (b) Consolidated excess of revenues over expenses includes excess of revenues over expenses attributable to both the Corporation and noncontrolling interests.

In January 2010, the FASB issued ASU 2010-06, *Improving Disclosures about Fair Value Measurements*. ASU 2010-06 amends ASC Topic 820, *Fair Value Measurements and Disclosures*, to require a number of additional disclosures regarding fair value measurements. Effective fiscal year 2010, ASU 2010-06 required disclosure of the amounts of significant transfers between Level I and Level II investments and the reasons for such transfers, the reasons for any transfers in or out of Level III investments and disclosure of the policy for determining when transfers among levels are recognized. ASU 2010-06 also clarified that disclosures should be provided for each class of assets and liabilities and clarified the requirement to disclose information about the valuation techniques.

MEDSTAR HEALTH, INC.

Notes to Consolidated Financial Statements

June 30, 2011 and 2010

(Dollars in millions)

and inputs used in estimating Level II and Level III measurements. Effective in fiscal year 2011, ASU 2010-06 also requires that information in the reconciliation of recurring Level III measurements about purchases, sales, issuances and settlements be provided on a gross basis. The adoption of ASU 2010-06 only required additional disclosures and did not have an impact on the consolidated financial statements. As the Corporation does not have significant transfers between Levels, or any Level III measurements, no additional disclosures were necessary.

(2) Investments and Assets Whose Use Is Limited or Restricted

Investments and assets whose use is limited or restricted as of June 30, 2011 and 2010, at fair value or under the equity method of accounting in the case of alternative investments, consist of the following:

	2011	2010
Collateralized guaranteed investment contract and cash	\$ 77.1	119.8
Fixed income securities and funds	314.3	377.3
Equity securities	389.0	268.4
Alternative investments		
Commingled equity funds	95.2	32.4
Inflation hedging equity, commodity, fixed income fund	64.9	35.5
Hedge fund of funds and private equity	108.4	91.4
Total investments and assets whose use is limited or restricted	1,048.9	924.8
Less short-term investments and assets whose use is limited or restricted	(54.7)	(57.6)
Long-term investments and assets whose use is limited or restricted	\$ 994.2	867.2

Assets whose use is limited or restricted as of June 30, 2011 and 2010, included in the table above, consist of the following:

	2011	2010
Funds held by trustees	\$ 17.0	31.1
Self-insurance funds	163.1	145.1
Funds restricted by donors for specific purposes and endowment	63.8	58.1
Funds designated by Board and Management	183.2	164.5
	427.1	398.8
Less assets required for current obligations	(36.7)	(40.8)
	\$ 390.4	358.0

MEDSTAR HEALTH, INC.

Notes to Consolidated Financial Statements

June 30, 2011 and 2010

(Dollars in millions)

Investment income and realized and unrealized gains for assets whose use is limited, cash equivalents and investments are comprised of the following for the years ending June 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Other operating revenue		
Investment income	\$ 6 5	2 4
Nonoperating gains		
Interest income and dividends	28 5	21 3
Net realized gains on sale of investments	9 1	0 7
Unrealized gains on trading investments	89 4	60 9
	<u>127 0</u>	<u>82 9</u>
Other changes in net assets		
Changes in unrealized gains on other-than-trading investments	—	0 1
Realized net gains on temporarily and permanently restricted net assets	7 3	2 2
Changes in unrealized gains on temporarily and permanently restricted net assets	5 6	5 1
Total investment return	<u>\$ 146 4</u>	<u>92 7</u>

(3) Fair Value of Financial Instruments

The Corporation adopted ASC Topic 820, *Fair Value Measurements and Disclosures* on July 1, 2008. The guidance provides for the following

- Defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, and establishes a framework for measuring fair value.
- Establishes a three-level hierarchy for fair value measurement.
- Requires consideration of the Corporation's nonperformance risk when valuing liabilities, and
- Expands disclosures about instruments measured at fair value

The three-level valuation hierarchy for fair value measurements is based upon observable and unobservable inputs. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Corporation's market assumptions. The three level valuation hierarchy is defined as follows

- Level 1 – Quoted prices for identical instruments in active markets.
- Level 2 – Quoted prices for similar instruments in active markets, quoted prices for identical or similar investments in markets that are not active, and model derived valuations whose significant inputs are observable, and

MEDSTAR HEALTH, INC.

Notes to Consolidated Financial Statements

June 30, 2011 and 2010

(Dollars in millions)

- Level 3 – Instruments whose significant inputs are unobservable

The Corporation has incorporated an Investment Policy Statement (IPS) into the investment program. The IPS, which has been formally adopted by the Corporation's Board of Directors, contains numerous standards designed to ensure adequate diversification by asset class and geography. The IPS also limits all investments by manager and position size, and limits fixed income position size based on credit ratings, which serves to further mitigate the risks associated with the investment program. At June 30, 2011 and 2010, management believes that all investments were being managed in a manner consistent with the IPS.

The table below presents the Corporation's investable assets and liabilities as of June 30, 2011, aggregated by the three level valuation hierarchy.

		<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Assets					
Cash and cash equivalents	\$	575.7	—	—	575.7
U.S. treasury bonds		55.3	—	—	55.3
U.S. agency mortgage backed securities		75.9	—	—	75.9
Corporate bonds		—	73.9	—	73.9
Fixed income mutual funds		1.0	70.4	—	71.4
All other fixed income securities		—	37.8	—	37.8
Equity mutual funds & ETF's		106.4	—	—	106.4
Common stocks		282.6	—	—	282.6
Total assets	\$	<u>1,096.9</u>	<u>182.1</u>	<u>—</u>	<u>1,279.0</u>
Liabilities					
Interest rate swap	\$	<u>—</u>	<u>15.4</u>	<u>—</u>	<u>15.4</u>
Total liabilities	\$	<u>—</u>	<u>15.4</u>	<u>—</u>	<u>15.4</u>

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The table below presents the Corporation's investable assets and liabilities as of June 30, 2010, aggregated by the three level valuation hierarchy

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Assets				
Cash and cash equivalents	\$ 629.4	—	—	629.4
U S treasury bonds	53.0	—	—	53.0
U S agency mortgage backed securities	101.5	—	—	101.5
Corporate bonds	—	58.9	—	58.9
Fixed income mutual funds	1.1	121.2	—	122.3
All other fixed income securities	—	41.6	—	41.6
Equity mutual funds & ETF's	77.7	—	—	77.7
Common stocks	190.7	—	—	190.7
Total assets	<u>\$ 1,053.4</u>	<u>221.7</u>	<u>—</u>	<u>1,275.1</u>
Liabilities				
Interest rate swap	\$ —	18.1	—	18.1
Total liabilities	<u>\$ —</u>	<u>18.1</u>	<u>—</u>	<u>18.1</u>

See note 1(f) for information on investments of the Corporation which are treated under the equity method and not reported above

For the years ended June 30, 2011 and 2010, there were no significant transfers into or out of Levels 1, 2 or 3

(4) Property and Equipment

Property and equipment as of June 30, 2011 and 2010 is as follows

	<u>2011</u>	<u>2010</u>
Land	\$ 60.8	51.7
Buildings and improvements	1,131.9	1,042.6
Equipment	1,464.1	1,351.7
Equipment under capital leases	1.5	1.5
	<u>2,658.3</u>	<u>2,447.5</u>
Less accumulated depreciation and amortization	<u>(1,689.5)</u>	<u>(1,594.4)</u>
	968.8	853.1
Construction-in-progress	63.0	170.3
	<u>\$ 1,031.8</u>	<u>1,023.4</u>

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Construction-in-progress includes a variety of ongoing capital projects at the Corporation as of June 30, 2011 and 2010. In connection with the Franklin Square Hospital project (see note 6), the Corporation has unspent commitments of \$1.6 and \$23.5 as of June 30, 2011 and 2010, respectively. Depreciation and amortization expense related to property and equipment amounted to \$152.8 and \$146.4 for the years ended June 30, 2011 and 2010, respectively.

(5) Other Assets

Other assets as of June 30, 2011 and 2010 consist of the following:

	2011	2010
Deferred financing costs, net	\$ 13.3	13.8
Investments in unconsolidated entities	16.0	16.1
Reinsurance receivables	37.6	28.5
Goodwill, net	7.6	7.2
Deferred tax asset	21.4	21.1
Other assets	39.2	32.9
	<u>\$ 135.1</u>	<u>119.6</u>

The Corporation has investments in other healthcare related organizations that are accounted for under the equity method that total \$16.0 and \$16.1 at June 30, 2011 and 2010, respectively. Under the equity method, original investments are recorded at cost and adjusted by the Corporation's share of the undistributed earnings or losses of these organizations. The related ownership interest in these organizations ranges from 8% to 50%. The Corporation's share of earnings in these organizations was \$5.5 and \$3.9 for the years ended June 30, 2011 and 2010, respectively. Certain other nonconsolidated entities are recorded under the cost method.

Goodwill represents the excess of the cost to acquire businesses over the estimated fair market value of the net tangible and identifiable intangible assets acquired. The Corporation recognized amortization expense of \$0.2 and \$0.1 for the years ended June 30, 2011 and 2010, respectively, related to identifiable intangible assets. In accordance with guidance issued by FASB, the Corporation annually evaluates goodwill for impairment based upon a earnings multiple factor and operating income for each reporting unit. At July 1, 2010 and June 30, 2011, the Corporation had one reporting unit, which included all subsidiaries of the Corporation. No impairment was recognized for the years ended June 30, 2011 or 2010.

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(6) Debt

At June 30, 2011 and 2010, the Corporation's outstanding borrowings include the following

	<u>2011</u>	<u>2010</u>
Maryland Health and Higher Educational Facilities		
Authority Revenue Bonds		
4 25% – 5 75% Serial bonds (Series 2004, due 2009 – 2025)	\$ 33 5	37 1
5 375% Term bonds (Series 2004, due 2024)	49 7	49 7
5 50% Term bonds (Series 2004, due 2033)	80 1	80 1
4 25% – 5 25% Serial bonds (Series 1998A, due 2009 – 2013)	8 8	12 8
4 75% – 5 25% Term bonds (Series 1998A, due 2019, 2029, and 2039)	146 2	146 2
4 00% – 5 25% Serial bonds (Series 1998B, due 2007 – 2008 and 2014 – 2016)	14 8	14 8
4 75% – 5 25% Term bonds (Series 1998B, due 2029 and 2039)	88 5	88 5
4 75% – 5 25% Term bonds (Series 2007, due 2042 and 2046)	145 0	145 0
0 08% – 0 40% St Mary's Hospital Variable Rate bonds (Series 2009, due 2010 – 2039)	15 5	15 8
Plus unamortized net premium	5 8	6 0
	<u>587 9</u>	<u>596 0</u>
District of Columbia Hospital Revenue Bonds		
Multimodal Revenue bonds		
0 04% – 0 15% at June 30, 2011 Serial bonds (Series 1998A due 2008-2039) (and 0 14% – 0 30% at June 30, 2010)	134 4	137 0
2 75% – 5 00% Serial bonds (Series 1998B, due 2008 – 2020)	13 5	14 7
5 00% Term bonds (Series 1998B, due 2029 and 2039)	54 1	54 1
2 75% – 5 00% Serial bonds (Series 1998C, due 2008 – 2020)	13 5	14 8
5 00% – 5 50% Term bonds (Series 1998C, due 2029 and 2039)	54 1	54 1
Less unamortized net discount	(1 0)	(1 0)
	<u>268 6</u>	<u>273 7</u>

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	<u>2011</u>	<u>2010</u>
County Commissioners of St. Mary's County General Obligation Hospital Bonds of 2002 (Rates ranging between 3.58% – 3.78% due, 2005 – 2022)	\$ 15.0	16.0
St. Mary's Hospital notes payable and other	4.0	5.1
Other		
Notes payable to financial institutions or State Agencies under mortgages (floating rates ranging between 0.5% – 8.2%) and other	14.0	15.8
Line of credit due November 2013 (0.25% – 0.90% at June 30, 2011 and 0.03% – 0.92% at June 30, 2010)	155.0	155.0
	<u>188.0</u>	<u>191.9</u>
Total debt	1,044.5	1,061.6
Less current portion of long-term debt	<u>(37.0)</u>	<u>(265.8)</u>
Long-term debt, net	<u>\$ 1,007.5</u>	<u>795.8</u>

Scheduled maturities on borrowings, for the next five fiscal years and thereafter are as follows

2012	\$ 37.0
2013	17.5
2014	172.9
2015	17.3
2016	18.1
Thereafter	776.9
Total	<u>\$ 1,039.7</u>

The fair value of outstanding tax exempt publicly traded bonds is estimated to be \$865.4 and \$900.8 as of June 30, 2011 and 2010, respectively. The fair value of other long-term debt approximates its carrying value.

In December 1998, the Maryland Health and Higher Education Facilities Authority (MHHEFA) and the District of Columbia (District) issued bonds (Series 1998 Bonds) on behalf of the Corporation. Bond proceeds of approximately \$588.6 were loaned to the Corporation under separate loan agreements with MHHEFA and the District upon execution of obligations pursuant to the Master Trust Indenture. The District issued \$300.0 of Multimodal Revenue Bonds, including \$150.0 Series 1998A (\$18.3 repaid through August 2011), \$75.0 Series 1998B (\$8.6 repaid through August 2011), and \$75.0 Series 1998C (\$8.6 repaid through August 2011).

The Series 1998A bonds, which consist of three tranches totaling \$131.7 at August 2011, were converted to Variable Rate Demand Obligations backed by bank letters of credit in May 2008 and the municipal bond

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insurance policy was terminated. The Series 1998A Tranche I bonds which remained outstanding in August 2011 consisted of approximately \$43.9 bonds trading in a daily mode backed by a letter of credit issued by Wells Fargo Bank, National Association (formerly Wachovia Bank, National Association) and remarketed by J.P. Morgan Securities Inc. The letter of credit was renewed in fiscal 2011 and now expires in May 2014. In the event of a failed remarketing, the Tranche I bonds would be tendered to the bank and repaid over a four-year period, beginning 367 days following the date of the failed remarketing. The Series 1998A Tranche II bonds totaled \$43.9 in August 2011. These bonds trade in a weekly mode backed by a letter of credit issued by Bank of America, N.A. and remarketed by Citigroup Global Markets Inc. The term of the letter of credit was renewed in fiscal 2011 and now expires in May 2014. In the event of a failed remarketing, the Tranche II bonds would be tendered to the bank and repaid over a five-year period, beginning 367 days following the failed remarketing. The Series 1998A Tranche III bonds totaled \$43.9 in August 2011. These bonds trade in a weekly mode backed by a letter of credit issued by Bank of America, N.A. and remarketed by Citigroup Global Markets Inc. The term of the letter of credit is five years, expiring in May 2013. In the event of a failed remarketing, the Tranche II bonds would be tendered to the bank and repaid over a five-year period, beginning at the time of the failed remarketing. No portion of the Series 1998A bonds has been put at June 30, 2011 and 2010, respectively. The \$66.4 Series 1998B and \$66.4 Series 1998C bonds (as of August 2011) were converted to a fixed rate in May 2008 and remain insured by Assured Guaranty, Ltd. (Assured) (formerly Financial Security Assurance, Inc.). The reimbursement obligation with respect to the letters of credit are evidenced and secured by obligations issued by the Corporation under the Master Trust Indenture.

MHHEFA issued \$283.5 of Revenue Bonds, including the \$166.6 Series 1998A (\$15.9 repaid through August 2011) and \$116.9 Series 1998B (\$13.6 repaid through August 2011). All Series 1998 MHHEFA bonds were issued at fixed rates. Principal and interest under the Series 1998 MHHEFA bonds are insured under municipal insurance policies with Assured and Ambac.

Related to the District borrowings, the Corporation entered into an interest rate swap with Wells Fargo Bank, National Association in a notional amount totaling \$150.0 (reduced to \$114.5 at August 2011). The swap agreement expires in fiscal year 2027. The interest rate swap is part of a comprehensive and long-term capital structure strategy. The purpose of the swap is to mitigate the effect of potential interest rate volatility and minimize the variability of the Corporation's average cost of capital. Under the terms of the swap, the Corporation pays a fixed rate and receives a variable rate. Collateral is only required to be posted under the swap in the event that the Corporation's credit ratings are downgraded by two rating agencies below the BBB – or Baa2 – level. To date, no collateral postings have been required. At June 30, 2011 and 2010, the variable interest rate under these agreements was 0.12% and 0.23%, respectively. The fixed rate was 3.69% as of June 30, 2011 and 2010. The variable rates are capped at 14.0%. The fair value of the interest rate swap at June 30, 2011 and 2010 was \$15.4 and \$18.1, respectively, and is included in other long-term liabilities. The change in fair value of the swap is reported in nonoperating gains (losses) in the statements of operations and changes in net assets.

In February 2004, MHHEFA issued \$170.3 in bonds (Series 2004 Bonds) on behalf of the Corporation. The proceeds of the Series 2004 Bonds were loaned to the Corporation pursuant to a loan agreement with MHHEFA upon execution of an obligation pursuant to the Master Trust Indenture. The Series 2004 Bonds were issued as \$40.5 serial bonds maturing 2009 through 2025 (\$10.8 repaid through August 2011), \$49.7

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term bonds maturing 2024 and \$80.1 term bonds maturing 2033. Such Bonds were issued at fixed rates. Series 2004 Bonds maturing on or after August 2015 are subject to redemption or purchase at the option of the Corporation prior to maturity beginning in 2014.

In January 2007, MHHEFA issued \$145.0 in bonds (Series 2007 Bonds) on behalf of the Corporation. The Series 2007 Bonds were issued at a net premium of \$3.6, resulting in total proceeds of \$148.6. The proceeds of the Series 2007 Bonds were loaned to the Corporation pursuant to a loan agreement with MHHEFA upon execution of an obligation pursuant to the Master Trust Indenture. The proceeds from the offering, in conjunction with an equity contribution from the Corporation, have been used at Franklin Square Hospital to fund the construction of a seven-story patient tower, expanded parking, a new power plant, renovation of certain contiguous areas to the patient tower, site design, and to fund capitalized interest and transaction costs for the project. The Series 2007 Bonds were issued as \$56.0 term bonds maturing 2042 and \$89.0 term bonds maturing 2046. Such Bonds were issued at fixed rates. Series 2007 Bonds maturing on or after May 2042 are subject to redemption or purchase at the option of the Corporation prior to maturity beginning in 2016.

The Corporation, which is currently the sole member of an "obligated group" as defined in the Master Trust Indenture, is bound by the provisions of the Master Trust Indenture for payment of any outstanding obligations under existing loan agreements. All of the hospitals except Montgomery General Hospital (MGH), St. Mary's Hospital, and certain other affiliates (the guarantors) of the Corporation are parties to a guaranty agreement pursuant to which they jointly and severally guaranty the payment and performance of the obligations under the Master Trust Indenture. The obligations of the guarantors under the Guaranty Agreement are collateralized by deeds of trust granted by the hospitals. Under the Master Trust Indenture and the deeds of trust, as collateral for the payments due thereunder, the Corporation and certain hospital affiliates, have granted a security interest in their revenues subject to permitted encumbrances.

Under the Master Trust Indenture, the Corporation is required to maintain, among other covenants, a maximum annual debt service coverage ratio of not less than 1.10 to 1.0. Under the loan agreements relating to the Series 1998 Bonds, the Corporation is required to maintain a historical debt service coverage ratio of not less than 2.0 to 1.0 and to maintain at least 65 days cash on hand. In the event the Corporation does not meet either of these requirements, it is required to fund a trustee-held debt service reserve fund securing the Series 1998 Bonds. The amount to be deposited shall equal the lesser of 10% of the principal amount of such outstanding bonds, or the largest annual debt service with respect to such bonds in any future year, or 125% of the average annual debt service of future years. At June 30, 2011 and 2010, there were no funds required to be held in the debt service reserve fund for the Series 1998 Bonds.

The Corporation maintains a \$250.0 revolving credit agreement provided by a group of banks. The facility was restructured in fiscal 2011 and now expires November 2013. The facility is evidenced by an obligation issued under the Master Trust Indenture. The outstanding balance on the facility was \$155.0 at June 30, 2011 and June 30, 2010. Of the outstanding balance, \$47.8 and \$48.9 was being held in operating cash at June 30, 2011 and 2010, respectively, in order to maximize the Corporation's liquidity. Proceeds were also utilized in fiscal 2008 and 2009 to retire Montgomery General Hospital's tax-exempt debt and interest rate hedge, and to fund a portion of a project on Montgomery General Hospital's campus. The facility includes certain covenants, including a requirement to maintain Days Cash on Hand of 70 days, measured

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semi-annually at each June 30 and December 31, and a Debt Service Coverage ratio of 1.25, measured quarterly on a rolling four quarters basis. In addition, the Corporation is required to maintain a minimum credit rating of Baa2 from Moody's Investor's Service, and BBB from Standard & Poor's and Fitch Ratings.

In addition, the Corporation maintains a \$30.0 letter of credit facility, provided by a single lender, which is also evidenced by an obligation issued under the Master Trust Indenture. This facility is principally used to securitize certain regulatory obligations under various insurance programs. This facility, which has terms and conditions similar to the revolving credit agreement, was restructured in fiscal 2011 and now expires in November 2013. However, the standby letters of credit issued under the facility can be canceled at the bank's option each year. At June 30, 2011 and 2010, standby letters of credit issued pursuant to the facility were \$16.8 and \$17.0, respectively. However, no amounts have been drawn by the beneficiaries under the standby letters of credit.

St. Mary's Hospital has certain debt outstanding, including 2002 St. Mary's County General Obligation bonds with an outstanding balance of \$15.0 at August 2011 and Series 2009 MHHEFA bonds with an outstanding balance of \$15.4 at August 2011. The bonds are secured by a mortgage on the real property of St. Mary's Hospital and a pledge of St. Mary's Hospital's revenues. Under terms of the financing documents, St. Mary's Hospital is required to maintain days cash on hand of 85 days, and to maintain a historical debt service coverage ratio in excess of 1.10. St. Mary's Hospital is also subject to certain additional covenants and tests on an ongoing basis. The 2009 bonds trade in a weekly mode backed by a letter of credit issued by Bank of America, N.A. and remarketed by Merrill Lynch, Pierce, Fenner & Smith, Incorporated. The term of the letter of credit is three years, expiring in February 2012. Management expects to extend the letter of credit or refinance the bonds. In the event of a failed remarketing, the 2009 bonds would be tendered to the bank and repaid under the normal amortization schedule for the bonds. The 2009 bonds are included in the current portion of long-term debt in the consolidated balance sheets.

(7) Retirement Plans

The Corporation has two qualified defined benefit pension plans (MedStar Health, Inc. Pension Equity Plan (PEP) and MedStar Health, Inc. Cash Balance Retirement Plan (CBRP)) covering substantially all full-time employees hired before 2005, and a supplemental executive pension plan (SEPP) for certain executive management employees. St. Mary's Hospital also has a defined benefit plan that substantially covers all employees of St. Mary's Hospital.

Benefits under the plans are substantially based on years of service and the employees' career earnings. The Corporation contributes to the plans based on actuarially determined amounts necessary to provide assets sufficient to meet benefits to be paid to plan participants and to meet the minimum funding requirements of the Employee Retirement Income Security Act of 1974, as amended by the Pension Protection Act of 2006, and Internal Revenue Service regulations. Effective July 1, 2000, employees of the Transferred Businesses (see note 17) became participants in one of the Corporation's pension plans and are reflected in the pension information provided below.

The Corporation's investment policies are established by the MedStar Health, Inc. Investment Committee, comprised of members of the board of directors, other community leaders, and management. Among its

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responsibilities, the Investment Committee is charged with establishing and reviewing asset allocation strategies, monitoring investment manager performance, and making decisions to retain and terminate investment managers. Assets of each of the Corporation's pension plans are managed in a similar fashion by the same group of investment managers. The Corporation has incorporated an Investment Policy Statement (IPS) into the investment program. The IPS, which has been formally adopted by the Corporation's Board of Directors, contains numerous standards designed to ensure adequate diversification by asset class and geography. The IPS also limits all investments by manager and position size, and limits fixed income position size based on credit ratings, which serves to further mitigate the risks associated with the investment program. At June 30, 2011 and 2010, management believes that all investments were being managed in a manner consistent with the IPS.

The Investment Committee has adopted certain target ranges for various asset classes within the pension portfolio. At June 30, 2011, these targets included the investment of approximately 49% of the portfolio in publicly traded equities, 25% in fixed income securities, 12% in hedge funds, 3% in private equity, 10% in inflation hedging strategies (including real estate), and 1% in cash. At June 30, 2010, these targets included the investment of approximately 52.5% of the portfolio in publicly traded equities, 24% in fixed income securities, 10% in hedge funds, 5% in private equity, 7.5% in inflation hedging strategies (including real estate), and 1% in cash. Actual asset allocations fluctuate depending upon gains and losses within asset classes over periods of time, the timing of plan contributions and distributions, and rebalancing decisions. Due to these fluctuations, actual asset allocations could exceed these levels over certain periods in time.

The following table illustrates the actual allocations at June 30

	Actual allocation June 30, 2011	Actual allocation June 30, 2010
Publicly traded equities – domestic	36%	35%
Publicly traded equities – international	8	5
Fixed income securities	23	33
Alternative investments		
Commingled equity funds	10	3
Inflation hedging equity, commodity, fixed income fund	6	4
Hedge funds	8	9
Private equities	2	2
Cash	7	9
Total	100%	100%

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The table below presents the Corporation's pension plans' investable assets as of June 30, 2011 aggregated by the three level valuation hierarchy

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Assets				
Cash and cash equivalents	\$ 50.1	—	—	50.1
U.S. treasury bonds	44.6	—	—	44.6
U.S. agency mortgage backed securities	23.1	—	—	23.1
Corporate bonds	—	30.6	—	30.6
Fixed income mutual funds	—	49.9	—	49.9
All other fixed income securities	—	16.6	—	16.6
Equity mutual funds and ETF's	72.0	—	—	72.0
Common stocks	249.1	—	—	249.1
Alternative investments				
Commingled equity funds	—	74.4	—	74.4
Inflation hedging equity, commodity, fixed income fund	—	39.2	—	39.2
Private equity	—	—	15.1	15.1
Hedge funds	—	—	61.1	61.1
Total assets	<u>\$ 438.9</u>	<u>210.7</u>	<u>76.2</u>	<u>725.8</u>

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The table below presents the Corporation's pension plans' investable assets as of June 30, 2010 aggregated by the three level valuation hierarchy

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Assets				
Cash and cash equivalents	\$ 50.6	—	—	50.6
U S treasury bonds	36.1	—	—	36.1
U S agency mortgage backed securities	30.5	—	—	30.5
Corporate bonds	—	22.5	—	22.5
Fixed income mutual funds	0.4	81.1	—	81.5
All other fixed income securities	—	19.0	—	19.0
Equity mutual funds and ETF's	65.8	—	—	65.8
Common stocks	168.3	—	—	168.3
Alternative investments				
Commingled equity funds	—	16.5	—	16.5
Inflation hedging equity, commodity, fixed income fund	—	23.6	—	23.6
Private equity	—	—	14.2	14.2
Hedge funds	—	—	52.7	52.7
Total assets	<u>\$ 351.7</u>	<u>162.7</u>	<u>66.9</u>	<u>581.3</u>

For the years ended June 30, 2011 and 2010, there were no significant transfers between Levels 1, 2 or 3

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Changes to the fair values based on the Level 3 inputs, are summarized as follows

	Private equity	Hedge funds	Total
Balance as of June 30, 2009	\$ 11.6	26.5	38.1
Additions			
Contributions/purchases	0.9	41.6	42.5
Disbursements			
Withdrawals/sales	(0.7)	(18.0)	(18.7)
Net change in value	2.4	2.6	5.0
Balance as of June 30, 2010	14.2	52.7	66.9
Additions			
Contributions/purchases	0.5	4.6	5.1
Disbursements			
Withdrawals/sales	(1.0)	(0.7)	(1.7)
Net change in value	1.4	4.5	5.9
Balance as of June 30, 2011	\$ 15.1	61.1	76.2

The following summarizes redemption terms for the hedge fund-of-funds vehicles held as of June 30, 2011

	Fund 1	Fund 2	Fund 3	Fund 4
Redemption timing				
Redemption frequency	Quarterly	Monthly	Quarterly	Quarterly
Required notice	70 days	90 days	90 days	65 days
Audit reserve				
Percentage held back for audit reserve	10%	10%	10%	10%
Gates				
Potential gate holdback	—	7%	—	—
Potential gate release timeframe	—	2011	—	—

Investments in hedge fund-of-funds are typically carried at estimated fair value. Fair value is based on the Net Asset Value (NAV) of the shares in each investment company or partnership. Such investment companies or partnerships mark-to-market or mark-to-fair value the underlying assets and liabilities in accordance with GAAP. Realized and unrealized gains and losses of the investment companies and partnerships are included in their respective operations in the current year. Changes in unrealized gains or losses on investments, including those for which partial liquidations were effected in the course of the year, are calculated as the difference between the NAV of the investment at year-end less the NAV of the

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investment at the beginning of the year, as adjusted for contributions and redemptions made during the year and certain lock-up provisions. Generally, no dividends or other distributions are paid.

The following summarizes the status of contributions to the private equity fund-of-funds vehicles held as of June 30, 2011:

	<u>Total commitment</u>	<u>Percentage of commitment contributed</u>	<u>Percentage of commitment remaining</u>
Fund 1	\$ 9.0	82.7%	17.3%
Fund 2	8.5	88.7	11.3
Fund 3	8.5	47.5	52.5
Total	<u>\$ 26.0</u>		

Investments in limited partnership interests are carried at fair value as determined by the General Partner in the absence of readily ascertainable market values. The fair value of limited partnership interests is generally based on fair value capital balances reported by the underlying partnerships, subject to management review and adjustment. Security values of companies traded on exchanges, or quoted on NASDAQ, are based upon the last reported sales price on the valuation date. Security values of companies traded over the counter, but not quoted on NASDAQ, and securities for which no sale occurred on the valuation date are based upon the last quoted bid price. The value of any security for which a market quotation is not readily available may be its cost, provided however, that the General Partner adjusts such cost value to reflect any bona fide third party transactions in such a security between knowledgeable investors, of which the General Partner has knowledge. In the absence of any such third party transactions, the General Partner may use other information to develop a good faith determination of value. Examples include, but are not limited to, discounted cash flow models, absolute value models, and price multiple models. Inputs for these models may include, but are not limited to, financial statement information, discount rates, and salvage value assumptions.

The valuation of both marketable and nonmarketable securities may include discounts to reflect a lack of liquidity or extraordinary risks, which may be associated with the investment. Determination of fair value is performed on a quarterly basis by the General Partner. Because of the inherent uncertainty of valuation, the determined values may differ significantly from the values that would have been used had a ready market for those investments existed.

The Corporation has established a long-term investment return target of 8.25% and 8.50% for PEP and CBRP in 2011 and 2010, respectively. These assumptions are based on historical returns achieved in the investment portfolios over the last ten years and represent the return that can reasonably be expected to be generated on a similarly structured portfolio in the future.

The Corporation recognizes the funded status of defined benefit pension plans in the balance sheet and the recognition in unrestricted net assets of unrecognized gains or losses, prior service costs or credits and transition assets or obligations. The funded status is measured as the difference between the fair value of

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the plan's assets and the projected benefit obligation of the plan. The measurement date for the plans is June 30. In April 2009, the Corporation announced a freeze to benefit accruals in the CBRP and PEP, except for certain union-represented employees covered by the CBRP. The freeze was effective December 31, 2009. Effective January 1, 2010, affected associates earn all future benefits through the Corporation's defined contribution retirement savings plan.

In March 2011, the Corporation terminated the SEPP plan effective December 31, 2011. The freeze constitutes a curtailment and as such, the Corporation remeasured the lump sum value of participants' benefits as of March 31, 2011. The remeasurement and curtailment accounting resulted in an increase to net assets of approximately \$3.4. Participants will be paid their accrued benefit, in the amount of \$7.6, in March 2012, which is included in other current liabilities in the consolidated balance sheets.

In May 2011, the National Nurses United employees at the Washington Hospital Center entered into a new collective bargaining agreement whereby they agreed to a freeze of their benefit accruals in the CBRP (see note 9). The freeze was effective December 31, 2010. Effective January 1, 2011, National Nurses United employees earn all future benefits through the Corporation's defined contribution retirement savings plan. The freeze constitutes a curtailment and as such, the Corporation remeasured the plans' assets and projected benefit obligations at May 1, 2011. The remeasurement and curtailment accounting resulted in a reduction to net assets of approximately \$2.2.

The following are deferred pension costs which have not yet been recognized in periodic pension expense but instead are accrued in unrestricted net assets, as of June 30, 2011 and 2010. Unrecognized actuarial losses represent unexpected changes in the projected benefit obligation and plan assets over time, primarily due to changes in assumed discount rates and investment experience. Unrecognized prior service cost is the impact of changes in plan benefits applied retrospectively to employee service previously rendered. Deferred pension costs are amortized into annual pension expense over the average remaining assumed service period for active employees.

	Amounts in unrestricted net assets to be recognized during the next fiscal year	Amounts recognized in unrestricted net assets at June 30, 2011	Amounts recognized in unrestricted net assets at June 30, 2010
Net prior service cost	\$ 0.3	(0.1)	4.1
Net actuarial loss	22.2	403.6	446.8
Total	\$ 22.5	403.5	450.9

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The following table sets forth the plans' funded status and amounts recognized in the accompanying consolidated financial statements as of June 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Change in benefit obligation		
Benefit obligation at beginning of year	\$ 982.6	765.1
Addition of St. Mary's Hospital benefit plan	—	21.8
Adjusted benefit obligation at beginning of year	982.6	786.9
Service cost	7.2	18.7
Interest cost	56.3	54.2
Participants contributions	0.9	3.6
Actuarial loss	29.0	145.1
Benefits paid	(26.2)	(23.5)
Curtailments	(10.1)	(2.4)
Benefit obligation at end of year	<u>1,039.7</u>	<u>982.6</u>
Change in plan assets		
Plan assets at fair value at beginning of year	581.3	465.0
Addition of St. Mary's Hospital benefit plan assets	—	18.9
Adjusted plan assets at fair value at beginning of year	581.3	483.9
Actual return on plan assets	101.4	59.0
Company contributions	68.4	58.3
Plan participants' contributions	0.9	3.6
Benefits paid	(26.2)	(23.5)
Plan assets at fair value at end of year	<u>725.8</u>	<u>581.3</u>
Funded status/net amount recognized	<u>\$ (313.9)</u>	<u>(401.3)</u>

The amounts recognized in the consolidated financial statements consist of the following at June 30

	<u>2011</u>	<u>2010</u>
Pension assets (included in other assets)	\$ 1.6	—
Pension current liabilities (included in other current liabilities)	7.6	—
Pension liabilities	307.9	401.3

Expected contributions for the defined benefit plans are \$70.3 for the year ended June 30, 2012

The accumulated benefit obligation is \$1,013.9 and \$968.6 at June 30, 2011 and 2010, respectively

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Expected fiscal year benefit payments for all defined benefit plans is as follows

2012	\$	42.6
2013		50.6
2014		53.5
2015		55.3
2016		56.4
2017 – 2018		<u>332.8</u>
Total	\$	<u><u>591.2</u></u>

Net periodic pension expense for the years ended June 30, 2011 and 2010 is as follows

	<u>2011</u>	<u>2010</u>
Service cost – benefits earned during the year	\$ 7.2	18.7
Interest cost on projected benefit obligation	56.3	54.2
Return on plan assets	(55.7)	(49.9)
Net amortization and deferral	0.6	0.4
Recognized actuarial loss	18.8	11.7
Curtailment charges	<u>1.2</u>	<u>—</u>
Net periodic pension expense	<u><u>\$ 28.4</u></u>	<u><u>35.1</u></u>

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The assumptions used in determining net periodic pension expense and accrued pension costs shown above are as follows

	<u>2011</u>	<u>2010</u>
Discount rates for obligations at year end		
MedStar Health, Inc Pension Equity Plan	5.85%	5.95%
MedStar Health, Inc Cash Balance Retirement Plan	5.70	5.75
MedStar Health, Inc Supplemental Executive Pension Plan	0.80	5.20
St. Mary's Hospital Pension Plan	5.60	5.40
Rate of compensation increase for obligations at year end		
MedStar Health, Inc Pension Equity Plan	N/A	4.00%
MedStar Health, Inc Cash Balance Retirement Plan	4.00%	4.00
MedStar Health, Inc Supplemental Executive Pension Plan	3.50	3.50
St. Mary's Hospital Pension Plan	N/A	4.00
Discount rates for pension cost		
MedStar Health, Inc Pension Equity Plan – July 1 – June 30	5.95%	7.20%
MedStar Health, Inc Cash Balance Retirement Plan – July 1 – April 30	5.75	N/A
MedStar Health, Inc Cash Balance Retirement Plan – May 1 – June 30	5.65	N/A
MedStar Health, Inc Cash Balance Retirement Plan – July 1 – June 30	N/A	6.95
MedStar Health, Inc Supplemental Executive Pension Plan – July 1 – March 31	5.30	N/A
MedStar Health, Inc Supplemental Executive Pension Plan – April 1 – June 30	0.75	N/A
MedStar Health, Inc Supplemental Executive Pension Plan – July 1 – June 30	N/A	6.45
St. Mary's Hospital Pension Plan – July 1 – June 30, 2010	5.40	6.25
Expected long-term rate of return on plan assets – PEP and CBRP	8.25%	8.50%
Expected long-term rate of return on plan assets – St. Mary's Hospital	7.75	8.00
Rate of compensation increase for pension cost		
MedStar Health, Inc Pension Equity Plan – July 1 – June 30	N/A	4.00%
MedStar Health, Inc Cash Balance Retirement Plan – July 1 – June 30	4.00%	4.00
MedStar Health, Inc Supplemental Executive Pension Plan	3.50	3.50
St. Mary's Hospital Pension Plan	N/A	4.00

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The Corporation also has various contributory, tax deferred annuity and savings plans with participation available to certain employees. The Corporation matches employee contributions up to 3.0% of compensation in certain plans. The Corporation contributed approximately \$25.7 and \$19.4 during the years ended June 30, 2011 and 2010, respectively. The Corporation approved the temporary suspension of the 2-3% fixed tenure-based contribution to the 403(b) plan for the calendar years 2010 and 2011.

(8) Business and Credit Concentrations

The Corporation provides healthcare services through its inpatient and outpatient care facilities located in the State of Maryland and the District of Columbia. 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).

A summary of net patient service revenue by major category of payor for the years ended June 30, 2011 and 2010 is as follows:

	2011	2010
Medicare	34%	34%
Medicaid	14	12
Carefirst Blue Cross Blue Shield	18	19
Other commercial and managed care payors	27	29
Self-pay	7	6
	100%	100%

A summary of net patient service receivables by major category of payor as of June 30, 2011 and 2010 is as follows:

	2011	2010
Medicare	23%	24%
Medicaid	14	12
Carefirst Blue Cross Blue Shield	13	16
Other commercial and managed care payors	36	34
Self-pay	14	14
	100%	100%

The Corporation's policy is to write-off all patient accounts that have been identified as uncollectible. An allowance for uncollectible accounts is recorded for accounts not yet written off which are expected to become uncollectible in future periods.

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Under the Maryland Health Services Cost Review Commission (the Commission) rate methodology, amounts payable for services in 2011 and 2010 to Maryland hospital patients under the Medicare and Medicaid insurance programs are computed at 94% of regulated charges and hospital patients under the Blue Cross and approved health maintenance organization insurance programs are computed at 98% of regulated charges. Maryland accounts receivable from these third-party payors have been adjusted to reflect the difference between charges and the payable amounts.

Certain Maryland-based hospital charges are subject to review and approval by the Maryland Health Services Cost Review Commission (HSCRC).

The HSCRC has jurisdiction over hospital reimbursement in Maryland by agreement with the Centers for Medicare and Medicaid Services (CMS). This agreement is based on a waiver from the Medicare Prospective Payment System reimbursement principles granted under Section 1814(b) of the Social Security Act. The waiver will continue as long as cumulative comparisons of cost per admission between Maryland and the nation continue to be favorable. Management believes that the waiver will remain in effect at least through June 30, 2012.

Effective July 1, 2000 through June 30, 2003 under a contract with the HSCRC and the Maryland Hospitals, a charge per case methodology was implemented to more effectively tie compliance standards to waiver performance. Under this methodology, actual charges per case are required to meet hospital specific targets established by the HSCRC, which are adjusted for changes in actual case-mix. The HSCRC and Maryland Hospitals completed a three year contract that expired on June 30, 2006. The contract has been renewed yearly and this methodology will continue through June 30, 2012. The HSCRC implemented an observation status change that became effective July 1, 2010 in which one-day stay cases that used to be counted as admissions are now considered outpatient visits.

Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount. Management periodically reviews recorded amounts receivable from or payable to third party payors and may adjust these balances as new information becomes available. In addition, revenue received under certain third-party agreements is subject to audit. During 2011 and 2010, certain of the Corporation's prior year third party cost reports were audited and settled, or tentatively settled, by third party payors. Adjustments resulting from such audits and management reviews of unaudited years and open claims are reflected as adjustments to revenue in the year that the adjustment becomes known. The effect of these adjustments was to increase net patient service revenue by \$6.0 and \$2.3 during the years ended June 30, 2011 and 2010, respectively. Although certain other prior year cost reports submitted to third party payors remain subject to audit and retroactive adjustment, management does not expect any material adverse settlements.

Through its MedStar Family Choice, Inc. subsidiary, the Corporation enters into fee-for-service and capitation agreements with independent health professionals and organizations to provide covered services to eligible enrollees where such services cannot be provided by its employed physicians or controlled entities. Medical and clinical expenses from these agreements include claim payments, capitation payments, and estimates of outstanding claims liabilities for services provided prior to the balance sheet date. The estimates of outstanding claims liabilities (\$14.9 and \$11.7 at June 30, 2011 and 2010,

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respectively) are based on management's analysis of historical claims paid reports and as well as review of health services utilization during the period. Changes in these estimates are recorded in the period of change. Claims payments and capitation payments are expensed in the period services are provided to eligible enrollees.

Visiting Nurse Association (VNA) has resolved the investigation by the Office of Inspector General (OIG) of the Department of Health and Human Services related to its cost reports for the years 1998 through 2000. This investigation resulted in VNA entering into a five-year Corporate Integrity Agreement (CIA). The VNA ended the term of the CIA in May 2010 and submitted its final report in June 2010. A letter from the OIG was received by the VNA dated November 9, 2010, confirming that the VNA satisfied the obligations of the CIA and that the VNA has been removed from the OIG's website.

(9) Certain Significant Risks and Uncertainties

The Corporation provides general acute healthcare services in the State of Maryland and the District of Columbia. The Corporation and other healthcare providers 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 or other claims.

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

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

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

The healthcare industry is also subject to numerous laws and regulations from federal, state and local governments, and the government has aggressively increased enforcement of Medicare and Medicaid anti-fraud and abuse laws. The Corporation's compliance with these laws and regulations is subject to periodic governmental review, which could result in enforcement actions unknown or unasserted at this time. Management is aware of certain asserted and unasserted legal claims by the government, and is presently unable to determine the outcome of these claims. Management has provided requested information to the government in conjunction with certain government investigations. The final outcomes of these government investigations cannot be determined at this time.

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The federal government and many states have aggressively increased enforcement under Medicare and Medicaid anti-fraud and abuse laws and physician self-referral laws (STARK law and regulation). Recent federal initiatives have prompted a national review of federally funded healthcare programs. In addition, the federal government and many states have implemented programs to audit and recover potential overpayments to providers from the Medicare and Medicaid programs. In September 2009, the Corporation was notified that the recovery audit contractors (RAC) would begin auditing company operations in 2010 and the Corporation received its first request for records in the fourth quarter of fiscal year 2010. The Corporation continues to receive these requests from the RAC and has implemented a response program as well as a compliance program to monitor conformance with applicable laws and regulations, but the possibility of future government review and enforcement action exists.

As a result of recently enacted and pending federal health care reform legislation, substantial changes are anticipated in the United States health care system. Such legislation includes numerous provisions affecting the delivery of health care services, the financing of health care costs, reimbursement to health care providers and the legal obligations of health insurers, providers and employers. These provisions are currently slated to take effect at specified times over the next decade. This federal health care reform legislation did not affect the 2011 or 2010 consolidated financial statements.

The Corporation and one of its hospitals have been notified of a wage-hour lawsuit brought by a few of its employees. This is in the initial stages of investigation, thus the final outcome of this matter cannot be determined at this time.

(10) Self-Insurance Programs

The Corporation maintains self-insurance programs for professional and general liability risks, employee health and workers' compensation. Estimated liabilities have been recorded based on actuarial estimation of reported and incurred but not reported claims. The combined accrued liabilities for these programs as of June 30, 2011 and 2010 were as follows:

	<u>2011</u>	<u>2010</u>
Professional and general liability	\$ 207.4	205.2
Employee health	19.3	17.3
Workers' compensation	<u>27.9</u>	<u>24.7</u>
Total liabilities	254.6	247.2
Less current portion	<u>(58.0)</u>	<u>(56.3)</u>
	<u>\$ 196.6</u>	<u>190.9</u>

The Corporation's self-insurance program for professional and general liability is responsible for the following exposures at June 30, 2011:

- (a) For professional liability, the first \$5.0 exposure for each claim with an inner aggregate of \$2.5 for the period July 1, 2010 through December 31, 2010. For the period January 1, 2011 through June 30,

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2011, the Corporation is responsible for the first \$5.0 exposure for each claim plus an inner aggregate (effective January 1, 2011, the inner aggregate was changed from a \$2.5 annual inner aggregate to a \$5.0 inner aggregate spread over a 24-month exposure period ending December 31, 2012). For Montgomery General Hospital (MGH), the Corporation is responsible for the first \$2.0 exposure for each claim (also subject to the inner aggregate structures noted above).

- (b) For general liability, the Corporation is responsible for the first \$3.0 exposure for each claim (for MGH, the first \$2.0 exposure for each claim).

Commercial excess re-insurance has been purchased above this self-insured retention in multiple layers and in twin towers. Each tower has seven layers of excess re-insurance coverage. These seven layers combine to provide up to \$100.0 per claim and \$100.0 in the annual aggregate for professional liability and general liability exposure. The Corporation maintains reinsurance contracts with various highly rated commercial insurance companies.

The professional and general liabilities at June 30, 2011 and 2010 have been discounted at a rate of 3.75%. The workers' compensation liabilities at June 30, 2011 and 2010 have been discounted at a rate of 3.5%.

Assets available to fund these liabilities are held in separate accounts (see note 2). Contributions required to fund professional and general liability, employee health benefits and workers' compensation programs are determined by the plans' administrators based on appropriate actuarial assumptions. The professional and general liability programs are administered through an offshore wholly owned captive insurance company, Greenspring Financial Insurance Limited (GFIL) domiciled in Grand Cayman Island.

Effective March 1, 2010, MGH transitioned from its previous professional liability coverage under Freestate Healthcare Insurance Company, Ltd., (Freestate) to coverage under GFIL. Through this program, MGH maintained professional liability insurance coverage of \$1.0 per occurrence with a \$3.0 aggregate limit. MGH maintained an umbrella policy to cover the periods prior to joining GFIL with coverage of \$10.0 per claim and \$10.0 in the annual aggregate. In addition, also effective January 1, 2009, MGH was brought into the coverage provided to the Corporation under its commercial excess re-insurance program with coverage of \$100.0 per claim and \$100.0 in the annual aggregate.

St. Mary's Hospital maintains professional liability coverage with a commercial insurer. St. Mary's Hospital professional liability insurance coverage is on a claims made basis, with \$1.0 per incident coverage, up to a maximum of \$3.0 annually. The policy contains a per incident deductible and includes prior acts coverage. St. Mary's Hospital also maintains an umbrella excess policy in the amount of \$5.0 and accrues for the estimated cost of uninsured asserted and unasserted malpractice claims when incidents occur.

The Corporation, in the normal course of business, is a party to a number of legal and regulatory proceedings. Management does not expect that the results of these proceedings will have a material adverse effect on the consolidated financial position or results of operations of the Corporation.

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(11) Unrestricted Net Assets

Effective July 1, 2010, the Corporation adopted new accounting guidance (applied retroactively to July 1, 2009) that requires a not-for-profit reporting entity to account for and present noncontrolling interests in a consolidated subsidiary as a separate component of the appropriate class of consolidated net assets. The income attributable to noncontrolling interests is excluded from operating income and included within other nonoperating gains on the consolidated statements of operations and changes in net assets. The following table presents a reconciliation of the changes in consolidated unrestricted net assets attributable to the Corporation's controlling interest and noncontrolling interest, including amounts such as the performance indicator and other changes in unrestricted net assets as of and for the years ended June 30, 2011 and 2010.

	MedStar Health, Inc.	Noncontrolling interests	Total Unrestricted net assets
Balance as of June 30, 2009	\$ 543.3	8.2	551.5
Excess of revenues over expenses	142.0	3.6	145.6
Addition of St. Mary's net assets	72.2	—	72.2
Change in funded status of defined benefit plans	(121.3)	—	(121.3)
Change in unrealized gains on investments	0.1	—	0.1
Net assets released for property and equipment	7.6	—	7.6
Distributions to noncontrolling interests	—	(2.4)	(2.4)
Increase in unrestricted net assets	100.6	1.2	101.8
Balance as of June 30, 2010	643.9	9.4	653.3
Excess of revenues over expenses	208.1	4.1	212.2
Change in funded status of defined benefit plans	47.4	—	47.4
Net assets released for property and equipment	5.0	—	5.0
Distributions to noncontrolling interests	—	(5.7)	(5.7)
Increase (decrease) in unrestricted net assets	260.5	(1.6)	258.9
Balance as of June 30, 2011	\$ 904.4	7.8	912.2

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(12) Temporarily and Permanently Restricted Net Assets

Temporarily and permanently restricted net assets as of June 30, 2011 and 2010 are available for the following purposes

	<u>2011</u>	<u>2010</u>
Temporary restrictions		
Interest in net assets of foundation	\$ 49.2	41.1
Other	36.2	32.9
	<u>\$ 85.4</u>	<u>74.0</u>
Permanent restrictions		
Investments to be held in perpetuity, the income from which is available to support health care services	\$ 37.7	37.0

Temporarily restricted net assets are available for the purposes of purchasing property and equipment, providing health education, research and other healthcare services

(13) Endowment Net Assets

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

(a) Interpretation of Relevant Law

The Corporation has interpreted the State Prudent Management of Institutional Funds Act (SPMIFA) 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 SPMIFA. In accordance with SPMIFA, 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

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- (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

(b) Endowment Net Assets Consist of the Following at June 30, 2011

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ (0.2)	1.7	37.7	39.2
Total endowed net assets	\$ (0.2)	1.7	37.7	39.2

(c) Endowment Net Assets Consist of the Following at June 30, 2010

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ (2.4)	0.8	37.0	35.4
Total endowed net assets	\$ (2.4)	0.8	37.0	35.4

(d) 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 SPMIFA requires the Corporation to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature that are reported in unrestricted net assets were \$0.2 and \$2.4 as of June 30, 2011 and 2010, respectively. These deficiencies resulted from unfavorable market fluctuations.

(e) Investment Strategies

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

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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.

(14) Income Taxes

The Corporation and the majority of its subsidiaries are not-for-profit corporations as defined in Section 501(c)(3) of the Internal Revenue Code and are exempt from federal income taxes under Section 501(a) of the Code. The Corporation's tax-exempt businesses generate nominal amounts of unrelated business income subject to income tax. For corporate income tax purposes, the Corporation has two consolidated groups of for-profit, taxable entities. The parent companies of these groups are Parkway Ventures, Inc. and MedStar Enterprises, Inc.

The Corporation's taxable subsidiaries have approximately \$249.6 of net operating loss (NOL) carryforwards as of June 30, 2011, which expire in varying periods through 2031, available to offset future taxable income. This NOL carryforward represents \$94.8 of gross deferred tax assets. In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. At June 30, 2011, the Corporation increased its net deferred tax asset by \$1.4, which was recorded in nonoperating income. At June 30, 2010, the Corporation decreased its net deferred tax asset by \$1.4, which was recorded in nonoperating income. The remaining amount of the deferred tax asset considered realizable, \$25.4, could be reduced if estimates of future taxable income during the carry forward period are reduced. The current tax provisions for the years ended June 30, 2011 and 2010 were immaterial.

(15) Charity Care

In addition to charity care, the Corporation funds numerous programs designed to benefit the healthcare interests of the communities it serves, examples of which are health education programs and services, health information and referral services, school-based clinics, public health screenings and home care. The costs associated with these programs are recorded in the appropriate operating expense categories. The Corporation provided \$80.5 and \$74.5 of charity care during the years ended June 30, 2011 and 2010, respectively, based on charges foregone (based on established rates).

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(16) Leases

The Corporation is obligated under various operating leases with initial terms of one year or more. Aggregate future minimum payments as of June 30, 2011 are as follows:

2012	\$	39.9
2013		28.5
2014		24.3
2015		15.8
2016		12.6
2017 and thereafter		<u>36.6</u>
Total minimum lease payments	\$	<u><u>157.7</u></u>

Certain leases include provisions allowing the minimum rental payments to be adjusted annually for increases in operating costs and, in some cases, real estate taxes attributable to leased property. Total rental expense for all operating leases amounted to approximately \$59.1 and \$55.3 during the years ended June 30, 2011 and 2010, respectively.

(17) Commitments and Contingencies

In February 2000 and on June 30, 2000, the Corporation and Georgetown University (the University) signed certain definitive agreements whereby the Corporation would receive through purchase or capital lease substantially all of the assets (including working capital) owned by the University that constitutes the Georgetown University Hospital, the Community Practice Network, the Faculty Practice Group and certain office buildings and a parking lot on the campus (collectively referred to as the Transferred Businesses). These agreements became effective July 1, 2000 and transferred control of the identified physical plant and other real property assets of the Transferred Businesses to the Corporation for use as an academic medical center for a minimum of ninety-eight years. At the end of the one hundred and fifty year lease term (including a fifty-two year renewal), the University shall convey all leased assets, excluding the underlying land, to the Corporation for a nominal amount and enter into a rent-free ground lease for the Corporation's use. This transaction was accounted for under the purchase method of accounting effective July 1, 2000.

In recognition of the value of the transaction, the Corporation shall annually pay the University 50% of the amount by which the combined operating earnings before interest, taxes, depreciation and amortization (EBITDA), as defined in the asset purchase agreement, of certain entities of the Corporation in the Washington D.C. area (collectively referred to as the Washington Clinical Enterprises) exceeds \$60.0, subject to certain adjustments. These additional payments expire when cumulative payments reach \$70.0. No amounts were due under these agreements at June 30, 2011. The Corporation paid \$1.7 to the University through the year ended June 30, 2011.

The Corporation also entered into an Academic Affiliation and Operations Agreement (Affiliation Agreement) with the University. The purpose of this agreement is to make available to the University the facilities of the Transferred Businesses and provide the Corporation with a first-class University medical

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center. The University shall make payments to the Corporation determined by multiplying the University School of Medicine's total undergraduate tuition revenue by 36% for providing teaching services. The Corporation recognized \$15.0 and \$10.2 of tuition revenue during the years ended June 30, 2011 and 2010, respectively. In support of academic programs at the University, for each fiscal year following the termination of the additional payment terms in the asset purchase agreement described above, the Corporation shall pay to the University 17.5% of the operating EBITDA of the Washington Clinical Enterprises in excess of \$60.0, subject to certain adjustments. No amounts were due under this Affiliation Agreement at June 30, 2011.

The Corporation and the University also entered into a Research Agreement to sustain and advance a program of health-related University research at the Transferred Business facilities. Under this agreement, the University is required to reimburse the Corporation for certain costs incurred by the Corporation in support of University sponsored research. Amounts reimbursed to the Corporation were \$2.9 for the years ended June 30, 2011 and 2010.

Georgetown University Hospital and the University are parties to a fixed fee shared services agreement. Georgetown University provided to Georgetown University Hospital the following services: utilities, telephone/IT services, transportation services and library services. Expenses charged for such services were \$11.9 and \$13.4 for 2011 and 2010, respectively.

The WHC campus is subject to the lien of a Permitted Encumbrance in the amount of \$21.5 to the United States government. This encumbrance was created in the deed of the hospital property from the United States government to WHC in February 1960. There is no repayment date for this lien stated in the deed. Under enabling legislation, repayment could be required after a determination that the property is no longer required for hospital services or the property is disposed of, in which event all or a portion of the lien may be payable to the government. This lien is subordinated to the Deed of Trust on the WHC campus.

(18) Functional Expenses

The Corporation considers integrated health services, research and management and general to be its primary functional categories for purposes of expense classification. Management and general include information systems, general corporate management, advertising and marketing. Functional categories of expenses for the years ended June 30, 2011 and 2010 are as follows:

	2011	2010
Integrated health services	\$ 3,180.0	3,087.9
Management and general	717.4	662.5
Research	32.5	35.4
Fundraising	8.4	6.6
	<u>\$ 3,938.3</u>	<u>3,792.4</u>

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(19) Subsequent Events

Management evaluated all events and transactions that occurred after June 30, 2011 and through October 3, 2011. The Corporation did not have any subsequent events that were required to be recognized or disclosed during this period.