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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)	OMB No 1545-0047 <div> <div>2011</div> <div>Open to Public Inspection</div> </div>
	The organization may have to use a copy of this return to satisfy state reporting requirements	

A For the 2011 calendar year, or tax year beginning 07-01-2011 and ending 06-30-2012		D Employer identification number 52-0591628	
B Check if applicable <input type="checkbox"/> Address change <input type="checkbox"/> Name change <input type="checkbox"/> Initial return <input type="checkbox"/> Terminated <input type="checkbox"/> Amended return <input type="checkbox"/> Application pending		E Telephone number (410) 546-6400	
C Name of organization PENINSULA REGIONAL MEDICAL CENTER Doing Business As Number and street (or P O box if mail is not delivered to street address) Room/suite 100 EAST CARROLL STREET City or town, state or country, and ZIP + 4 SALISBURY, MD 21801		G Gross receipts \$ 470,888,938	
F Name and address of principal officer MARGARET NALEPPA CEO 100 EAST CARROLL STREET SALISBURY, MD 21801		H(a) Is this a group return for affiliates? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No H(b) Are all affiliates included? <input type="checkbox"/> Yes <input type="checkbox"/> No If "No," attach a list (see instructions) H(c) Group exemption number ▶	
I Tax-exempt status <input checked="" type="checkbox"/> 501(c)(3) <input type="checkbox"/> 501(c) () (Insert no) <input type="checkbox"/> 4947(a)(1) or <input type="checkbox"/> 527			
J Website: ▶ WWW.PENINSULA.ORG			
K Form of organization <input checked="" type="checkbox"/> Corporation <input type="checkbox"/> Trust <input type="checkbox"/> Association <input type="checkbox"/> Other ▶		L Year of formation 1897	M State of legal domicile MD

Part I		Summary	
Activities & Governance	1 Briefly describe the organization's mission or most significant activities IMPROVE THE HEALTH OF THE COMMUNITIES WE SERVE		
	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)	3	16
	4 Number of independent voting members of the governing body (Part VI, line 1b)	4	15
	5 Total number of individuals employed in calendar year 2011 (Part V, line 2a)	5	3,242
	6 Total number of volunteers (estimate if necessary)	6	203
7a Total unrelated business revenue from Part VIII, column (C), line 12	7a	1,172,743	
b Net unrelated business taxable income from Form 990-T, line 34	7b	0	
Revenue	8 Contributions and grants (Part VIII, line 1h)	Prior Year	Current Year
	9 Program service revenue (Part VIII, line 2g)	173,096	212,650
	10 Investment income (Part VIII, column (A), lines 3, 4, and 7d)	382,714,431	380,732,888
	11 Other revenue (Part VIII, column (A), lines 5, 6d, 8c, 9c, 10c, and 11e)	13,455,158	7,636,984
	12 Total revenue—add lines 8 through 11 (must equal Part VIII, column (A), line 12)	945,351	873,844
		397,288,036	389,456,366
Expenses	13 Grants and similar amounts paid (Part IX, column (A), lines 1–3)	0	0
	14 Benefits paid to or for members (Part IX, column (A), line 4)	0	0
	15 Salaries, other compensation, employee benefits (Part IX, column (A), lines 5–10)	174,993,931	182,271,785
	16a Professional fundraising fees (Part IX, column (A), line 11e)	0	0
	b Total fundraising expenses (Part IX, column (D), line 25) <input checked="" type="checkbox"/> 476,663		
	17 Other expenses (Part IX, column (A), lines 11a–11d, 11f–24e)	192,962,626	193,157,852
	18 Total expenses Add lines 13–17 (must equal Part IX, column (A), line 25)	367,956,557	375,429,637
	19 Revenue less expenses Subtract line 18 from line 12	29,331,479	14,026,729
	Net Assets or Fund Balances		Beginning of Current Year
20 Total assets (Part X, line 16)		492,408,066	507,967,270
21 Total liabilities (Part X, line 26)		183,373,272	196,739,340
22 Net assets or fund balances Subtract line 21 from line 20		309,034,794	311,227,930

Part II	Signature Block
<p>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.</p>	

Sign Here	<div> <div></div> <div>Signature of officer</div> </div>			2013-04-11	
	<div> <div></div> <div>Bruce Ritchie Chief Financial Officer</div> <div>Type or print name and title</div> </div>				
Paid Preparer's Use Only	Preparer's signature <div></div>		Date	Check if self-employed <input checked="" type="checkbox"/>	Preparer's taxpayer identification number (see instructions)
	Firm's name (or yours if self-employed), address, and ZIP + 4	<div>ERNST & YOUNG US LLP</div> <div>75 BEATTIE PLACE SUITE 800</div> <div>GREENVILLE, SC 29601</div>			EIN <div></div>
					Phone no <div></div> (864) 242-5740

May the IRS discuss this return with the preparer shown above? (see instructions) ☐ Yes ☐ No

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

IMPROVE THE HEALTH OF THE COMMUNITIES WE SERVE

4 Describe the organization's program service accomplishments for each of its three largest program services, as measured 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.

Peninsula Regional Medical Center is a not-for-profit 501 (c) (3) non-stock corporation founded in 1897 to serve the health care needs of the community. The Hospital's primary purpose is to provide the highest primary, secondary, and selected tertiary health care services to residents of and visitors to the Mid-Delmarva Peninsula in a competent, compassionate, and cost-effective manner designed to elicit a high degree of customer satisfaction. The Hospital's mission is to improve the health of the communities we serve by providing quality medical care regardless of race, creed, sex, national origin, handicap, or age. If a patient is unable to pay due to financial resources, efforts will be taken to assure care at an affordable cost, or obtained assistance through appropriate agencies on the patient's behalf. Emergency services care will be provided to everyone regardless of ability to pay. Peninsula Regional Medical Center served over 21,000 inpatients and provided more than 500,000 outpatient services during fiscal 2012. Food service provided more than 475,000 meals to patients and employees. Although reimbursement for services rendered is critical to the operation and stability of Peninsula Regional Medical Center, it is recognized that not all individuals possess the ability to pay for essential medical services. The Hospital, in keeping with the commitment to serve all members of the community, during fiscal 2012 provided Charity and other allowances totaling \$54,387,811. Discounts to third party payors including government programs such as Medicare and Medicaid \$44,354,270. Write-off of uncollectible accounts \$16,616,061. The total unreimbursed value of providing care to these patients is \$115,358,142. Also provided are many wellness programs, community education and free programs offered throughout the year based upon activities and services that Peninsula Regional Medical Center believes will serve a bona fide community health need. Some of the programs are as follows: A variety of brochures are displayed in all hospital waiting areas to educate members of the community regarding programs and services. Participation in health fairs during FY 2012 in order to foster health education in the community. Being called upon to speak before community organizations on a variety of healthcare topics. We provide childbirth preparation classes, exercise classes for prenatal and postpartum women and CPR classes. We provide assistance to educators through our work with student nurses, radiology, respiratory and laboratory technicians. During FY 2012, Peninsula Regional Medical Center volunteers contributed over 45,500 hours toward the common purpose of servicing the health care of the community.

PROGRAM ACTIVITY During FY 2012, Peninsula Regional Medical Center performed over 275 community outreach activities. Specific examples of education and outreach programs, support groups, community health screenings, and fitness and wellness activities supported by Peninsula Regional Medical Center are as follows:

Community Educational and Outreach Programs - Labor & Delivery Tours (exclusive of Childbirth Class Tours) - CPR - Childbirth Preparation Classes - Refresher Course - Childbirth - Sibling Classes - Infant Care Classes - Grandparent Classes - Safe Sitter Program - Women's Health Education Support Groups - Diabetes Support Groups - Stroke Support Group - Head and Neck Cancer Support Group Events - Community Screenings - Height/Weight, Blood Pressure - Skin Cancer Screenings - Oral, Head and Neck Cancer Screenings - Hearing Screenings - Flu Clinic Educational Exhibits - Diabetes Education - Trauma - Women's Health - Safe Sitter - Relay for Life Benefits - March of Dimes Walk America - United Way - Women Supporting Women Fitness/Exercise Programming - Cardiac Rehabilitation - Indoor Cycling and Weights - Women and Weight Training

4b (Code) (Expenses \$ including grants of \$) (Revenue \$)





















4c (Code) (Expenses \$ including grants of \$) (Revenue \$)

4d Other program services (Describe in Schedule O)
(Expenses \$ _____ including grants of \$ _____) (Revenue \$ _____)

4e	Total program service expenses	\$ 339,657,325
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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 <i>Schedule B, Schedule of Contributors</i> (see instructions)? 	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	Yes
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	No
6	Did the organization maintain any donor advised funds or any similar funds or accounts for which 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 temporarily restricted endowments, permanent endowments, or quasi-endowments? <i>If "Yes," complete Schedule D, Part V.</i> 	10	Yes
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	Yes
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	No
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	Yes
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, investment, and program service activities outside the United States, or aggregate foreign investments valued at \$100,000 or more? <i>If "Yes," complete Schedule F, Part I.</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, Part 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, Part 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.</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	No
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. All Form 990 filers that operated one or more hospitals must attach audited financial statements 	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 questions 24b-24d and complete Schedule K. If "No," go to line 25</i>	24a	Yes	
b	Did the organization invest any proceeds of tax-exempt bonds beyond a temporary period exception?	24b		No
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		No
d	Did the organization act as an "on behalf of" issuer for bonds outstanding at any time during the year?	24d		No
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 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		No
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	
35a	Is any related organization a controlled entity of the filing organization within the meaning of section 512(b)(13)?	35a	Yes	
b	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>	35b	Yes	
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	226	
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	3,242	
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	Yes	
b	If "Yes," has it filed a Form 990-T for this year? If "No," provide an explanation in Schedule O	3b	Yes	
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 or securities 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		No
b	If "Yes," did the organization notify the donor of the value of the goods or services provided?	7b		
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. All 501(c)(29) organizations must list in Schedule O each state in which they are licensed to issue qualified health plans, the amount of reserves required by each state, and the amount of reserves the organization allocated to each state.	13a		
b	Enter the aggregate 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 aggregate 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		
1b	Enter the number of voting members included in line 1a, above, who are independent		
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?	Yes	
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?		No
4	Did the organization make any significant changes to its governing documents since the prior Form 990 was filed?		No
5	Did the organization become aware during the year of a significant diversion of the organization's assets?		No
6	Did the organization have members or stockholders?	Yes	
7a	Did the organization have members, stockholders, or other persons who had the power to elect or appoint one or more members of the governing body?	Yes	
7b	Are any governance decisions of the organization reserved to (or subject to approval by) members, stockholders, or persons other than the governing body?	Yes	
8	Did the organization contemporaneously document the meetings held or written actions undertaken during the year by the following		
8a	The governing body?	Yes	
8b	Each committee with authority to act on behalf of the governing body?	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		No

Section B. Policies

(This Section B requests information about policies not required by the Internal Revenue Code.)

		Yes	No
10a	Did the organization have local chapters, branches, or affiliates?		No
10b	If "Yes," did the organization have written policies and procedures governing the activities of such chapters, affiliates, and branches to ensure their operations are consistent with the organization's exempt purposes?		
11a	Has the organization provided a complete copy of this Form 990 to all members of its governing body before filing the form?		No
11b	Describe in Schedule O the process, if any, used by the organization to review the Form 990		
12a	Did the organization have a written conflict of interest policy? If "No," go to line 13	Yes	
12b	Were officers, directors or trustees, and key employees required to disclose annually interests that could give rise to conflicts?	Yes	
12c	Did the organization regularly and consistently monitor and enforce compliance with the policy? If "Yes," describe in Schedule O how this was done	Yes	
13	Did the organization have a written whistleblower policy?	Yes	
14	Did the organization have a written document retention and destruction policy?	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?		
15a	The organization's CEO, Executive Director, or top management official	Yes	
15b	Other officers or key employees of the organization	Yes	
	If "Yes," to line 15a or 15b, describe the process in Schedule O (see instructions)		
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?	Yes	
16b	If "Yes," did the organization follow a written policy or procedure requiring the organization to evaluate its participation in joint venture arrangements under applicable federal tax law, and take steps to safeguard the organization's exempt status with respect to such arrangements?	Yes	

Section C. Disclosure

17	List the States with which a copy of this Form 990 is required to be filed	CA , MD , NC
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 made 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 made 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.	JIM GREGORY 100 EAST CARROLL ST SALISBURY, MD 21801 (410) 912-4979

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, or 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 organizations compensated any current or former officer, director, or trustee

(A) Name and Title	(B) Average hours per week (describe hours for related organizations in Schedule O)	(C) Position (do not check more than one box, unless person is both an officer and a director/trustee)						(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			
(1) Jeffrey F Turner Board Member (7/11-10/11)	1 0	X						0	0	0
(2) Farouk A Sultani MD Board Member	1 0	X						0	0	0
(3) Margaret Naleppa President/CEO	40 0	X		X				741,950	0	48,904
(4) Martin Neat Chairman	10 0	X		X				22,911	0	0
(5) Herbert J Geary III Board Member	1 0	X						0	0	0
(6) Michael E Crouch MD Board Member	1 0	X						0	0	0
(7) Murray K Hoy Board Member	1 0	X						7,968	0	0
(8) Christjon J Huddleston MD Board Member	1 0	X						0	0	0
(9) Hugh McLaughlin Board Member	1 0	X						0	0	0
(10) Rene Desmarais MD Board Member (7/11-12/11)	1 0	X						0	0	0
(11) Cynthia Holloway Board Member (4/12-6/12)	1 0	X						0	0	0
(12) Marion Keenan Board Member	1 0	X						0	0	0
(13) DebORAH Abbott Board Member (10/11-6/12)	1 0	X						0	0	0
(14) Thomas Coates Board Member (10/11-6/12)	1 0	X						0	0	0
(15) Edward W Urban Secretary	1 0	X		X				0	0	0
(16) William R McCain Vice-Chairman	1 0	X		X				0	0	0
(17) Monty Saylor Treasurer	1 0	X		X				0	0	0

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 (do not check more than one box, unless person is both an officer and a director/trustee)						(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			
(18) Thomas Riccio MD Board Member (1/12-6/12)	1 0	X						0	0	0
(19) Lura Lunsford VP of Operations	40 0			X				353,197	0	45,560
(20) Bruce I Ritchie CFO	40 0			X				407,391	0	69,045
(21) Justinian Ngaiza MD Physician	40 0					X		557,898	0	28,384
(22) Paul Zorsky MD Physician	40 0					X		577,043	0	22,962
(23) Gayatri Sonti Physician	40 0					X		600,918	0	17,439
(24) Andy Pierre MD Physician	40 0					X		694,672	0	33,332
(25) Jacek Malik MD Physician	40 0					X		698,369	0	31,150
(26) R Alan Newberry Former President/CEO	0 0						X	688,729	0	0
1b Sub-Total										
c Total from continuation sheets to Part VII, Section A										
d Total (add lines 1b and 1c)								5,351,046	0	296,776

2

Total number of individuals (including but not limited to those listed above) who received more than \$100,000 of reportable compensation from the organization▶144

		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 Report compensation for the calendar year ending with or within the organization's tax year

(A) Name and business address	(B) Description of services	(C) Compensation
HORIZON CSA 265 PIT ROAD MOORESVILLE, NC 28115	BIOMEDICAL SERVICES	4,993,909
SHERIDAN ANESTHESIA OF MD PO BOX 452197 SUNRISE, FL 333232197	ANESTHESIA SERVICES	2,146,332
MAYO MEDICAL LABORATORIES PO BOX 9146 MINNEAPOLIS, MN 554809146	MEDICAL SERVICES	1,449,422
SLEEP WAVES INC 873 E BALTIMORE PIKE STE 345 KENNETT SQUARE, PA 19348	MEDICAL SERVICES	1,300,000
SPECIALITY CARE CARDIOVASCULAR RESO DEPT 1614 PO BOX 1614 BIRMINGHAM, AL 352461614	MEDICAL SERVICES	1,094,750
2 Total number of independent contractors (including but not limited to those listed above) who received more than \$100,000 of compensation from the organization ▶59		

Part VIII Statement of Revenue

				(A)	(B)	(C)	(D)
				Total revenue	Related or exempt function revenue	Unrelated business revenue	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				
	d	Related organizations	1d	149,246			
	e	Government grants (contributions)	1e	42,857			
	f	All other contributions, gifts, grants, and similar amounts not included above	1f	20,547			
	g	Noncash contributions included in lines 1a-1f \$ _____					
	h	Total. Add lines 1a-1f		212,650			
Program Service Revenue	2a	NET PATIENT SERVICES	Business Code 900099	379,600,682	378,643,996	956,686	
	b	PURCHASING PARTNERSHIP INC FROM MEMBERS	900099	1,157,532	1,157,532		
	c	MARYLAND ECARE PARTNERSHIP INCOME	900099	-25,326	-25,326		
	d						
	e						
	f	All other program service revenue					
	g	Total. Add lines 2a-2f		380,732,888			
	Other Revenue	3	Investment income (including dividends, interest and other similar amounts)		5,501,205		
4		Income from investment of tax-exempt bond proceeds . .		0			
5		Royalties		0			
6a		Gross rents	(i) Real 122,518	(ii) Personal			
b		Less rental expenses	179,333				
c		Rental income or (loss)	-56,815				
d		Net rental income or (loss)		-56,815			-56,815
7a		Gross amount from sales of assets other than inventory	(i) Securities 83,376,324	(ii) Other 12,694			
b		Less cost or other basis and sales expenses	81,197,898	55,341			
c		Gain or (loss)	2,178,426	-42,647			
d		Net gain or (loss)		2,135,779			2,135,779
8a		Gross income from fundraising events (not including \$ _____ of contributions reported on line 1c) See Part IV, line 18	a				
b		Less direct expenses	b				
c		Net income or (loss) from fundraising events . .		0			
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	CAFETERIA	722210	705,123			705,123	
b	PARTNERSHIP INCOME	900099	16,057		16,057		
c	MANAGEMENT FEES	561000	200,000		200,000		
d	All other revenue		9,479			9,479	
e	Total. Add lines 11a-11d		930,659				
12	Total revenue. See Instructions		389,456,366	379,776,202	1,172,743	8,294,771	

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)

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

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 United States See Part IV, line 21	0			
2	Grants and other assistance to individuals in the United States See Part IV, line 22	0			
3	Grants and other assistance to governments, organizations, and individuals outside the United States 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	1,782,643	1,614,106	164,667	3,870
6	Compensation not included above, to disqualified persons (as defined under section 4958(f)(1)) and persons described in section 4958(c)(3)(B)	292,558	264,899	27,024	635
7	Other salaries and wages	144,174,017	130,543,351	13,317,684	312,982
8	Pension plan contributions (include section 401(k) and section 403(b) employer contributions)	5,460,128	4,943,910	504,365	11,853
9	Other employee benefits	20,572,478	18,625,517	1,902,256	44,705
10	Payroll taxes	9,989,961	9,156,042	814,356	19,563
11	Fees for services (non-employees)				
a	Management	0			
b	Legal	549,485	981	548,504	
c	Accounting	182,776		182,776	
d	Lobbying	28,836	28,836		
e	Professional fundraising See Part IV, line 17	0			
f	Investment management fees	1,111,235		1,111,235	
g	Other	0			
12	Advertising and promotion	0			
13	Office expenses	102,395,853	100,090,204	2,248,983	56,666
14	Information technology	778,303	769,605	8,698	
15	Royalties	0			
16	Occupancy	4,820,033	4,820,033		
17	Travel	560,640	377,322	175,654	7,664
18	Payments of travel or entertainment expenses for any federal, state, or local public officials	0			
19	Conferences, conventions, and meetings	80,300	80,300		
20	Interest	6,212,928	6,212,928		
21	Payments to affiliates	0			
22	Depreciation, depletion, and amortization	21,715,233	21,669,139	46,094	
23	Insurance	4,079,547	750,087	3,329,460	
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	PROFESSIONAL FEES	33,484,700	22,920,946	10,545,551	18,203
b	BAD DEBTS	16,616,061	16,616,061		
c	DUES	541,922	173,058	368,342	522
d					
e					
f	All other expenses				
25	Total functional expenses. Add lines 1 through 24f	375,429,637	339,657,325	35,295,649	476,663
26	Joint costs. Check here <input 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			150,629	1	272,321
	2	Savings and temporary cash investments			25,487,082	2	24,436,989
	3	Pledges and grants receivable, net			0	3	0
	4	Accounts receivable, net			35,831,829	4	39,259,952
	5	Receivables from current and former officers, directors, trustees, key employees, and highest compensated employees. Complete Part II of Schedule L			0	5	0
	6	Receivables from other disqualified persons (as defined under section 4958(f)(1)) and persons described in section 4958(c)(3)(B). Complete Part II of Schedule L			0	6	0
	7	Notes and loans receivable, net			0	7	0
	8	Inventories for sale or use			7,612,015	8	7,526,666
	9	Prepaid expenses and deferred charges			4,722,221	9	5,696,943
	10a	Land, buildings, and equipment, cost or other basis. Complete Part VI of Schedule D	10a	445,417,663			
	b	Less: accumulated depreciation	10b	245,183,046	206,153,752	10c	200,234,617
	11	Investments—publicly traded securities			141,953,184	11	160,583,035
	12	Investments—other securities. See Part IV, line 11			0	12	0
	13	Investments—program-related. See Part IV, line 11			0	13	0
	14	Intangible assets			0	14	0
	15	Other assets. See Part IV, line 11			70,497,354	15	69,956,747
	16	Total assets. Add lines 1 through 15 (must equal line 34)			492,408,066	16	507,967,270
Liabilities	17	Accounts payable and accrued expenses			13,928,109	17	19,292,791
	18	Grants payable			0	18	0
	19	Deferred revenue			0	19	0
	20	Tax-exempt bond liabilities			134,315,588	20	131,216,694
	21	Escrow or custodial account liability. Complete Part IV of Schedule D			0	21	0
	22	Payables to current and former officers, directors, trustees, key employees, highest compensated employees, and disqualified persons. Complete Part II of Schedule L			0	22	0
	23	Secured mortgages and notes payable to unrelated third parties			0	23	0
	24	Unsecured notes and loans payable to unrelated third parties			60,000	24	45,000
	25	Other liabilities (including federal income tax, payables to related third parties, and other liabilities not included on lines 17-24). Complete Part X of Schedule D			35,069,575	25	46,184,855
	26	Total liabilities. Add lines 17 through 25			183,373,272	26	196,739,340
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			286,634,592	27	287,902,813
	28	Temporarily restricted net assets			14,335,033	28	15,254,167
	29	Permanently restricted net assets			8,065,169	29	8,070,950
	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			309,034,794	33	311,227,930
	34	Total liabilities and net assets/fund balances			492,408,066	34	507,967,270

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	389,456,366
2	Total expenses (must equal Part IX, column (A), line 25)	2	375,429,637
3	Revenue less expenses Subtract line 2 from line 1	3	14,026,729
4	Net assets or fund balances at beginning of year (must equal Part X, line 33, column (A))	4	309,034,794
5	Other changes in net assets or fund balances (explain in Schedule O)	5	-11,833,593
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	311,227,930

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 type="checkbox"/> Consolidated basis <input checked="" 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

2011

Open to Public
Inspection

Name of the organization PENINSULA REGIONAL MEDICAL CENTER	Employer identification number 52-0591628
---	--

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 **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 IRC 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	(a) 2007	(b) 2008	(c) 2009	(d) 2010	(e) 2011	(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	(a) 2007	(b) 2008	(c) 2009	(d) 2010	(e) 2011	(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 (Explain in Part IV) Do not include gain or loss from the sale of capital assets						
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 2011 (line 6 column (f) divided by line 11 column (f))	14					
15 Public Support Percentage for 2010 Schedule A, Part II, line 14	15					
16a 33 1/3% support test—2011. 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—2010. 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—2011. 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—2010. 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 IRC 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) 2007	(b) 2008	(c) 2009	(d) 2010	(e) 2011	(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) 2007	(b) 2008	(c) 2009	(d) 2010	(e) 2011	(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 501(c)(3) organization, check this box and stop here						

Section C. Computation of Public Support Percentage		
15 Public Support Percentage for 2011 (line 8 column (f) divided by line 13 column (f))	15	
16 Public support percentage from 2010 Schedule A, Part III, line 15	16	

Section D. Computation of Investment Income Percentage		
17 Investment income percentage for 2011 (line 10c column (f) divided by line 13 column (f))	17	
18 Investment income percentage from 2010 Schedule A, Part III, line 17	18	
19a 33 1/3% support tests—2011. 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—2010. 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 explanation required by Part II, line 10; Part II, line 17a or 17b; or Part III, line 12. Also complete this part for any additional information. (See instructions).

Facts And Circumstances Test

Explanation

SCHEDULE C
(Form 990 or 990-EZ)

Department of the Treasury
Internal Revenue Service

Political Campaign and Lobbying Activities

For Organizations Exempt From Income Tax Under section 501(c) and section 527

▶ Complete if the organization is described below.
▶ Attach to Form 990 or Form 990-EZ. ▶ See separate instructions.

OMB No 1545-0047

2011

Open to Public Inspection

If the organization answered “Yes,” to Form 990, Part IV, Line 3, or Form 990-EZ, Part V, line 46 (Political Campaign Activities), then

- Section 501(c)(3) organizations Complete Parts I-A and B Do not complete Part I-C
- Section 501(c) (other than section 501(c)(3)) organizations Complete Parts I-A and C below Do not complete Part I-B
- Section 527 organizations Complete Part I-A only

If the organization answered “Yes,” to Form 990, Part IV, Line 4, or Form 990-EZ, Part VI, line 47 (Lobbying Activities), then

- Section 501(c)(3) organizations that have filed Form 5768 (election under section 501(h)) Complete Part II-A Do not complete Part II-B
- Section 501(c)(3) organizations that have NOT filed Form 5768 (election under section 501(h)) Complete Part II-B Do not complete Part II-A

If the organization answered “Yes,” to Form 990, Part IV, Line 5 (Proxy Tax) or Form 990-EZ, line 35c (Proxy Tax), then

- Section 501(c)(4), (5), or (6) organizations Complete Part III

Name of the organization PENINSULA REGIONAL MEDICAL CENTER	Employer identification number 52-0591628
---	--

Part I-A Complete if the organization is exempt under section 501(c) or is a section 527 organization.

1	Provide a description of the organization's direct and indirect political campaign activities on behalf of or in opposition to candidates for public office in Part IV	
2	Political expenditures	▶ \$
3	Volunteer hours	

Part I-B Complete if the organization is exempt under section 501(c)(3).

1	Enter the amount of any excise tax incurred by the organization under section 4955	▶ \$
2	Enter the amount of any excise tax incurred by organization managers under section 4955	▶ \$
3	If the organization incurred a section 4955 tax, did it file Form 4720 for this year?	<input type="checkbox"/> Yes <input type="checkbox"/> No
4a	Was a correction made?	<input type="checkbox"/> Yes <input type="checkbox"/> No
b	If "Yes," describe in Part IV	

Part I-C Complete if the organization is exempt under section 501(c) except section 501(c)(3).

1	Enter the amount directly expended by the filing organization for section 527 exempt function activities	▶ \$
2	Enter the amount of the filing organization's funds contributed to other organizations for section 527 exempt funtion activities	▶ \$
3	Total exempt function expenditures Add lines 1 and 2 Enter here and on Form 1120-POL, line 17b	▶ \$
4	Did the filing organization file Form 1120-POL for this year?	<input type="checkbox"/> Yes <input type="checkbox"/> No
5	Enter the names, addresses and employer identification number (EIN) of all section 527 political organizations to which the filing organization made payments For each organization listed, enter the amount paid from the filing organization's funds Also enter the amount of political contributions received that were promptly and directly delivered to a separate political organization, such as a separate segregated fund or a political action committee (PAC) If additional space is needed, provide information in Part IV	

(a) Name	(b) Address	(c) EIN	(d) Amount paid from filing organization's funds If none, enter -0-	(e) Amount of political contributions received and promptly and directly delivered to a separate political organization If none, enter -0-

Part II-A

Complete if the organization is exempt under section 501(c)(3) and filed Form 5768 (election under section 501(h)).

- A

Check

☐

if the filing organization belongs to an affiliated group (and list in Part IV each affiliated group member's name, address, EIN, expenses, and share of excess lobbying expenditures)
- B

Check

☐

if the filing organization checked box A and "limited control" provisions apply

Limits on Lobbying Expenditures (The term "expenditures" means amounts paid or incurred.)		(a) Filing Organization's Totals	(b) Affiliated Group Totals												
1a Total lobbying expenditures to influence public opinion (grass roots lobbying)															
b Total lobbying expenditures to influence a legislative body (direct lobbying)															
c Total lobbying expenditures (add lines 1a and 1b)															
d Other exempt purpose expenditures															
e Total exempt purpose expenditures (add lines 1c and 1d)															
f Lobbying nontaxable amount Enter the amount from the following table in both columns															
<table><tr><td>If the amount on line 1e, column (a) or (b) is:</td><td>The lobbying nontaxable amount is:</td></tr><tr><td>Not over \$500,000</td><td>20% of the amount on line 1e</td></tr><tr><td>Over \$500,000 but not over \$1,000,000</td><td>\$100,000 plus 15% of the excess over \$500,000</td></tr><tr><td>Over \$1,000,000 but not over \$1,500,000</td><td>\$175,000 plus 10% of the excess over \$1,000,000</td></tr><tr><td>Over \$1,500,000 but not over \$17,000,000</td><td>\$225,000 plus 5% of the excess over \$1,500,000</td></tr><tr><td>Over \$17,000,000</td><td>\$1,000,000</td></tr></table>		If the amount on line 1e, column (a) or (b) is:	The lobbying nontaxable amount is:	Not over \$500,000	20% of the amount on line 1e	Over \$500,000 but not over \$1,000,000	\$100,000 plus 15% of the excess over \$500,000	Over \$1,000,000 but not over \$1,500,000	\$175,000 plus 10% of the excess over \$1,000,000	Over \$1,500,000 but not over \$17,000,000	\$225,000 plus 5% of the excess over \$1,500,000	Over \$17,000,000	\$1,000,000		
If the amount on line 1e, column (a) or (b) is:	The lobbying nontaxable amount is:														
Not over \$500,000	20% of the amount on line 1e														
Over \$500,000 but not over \$1,000,000	\$100,000 plus 15% of the excess over \$500,000														
Over \$1,000,000 but not over \$1,500,000	\$175,000 plus 10% of the excess over \$1,000,000														
Over \$1,500,000 but not over \$17,000,000	\$225,000 plus 5% of the excess over \$1,500,000														
Over \$17,000,000	\$1,000,000														
g Grassroots nontaxable amount (enter 25% of line 1f)															
h Subtract line 1g from line 1a If zero or less, enter -0-															
i Subtract line 1f from line 1c If zero or less, enter -0-															
j If there is an amount other than zero on either line 1h or line 1i, did the organization file Form 4720 reporting section 4911 tax for this year?		<input type="checkbox"/> Yes <input type="checkbox"/> No													

4-Year Averaging Period Under Section 501(h)
(Some organizations that made a section 501(h) election do not have to complete all of the five columns below. See the instructions for lines 2a through 2f on page 4.)

Lobbying Expenditures During 4-Year Averaging Period					
Calendar year (or fiscal year beginning in)	(a) 2008	(b) 2009	(c) 2010	(d) 2011	(e) Total
2a Lobbying non-taxable amount					
b Lobbying ceiling amount (150% of line 2a, column(e))					
c Total lobbying expenditures					
d Grassroots non-taxable amount					
e Grassroots ceiling amount (150% of line 2d, column (e))					
f Grassroots lobbying expenditures					

Part II-B

Complete if the organization is exempt under section 501(c)(3) and has NOT filed Form 5768 (election under section 501(h)).

		(a)		(b)
		Yes	No	Amount
1	During the year, did the filing organization attempt to influence foreign, national, state or local legislation, including any attempt to influence public opinion on a legislative matter or referendum, through the use of			
	a Volunteers?		No	
	b Paid staff or management (include compensation in expenses reported on lines 1c through 1i)?		No	
	c Media advertisements?		No	
	d Mailings to members, legislators, or the public?		No	
	e Publications, or published or broadcast statements?		No	
	f Grants to other organizations for lobbying purposes?		No	
	g Direct contact with legislators, their staffs, government officials, or a legislative body?		No	
	h Rallies, demonstrations, seminars, conventions, speeches, lectures, or any similar means?		No	
	i Other activities? If "Yes," describe in Part IV	Yes		
	j Total lines 1c through 1i			
2a	Did the activities in line 1 cause the organization to be not described in section 501(c)(3)?		No	
	b If "Yes," enter the amount of any tax incurred under section 4912			
	c If "Yes," enter the amount of any tax incurred by organization managers under section 4912			
	d If the filing organization incurred a section 4912 tax, did it file Form 4720 for this year?			

Part III-A

Complete if the organization is exempt under section 501(c)(4), section 501(c)(5), or section 501(c)(6).

		Yes	No
1	Were substantially all (90% or more) dues received nondeductible by members?	1	
2	Did the organization make only in-house lobbying expenditures of \$2,000 or less?	2	
3	Did the organization agree to carryover lobbying and political expenditures from the prior year?	3	

Part III-B

Complete if the organization is exempt under section 501(c)(4), section 501(c)(5), or section 501(c)(6) if BOTH Part III-A, lines 1 and 2 are answered "No" OR if Part III-A, line 3 is answered "Yes".

1	Dues, assessments and similar amounts from members	1	
2	Section 162(e) non-deductible lobbying and political expenditures (do not include amounts of political expenses for which the section 527(f) tax was paid).	2a	
a	Current year		
b	Carryover from last year		
c	Total		
3	Aggregate amount reported in section 6033(e)(1)(A) notices of nondeductible section 162(e) dues	3	
4	If notices were sent and the amount on line 2c exceeds the amount on line 3, what portion of the excess does the organization agree to carryover to the reasonable estimate of nondeductible lobbying and political expenditure next year?	4	
5	Taxable amount of lobbying and political expenditures (see instructions)	5	

Part IV

Supplemental Information

Complete this part to provide the descriptions required for Part I-A, line 1, Part I-B, line 4, Part I-C, line 5, and Part II-B, line 1i. Also, complete this part for any additional information.

Identifier	Return Reference	Explanation
OTHER ACTIVITIES	PART II-B, LINE 1I	PENINSULA REGIONAL MEDICAL CENTER PAYS DUES TO ORGANIZATIONS THAT LOBBY FEDERAL AND STATE LEGISLATORS ON BEHALF OF HOSPITALS AND HEALTH SYSTEMS. THE PORTION OF DUES PAID TO THE AMERICAN HOSPITAL ASSOCIATION AND THE MARYLAND HOSPITAL ASSOCIATION ATTRIBUTABLE TO LOBBYING DURING FY 2012 TOTALED \$28,836.

SCHEDULE D
(Form 990)

Department of the Treasury
Internal Revenue Service

Supplemental Financial Statements

OMB No 1545-0047

2011

Open to Public Inspection

Complete if the organization answered "Yes," to Form 990, Part IV, line 6, 7, 9, 10, 11a, 11b, 11c, 11d, 11e, 11f, 12a, or 12b

Attach to Form 990. See separate instructions.

Name of the organization
PENINSULA REGIONAL MEDICAL CENTER

Employer identification number
52-0591628

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)

☐ Preservation of an historically importantly land area

☐ Protection of natural habitat

☐ Preservation of a certified historic structure

☐ Preservation of open space

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

	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	34,191,392	28,295,999	25,231,843	29,317,177
b	Contributions	12,685	105,500	206,865	110,900
c	Investment earnings or losses	801,060	6,047,698	3,074,487	-4,000,545
d	Grants or scholarships				
e	Other expenditures for facilities and programs				
f	Administrative expenses	271,030	257,805	217,196	195,689
g	End of year balance	34,734,107	34,191,392	28,295,999	25,231,843

2

Provide the estimated percentage of the year end balance held as

a

Board designated or quasi-endowment ▶ 50 825 %

b

Permanent endowment ▶ 0 153 %

c

Term endowment ▶ 49 022 %

3a

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

(i)

unrelated organizations

3a(i)

☐ Yes

☐ No

(ii)

related organizations

3a(ii)

☐ Yes

☐ No

b

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

3b

☐ Yes

☐ No

4

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

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

Description of property	(a) Cost or other basis (investment)	(b)Cost or other basis (other)	(c) Accumulated depreciation	(d) Book value
1a Land		10,636,389		10,636,389
b Buildings		199,046,366	58,823,259	140,223,107
c Leasehold improvements				
d Equipment		221,877,626	180,781,833	41,095,793
e Other		13,857,282	5,577,954	8,279,328
Total. Add lines 1a-1e (Column (d) should equal Form 990, Part X, column (B), line 10(c).) ▶				200,234,617

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)	1389,456,366
2	Total expenses (Form 990, Part IX, column (A), line 25)	2375,429,637
3	Excess or (deficit) for the year Subtract line 2 from line 1	314,026,729
4	Net unrealized gains (losses) on investments	4-868,468
5	Donated services and use of facilities	5
6	Investment expenses	6
7	Prior period adjustments	7
8	Other (Describe in Part XIV)	8-10,965,125
9	Total adjustments (net) Add lines 4 - 8	9-11,833,593
10	Excess or (deficit) for the year per financial statements Combine lines 3 and 9	102,193,136

Part XII Reconciliation of Revenue per Audited Financial Statements With Revenue per Return		
1	Total revenue, gains, and other support per audited financial statements	1389,954,664
2	Amounts included on line 1 but not on Form 990, Part VIII, line 12	
a	Net unrealized gains on investments2a-868,468	
b	Donated services and use of facilities2b	
c	Recoveries of prior year grants2c	
d	Other (Describe in Part XIV)2d2,614,558	
e	Add lines 2a through 2d2e1,746,090	3388,208,574
3	Subtract line 2e from line 13	
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 7b4a1,111,235	
b	Other (Describe in Part XIV)4b136,557	
c	Add lines 4a and 4b4c1,247,792	
5	Total Revenue Add lines 3 and 4c. (This should equal Form 990, Part I, line 12)5389,456,366	

Part XIII Reconciliation of Expenses per Audited Financial Statements With Expenses per Return		
1	Total expenses and losses per audited financial statements	1374,161,168
2	Amounts included on line 1 but not on Form 990, Part IX, line 25	
a	Donated services and use of facilities2a	
b	Prior year adjustments2b	
c	Other losses2c	
d	Other (Describe in Part XIV)2d179,333	
e	Add lines 2a through 2d2e179,333	3373,981,835
3	Subtract line 2e from line 13	
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 7b4a1,111,235	
b	Other (Describe in Part XIV)4b336,567	
c	Add lines 4a and 4b4c1,447,802	
5	Total expenses Add lines 3 and 4c. (This should equal Form 990, Part I, line 18)5375,429,637	

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
INTENDED USE OF ENDOWMENT FUNDS	PART V, LINE 4	THE ORGANIZATION'S ENDOWMENT FUNDS ARE USED FOR CAPITAL, PATIENT SERVICES OR EDUCATIONAL PURPOSES
FIN 48 FOOTNOTE	PART X, LINE 2	The organization did not have any uncertain tax positions that were material to the financial statements. Accordingly, the organization did not include a FIN 48 footnote in its audited financial statements.
RECONCILIATION	PARTS XI - XIII	PART XI, LINE 8 - PENSION ADJUSTMENT - FAS 158 \$(14,092,708) INVESTMENT INCOME SWAP 2,131,445 CHANGE IN EQUITY INTEREST OF FOUNDATION 931,783 CAPITAL CAMPAIGN TRANSFERS FROM FOUNDATION 332 U/R NET ASSETS RELEASED FROM RESTRICTION 40,325 ENDOWMENT DONATIONS (12,685) NET ASSETS RELEASED FROM RESTRICTION (267,401) PARTNERSHIP K-1 INCOME ON RETURN NOT ON BOOKS 303,790 ROUNDING (6) ----- TOTAL \$(10,965,125) ===== PART XII, LINE 2D - RENT EXPENSE NETTED AGAINST REVENUE \$ 179,333 PARTNERSHIP K-1 BOOK TO TAX 303,790 BASIS SWAP INCOME \$2,131,435 -- ----- \$2,614,558 ===== PART XII - LINE 4B - FOUNDATION CONTRIBUTIONS \$136,557 ===== PART XIII - LINE 2D - RENT EXPENSE NETTED AGAINST REVENUE \$179,333 ===== PART XIII - LINE 4B - OTHER EXPENSES ON PREMIER K-1 \$ 10 FOUNDATION CONTRIBUTIONS 136,557 MANAGEMENT FEES RECLASSIFIED FROM EXPENSES 200,000 ----- \$336,567 =====

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

2011

Open to Public Inspection

Name of the organization
PENINSULA REGIONAL MEDICAL CENTER

Employer identification number
52-0591628

Part I

Charity Care and Certain Other Community Benefits at Cost

		Yes	No	
1a	Did the organization have a charity care policy? If "No," skip to question 6a	1a	Yes	
b	If "Yes," is it a written policy?	1b	Yes	
2	If the organization had multiple hospitals, indicate which of the following best describes application of the charity care policy to the various hospitals <div><input checked="" type="checkbox"/> Applied uniformly to all hospitals <input type="checkbox"/> Generally tailored to individual hospitals</div> <div><input type="checkbox"/> Applied uniformly to most hospitals</div>			
3	Answer the following based on the charity care eligibility criteria that applies to the largest number of the organization's patients during the tax year a Did the organization use Federal Poverty Guidelines (FPG) to determine eligibility for providing <i>free</i> care? If "Yes," indicate which of the following is the FPG family income limit for eligibility for free care <div><input type="checkbox"/> 100%<input type="checkbox"/> 150%<input checked="" type="checkbox"/> 200%<input type="checkbox"/> Other _____%</div> b Did the organization use FPG to determine eligibility for providing <i>discounted</i> care? If "Yes," indicate which of the following is the family income limit for eligibility for discounted care <div><input type="checkbox"/> 200%<input type="checkbox"/> 250%<input checked="" type="checkbox"/> 300%<input type="checkbox"/> 350%<input type="checkbox"/> 400%<input type="checkbox"/> Other _____%</div> c If the organization did 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	3a	Yes	
4	Did the organization's policy provide free or discounted care to the "medically indigent"?	4	Yes	
5a	Did the organization budget amounts for free or discounted care provided under its financial assistance policy during the tax year?	5a	Yes	
b	If "Yes," did the organization's charity care expenses exceed the budgeted amount?	5b	Yes	
c	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?	5c		No
6a	Did the organization prepare a community benefit report during the tax year?	6a	Yes	
6b	If "Yes," did the organization make it available to the public?	6b	Yes	
	Complete the following table using the worksheets provided in the Schedule H instructions Do not submit these worksheets with the Schedule H			

7 Charity Care and Certain Other Community Benefits at Cost						
Charity Care 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 Charity care at cost (from Worksheet 1)			15,312,109	0	15,312,109	4 270 %
b Medicaid (from Worksheet 3, column a)						
c Costs of other means-tested government programs (from Worksheet 3, column b)						
d Total Charity Care and Means-Tested Government Programs			15,312,109	0	15,312,109	4 270 %
Other Benefits						
e Community health improvement services and community benefit operations (from Worksheet 4)		52,872	1,692,659	316,904	1,375,755	0 380 %
f Health professions education (from Worksheet 5)		1,466	804,863	43,028	761,835	0 210 %
g Subsidized health services (from Worksheet 6)		27,258	9,414,847	3,237,036	6,177,811	1 720 %
h Research (from Worksheet 7)		0	3,973	0	3,973	
i Cash and in-kind contributions for community benefit (from Worksheet 8)		5,258	145,303	420	144,883	0 040 %
j Total Other Benefits		86,854	12,061,645	3,597,388	8,464,257	2 350 %
k Total. Add lines 7d and 7j		86,854	27,373,754	3,597,388	23,776,366	6 620 %

Part IICommunity Building Activities

Complete this table if the organization conducted any community building activities.

	(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
1Physical improvements and housing						
2Economic development			910	0	910	0 %
3Community support			11,776	0	11,776	0 %
4Environmental improvements			143,802	0	143,802	0 040 %
5Leadership development and training for community members						
6Coalition building			17,506	0	17,506	0 %
7Community health improvement advocacy						
8Workforce development			2,028	0	2,028	0 %
9Other						
10Total			176,022	0	176,022	0 040 %

Part IIIBad Debt, Medicare, & Collection Practices

Section A. Bad Debt Expense

		Yes	No
1	Did the organization report bad debt expense in accordance with Heathcare Financial Management Association Statement No. 15?	1Yes	
2	Enter the amount of the organization's bad debt expense	216,616,061	
3	Enter the estimated amount of the organization's bad debt expense attributable to patients eligible under the organization's charity care policy	30	
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)	5229,798,559	
6	Enter Medicare allowable costs of care relating to payments on line 5	6211,176,281	
7	Subtract line 6 from line 5. This is the surplus or (shortfall).	718,622,278	
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	Did the organization have a written debt collection policy during the tax year?	9aYes	
b	If "Yes," did the organization's collection policy that applied to the largest number of its patients during the tax year contain provisions on the collection practices to be followed for patients who are known to qualify for financial assistance? Describe in Part VI.	9bYes	

Part IVManagement Companies and Joint Ventures (see instructions)

(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	PENINSULA REGIONAL MEDICAL CENTER 100 E CARROLL STREET SALISBURY, MD 218015493
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[illegible]

Part V Facility Information (continued)

Section B. Facility Policies and Practices.

(Complete a separate Section B for each of the hospital facilities listed in Part V, Section A)

PENINSULA REGIONAL MEDICAL CENTER

Name of Hospital Facility:

Line Number of Hospital Facility (from Schedule H, Part V, Section A):1

	Yes	No
Community Health Needs Assessment (Lines 1 through 7 are optional for 2011)		
1 During the tax year or any prior tax year, did the hospital facility conduct a community health needs assessment ("Needs Assessment")? If "No," skip to question 8 If "Yes," indicate what the Needs Assessment describes (check all that apply) a <input checked="" type="checkbox"/> A definition of the community served by the hospital facility b <input checked="" type="checkbox"/> Demographics of the community c <input type="checkbox"/> Existing health care facilities and resources within the community that are available to respond to the health needs of the community d <input checked="" type="checkbox"/> How data was obtained e <input checked="" type="checkbox"/> The health needs of the community f <input checked="" type="checkbox"/> Primary and chronic disease needs and other health issues of uninsured persons, low-income persons, and minority groups g <input type="checkbox"/> The process for identifying and prioritizing community health needs and services to meet those needs h <input checked="" type="checkbox"/> The process for consulting with persons representing the community's interests i <input type="checkbox"/> Information gaps that limit the hospital facility's ability to assess the community's health needs j <input type="checkbox"/> Other (describe in Part VI)	1 Yes	
2 Indicate the tax year the hospital facility last conducted a Needs Assessment 20 08		
3 In conducting its most recent Needs Assessment, did the hospital facility take into account input from persons who represent the community served by the hospital facility? If "Yes," describe in Part VI how the hospital facility took into account input from persons who represent the community, and identify the persons the hospital facility consulted	3 Yes	
4 Was the hospital facility's Needs Assessment conducted with one or more other hospital facilities? If "Yes," list the other hospital facilities in Part VI	4 Yes	
5 Did the hospital facility make its Needs Assessment widely available to the public? If "Yes," indicate how the Needs Assessment was made widely available (check all that apply) a <input checked="" type="checkbox"/> Hospital facility's website b <input checked="" type="checkbox"/> Available upon request from the hospital facility c <input checked="" type="checkbox"/> Other (describe in Part VI)	5 Yes	
6 If the hospital facility addressed needs identified in its most recently conducted Needs Assessment, indicate how (check all that apply) a <input checked="" type="checkbox"/> Adoption of an implementation strategy to address the health needs of the hospital facility's community b <input checked="" type="checkbox"/> Execution of the implementation strategy c <input checked="" type="checkbox"/> Development of a community-wide community benefit plan for the facility d <input checked="" type="checkbox"/> Participation in community-wide community benefit plan e <input checked="" type="checkbox"/> Inclusion of a community benefit section in operational plans f <input checked="" type="checkbox"/> Adoption of a budget for provision of services that address the needs identified in the CHNA g <input checked="" type="checkbox"/> Prioritization of health needs in the community h <input checked="" type="checkbox"/> Prioritization of services that the hospital facility will undertake to meet health needs in its community i <input checked="" type="checkbox"/> Other (describe in Part VI)		
7 Did the hospital facility address all of the needs identified in its most recently conducted Needs Assessment? If "No," explain in Part VI which needs it has not addressed together with the reasons why it has not addressed such needs	7 Yes	
Financial Assistance Policy		
Did the hospital facility have in place during the tax year a written financial assistance policy that		
8 Explains eligibility criteria for financial assistance, and whether such assistance includes free or discounted care?	8 Yes	
9 Used federal poverty guidelines (FPG) to determine eligibility for providing free care? If "Yes," indicate the FPG family income limit for eligibility for free care 200 % If "No," explain in Part VI the criteria the hospital facility used	9 Yes	

Part V

Facility Information (continued)

		Yes	No	
10	Used FPG to determine eligibility for providing discounted care? If "Yes," indicate the FPG family income limit for eligibility for discounted care <u>300</u> % If "No," explain in Part VI the criteria the hospital facility used	10	Yes	
11	Explained the basis for calculating amounts charged to patients? If "Yes," indicate the factors used in determining such amounts (check all that apply) a <input checked="" type="checkbox"/> Income level b <input checked="" type="checkbox"/> Asset level c <input checked="" type="checkbox"/> Medical indigency d <input type="checkbox"/> Insurance status e <input type="checkbox"/> Uninsured discount f <input checked="" type="checkbox"/> Medicaid/Medicare g <input checked="" type="checkbox"/> State regulation h <input type="checkbox"/> Other (describe in Part VI)	11	Yes	
12	Explained the method for applying for financial assistance?	12	Yes	
13	Included measures to publicize the policy within the community served by the hospital facility? If "Yes," indicate how the hospital facility publicized the policy (check all that apply) a <input checked="" type="checkbox"/> The policy was posted at all times on the hospital facility's web site b <input checked="" type="checkbox"/> The policy was attached to all billing invoices c <input checked="" type="checkbox"/> The policy was posted in the hospital facility's emergency rooms or waiting rooms d <input checked="" type="checkbox"/> The policy was posted in the hospital facility's admissions offices e <input checked="" type="checkbox"/> The policy was provided, in writing, to patients upon admission to the hospital facility f <input checked="" type="checkbox"/> The policy was available upon request g <input checked="" type="checkbox"/> Other (describe in Part VI)	13	Yes	

Billing and Collections

14	Did the hospital facility have in place during the tax year a separate billing and collections policy, or a written financial assistance policy (FAP) that explained actions the hospital facility may take upon non-payment?	14	Yes	
15	Check all of the following collection actions against an individual that were permitted under the hospital facility's policies during the tax year before making reasonable efforts to determine the patient's eligibility under the facility's FAP a <input type="checkbox"/> Reporting to credit agency b <input type="checkbox"/> Lawsuits c <input type="checkbox"/> Liens on residences d <input type="checkbox"/> Body attachments or arrests e <input type="checkbox"/> Other similar actions (describe in Part VI)			
16	Did the hospital facility or an authorized third party perform any of the following actions during the tax year before making reasonable efforts to determine the patient's eligibility under the facility's FAP? If "Yes," check all actions in which the hospital facility or a third party engaged a <input type="checkbox"/> Reporting to credit agency b <input type="checkbox"/> Lawsuits c <input type="checkbox"/> Liens on residences d <input type="checkbox"/> Body attachments e <input type="checkbox"/> Other similar actions (describe in Part VI)	16		No
17	Indicate which efforts the hospital facility made before initiating any of the actions checked in question 16 (check all that apply) a <input checked="" type="checkbox"/> Notified patients of the financial assistance policy upon admission b <input type="checkbox"/> Notified patients of the financial assistance policy prior to discharge c <input checked="" type="checkbox"/> Notified patients of the financial assistance policy in communications with the patients regarding the patients' bills d <input checked="" type="checkbox"/> Documented its determination of whether patients were eligible for financial assistance under the hospital facility's financial assistance policy e <input type="checkbox"/> Other (describe in Part VI)			

Part V

Facility Information (continued)

Policy Relating to Emergency Medical Care

		Yes	No
18	Did the hospital facility have in place during the tax year a written policy relating to emergency medical care that requires the hospital facility to provide, without discrimination, care for emergency medical conditions to individuals regardless of their eligibility under the hospital facility's financial assistance policy? If "No," indicate why	Yes	
a	<input type="checkbox"/> The hospital facility did not provide care for any emergency medical conditions		
b	<input type="checkbox"/> The hospital facility's policy was not in writing		
c	<input type="checkbox"/> The hospital facility limited who was eligible to receive care for emergency medical conditions (describe in Part VI)		
d	<input type="checkbox"/> Other (describe in Part VI)		

Individuals Eligible for Financial Assistance

19	Indicate how the hospital facility determined, during the tax year, the maximum amounts that can be charged to FAP-eligible individuals for emergency or other medically necessary care			
a	<input type="checkbox"/> The hospital facility used its lowest negotiated commercial insurance rate when calculating the maximum amounts that can be charged			
b	<input type="checkbox"/> The hospital facility used the average of it's three lowest negotiated commercial insurance rates when calculating the maximum amounts that can be charged			
c	<input checked="" type="checkbox"/> The hospital facility used the Medicare rates when calculating the maximum amounts that can be charged			
d	<input checked="" type="checkbox"/> Other (describe in Part VI)			
20	Did the hospital facility charge any of its patients who were eligible for assistance under the hospital facility's financial assistance policy, and to whom the hospital facility provided emergency or other medically necessary services, more than the amounts generally billed to individuals who had insurance covering such care? If "Yes," explain in Part VI	20		No
21	Did the hospital facility charge any of its FAP-eligible patients an amount equal to the gross charge for services provided to that patient? If "Yes," explain in Part VI	21	Yes	

Part V

Facility Information (continued)

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

(list in order of size 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		
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 descriptions 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, 9, 10, 11h, 13g, 15e, 16e, 17e, 18d, 19d, 20, and 21
- 2 **Community health needs assessment.** Describe how the organization assesses the health care needs of the communities it serves, in addition to any community health 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
SUPPLEMENTAL INFORMATION		<p>PART I, LINE 3C N/A PART I, LINE 6A PENINSULA REGIONAL MEDICAL CENTER FILES ANNUALLY A COMMUNITY BENEFIT REPORT WITH THE STATE OF MARYLAND THE REPORT IS FILED WITH THE HSCRC (HEALTH SERVICES COST REVIEW COMMISSION) PART I, LINE 7 LINE 7, COLUMN (F) - THE AMOUNT OF BAD DEBT EXPENSE EXCLUDED FROM THE DENOMINATOR IN THE COLUMN (F) PERCENTAGES IS \$16,616,061 LINE 7B COLUMN (C) & (F)- 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 DIRECTED 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 THE COST METHODOLOGY FOR CHARITY CARE AND CERTAIN OTHER COMMUNITY BENEFITS IS THE COST-TO-CHARGE RATIO USED FOR THE CHARITY CARE PROGRAMS AND DIRECT COST METHOD FOR THE OTHER BENEFITS/PROGRAMS PART III, LINE 4 THE HOSPITAL PROVIDES SERVICES TO PATIENTS IN THE EASTERN SHORE AREA OF MARYLAND, DELAWARE AND VIRGINIA, THE MAJORITY OF WHOM ARE COVERED BY THIRD-PARTY HEALTH INSURANCE THE HOSPITAL BILLS THE INSURER DIRECTLY FOR SERVICES PROVIDED INSURANCE COVERAGE AND FINANCIAL INFORMATION IS OBTAINED FROM PATIENTS UPON ADMISSION WHEN AVAILABLE THE HOSPITAL'S POLICY IS TO PERFORM IN-HOUSE COLLECTION PROCEDURES FOR APPROXIMATELY 85 DAYS A DETERMINATION IS MADE AT THAT TIME AS TO WHAT ADDITIONAL COLLECTION EFFORTS TO PURSUE A PROVISION FOR UNCOLLECTIBLE ACCOUNTS IS RECORDED FOR AMOUNTS NOT YET WRITTEN OFF, WHICH ARE EXPECTED TO BECOME UNCOLLECTIBLE DISCOUNTS RANGING FROM 2% TO 6% OF CHARGES ARE GIVEN TO MEDICARE, MEDICAID AND CERTAIN APPROVED COMMERCIAL HEALTH INSURANCE AND HEALTH MAINTENANCE ORGANIZATION PROGRAMS FOR REGULATED SERVICES DISCOUNTS IN VARYING PERCENTAGES ARE GIVEN FOR CERTAIN UNREGULATED SERVICES THESE MAJOR PAYORS ROUTINELY REVIEW PATIENT BILLINGS AND DENY PAYMENT FOR CERTAIN CHARGES AS MEDICALLY UNNECESSARY OR AS PERFORMED WITHOUT APPROPRIATE PREAUTHORIZATION DISCOUNTS AND DENIALS ARE RECORDED AS REDUCTIONS OF NET PATIENT SERVICE REVENUE ACCOUNTS RECEIVABLE FROM THESE THIRD-PARTY PAYORS HAVE BEEN ADJUSTED TO REFLECT THE DIFFERENCE BETWEEN CHARGES AND THE ESTIMATED REIMBURSABLE AMOUNTS APPROXIMATELY 37% AND 33%, RESPECTIVELY, OF ACCOUNTS RECEIVABLE WERE DUE FROM THE MEDICARE PROGRAM AS OF JUNE 30, 2012 AND 2011, RESPECTIVELY LAWS AND REGULATIONS GOVERNING MEDICARE AND MEDICAID PROGRAMS ARE COMPLEX AND SUBJECT TO INTERPRETATION THE HOSPITAL BELIEVES THAT IT IS IN COMPLIANCE WITH ALL APPLICABLE LAWS AND REGULATIONS AND IS NOT AWARE OF ANY PENDING OR THREATENED INVESTIGATIONS INVOLVING ALLEGATIONS OF POTENTIAL WRONGDOING THAT WOULD HAVE A MATERIAL EFFECT ON THE FINANCIAL STATEMENTS COMPLIANCE WITH SUCH LAWS AND REGULATIONS CAN BE SUBJECT TO FUTURE GOVERNMENT REVIEW AND INTERPRETATION AS WELL AS SIGNIFICANT REGULATORY ACTION INCLUDING FINES, PENALTIES AND EXCLUSION FROM MEDICARE AND MEDICAID PROGRAMS BAD DEBT METHODOLOGY - PENINSULA REGIONAL MEDICAL CENTER IS A TAX-EXEMPT NOT-FOR-PROFIT HOSPITAL THAT PROVIDES QUALITY MEDICAL SERVICES TO PATIENTS REGARDLESS OF THEIR ABILITY TO PAY BY PROVIDING MEDICAL SERVICES TO ALL COMMUNITY MEMBERS REGARDLESS OF THEIR ABILITY TO PAY, THE HOSPITAL'S BAD DEBT EXPENSE QUALIFIES AS A COMMUNITY BENEFIT THE BAD DEBT EXPENSE CALCULATED ON LINE 2 WAS CALCULATED USING THE PATIENT CARE COST TO CHARGES METHODOLOGY PART III, LINE 8 MEDICARE ALLOWABLE COSTS WERE CALCULATED USING A COST TO CHARGE RATIO PENINSULA REGIONAL MEDICAL CENTER PROVIDES QUALITY MEDICAL SERVICES TO ALL PATIENTS REGARDLESS OF WHAT INSURANCE THEY HAVE APPROXIMATELY , 48.2% OF THE MEDICAL CENTER'S REVENUE IS ATTRIBUTABLE TO MEDICARE PATIENTS during the year ended June 30, 2012 PART III, LINE 9B COLLECTION POLICIES ARE THE SAME FOR ALL PATIENTS IF A PATIENT NOTIFIES THE MEDICAL CENTER ABOUT THEIR INABILITY TO PAY, THE MEDICAL CENTER WILL SEND THEM THE CHARITY CARE AND FINANCIAL ASSISTANCE FORMS TO FILL OUT ONCE THE FORMS ARE COMPLETE AND RETURNED TO THE MEDICAL CENTER AND THE PATIENT QUALIFIES FOR FINANCIAL ASSISTANCE, THEN THE PATIENT'S ACCOUNT WILL BE REMOVED FROM COLLECTIONS AND THE ACCOUNT WILL BE WRITTEN OFF PART V, LINE 13G PENINSULA REGIONAL MEDICAL CENTER PUBLISHES ANNUALLY AN ADVERTISEMENT IN THE LOCAL NEWSPAPER ANNOUNCING THE AVAILABILITY OF FREE OR REDUCED COST CARE PART V, LINE 19D PENINSULA REGIONAL MEDIC</p>

Identifier	ReturnReference	Explanation
SUPPLEMENTAL INFORMATION		<p>AL CENTER IS A MARYLAND HOSPITAL AS SUCH PATIENTS AND ALL INSURANCE COMPANIES, INCLUDING MEDICARE & MEDICAID, PAY THE SAME RATE THIS RATE IS DETERMINED BY THE STATE AGENCY, THE MARYLAND HEALTH SERVICES COST REVIEW COMMISSION PART V, LINE 21 PENINSULA REGIONAL MEDICAL CENTER IS A MARYLAND HOSPITAL AS SUCH, PATIENTS AND ALL INSURANCE COMPANIES INCLUDING MEDICARE & MEDICAID PAY THE GROSS CHARGE PART VI, LINE 2 PENINSULA REGIONAL MEDICAL CENTER IN COOPERATION WITH THE WICOMICO, WORCESTER AND SOMERSET COUNTIES, HEALTH DEPARTMENTS, THE ATLANTIC GENERAL HOSPITAL AND THE EDWARD W MCCREADY MEMORIAL HOSPITAL, HAS BEEN CONDUCTING COMMUNITY HEALTH SURVEYS OF THE TRI-COUNTY AREA SINCE 1995 THESE SURVEYS, ADMINISTERED BY PROFESSIONAL RESEARCH CONSULTANTS (PRC) OF OMAHA, NEBRASKA WERE ADMINISTERED IN 1995, 2000, 2004 AND 2009 IN ADDITION TO THESE ADULT SURVEYS, A SEPARATE ADOLESCENT SURVEY WAS CONDUCTED IN 2000, 2005, AND 2010 RESULTS OF THESE SURVEYS ARE USED BY THE PARTICIPANTS TO ASSESS COMMUNITY HEALTH NEEDS AND PLAN FUTURE SERVICES OF PARTICULAR NOTE WAS THE DEVELOPMENT OF THE TRI-COUNTY DIABETES ALLIANCE, WHICH IS A COOPERATIVE VENTURE BETWEEN ALL THE PARTNERS AND COMMUNITY AGENCIES TO REDUCE THE INCIDENCES OF DIABETES IN THE TRI-COUNTY AREA OTHER OUTCOMES RESULTING FROM THE SURVEY FINDINGS INCLUDE SMOKING CESSATION PROGRAMS, OTHER EARLY DETECTION AND SCREENING PROGRAMS FOR HEART AND CANCER, AS WELL AS HEALTH PROMOTION AND EDUCATION WITH A FOCUS ON PREVENTION THE PRC COMMUNITY HEALTH ASSESSMENT IS A SYSTEMATIC, DATA-DRIVEN APPROACH TO DETERMINING THE HEALTH STATUS, BEHAVIORS AND NEEDS OF OUR COMMUNITY RESIDENTS SURVEY RESULTS ARE SHARED WITH THE COMMUNITY AND ARE POSTED TO THE PARTICIPANTS WEBSITES THIS COMMUNITY HEALTH ASSESSMENT SERVES AS A TOOL TOWARDS REACHING THE FOLLOWING THREE GOALS 1 TO IMPROVE RESIDENTS' HEALTH STATUS, INCREASE THEIR LIFE SPANS, AND ELEVATE THEIR OVERALL QUALITY OF LIFE 2 REDUCE THE HEALTH DISPARITIES AMONG RESIDENTS BY GATHERING DEMOGRAPHIC INFORMATION ALONG WITH HEALTH STATUS AND BEHAVIOR DATA 3 TO INCREASE ACCESSIBILITY TO PREVENTIVE SERVICES FOR ALL COMMUNITY RESIDENTS PART VI, LINE 3 PENINSULA REGIONAL MEDICAL CENTER MAKES AVAILABLE TO ALL PATIENTS THE HIGHEST QUALITY OF MEDICAL CARE POSSIBLE WITHIN THE RESOURCES AVAILABLE IF A PATIENT IS UNABLE TO PAY DUE TO FINANCIAL RESOURCES, ALL EFFORTS WILL BE MADE TO HELP THE PATIENT OBTAIN ASSISTANCE THROUGH APPROPRIATE AGENCIES, OR, IF HELP IS NOT AVAILABLE, TO PROVIDE CARE AT REDUCED OR ZERO COST ONE OF PENINSULA REGIONAL'S OVERALL GUIDING PRINCIPLES IS THAT CONCERN OVER A HOSPITAL BILL SHOULD NEVER PREVENT ANY INDIVIDUAL FROM RECEIVING EMERGENCY HEALTH SERVICES THE MEDICAL CENTER WILL COMMUNICATE THIS MESSAGE CLEARLY TO PROSPECTIVE PATIENTS AND TO LOCAL COMMUNITY SERVICE AGENCIES AND MAKE IT CLEAR THAT EMERGENCY SERVICES WILL BE PROVIDED WITHOUT REGARD TO ABILITY TO PAY THE MEDICAL CENTER WILL ENSURE THAT AN EMERGENCY ADMISSION OR TREATMENT IS NOT DELAYED OR DENIED PENDING DETERMINATION OF COVERAGE OR REQUIREMENT FOR PREPAYMENT OR DEPOSIT THE MEDICAL CENTER WILL POST ADEQUATE NOTICE OF THE AVAILABILITY OF MEDICAL SERVICES, AND THE GENERAL OBLIGATION OF THE HOSPITAL TO PROVIDE CHARITY CARE PENINSULA REGIONAL'S "FINANCIAL ASSISTANCE POLICY" INCLUDES THE REQUIRED LANGUAGE OF DETERMINATION OF PROBABLE ELIGIBILITY WITHIN TWO BUSINESS DAYS ON PAGE 2, THE "FINANCIAL ASSISTANCE POLICY" STATES THAT UPON RECEIPT OF THE FINANCIAL ASSISTANCE REQUEST, THE REPRESENTATIVE WILL REVIEW INCOME AND ALL DOCUMENTATION THE PATIENT MUST BE NOTIFIED WITHIN TWO BUSINESS DAYS OF THEIR PROBABLE ELIGIBILITY IN ACCORDANCE WITH SECTION 1, 2 AND 3, PENINSULA REGIONAL PROVIDES PUBLIC NOTICE AND INFORMATION REGARDING ITS CHARITY CARE POLICY IN DELMARVA'S LARGEST PAPER "THE DAILY TIMES", POSTED SIGNS IN THE ADMISSION, BUSINESS OFFICE EMERGENCY ROOM AND OTHER MAJOR SERVICE AREAS OF THE MEDICAL CENTER, ADDITIONALLY INDIVIDUAL NOTICE IS PROVIDED TO EACH PERSON WHO SEEK</p>

Schedule J
(Form 990)

Compensation Information

OMB No 1545-0047

2011

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
PENINSULA REGIONAL MEDICAL CENTER

Employer identification number
52-0591628

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 checked="" 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 checked="" 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	Yes
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	Yes
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?	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	Yes
b	Any related organization?	6b	Yes
	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	Yes
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 Schedule J-1 if additional space 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) for each listed individual must equal the total amount of Form 990, Part VII, Section A, line 1a, columns (D) and (E) for that individual

(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) Margaret Naleppa	(i)	566,819	160,411	14,720	35,172	13,732	790,854	0
	(ii)	0	0	0	0	0	0	0
(2) Lura Lunsford	(i)	290,065	59,234	3,898	33,215	12,345	398,757	0
	(ii)	0	0	0	0	0	0	0
(3) Bruce I Ritchie	(i)	334,335	69,158	3,898	48,254	20,791	476,436	0
	(ii)	0	0	0	0	0	0	0
(4) R Alan Newberry	(i)	688,729	0	0	0	0	688,729	0
	(ii)	0	0	0	0	0	0	0
(5) Justinian Ngaiza MD	(i)	556,680	0	1,218	13,504	14,880	586,282	0
	(ii)	0	0	0	0	0	0	0
(6) Paul Zorsky MD	(i)	575,825	0	1,218	9,601	13,361	600,005	0
	(ii)	0	0	0	0	0	0	0
(7) Gayatri Sonti	(i)	599,700	0	1,218	10,018	7,421	618,357	0
	(ii)	0	0	0	0	0	0	0
(8) Andy Pierre MD	(i)	643,454	50,000	1,218	15,733	17,599	728,004	0
	(ii)	0	0	0	0	0	0	0
(9) Jacek Malik MD	(i)	647,151	50,000	1,218	18,183	12,967	729,519	0
	(ii)	0	0	0	0	0	0	0
	(i)							
	(ii)							
	(i)							
	(ii)							
	(i)							
	(ii)							
	(i)							
	(ii)							
	(i)							
	(ii)							
	(i)							
	(ii)							

Part III **Supplemental 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
Supplemental Compensation Information		PART I, LINE 4B Margaret Naleppa is a participant in the 457F non qualified plan. Part I, Lines 6A and 6B Officers and key employees of Peninsula Regional Medical Center are paid compensation determined by the net earnings activity of the Medical Center and Peninsula Regional Health System. During calendar year 2011 the following bonuses were paid based on earnings: Margaret Naleppa \$160,411, Lura Lunsford \$59,234 and Bruce Ritchie \$69,158. Part I, Line 7 During calendar year 2011, Andy Pierre, M.D. and Jacek Malik, M.D. each received a \$50,000 sign-on bonus.

Schedule K
(Form 990)

Department of the Treasury
Internal Revenue Service

Name of the organization
PENINSULA REGIONAL MEDICAL CENTER

Supplemental Information on Tax Exempt Bonds

▶ Complete if the organization answered "Yes" to Form 990, Part IV, line 24a. Provide descriptions, explanations, and any additional information in Schedule O (Form 990).
▶ Attach to Form 990. ▶ See separate instructions.

OMB No 1545-0047

2011

Open to Public Inspection

Employer identification number
52-0591628

Part I

Bond Issues

(a) Issuer Name	(b) Issuer EIN	(c) CUSIP #	(d) Date Issued	(e) Issue Price	(f) Description of Purpose	(g) Defeased		(h) On Behalf of Issuer		(i) Pool financing	
						Yes	No	Yes	No	Yes	No
A MARYLAND HEALTH & HIGHER EDUCATION FACILITY	52-0936091	574217WT8	02-09-2006	146,668,251	SEE PART VI		X		X		X

Part II

Proceeds

		A		B		C		D	
1	Amount of bonds retired	154,822,905							
2	Amount of bonds defeased	0							
3	Total proceeds of issue	154,822,905							
4	Gross proceeds in reserve funds	11,127,422							
5	Capitalized interest from proceeds	0							
6	Proceeds in refunding escrow	0							
7	Issuance costs from proceeds	1,167,501							
8	Credit enhancement from proceeds	0							
9	Working capital expenditures from proceeds	0							
10	Capital expenditures from proceeds	100,184,165							
11	Other spent proceeds	0							
12	Other unspent proceeds	0							
13	Year of substantial completion	2009							
		Yes	No	Yes	No	Yes	No	Yes	No
14	Were the bonds issued as part of a current refunding issue?	X							
15	Were the bonds issued as part of an advance refunding issue?		X						
16	Has the final allocation of proceeds been made?	X							
17	Does the organization maintain adequate books and records to support the final allocation of proceeds?	X							

Part III

Private Business Use

		A		B		C		D	
1	Was the organization a partner in a partnership, or a member of an LLC, which owned property financed by tax-exempt bonds?	Yes	No	Yes	No	Yes	No	Yes	No
			X						
2	Are there any lease arrangements that may result in private business use of bond-financed property?		X						

Part III

Private Business Use (Continued)

		A		B		C		D	
		Yes	No	Yes	No	Yes	No	Yes	No
3a	Are there any management or service contracts that may result in private business use?	X							
b	If 'Yes' to line 3a, does the organization routinely engage bond counsel or other outside counsel to review any management or service contracts relating to the financed property?		X						
c	Are there any research agreements that may result in private business use of bond-financed property?	X							
d	If 'Yes' to line 3c, does the organization routinely engage bond counsel or other outside counsel to review any research agreements relating to the financed property?	X							
4	Enter the percentage of financed property used in a private business use by entities other than a section 501(c)(3) organization or a state or local government <div>▶</div>	0 870 %							
5	Enter the percentage of financed property used in a private business use as a result of unrelated trade or business activity carried on by your organization, another section 501(c)(3) organization, or a state or local government <div>▶</div>	0 120 %							
6	Total of lines 4 and 5	0 990 %							
7	Has the organization adopted management practices and procedures to ensure the post-issuance compliance of its tax-exempt bond liabilities?	X							

Part IV

Arbitrage

		A		B		C		D	
		Yes	No	Yes	No	Yes	No	Yes	No
1	Has a Form 8038-T, Arbitrage Rebate, Yield Reduction and Penalty in Lieu of Arbitrage Rebate, been filed with respect to the bond issue?		X						
2	Is the bond issue a variable rate issue?		X						
3a	Has the organization or the governmental issuer entered into a hedge with respect to the bond issue?	X							
b	Name of provider	MORGAN STANLEY							
c	Term of hedge	20 4							
d	Was the hedge superintegrated?		X						
e	Was a hedge terminated?		X						
4a	Were gross proceeds invested in a GIC?		X						
b	Name of provider	0							
c	Term of GIC								
d	Was the regulatory safe harbor for establishing the fair market value of the GIC satisfied?								
5	Were any gross proceeds invested beyond an available temporary period?		X						
6	Did the bond issue qualify for an exception to rebate?	X							

Part V

Procedures To Undertake Corrective Action

Check the box if the organization established written procedures to ensure that violations of federal tax requirements are timely identified and corrected through the voluntary closing agreement program if self-remediation is not available under applicable regulations ☐ Yes ☒ No

Part VI

Supplemental Information

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

Identifier	Return Reference	Explanation
SCHEDULE K, PART I, COLUMN F	0	THE PROCEEDS OF THE ISSUE, AFTER PAYMENT OF FINANCING COSTS, WERE USED PRIMARILY (I) TO FINANCE AND REFINANCE A PORTION OF THE COSTS OF CONSTRUCTION, RENOVATION, ACQUISITION AND EQUIPPING OF HEALTHCARE FACILITIES, (II) TO REFUND OUTSTANDING 1993 BONDS (ISSUED 10/28/93), (III) TO PAY A PORTION OF THE INTEREST ACCRUING ON THE SERIES 2006 BONDS FOR A PERIOD TO EXTEND TO JANUARY 1, 2009, AND (IV) TO PAY THE COUNTERPARTY A TERMINATION PAYMENT OF \$1,575 IN CONNECTION WITH A FORWARD STARTING INTEREST RATE EXCHANGE AGREEMENT ENTERED INTO ON AUGUST 9, 2005 AND UNWOUND ON JANUARY 24, 2006
SCHEDULE K, PART II, LINE 10	0	OF THE AMOUNT REPORTED ON PART II, LINE 10, \$12,281,895 IS CAPITALIZED INTEREST

Schedule L
(Form 990 or 990-EZ)

Department of the Treasury
Internal Revenue Service

Transactions with Interested Persons

▶ 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.

OMB No 1545-0047

2011

Open to Public Inspection

Name of the organization
PENINSULA REGIONAL MEDICAL CENTER

Employer identification number
52-0591628

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) PENINSULA CARDIOLOGY ASSOCIATES	SEE PART V	159,994	RENTAL FEES		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
SCHEDULE L, PART IV		RENE DESMARIAS, M D , A TRUSTEE OF THE MEDICAL CENTER, IS A MORE THAN 5% OWNER OF PENINSULA CARDIOLOGY ASSOCIATES

SCHEDULE O
(Form 990 or 990-EZ)

Department of the Treasury
Internal Revenue Service

Supplemental Information to Form 990 or 990-EZ

Complete to provide information for responses to specific questions on
Form 990 or to provide any additional information.
▶ Attach to Form 990 or 990-EZ.

OMB No 1545-0047

2011

Open to Public Inspection

Name of the organization PENINSULA REGIONAL MEDICAL CENTER	Employer identification number 52-0591628
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Identifier	Return Reference	Explanation
FORM 990, PART VI, SECTION A, LINE 2	BUSINESS RELATIONSHIPS	MARGARET NALEPPA, MARTIN NEAT, AND HUGH MCLAUGHLIN are members of the board of directors of Peninsula Health Ventures, a wholly-owned taxable subsidiary of Peninsula Regional Health System
FORM 990, PART VI, SECTION A, LINE 6	MEMBERS OF THE ORGANIZATION	PENINSULA REGIONAL HEALTH SYSTEM IS THE SOLE CORPORATE MEMBER OF THE MEDICAL CENTER FORM 990, PART VI, SECTION A, LINE 7A MEMBER'S ABILITY TO ELECT MEMBERS OF THE GOVERNING BODY IN ITS CAPACITY AS THE SOLE CORPORATE MEMBER OF THE MEDICAL CENTER, PENINSULA REGIONAL HEALTH SYSTEM HAS THE ABILITY TO ELECT MEMBERS OF THE MEDICAL CENTER'S GOVERNING BODY FORM 990, PART VI, SECTION A, LINE 7B DECISIONS SUBJECT TO APPROVAL BY MEMBERS AS THE SOLE CORPORATE MEMBER, PENINSULA REGIONAL HEALTH SYSTEM HAS THE ABILITY TO APPROVE MAJOR EXPENDITURES AND LONG TERM BORROWINGS OF THE MEDICAL CENTER
FORM 990, PART VI, SECTION B, LINE 11B	REVIEW PROCESS OF FORM 990	OVERSIGHT OF THE COMPLETION OF THE ORGANIZATION'S FORM 990 HAS BEEN DELEGATED TO THE CHIEF FINANCIAL OFFICER OF PENINSULA REGIONAL MEDICAL CENTER BY THE PRESIDENT OF THE ORGANIZATION ONCE THE FORM 990 AND ALL SCHEDULES HAVE BEEN PREPARED BY THE ORGANIZATION'S INDEPENDENT TAX SERVICES PROVIDER, THEY ARE REVIEWED BY THE PRESIDENT PRIOR TO FILING
FORM 990, PART VI, SECTION B, LINE 12C	MONITORING AND ENFORCEMENT OF CONFLICT OF INTEREST POLICY	THE BOARD OF TRUSTEES ARE REQUIRED TO DISCLOSE ANNUALLY, IN WRITING, ANY AND ALL INTERESTS WHICH THEY OR ANY IMMEDIATE MEMBER OF THEIR FAMILY MAY HAVE IN ANY BUSINESS ENTITY WHICH HAS OR SEEKS A CONTRACTUAL OR COMPETITIVE RELATIONSHIP WITH THE ORGANIZATION THE BOARD HAS THE AUTHORITY TO DETERMINE IF A VIOLATION HAS OCCURRED AND WHETHER ANY INTEREST WHICH SHOULD BE DISCLOSED SHOULD DISQUALIFY A DIRECTOR FROM PARTICIPATING IN ANY SPECIFIC BOARD DISCUSSION OR BOARD MEMBERSHIP
FORM 990, PART VI SECTION B, LINES 15A & 15B	PROCESS USED TO DETERMINE COMPENSATION	THE ORGANIZATION USES A COMPENSATION COMMITTEE TO DETERMINE THE COMPENSATION OF THE CEO/EXECUTIVE DIRECTOR AND OTHER KEY EMPLOYEES THE CEO OF THE ORGANIZATION HAS A WRITTEN EMPLOYMENT CONTRACT THE COMPENSATION COMMITTEE USES AN INDEPENDENT CONSULTANT, COMPENSATION SURVEYS AND OTHER ORGANIZATION'S FORM 990 IN THE DETERMINATION PROCESS
FORM 990, PART VI, SECTION C, LINE 19	AVAILABILITY OF DOCUMENTS, POLICIES & FINANCIAL STATEMENTS TO THE PUBLIC	THE ORGANIZATION'S GOVERNING DOCUMENTS, CONFLICT OF INTEREST POLICY AND FINANCIAL STATEMENTS ARE AVAILABLE TO THE PUBLIC UPON REQUEST TO THE PUBLIC INFORMATION OFFICE OF PENINSULA REGIONAL MEDICAL CENTER AT 100 EAST CARROLL STREET, SALISBURY, MD 21801
FORM 990, PART VII, SECTION A, COLUMN (B)	AVERAGE HOURS PER WEEK DEVOTED TO RELATED ORGANIZATIONS	MURRAY K HOY PENINSULA REGIONAL MEDICAL CENTER FOUNDATION - 1 HR/WK PENINSULA REGIONAL HEALTH SYSTEM - 1 HR/WK MARTIN NEAT PENINSULA REGIONAL HEALTH SYSTEM - 1HR/WK PENINSULA HEALTH VENTURES - 1 HR/WK EDWARD URBAN PENINSULA REGIONAL HEALTH SYSTEM - 1 HR/WK WILLIAM MCCAIN PENINSULA REGIONAL HEALTH SYSTEM - 1 HR/WK MICHAEL CROUCH, M D PENINSULA REGIONAL HEALTH SYSTEM - 1 HR/WK DEBORAH ABBOTT PENINSULA REGIONAL HEALTH SYSTEM - 1 HR/WK PENINSULA REGIONAL MEDICAL CENTER FOUNDATION - 1 HR/WK HERBERT J GEARY III PENINSULA REGIONAL HEALTH SYSTEM - 1 HR/WK CHRISTJON J HUDDLESTON, M D PENINSULA REGIONAL HEALTH SYSTEM - 1 HR/WK MARION KEENAN PENINSULA REGIONAL HEALTH SYSTEM - 1 HR/WK HUGH MCLAUGHLIN PENINSULA REGIONAL HEALTH SYSTEM - 1 HR/WK PENINSULA HEALTH VENTURES - 1 HR/WK MONTY SAYLOR PENINSULA REGIONAL HEALTH SYSTEM - 1 HR/WK THOMAS COATES PENINSULA REGIONAL HEALTH SYSTEM - 1 HR/WK MARGARET NALEPPA PENINSULA REGIONAL HEALTH SYSTEM - 10 HRS/WK PENINSULA HEALTH VENTURES - 1 HR/WK
FORM 990, PART XI, LINE 5	OTHER CHANGES IN NET ASSETS OR FUND BALANCE	Pension Adjustment - FAS 158 \$(14,092,708) Unrealized loss on investments (868,468) Investment income Swap 2,131,445 Change in equity interest of Foundation 931,783 Capital campaign transfers from Foundation 332 U/R Net assets released from restriction 40,325 Endowment Donations (12,685) Net assets released from restriction (267,401) Partnership K-1 Income oN return NOT ON BOOKS 303,790 ROUNDING (6) ----- Net Change in fund balance \$(11,833,593) =====

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

2011

Open to Public Inspection

Name of the organization
PENINSULA REGIONAL MEDICAL CENTER

Employer identification number
52-0591628

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

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
(1) PENINSULA REGIONAL MED CTR FOUNDATION 100 EAST CARROLL ST SALISBURY, MD 21801 52-1851935	FUNDRAISING	MD	501(C)(3)	11 TYPE I	PRHS		No
(2) PENINSULA REGIONAL HEALTH SYSTEM (PRHS) 100 EAST CARROLL ST SALISBURY, MD 21801 52-2132761	PARENT	MD	501(C)(3)	11 TYPE II	NA		No
(3) PENINSULA GENERAL HOSPITAL INS TRUST 100 EAST CARROLL ST SALISBURY, MD 21801 52-6321234	INSURANCE	MD	501(C)(3)	11 TYPE III	PRHS	Yes	

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) DELMARVA SURG CTR 641 S SALISBURY SALISBURY, MD 21801 52-2251436	HEALTHCARE	MD	PHV									

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
(1) PENINSULA HEALTH VENTURES (PHV) 100 EAST CARROLL ST SALISBURY SALISBURY, MD 21801 52-2250012	P'SHIP INV	MD	PRHS	C CORP			
(2) PRLTC INC 100 EAST CARROLL ST SALISBURY, MD 21801 52-2190588	LONG TERM CARE	MD	PHV	C CORP			

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 related organization(s)

c

Gift, grant, or capital contribution from related organization(s)

d

Loans or loan guarantees to or for related organization(s)

e

Loans or loan guarantees by related organization(s)

f

Sale of assets to related organization(s)

g

Purchase of assets from related organization(s)

h

Exchange of assets with related organization(s)

i

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

j

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

k

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

l

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

m

Sharing of facilities, equipment, mailing lists, or other assets with related organization(s)

n

Sharing of paid employees with related organization(s)

o

Reimbursement paid to related organization(s) for expenses

p

Reimbursement paid by related organization(s) for expenses

q

Other transfer of cash or property to related organization(s)

r

Other transfer of cash or property from related 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

Yes

Yes

Yes

Yes

No

Yes

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) PENINSULA REGIONAL MEDICAL CENTER FOUNDATION	L, R	189,567	FMV
(2) PENINSULA REGIONAL MEDICAL CENTER FOUNDATION	M, N,	418,908	FMV
(3) PENINSULA HEALTH VENTURES	K	200,000	FMV
(4)			
(5)			
(6)			

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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FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION

Peninsula Regional Medical Center
Years Ended June 30, 2012 and 2011
With Reports of Independent Auditors

FINANCIAL STATEMENTS

Peninsula Regional Medical Center
Years Ended June 30, 2012 and 2011
With Report of Independent Auditors

Peninsula Regional Medical Center
Financial Statements and Supplementary Information
Years Ended June 30, 2012 and 2011

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Peninsula Regional Medical Center

Financial Statements

Years Ended June 30, 2012 and 2011

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Report of Independent Auditors

Board of Trustees
Peninsula Regional Medical Center

We have audited the accompanying balance sheets of Peninsula Regional Medical Center (the Hospital) as of June 30, 2012 and 2011, and the related statements of operations and changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Hospital's internal control over financial reporting. Our audits included 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 Hospital'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, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Peninsula Regional Medical Center at June 30, 2012 and 2011, and the results of its operations and changes in its net assets and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

September 21, 2012

Peninsula Regional Medical Center

Balance Sheets (In Thousands)

	June 30	
	2012	2011
Assets		
Current assets		
Cash and cash equivalents	\$ 24,709	\$ 25,638
Short-term investments	8,503	5,836
Accounts receivable, less allowance for uncollectible accounts (2012 – \$7,292, 2011 – \$7,072)	39,081	35,572
Inventories and other	13,928	13,119
Total current assets	86,221	80,165
Long-term investments	152,080	136,117
Board-designated investments	16,745	16,420
Assets limited as to use		
Debt service reserve fund	9,311	9,349
Donor-restricted fund	24,489	23,607
Self-insurance fund	12,479	14,459
	46,279	47,415
Property and equipment, net	200,235	206,154
Unamortized financing costs, net of accumulated amortization (2012 – \$569, 2011 – \$471)	2,352	2,450
Other assets	4,055	3,687
Total assets	\$ 507,967	\$ 492,408

	June 30	
	2012	2011
Liabilities and net assets		
Current liabilities		
Current portion of long-term debt	\$ 2,930	\$ 2,810
Current portion of accrued self-insured liabilities	1,895	1,895
Accounts payable and accrued liabilities	32,798	26,507
Advances from third-party payors	9,958	8,461
Total current liabilities	47,581	39,673
Long-term debt, net	128,332	131,566
Other liabilities	20,826	12,134
Total liabilities	196,739	183,373
Net assets		
Unrestricted	287,903	286,635
Temporarily restricted	15,254	14,335
Permanently restricted	8,071	8,065
Total net assets	311,228	309,035
 Total liabilities and net assets	 \$ 507,967	 \$ 492,408

See accompanying notes.

Peninsula Regional Medical Center

Statements of Operations and Changes in Net Assets (In Thousands)

	Year Ended June 30	
	2012	2011
Unrestricted revenue and other support		
Net patient service revenue	\$ 378,035	\$ 380,052
Other operating revenue	2,360	2,357
Total unrestricted revenue and other support	380,395	382,409
Operating expenses		
Salaries and wages	146,085	138,742
Supplies and other expenses	147,182	146,120
Employee benefits	36,207	36,169
Depreciation	21,812	21,829
Bad debts	16,616	17,411
Interest	6,259	6,591
Total operating expenses	374,161	366,862
Income from operations	6,234	15,547
Nonoperating income		
Investment income	6,974	12,164
Basis swap income	2,629	3,128
	9,603	15,292
Excess of unrestricted revenue and other support over expenses	15,837	30,839

(continued)

Peninsula Regional Medical Center

Statements of Operations and Changes in Net Assets (continued) (In Thousands)

	Year Ended June 30	
	2012	2011
Unrestricted net assets		
Excess of unrestricted revenue and other support over expenses	\$ 15,837	\$ 30,839
Net assets released from restrictions	40	1,200
Unrealized (loss) gains on investments	(516)	13,006
Pension adjustment	(14,093)	10,216
Increase in unrestricted net assets	1,268	55,261
Temporarily restricted net assets		
Change in equity interest in the Foundation	931	1,141
Donations	43	—
Net realized gains on investments	563	1,222
Unrealized (loss) gains on investments	(351)	1,613
Net assets released from restrictions	(267)	(1,521)
Increase in temporarily restricted net assets	919	2,455
Permanently restricted net assets		
Donations	—	5
Net realized gains on investments	7	4
Unrealized (loss) gain on investments	(1)	5
Increase in permanently restricted net assets	6	14
Increase in net assets	2,193	57,730
Net assets at beginning of year	309,035	251,305
Net assets at end of year	\$ 311,228	\$ 309,035

See accompanying notes.

Peninsula Regional Medical Center

Statements of Cash Flows

(In Thousands)

	Year Ended June 30	
	2012	2011
Operating activities		
Change in net assets	\$ 2,193	\$ 57,730
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation of property and equipment	21,812	21,829
Amortization of original issue premium	(304)	(299)
Amortization of intangible assets	98	98
Loss (gain) on sale of property and equipment	43	(32)
Net unrealized loss (gains) on investments	631	(13,021)
Net realized gains on investments	(4,529)	(7,478)
Non-cash change in donor-restricted fund	(665)	(2,038)
Proceeds from restricted contributions and realized losses on restricted investments	570	1,226
Changes in operating assets and liabilities		
Accounts receivable	(3,509)	(90)
Inventories and other assets	(1,177)	(2,718)
Accounts payable and accrued liabilities	6,292	532
Accrued self-insured and other liabilities	8,692	(14,247)
Advances from third-party payors	1,497	303
Net cash provided by operating activities	31,644	41,795
Investing activities		
Purchase of investments	(96,050)	(99,550)
Proceeds from sales of investments	80,991	79,990
Purchases of property and equipment	(15,935)	(15,286)
Change in assets limited as to use	1,801	(2,660)
Net cash used in investing activities	(29,193)	(37,506)
Financing activities		
Proceeds from restricted contributions and realized losses on restricted investments	(570)	(1,226)
Repayments of long-term debt	(2,810)	(2,720)
Net cash used in financing activities	(3,380)	(3,946)
Net (decrease) increase in cash and cash equivalents	(929)	343
Cash and cash equivalents at beginning of year	25,638	25,295
Cash and cash equivalents at end of year	\$ 24,709	\$ 25,638

See accompanying notes

Peninsula Regional Medical Center

Notes to Financial Statements *(In Thousands)*

June 30, 2012

1. Organization and Mission

Peninsula Regional Medical Center (the Hospital) is a not-for-profit, nonstock corporation founded in 1897 to serve the health care needs of its region. Primary service areas include the Maryland counties of Wicomico, Somerset and Worcester, south Delaware and the northern Eastern Shore of Virginia. The Hospital's mission is to improve the health care of the community by providing exceptional quality primary, secondary and selected tertiary health care services to patients in a competent and compassionate manner, designed to elicit a high degree of customer satisfaction. The Hospital provides services regardless of race, creed, sex, national origin, handicap or age.

The Hospital is a wholly owned subsidiary of Peninsula Regional Health System, Inc. (the Health System) which serves as the parent company to the Hospital, Peninsula Regional Medical Center Foundation, Inc. (the Foundation) and Peninsula Health Ventures, Inc. (Health Ventures). The Health System is a not-for-profit Maryland membership corporation established to manage the integrated delivery of health care services to the community. The Health System is the sole corporate member of the Hospital, the Foundation and Health Ventures. In its capacity as sole member of these entities, the Health System will appoint trustees, approve major expenditures and approve long-term borrowings.

2. Significant Accounting Policies

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States 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 amounts could differ from those estimates.

Reclassifications

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

Peninsula Regional Medical Center

Notes to Financial Statements (continued) (In Thousands)

2. Significant Accounting Policies (continued)

Fair Value of Financial Instruments

The carrying amounts of financial instruments, including cash and cash equivalents, accounts receivable, accounts payable, and advances from third-party payors, approximate fair value given the short-term nature of these financial instruments

Cash and Cash Equivalents

Cash and cash equivalents include surplus operating funds invested in money market funds and highly liquid corporate, U S government and agency obligations, all with maturities of less than three months when purchased

Investments and Investment Income

Investments are carried at fair value. All such investments are considered available for sale and are classified as current or noncurrent assets based on management's intention as to use. Short-term investments represent investments with contractual maturities within one year and current investments in money market funds which have been designated for long-term investment purposes. Assets limited as to use by donor restriction are recorded at fair value at the date of donation and changes in fair value are recognized in the period in which the change occurs. Investment income from all unrestricted investments is reported as nonoperating income. Investment income on investments of restricted assets is added to or deducted from the appropriate restricted net assets when restricted as to use by the donor.

The value of securities sold is based on the specific identification method.

The Hospital periodically evaluates whether any declines in the fair value of investments are other-than-temporary. This evaluation consists of a review of several factors, including but not limited to: length of time and extent that a security has been in an unrealized loss position, the existence of an event that would impair the issuer's future earnings potential, the near-term prospects for recovery of the market value of a security, and the intent and ability of the Hospital to hold the security until the market value recovers. Realized gains or losses are included in nonoperating (expense) income in the accompanying statements of operations. Declines in fair value below cost that are deemed to be other-than-temporary would be recorded as realized losses within nonoperating (expense) income. Based on its evaluation, the Hospital has recorded no other-than-temporary impairments for the years ended June 30, 2012 and 2011.

Peninsula Regional Medical Center

Notes to Financial Statements (continued) (In Thousands)

2. Significant Accounting Policies (continued)

Derivative Instruments

The Hospital entered into a forward-starting interest rate exchange agreement on August 9, 2005 with Morgan Stanley Capital Services Inc. (the Counterparty) to reduce the risk of changing interest rates with a notional amount of \$137,845. Under the agreement, the Hospital paid a fixed rate of approximately 3.5% and received a variable rate of 68% of three-month London Interbank Offered Rate (LIBOR). The Hospital unwound the agreement on January 24, 2006 and paid the Counterparty a termination payment of \$1,575 on February 9, 2006 from proceeds of the 2006 Bond issue. The termination payment of \$1,575 has been recognized as unamortized financing costs and is being amortized over the life of the 2006 Bond issue using the straight-line method, which approximates the effective interest method.

On January 26, 2006, the Hospital amended the August 9, 2005 agreement with the Counterparty and entered into an interest rate swap (the Basis Swap) on a notional amount of \$142,910 under which the Hospital will pay the Counterparty floating rate payments based upon the Securities Industry and Financial Markets Association (SIFMA) Municipal Swap Index and will receive floating rate payments based upon 68% of three-month LIBOR, plus a fixed spread of 0.523%. Under Accounting Standards Codification (ASC) No. 815, *Derivatives and Hedging*, the Hospital has recognized its derivative instruments in the balance sheets at fair value. As these derivative instruments are not designated as hedges, the changes in fair value have been recognized in the accompanying statements of operations and changes in net assets as mark-to-market adjustments, included within basis swap income.

The fair market value of the swap agreement is included in other liabilities or other assets in the accompanying balance sheets. The fair market value calculation includes a credit valuation adjustment (CVA) as required by ASC 820, *Fair Value Measurements and Disclosures*. At June 30, 2012, the valuation of the interest rate swap asset was decreased by \$13 when applying the CVA. At June 30, 2011, the valuation of the interest rate swap agreement liability position was reduced by \$447 when applying the CVA. The change in the fair market value of the swap agreement is recorded in the performance indicator, as the swaps are not designated as an effective hedge.

Credit exposure associated with non-performance by the counterparty to the derivative instrument is generally limited to the uncollateralized fair value of the asset related to instruments recognized in the balance sheets.

Peninsula Regional Medical Center

Notes to Financial Statements (continued) (In Thousands)

2. Significant Accounting Policies (continued)

The Hospital's derivative agreement does not contain any credit support provisions that require it to post collateral if there are declines in the derivative value or its credit rating

At June 30, 2012, the value of this instrument was a \$2,068 asset position, recorded in other assets. At June 30, 2011, the value of this instrument was a \$357 asset position, recorded in other assets.

Accounts Receivable and Contractual Allowances

The Hospital provides services to patients in the Eastern Shore area of Maryland, Delaware and Virginia, the majority of whom are covered by third-party health insurance. The Hospital bills the insurer directly for services provided.

Insurance coverage and financial information is obtained from patients upon admission when available. The Hospital's policy is to perform in-house collection procedures for approximately 85 days. A determination is made at that time as to what additional collection efforts to pursue. A provision for uncollectible accounts is recorded for amounts not yet written off, which are expected to become uncollectible.

Discounts ranging from 2% to 6% of charges are given to Medicare, Medicaid and certain approved commercial health insurance and health maintenance organization programs for regulated services. Discounts in varying percentages are given for certain unregulated services. These major payors routinely review patient billings and deny payment for certain charges as medically unnecessary or as performed without appropriate preauthorization. Discounts and denials are recorded as reductions of net patient service revenue. Accounts receivable from these third-party payors have been adjusted to reflect the difference between charges and the estimated reimbursable amounts.

Approximately 37% and 33%, respectively, of accounts receivable were due from the Medicare program as of June 30, 2012 and 2011, respectively.

The Medicare and Medicaid reimbursement programs represent a substantial portion of the Hospital's revenues. The Hospital's operations are subject to numerous laws and regulations of federal, state and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government health care program participation requirements, reimbursement for patient services and Medicare and Medicaid fraud and abuse.

Peninsula Regional Medical Center

Notes to Financial Statements (continued) (In Thousands)

2. Significant Accounting Policies (continued)

Over the past several years, government activity has increased with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by health care providers. Violations of these laws and regulations could result in expulsion from government health care programs, together with the imposition of fines and penalties, as well as repayments for patient services previously billed. Compliance with fraud and abuse standards and other government regulations can be subject to future government review and interpretation. Also, future changes in federal and state reimbursement funding mechanisms and related government budgeting constraints could have an adverse effect on the Hospital.

Inventories and Other

Inventories and other primarily includes inventories of supplies and prepaid expenses. Inventories of supplies are carried at lower of cost or market, using the first-in, first-out method.

Other Assets

Other assets primarily include an investment in a limited partnership. This investment is accounted for under the equity method of accounting.

Assets Limited as to Use

Assets limited as to use primarily includes assets held by trustees under indenture agreements, assets held by trustees under irrevocable self-insurance trust agreements and assets whose use has been limited by the donor of the underlying funds. Assets limited as to use also includes the Hospital's beneficial interest in the Foundation's temporarily restricted net assets. Amounts required to meet current liabilities of the Hospital have been classified in the balance sheets as current assets.

Board-Designated Investments

Board-designated investments include assets set aside by the Board of Trustees for future capital improvements and expansion. The Board of Trustees retains control of these assets and may, at its discretion, subsequently use them for other purposes.

Peninsula Regional Medical Center

Notes to Financial Statements (continued) (In Thousands)

2. Significant Accounting Policies (continued)

Property and Equipment

Property and equipment acquisitions are recorded at cost. Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed using the straight-line method. 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.

Gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted donations. Absent explicit donor stipulations about how long those assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

Unamortized Financing Costs

Financing costs incurred in issuing the Maryland Health and Higher Educational Facilities Authority Project and Refunding Revenue Bonds have been capitalized and are being amortized using the straight-line method over the life of the bonds, which approximates the effective interest method. The amount amortized is recorded as an operating expense.

Estimated Self-Insurance Liabilities and Workers' Compensation

The provision for estimated professional liability claims, general liability claims and workers' compensation claims includes estimates of the ultimate costs for both reported claims and claims incurred but not reported.

Pension Benefits

Pension benefits are recorded in accordance with ASC No 715, *Compensation – Retirement Benefits*, which requires the recognition of the funded status of pension plans within the accompanying balance sheets. As of June 30, 2012 and 2011, the funded status of the pension plan has been recorded within other long-term liabilities and other long-term assets, respectively.

Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are those whose use by the Hospital has been limited by donors to a specific time period or purpose. Temporarily restricted net assets are to be used for capital purposes and other health care services.

Peninsula Regional Medical Center

Notes to Financial Statements (continued) (In Thousands)

2. Significant Accounting Policies (continued)

Permanently restricted net assets have been restricted by donors to be maintained by the Hospital in perpetuity

Net Patient Service Revenue

Net patient service revenue is reported at the estimated realizable amounts from patients, third-party payors and others for services rendered. During 2012 and 2011, approximately 48% and 49% of net patient service revenue was received under the Medicare program, 14% and 13% from CareFirst Blue Cross Blue Shield, 30% and 30% from contracts with other third parties, and 8% and 8% from other sources, respectively.

The following table sets forth the detail of net patient service revenue

	Year Ended June 30	
	2012	2011
Gross patient service revenue	\$ 476,777	\$ 457,035
Revenue deductions		
Charity care	18,575	15,662
Contractual and other allowances	80,167	61,321
Net patient service revenue	<u>\$ 378,035</u>	<u>\$ 380,052</u>

The Hospital employs physicians in several hospital-based specialties. The Hospital bills for the services provided by these physicians. Net physician revenue is recognized when the services are provided and recorded at the estimated net realizable amount based on the contractual arrangements with third-party payors and the expected payments from the third-party payors and the patients. The difference between the billed charges and the estimated net realizable amounts are recorded as a reduction in physician revenue when the services are provided. At June 30, 2012 and 2011, approximately \$1,834 and \$1,372, respectively, of net physician accounts receivable are included in accounts receivable in the accompanying balance sheets.

Peninsula Regional Medical Center

Notes to Financial Statements (continued) (In Thousands)

2. Significant Accounting Policies (continued)

Charity Care

The Hospital provided care to patients who met certain criteria under its charity care policy, without charge or at amounts less than its approved rates. Because the Hospital did not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. The amounts written off as charity care for 2012 and 2011 were \$14,577 and \$12,572, respectively. These amounts represent direct and indirect charity care costs, which are calculated using the Hospital's cost to charge ratio. The state of Maryland rate system includes components within the rates to partially compensate hospitals for uncompensated care.

Donor-Restricted Gifts

Unconditional promises to give cash and other assets to the Hospital 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 donations 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 the purpose of the restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the statements of operations and changes in net assets as net assets released from restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are reported as unrestricted contributions in the accompanying financial statements.

Investment Income

Investment income primarily includes income from short-term and long-term investments, board-designated investments and investments within assets limited as to use. In addition, investment income is also recorded for certain equity method investments that are included within other assets.

Peninsula Regional Medical Center

Notes to Financial Statements (continued) (In Thousands)

2. Significant Accounting Policies (continued)

The components of investment income are as follows

	Year Ended June 30	
	2012	2011
Interest and dividend income	\$ 3,694	\$ 3,356
Realized gains, net	1,803	7,478
Income earned on equity method investments	1,456	1,316
Other	21	14
Total	<u>\$ 6,974</u>	<u>\$ 12,164</u>

Income Taxes

The Hospital is a not-for-profit corporation as described in Section 501(c)(3) of the Internal Revenue Code and is exempt from federal income taxes on related income pursuant to Section 501(a) of the Code

Performance Indicator

The performance indicator for the Hospital is excess of unrestricted revenue and other support over expenses, which includes all changes in unrestricted net assets except for changes in unrealized gains and losses on investments, pension adjustments in accordance with ASC No 958-715 – *Not for Profit Entities – Compensation – Retirement Benefits* and net assets released from restrictions for property acquisitions

Recent Accounting Pronouncements

In January 2010, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update, (ASU), No 2010-24, (ASU 2010-24) ASU 2010-24 clarifies 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 this guidance did not have an impact on the Hospital's financial statements.

Peninsula Regional Medical Center

Notes to Financial Statements (continued) (In Thousands)

2. Significant Accounting Policies (continued)

In August 2010, the FASB issued ASU 2010-23 which provided guidance on measuring charity care for disclosure purposes. This guidance requires that cost be used as the measurement basis for charity care disclosure purposes and that cost be identified as the direct and indirect costs of providing charity care. Disclosure requirements include the method used to identify or determine such costs. The adoption of this guidance did not have an effect on the amounts recorded in the financial statements, however it did change the charity care disclosure.

In July 2011, the FASB issued ASU 2011-07 which provided guidance on the presentation and disclosure of patient service revenue, provisions for bad debts, and the allowance for doubtful accounts for certain health care entities. This guidance changes the presentation of the 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, the guidance requires enhanced disclosures about the policies for recognizing revenue and assessing bad debts, as well as qualitative and quantitative information about changes in the allowance for doubtful accounts. This guidance is effective for the Hospital for the fiscal year ending June 30, 2013. The Hospital is currently evaluating the impact of this guidance.

3. Property and Equipment

A summary of property and equipment follows:

	Estimated Useful Lives	June 30 2012	2011
Land	—	\$ 10,636	\$ 10,492
Land improvements	20	13,856	13,695
Buildings and improvements	15 – 40	188,061	184,304
Fixed equipment	20	32,235	32,235
Movable equipment	7 – 10	189,644	191,851
		<u>434,432</u>	<u>432,577</u>
Less accumulated depreciation		<u>(245,183)</u>	<u>(233,750)</u>
		189,249	198,827
Construction in progress		10,986	7,327
Property and equipment, net		<u>\$ 200,235</u>	<u>\$ 206,154</u>

Peninsula Regional Medical Center

Notes to Financial Statements (continued)
(In Thousands)

3. Property and Equipment (continued)

As of June 30, 2012, the Hospital was committed to building and equipment purchases totaling approximately \$2,983

4. Other Liabilities

The components of other liabilities are as follows

	June 30	
	2012	2011
Long-term benefit obligation	\$ 9,112	\$ —
Self insurance obligations	11,156	11,695
Other	558	439
Total	<u>\$ 20,826</u>	<u>\$ 12,134</u>

Peninsula Regional Medical Center

Notes to Financial Statements (continued) (In Thousands)

5. Long-Term Debt

Long-term debt consists of the following

	June 30	
	2012	2011
Maryland Health and Higher Educational Facilities Authority Revenue Bonds Series 2006		
Serial bonds with interest rates ranging from 3 50% to 5 00% and effective rates ranging from 3 49% to 4 67% due in various annual amounts on July 1 of each year from 2007 through 2021 and 2027	\$ 33,765	\$ 36,560
5 00% term bonds with effective rate of 4 44% due July 1, 2026	24,635	24,635
5 00% term bonds with effective rate of 4 63% due July 1, 2036	69,505	69,505
Property acquisition note		
5 50% due March 1 of each year from 2007 to 2015	45	60
	127,950	130,760
Less		
Current portion of Maryland Health and Higher Educational Facilities Authority Series 2006 serial bonds	2,915	2,795
Property acquisition note	15	15
	125,020	127,950
Original issue premium	3,312	3,616
Long-term debt, less current portion	\$ 128,332	\$ 131,566

On February 9, 2006, the Maryland Health and Higher Educational Facilities Authority (MHHEFA) authorized the issuance of \$142,910 aggregate principal amount of Revenue Bonds (Series 2006 Bonds) at a premium of \$5,333. The proceeds of the issue, after payment of financing costs, were used primarily (i) to finance and refinance a portion of the costs of construction, renovation, acquisition and equipping of the 2006 Project, (ii) to refund outstanding 1993 bonds, (iii) to pay a portion of the interest accruing on the Series 2006 Bonds for a period to extend to January 1, 2009, and (iv) to pay the Counterparty a termination payment of \$1,575 in connection with a forward starting interest rate exchange agreement entered into on August 9, 2005 and unwound on January 24, 2006.

Peninsula Regional Medical Center

Notes to Financial Statements (continued) (In Thousands)

5. Long-Term Debt (continued)

Under the terms of the 2006 project and refunding revenue bonds, the Hospital is required to maintain certain deposits with a trustee. Such deposits are included within assets limited as to use. The revenue note indenture also places limits on the incurrence of additional borrowings and requires that the Hospital satisfy certain measures of financial performance as long as the notes are outstanding.

The Hospital is required to make semiannual payments to the trustee sufficient to meet the annual debt service requirements of the refunding bond issue for the succeeding year. Annual sinking fund installments for the term bonds range from \$3,690 on July 1, 2027 to \$8,820 at maturity. The premium on the Series 2006 Bonds is being amortized over the life of the bonds using the effective interest method.

As security for the debt service requirements of the Series 2006 Bonds, MHHEFA has a first lien and claim on all receipts of the Hospital. The terms of the indenture agreement restrict the Hospital's ability to create additional indebtedness and its use of the facilities, and require the Hospital to maintain stipulated insurance coverage and a rate structure in each year sufficient to meet certain rate covenant requirements.

On March 1, 2006, the Hospital entered into a promissory note for the acquisition of property in the amount of \$135 (\$45 outstanding at June 30, 2012). The interest rate is 5.50% with principal and interest due annually through 2015.

On October 30, 2001, Delmarva Surgery Center, LLC (the Company), a 55%-owned subsidiary of Health Ventures, entered into variable rate loan agreements with M&T Bank in the amount of \$4,500 (\$0 outstanding at June 30, 2012) with monthly payments in various amounts through May 2012 to build and equip an ambulatory surgery center. Health Ventures guaranteed the M&T Bank Loan limited to its pro rata interest. In addition, the Hospital entered into an agreement M&T Bank to guarantee with Health Ventures' commitment for this loan. However, it has not guaranteed any portion of the BB&T Bank loan.

Peninsula Regional Medical Center

Notes to Financial Statements (continued) (In Thousands)

5. Long-Term Debt (continued)

Scheduled principal repayments on long-term debt for the years ending June 30 are as follows

2013	\$ 2,930
2014	3,055
2015	3,185
2016	3,330
2017	3,495
2018 and thereafter	111,955
	<u>\$ 127,950</u>

Fair values of long-term debt are estimated using discounted cash flow analyses, based on current incremental borrowing rates for similar types of borrowing arrangements

The fair market value of the Hospital's long-term debt outstanding as of June 30, 2012 and 2011 was \$136,177 and \$130,631, respectively

Total interest paid for fiscal years 2012 and 2011 was \$6,213 and \$6,544, respectively

6. Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are available for the following purposes

	June 30	
	2012	2011
Health care services		
Capital purposes	\$ 10,384	\$ 10,310
Patient services	3,973	3,295
Educational purposes	897	730
	<u>\$ 15,254</u>	<u>\$ 14,335</u>

Peninsula Regional Medical Center

Notes to Financial Statements (continued) (In Thousands)

6. Temporarily and Permanently Restricted Net Assets (continued)

Permanently restricted net assets are restricted to

	June 30	
	2012	2011
Investments to be held in perpetuity, the income from which is expendable to support health care services	<u>\$ 8,071</u>	<u>\$ 8,065</u>

The Foundation initiated a major fundraising campaign for capital funds during fiscal year 2005 to support the Hospital's capital plans that include expansion and modernization of facilities. The Foundation has raised approximately \$14,643 as of June 30, 2012, which includes net pledges receivable present valued at approximately \$1,742. There were two large donations that represent approximately 46% and 34%, respectively, of the net pledges receivable at year-end. The Foundation expects to receive payment on the majority of the pledges by 2014 and all payments by 2025. Additionally, during 2011, the Foundation launched a fundraising campaign to support the Operating Room expansion. This campaign has raised \$1,451 as of June 30, 2012 which includes net pledges receivable present valued at \$579. Pledges receivable are included in assets limited to in use in the accompanying balance sheets.

Scheduled payments on pledges receivable for the years ending June 30 are as follows:

2013	\$ 819
2014 – 2017	755
2018 and thereafter	<u>655</u>
	2,229
Less:	
Impact of discounting of pledges receivable to net present value	(220)
Allowance for uncollectible pledges	<u>(267)</u>
Net pledges receivable, capital campaign	1,742
Other pledges receivable (includes OR net receivable of \$579)	<u>584</u>
Total pledges receivable	<u><u>\$ 2,326</u></u>

Peninsula Regional Medical Center

Notes to Financial Statements (continued) (In Thousands)

7. Functional Expenses

The Hospital considers health care services and management and general to be its primary functional categories for purposes of expense classification. Depreciation and interest costs are included in health care services. The Hospital's operating expenses by functional classification are as follows:

	Year Ended June 30	
	2012	2011
Health care services	\$ 339,231	\$ 335,768
Management and general	34,930	31,094
	<u>\$ 374,161</u>	<u>\$ 366,862</u>

8. Estimated Self-Insured Liability Claims and Workers' Compensation

The Hospital is self-insured for professional liability claims up to an annual limit of \$2,000 per claim and \$8,000 in aggregate. The Hospital carries an excess liability insurance policy for claims above these limits. There are known claims and incidents that may result in the assertion of additional claims, as well as claims from unknown incidents that may be asserted arising from services provided to patients. The Hospital has employed independent actuaries to estimate the ultimate costs, if any, of the settlement of such claims. The accrued self-insured professional liability losses have been discounted at 2% and 4% respectively, and in management's opinion provide an adequate reserve for loss contingencies. As of June 30, 2012 and 2011, respectively, \$10,220 and \$10,953 have been reserved for professional liability loss contingencies.

The Hospital established a trust for the purpose of setting aside assets based on actuarial funding recommendations. Under the trust agreement, the trust assets can only be used for payment of malpractice losses, related expenses and the cost of administering the trust. The assets of the trust are reported in assets limited as to use, income from trust assets, administrative costs and the Hospital's annual estimate of malpractice losses are reported in the statements of operations and changes in net assets.

The Hospital is self-insured for general liability claims beginning March 1, 2004 up to an annual limit of \$1,000 per claim and \$3,000 in aggregate. The Hospital carries an excess liability insurance policy for claims above these limits.

Peninsula Regional Medical Center

Notes to Financial Statements (continued) (In Thousands)

8. Estimated Self-Insured Liability Claims and Workers' Compensation (continued)

The Hospital is also self-insured for workers' compensation up to an annual limit of \$400 per occurrence. The Hospital carries an excess liability insurance policy for workers' compensation claims above this limit. As of June 30, 2012 and 2011, respectively, \$2,786 and \$2,592 have been reserved for workers' compensation loss contingencies.

9. Investments

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

Fair values of all investments, including short-term investments, long-term investments, board-designated investments, and assets limited to use are based on quoted market prices and/or prices obtained from a third party using other market data for the same or comparable instruments and transactions in establishing the prices. Assets limited to use also include the beneficial interest in the Foundation's temporarily restricted net assets which primarily consist of pledges receivable. Certain long-term pledges receivable have been discounted.

Fair value of investments and certain assets limited to use held by the Hospital is summarized as follows:

	June 30	
	2012	2011
Investments		
Cash and cash equivalents	\$ 15,068	\$ 14,368
U S treasury securities	22,360	20,118
Corporate bonds	45,607	37,067
Equity securities	114,965	111,410
Government sponsored mortgage-backed securities	22,479	19,013
Other (including pledges receivable held at the Foundation)	5,721	4,169
Total	<u>\$ 226,200</u>	<u>\$ 206,145</u>

Peninsula Regional Medical Center

Notes to Financial Statements (continued) (In Thousands)

9. Investments (continued)

ASC No 320, *Investments – Debt and Equity Securities*, provides guidance on the recognition and presentation of other-than-temporary impairments. In addition, additional disclosures are required related to other-than-temporary impairments. Under this revised guidance, if a debt security is in an unrealized loss position and the Hospital has the intent to sell the debt security, or it is more likely than not that the Hospital will have to sell the debt security before recovery of its amortized cost basis, the decline in value is deemed to be other-than-temporary and is recorded to other-than-temporary impairment losses recognized in the performance indicator in the statements of operations. For impaired debt securities that the Hospital does not intend to sell or it is more likely than not that the Hospital will not have to sell such securities, but the Hospital expects that it will not fully recover the amortized cost basis, the credit component of the other-than-temporary impairment is recognized in other-than-temporary impairment losses recognized in the performance indicator in the statements of operations and the non-credit component of the other-than-temporary impairment is recognized as a change in unrestricted net assets.

The credit component of an other-than-temporary impairment is determined by comparing the net present value of projected future cash flows with the amortized cost basis of the debt security. The net present value is calculated by discounting the best estimate of projected future cash flows at the effective interest rate implicit in the debt security at the date of acquisition. Cash flow estimates are driven by assumptions regarding probability of default, including changes in credit ratings, and estimates regarding timing and amount of recoveries associated with a default. Furthermore, unrealized losses entirely caused by non-credit-related factors related to debt securities for which the Hospital expects to fully recover the amortized cost basis continue to be recognized as an unrealized loss on investments within the changes in unrestricted net assets.

Peninsula Regional Medical Center

Notes to Financial Statements (continued) (In Thousands)

9. Investments (continued)

The following table shows the gross unrealized losses and fair value of the Hospital's investments with unrealized losses that are not deemed to be other than temporarily impaired, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at June 30, 2012 and 2011

	Fair Value < 1 year	Unrealized Losses < 1 year	Fair Value > 1 year	Unrealized Losses > 1 year	Total Unrealized Losses
June 30, 2012					
U S Treasury	\$ 10,471	\$ 100	\$ —	\$ —	\$ 100
Government sponsored mortgage-backed securities	5,838	55	—	—	55
Corporate debt securities	2,807	40	—	—	40
Equity securities	20,775	1,518	31	2	1,520
Total investments	<u>\$ 39,891</u>	<u>\$ 1,713</u>	<u>\$ 31</u>	<u>\$ 2</u>	<u>\$ 1,715</u>
June 30, 2011					
Government sponsored mortgage-backed securities	\$ 10,647	\$ 111	\$ —	\$ —	\$ 111
Corporate debt securities	6,429	86	—	—	86
Equity securities	14,395	922	1,260	146	1,068
Total investments	<u>\$ 31,471</u>	<u>\$ 1,119</u>	<u>\$ 1,260</u>	<u>\$ 146</u>	<u>\$ 1,265</u>

Peninsula Regional Medical Center

Notes to Financial Statements (continued) (In Thousands)

10. Fair Value Measurements

ASC No 820, *Fair Value Measurements and Disclosures*, establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under ASC No. 820 are described below:

- Level 1 – Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Hospital has the ability to access
- Level 2 – Inputs to the valuation methodology include
 - Quoted prices for similar assets or liabilities in active markets,
 - Quoted prices for identical or similar assets or liabilities in inactive markets,
 - Inputs other than quoted prices that are observable for the asset or liability, and
 - Inputs that are derived principally from or corroborated by observable market data by correlation or other means
- Level 3 – Inputs to the valuation methodology are unobservable and significant to the fair value measurement

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Peninsula Regional Medical Center

Notes to Financial Statements (continued) (In Thousands)

10. Fair Value Measurements (continued)

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

The following table presents the Hospital's assets and liabilities measured at fair value, aggregated by level in the fair value hierarchy within which those measurements fall.

Assets at Fair Value as of June 30, 2012				
	Level 1	Level 2	Level 3	Total
Assets				
Cash and cash equivalents	\$ 15,068	\$ —	\$ —	\$ 15,068
U S treasury securities	22,360	—	—	22,360
Corporate debt securities	—	45,607	—	45,607
Mortgage-backed securities	—	22,479	—	22,479
Publicly traded equity securities	114,965	—	—	114,965
Other	928	2,467	2,326	5,721
Total assets	\$ 153,321	\$ 70,553	\$ 2,326	\$ 226,200

Assets at Fair Value as of June 30, 2011				
	Level 1	Level 2	Level 3	Total
Assets				
Cash and cash equivalents	\$ 14,368	\$ —	\$ —	\$ 14,368
U S treasury securities	20,118	—	—	20,118
Corporate debt securities	—	37,067	—	37,067
Mortgage-backed securities	—	19,013	—	19,013
Publicly traded equity securities	111,010	400	—	111,410
Other	873	357	2,939	4,169
Total assets	\$ 146,369	\$ 56,837	\$ 2,939	\$ 206,145

Peninsula Regional Medical Center

Notes to Financial Statements (continued) (In Thousands)

10. Fair Value Measurements (continued)

The fair values of securities are determined by third-party service providers utilizing various methods dependent upon the specific type of investment. Where quoted prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. Where significant inputs, including benchmark yields, broker-dealer quotes, issuer spreads, bids, offers, the LIBOR curve and measures of volatility, are used by these third-party dealers or independent pricing services to determine fair values, the securities are classified within Level 2.

Long-term pledges receivable, which are measured at fair value on a non-recurring basis, are discounted to net present value upon receipt using an appropriate risk-free discount rate based on the term of the receivable. Pledges receivable are recorded net of an allowance for uncollectible pledges. The following table provides a reconciliation of the beginning and ending balances of pledges receivable at fair value that used significant unobservable inputs (Level 3).

	Year Ended June 30	
	2012	2011
Pledges receivable		
Balance at July 1	\$ 2,939	\$ 3,187
New pledges	275	482
Collections on pledges	(815)	(667)
Write-off of pledges	(197)	(133)
Changes in reserves	124	70
Balance at June 30	<u>\$ 2,326</u>	<u>\$ 2,939</u>

11. Pension Plan

The Hospital has a cash balance-type defined benefit pension plan covering substantially all of its employees. The Plan benefits are based on years of service and the employees' compensation during the last five years of covered employment. The Hospital's funding policy is to make sufficient contributions to the Plan to comply with the minimum funding provisions of the Employee Retirement Income Security Act. Contributions are intended to provide not only for benefits attributed to service to date but also for those expected to be earned in the future.

The Peninsula Regional Medical Center PensionPlus Plan (the Plan) provides annual allocations to a participant's hypothetical account. When a participant retires, the participant has the choice to receive a lump-sum distribution equal to the value of the hypothetical account or to receive an annuity based on the value of the hypothetical account.

Peninsula Regional Medical Center

Notes to Financial Statements (continued) *(In Thousands)*

11. Pension Plan (continued)

Prior to January 1, 2009, the Plan provided three different allocations (i) a service-related allocation, (ii) an age-related allocation and (iii) a matching allocation. Both the service-related allocation and the age-related allocation were determined by multiplying a participant's annual compensation by a certain percentage. The matching allocation operated to provide an annual allocation in the Plan based on the participant's contribution to the Hospital's 403(b) Plan.

The IRS issued new regulations that were effective as of January 1, 2009. The new regulations prohibited a pension plan from providing a matching allocation based on a participant's contributions to a different plan. The Plan provided a matching allocation based on a participant's contribution to a 403(b) Plan. In order to comply with the new tax law requirements, the Plan was amended effective as of December 31, 2008, to eliminate future matching allocations in the Plan. At the same time, the Hospital adopted a 403(b) plan effective as of January 1, 2009 and provided a replacement matching contribution in the 403(b) plan.

The assets of the Plan are available to pay the benefits of eligible employees of all participating entities. The Plan had an unfunded liability of \$9,112 and a prepaid asset of \$2,016 as of June 30, 2012 and 2011, respectively.

Peninsula Regional Medical Center

Notes to Financial Statements (continued) (In Thousands)

11. Pension Plan (continued)

The following provides a reconciliation of the changes in fair value of the Plan's assets and projected benefit obligations, and the Plan's funded status

	2012	2011
Accumulated benefit obligation	\$ 94,241	\$ 79,466
Projected benefit obligation, beginning of year	\$ 85,231	\$ 80,834
Service cost	3,926	3,825
Interest cost	5,024	4,444
Actuarial loss (gain)	11,094	(1,133)
Benefits paid	(3,634)	(2,739)
Projected benefit obligation, end of year	101,641	85,231
Fair value of plan assets, beginning of year	87,247	66,224
Actual gain on plan assets	1,816	12,762
Employer contributions	7,100	11,000
Benefits paid	(3,634)	(2,739)
Fair value of plan assets, end of year	92,529	87,247
Fair value of plan assets (less than)/ greater than projected benefit obligation	(9,112)	2,016
(Accrued)/prepaid pension cost recorded in the balance sheets	\$ (9,112)	\$ 2,016

Components of net periodic benefit cost are as follows

	Year Ended June 30	
	2012	2011
Service cost	\$ 3,926	\$ 3,825
Interest cost	5,025	4,444
Expected return on plan assets	(6,796)	(6,214)
Amortization of prior service credit	(126)	(126)
Recognized net actuarial loss	2,106	2,661
Net periodic benefit cost	\$ 4,135	\$ 4,590

Peninsula Regional Medical Center

Notes to Financial Statements (continued) (In Thousands)

11. Pension Plan (continued)

Net amount recognized in unrestricted net assets that have not been recognized in net periodic benefit cost are as follows

	2012	2011
Net actuarial loss	\$ 44,308	\$ 30,341
Prior service credit	(566)	(692)
Total recognized in unrestricted net assets	<u>\$ 43,742</u>	<u>\$ 29,649</u>

The estimated net actuarial loss and prior service credit for the Plan that will be amortized from unrestricted net assets into net periodic benefit cost over the next fiscal year are \$3,343 and (\$126), respectively

Weighted average assumptions used to determine projected benefit obligations and net periodic benefit costs at June 30 were as follows

	2012	2011
Projected benefit obligation		
Discount rate	4.00%	6.00%
Rates of increase in compensation levels	3.70	3.70
Net periodic benefit cost		
Discount rate	6.00%	5.60%
Rates of increase in compensation levels	3.70	5.00
Expected long-term rate of return on assets	7.50	7.75

Peninsula Regional Medical Center

Notes to Financial Statements (continued) (In Thousands)

11. Pension Plan (continued)

The defined benefit pension plan asset allocation as of the measurement date (June 30) and the target asset allocation, presented as a percentage of total plan assets, were as follows

	2012	2011	Target Allocation
Debt securities	33%	30%	25% –40%
Equity securities	64	65	45% –75%
Cash and cash equivalents	3	5	1% –10%
Total	100%	100%	

The Hospital's defined benefit plan invests in a diversified mix of traditional asset classes. Investments in U S equity securities and fixed income securities are made to maximize long-term results while recognizing the need for adequate liquidity to meet ongoing benefit and administrative obligations. Risk tolerance of unexpected investment and actuarial outcomes is continually evaluated by understanding the pension plan's liability characteristics. This is performed through forecasting and assessing ranges of investment outcomes over short- and long-term horizons, and by assessing the Hospital's financial condition and its future potential obligations from both the pension and general operational requirements. Complementary investment styles, such as growth and value equity investing techniques, are utilized by the Hospital's investment advisors to further improve portfolio and operational risk characteristics. Equity investments, both active and passively managed, are used primarily to increase overall plan returns. Fixed income investments provide diversification benefits and liability hedging attributes that are desirable, especially in falling interest rate environments.

Asset allocations and investment performance are formally reviewed at regularly scheduled meetings of the Hospital's Financial Resources Committee.

The overall rate of expected return on assets assumption was based on historical returns, with adjustments made to reflect expectations of future returns. The extent to which the future expectations were recognized included the target rates of return for the future, which have not historically changed.

Peninsula Regional Medical Center

Notes to Financial Statements (continued) (In Thousands)

11. Pension Plan (continued)

The fair value of the Hospital's pension plan assets as of June 30, 2012 and June 30, 2011, by asset category (see Note 10, *Fair Value Measurements*, for a description of the asset categories) are as follows

June 30, 2012	Level 1	Level 2	Level 3	Total
Assets				
Investments at fair value				
Cash and cash equivalents	\$ 3,114	\$ —	\$ —	\$ 3,114
U S Treasuries	7,499	—	—	7,499
Government sponsored mortgage-backed securities	—	5,102	—	5,102
Corporate debt securities	—	24,251	—	24,251
Publically traded equity securities	52,155	—	—	52,155
Other	408	—	—	408
Total investments	\$ 63,176	\$ 29,353	\$ —	\$ 92,529
June 30, 2011	Level 1	Level 2	Level 3	Total
Assets				
Investments at fair value				
Cash and cash equivalents	\$ 864	\$ —	\$ —	\$ 864
U S Treasuries	5,396	—	—	5,396
Government sponsored mortgage-backed securities	—	4,792	—	4,792
Corporate debt securities	—	15,461	—	15,461
Money market funds	4,269	—	—	4,269
Publically traded equity securities	55,929	182	—	56,111
Other	354	—	—	354
Total investments	\$ 66,812	\$ 20,435	\$ —	\$ 87,247

The following methods and assumptions were used to estimate fair value of each class of financial instrument

U.S. Treasuries the fair value is determined by an active price for an identical security in an observable market

Peninsula Regional Medical Center

Notes to Financial Statements (continued) (In Thousands)

11. Pension Plan (continued)

Corporate debt securities and government sponsored mortgage-backed securities the fair value is estimated using quoted prices for similar assets in active markets or quoted prices for identical or similar assets in non-active markets (few transactions, limited information, non-current prices, and high variability over time)

Money market funds the carrying value of these money market funds approximates fair value as the maturities are less than three months

Publically traded equity securities the fair value is determined by market quotes for an identical security in an observable market

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

Cash Flows

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid as follows for the years ending June 30:

2013	\$ 8,405
2014	8,565
2015	8,610
2016	8,411
2017	8,050
2018 – 2022	40,064

The Hospital intends to make voluntary contributions to the defined benefit pension plan of \$6 million through June 30, 2013. This funding level exceeds any regulatory requirements for 2012.

Peninsula Regional Medical Center

Notes to Financial Statements (continued) (In Thousands)

12. Commitments and Contingencies

Agreement with the Office of Inspector General

The Hospital received several subpoenas from the Office of Inspector General of the U S Department of Health and Human Services (“OIG”), requiring the production of certain documents related to claims for physician health care services provided by a former Medical Staff Member. These subpoenas were issued in connection with a civil investigation being conducted by the U S Attorney’s Office for the District of Maryland. In January 2011, the Hospital reached a tentative “Agreement in Principle”, which was ultimately approved by the U S Department of Justice, the OIG, the Office of Personnel Management (OPM), and the state of Maryland in August 2011, to resolve all remaining potential civil claims arising out of the Hospital’s medical services to patients of the physician. The Hospital reached this agreement without admitting liability in order to avoid the expense and uncertainty of litigation and to allow the Hospital to move forward. In this regard and consistent with the settlement, an amount of \$1.8 million was paid in June 2011 and recorded as an other expense in the accompanying 2011 statement of operations and changes in net assets. The settlement also includes a five year Corporate Integrity Agreement that will require the Hospital to establish and/or enhance various compliance processes and also have several independent peer review reports completed on an annual basis.

Other

The Hospital has been named as a defendant in various lawsuits arising from the performance of its normal activities. In the opinion of the Hospital’s management, after discussion with legal counsel, the amount, if any, of the Hospital’s ultimate liability under these lawsuits will not have a material adverse effect on the financial position of the Hospital.

A portion of the Hospital’s revenues is received from health maintenance organizations and other managed care payors. Managed care payors generally use case management activities to control utilization. These payors also have the ability to select providers offering the most cost-effective care. Management does not believe that the organization has undue exposure to any one managed care payor.

The Hospital’s revenues may be subject to adjustment as a result of examination by government agencies or contractors based upon differing interpretation of government regulations, medical diagnosis, charge coding, medical necessity, or other contract terms. The resolution of these matters, if any, often is not finalized until subsequent to the period during which the services

Peninsula Regional Medical Center

Notes to Financial Statements (continued) (In Thousands)

12. Commitments and Contingencies (continued)

were rendered. Section 302 of the Tax Relief and Health Care Act of 2006 authorized a permanent program involving the use of third-party recovery audit contractors (RACs) to identify Medicare overpayments and underpayments made to providers. We have established protocols to respond to RAC requests and payment denials. Payment recoveries resulting from RAC reviews are appealable through administrative and judicial processes, and we intend to pursue the reversal of adverse determinations where appropriate. In addition to overpayments that are not reversed on appeal, we will incur additional costs to respond to requests for records and pursue the reversal of payment denials. As of June 30, 2012, the Hospital has recorded an estimated reserve regarding the Medicare overpayments. In the opinion of the Hospital's management, the ultimate settlement of this matter will not have a material adverse effect on the financial position of the Hospital.

As part of a national investigation, the Hospital is working on a data request by the Department of Justice (DOJ) regarding the Medicare programs coverage guidelines for the implantation of implantable cardioverter defibrillators (ICD's). As of June 30, 2012, no case or demand for payment has been initiated by DOJ or Centers for Medicare and Medicaid Services (CMS).

On June 22, 2012, the Hospital filed a self disclosure to CMS, reporting technical violations of the self-referral regulations (referred to as Stark). As of June 30, 2012, the Hospital does not believe the settlement of this issue will have a material adverse effect on the entity's financial statements.

13. Maryland Health Services Cost Review Commission

Certain Hospital charges are subject to review and approval by the Maryland Health Services Cost Review Commission (the Commission). Hospital management has filed the required forms with the Commission and believes the Hospital to be in compliance with Commission requirements.

The current rate of reimbursement for principally all inpatient services and certain other services to patients under the Medicare and Medicaid programs is based on an agreement between the Centers for Medicare and Medicaid Services and the Commission. This agreement is based upon a waiver from Medicare prospective payment system reimbursement principles granted to the State of Maryland under Section 1814(b) of the Social Security Act and will continue as long as the rate of increase for costs per hospital inpatient admission in Maryland is below the national average. Management expects this agreement will remain in effect at least through June 30, 2013.

Peninsula Regional Medical Center

Notes to Financial Statements (continued) (In Thousands)

13. Maryland Health Services Cost Review Commission (continued)

The Commission and the Hospital entered into an agreement that is based on a rate methodology for those hospital service centers that provide inpatient services. Under this methodology, a target average charge per case is established for the Hospital based on past actual charges and case mix indices. The actual average charge per episode is compared with the target average charge per episode, and to the extent that the actual average exceeds or is less than the target, the difference adjusted for applicable penalties will reduce or increase the approved target for future rate years. For the year ended June 30, 2012, the Hospital was in compliance with its average charge per case target.

The Commission's rate-setting methodology for hospital service centers that provide both inpatient and outpatient services or only outpatient services consists of establishing an acceptable unit rate for defined inpatient and outpatient service centers within the hospital. The actual average unit charge for each service center is compared to the approved rate monthly and annually. Overcharges and undercharges due to either patient volume or price variances, adjusted for penalties where applicable, are applied to decrease (in the case of overcharges) or increase (in the case of undercharges) future approved rates on an annual basis.

The timing of the Commission's rate adjustments for the Hospital could result in an increase or reduction in rates due to the variances and penalties described above in a year subsequent to the year in which such items occur, and there is at least a possibility that the amounts may be material. The Hospital's policy is to record revenue based on actual charges for services to patients in the year in which the services are performed. The Hospital recognizes unbilled revenue for in-house patients.

14. Subsequent Events

The Hospital has evaluated subsequent events through September 21, 2012, the date the financial statements were issued.

Supplementary Information

Report of Independent Auditors on Supplementary Information

Board of Trustees
Peninsula Regional Medical Center

Our audit was conducted for the purpose of forming an opinion on the June 30, 2012 financial statements taken as a whole. The June 30, 2012 supplementary information is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

September 21, 2012

Peninsula Regional Medical Center

Summary of Operations (In Thousands)

	Year Ended June 30				
	2012	2011	2010	2009	2008
Gross patient revenue	\$ 476,777	\$ 457,035	\$ 426,582	\$ 418,478	\$ 399,948
Deductions from revenue	98,742	76,983	58,173	50,440	45,406
Net patient service revenue	378,035	380,052	368,409	368,038	354,542
Other operating revenue	2,360	2,357	2,059	1,976	1,080
	380,395	382,409	370,468	370,014	355,622
Operating expenses	374,161	366,862	363,438	357,978	327,422
Income from operations	6,234	15,547	7,030	12,036	28,200
Nonoperating income (expense)					
Nonoperating income (expense)	6,974	12,164	10,304	(14,533)	12,033
Basis swap income (loss)	2,629	3,128	1,753	(3,344)	(1,927)
	9,603	15,292	12,057	(17,877)	10,106
Excess (deficit) of unrestricted revenue and other support over expenses	\$ 15,837	\$ 30,839	\$ 19,087	\$ (5,841)	\$ 38,306

Peninsula Regional Medical Center

Gross Patient Revenue (In Thousands)

	Year Ended June 30	
	2012	2011
Total gross patient revenue		
Routine care		
Daily hospital care	\$ 102,899	\$ 115,624
Daily hospital care – nursery	6,129	6,550
Emergency services	22,241	21,364
Admissions charge	2,962	3,393
	<u>134,231</u>	<u>146,931</u>
Professional services		
Pathology and clinical laboratory	33,858	32,298
Operating room	33,258	30,546
Pharmacy	55,219	50,150
Radiology		
Diagnostic	5,454	4,738
Nuclear medicine	2,536	2,293
Special procedures	3,966	3,013
Ultrasound lab	3,497	3,077
C/T scanning and magnetic resonance imaging	7,999	7,596
Vascular lab	4,354	3,492
Radiation oncology	14,595	14,085
Medical oncology	6,463	6,232
Respiratory care and pulmonary function	9,545	9,811
Blood bank	1,860	1,959
Medical and surgical supplies	58,702	57,004
Delivery service	7,091	6,536
Anesthesiology	2,862	3,257
Electrocardiogram	516	429
Cardiac laboratory	14,500	12,652
Intravenous solutions	600	688
Lithotripsy	57	44
Physical, speech and occupational therapy	4,929	4,724
Neurological diagnostics	3,927	1,974
Cardiac rehabilitation	1,290	1,391
Family practice, clinic and diagnostic centers	18,396	17,650
Specialty practices	29,793	19,627
Transitional care	8,009	7,621
Recovery care	6,174	6,756
Observation service	3,096	461
	<u>342,546</u>	<u>310,104</u>
Gross patient revenue	<u>\$ 476,777</u>	<u>\$ 457,035</u>

Peninsula Regional Medical Center

Operating Expenses

(In Thousands)

	Year Ended June 30		Increase
	2012	2011	(Decrease)
Nursing services	\$ 97,092	\$ 94,459	\$ 2,633
Buildings and grounds	14,071	14,545	(474)
Laboratory	13,766	13,844	(78)
Materials management	6,330	7,184	(854)
Administration	26,227	26,020	207
Food services	3,996	4,066	(70)
Financial affairs and information systems	18,118	17,571	547
Respiratory services	5,137	5,325	(188)
Pharmacy	35,343	32,924	2,419
Radiology	14,318	14,369	(51)
Radiation oncology	5,002	4,706	296
Medical oncology	6,952	6,338	614
Physician services	6,552	7,518	(966)
Electrocardiology, neurological diagnostic, cardiac catheterization laboratory, family practice, lithotripsy, diagnostic and breast care centers	40,302	35,971	4,331
Physical, speech and occupational therapy	3,111	3,101	10
Admitting and registration	2,485	2,318	167
Education and training	1,396	1,258	138
Transitional care	2,276	2,241	35
Employee benefits, child care (exclusive of FICA)	27,000	27,274	(274)
Bad debts	16,616	17,411	(795)
Depreciation	21,812	21,829	(17)
Interest	6,213	6,544	(331)
Amortization of financing costs and deferred charge for retirement of debt	46	46	—
	<u>\$ 374,161</u>	<u>\$ 366,862</u>	<u>\$ 7,299</u>