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Part III

Statement of Program Service Accomplishments

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

☐ Yes ☒ No

1

Briefly describe the organization's mission

ACUTE HOSPITAL CARE

2

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

☐ Yes ☒ No

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

3

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

☐ Yes ☒ No

If "Yes," describe these changes on Schedule O

4

Describe the 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 are required to report the amount of grants and allocations to others, the total expenses, and revenue, if any, for each program service reported

4a

(Code ) (Expenses \$ 187,606,056 including grants of \$ ) (Revenue \$ 253,306,496 )

SEE SCHEDULE O

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 187,606,056

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)? If "Yes," complete Schedule A 	1 Yes	
2 Is the organization required to complete Schedule B, Schedule of Contributors (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? If "Yes," complete Schedule C, Part I 	3	No
4 <b>Section 501(c)(3) organizations.</b> Did the organization engage in lobbying activities, or have a section 501(h) election in effect during the tax year? If "Yes," complete Schedule C, Part II 	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? If "Yes," complete Schedule C, Part III 	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? If "Yes," complete Schedule D, Part 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? If "Yes," complete Schedule D, Part II 	7	No
8 Did the organization maintain collections of works of art, historical treasures, or other similar assets? If "Yes," complete Schedule D, Part III 	8	No
9 Did the organization report an amount in Part X, line 21 for escrow or custodial account liability, serve as a custodian for amounts not listed in Part X, or provide credit counseling, debt management, credit repair, or debt negotiation services? If "Yes," complete Schedule D, Part IV 	9	No
10 Did the organization, directly or through a related organization, hold assets in temporarily restricted endowments, permanent endowments, or quasi-endowments? If "Yes," complete Schedule D, Part V 	10	No
11 If the organization's answer to any of the following questions is "Yes," then complete Schedule D, Parts VI, VII, VIII, IX, or X as applicable		
a Did the organization report an amount for land, buildings, and equipment in Part X, line 10? If "Yes," complete Schedule D, Part VI 	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? If "Yes," complete Schedule D, Part VII 	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? If "Yes," complete Schedule D, Part VIII 	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? If "Yes," complete Schedule D, Part IX 	11d Yes	
e Did the organization report an amount for other liabilities in Part X, line 25? If "Yes," complete Schedule D, Part X 	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)? If "Yes," complete Schedule D, Part X 	11f Yes	
12a Did the organization obtain separate, independent audited financial statements for the tax year? If "Yes," complete Schedule D, Parts XI and XII 	12a	No
b Was the organization included in consolidated, independent audited financial statements for the tax year? If "Yes," and if the organization answered "No" to line 12a, then completing Schedule D, Parts XI and XII is optional 	12b Yes	
13 Is the organization a school described in section 170(b)(1)(A)(ii)? If "Yes," complete Schedule E	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? If "Yes," complete Schedule F, Parts I and IV	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 United States? If "Yes," complete Schedule F, Parts II and IV	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 United States? If "Yes," complete Schedule F, Parts III and IV	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? If "Yes," complete Schedule G, Part I (see instructions)	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? If "Yes," complete Schedule G, Part II	18	No
19 Did the organization report more than \$15,000 of gross income from gaming activities on Part VIII, line 9a? If "Yes," complete Schedule G, Part III	19	No
20a Did the organization operate one or more hospital facilities? If "Yes," complete Schedule H 	20a Yes	
b If "Yes" to line 20a, did the organization attach a copy of its audited financial statements to this return? 	20b Yes	

Part IV

Checklist of Required Schedules (continued)

21	Did the organization report more than \$5,000 of grants and other assistance to any government or organization in the United States on Part IX, column (A), line 1? <i>If "Yes," complete Schedule I, Parts I and II</i> . . . . .	21	Yes	
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	Yes	
23	Did the organization answer "Yes" to Part VII, Section A, line 3, 4, or 5 about compensation of the organization's current and former officers, directors, trustees, key employees, and highest compensated employees? <i>If "Yes," complete Schedule J</i> . . . . .	23	Yes	
24a	Did the organization have a tax-exempt bond issue with an outstanding principal amount of more than \$100,000 as of the last day of the year, that was issued after December 31, 2002? <i>If "Yes," answer lines 24b through 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	<b>Section 501(c)(3) and 501(c)(4) organizations.</b> 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, highest 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 employee thereof, a grant selection committee member, or to a 35% controlled entity or family member of any of these persons? <i>If "Yes," complete Schedule L, Part III</i> . . . . .	27		No
28	Was the organization a party to a business transaction with one of the following parties (see Schedule L, Part IV instructions for applicable filing thresholds, conditions, and exceptions)			
a	A current or former officer, director, trustee, or key employee? <i>If "Yes," complete Schedule L, Part IV</i> . . . . .	28a		No
b	A family member of a current or former officer, director, trustee, or key employee? <i>If "Yes," complete Schedule L, Part IV</i> . . . . .	28b		No
c	An entity of which a current or former officer, director, trustee, or key employee (or a family member thereof) was an officer, director, trustee, or direct or indirect owner? <i>If "Yes," complete Schedule L, Part IV</i> . . . . .	28c	Yes	
29	Did the organization receive more than \$25,000 in non-cash contributions? <i>If "Yes," complete Schedule M</i> . . . .	29		No
30	Did the organization receive contributions of art, historical treasures, or other similar assets, or qualified conservation contributions? <i>If "Yes," complete Schedule M</i> . . . . .	30		No
31	Did the organization liquidate, terminate, or dissolve and cease operations? <i>If "Yes," complete Schedule N, Part I</i> . . . . .	31		No
32	Did the organization sell, exchange, dispose of, or transfer more than 25% of its net assets? <i>If "Yes," complete Schedule N, Part II</i> . . . . .	32		No
33	Did the organization own 100% of an entity disregarded as separate from the organization under Regulations sections 301.7701-2 and 301.7701-3? <i>If "Yes," complete Schedule R, Part I</i> . . . . .	33		No
34	Was the organization related to any tax-exempt or taxable entity? <i>If "Yes," complete Schedule R, Part II, III, or IV, and Part V, line 1</i> . . . . .	34	Yes	
35a	Did the organization have a controlled entity within the meaning of section 512(b)(13)?	35a		No
b	If 'Yes' to line 35a, 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		
36	<b>Section 501(c)(3) organizations.</b> 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 11b and 19? <b>Note.</b> 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

☐

		Yes	No
1a	Enter the number reported in Box 3 of Form 1096. Enter -0- if not applicable.		
1b	Enter the number of Forms W-2G included in line 1a. Enter -0- if not applicable.		
1c		Yes	
2a	Enter the number of employees reported on Form W-3, Transmittal of Wage and Tax Statements, filed for the calendar year ending with or within the year covered by this return.		
2b		Yes	
3a			No
3b		Yes	
4a			No
b			
5a			No
5b			No
5c			
6a			No
6b			
7 Organizations that may receive deductible contributions under section 170(c).			
7a			No
7b			
7c			No
7d			
7e			No
7f			No
7g			
7h			
8			
9 Sponsoring organizations maintaining donor advised funds.			
9a			
9b			
10 Section 501(c)(7) organizations. Enter			
10a			
10b			
11 Section 501(c)(12) organizations. Enter			
11a			
11b			
12a			
12b			
13 Section 501(c)(29) qualified nonprofit health insurance issuers.			
13a			
13b			
13c			
14a			No
14b			

Part VI

Governance, Management, and Disclosure

For each "Yes" response to lines 2 through 7b below, and for a "No" response to lines 8a, 8b, or 10b below, describe the circumstances, processes, or changes in Schedule O. See instructions.

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

Section A. Governing Body and Management

			Yes	No
1a	Enter the number of voting members of the governing body at the end of the tax year	1a	16	
	If there are material differences in voting rights among members of the governing body, or if the governing body delegated broad authority to an executive committee or similar committee, explain in Schedule O			
b	Enter the number of voting members included in line 1a, above, who are independent	1b	9	
2	Did any officer, director, trustee, or key employee have a family relationship or a business relationship with any other officer, director, trustee, or key employee?	2	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?	3		No
4	Did the organization make any significant changes to its governing documents since the prior Form 990 was filed?	4		No
5	Did the organization become aware during the year of a significant diversion of the organization's assets?	5		No
6	Did the organization have members or stockholders?	6	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?	7a		No
b	Are any governance decisions of the organization reserved to (or subject to approval by) members, stockholders, or persons other than the governing body?	7b		No
8	Did the organization contemporaneously document the meetings held or written actions undertaken during the year by the following			
a	The governing body?	8a	Yes	
b	Each committee with authority to act on behalf of the governing body?	8b	Yes	
9	Is there any officer, director, trustee, or key employee listed in Part VII, Section A, who cannot be reached at the organization's mailing address? If "Yes," provide the names and addresses in Schedule O	9		No

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

			Yes	No
10a	Did the organization have local chapters, branches, or affiliates?	10a		No
b	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?	10b		
11a	Has the organization provided a complete copy of this Form 990 to all members of its governing body before filing the form?	11a	Yes	
b	Describe in Schedule O the process, if any, used by the organization to review this Form 990			
12a	Did the organization have a written conflict of interest policy? If "No," go to line 13	12a	Yes	
b	Were officers, directors, or trustees, and key employees required to disclose annually interests that could give rise to conflicts?	12b	Yes	
c	Did the organization regularly and consistently monitor and enforce compliance with the policy? If "Yes," describe in Schedule O how this was done	12c	Yes	
13	Did the organization have a written whistleblower policy?	13	Yes	
14	Did the organization have a written document retention and destruction policy?	14	Yes	
15	Did the process for determining compensation of the following persons include a review and approval by independent persons, comparability data, and contemporaneous substantiation of the deliberation and decision?			
a	The organization's CEO, Executive Director, or top management official	15a	Yes	
b	Other officers or key employees of the organization	15b	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?	16a	Yes	
b	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?	16b		No

Section C. Disclosure

17	List the States with which a copy of this Form 990 is required to be filed	MD
18	Section 6104 requires an organization to make its Form 1023 (or 1024 if applicable), 990, and 990-T (501(c)(3)s only) available for public inspection. Indicate how you made these available. Check all that apply. <input type="checkbox"/> Own website <input type="checkbox"/> Another's website <input checked="" type="checkbox"/> Upon request <input type="checkbox"/> Other (explain in Schedule O)	
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 during the tax year	
20	State the name, physical address, and telephone number of the person who possesses the books and records of the organization	JOSEPH E HOFFMAN III 520 UPPER CHESAPEAKE DRIVE BEL AIR, MD (443) 643-3340

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 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 organization compensated any current officer, director, or trustee

(A) Name and Title	(B) Average hours per week (list any hours for related organizations below dotted line)	(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) H WILLIAM ACKER VICE CHAIRMAN/DIRECTOR	5 0	X		X				0	0	0
(2) STEVEN M BENTMAN MD DIRECTOR	1 0	X						22,917	0	0
(3) JOHN H CAIN DIRECTOR	1 0	X						0	0	0
(4) MELINDA L CRAIG DIRECTOR	1 0	X						0	0	0
(5) DIANE K FORD DIRECTOR	1 0	X						0	0	0
(6) JASON M BIRNBAUM MD DIRECTOR	40 0	X						0	0	0
(7) M SCOT KAUFMAN SECRETARY/DIRECTOR	5 0	X		X				0	0	0
(8) ANDREW KLEIN DIRECTOR	1 0	X						0	0	0
(9) JAMES LAMBDIN DIRECTOR	1 0	X						0	0	0
(10) ANTHONY J MEOLI TREASURER/DIRECTOR	5 0	X		X				0	0	0
(11) ROGER E SCHNEIDER MD CHAIRMAN/DIRECTOR	5 0	X		X				0	0	0
(12) LYLE E SHELDON PRESIDENT & CEO/DIRECTOR	5 0 50 0	X		X				0	2,674,235	79,823
(13) RICHARD P STRETT JR VMD DIRECTOR	1 0	X						0	0	0
(14) ADELE A WILZACK RN MS DIRECTOR	1 0	X						0	0	0
(15) ALBERT J A YOUNG DIRECTOR	1 0	X						0	0	0
(16) FAHEEM YOUNUS MD DIRECTOR	1 0	X						165,000	0	0
(17) JOYCE FOX VP - PATIENT SVCS/CNO	20 0 20 0				X			0	245,318	47,696



**Part VII**

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

(A) Name and Title	(B) Average hours per week (list any hours for related organizations below dotted line)	(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) JOSEPH E HOFFMAN III SR VP/CFO	5 0 46 0				X			0	724,598	77,334
(19) JAMES J HURSEY SR VP/COO	5 0 49 0				X			0	276,141	56,414
(20) DEAN C KASTER SR VP - CORP STRATEGY/PLANNING	5 0 45 0				X			0	499,354	63,620
(21) MARGARET M VAUGHAN SR VP - CHIEF MEDICAL OFFICER	5 0 46 0				X			0	828,477	28,762
(22) E SCOTT CONOVER SR VP/GENERAL COUNSEL	5 0 46 0				X			0	456,107	43,977
(23) TONI M SHIVERY VP - HUMAN RESOURCES	5 0 45 0				X			0	214,360	64,712
(24) ROY PHILLIPS PHYSICIAN/HOSPITALIST	40 0					X		271,922	0	47,081
(25) OLUFUNMILAYO ONOBRAKPEYA PHYSICIAN	40 0					X		240,703	0	36,602
(26) ANGELA M KAITIS DIR - PHARMACEUTICAL SERVICES	40 0					X		136,274	0	46,004
(27) DENISE C DEEL ADMINISTRATIVE COORDINATOR	40 0					X		138,088	0	33,523
(28) SAYHIENG SEANG PHARMACIST	40 0					X		139,972	0	23,575
<b>1b Sub-Total</b>										
<b>c Total from continuation sheets to Part VII, Section A</b>										
<b>d Total (add lines 1b and 1c)</b>								1,114,876	5,918,590	649,123

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▶88

		Yes	No
3	Did the organization list any <b>former</b> officer, director or trustee, key employee, or highest compensated employee on line 1a? <i>If "Yes," complete Schedule J for such individual</i>	3	No
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
NORTHERN CHESAPEAKE ANESTHESIA ASSO , PO BOX 89 BEL AIR MD 21014	PHYSICIAN FEES	3,266,667
VISION CONSULTING LLC , 3325 ASPEN GROVE DRIVE SUITE 204 FRANKLIN TN 37067	SOFTWARE CONSULTING	718,945
BRAIN AND SPINE SPECIALISTS PA , 520 UPPER CHESAPEAKE DR SUITE 211 BEL AIR MD 21014	PHYSICIAN FEES	574,936
CHESAPEAKE MEDICAL STAFFING , 2401 YORK ROAD TIMONIUM MD 21093	MED STAFFING FEES	429,213
KPMG LLP , 111 SOUTH CALVERT ST BALTIMORE MD 21202	AUDIT FEES	395,462
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 ▶28	

Part VIII

Statement of Revenue

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

				(A) Total revenue	(B) Related or exempt function revenue	(C) Unrelated business revenue	(D) Revenue excluded from tax under sections 512, 513, or 514		
Contributions, Gifts, Grants and Other Similar Amounts	1a	Federated campaigns . . .	1a		4,770,282				
	b	Membership dues . . . . .	1b						
	c	Fundraising events . . . . .	1c						
	d	Related organizations . . . .	1d	4,770,282					
	e	Government grants (contributions)	1e						
	f	All other contributions, gifts, grants, and similar amounts not included above	1f						
	g	Noncash contributions included in lines 1a-1f \$							
	h	Total. Add lines 1a-1f . . . . .						4,770,282	
Program Service Revenue	2a	NET PATIENT SERVICE REVENUE	Business Code 621110	249,532,571	249,532,571				
	b	SPINE CENTER/ENDOCRINOLOGY	621110	199,697	199,697				
	c	POST REHAB FITNESS	621110	7,246	7,246				
	d								
	e								
	f	All other program service revenue							
	g	Total. Add lines 2a-2f . . . . .			249,739,514				
	Other Revenue	3	Investment income (including dividends, interest, and other similar amounts) . . . . .		35,914			35,914	
4		Income from investment of tax-exempt bond proceeds . .		0					
5		Royalties . . . . .		0					
6a		Gross rents	(i) Real 1,510,170	(ii) Personal					
		b	Less rental expenses	3,026,627					
		c	Rental income or (loss)	-1,516,457					0
		d	Net rental income or (loss) . . . . .						-1,516,457
7a		Gross amount from sales of assets other than inventory	(i) Securities 448,794	(ii) Other 3,350					
		b	Less cost or other basis and sales expenses						
		c	Gain or (loss)	448,794					3,350
		d	Net gain or (loss) . . . . .						452,144
8a		Gross income from fundraising events (not including \$ _____ of contributions reported on line 1c) See Part IV, line 18 . . . . .			0				
b		Less direct expenses . . . . .							
c		Net income or (loss) from fundraising events . . .							
9a		Gross income from gaming activities See Part IV, line 19 . . . . .			0				
b		Less direct expenses . . . . .							
c		Net income or (loss) from gaming activities . . .							
10a		Gross sales of inventory, less returns and allowances . .			0				
a									
b		Less cost of goods sold . . . . .							
c	Net income or (loss) from sales of inventory . . .								
Miscellaneous Revenue			Business Code	3,566,982	3,566,982				
11a	INCENTIVE PMTS-ELECTRONIC HLTH RECORDS	900099							
b	CAFETERIA/VENDING	900099	1,189,802					1,189,802	
c	PARKING GARAGE	900099	207,346					207,346	
d	All other revenue . . . . .		840,085					840,085	
e	Total. Add lines 11a-11d . . . . .							5,804,215	
12	Total revenue. See Instructions . . . . .			259,285,612	253,306,496		1,208,834		

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).

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.	13,916,322	13,916,322		
2	Grants and other assistance to individuals in the United States. See Part IV, line 22.	37,448	37,448		
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.	0			
6	Compensation not included above, to disqualified persons (as defined under section 4958(f)(1)) and persons described in section 4958(c)(3)(B).	0			
7	Other salaries and wages.	84,042,528	62,999,697	21,042,831	
8	Pension plan accruals and contributions (include section 401(k) and 403(b) employer contributions).	7,217,302	5,410,211	1,807,091	
9	Other employee benefits.	6,083,742	4,551,099	1,532,643	
10	Payroll taxes.	7,319,324	5,486,689	1,832,635	
11	Fees for services (non-employees):				
a	Management.	1,322,835		1,322,835	
b	Legal.	0			
c	Accounting.	24,183		24,183	
d	Lobbying.	0			
e	Professional fundraising services. See Part IV, line 17.	0			
f	Investment management fees.	0			
g	Other (If line 11g amount exceeds 10% of line 25, column (A) amount, list line 11g expenses on Schedule O).	15,444,959	9,697,195	5,747,764	
12	Advertising and promotion.	962,831	2,350	960,481	
13	Office expenses.	61,006,739	57,137,996	3,868,743	
14	Information technology.	0			
15	Royalties.	0			
16	Occupancy.	4,445,052	730,760	3,714,292	
17	Travel.	24,095	15,033	9,062	
18	Payments of travel or entertainment expenses for any federal, state, or local public officials.	0			
19	Conferences, conventions, and meetings.	90,354	28,651	61,703	
20	Interest.	2,819,200	1,827,569	991,631	
21	Payments to affiliates.	5,464,893	585,311	4,879,582	
22	Depreciation, depletion, and amortization.	9,971,997	7,326,281	2,645,716	
23	Insurance.	3,431,648	2,572,421	859,227	
24	Other expenses. Itemize expenses not covered above (List miscellaneous expenses in line 24e. If line 24e amount exceeds 10% of line 25, column (A) amount, list line 24e expenses on Schedule O):				
a	MANAGEMENT FEES - UCHS	9,730,142		9,730,142	
b	REPAIRS & MAINTENANCE	3,646,561	769,060	2,877,501	
c	BAD DEBT	12,081,735	12,081,735		
d	DUES	438,296	33,903	404,393	
e	All other expenses	-696,997	2,396,325	-3,093,322	
25	<b>Total functional expenses.</b> Add lines 1 through 24e.	248,825,189	187,606,056	61,219,133	0
26	<b>Joint costs.</b> Complete this line only if the organization reported in column (B) joint costs from a combined educational campaign and fundraising solicitation. Check here <input type="checkbox"/> if following SOP 98-2 (ASC 958-720).				

Part X

Balance Sheet

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

☐

				(A)		(B)
				Beginning of year		End of year
Assets	1	Cash—non-interest-bearing		18,019,127	1	18,587,894
	2	Savings and temporary cash investments		0	2	0
	3	Pledges and grants receivable, net		0	3	0
	4	Accounts receivable, net		26,206,766	4	27,904,096
	5	Loans and other receivables from current and former officers, directors, trustees, key employees, and highest compensated employees Complete Part II of Schedule L		0	5	0
	6	Loans and other receivables from other disqualified persons (as defined under section 4958(f)(1)), persons described in section 4958(c)(3)(B), and contributing employers and sponsoring organizations of section 501(c)(9) voluntary employees' beneficiary organizations (see instructions) Complete Part II of Schedule L		0	6	0
	7	Notes and loans receivable, net		0	7	0
	8	Inventories for sale or use		5,693,980	8	5,804,000
	9	Prepaid expenses and deferred charges		1,214,175	9	1,191,840
	10a	Land, buildings, and equipment cost or other basis Complete Part VI of Schedule D	10a263,266,168			
	b	Less accumulated depreciation	10b86,782,917	155,785,998	10c	176,483,251
	11	Investments—publicly traded securities		41,080,170	11	41,528,964
	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		383,343	14	223,518
	15	Other assets See Part IV, line 11		72,879,222	15	81,687,211
	16	Total assets. Add lines 1 through 15 (must equal line 34)		321,262,781	16	353,410,774
Liabilities	17	Accounts payable and accrued expenses		24,574,005	17	30,580,356
	18	Grants payable		0	18	0
	19	Deferred revenue		0	19	0
	20	Tax-exempt bond liabilities		146,396,066	20	162,519,495
	21	Escrow or custodial account liability Complete Part IV of Schedule D		0	21	0
	22	Loans and other 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		0	24	0
	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		63,560,393	25	67,859,894
	26	Total liabilities. Add lines 17 through 25		234,530,464	26	260,959,745
Net Assets or Fund Balances	Organizations that follow SFAS 117 (ASC 958), check here <input checked="" type="checkbox"/> and complete lines 27 through 29, and lines 33 and 34.					
	27	Unrestricted net assets		79,725,317	27	81,060,106
	28	Temporarily restricted net assets		7,007,000	28	11,390,923
	29	Permanently restricted net assets		0	29	0
	Organizations that do not follow SFAS 117 (ASC 958), 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		86,732,317	33	92,451,029
	34	Total liabilities and net assets/fund balances		321,262,781	34	353,410,774

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	259,285,612
2	Total expenses (must equal Part IX, column (A), line 25) . . . . .	2	248,825,189
3	Revenue less expenses Subtract line 2 from line 1 . . . . .	3	10,460,423
4	Net assets or fund balances at beginning of year (must equal Part X, line 33, column (A)) . . . . .	4	86,732,317
5	Net unrealized gains (losses) on investments . . . . .	5	-17,433
6	Donated services and use of facilities . . . . .	6	
7	Investment expenses . . . . .	7	
8	Prior period adjustments . . . . .	8	
9	Other changes in net assets or fund balances (explain in Schedule O) . . . . .	9	-4,724,278
10	Net assets or fund balances at end of year Combine lines 3 through 9 (must equal Part X, line 33, column (B))	10	92,451,029

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? If "Yes," check a box below to indicate whether the financial statements for the year were compiled or reviewed on a separate basis, consolidated basis, or both <input type="checkbox"/> Separate basis <input type="checkbox"/> Consolidated basis <input type="checkbox"/> Both consolidated and separate basis		No
2b	Were the organization's financial statements audited by an independent accountant? If "Yes," check a box below to indicate whether the financial statements for the year were audited on a separate basis, consolidated basis, or both <input type="checkbox"/> Separate basis <input checked="" type="checkbox"/> Consolidated basis <input type="checkbox"/> Both consolidated and separate basis	Yes	
2c	If "Yes," to line 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	
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
3b	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)

Public Charity Status and Public Support

OMB No 1545-0047

2012

Open to Public Inspection

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.

Department of the Treasury  
Internal Revenue Service

Name of the organization  
UPPER CHESAPEAKE MEDICAL CENTER

Employer identification number  
52-1253920

Part I

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

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

- 1

☐

A church, convention of churches, or association of churches described in **section 170(b)(1)(A)(i).**
- 2

☐

A school described in **section 170(b)(1)(A)(ii).** (Attach Schedule E )
- 3

☒

A hospital or a cooperative hospital service organization described in **section 170(b)(1)(A)(iii).**
- 4

☐

A medical research organization operated in conjunction with a hospital described in **section 170(b)(1)(A)(iii).** Enter the hospital's name, city, and state \_\_\_\_\_
- 5

☐

An organization operated for the benefit of a college or university owned or operated by a governmental unit described in **section 170(b)(1)(A)(iv).** (Complete Part II )
- 6

☐

A federal, state, or local government or governmental unit described in **section 170(b)(1)(A)(v).**
- 7

☐

An organization that normally receives a substantial part of its support from a governmental unit or from the general public described in **section 170(b)(1)(A)(vi).** (Complete Part II )
- 8

☐

A community trust described in **section 170(b)(1)(A)(vi)** (Complete Part II )
- 9

☐

An organization that normally receives (1) more than 33<sup>1</sup>/<sub>3</sub>% 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<sup>1</sup>/<sub>3</sub>% 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 - Non-functionally integrated
- 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 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 monetary support |
|------------------------------------|----------|--|--|----|---|----|--|----|----------------------------------|
|                                    |          |  | Yes  | No | Yes   | No | Yes  | No |                                  |
|                                    |          |  |  |    |   |    |  |    |                                  |
|                                    |          |  |  |    |   |    |  |    |                                  |
| Total                              |          |  |  |    |   |    |  |    |                                  |
- For Paperwork Reduction Act Notice, see the Instructions for Form 990 or 990EZ.

Cat No 11285F

Schedule A (Form 990 or 990-EZ) 2012

Part II

Support Schedule for Organizations Described in Sections 170(b)(1)(A)(iv) and 170(b)(1)(A)(vi)  
(Complete only if you checked the box on line 5, 7, or 8 of Part I or if the organization failed to qualify under Part III. If the organization fails to qualify under the tests listed below, please complete Part III.)

Section A. Public Support						
Calendar year (or fiscal year beginning in) ▶	(a) 2008	(b) 2009	(c) 2010	(d) 2011	(e) 2012	(f) Total
1 Gifts, grants, contributions, and membership fees received (Do not include any "unusual grants.")						
2 Tax revenues levied for the organization's benefit and either paid to or expended on its behalf						
3 The value of services or facilities furnished by a governmental unit to the organization without charge						
4 Total. Add lines 1 through 3						
5 The portion of total contributions by each person (other than a governmental unit or publicly supported organization) included on line 1 that exceeds 2% of the amount shown on line 11, column (f)						
6 Public support. Subtract line 5 from line 4						

Section B. Total Support						
Calendar year (or fiscal year beginning in) ▶	(a) 2008	(b) 2009	(c) 2010	(d) 2011	(e) 2012	(f) Total
7 Amounts from line 4						
8 Gross income from interest, dividends, payments received on securities loans, rents, royalties and income from similar sources						
9 Net income from unrelated business activities, whether or not the business is regularly carried on						
10 Other income Do not include gain or loss from the sale of capital assets (Explain in Part IV )						
11 Total support (Add lines 7 through 10)						
12 Gross receipts from related activities, etc (see instructions)					12	
13 First five years. If the Form 990 is for the organization's first, second, third, fourth, or fifth tax year as a 501(c)(3) organization, check this box and stop here . . . . . ▶						

Section C. Computation of Public Support Percentage						
14 Public support percentage for 2012 (line 6, column (f) divided by line 11, column (f))		14				
15 Public support percentage for 2011 Schedule A, Part II, line 14		15				
16a 33 1/3% support test—2012. 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—2011. If the organization did not check a 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—2012. 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—2011. If the organization did not check a box on line 13, 16a, 16b, or 17a, and line 15 is 10% or more, and if the organization meets the "facts-and-circumstances" test, check this box and stop here. Explain in Part IV how the organization meets the "facts-and-circumstances" test The organization qualifies as a publicly supported organization						▶
18 Private foundation. If the organization did not check a box on line 13, 16a, 16b, 17a, or 17b, check this box and see instructions						▶

Part IIIPart III

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

Section A. Public Support						
Calendar year (or fiscal year beginning in) ▶	(a) 2008	(b) 2009	(c) 2010	(d) 2011	(e) 2012	(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) 2008	(b) 2009	(c) 2010	(d) 2011	(e) 2012	(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 2012 (line 8, column (f) divided by line 13, column (f))	15	
16 Public support percentage from 2011 Schedule A, Part III, line 15	16	

Section D. Computation of Investment Income Percentage		
17 Investment income percentage for 2012 (line 10c, column (f) divided by line 13, column (f))	17	
18 Investment income percentage from 2011 Schedule A, Part III, line 17	18	
19a 33 1/3% support tests—2012. 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—2011. 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.** Complete this part to provide the explanations required by Part II, line 10; Part II, line 17a or 17b; and Part III, line 12. Also complete this part for any additional information. (See instructions).

Facts And Circumstances Test

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

2012

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, Part V, line 35c (Proxy Tax), then

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

Name of the organization UPPER CHESAPEAKE MEDICAL CENTER	Employer identification number 52-1253920
---	--

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 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 function 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) 2009	(b) 2010	(c) 2011	(d) 2012	(e) Total
2a Lobbying nontaxable amount					
b Lobbying ceiling amount (150% of line 2a, column(e))					
c Total lobbying expenditures					
d Grassroots nontaxable 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)).

For each "Yes" response to lines 1a through 1i below, provide in Part IV a detailed description of the lobbying activity.		(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?	Yes		10,106
j	Total. Add lines 1c through 1i.			10,106
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?		No	

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 carry over 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) and if either (a) BOTH Part III-A, lines 1 and 2, are answered "No" OR (b) Part III-A, line 3, is answered "Yes."

1	Dues, assessments and similar amounts from members	1	
2	Section 162(e) nondeductible lobbying and political expenditures (do not include amounts of political expenses for which the section 527(f) tax was paid).		
a	Current year	2a	
b	Carryover from last year	2b	
c	Total	2c	
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, Part II-A (affiliated group list), Part II-A, line 2, and Part II-B, line 1. Also, complete this part for any additional information.

Identifier	Return Reference	Explanation
LOBBYING ACTIVITIES	SCHEDULE C, PART II-B, LINE 1i	LOBBYING EXPENSES IN THE AMOUNT OF \$10,106 FOR 12/31/12 REPRESENT A PORTION OF THE DUES PAID TO MARYLAND HOSPITAL ASSOCIATION. THESE ASSOCIATIONS ALLOCATE A PORTION OF MEMBER DUES TO LOBBYING ACTIVITY.

SCHEDULE D  
(Form 990)

Department of the Treasury  
Internal Revenue Service

Supplemental Financial Statements

OMB No 1545-0047

2012

Open to Public Inspection

Name of the organization  
UPPER CHESAPEAKE MEDICAL CENTER

Employer identification number  
52-1253920

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><input type="checkbox"/> Yes<input type="checkbox"/> No</div>	
6	Did the organization inform all grantees, donors, and donor advisors in writing that grant funds can 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><input type="checkbox"/> Yes<input type="checkbox"/> 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 education)☐ Preservation of an historically important land area☐ Protection of natural habitat☐ Preservation of a certified historic structure☐ Preservation of open space

2

Complete lines 2a through 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, and not on a historic structure listed in the National Register

3

Number of conservation easements modified, transferred, released, extinguished, or terminated by the organization during the tax 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 section 170(h)(4)(B)(ii)?

☐ Yes☐ No

9

In Part XIII, 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 (ASC 958), 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 XIII, the text of the footnote to its financial statements that describes these items

b

If the organization elected, as permitted under SFAS 116 (ASC 958), 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 (ASC 958) relating to these items

a

Revenues included in Form 990, Part VIII, line 1

▶ \$ \_\_\_\_\_

b

Assets included in Form 990, Part X

▶ \$ \_\_\_\_\_

For Paperwork Reduction Act Notice, see the Instructions for Form 990.

Cat No 52283D

Schedule D (Form 990) 2012

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

3

Using the organization's acquisition, 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 XIII

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 XIII and complete the following table

	Amount
1c	
1d	
1e	
1f	

c

Beginning balance

d

Additions during the year

e

Distributions during the year

f

Ending balance

2a

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

☐ Yes

☐ No

b

If "Yes," explain the arrangement in Part XIII Check here if the explanation has been provided in Part XIII

☐

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

	(a)Current year	(b)Prior year	b (c)Two years back	(d)Three years back	(e)Four years back
1a	Beginning of year balance				
b	Contributions				
c	Net investment earnings, gains, and losses				
d	Grants or scholarships				
e	Other expenditures for facilities and programs				
f	Administrative expenses				
g	End of year balance				

2

Provide the estimated percentage of the current year end balance (line 1g, column (a)) held as

a

Board designated or quasi-endowment

b

Permanent endowment

c

Temporarily restricted endowment

The percentages in lines 2a, 2b, and 2c should equal 100%

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 XIII 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		6,947,954		6,947,954
b Buildings		138,763,159	34,314,260	104,448,899
c Leasehold improvements		8,707,362	1,215,319	7,492,043
d Equipment		50,370,450	37,056,519	13,313,931
e Other		58,477,243	14,196,819	44,280,424
Total. Add lines 1a through 1e (Column (d) must equal Form 990, Part X, column (B), line 10(c).)				176,483,251



<b>Part XI    Reconciliation of Revenue per Audited Financial Statements With Revenue per Return</b>			
<b>1</b>	Total revenue, gains, and other support per audited financial statements . . . . .	<b>1</b>	231,572,471
<b>2</b>	Amounts included on line 1 but not on Form 990, Part VIII, line 12		
<b>a</b>	Net unrealized gains on investments . . . . .	<b>2a</b>	-17,433
<b>b</b>	Donated services and use of facilities . . . . .	<b>2b</b>	
<b>c</b>	Recoveries of prior year grants . . . . .	<b>2c</b>	
<b>d</b>	Other (Describe in Part XIII ) . . . . .	<b>2d</b>	-30,722,335
<b>e</b>	Add lines <b>2a</b> through <b>2d</b> . . . . .	<b>2e</b>	-30,739,768
<b>3</b>	Subtract line <b>2e</b> from line <b>1</b> . . . . .	<b>3</b>	262,312,239
<b>4</b>	Amounts included on Form 990, Part VIII, line 12, but not on line <b>1</b>		
<b>a</b>	Investment expenses not included on Form 990, Part VIII, line 7b . . . . .	<b>4a</b>	
<b>b</b>	Other (Describe in Part XIII ) . . . . .	<b>4b</b>	-3,026,627
<b>c</b>	Add lines <b>4a</b> and <b>4b</b> . . . . .	<b>4c</b>	-3,026,627
<b>5</b>	Total revenue Add lines <b>3</b> and <b>4c</b> . (This must equal Form 990, Part I, line 12 ) . . . . .	<b>5</b>	259,285,612
<b>Part XII    Reconciliation of Expenses per Audited Financial Statements With Expenses per Return</b>			
<b>1</b>	Total expenses and losses per audited financial statements . . . . .	<b>1</b>	225,853,759
<b>2</b>	Amounts included on line 1 but not on Form 990, Part IX, line 25		
<b>a</b>	Donated services and use of facilities . . . . .	<b>2a</b>	
<b>b</b>	Prior year adjustments . . . . .	<b>2b</b>	
<b>c</b>	Other losses . . . . .	<b>2c</b>	
<b>d</b>	Other (Describe in Part XIII ) . . . . .	<b>2d</b>	3,026,627
<b>e</b>	Add lines <b>2a</b> through <b>2d</b> . . . . .	<b>2e</b>	3,026,627
<b>3</b>	Subtract line <b>2e</b> from line <b>1</b> . . . . .	<b>3</b>	222,827,132
<b>4</b>	Amounts included on Form 990, Part IX, line 25, but not on line <b>1</b> :		
<b>a</b>	Investment expenses not included on Form 990, Part VIII, line 7b . . . . .	<b>4a</b>	
<b>b</b>	Other (Describe in Part XIII ) . . . . .	<b>4b</b>	25,998,057
<b>c</b>	Add lines <b>4a</b> and <b>4b</b> . . . . .	<b>4c</b>	25,998,057
<b>5</b>	Total expenses Add lines <b>3</b> and <b>4c</b> . (This must equal Form 990, Part I, line 18 ) . . . . .	<b>5</b>	248,825,189

**Part XIII    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, line 2, Part XI, lines 2d and 4b, and Part XII, lines 2d and 4b. Also complete this part to provide any additional information.

Identifier	Return Reference	Explanation
INCOME TAXES (FIN 48)	PART X, QUESTION 2	Upper Chesapeake Medical Center accounts for tax provisions in accordance with FASB Interpretation No. 48 (FIN 48), Accounting for Uncertainty in Income Taxes, included in ASC Subtopic 740-10, Income Taxes - Overall, which clarifies the accounting for uncertainty in tax provisions. FIN 48 requires that Upper Chesapeake Medical Center recognize the effect of income tax positions only if those positions are more likely than not of being sustained. Recognized income tax positions are measured at the largest amount that is greater than 50% likely of being realized. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs.
RECONCILIATION OF REVENUE	SCHEDULE D, PART XI	LINE 2D - OTHER REVENUE ON BOOKS NOT ON RETURN BAD DEBT \$ (12,081,735) UNREALIZED GAIN/(LOSS) ON SWAP (4,055,948) MINIMUM PENSION LIABILITY (668,330) GRANT TO AFFILIATE - UC MEDICAL SERVICES (13,510,844) GRANT TO AFFILIATE - UC PROPERTIES (405,478) ----- TOTAL \$ (18,640,600) ===== LINE 4B - OTHER REVENUE ON RETURN NOT ON BOOKS RECLASS - RENTAL EXPENSES \$ (3,026,627)
RECONCILIATION OF EXPENSES	SCHEDULE D, PART XII	LINE 2D - OTHER EXPENSES INCLUDED ON BOOKS NOT ON RETURN RECLASS - RENTAL EXPENSES \$ 3,026,627 LINE 4B - OTHER EXPENSES INCLUDED ON RETURN NOT ON BOOKS BAD DEBT \$ 12,081,735 GRANT TO AFFILIATE - UC MEDICAL SERVICES 13,510,844 GRANT TO AFFILIATE - UC PROPERTIES 405,478 ----- TOTAL \$ 25,998,057 =====



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

2012

Open to Public Inspection

**Name of the organization**  
UPPER CHESAPEAKE MEDICAL CENTER

**Employer identification number**  
52-1253920

Part I

Financial Assistance and Certain Other Community Benefits at Cost

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

7

Financial Assistance and Certain Other Community Benefits at Cost

Financial Assistance and Means-Tested Government Programs	(a) Number of activities or programs (optional)	(b) Persons served (optional)	(c) Total community benefit expense	(d) Direct offsetting revenue	(e) Net community benefit expense	(f) Percent of total expense
a Financial Assistance at cost (from Worksheet 1) . . . .			17,330,668		17,330,668	8 000 %
b Medicaid (from Worksheet 3, column a) . . . . .						
c Costs of other means-tested government programs (from Worksheet 3, column b) .						
d <b>Total</b> Financial Assistance and Means-Tested Government Programs .			17,330,668		17,330,668	8 000 %
<b>Other Benefits</b>						
e Community health improvement services and community benefit operations (from Worksheet 4) . . . .			1,951,645	97,456	1,854,189	1 000 %
f Health professions education (from Worksheet 5) . . . .			524,683	0	524,683	0 %
g Subsidized health services (from Worksheet 6) . . . .			3,928,502		3,928,502	2 000 %
h Research (from Worksheet 7)			22,033	0	22,033	0 %
i Cash and in-kind contributions for community benefit (from Worksheet 8)			204,408	0	204,408	0 %
j <b>Total</b> Other Benefits . . . .			6,631,271	97,456	6,533,815	3 000 %
k <b>Total.</b> Add lines 7d and 7j .			23,961,939	97,456	23,864,483	11 000 %

Part II

Community Building Activities

Complete this table if the organization conducted any community building activities during the tax year, and describe in Part VI how its community building activities promoted the health of the communities it serves.

	(a) Number of activities or programs (optional)	(b) Persons served (optional)	(c) Total community building expense	(d) Direct offsetting revenue	(e) Net community building expense	(f) Percent of total expense
1	Physical improvements and housing					
2	Economic development					
3	Community support		221,773		221,773	
4	Environmental improvements					
5	Leadership development and training for community members	28	3,281		3,281	
6	Coalition building	176	14,528		14,528	
7	Community health improvement advocacy					
8	Workforce development	85	5,720		5,720	
9	Other					
10	Total	289	245,302		245,302	

Part III

Bad Debt, Medicare, & Collection Practices

Section A. Bad Debt Expense

1

Did the organization report bad debt expense in accordance with Heathcare Financial Management Association Statement No. 15?

1

Yes

2

Enter the amount of the organization's bad debt expense. Explain in Part VI the methodology used by the organization to estimate this amount.

2

12,081,735

3

Enter the estimated amount of the organization's bad debt expense attributable to patients eligible under the organization's financial assistance policy. Explain in Part VI the methodology used by the organization to estimate this amount and the rationale, if any, for including this portion of bad debt as community benefit.

3

1,873,154

4

Provide in Part VI the text of the footnote to the organization's financial statements that describes bad debt expense or the page number on which this footnote is contained in the attached financial statements.

Section B. Medicare

5

Enter total revenue received from Medicare (including DSH and IME).

5

98,050,993

6

Enter Medicare allowable costs of care relating to payments on line 5.

6

93,262,192

7

Subtract line 6 from line 5. This is the surplus (or shortfall).

7

4,788,801

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.  
☐ Cost accounting system      ☐ Cost to charge ratio      ☒ Other

Section C. Collection Practices

9a

Did the organization have a written debt collection policy during the tax year?

9a

Yes

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.

9b

Yes

Part IV

Management Companies and Joint Ventures

(owned 10% or more by officers, directors, trustees, key employees, and physicians—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				

Schedule H (Form 990) 2012

Part V

Facility Information

Section A. Hospital Facilities

(list in order of size from largest to smallest—see instructions)  
How many hospital facilities did the organization operate during the tax year?  
1

Name, address, and primary website address

		Licensed hospital	General medical & surgical	Children's hospital	Teaching hospital	Critical access hospital	Research facility	ER-24 hours	ER-other	Other (Describe)	Facility reporting group
1	UPPER CHESAPEAKE MEDICAL CENTER INC 500 UPPER CHESAPEAKE DRIVE BEL AIR, MD 21014 WWW.UCHS.ORG	X	X					X			1

Part V Facility Information (continued)

Section B. Facility Policies and Practices

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

UPPER CHESAPEAKE MEDICAL CENTER INC

Name of hospital facility or facility reporting group

For single facility filers only: line Number of Hospital Facility (from Schedule H, Part V, Section A)

1

	Yes	No
Community Health Needs Assessment (Lines 1 through 8c are optional for tax years beginning on or before March 23, 2012)		
1 During the tax year or either of the two immediately preceding tax years, did the hospital facility conduct a community health needs assessment (CHNA)? If "No," skip to line 9 . . . . . If "Yes," indicate what the CHNA report describes (check all that apply)	1	
a <input type="checkbox"/> A definition of the community served by the hospital facility		
b <input 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 type="checkbox"/> How data was obtained		
e <input type="checkbox"/> The health needs of the community		
f <input 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 the community health needs		
h <input 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)		
2 Indicate the tax year the hospital facility last conducted a CHNA 20 ____		
3 In conducting its most recent CHNA, did the hospital facility take into account input from representatives of the community served by the hospital facility, including those with special knowledge of or expertise in public health? 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	
4 Was the hospital facility's CHNA conducted with one or more other hospital facilities? If "Yes," list the other hospital facilities in Part VI . . . . .	4	
5 Did the hospital facility make its CHNA report widely available to the public? . . . . . If "Yes," indicate how the CHNA report was made widely available (check all that apply)	5	
a <input type="checkbox"/> Hospital facility's website		
b <input type="checkbox"/> Available upon request from the hospital facility		
c <input type="checkbox"/> Other (describe in Part VI)		
6 If the hospital facility addressed needs identified in its most recently conducted CHNA, indicate how (check all that apply to date)		
a <input type="checkbox"/> Adoption of an implementation strategy that addresses each of the community health needs identified through the CHNA		
b <input type="checkbox"/> Execution of the implementation strategy		
c <input type="checkbox"/> Participation in the development of a community-wide plan		
d <input type="checkbox"/> Participation in the execution of a community-wide plan		
e <input type="checkbox"/> Inclusion of a community benefit section in operational plans		
f <input type="checkbox"/> Adoption of a budget for provision of services that address the needs identified in the CHNA		
g <input type="checkbox"/> Prioritization of health needs in its community		
h <input type="checkbox"/> Prioritization of services that the hospital facility will undertake to meet health needs in its community		
i <input type="checkbox"/> Other (describe in Part VI)		
7 Did the hospital facility address all of the needs identified in its most recently conducted CHNA? If "No," explain in Part VI which needs it has not addressed and the reasons why it has not addressed such needs . . . . .	7	
8a Did the organization incur an excise tax under section 4959 for the hospital facility's failure to conduct a CHNA as required by section 501(r)(3)? . . . . .	8a	
b If "Yes" to line 8a, did the organization file Form 4720 to report the section 4959 excise tax? . . . . .	8b	
c If "Yes" to line 8b, what is the total amount of section 4959 excise tax the organization reported on Form 4720 for all of its hospital facilities? \$_____		

Part V

Facility Information (continued)

Financial Assistance Policy		Yes	No		
<b>9</b> Did the hospital facility have in place during the tax year a written financial assistance policy that Explained eligibility criteria for financial assistance, and whether such assistance includes free or discounted care?		<b>9</b>	Yes		
<b>10</b> Used federal poverty guidelines (FPG) to determine eligibility for providing <i>free</i> care? . . . . . If "Yes," indicate the FPG family income limit for eligibility for free care <u>200</u> % If "No," explain in Part VI the criteria the hospital facility used		<b>10</b>	Yes		
<b>11</b> Used FPG to determine eligibility for providing <i>discounted</i> 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		<b>11</b>	Yes		
<b>12</b> Explained the basis for calculating amounts charged to patients? . . . . . If "Yes," indicate the factors used in determining such amounts (check all that apply)		<b>12</b>	Yes		
<b>a</b> <input checked="" type="checkbox"/> Income level					
<b>b</b> <input checked="" type="checkbox"/> Asset level					
<b>c</b> <input checked="" type="checkbox"/> Medical indigency					
<b>d</b> <input type="checkbox"/> Insurance status					
<b>e</b> <input type="checkbox"/> Uninsured discount					
<b>f</b> <input type="checkbox"/> Medicaid/Medicare					
<b>g</b> <input checked="" type="checkbox"/> State regulation					
<b>h</b> <input type="checkbox"/> Other (describe in Part VI)					
<b>13</b> Explained the method for applying for financial assistance? . . . . .		<b>13</b>	Yes		
<b>14</b> 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)		<b>14</b>	Yes		
<b>a</b> <input checked="" type="checkbox"/> The policy was posted on the hospital facility's website					
<b>b</b> <input checked="" type="checkbox"/> The policy was attached to billing invoices					
<b>c</b> <input checked="" type="checkbox"/> The policy was posted in the hospital facility's emergency rooms or waiting rooms					
<b>d</b> <input checked="" type="checkbox"/> The policy was posted in the hospital facility's admissions offices					
<b>e</b> <input checked="" type="checkbox"/> The policy was provided, in writing, to patients on admission to the hospital facility					
<b>f</b> <input checked="" type="checkbox"/> The policy was available upon request					
<b>g</b> <input type="checkbox"/> Other (describe in Part VI)					
Billing and Collections					
<b>15</b> 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? . . . . .		<b>15</b>	Yes		
<b>16</b> Check all of the following 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					
<b>a</b> <input type="checkbox"/> Reporting to credit agency					
<b>b</b> <input checked="" type="checkbox"/> Lawsuits					
<b>c</b> <input type="checkbox"/> Liens on residences					
<b>d</b> <input type="checkbox"/> Body attachments					
<b>e</b> <input checked="" type="checkbox"/> Other similar actions (describe in Part VI)					
<b>17</b> 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? . . . . .				<b>17</b>	Yes
If "Yes," check all actions in which the hospital facility or a third party engaged					
<b>a</b> <input type="checkbox"/> Reporting to credit agency					
<b>b</b> <input type="checkbox"/> Lawsuits					
<b>c</b> <input type="checkbox"/> Liens on residences					
<b>d</b> <input type="checkbox"/> Body attachments					
<b>e</b> <input checked="" type="checkbox"/> Other similar actions (describe in Part VI)					

Part V

Facility Information (continued)

- 18
- Indicate which efforts the hospital facility made before initiating any of the actions listed in line 17 (check all that apply)
- a

☒

Notified individuals of the financial assistance policy on admission
- b

☒

Notified individuals of the financial assistance policy prior to discharge
- c

☒

Notified individuals of the financial assistance policy in communications with the patients regarding the patients' bills
- d

☒

Documented its determination of whether patients were eligible for financial assistance under the hospital facility's financial assistance policy
- e

☐

Other (describe in Part VI)

Policy Relating to Emergency Medical Care

		Yes	No
19	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)		

Charges to Individuals Eligible for Assistance under the FAP (FAP-Eligible Individuals)

20	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 its three lowest negotiated commercial insurance rates when calculating the maximum amounts that can be charged			
c	<input 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)			
21	During the tax year, did the hospital facility charge any FAP-eligible individuals 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	21		No
22	During the tax year, did the hospital facility charge any FAP-eligible individuals an amount equal to the gross charge for any service provided to that individual? . . . . . If "Yes," explain in Part VI	22	Yes	

Part V

Facility Information (continued)

Section C. Other Health Care 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 health care facilities did the organization operate during the tax year?  
1

Name and address		Type of Facility (describe)
1	UC HEALTH LINK CLINIC 2027 PULASKI HWY SUITE 206 HAVRE DE GRACE, MD 21078	PRIMARY CARE CLINIC FOR MEDICALLY INDIGENT
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, Part V, Section A, and Part V, Section B, lines 1j, 3, 4, 5c, 6i, 7, 10, 11, 12h, 14g, 16e, 17e, 18e, 19c, 19d, 20d, 21, and 22
- 2
- Needs assessment.** Describe how the organization assesses the health care needs of the communities it serves, in addition to any needs assessments reported in Part V, Section B
- 3
- Patient education of eligibility for assistance.** Describe how the organization informs and educates patients and persons who may be billed for patient care about their eligibility for assistance under federal, state, or local government programs or under the organization's financial assistance policy
- 4
- Community information.** Describe the community the organization serves, taking into account the geographic area and demographic constituents it serves
- 5
- Promotion of community health.** Provide any other information important to describing how the organization's hospital facilities or other health care facilities further its exempt purpose by promoting the health of the community (e g , open medical staff, community board, use of surplus funds, etc )
- 6
- Affiliated health care system.** If the organization is part of an affiliated health care system, describe the respective roles of the organization and its affiliates in promoting the health of the communities served
- 7
- State filing of community benefit report.** If applicable, identify all states with which the organization, or a related organization, files a community benefit report
- 8
- Facility reporting group(s).** If applicable, for each hospital facility in a facility reporting group provide the descriptions required for Part V, Section B, lines 1j, 3, 4, 5c, 6i, 7, 10, 11, 12h, 14g, 16e, 17e, 18e, 19c, 19d, 20d, 21, and 22

Identifier	ReturnReference	Explanation
PART III, SECTION A, LINE 4	BAD DEBT EXPENSE	The Hospital grants credit to patients, substantially all of whom are local residents The Hospital generally does not require collateral or other security in extending credit, however, the Hospital routinely obtains assignment of (or are otherwsie entitled to receive) patients' benefits receivable under their health insurance programs, plans or policies
PART III, SECTION B, LINE 8	COMMUNITY BENEFIT AND SHORTFALL	The Hospital did not have a Medicare shortfall



Identifier	ReturnReference	Explanation
PART III, SECTION C, LINE 9B	COLLECTION PRACTICES	IT IS THE POLICY OF UPPER CHESAPEAKE MEDICAL CENTER ("UCMC") TO ATTEMPT TO COLLECT PAYMENT FOR ALL SERVICES RENDERED TO PATIENTS IN THE MOST EFFICIENT AND PATIENT FRIENDLY MANNER UCMC WILL FIRST ATTEMPT TO COLLECT PAYMENT FROM THE PATIENT'S INSURANCE COMPANY IN THE EVENT THE PATIENT HAS NO INSURANCE OR LIMITED INSURANCE COVERAGE, UCMC WILL ATTEMPT TO QUALIFY THE PATIENT FOR THE MARYLAND MEDICAL ASSISTANCE PROGRAM AND/OR UCMC'S FINANCIAL ASSISTANCE POLICY
PART V, LINES 15E/16E/19D/21		Billing and Collections Line 15E PATIENTS WHO ARE LEFT WITH A BALANCE AFTER ALL INSURANCES HAVE BEEN PURSUED AND FINANCIAL ASSISTANCE HAS BEEN OFFERED WILL BE FORWARDED TO A COLLECTION AGENCY AS A LAST RESORT TO OBTAIN PAYMENT FROM THE PATIENT Line 16E TWO AGENCIES ARE EMPLOYED BY UCMC, EACH RECEIVING APPROXIMATELY FIFTY PERCENT OF THE ACCOUNT (BASED ON THE FIRST LETTER OF THE LAST NAME OF EACH PATIENT) ACCOUNTS PLACED WITH ONE OF THE COLLECTION AGENCIES ARE CLASSIFIED AS BAD DEBTS AND REMOVED FROM ACCOUNTS RECEIVABLE Charges for Medical Care Lines 19D & 21 THE STATE OF MARYLAND HEALTH SERVICES COST REVIEW COMMISSION SETS RATES FOR ALL HOSPITALS IN THE STATE THOSE RATES ARE APPLIED UNIFORMLY TO ALL PATIENTS GROSS CHARGES MAY NOT BE DISCOUNTED OUTSIDE OF STATE-ACCEPTED DISCOUNTS FOR PROMPT PAYMENT AND ADVANCE FUNDING IF A PATIENT QUALIFIES FOR FINANCIAL ASSISTANCE, A PERCENTAGE OF THE GROSS CHARGES ARE THEN WRITTEN-OFF TO CHARITY CARE

Identifier	ReturnReference	Explanation
PART VI, SUPPLEMENTAL INFORMATION	NEEDS ASSESSMENT	Every three years a Community Health Assessment Survey/Plan is performed
PART VI, SUPPLEMENTAL INFORMATION	PATIENT EDUCATION OF ELIGIBILITY FOR ASSISTANCE	The Hospital displays signs at every registration point informing the patients about the availability of the various financial and medical assistance programs The Hospital offers every self-pay patient or any patient who inquires the financial assistance informational packet and application The cover sheet for the financial assistance packet also includes information on obtaining Medical Assistance In addition, the Hospital has a financial counselor that visits the self-pay patient in the emergency department or in the patient's room to discuss what is available to them The Hospital also employs a medical assistance advocacy company to assist the hospital's patients get medical assistance The Hospital also provides information about the programs in each billing statement

Identifier	ReturnReference	Explanation
PART VI, SUPPLEMENTAL INFORMATION	COMMUNITY INFORMATION	<p>The service area of the Upper Chesapeake Health System, which includes Upper Chesapeake Medical Center, consists of the northeast part of Maryland, including Harford County, western Cecil County and portion of Baltimore County This service area is located at the apex of the Chesapeake Bay and is spread across 536 square miles It contains, among others, the cities and towns of Havre de Grace, Aberdeen, Bel Air, Fallston, and Edgewood The service area enjoys a diverse economic base, ranging from concentrations in service, manufacturing, distribution, and retail, to Federal government employment Harford Community College provides a local venue for advanced education and Harford County's proximity to Baltimore gives it access to nationally recognized universities which help provide a skilled workforce The Service Area is served by Interstate 95, Amtrak and freight rail lines along the busy east-coast transportation corridor between New York and Washington, DC In 2007, the Service Area had a total population of 276,500 people with historical annual growth rates of approximately 1.8% per year This growth has been characterized by an influx of young families seeking suburban environment in which to live and is complemented by a growth in businesses and other services that follow young, middle class families In 2007, the Service Area had an estimated 101,930 households with a median family income of \$67,300 and an average household income of \$81,000 87% of the service area's adults over the age of 25 are high school graduates or higher, 27% achieved bachelor's degrees or higher The service area's growth and geographic location explain its ability to attract major east-coast distribution center and industry, which have provided additional employment opportunities in the service area In December 2007, the service area had a work force of approximately 142,829 Please see Schedule O for more information</p>
PART VI, SUPPLEMENTAL INFORMATION	PROMOTION OF COMMUNITY HEALTH	<p>Monies spent for hospital and community preparedness for hazardous accidents, natural disasters, and coalition building in the community</p>

Identifier	ReturnReference	Explanation
PART VI, SUPPLEMENTAL INFORMATION	AFFILIATED HEALTH CARE SYSTEM	Upper Chesapeake Medical Center, Inc (UCMC) is one hospital in an "Affiliated Health Care System" that includes a second hospital, Harford Memorial Hospital, Inc (HMH), a physician services organization (Upper Chesapeake Medical Services, Inc ), a property holding company (Upper Chesapeake Properties, Inc ), a hospice residence (Upper Chesapeake Residential Hospice House, Inc & Hospice of Harford County LLC) and a for-profit venture with investments in private imaging services (Upper Chesapeake Health Ventures, Inc ) The "System" provides a broad range of community health care services, including preventive, ambulatory, acute and hospice services, through an integrated health care delivery system in Harford County and parts of Baltimore and Cecil Counties, in northeast Maryland UCMC and HMH are the only hospitals in Harford County, Maryland UCMC offers acute care services, including intensive care, emergency and other outpatient services, and has the only acute care maternity services in Harford County
PART VI, SUPPLEMENTAL INFORMATION	STATE FILING OF COMMUNITY BENEFIT REPORT	The Health Services Cost Review Commission, the State agency that regulates hospital rates in Maryland, requires a Community Benefit Report to be filed annually

Identifier	ReturnReference	Explanation
SUPPLEMENTAL INFORMATION		UPPER CHESAPEAKE MEDICAL CENTER EXPECTS ITS COMMUNITY HEALTH NEEDS ASSESSMENT AND IMPLEMENTATION PLAN TO BE COMPLETED BY THE END OF TAX YEAR 2013 IN ACCORDANCE WITH THE AFFORDABLE CARE ACT IMPLEMENTATION PLAN TO BE COMPLETED BY THE END OF TAX YEAR 2013 IN ACCORDANCE WITH THE AFFORDABLE CARE ACT



OMB No 1545-0047

**Complete if the organization answered "Yes," to Form 990, Part IV, line 21 or 22.**  
**▶ Attach to Form 990**

### Open to Public Inspection

**Employer identification number**  
52-1253920

## Part I General Information on Grants and Assistance

1 Does the organization maintain records to substantiate the amount of the grants or assistance, the grantees' eligibility for the grants or assistance, and the selection criteria used to award the grants or assistance? . . . . . ☒ Yes ☐ No

2 Describe in Part IV the organization's procedures for monitoring the use of grant funds in the United States

**Part II** **Grants and Other Assistance to Governments and Organizations in the United States.** Complete if the organization answered "Yes" to Form 990, Part IV, line 21, for any recipient that received more than \$5,000. Part II can be duplicated if additional space is needed.

[illegible]

<b>2</b>	Enter total number of section 501(c)(3) and government organizations listed in the line 1 table . . . . .	<b>1</b>
<b>3</b>	Enter total number of other organizations listed in the line 1 table . . . . .	<b>1</b>

Part III

Grants and Other Assistance to Individuals in the United States. Complete if the organization answered "Yes" to Form 990, Part IV, line 22.  
Part III can be duplicated if additional space is needed.

(a)Type of grant or assistance	(b)Number of recipients	(c)Amount of cash grant	(d)Amount of non-cash assistance	(e)Method of valuation (book, FMV, appraisal, other)	(f)Description of non-cash assistance
(1) SCHOLARSHIPS TO STUDY IN THE MEDICAL FIELD					
(2) SCHOLARSHIPS	20	37,448			

Part IV

Supplemental Information.

Complete this part to provide the information required in Part I, line 2, Part III, column (b), and any other additional information

Identifier	Return Reference	Explanation
SCHEDULE I - GRANTS & OTHER ASSISTANCE	PART I, QUESTION 2 - GENERAL INFORMATION ON GRANTS AND ASSISTANCE	ALTHOUGH THE FILING ORGANIZATION DOES NOT HAVE FORMALIZED INTERNAL PROCEDYRES FOR MONITORING THE USE OF GRANT FUNDS IN THE UNITED STATES, THE FILING ORGANIZATION DOES HAVE A WRITTEN AND APPROVED CHARITABLE GIVING POLICY AND PROCEDURE THERE IS WRITTEN CRITERIA REGARDING THE RECOMMENDATIONS FOR CONSIDERATION WHEN EVALUATING CONTRIBUTION REQUESTS SUCH AS FOLLOWS (1) THAT CONTRIBUTIONS WILL BE MADE ONLY TO ORGANIZATIONS FOR PURPOSES CONSISTENT WITH UPPER CHESAPEAKE HEALTH SYSTEM'S (PARENT ENTITY) VISION AND MISSION (2) CONTRIBUTIONS WILL BE MADE ONLY TO NOT-FOR-PROFIT ORGANIZATIONS (3) CONTRIBUTIONS WILL PREFERABLY BE MADE TO ORGANIZATIONS WHICH DIRECTLY SERVE THE CITIZENS OF HARFORD AND CECIL COUNTIES (4) CONTRIBUTIONS WILL NOT BE GIVEN TO INDIVIDUALS (EXCLUDING SCHOLARSHIPS) (5) CONTRIBUTIONS WILL NOT BE MADE FOR RELIGIOUS PURPOSES, HOWEVER, THERE MAY BE CONTRIBUTIONS GIVEN FOR A SPECIFIC EFFORT OR PROGRAM WITHIN A CHURCH OR RELIGIOUS FACILITY WHICH PROVIDES HEALTH-RELATED SERVICES TO THE BROADER COMMUNITY (6) CONTRIBUTIONS WILL NOT BE MADE IN SUPPORT OF POLITICAL ADVOCACY (7) UPPER CHESAPEAKE HEALTH SYSTEM WILL STRIVE TO DONATE TO ORGANIZATIONS WHERE THE MAJORITY OF THE FUNDS RECEIVED ARE APPLIED DIRECTLY TO THE NEED THE ORGANIZATION IS DESIGNED TO MEET *** REQUESTS FOR \$5,000 AND UNDER ARE REFERRED TO THE PRESIDENT/CEO FOR REVIEW AND APPROVAL *** REQUESTS FOR GREATER THAN \$5,000 ARE REFERRED TO THE COMMUNITY DEVELOPMENT COMMITTEE FOR DISCUSSION AND APPROVAL



Schedule J (Form 990)  <div>Department of the Treasury Internal Revenue Service</div>	Compensation Information  For certain Officers, Directors, Trustees, Key Employees, and Highest Compensated Employees  ▶ <b>Complete if the organization answered "Yes" to Form 990, Part IV, question 23.</b>  ▶ <b>Attach to Form 990. ▶ See separate instructions.</b>	OMB No 1545-0047
		2012
		Open to Public Inspection

Name of the organization UPPER CHESAPEAKE MEDICAL CENTER	Employer identification number  52-1253920
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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			
	<input type="checkbox"/> First-class or charter travel	<input type="checkbox"/> Housing allowance or residence for personal use		
	<input type="checkbox"/> Travel for companions	<input type="checkbox"/> Payments for business use of personal residence		
	<input type="checkbox"/> Tax idemnification and gross-up payments	<input type="checkbox"/> Health or social club dues or initiation fees		
	<input type="checkbox"/> Discretionary spending account	<input type="checkbox"/> Personal services (e g , maid, chauffeur, chef)		
1b	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 of the expenses described above? If "No," complete Part III to explain			
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?			
3	Indicate which, if any, of the following the filing organization used to establish the compensation of the organization's CEO/Executive Director Check all that apply Do not check any boxes for methods used by a related organization to establish compensation of the CEO/Executive Director, but explain in Part III			
	<input type="checkbox"/> Compensation committee	<input type="checkbox"/> Written employment contract		
	<input type="checkbox"/> Independent compensation consultant	<input type="checkbox"/> Compensation survey or study		
	<input type="checkbox"/> Form 990 of other organizations	<input type="checkbox"/> Approval by the board or compensation committee		
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			
4a	Receive a severance payment or change-of-control payment?			No
4b	Participate in, or receive payment from, a supplemental nonqualified retirement plan?	Yes		
4c	Participate in, or receive payment from, an equity-based compensation arrangement?			No
	If "Yes" to any of lines 4a-c, list the persons and provide the applicable amounts for each item in Part III			
	<b>Only 501(c)(3) and 501(c)(4) organizations only must complete lines 5-9.</b>			
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			
5a	The organization?			No
5b	Any related organization?			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			
6a	The organization?			No
6b	Any related organization?			No
	If "Yes," to line 6a or 6b, describe in Part III			
7	For persons listed in Form 990, Part VII, Section A, line 1a, did the organization provide any non-fixed payments not described in lines 5 and 6? If "Yes," describe in Part III			No
8	Were any amounts reported in Form 990, Part VII, paid or accrued pursuant to a contract that was subject to the initial contract exception described in Regulations section 53.4958-4(a)(3)? If "Yes," describe in Part III			No
9	If "Yes" to line 8, did the organization also follow the rebuttable presumption procedure described in Regulations section 53.4958-6(c)?			

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

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

**Note.** The sum of columns (B)(i)-(iii) for each listed individual must equal the total amount of Form 990, Part VII, Section A, line 1a, applicable column (D) and (E) amounts for that individual.

(A) Name and Title		(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 as deferred in prior Form 990
		(i) Base compensation	(ii) Bonus & incentive compensation	(iii) Other reportable compensation				
See Additional Data Table								

Part IIISupplemental Information

Complete this part to provide the information, explanation, or descriptions required for Part I, lines 1a, 1b, 3, 4a, 4b, 4c, 5a, 5b, 6a, 6b, 7, and 8, and for Part II. Also complete this part for any additional information.

Identifier	Return Reference	Explanation
SCHEDULE J, PART I, QUESTION 3		THIS ORGANIZATION DOES NOT HAVE A PAID CEO/EXECUTIVE DIRECTOR. ALL COMPENSATION TO THE CEO/EXECUTIVE DIRECTOR REPORTED ON PART VII OF THE FORM 990 WAS PAID BY A RELATED ORGANIZATION, UPPER CHESAPEAKE HEALTH SYSTEM. UPPER CHESAPEAKE HEALTH SYSTEM UNDERTAKES A THOROUGH PROCESS TO ENSURE THAT THE EXECUTIVE COMPENSATION IT PAYS TO ITS TOP MANAGEMENT OFFICIALS IS REASONABLE GIVEN THE MARKET IN WHICH THE ORGANIZATION OPERATES. UPPER CHESAPEAKE HEALTH SYSTEM CHECKS THE FOLLOWING BOXES FOR SCHEDULE J, PART I, QUESTION 3 ON ITS FORM 990: <input checked="" type="checkbox"/> COMPENSATION COMMITTEE WRITTEN EMPLOYMENT CONTRACT <input checked="" type="checkbox"/> INDEPENDENT COMPENSATION CONSULTANT <input checked="" type="checkbox"/> COMPENSATION SURVEY OR STUDY <input checked="" type="checkbox"/> APPROVAL BY THE BOARD OF COMPENSATION COMMITTEE.
SCHEDULE J, PART I, QUESTION 4B		AN ORGANIZATION RELATED TO THIS FILING ORGANIZATION MADE INTERNAL REVENUE CODE SECTION 457F PLAN CONTRIBUTIONS TO THE FOLLOWING MEMBERS OF SENIOR LEADERSHIP WHO ARE LISTED ON THIS FILING ORGANIZATION'S FORM 990, PART VII, SECTION A, LINE 1A: JOSEPH E. HOFFMAN III \$24,501; JAMES J. HURSEY \$5,369; DEAN C. KASTER \$18,438; JOHN K. LYNCH \$7,605; LYLE E. SHELDON \$81,116; E. SCOTT CONOVER \$44,658. *AMOUNT FOR E. SCOTT CONOVER REPRESENTS "PAYOUT OF PRIOR YEAR 457F CONTRIBUTIONS." An organization related to this filing organization made split-dollar life insurance plan contributions to the following members of senior leadership who are listed on this filing organization's Form 990, Part VII, Section A, Line 1A: Lyle E. Sheldon \$29,885; Margaret M. Vaughan \$8,562; Joseph E. Hoffman III \$8,481; Dean C. Kaster \$6,489.
SCHEDULE J, SUPPLEMENTAL INFORMATION		Effective in calendar year 2012, Upper Chesapeake Health System, Inc., terminated their Secured Executive Benefit Plan (SERP). As a result of the SERP's termination, the plan participants Lyle Sheldon, Joseph Hoffman, Dean Caster, and Margaret Vaughan recognized additional taxable compensation (subject to employment tax withholding) in tax year 2012. This additional compensation is reflected in Schedule J - Part II - Column B(iii).

**Software ID:**  
**Software Version:**  
**EIN:** 52-1253920  
**Name:** UPPER CHESAPEAKE MEDICAL CENTER

**Form 990, Schedule J, Part II - Officers, Directors, Trustees, Key Employees, and Highest Compensated Employees**

(A) Name		(B) Breakdown of W-2 and/or 1099-MISC compensation			(C) 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 compensation				
LYLE E SHELDON	(i)	0	0	0	0	0	0	0
	(ii)	506,583	249,752	1,917,900	54,500	25,323	2,754,058	1,194,080
FAHEEM YOUNUS MD	(i)	165,000	0	0	0	0	165,000	0
	(ii)	0	0	0	0	0	0	0
JOYCE FOX	(i)	0	0	0	0	0	0	0
	(ii)	189,669	48,561	7,088	44,119	3,577	293,014	0
JOSEPH E HOFFMAN III	(i)	0	0	0	0	0	0	0
	(ii)	296,238	119,391	308,969	51,500	25,834	801,932	224,402
JAMES J HURSEY	(i)	0	0	0	0	0	0	0
	(ii)	269,587	0	6,554	46,037	10,377	332,555	0
DEAN C KASTER	(i)	0	0	0	0	0	0	0
	(ii)	223,452	89,174	186,728	32,438	31,182	562,974	148,505
MARGARET M VAUGHAN	(i)	0	0	0	0	0	0	0
	(ii)	308,514	125,000	394,963	0	28,762	857,239	270,754
E SCOTT CONOVER	(i)	0	0	0	0	0	0	0
	(ii)	308,389	102,030	45,688	41,500	2,477	500,084	0
TONI M SHIVERY	(i)	0	0	0	0	0	0	0
	(ii)	169,792	44,298	270	37,747	26,965	279,072	0
ROY PHILLIPS	(i)	214,397	56,000	1,525	29,412	17,669	319,003	0
	(ii)	0	0	0	0	0	0	0
OLUFUNMILAYO ONOBRKPEYA	(i)	198,906	36,000	5,797	24,072	12,530	277,305	0
	(ii)	0	0	0	0	0	0	0
ANGELA M KAITIS	(i)	122,456	13,012	806	29,989	16,015	182,278	0
	(ii)	0	0	0	0	0	0	0
DENISE C DEEL	(i)	123,836	13,773	479	12,191	21,332	171,611	0
	(ii)	0	0	0	0	0	0	0
SAYHIENG SEANG	(i)	100,087	39,830	55	1,459	22,116	163,547	0
	(ii)	0	0	0	0	0	0	0

Schedule K  
(Form 990)

Department of the Treasury  
Internal Revenue Service

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 Part VI.  
▶ Attach to Form 990. ▶ See separate instructions.

OMB No 1545-0047

2012

Open to Public Inspection

Name of the organization  
UPPER CHESAPEAKE MEDICAL CENTER

Employer identification number  
52-1253920

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 ED FACILITIES AUTHORITY	52-0936091	5742172P9	08-08-2008	46,473,000	REFI EXISTING DEBT-SERIES 2008C		X		X		X
B	MARYLAND HEALTH & HIGHER ED FACILITIES AUTHORITY	52-0936091		10-01-2011	42,000,000	CAPITAL PROJECTS-SERIES 2011A		X		X		X
C	MARYLAND HEALTH & HIGHER ED FACILITIES AUTHORITY	52-0936091		12-01-2011	49,749,000	REFI EXISTING DEBT-SERIES 2011B		X		X		X
D	MARYLAND HEALTH & HIGHER ED FACILITIES AUTHORITY	52-0936091		12-01-2011	49,749,000	REFI EXISTING DEBT-SERIES 2011C		X		X		X

Part II

Proceeds

		A		B		C		D	
1	Amount of bonds retired	45,465,000		0		0		0	
2	Amount of bonds legally defeased	0		0		0		0	
3	Total proceeds of issue	49,220,640		42,000,000		49,749,000		49,749,000	
4	Gross proceeds in reserve funds	3,340,680		0		0		0	
5	Capitalized interest from proceeds	0		290,227		0		0	
6	Proceeds in refunding escrows	35,384,358		0		0		0	
7	Issuance costs from proceeds	414,720		953		0		0	
8	Credit enhancement from proceeds	0		0		0		0	
9	Working capital expenditures from proceeds	0		0		0		0	
10	Capital expenditures from proceeds	0		0		0		0	
11	Other spent proceeds	0		0		0		0	
12	Other unspent proceeds	0		0		0		0	
13	Year of substantial completion	2008		2013		2000		2000	
14	Were the bonds issued as part of a current refunding issue?	Yes	No	Yes	No	Yes	No	Yes	No
		X			X	X		X	
15	Were the bonds issued as part of an advance refunding issue?		X		X		X		X
16	Has the final allocation of proceeds been made?	X		X		X		X	
17	Does the organization maintain adequate books and records to support the final allocation of proceeds?	X		X		X		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		X		X		X
2	Are there any lease arrangements that may result in private business use of bond-financed property?		X		X		X		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 of bond-financed property?		X		X		X		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		X		X		X	
c	Are there any research agreements that may result in private business use of bond-financed property?		X		X		X		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		X		X		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	0%		0%		0%		0%	
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	%		%		%		%	
6	Total of lines 4 and 5	%		%		%		%	
7	Does the bond issue meet the private security or payment test?		X		X		X		X
8a	Has there been a sale or disposition of any of the bond financed property to a nongovernmental person other than a 501(c)(3) organization since the bonds were issued?		X		X		X		X
b	If "Yes" to line 8a, enter the percentage of bond-financed property sold or disposed of	%		%		%		%	
c	If "Yes" to line 8a, was any remedial action taken pursuant to Regulations sections 1.141-12 and 1.145-2?		X		X		X		X
9	Has the organization established written procedures to ensure that all nonqualified bonds of the issue are remediated in accordance with the requirements under Regulations sections 1.141-12 and 1.145-2?	X		X		X		X	

Part IV Arbitrage

		A		B		C		D	
		Yes	No	Yes	No	Yes	No	Yes	No
1	Has the issuer filed Form 8038-T?		X		X		X		X
2	If "No" to line 1, did the following apply?								
a	Rebate not due yet?								
b	Exception to rebate?								
c	No rebate due?								
	If you checked "No rebate due" in line 2c, provide in Part VI the date the rebate computation was performed								
3	Is the bond issue a variable rate issue?		X		X		X		X
4a	Has the organization or the governmental issuer entered into a qualified hedge with respect to the bond issue?		X		X		X		X
b	Name of provider	0		0		0			
c	Term of hedge								
d	Was the hedge superintegrated?								
e	Was a hedge terminated?								

Part IV Arbitrage (Continued)

		A		B		C		D	
		Yes	No	Yes	No	Yes	No	Yes	No
5a	Were gross proceeds invested in a guaranteed investment contract (GIC)?		X		X		X		X
b	Name of provider	0		0		0		0	
c	Term of GIC								
d	Was the regulatory safe harbor for establishing the fair market value of the GIC satisfied?								
6	Were any gross proceeds invested beyond an available temporary period?		X		X		X		X
7	Has the organization established written procedures to monitor the requirements of section 148?		X		X		X		X

Part V Procedures To Undertake Corrective Action

		A		B		C		D	
		Yes	No	Yes	No	Yes	No	Yes	No
1	Has 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?		X		X		X		X

Part VI Supplemental Information. Complete this part to provide additional information for responses to questions on Schedule K (see instructions).

Identifier	Return Reference	Explanation
THE OBLIGATED GROUP ON THE BOND ISSUES IDENTIFIED IN SCHEDULE K INCLUDE	0	
BOTH UPPER CHESAPEAKE MEDICAL CENTER, INC (52-1253920) AND HARFORD	0	
MEMORIAL HOSPITAL, INC (52-0591484) THE ALLOCATION IS AS FOLLOWS	0	
UPPER CHESAPEAKE MEDICAL CENTER 84%, HARFORD MEMORIAL HOSPITAL 16%	0	

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, line 38a or 40b.  
▶ Attach to Form 990 or Form 990-EZ. ▶ See separate instructions.

OMB No 1545-0047

2012

Open to Public Inspection

Name of the organization UPPER CHESAPEAKE MEDICAL CENTER	Employer identification number  52-1253920
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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) Relationship between disqualified person and organization	(c) Description of transaction	(d) Corrected?	
				Yes	No

2 Enter the amount of tax incurred by 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-EZ, Part V, line 38a, or Form 990, Part IV, line 26, or if the organization reported an amount on Form 990, Part X, line 5, 6, or 22

(a) Name of interested person	(b) Relationship with organization	(c) Purpose of loan	(d) Loan to or from the organization?		(e) Original principal amount	(f) Balance due	(g) In default?		(h) Approved by board or committee?	(i) Written agreement?	
			To	From			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 assistance	(d) Type of assistance	(e) Purpose 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) JOHN H CAIN	BB&T OFFICER	1,734,120	INTEREST ON O/S DEBT		No
(2) ROGER E SCHNEIDER MD	VASC SURG ASSOC PARTNER	435,044	PHYSICIAN FEES PAID TO VSA LLC		No
(3) RICHARD P STREETT JR	ROCK GLENN COMM PARTNER	569,547	LEASE PAYMENTS		No
(4) JASON M BIRNBAUM MD	PULMONARY CCA PARTNER	919,589	PHYSICIAN FEES PAID TO PCCA		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
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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

2012

Open to Public  
Inspection

Name of the organization UPPER CHESAPEAKE MEDICAL CENTER	Employer identification number 52-1253920
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Identifier	Return Reference	Explanation
PART VI, SECTION A, GOVERNING BODY & MANAGEMENT, QUESTION 2	FAMILY OR BUSINESS RELATIONSHIP	LYLE E SHELDON AND JOSEPH E HOFFMAN III ARE OFFICERS IN THE SAME BUSINESS ENTITIES THE SAME BUSINESS ENTITIES ARE THE FOR-PROFIT CORPORATIONS OR PARTNERSHIPS THAT ARE RELATED TO THIS FILING ENTITY PLEASE SEE FORM 990, SCHEDULE R

Identifier	Return Reference	Explanation
PART VI, SECTION A, GOVERNING BODY & MANAGEMENT, QUESTION 6	EXISTENCE OF MEMBERS	UPPER CHESAPEAKE HEALTH SYSTEM AND UNIVERSITY OF MARYLAND MEDICAL SYSTEM ARE PARTNERS IN A MARYLAND LIMITED LIABILITY COMPANY NAMED UCHS/UMMS VENTURE LLC ("VENTURE") THE VENTURE WAS ORGANIZED FOR CHARITABLE PURPOSES TO COORDINATE ACTIVITIES OF HEALTHCARE FACILITIES AND OTHER CORPORATE BODIES WHOSE PURPOSES INCLUDE THE PROVISION OF HEALTHCARE SERVICES OR FINANCIAL ASSISTANCE TO HEALTHCARE FACILITIES IN HARFORD COUNTY, MARYLAND VENTURE IS THE SOLE MEMBER OF THIS FILING ORGANIZATION

Identifier	Return Reference	Explanation
PART VI, SECTION B, POLICIES, QUESTION 11B	ORGANIZATIONAL REVIEW OF FORM 990	THE BOARD OF UPPER CHESAPEAKE HEALTH SYSTEM, INC ("HEALTH SYSTEM") HAS ASSIGNED THE EXECUTIVE COMMITTEE OF THE HEALTH SYSTEM'S BOARD TO REVIEW AND APPROVE ALL CONTENTS OF FORM 990 ON BEHALF OF THE BOARDS OF ALL HEALTH SYSTEM'S TAX-EXEMPT AFFILIATES. IN TURN, ONCE THE FORM 990 HAS BEEN APPROVED BY HEALTH SYSTEM'S EXECUTIVE COMMITTEE, A FINAL VERSION OF THE FORM 990 WILL BE MADE AVAILABLE TO ALL BOARD MEMBERS OF THE RESPECTIVE HEALTH SYSTEM'S TAX-EXEMPT AFFILIATES. FORMAL NOTIFICATION OF THE FINAL AND APPROVED FORM 990 FOR EACH OF THE HEALTH SYSTEM'S AFFILIATES AS WELL AS ITS AVAILABILITY WILL BE COMMUNICATED TO THE APPLICABLE BOARD MEMBERS ON OR BEFORE THE FILING OF THE FORM 990.

Identifier	Return Reference	Explanation
PART VI, SECTION B, POLICIES, QUESTION 12C	CONFLICT OF INTEREST POLICY	The organization's written conflict of interest policy covers the following individuals: Directors, Principal Officers, and Senior Management. Furthermore, the policy extends to the family members (per Internal Revenue Service definition) of such Directors, Principal Officers, and Senior Management. The Board of Directors and any committee considering a contract, transaction or arrangement to which a known or potential conflict of interest relates, determines whether a conflict exists. Actual conflicts are reviewed by the Chairman of the Board. An individual with a known or potential conflict of interest must refrain from participating in, or acting on, the decision on any matter in which a conflict of interest, or even the appearance of such a conflict of interest, is present with respect to such individual and will remove himself or herself from any meeting or deliberations on the matter.

Identifier	Return Reference	Explanation
PART VI, SECTION B, POLICIES, QUESTION 15	PROCESS FOR DETERMINING COMPENSATION	The executive compensation committee of the board of directors approves compensation for the Chief Executive Officer, Chief Operating Officer, Chief Financial Officer, and all key employees. The executive compensation committee utilizes but is not limited to the following resources in evaluating and establishing reasonable compensation: independent compensation consultants, compensation surveys and compensation studies. This organization and its tax-exempt affiliates strive to maintain an arm's length relationship between itself and its employees. It is the goal of the executive compensation committee to ensure that total compensation (compensation and benefits) paid to its employees is fair and reasonable. Finally, the process of setting and approving such compensation is performed annually by the board's executive compensation committee.

Identifier	Return Reference	Explanation
PART VI, SECTION C, DISCLOSURE, QUESTION 19	DOCUMENTS AVAILABLE TO THE PUBLIC	THE ORGANIZATION WILL MAKE THE FOLLOWING DOCUMENTS AVAILABLE TO THE PUBLIC UPON REQUEST ARTICLES OF INCORPORATION, BYLAWS, CONFLICT OF INTEREST POLICY , AND AUDITED FINANCIAL STATEMENTS ( HARFORD MEMORIAL HOSPITAL, INC AND UPPER CHESAPEAKE MEDICAL CENTER, INC )

Identifier	Return Reference	Explanation
PART VIII STATEMENT OF REVENUE	LINE 2A - PROGRAM SERVICE REVENUE	GROSS PATIENT REVENUE \$ 284,980,428 LESS ALLOWANCES & CHARITY POLICIES (35,447,857) ----- NET PATIENT REVENUE \$ 249,532,571



Identifier	Return Reference	Explanation
RECONCILIATION OF NET ASSETS	PART XI, LINE 8, OTHER CHANGES IN NET ASSETS	UNREALIZED GAIN/(LOSS) ON SWAP \$ (4,055,948) MINIMUM PENSION LIABILITY (668,330) ----- TOTAL \$ (4,724,278) =====

Identifier	Return Reference	Explanation
PART III, PROGRAM SERVICE ACCOMPLISHMENTS		<p>TO PROVIDE HEALTHCARE SERVICES TO PATIENTS REGARDLESS OF THEIR ABILITY TO PAY FOR SUCH SERVICES FOR MORE THAN 90 YEARS, UPPER CHESAPEAKE HEALTH HAS BEEN PROVIDING COMPREHENSIVE, HIGH QUALITY HEALTHCARE. ITS TWO HOSPITALS, HARFORD MEMORIAL HOSPITAL AND UPPER CHESAPEAKE MEDICAL CENTER OFFER SOME OF THE AREA'S MOST ADVANCED INPATIENT AND OUTPATIENT SERVICES SO THAT PATIENTS CAN ENJOY THE SUPERIOR WELLNESS RESOURCES A HEALTHY LIFESTYLE NEEDS, WITHOUT LEAVING THEIR NEIGHBORHOOD. UPPER CHESAPEAKE HEALTH SYSTEM IS A COMMUNITY-BASED, NON-PROFIT HEALTH SYSTEM LOCATED IN HARFORD COUNTY, MARYLAND. OUR VISION IS BASED ON CREATING THE HEALTHIEST COMMUNITY IN MARYLAND. BUILDING ON THAT VISION, WE HAVE A STRONG COMMITMENT TO SERVICE EXCELLENCE. SO MUCH SO THAT IT HAS BECOME PART OF THE FABRIC OF THE HEALTHCARE EXPERIENCE AT UPPER CHESAPEAKE HEALTH. UPPER CHESAPEAKE HEALTH SYSTEM HAS OVER 2,500 PHYSICIANS AND HEALTHCARE PROFESSIONALS WHO ARE DELIVERING CARE FOR THE MIND, BODY, AND SPIRIT IN SETTINGS FROM OFFICES, TO OUTPATIENT CENTERS, TO HOSPITALS, TO SHOPPING CENTERS, TO BUSINESSES, AND TO HOMES. UPPER CHESAPEAKE MEDICAL CENTER IS A MEMBER OF THE UPPER CHESAPEAKE HEALTH SYSTEM. UPPER CHESAPEAKE MEDICAL CENTER IS AN ACUTE CARE, NON-PROFIT FACILITY OFFERING A FULL COMPLEMENT OF MEDICAL, DIAGNOSTIC AND EMERGENCY CARE SERVICES. THE HOSPITAL IS FULLY ACCREDITED BY THE JOINT COMMISSION ON THE ACCREDITATION OF HEALTHCARE ORGANIZATIONS (JCAHO). THIS PREMIER HEALTH CARE FACILITY INCORPORATES SEVERAL TRENDS THAT REFLECT HOW HEALTH CARE IS CHANGING, INCLUDING REORIENTATION TOWARDS OUTPATIENT CARE, MORE ACUTELY ILL PATIENTS IN THE HOSPITAL AND FLEXIBILITY FOR GROWTH AND CHANGE TO MEET OUR COMMUNITY'S FUTURE HEALTH CARE NEEDS. LOCATED ON THE MEDICAL CAMPUS IS THE UPPER CHESAPEAKE MEDICAL CENTER WITH 194 ACUTE CARE BEDS. ADJACENT TO THE MEDICAL CENTER IS THE AMBULATORY CARE CENTER OF HARFORD COUNTY, CONTAINING PHYSICIAN OFFICES, OUTPATIENT IMAGING AND LABORATORY PROCEDURES, OUTPATIENT PRE-ASSESSMENT TESTING AND ASSESSMENT, UPPER CHESAPEAKE CARDIOVASCULAR INSTITUTE, AND THE ADMINISTRATIVE OFFICES OF UPPER CHESAPEAKE HEALTH. ALSO LOCATED NEXT TO THE MEDICAL CENTER, IS A PRE-EXISTING MEDICAL OFFICE BUILDING WITH PHYSICIAN OFFICES AND OTHER HEALTHCARE RELATED SERVICES, A PARKING GARAGE AND A SECOND MEDICAL OFFICE BUILDING WHICH INCLUDES OUTPATIENT SERVICES AND PHYSICIAN OFFICES. HARFORD MEMORIAL HOSPITAL AND UPPER CHESAPEAKE MEDICAL CENTER MAINTAIN CHARITY CARE PROGRAMS AND, IN ADDITION, CONDUCT MANY COMMUNITY OUTREACH AND COMMUNITY BUILDING ACTIVITIES INCLUDING - COMMUNITY HEALTH EDUCATION PROGRAMS WHICH INCLUDE NEWBORN BABY CARE, SITTING SAFETY PROGRAM, INFANT CPR, INFANT SAFETY, STOP SMOKING CLASS, KIDS SAFETY CLASS, AND PRENATAL BREAST FEEDING CLASS - SUPPORT GROUPS INCLUDING BREAST FEEDING SUPPORT, BREAST CANCER AWARENESS GROUPS, PERINATAL BEREAVEMENT, ASTHMA SUPPORT GROUP, WIDOW AND WIDOWERS SUPPORT GROUP, GRIEF SUPPORT GROUP, PROSTATE CANCER SUPPORT GROUP, AMPUTEE NETWORK, BRAIN INJURY SUPPORT GROUP, STROKE CLUB, LUPUS SUPPORT GROUP, AND OTHERS - HEALTH SCREENINGS INCLUDING SCREENINGS FOR OSTEOPOROSIS, CARDIAC PROBLEMS, BLOOD PRESSURE, AND OTHER ISSUES - FREE AND MOBILE CLINIC # OF STAFF HOURS # OF ENCOUNTERS COMMUNITY HEALTH SERVICES 1,500 18,792 HEALTH PROFESSIONS EDUCATION 14,822 408 MISSION DRIVEN HEALTHCARE SVCS - - RESEARCH 214 12 FINANCIAL CONTRIBUTIONS 323 18 COMMUNITY BUILDING ACTIVITIES 289 32 FOUNDATION FUNDED COMMUNITY BENEFIT - - MEDICAID ASSESSMENTS - - ----- - ----- TOTAL HOSPITAL COMMUNITY BENEFIT 17,148 19,262 DIRECT COST (\$) INDIRECT COST (\$) COMMUNITY HEALTH SERVICES \$ 1,278,175 \$ 673,470 HEALTH PROFESSIONS EDUCATION 524,683 - MISSION DRIVEN HEALTHCARE SVCS 3,928,502 - RESEARCH 22,033 - FINANCIAL CONTRIBUTIONS 204,408 - COMMUNITY BUILDING ACTIVITIES 289 32 FOUNDATION FUNDED COMM BENEFIT 111,256 - MEDICAID ASSESSMENTS 7,382,380 - ----- ----- TOTAL HOSPITAL COMM BENEFIT \$ 13,612,091 \$ 758,119 OFFSETTING NET COMMUNITY REVENUE (\$) BENEFIT (\$) COMMUNITY HEALTH SERVICES \$ 97,456 \$ 1,854,189 HEALTH PROFESSIONS EDUCATION - 524,683 MISSION DRIVEN HEALTH CARE SVCS - 3,928,502 RESEARCH - 22,033 FINANCIAL CONTRIBUTIONS - 204,408 COMMUNITY BENEFIT OPERATIONS - 245,303 CHARITY CARE - 4,777,100 FOUNDATION FUNDED COMM BENEFIT - 111,256 MEDICAID ASSESSMENTS 6,312,858 1,069,522 ----- ----- TOTAL HOSPITAL COMM BENEFIT \$ 6,410,314 \$ 12,736,996</p>

Identifier	Return Reference	Explanation
COMMUNITY OUTREACH		<p>Community Outreach - In 2012, HealthLink had over 19,000 community-wide contacts through their screening and educational programs, flu vaccination clinics, support groups and HealthLink Primary Care Clinic visits. Approximately, 4,740 of these contacts were for health screenings (blood pressure, body fat, cholesterol, osteoporosis, stroke, diabetes risk assessments, foot and eye screenings, and cancer screenings). This also includes 4,689 contacts that were realized through the HealthLink Primary Care Clinic. Over 2,277 influenza vaccinations were administered countywide. Community Outreach also provided local businesses with employee health screenings and vaccinations. And more than 3,000 Harford County children received health education from Upper Chesapeake Community Outreach Senior Center/Senior Housing/Assisted Living Programs. Community Outreach continued to provide monthly blood pressure screenings at all six senior centers and senior housing centers including Windsor Valley Apartments, Abingdon Senior Housing, Fairbrooke, St. Johns Commons, St. Johns Towers, Aberdeen and Perryman Station as well as Brightview and Avondale Assisted Living Facilities. Throughout the year, many different health screenings were held during certain months at each senior location. During the month of February, cholesterol screenings were provided to 253 participants at all six senior centers. In March, a screening for body composition was provided to 106 participants at the senior centers. During the month of May, a screening for stroke risk assessment was provided for 249 participants at all of the senior centers and senior housing centers. In September, a hearing and vision screening was provided for the first time at all six senior centers for 137 participants. Then in October, influenza vaccinations were provided at all of the senior centers, senior housing, and assisted living programs. There was also a diabetes risk screening provided in November at a few senior centers that 17 participants engaged in.</p> <p>Children's Programs - A total of 291 children were involved with our Glo Germ Program. This is a program that emphasizes how infection is spread and the importance of good hand washing habits. - Approximately 588 children were exposed to our KATU (Kids Against Tobacco Use) program and Smoking Out the Truth programs. These programs teach children, adolescents, and teens about the dangers associated with tobacco use. Toxic Soup is a program that addresses the effects of secondhand smoke which is a program included at times. - There were approximately 1,043 children who attended our Teddy Bear Clinics at many of the Harford County elementary public schools. This is an interactive program that familiarizes children with the hospital experience and presents information on child safety. - Another popular program titled How Sweet It Is was taken out into the community and over 2,363 children and adults were exposed to this program. The focus of this program is to educate children and adults on the sugar content in many of their favorite drinks including juice boxes, sports drinks, soda, flavored water, and popular coffee drinks. - Over 300 children and adults were involved in our Sun Sense program during the year. This program educates children, teens and adults on the harmful effects of the sun including the dangers of tanning beds. A skin analyzer machine is also utilized with this program to allow individuals to examine their own skin and realize the impact that the sun has had on their skin. - In addition to the above programs, a nutrition program titled My Plate was developed geared to children, teens, adults and seniors. This program focuses on making healthier food choices and building a healthy plate.</p> <p>New Screenings and New Businesses - In 2012, new equipment was obtained to be able to provide HbA1c screenings for Team Members determined at risk for diabetes at the Wellness Works program here at UCH. This screening uses blood from a fingerstick to determine a HbA1c level which is the average blood glucose level in the body over a 2-3 month period. The ability to use this screening tool in the community is being evaluated. - A new partnership was formed with the Harford County Sheriff's Office to provide health fairs for their employees. The first health fair was held at the Heat Center in Aberdeen with over 25 participants at this event. Some of the health screenings and programs offered were blood pressures, body composition, Health Wheel, sleep assessment, and How Sweet It Is. In the fall, two health fairs were coordinated at the northern and southern precincts to capture and improve accessibility to more employees. There were approximately 55 participants at these events. Some of the screenings offered in the fall were cholesterol, blood pressure, body composition, CO assessment to screen for smoking, My Plate, Health Wheel, flu shots, and How Sweet</p>

Identifier	Return Reference	Explanation
COMMUNITY OUTREACH		t It ls - Community Outreach got involved with a new initiative by the Harford County Pub lic Schools to provide health screenings to their employees at three designated schools du ring the month of September Many different health screenings were offered including chole sterol, blood pressures, body composition, osteoporosis, cardiac risk assessment, and stro ke risk assessment

Identifier	Return Reference	Explanation
VACCINES		<p>- Community Outreach administered approximately 2277 community flu vaccinations throughout the county in 2012</p> <p>"Dining with Docs" Lectures and Community Lectures - In 2012, there were several "Dining with Docs" lectures about cancer and the environment and sleep disorders that were held at the Upper Chesapeake Medical Center. Approximately 68 community residents attended these lectures. - There were many other community lectures provided on topics regarding Healthy Aging, Heart Health, and Nutrition held at several churches in the county. Approximately 546 community residents attended one of these lectures. - A seminar on Heart Disease and Erectile Dysfunction presented by a cardiologist and urologist was coordinated with Chesapeake Urology Associates at the Richlin Ballroom in Edgewood. Over 45 members of the community attended this event. A blood pressure screening was also provided. Havre de Grace Health-Tacular - The Second Annual Health Fair was held at the Havre de Grace Activity Center. HealthLink was involved in the planning of this event with Marketing and other departments on the committee. There were many different screenings and programs offered at this event including cholesterol, blood pressure, body composition, hearing screening, breast health, skin cancer screening, prostate screening, Health Wheel, How Sweet It Is program, and free flu vaccinations. Over 300 people took advantage of these services offered.</p> <p>HealthLink Community Wellness Center - In 2012, the HealthLink Community Wellness Center which operates from the HealthLink Medical Mobile Van had 84 residents participate in one of the available health screenings offered throughout the year. The Wellness Centers are offered monthly at two different locations in the County.</p> <p>Primary Care Clinic - The HealthLink Primary Care Clinic (PCC) provided primary care on a sliding fee scale to low income adults age 19 and above who are uninsured or underinsured and meet specific income criteria. In 2012, the PCC had approximately 4,689 patient encounters.</p> <p>HealthLink Call Center - In 2012, our HealthLink Call Center handled approximately 6,334 calls. This included almost 387 physician referrals, 2,784 physician related calls and 1,884 service calls.</p> <p>Support Groups - HealthLink RNs facilitate countywide support groups for diabetes. The support groups meet at the Aberdeen Senior Center, Edgewood Senior Center, Primary Care Clinic, and the McFaul Activity Center. These groups meet monthly and served approximately 180 participants.</p> <p>HealthLink and Community Health Improvement Coalitions and Committees - Harford County School Health Board - Harford County Tobacco Coalition - Harford County Cancer Coalition - Office on Aging Advisory Board - Harford County Homeless Advisory Board - GAIN Committee - Healthy Harford</p>

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

2012

Open to Public Inspection

Name of the organization  
UPPER CHESAPEAKE MEDICAL CENTER

Employer identification number  
52-1253920

Part I Identification of Disregarded Entities (Complete if the organization answered "Yes" to Form 990, Part IV, line 33.)					
(a) Name, address, and EIN (if applicable) 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" to 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 entity?	
						Yes	No
See Additional Data Table							

Part III

Identification of Related Organizations Taxable as a Partnership (Complete if the organization answered "Yes" to 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) UCHSUMMS VENTURE LLC  520 UPPER CHESAPEAKE BEL AIR, MD 21014 52-2178070	MEDICAL SERVICES	MD	NA	N/A								
(2) UCHSUMMS REAL ESTATE TRUST  520 UPPER CHESAPEAKE DRIVE BEL AIR, MD 21014 27-6803540	HOLD LAND	MD	NA	N/A								

Part IV

Identification of Related Organizations Taxable as a Corporation or Trust (Complete if the organization answered "Yes" to 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	(i) Section 512 (b)(13) controlled entity?	
								Yes	No
(1) UPPER CHESAPEAKE HEALTH VENTURES INC  520 UPPER CHESAPEAKE DRIVE BEL AIR, MD 21014 52-2031264	MISC SERVICES	MD	NA	C CORP					
(2) UPPER CHESAPEAKE MED OFFICE BLDG INC  520 UPPER CHESAPEAKE DRIVE BEL AIR, MD 21014 52-1946829	REAL ESTATE	MD	NA	C CORP					
(3) UPPER CHESAPEAKE MGMT SVCS ORG INC  520 UPPER CHESAPEAKE DRIVE BEL AIR, MD 21014 52-1946025	MANAGEMENT SRVCS	MD	NA	C CORP					
(4) UC MEDICAL CENTER LAND CONDOMINIUM INC  520 UPPER CHESAPEAKE DRIVE BEL AIR, MD 21014 77-0674478	REAL ESTATE	MD	NA	C CORP					
(5) UPPER CHESAPEAKE INSURANCE COMPANY LTD  PO BOX 1109 GRAND CAYMAN, CAYMAN ISLANDS KY1-1102 CJ 98-0468438	CAPTIVE INSURANCE	CJ	NA	LTD					

Part V

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

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

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 or (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 Dividends from related organization(s)

g Sale of assets to related organization(s)

h Purchase of assets from related organization(s)

i Exchange of assets with related organization(s)

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

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

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

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

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

o Sharing of paid employees with related organization(s)

p Reimbursement paid to related organization(s) for expenses

q Reimbursement paid by related organization(s) for expenses

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

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

Yes

No

1a Yes

1b Yes

1c Yes

1d

1e

1f

1g

1h

1i

1j

1k

1l

1m Yes

1n

1o

1p

1q Yes

1r

1s

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-s)	(c) Amount involved	(d) Method of determining amount involved

Schedule R (Form 990) 2012



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]

**Software ID:**  
**Software Version:**  
**EIN:** 52-1253920  
**Name:** UPPER CHESAPEAKE MEDICAL CENTER

**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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**HARFORD MEMORIAL HOSPITAL, INC. AND  
UPPER CHESAPEAKE MEDICAL CENTER, INC.**

Combined Financial Statements and Combining Schedules

December 31, 2012 and 2011

(With Independent Auditors' Report Thereon)

**HARFORD MEMORIAL HOSPITAL, INC. AND  
UPPER CHESAPEAKE MEDICAL CENTER, INC.**

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

## **Independent Auditors' Report**

The Boards of Directors  
Harford Memorial Hospital, Inc. and  
Upper Chesapeake Medical Center, Inc

### **Report on the Financial Statements**

We have audited the accompanying combined financial statements of Harford Memorial Hospital, Inc. and Upper Chesapeake Medical Center, Inc. (the Hospitals or the Obligated Group), which comprise the combined balance sheets as of December 31, 2012 and 2011, and the related combined statements of operations and changes in net assets, and cash flows for the years then ended, and the related notes to the combined financial statements.

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

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

### **Auditors' Responsibility**

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

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

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

## Opinion

In our opinion, the combined financial statements referred to above present fairly in all material respects, the financial position of Harford Memorial Hospital, Inc. and Upper Chesapeake Medical Center, Inc. as of December 31, 2012 and 2011, and the results of their operations and their cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

As discussed in note 1(w) to the combined financial statements, the Hospitals changed their presentation of provision for bad debts as a result of the adoption of Accounting Standards Update No. 2011-07, *Health Care Entities: Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts, and Allowance for Doubtful Accounts for Certain Health Care Entities*.

## Supplemental Information

Our audit was conducted for the purpose of forming an opinion on the combined financial statements as a whole. The supplementary information included in Schedules 1 and 2 is presented for purposes of additional analysis and is not a required part of the combined 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 combined financial statements. The information has been subjected to the auditing procedures applied in the audit of the combined financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the combined financial statements or to the combined financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the combined financial statements as a whole.

KPMG LLP

April 26, 2013

**HARFORD MEMORIAL HOSPITAL, INC. AND  
UPPER CHESAPEAKE MEDICAL CENTER, INC.**

Combined Balance Sheets

December 31, 2012 and 2011

(In thousands)

Assets	<u>2012</u>	<u>2011</u>
Current assets		
Cash and cash equivalents	\$ 37,073	35,903
Current portion of assets held by trustee (notes 2, 7 and 13)	2,563	2,848
Current portion of board designated and other investments (note 2)	41,529	41,081
Patient accounts receivable, net of allowance and contractuals of \$19,428 and \$17,806 in 2012 and 2011, respectively (note 3)	40,626	38,378
Prepaid expenses and other current assets	12,497	11,148
Total current assets	134,288	129,358
Due from affiliates (note 12)	28,960	27,759
Assets held by trustee, less current portion (notes 2, 7 and 13)	4,044	4,069
Board designated and other investments, less current portion (note 2)	49,268	43,904
Property, plant, and equipment, net (note 4)	213,589	191,826
Economic interest in net assets of foundation	11,390	7,007
Other assets (note 5)	1,379	1,641
Total assets	\$ 442,918	405,564
<b>Liabilities and Net Assets</b>		
Current liabilities		
Accounts payable	\$ 22,593	21,382
Accrued salaries, benefits, and other (notes 8 and 9)	26,446	25,994
Current portion of long-term debt (notes 7 and 13)	2,980	895
Advances from third-party payors	7,522	6,833
Total current liabilities	59,541	55,104
Due to affiliates (note 12)	1,456	—
Long-term debt, less current portion (notes 7 and 13)	186,499	172,898
Other long-term liabilities (notes 1, 7 and 9)	59,091	55,659
Pension liability (note 8)	9,703	10,200
Total liabilities	316,290	293,861
Unrestricted net assets	115,238	104,696
Temporarily restricted net assets	11,390	7,007
Total net assets	126,628	111,703
Total liabilities and net assets	\$ 442,918	405,564

See accompanying notes to combined financial statements

**HARFORD MEMORIAL HOSPITAL, INC. AND  
UPPER CHESAPEAKE MEDICAL CENTER, INC.**

Combined Statements of Operations and Changes in Net Assets

Years ended December 31, 2012 and 2011

(In thousands)

	<u>2012</u>	<u>2011</u>
Operating activities		
Unrestricted revenues, gains, and other support		
Patient service revenue (net of contractual allowances and discounts)	\$ 341,730	319,551
Provision for bad debts	(21,191)	(23,124)
Net patient service revenue (notes 3, 9, and 11)	320,539	296,427
Other	10,960	5,319
Total unrestricted revenues, gains, and other support	331,499	301,746
Expenses (note 14)		
Salaries	121,786	113,255
Employee benefits (notes 8 and 9)	29,966	26,338
Supplies and other operating expenses	137,677	120,842
Depreciation and amortization (notes 4 and 5)	14,586	13,070
Interest and amortization (notes 5, and 7)	5,367	5,624
Total expenses	309,382	279,129
Operating income	22,117	22,617
Nonoperating income		
Investment income (note 2)	5,751	19
Change in the fair value and settlement payments on derivative instruments (note 7)	(4,056)	(12,174)
Other	—	(241)
Nonoperating income (loss)	1,695	(12,396)
Excess of revenues over expenses	23,812	10,221
Other changes in unrestricted net assets		
Contributions for purchases of property and equipment (note 12)	1,471	701
Pension – related changes other than net periodic pension cost (note 8)	(954)	(9,756)
Transfers to affiliates, net (note 12)	(13,787)	(7,515)
Increase (decrease) in unrestricted net assets	10,542	(6,349)
Changes in temporarily restricted net assets		
Donor restricted gifts	4,383	7,007
Increase in temporarily restricted net assets	4,383	7,007
Net assets, beginning of year	111,703	111,045
Net assets, end of year	\$ 126,628	111,703

See accompanying notes to combined financial statements



**HARFORD MEMORIAL HOSPITAL, INC. AND  
UPPER CHESAPEAKE MEDICAL CENTER, INC.**

Combined Statements of Cash Flows

Years ended December 31, 2012 and 2011

(In thousands)

	<u>2012</u>	<u>2011</u>
Cash flows from operating activities		
Increase in net assets	\$ 14,925	658
Adjustments to reconcile increase in net assets to net cash provided by operating activities		
Depreciation and amortization	14,482	13,070
Amortization of deferred financing costs	104	174
Amortization of bond discount	31	36
Provision for bad debts	21,191	23,124
Realized and unrealized (gains) loss on securities	(5,097)	775
Loss on interest rate swaps	234	8,151
Contributions for purchases of property and equipment	(1,471)	(701)
Change in funded status of defined benefit plan	954	9,756
Loss on debt refinancing	—	133
Transfers to affiliates, net	13,787	7,515
Change in assets and liabilities		
Increase in patient accounts receivable	(23,439)	(30,508)
Increase in prepaid expenses and other current assets	(1,349)	(1,377)
Decrease (increase) in amounts due from affiliates, net	255	(18,123)
Increase in economic interest in net assets of foundation	(4,383)	(7,007)
(Increase) decrease in accounts payable, accrued expenses, and advances from third-party payors	(562)	10,645
Decrease in pension liability	(1,451)	(3,398)
Increase in other long-term liabilities	3,198	9,747
Net cash provided by operating activities	<u>31,409</u>	<u>22,670</u>
Cash flows from investing activities		
Property, plant, and equipment additions	(33,173)	(19,589)
Purchases/sales of assets held by trustee, board-designated, other investments, net	(405)	11,942
Net cash used in investing activities	<u>(33,578)</u>	<u>(7,647)</u>
Cash flows from financing activities		
Proceeds of borrowings	18,340	122,438
Repayment of long-term debt	(2,685)	(123,961)
Payment of financing costs	—	(876)
Contributions for purchases of property and equipment	1,471	701
Transfers to affiliates, net	(13,787)	(9,807)
Net cash provided by (used in) financing activities	<u>3,339</u>	<u>(11,505)</u>
Net increase in cash and cash equivalents	1,170	3,518
Cash and cash equivalents, beginning of year	35,903	32,385
Cash and cash equivalents, end of year	<u>\$ 37,073</u>	<u>35,903</u>
Supplemental information		
Transfer of fixed assets from affiliate	\$ —	2,292
Capital additions accrued but not paid	2,914	1,056

See accompanying notes to combined financial statements

**HARFORD MEMORIAL HOSPITAL, INC. AND  
UPPER CHESAPEAKE MEDICAL CENTER, INC.**

Notes to Combined Financial Statements

December 31, 2012 and 2011

(Dollars in thousands)

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

***(a) Organization***

Harford Memorial Hospital, Inc. and Upper Chesapeake Medical Center, Inc. (collectively, the Hospitals or the Obligated Group) are nonprofit, nonstock membership corporations formed under the laws of the State of Maryland, organized for charitable purposes and recognized by the Internal Revenue Service (IRS) as tax-exempt organizations under Section 501(c)(3) of the Internal Revenue Code. UCHS/UMMS Venture, LLC (the Venture) is the sole member of the Hospitals. The Venture members are the University of Maryland Medical System (UMMS) and Upper Chesapeake Health System, Inc. (UCHS). The Venture, a Maryland limited liability company, is organized to coordinate activities of healthcare facilities and other corporate bodies whose purposes include the provision of healthcare services or financial assistance to residents of Harford County, Maryland. The Venture is also the sole member or sole shareholder of the common stock of each of the following entities:

- Harford Memorial Hospital, Inc. (HMH)
- Upper Chesapeake Medical Center, Inc. (UMMC)
- Upper Chesapeake Medical Services, Inc. (UCMS)
- Upper Chesapeake Properties, Inc. (UCP)
- Upper Chesapeake Health Foundation, Inc. (UCHF)
- Upper Chesapeake Health Ventures, Inc. (UCHV)
- Upper Chesapeake Residential Hospice House, Inc. (UCRHH)
- Hospice of Harford County, LLC (HHC)
- UC Land Development, LLC (UCLD)

On October 1, 2009, the Venture and UMMS executed an Affiliation Agreement (the Agreement) and an Amended and Restated Operating Agreement, which increased UMMS' ownership in the Venture to 34% in exchange for cash, which is designated primarily for use for clinical projects. The Agreement requires profits for each calendar year to be allocated according to ownership percentage.

The Agreement required UMMS to purchase an additional 15% interest in the Venture, which occurred on October 1, 2010. The purchase of the additional 15% interest was in exchange for cash. UMMS' total interest in the Venture is 49% as of December 31, 2012.

Under the terms of the Agreement, the Board of Directors consists of 17 seats, 15 controlled by UCHS and 2 controlled by UMMS.

The Agreement also provides that at some point in the future, UMMS may become the sole member of UCHS by contributing a stated amount of immediately available funds, which will be restricted for use related to capital expansion of health services for the residents of Harford County, Maryland, and a final contribution of cash on or before December 31, 2018, which will also be restricted for use.

**HARFORD MEMORIAL HOSPITAL, INC. AND  
UPPER CHESAPEAKE MEDICAL CENTER, INC.**

Notes to Combined Financial Statements

December 31, 2012 and 2011

(Dollars in thousands)

Under the Agreement, 4% cumulative distributions on the purchase price will be earned by UMMS, and will be payable within 120 days after the end of each fiscal year, commencing with the fiscal year ending December 31, 2017, if net cash is available for distribution as calculated under the Agreement. Such distributions will terminate at the time UMMS becomes the sole member of UCHS.

**(b) *Basis of Accounting***

The combined financial statements are prepared on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles (GAAP), and include the accounts of HMH and UCMC, which comprise the Obligated Group as defined in the Amended and Restated Master Loan Agreement described in note 7. In combination, all material intercompany balances and transactions have been eliminated.

**(c) *Cash and Cash Equivalents***

Cash equivalents consist primarily of temporary investments with original maturities of three months or less.

**(d) *Assets Held by Trustee, Board-Designated, and Other Investments***

The assets held by trustee, board-designated, and other investments are considered trading and are classified as current or noncurrent assets based on management's intention as to use. All debt and equity securities are reported at fair value principally based on quoted market prices on the combined balance sheets.

The Hospitals hold an investment in a fund which under GAAP is considered an alternative investment totaling \$2,599 and \$2,344 as of December 31, 2012 and 2011, respectively. The fund invests primarily in debt securities of emerging markets. This fund utilizes various types of debt and equity securities along with derivative instruments in its investment strategy. Alternative investments are recorded under the equity method of accounting.

Assets limited as to use include assets held by the trustee under an indenture agreement. Board designated investments are set aside by the Board of Directors to fund future capital improvements. The board retains control of these assets and may, at their discretion, use such assets for other corporate purposes.

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

Investment income including unrealized gains and losses, realized gains and losses on investment sales, and interest and dividends is recorded on the accrual basis and is reported as nonoperating gains or losses in the excess of revenues over expenses in the accompanying combined statements of

**HARFORD MEMORIAL HOSPITAL, INC. AND  
UPPER CHESAPEAKE MEDICAL CENTER, INC.**

Notes to Combined Financial Statements

December 31, 2012 and 2011

(Dollars in thousands)

operations and changes in net assets unless the income or loss is restricted by the donor or law. Investment income and net gains that are restricted by the donor are recorded as a component of changes in temporarily or permanently restricted net assets, in accordance with donor-imposed restrictions. Realized gains and losses are determined based on the specific security's original purchase price.

**(e) *Derivative Instruments and Hedging Activities***

The Hospitals account for derivatives and hedging activities in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 815, *Derivatives and Hedging*, which requires entities to recognize all derivative instruments as either assets or liabilities in the combined balance sheet at their respective fair values.

The Hospitals formally assess, both at the hedge's inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items. Changes in the fair value of a derivative that is highly effective and that is designated and qualifies as a cash flow hedge are recorded in other changes in net assets to the extent that the derivative is effective as a hedge, until earnings are affected by the variability in cash flows of the designated hedged item. The ineffective portion of the change in fair value of a derivative instrument that qualifies as a cash flow hedge is reported in excess of revenues over expenses.

The Hospitals discontinue hedge accounting prospectively when it is determined that the derivative is no longer effective in offsetting changes in the fair value or cash flows of the hedged item, the derivative expires or is sold, terminated, exercised, or management determines that designation of the derivative as a hedging instrument is no longer appropriate.

In all situations in which hedge accounting is discontinued and the derivative is retained, the Hospitals continue to carry the derivative at its fair value on the combined balance sheet and recognize any subsequent changes in its fair value in excess of revenues over expenses.

**(f) *Patient Accounts Receivable***

Patient accounts receivable are stated at estimated net realizable amounts from patients, third-party payors, and other insurers for services provided.

The Hospitals grant credit to patients, substantially all of whom are local residents. The Hospitals generally do not require collateral or other security in extending credit; however, they routinely obtain assignment of (or are otherwise entitled to receive) patients' benefits receivable under their health insurance programs, plans, or policies.

**HARFORD MEMORIAL HOSPITAL, INC. AND  
UPPER CHESAPEAKE MEDICAL CENTER, INC.**

Notes to Combined Financial Statements

December 31, 2012 and 2011

(Dollars in thousands)

**(g) Inventories**

Inventories consisting primarily of drugs and medical/surgical supplies are stated at lower of cost or market and are included in prepaid expenses and other current assets on the combined balance sheets. Cost is determined principally using the first-in, first-out method.

**(h) Property, Plant, and Equipment**

Property, plant, and equipment are recorded at cost or, if donated, at their fair market value on the date of receipt. Depreciation is taken on a straight-line basis over the estimated useful lives of the depreciable assets. The estimated useful lives of the assets are as follows:

Land improvements	3 – 20 years
Buildings	20 – 40 years
Equipment	5 – 20 years

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

Gains and losses on disposal or sale of long-lived assets are recorded as a component of operating income in the combined statement of operations and changes in net assets.

The Hospitals' policy is to capitalize interest cost incurred on debt during the construction of major projects exceeding one year.

The Hospitals entered into an agreement during 2007 to lease space in Medical Office Building II (MOB II), which opened during 2008 and is on the campus of UCMC. A nonaffiliated entity developed, owns and operates the MOB II. The Hospitals determined that due to certain structural elements installed by the Hospitals during construction of the space being leased, the Hospitals are required to be treated, for accounting purposes, as the "owner" of the MOB II in accordance with FASB ASC Subtopic 840-40, *Leases – Sale-Leaseback Transactions*. The asset and financing obligation will be reflected on the Hospitals' combined balance sheets until completion of the lease term, when they will be removed from the Hospitals' combined financial statements. At December 31, 2012, the recorded amount for the asset is \$11,166 and the related liability is \$11,711, which are included in buildings and other long-term liabilities, respectively.

**HARFORD MEMORIAL HOSPITAL, INC. AND  
UPPER CHESAPEAKE MEDICAL CENTER, INC.**

Notes to Combined Financial Statements

December 31, 2012 and 2011

(Dollars in thousands)

The future minimum payments under the financing obligation for the initial lease term (10 years) are as follows

2013	\$	941
2014		969
2015		998
2016		1,028
2017		1,059
Thereafter		<u>720</u>
Total future minimum financing obligation payments		5,715
Less interest		<u>3,406</u>
Present value of future minimum financing obligation payments		<u><u>\$ 2,309</u></u>

**(i) *Economic Interest in Net Assets of Foundation***

The Hospitals account for the activities of the Upper Chesapeake Health Foundation (the Foundation) in accordance with ASC Topic 958 *Not-for-Profit Entities*. For fiscal years ending December 31, 2012 and 2011 the Hospitals recognized an economic interest in the net assets of the Foundation, a financially interrelated organization, as these fundraising activities were designated for use by the Hospitals.

**(j) *Deferred Financing Costs***

Deferred financing costs, which are classified as other assets, are being amortized on the effective-interest method over the term of the related debt or letters of credit, and are included in interest and amortization.

**(k) *Bond Discount***

The bond discount, which is classified as a reduction of long-term debt, is being amortized on the effective-interest method over the term of the related debt and is included in interest and amortization.

**(l) *Malpractice Claims***

Costs of malpractice claims, which are subject to deductible provisions of the Hospitals' insurance programs are accrued when incidents occur that give rise to the claims if it can be determined that a liability is probable and the amount can be reasonably estimated (note 9).

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***(m) Temporarily Restricted Net Assets and Donor-Restricted Gifts***

Temporarily restricted net assets are those whose use by the Hospitals has been limited by donors to a specific time period or purpose. Unconditional promises to give cash and other assets to the Hospitals are reported at fair value at the date the promise is received. Donor-restricted gifts whose restrictions are met within the same year as received are reported as unrestricted gifts in the accompanying combined statements of operations and changes in net assets. Conditional promises to give and indications of intentions to give are reported at fair value at the date the gift is received.

***(n) Net Patient Service Revenue and Other***

Patient service revenue of the Hospitals is recorded at rates established by the State of Maryland Health Services Cost Review Commission (HSCRC) and, accordingly, reflects actual charges to patients based on rates in effect during the period in which the services are rendered. The Hospitals have charge per episode (CPE) agreements with the HSCRC, which are renewed annually. These CPE agreements establish a prospectively approved average charge per inpatient episode (defined as hospital admissions plus births less thirty day re-admissions) and an estimated case mix index. These approved CPE targets are adjusted during the rate year for actual changes in case mix. The CPE agreements allow the Hospitals to adjust approved unit rates, within certain limits, to achieve the average CPE target for each rate year ending June 30.

Outpatient service revenue is recorded using the established HSCRC unit rates for hospital based outpatient services.

Contractual adjustments, which represent the difference between amounts billed as patient service revenue and amounts paid by third-party payors, are accrued in the period in which the related services are rendered.

The Health Information Technology for Economic and Clinical Health (HITECH) Act that was enacted as part of the American Recovery and Reinvestment Act of 2009 was signed into law in February 2009. In the context of the HITECH Act, certain healthcare entities must implement a certified Electronic Health Record (EHR) in an effort to promote the adoption and "meaningful use" of health information technology (HIT). Understanding the strategic importance of an EHR system, the Hospitals invested in a certified EHR system prior to the HITECH Act. The HITECH Act includes significant monetary incentives meant to encourage the adoption of an EHR system. During 2012, the Hospitals recognized incentive payments totaling approximately \$5,400 which are included in other operating revenue in the combined statements of operations and changes in net assets.

***(o) Charity Care***

The Hospitals provide care to patients who meet certain criteria under their charity care policy without charge or at amounts less than their established rates. Because the facilities do not pursue the collection of amounts determined to qualify as charity care, those amounts are not reported as revenue.

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**(p) *Nonoperating Income***

Other activities that are largely unrelated to the Hospitals' primary mission are recorded as nonoperating income, which includes investment income and change in the fair value and settlement payments on derivative instruments

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

Management regularly evaluates whether events or changes in circumstances have occurred that could indicate impairment in the value of long-lived assets. If there is an indication that the carrying amount of an asset is not recoverable, the Hospitals estimate the projected undiscounted cash flows, excluding interest, to determine if an impairment loss should be recognized. The amount of impairment loss is determined by comparing the historical carrying value of the asset to its estimated fair value. Estimated fair value is determined through an evaluation of recent and projected financial performance using standard industry valuation techniques.

In addition to consideration of impairment upon the events or changes in circumstances described above, management regularly evaluates the remaining lives of its long-lived assets. If estimates are changed, the carrying value of affected assets is allocated over the remaining lives.

In estimating the future cash flows for determining whether an asset is impaired and if expected future cash flows used in measuring assets are impaired, the Hospitals group the assets at the lowest level for which there are identifiable cash flows independent of other groups of assets. If such assets are impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the estimated fair value of the assets. Based on management's evaluation, no long-lived assets were identified as impaired for the years ended December 31, 2012 and 2011.

**(r) *Excess of Revenues over Expenses***

The combined statements of operations and changes in net assets include excess of revenues over expenses. Changes in unrestricted net assets, which are excluded from excess of revenues over expenses, consistent with industry practice, include contributions of long-lived assets (including assets acquired using contributions, which by donor restriction were to be used for the purposes of acquiring such assets), equity contributions, changes in funded status of defined benefit plan, and transfers to or from affiliates.

**(s) *Use of Estimates***

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



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**(t) *Income Taxes***

The Hospitals have been recognized by the IRS as tax-exempt pursuant to Section 501(c)(3) of the Internal Revenue Code

The Hospitals account for tax provisions in accordance with FASB Interpretation No. 48 (FIN 48), *Accounting for Uncertainty in Income Taxes*, included in ASC Subtopic 740-10, *Income Taxes – Overall*, which clarifies the accounting for uncertainty in tax provisions. FIN 48 requires that the Hospitals recognize the effect of income tax positions only if those positions are more likely than not of being sustained. Recognized income tax positions are measured at the largest amount that is greater than 50% likely of being realized. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs.

**(u) *Employee Pension Plan***

UCHS sponsors a defined benefit pension plan. The plan is actuarially evaluated and involves various assumptions, which are elements of expense and liability measurement. Key assumptions include the discount rate and the expected rate of return on plan assets, retirement, mortality, and turnover. UCHS evaluates these assumptions annually and modifies them as appropriate. UCHS froze the defined benefit pension plan as of December 31, 2005.

The Hospitals account for the defined benefit pension plan in accordance with ASC Subtopic 715-20, *Compensation – Retirement Benefits – Defined Benefit Plans – General (ASC Topic 715)*, which requires the recognition of the overfunded or underfunded status of a defined benefit pension plan as an asset or liability in the combined balance sheet and to recognize any changes in that funded status through unrestricted net assets. Additionally, ASC Topic 715 requires the measurement date for plan assets and liabilities to coincide with the employer's year-end and to disclose in the notes to the combined financial statements additional information about certain effects on net periodic benefit cost for the next fiscal year that arise from delayed recognition of the gains or losses, prior service costs or credits, and transition asset or obligation.

**(v) *Fair Value Measurements***

The Hospitals utilize valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible. The Hospitals determine fair value based on assumptions that market participants would use in pricing an asset or liability in the principal or most advantageous market. When considering market participant assumptions in fair value measurements, the following fair value hierarchy distinguishes between observable and unobservable inputs, which are categorized in one of the following levels:

- Level 1 Inputs: Unadjusted quoted prices in active markets for identical assets or liabilities accessible to the reporting entity at the measurement date.

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- Level 2 Inputs Other than quoted prices included in Level 1 inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the asset or liability
- Level 3 Inputs Unobservable inputs for the asset or liability used to measure fair value to the extent that observable inputs are not available, thereby allowing for situation in which there is little, if any, market activity for the asset or liability at measurement date

**(w) New Accounting Pronouncements**

In July 2011, the FASB issued ASU 2011-07, *Health Care Entities (Topic 954), Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts, and the Allowance for Doubtful Accounts for Certain Health Care Entities*, which requires a healthcare entity to change the presentation of their statement of operations by reclassifying the provision for bad debts associated with patient service revenue from an operating expense to a deduction from patient service revenue (net of contractual allowance and discounts). This presentation only applies to the extent an entity does not assess collectability of revenue at the time services are rendered. Additionally, enhanced disclosures about an entity's policies for recognizing or assessing bad debts, as well as qualitative and quantitative information about changes in the allowance for doubtful accounts are required. The adoption of ASU 2011-07 was effective for the Hospitals beginning January 1, 2012. See note 11 for related disclosure information.

**(2) Assets Held by Trustee, Board Designated, and Other Investments**

Assets held by trustee, board designated, and other investments include the following at December 31

	<u>2012</u>	<u>2011</u>
Board-designated and other investments	\$ 88,198	82,641
Alternative investments	2,599	2,344
Funds held by the trustee	<u>6,607</u>	<u>6,917</u>
	<u>\$ 97,404</u>	<u>91,902</u>

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Board-designated and other investments carried at fair value or under the equity method of accounting in the case of alternative investments, consist of the following at December 31

	<u>2012</u>		<u>2011</u>	
Cash and cash equivalents	\$ 11.426	13%	\$ 13.258	15%
Common/preferred stock and mutual funds	34.327	38	28.905	34
Mortgage-backed and asset-backed securities	9.465	10	13.506	16
Corporate bonds and U S government obligations	32.980	36	26.972	32
Alternative investments	2.599	3	2.344	3
	<u>\$ 90.797</u>	<u>100%</u>	<u>\$ 84.985</u>	<u>100%</u>

As described in note 7, funds held by the trustee as of December 31, 2012 and 2011 are limited as to use under the Amended and Restated Master Loan Agreement. Funds held by the trustee, which consist of cash and U S government agency obligations, are stated at fair value and include the following funds at December 31

	<u>2012</u>	<u>2011</u>
Debt service funds	\$ 2.563	2.848
Debt service reserve funds	<u>4.044</u>	<u>4.069</u>
Total funds held by the trustee	<u>\$ 6.607</u>	<u>6.917</u>

The debt service fund has been established to secure the payment of principal and interest due on the Series 2008C Revenue Bonds (note 7). The debt service reserve fund has been established to provide for future deficiencies, if any, in various bond repayment terms established by the Amended and Restated Master Loan Agreement. If the balance in the debt service reserve funds falls below the minimum requirement as a result of investment losses or withdrawals relating to deficiencies in other specified funds, the Hospitals will be required to make equal monthly payments to the trustee to restore the amount on deposit therein to the minimum required amount within a 24-month period. No requirement to make such payments existed at December 31, 2012 or 2011.

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Investment income related to unrestricted investments is comprised of the following for the years ended December 31

	<u>2012</u>	<u>2011</u>
Interest and dividends	\$ 654	794
Gain on sale of investments and board-designated investments, net	2,215	3,377
Unrealized gain (loss) on investments and board-designated investments, net	2,903	(4,234)
Unrealized (loss) gain on trustee-held funds	<u>(21)</u>	<u>82</u>
Total investment return	<u>\$ 5,751</u>	<u>19</u>

**(3) Patient Accounts Receivable**

The Hospitals had receivables from third-party payors and others, net of contractual allowances, as follows at December 31

	<u>2012</u>	<u>2011</u>
Medicare	\$ 16,625	14,319
Medicaid	1,818	4,071
Commercial insurance and HMOs	26,136	23,222
Blue Cross	5,850	5,761
Self-pay and others	<u>9,625</u>	<u>8,811</u>
	60,054	56,184
Less allowance for estimated uncollectibles and contractuals	<u>19,428</u>	<u>17,806</u>
Patient accounts receivable, net	<u>\$ 40,626</u>	<u>38,378</u>

Patient service revenue, by payor class, consisted of the following for the years ended December 31

	<u>2012</u>	<u>2011</u>
Medicare	41%	41%
Medicaid	1	2
Commercial insurance and HMOs	38	37
Blue Cross	15	15
Self-pay and others	<u>5</u>	<u>5</u>
	<u>100%</u>	<u>100%</u>

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**(4) Property, Plant, and Equipment**

Property, plant, and equipment are summarized as follows at December 31

	<u>2012</u>	<u>2011</u>
Land	\$ 17,767	17,767
Land improvements	8,312	4,687
Buildings	183,318	181,863
Equipment	134,569	125,373
Leasehold improvements	1,938	1,935
	<u>345,904</u>	<u>331,625</u>
Less accumulated depreciation	<u>161,499</u>	<u>147,191</u>
	184,405	184,434
Construction in process	<u>29,184</u>	<u>7,392</u>
	<u>\$ 213,589</u>	<u>191,826</u>

Depreciation expense for the years ended December 31, 2012 and 2011 was \$14,308 and \$12,929, respectively

**(5) Other Assets**

Other assets consist of the following at December 31

	<u>2012</u>	<u>2011</u>
Deferred financing costs, net	\$ 1,155	1,259
Bed licenses acquired	171	277
Other intangible assets	53	105
	<u>\$ 1,379</u>	<u>1,641</u>

As of December 31, 2010, costs incurred with the issuance of the Series 2008C bonds, approximately \$690 net of amortization, were deferred and are being amortized over the term of the related debt or letters of credit. During 2011, in connection with the refinancing discussed in note 7, \$133 was written off and new financing costs of \$876 were incurred relating to Series 2011 A, B and C. Further, the Hospitals incurred amortization expense of \$104 and \$174 for the years ended December 31, 2012 and 2011, respectively, which is included in the depreciation and amortization line item on the combined statement of operations and changes in net assets.

The costs of the bed licenses acquired associated with the purchase of Fallston General Hospital (FGH) in the amount of \$2,999 was capitalized and is being amortized over its estimated useful life of 28 years.

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These bed licenses were transferred to UCMC when FGH closed in 2000. Accumulated amortization amounted to \$2,828 and \$2,722 at December 31, 2012 and 2011, respectively, and is included in the depreciation and amortization line item on the combined statements of operations and changes in net assets.

Other intangible assets associated with the acquisition of Surgery Pavilion in the amount of \$520 were recorded and are being amortized over their estimated useful life of 10 years. Accumulated amortization amounted to \$467 and \$415 at December 31, 2012 and 2011, respectively, and is included in depreciation and amortization on the combined statements of operations and changes in net assets.

**(6) Line of Credit**

The Hospitals had an unsecured discretionary line of credit agreement, which expires in May 2013, with a bank that permitted the Hospitals to borrow up to \$7,500 at LIBOR plus 125 basis points. There was no outstanding balance at December 31, 2012 and 2011.

**(7) Long-Term Debt**

Long-term debt consists of the following at December 31:

	<u><b>2012</b></u>	<u><b>2011</b></u>
Hospital revenue bonds		
Series 2008 C (due January 1, 2038)	\$ 52,470	53,365
Series 2011A (due January 1, 2043)	50,000	50,000
Series 2011B (due January 1, 2040)	58,330	59,225
Series 2011C (due January 1, 2040)	58,330	59,225
	<u>219,130</u>	<u>221,815</u>
Less amounts not drawn on Series 2011A	<u>29,102</u>	<u>47,442</u>
	190,028	174,373
Less bond discount	<u>549</u>	<u>580</u>
	189,479	173,793
Less current portion	<u>2,980</u>	<u>895</u>
	<u><u>\$ 186,499</u></u>	<u><u>172,898</u></u>

The Series 2008C bonds are fixed rate term bonds obtained pursuant to the Amended and Restated Master Loan Agreement dated August 1, 2008 (the Master Loan Agreement) through the Maryland Health and Higher Educational Facilities Authority (the Authority or MHHEFA), which bear interest at 5.8% at December 31, 2012 and 2011. The Series 2008C Bonds were issued at a discount of \$706. Accumulated amortization amounted to \$157 and \$126 at December 31, 2012 and 2011, respectively. The loan principal is payable annually on January 1 and the loan interest is payable to a trustee semiannually.

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The Series 2008C bonds are subject to mandatory annual sinking fund requirements. The 2013 sinking fund installment amount is \$940. Sinking fund payments vary in increasing amounts from \$940 to \$3,750, with the final installment of \$3,750 due in 2038.

On October 1, 2011, the Obligated Group entered into a Financing Agreement with MHHEFA and a lender for up to \$50,000 of tax exempt Revenue Bonds, Series 2011A. The bonds are designated to support a capital project on the campus of UCMC, and bond proceeds are drawn upon as construction progresses. There was \$20,898 and \$2,558 drawn on the Series 2011A bonds as of December 31, 2012 and 2011, respectively. The Series 2011A bonds bear interest at 3.67% through October 31, 2021, and thereafter at LIBOR plus an applicable spread which is based on prevailing bond rates for similarly rated bonds. Principal payments on the Series 2011A bonds are due in annual installments on January 1 ranging from \$935 in 2014 to \$2,695 in 2043.

On December 1, 2011, MHHEFA issued \$59,225 of tax exempt Revenue Bonds, Series 2011B on behalf of the Obligated Group. Bond proceeds were loaned to the Obligated Group pursuant to a First Supplemental Indenture of Trust and Supplemental Loan Agreement. The Series 2011B bonds bear interest at LIBOR plus 1.15%, subject to prevailing rates on bond spreads. The bond proceeds were used to refund the Series 2008B and a portion of the Series 2008A. Principal payments on the Series 2011B bonds are due in monthly installments ranging from \$85 in 2013 to \$430 in 2040. The Series 2011B bonds are subject to refinancing at the option of the bank in 2021.

On December 1, 2011, MHHEFA issued \$59,225 of tax exempt Revenue Bonds, Series 2011C on behalf of the Obligated Group. Bond proceeds were loaned to the Obligated Group pursuant to a First Supplemental Indenture of Trust and Supplemental Loan Agreement. The Series 2011C bonds bear interest at LIBOR plus 0.95%, subject to prevailing rates on bond spreads. The bond proceeds were used to refund the Series 2008A. Principal payments on the Series 2011C bonds are due in monthly installments ranging from \$85 in 2013 to \$405 in 2040. The Series 2011C bonds are subject to refinancing at the option of the bank in 2017.

Annual principal maturities of long-term liabilities including sinking fund payments at December 31, 2012 are as follows:

2013	\$	2,980
2014		4,040
2015		4,210
2016		4,390
2017		4,585
Thereafter		198,925
	\$	<u>219,130</u>

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The Hospitals are jointly and severally liable under the Master Loan Agreement. Pursuant to the Master Loan Agreement, the Hospitals are required to maintain certain funds on deposit with the trustee as described in note 2. As security for the performance of its obligations under the Master Loan Agreement, the Obligated Group has granted the Authority a security interest in its revenues.

The Obligated Group is also subject to certain qualitative and quantitative financial covenants as defined in the Master Loan Agreement and in the First Supplemental Indenture of Trust and Supplemental Loan Agreements, as long as the bonds are outstanding. The Obligated Group is in compliance with the debt covenants as of December 31, 2012.

Interest payments were \$4.829 and \$4.821 for the years ended December 31, 2012 and 2011, respectively.

The Hospitals use interest rate swaps as a part of its risk management strategy to manage exposure to fluctuations in interest rates and to manage the overall cost of its debt. The interest rate swaps are not used for speculative purposes and are measured at fair value in the combined balance sheet. The fair value of the interest rate swap agreements is the estimated amount that the Hospitals would receive or pay to terminate the swap agreements at the reporting date, taking into account current interest rates and the current creditworthiness of the swap counterparties. The swap agreements are valued based on readily observable market parameters for all substantial terms of the contracts and are therefore categorized as Level 2 securities. The fair market value of the swap agreements is included in other long-term liabilities in the accompanying combined balance sheet.

A derivative instrument (interest rate swap) was entered into in conjunction with the 2007 Series Bond issuance, with a notional amount of \$116.150 at December 31, 2012 at a fixed rate of 3.915% and a floating rate of 67% of one-month LIBOR. The purpose of the swap is to convert variable rate debt to fixed rate debt. The unrealized loss of \$(1.411) and \$(10.265) is included in nonoperating income for the years ended December 31, 2012 and 2011, respectively. The fair value of the interest rate swap was approximately \$(32.710) and \$(31.299) at December 31, 2012 and 2011, respectively, and is included in other long-term liabilities.

A derivative instrument (basis swap) was entered into in 2006 with a notional amount of \$92.540 at December 31, 2012. The unrealized gain of \$1.177 and \$2.114 is included in nonoperating income for the years ended December 31, 2012 and 2011, respectively. The fair value of the basis swap was approximately \$80 and \$(1.097) at December 31, 2012 and 2011, respectively, and is included in other long-term liabilities.

Settlement payments for the years ended December 31, 2012 and 2011 of \$(3.822) and \$(4.023), respectively, are included in the change in the fair value and settlement payments on derivative instruments.



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**(8) Employee Benefit Plans**

***Defined Contribution Plan***

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

For the years ended December 31, 2012 and 2011, the Hospitals' expenses related to the defined contribution plan were approximately \$4,244 and \$3,301, respectively, and are included in the employee benefits line item on the combined statements of operations and changes in net assets.

***Defined Benefit Plan***

The Hospitals participate in a noncontributory defined benefit pension plan (the Plan), administered by UCHS, which covers substantially all employees of HMH, UCMC, UCHF, UCHS and UCSJHC who have completed six months of employment and attained the age of twenty and a half years. UCHS and certain of its subsidiaries make annual contributions to the Plan equal to the minimum funding requirement pursuant to ERISA regulations. UCHS is the plan sponsor and elected to freeze the defined benefit plan on December 31, 2005.

The following tables set forth the changes in the projected benefit obligation, the changes in Plan assets, the Plan's funded status, and amounts recognized in the combined financial statements at December 31.

	<b>2012</b>	<b>2011</b>
Projected benefit obligation, at beginning of year	\$ 63,132	55,567
Actual benefit payments	(1,931)	(1,774)
Loss due to differences between actual and assumed experience	7,072	6,041
Interest cost	3,266	3,298
Projected benefit obligation, at end of year	<u>71,539</u>	<u>63,132</u>
Fair value of plan assets, at beginning of year	52,932	51,725
Contributions	4,199	4,485
Actual benefit payments	(1,931)	(1,774)
Return on plan assets	6,636	(1,504)
Fair value of plan assets, at end of year	<u>61,836</u>	<u>52,932</u>
Funded status	<u>\$ (9,703)</u>	<u>(10,200)</u>

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	<u>2012</u>	<u>2011</u>
Amounts recognized in unrestricted net assets		
Net actuarial loss	\$ (31,949)	(30,986)
Prior service cost	<u>(23)</u>	<u>(32)</u>
Accumulated amount in net assets	\$ <u><u>(31,972)</u></u>	<u><u>(31,018)</u></u>

The estimated amounts that will be amortized from unrestricted net assets into net periodic pension cost in fiscal year ending December 31, 2013 are as follows

Net actuarial loss	\$ 3,542	
Prior service cost	<u>8</u>	
	\$ <u><u>3,550</u></u>	
	<u>2012</u>	<u>2011</u>
Components of net periodic pension costs		
Interest cost	\$ 3,266	3,298
Expected return on plan assets	(4,051)	(4,457)
Loss	3,524	2,238
Net amortization and deferral	<u>8</u>	<u>8</u>
Net periodic pension cost	\$ <u><u>2,747</u></u>	<u><u>1,087</u></u>

Assumptions used to determine benefit obligations as of December 31, 2012 and 2011 were as follows discount rate of 4.48% and 5.27% in 2012 and 2011, respectively, and expected long-term rate of return on assets of 7.50% and 8.50% in 2012 and 2011, respectively. Salary increases are not applicable to 2012 and 2011 because the Plan was frozen on December 31, 2005.

Assumptions used to determine net costs for 2012 and 2011 were as follows discount rate of 5.27% and 6.05% in 2012 and 2011, respectively, and expected long-term rate of return on assets of 7.50% and 8.50% in 2012 and 2011, respectively.

The overall long-term rate of return was developed by estimating the expected long-term real return for each asset class within the portfolio, computing an average weighted real rate of return for the portfolio as a whole, reflecting both the Plan's expected asset class allocation and the correlations between the various asset classes and adding that expected real rate of return to the expected long-term rate of inflation. The expected long-term rate of return reflects an expected real rate of return and an underlying inflation component per year.

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The investment objective of the Plan is to produce a rate of return as determined by the Plan actuary. The Plan is diversified into equities, fixed income obligations, and cash and cash equivalents, so as to provide a reasonable assurance that no single security or class of securities will have a disproportionate impact on the Plan's rate of return. Equity securities are targeted at 55% with a range from 40% to 70%. Fixed income obligations and cash equivalents are targeted at 30% with a range from 10% to 50%. Periodic rebalancing takes place to maintain the desired allocation. Management may change these allocations at its discretion, although such changes are likely to occur infrequently.

The Plan's asset allocation at December 31, by asset category, is as follows:

	<u>2012</u>	<u>2011</u>
Asset category		
Cash and equivalents	4%	7%
Common/preferred stock and mutual funds	57	52
Government bonds	9	11
Corporate bonds	30	30
Total	<u>100%</u>	<u>100%</u>

The following tables present the Plan's assets measured at fair value at December 31, 2012 and 2011:

	<u>2012</u>			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Assets				
Cash and cash equivalents	\$ 2,540	—	—	2,540
Common/preferred stock	21,780	—	—	21,780
Equity mutual funds and exchange traded funds	13,460	—	—	13,460
U.S. agency mortgage-backed and asset-backed securities	232	—	—	232
Corporate bonds	18,320	—	—	18,320
U.S. government obligations	5,008	—	—	5,008
Municipal bonds	496	—	—	496
Total assets	<u>\$ 61,836</u>	<u>—</u>	<u>—</u>	<u>61,836</u>

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(Dollars in thousands)

	2011			
	Level 1	Level 2	Level 3	Total
Assets				
Cash and cash equivalents	\$ 3,975	—	—	3,975
Common/preferred stock	17,558	—	—	17,558
Equity mutual funds and exchange traded funds	9,839	—	—	9,839
U S agency mortgage-backed and asset-backed securities	4,074	—	—	4,074
Corporate bonds	15,693	—	—	15,693
U S government obligations	1,237	—	—	1,237
Municipal bonds	556	—	—	556
Total assets	\$ 52,932	—	—	52,932

Equity and debt securities and fixed income obligations are measured using quoted market prices at the reporting date multiplied by the quantity held. Mortgage and asset-backed securities are measured using quoted market prices at the reporting date multiplied by the quantity held.

The Hospitals expect to contribute \$4,000 to the Plan in 2013.

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid from plan assets:

Fiscal years	Expected benefit payments
2013	\$ 2,519
2014	2,741
2015	2,998
2016	3,240
2017	3,444
2018 – 2022	19,933

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

**(a) *Regulation and Reimbursement***

The Hospitals provide general acute healthcare services. The Hospitals and other healthcare providers in Maryland are subject to certain inherent risks, including the following:

- Dependence on revenues derived from reimbursement by the federal Medicare and state Medicaid programs
- Regulation of hospital rates by the HSCRC
- Government regulation, government budgetary constraints, and proposed legislative and regulatory changes
- Lawsuits alleging malpractice and related claims

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

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

The healthcare industry is also subject to numerous laws and regulations from federal, state and local governments, and the government has aggressively increased enforcement of Medicare and Medicaid anti-fraud and abuse laws. The Hospitals' compliance with these laws and regulations is subject to periodic governmental review, which could result in enforcement actions unknown or unasserted at this time. Noncompliance with such laws and regulations could result in repayments of amounts improperly reimbursed, substantial monetary fines, civil and criminal penalties, and exclusion from Medicare and Medicaid programs.

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

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As a result of recently enacted and pending federal healthcare reform legislation, substantial changes are anticipated in the United States healthcare system. Such legislation includes numerous provisions affecting the delivery of healthcare services, the financing of healthcare costs, reimbursement to healthcare providers and the legal obligations of health insurers, providers and employers. These provisions are currently slated to take effect at specified times over the next decade. This federal healthcare reform legislation did not affect the 2012 or 2011 combined financial statements.

**(b) Malpractice**

Claims alleging malpractice have been asserted against the Hospitals and are currently in various stages of litigation. Additional claims may be asserted arising from services provided to patients through December 31, 2012.

On October 1, 2005, the Hospitals entered into an insurance agreement whereby the malpractice claims are being administered through a captive insurance company (Upper Chesapeake Insurance Company LTD or the Captive) domiciled in the Cayman Islands, which is wholly owned by UCHS. The Captive is managed by Kane, a management company based in the Cayman Islands. The Hospitals incurred premiums for claims-made insurance policies of \$3,997 and \$3,379 for the years ended December 31, 2012 and 2011, respectively. Retention limits on which the Captive assumes the risk of loss are based on an annual occurrence basis of \$1,000 per occurrence and \$6,000 in the aggregate.

The Hospitals have accrued \$2,922 and \$2,505 at December 31, 2012 and 2011, respectively, for claims that are incurred but not reported. These balances are recorded in accrued salaries, benefits and other in the accompanying combined balance sheet.

As discussed in note 1(w), the Hospitals recorded an additional accrual for medical malpractice claims which resulted in an additional liability and related intercompany receivable of \$15,186 and \$11,428 at December 31, 2012 and 2011, respectively.

In the opinion of management, based upon information provided by its advisors, estimated malpractice costs accrued at December 31, 2012 and 2011 are adequate to provide for potential losses resulting from pending or threatened litigation or for losses incurred but not reported claims.

**(c) Welfare Benefit Plan**

The Hospitals participate in a welfare benefit plan established by UCHS effective January 1, 1998. The purpose of this plan is to provide eligible employees and their dependents with coverage for hospital and medical expenses on a self-insured basis, subject to risk retention limits, and to provide dental and vision benefits pursuant to specified insurance policies and contracts. An estimate for incurred-but-not-reported health insurance claims of \$1,719 and \$1,403 has been accrued and recorded in accrued salaries, benefits, and other in the accompanying combined balance sheets at December 31, 2012 and 2011, respectively.

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**(d) *Workers' Compensation***

The Hospitals participate in a self-insured plan for workers' compensation claims. Stop-loss coverage has been purchased through a commercial insurer for claims in excess of \$500. Accrued claims of \$2.913 and \$3.046 include estimates for incidents incurred but not reported and are included in accrued salaries, benefits, and other in the accompanying combined balance sheets at December 31, 2012 and 2011, respectively. The Hospitals maintain a surety bond in the amount of \$4.200 and a letter of credit in the amount of \$1.680 to secure payments on the outstanding workers' compensation claims as required by the State of Maryland Workers' Compensation Commission.

**(e) *Unemployment***

The Hospitals maintain a letter of credit in the amount of \$1.255 for the purpose of securing unemployment benefit payments as required by the State of Maryland.

**(f) *Litigation***

From time to time, the Hospitals are involved in litigation and regulatory investigations arising in the course of business. After consultation with legal counsel, management estimates that these matters will be resolved without material adverse effect on the Hospitals' future financial position or results of operations.

**(g) *Asset Retirement Obligation***

The Hospitals have recorded an Asset Retirement Obligation (ARO) for asbestos removal. The liability is recognized at its net present value with a corresponding increase to the carrying amount of the long-lived asset to which the ARO relates. The estimated asbestos removal costs are \$1.212 and \$1.303 as of December 31, 2012 and 2011, respectively, and are included in other long-term liabilities. During 2012, there were payments made of \$109 related to asbestos removal, along with annual accretion of \$17.

**(10) *Leases***

The Hospitals have several operating lease agreements for office space, computer and medical equipment, office machines and vehicles. Total rent expense recorded by the Hospitals under these leases was approximately \$3.828 and \$4.619 for the years ended December 31, 2012 and 2011, respectively.

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Future rental payments under noncancelable operating leases with durations in excess of one year are as follows

2013	\$	3,560
2014		2,483
2015		1,440
2016		375
2017		43
	\$	<u>7,901</u>

**(11) Charity Care, Bad Debt and Other Deductions from Revenue**

The Hospitals provide care to patients regardless of their ability to pay. In identifying charity care, the Hospitals assess the patient's ability to pay, utilizing generally recognized poverty income levels for the community, and identify certain cases where incurred charges are considered to be beyond the patient's ability to pay. The Hospitals maintain records to identify and monitor the level of charity care they provide. These records reflect the amount of charges forgone under their charity care policy and amounted to approximately \$7.829 and \$7.214 for the years ended December 31, 2012 and 2011, respectively. The total direct and indirect costs to provide the care amounted to approximately \$5.835 and \$5.331 for the years ended December 31, 2012 and 2011, respectively.

In addition to the direct charity care noted above, all patients covered by the Medicare and Medicaid and other third-party payors programs are accepted. These programs reimburse the Hospitals at less than the established charges for services provided to recipients. During 2012, the state instituted a charge based on the amount of revenue covered by hospitals for Medicaid Services rendered (Medicaid Assessment). The difference between the charges for these services and the related reimbursement amounts for these and other third-party payors are as follows for the years ended December 31

	<u>2012</u>	<u>2011</u>
Medicare	\$ 25,826	20,806
Medicaid	436	606
Other third-party payors	6,365	4,711
	\$ <u>32,627</u>	<u>26,123</u>

The Hospitals also provide free services to the community through their "Healthlink" program. The "Healthlink" program provides health information, wellness programs, health screenings, and educational programs.

Patient accounts receivable are reduced by an allowance for bad debts. In evaluating the collectability of accounts receivable, the Hospitals analyze historical collections and write-offs and identify trends for each of its major payor sources of revenue to estimate the appropriate allowance for bad debts and provision for



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bad debts. Management regularly reviews data about these major payor sources of revenue in evaluating the sufficiency of the allowance for bad debts. For receivables associated with services provided to patients who have third-party coverage, the Hospitals analyze contractually due amounts and provide an allowance for bad debts, allowance for contractual adjustments, provision for bad debts, and contractual adjustments on accounts for which the third-party payor has not yet paid or for payors who are known to be having financial difficulties that make the realization of amounts due unlikely. For receivables associated with self-pay patients or with balances remaining after the third-party coverage has already paid, the Hospitals record a significant provision for bad debts in the period of service on the basis of its historical collections, which indicates that many patients are unwilling to pay the portion of their bill for which they are financially responsible. The difference between the discounted rates and the amounts collected after all reasonable collection efforts have been exhausted is charged off against the allowance for bad debts.

	<u>2012</u>	<u>2011</u>
Beginning allowance and contractals	\$ (17,806)	(11,381)
Plus provision for bad debt	(21,191)	(23,124)
Less bad debt write-offs and contractals	<u>19,569</u>	<u>16,699</u>
Ending allowance and contractals	<u>\$ (19,428)</u>	<u>(17,806)</u>

The change in the allowance for bad debts during 2012 is attributable to increased patient volumes in 2012, and trends experienced in the collection of the related patient receivables.

**(12) Related-Party Transactions**

UCHS provides management, promotion, and other support services to the Hospitals. Fees relating to such services are allocated to these entities based on management's estimate of UCHS resources consumed at each entity. Such services were allocated 84.0% and 88.5% to the Hospitals in 2012 and 2011, respectively. Fees to UCHS included in other operating expenses were \$11,624 and \$10,823 in 2012 and 2011, respectively.

UCMS provides physician and other support services to the Hospitals. Fees to UCMS included in operating expenses were \$3,447 and \$3,535 for the years ended December 31, 2012 and 2011, respectively. The Obligated Group transferred \$13,511 and \$10,024 during 2012 and 2011, respectively, to UCMS, representing an equity contribution. The Hospitals have entered into an agreement with a bank whereby the Hospitals are the guarantor for an unsecured discretionary line of credit agreement between the bank and UCMS. The line of credit agreement permits UCMS to borrow up to \$3,500. The amount outstanding under this agreement was \$1,200 as of December 31, 2012 and 2011, respectively.

UCHF contributed \$552 and \$701 to the Hospitals for capital improvements and equipment purchases for the years ended December 31, 2012 and 2011, respectively. These amounts are presented as contributions for purchases of property and equipment in the combined financial statements.

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On December 31, 2011, UCP, which supports the provision of healthcare services at HMH, contributed property with a book value of \$2.292 to the Obligated Group

The Obligated Group recognizes its rights to assets held by recipient organizations, which accept cash or other financial assets from a donor and agree to use those assets on behalf of or transfer those assets, the return on investment of those assets, or both, to the Obligated Group. In 2011 UCF embarked on the campaign for the Cancer Center at Upper Chesapeake Health. The contributions will be used for the benefit of the Cancer Center which will be on the campus of UCMC. As such, the Obligated Group recorded an economic interest in the net assets of UCF of \$11,390 and \$7,007 for the years ended December 31, 2012 and 2011, respectively. The donor restricted gifts are included as an increase in temporarily restricted net assets in the combined statement of operations and changes in net assets.

Net amounts receivable from (payable to) affiliates at December 31 are summarized as follows:

	<b>2012</b>	<b>2011</b>
UCHS and subsidiary	\$ 19,983	3,951
UCLD	—	3,341
UCMS	5,630	6,465
Captive	309	11,684
UCRHH	324	366
UCP	1	64
UCHV	(1,456)	339
UCF	2,713	1,549
	<u>\$ 27,504</u>	<u>27,759</u>

**(13) Fair Value Measurements**

**(a) Fair Value of Financial Instruments**

The fair value of a financial instrument is the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Those fair value measurements maximize the use of observable inputs. However, in situations where there is little, if any, market activity for the asset or liability at the measurement date, the fair value measurement reflects the Hospitals own judgments about the assumptions that market participants would use in pricing the asset or liability. Those judgments are developed by the Hospitals based on the best information available in the circumstances.

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(Dollars in thousands)

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

*Cash and cash equivalents, accounts receivable, due from affiliates, other assets, accounts payable, advances from third-party payors, due to affiliates, and accrued expenses* The carrying amounts, at face value or cost plus accrued interest, approximate fair value because of the short maturity of these instruments

*Board-designated and other investments* Equity and debt securities classified as trading and fixed income obligations are measured using quoted market prices at the reporting date multiplied by the quantity held Mortgage and asset-backed securities are measured using quoted market prices at the reporting date multiplied by the quantity held

*Derivative instruments* The fair value of derivative instruments is determined using pricing models developed based on the LIBOR swap rate and other observable market data The value was determined after considering the potential impact of collateralization and netting agreements, adjusted to reflect nonperformance risk of both the counterparty and the Obligated Group

**(b) Long-Term Debt**

The Series 2008C and Series 2011A, B and C bonds bear interest at variable rate and fixed rates and, at December 31, 2012, had a fair value of \$195.877 The fair value of the outstanding debt at December 31, 2011 was \$178.676

The fair value of the Hospitals' long-term debt is measured using quoted offered-side prices when quoted market prices are available If quoted market prices are not available, the fair value is determined by discounting the future cash flows of each instrument at rates that reflect, among other things, market interest rates and the Hospitals' credit standing In determining an appropriate spread to reflect its credit standing, the Hospitals consider credit default swap spreads, bond yields of other long-term debt offered by the Hospitals, and interest rates currently offered to the Hospitals for similar debt instruments of comparable maturities by the Hospitals' bankers as well as other banks that regularly compete to provide financing to the Hospitals

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**(c) Fair Value Hierarchy**

The following tables present assets and liabilities that are measured at fair value on a recurring basis at December 31, 2012 and 2011

		2012			
		Level 1	Level 2	Level 3	Total
<b>Assets</b>					
Cash and cash equivalents	\$	11,499	—	—	11,499
Common/preferred stock		17,422	—	—	17,422
Equity mutual funds and exchange traded funds		19,082	—	—	19,082
U S agency mortgage-backed and asset-backed securities		13,544	—	—	13,544
Corporate bonds		27,231	—	—	27,231
U S government obligations		4,924	—	—	4,924
Municipal bonds		1,103	—	—	1,103
Total assets	\$	94,805	—	—	94,805
<b>Liabilities</b>					
Derivative instruments	\$	—	32,630	—	32,630
		2011			
		Level 1	Level 2	Level 3	Total
<b>Assets</b>					
Cash and cash equivalents	\$	13,258	—	—	13,258
Common/preferred stock		14,495	—	—	14,495
Equity mutual funds and exchange traded funds		14,410	—	—	14,410
U S agency mortgage-backed and asset-backed securities		13,506	—	—	13,506
Corporate bonds		22,243	1,203	—	23,446
U S government obligations		9,807	—	—	9,807
Municipal bonds		636	—	—	636
Total assets	\$	88,355	1,203	—	89,558
<b>Liabilities</b>					
Derivative instruments	\$	—	32,396	—	32,396

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The Hospitals' accounting policy is to recognize transfers between levels of the fair value hierarchy on the date of the event or change in circumstances that caused the transfer. There were no significant transfers into or out of Level 1 or Level 2 for the year ended December 31, 2012.

**(14) Functional Expenses**

The Hospitals provide general healthcare services to residents within their geographic locations. Expenses related to providing these services, based on management's estimates of expense allocations, are as follows for the years ended December 31:

	<u><b>2012</b></u>	<u><b>2011</b></u>
Healthcare services	\$ 253,196	229,503
General and administrative	<u>56,186</u>	<u>49,626</u>
	<u><u>\$ 309,382</u></u>	<u><u>279,129</u></u>

**(15) Subsequent Events**

The Hospitals evaluated all events and transactions that occurred after December 31, 2012 and through April 26, 2013. The Hospitals did not have any material recognizable subsequent events during this period.

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Combining Balance Sheet Information

December 31, 2012

(In thousands)

<b>Assets</b>	<b>Upper Chesapeake Medical Center, Inc.</b>	<b>Harford Memorial Hospital, Inc.</b>	<b>Eliminations</b>	<b>Combined</b>
Current assets				
Cash and cash equivalents	\$ 18,588	18,485	—	37,073
Current portion of assets held by trustee	2,153	410	—	2,563
Board-designated and other investments	41,529	—	—	41,529
Patient accounts receivable, net	27,904	12,722	—	40,626
Prepaid expenses and other current assets	8,600	3,897	—	12,497
Total current assets	98,774	35,514	—	134,288
Due from affiliates	62,105	4,405	(37,550) (a)	28,960
Assets held by trustee, less current portion	3,397	647	—	4,044
Board designated and other investments, less current portion	—	49,268	—	49,268
Property, plant, and equipment, net	176,482	37,107	—	213,589
Economic interest in net assets of foundation	11,390	—	—	11,390
Other assets	1,263	116	—	1,379
Total assets	\$ 353,411	127,057	(37,550)	442,918
<b>Liabilities and Net Assets</b>				
Current liabilities				
Accounts payable	\$ 13,204	9,389	—	22,593
Accrued salaries, benefits and other	17,378	9,068	—	26,446
Current portion of long-term debt	2,489	491	—	2,980
Advances from third-party payors	5,794	1,728	—	7,522
Total current liabilities	38,865	20,676	—	59,541
Due to affiliates	1,456	37,550	(37,550) (a)	1,456
Long-term debt, less current portion	160,030	26,469	—	186,499
Other long-term liabilities	53,817	5,274	—	59,091
Pension liability	6,792	2,911	—	9,703
Total liabilities	260,960	92,880	(37,550)	316,290
Unrestricted net assets	81,061	34,177	—	115,238
Temporarily restricted net assets	11,390	—	—	11,390
Total net assets	92,451	34,177	—	126,628
Total liabilities and net assets	\$ 353,411	127,057	(37,550)	442,918

Combining eliminations

(a) Eliminate intercompany receivables and payables

See accompanying independent auditors' report

**HARFORD MEMORIAL HOSPITAL, INC. AND  
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Combining Statement of Operations Information

Year ended December 31, 2012

(In thousands)

	<b>Upper Chesapeake Medical Center, Inc.</b>	<b>Harford Memorial Hospital, Inc.</b>	<b>Combined</b>
Operating activities			
Unrestricted revenues, gains, and other support			
Patient service revenue (net of contractual allowances and discounts)	\$ 249,533	92,197	341,730
Provision for bad debts	(12,082)	(9,109)	(21,191)
Net patient service revenue	237,451	83,088	320,539
Other	7,548	3,412	10,960
Total unrestricted revenues, gains, and other support	244,999	86,500	331,499
Expenses			
Salaries	84,042	37,744	121,786
Employee benefits	20,657	9,309	29,966
Supplies and other operating expenses	106,627	31,050	137,677
Depreciation and amortization	10,567	4,019	14,586
Interest and amortization	3,959	1,408	5,367
Total expenses	225,852	83,530	309,382
Operating income	19,147	2,970	22,117
Nonoperating income			
Investment income	454	5,297	5,751
Change in the fair value and settlement payments on derivative instruments	(4,056)	—	(4,056)
Nonoperating income (loss)	(3,602)	5,297	1,695
Excess of revenues over expenses	15,545	8,267	23,812
Other changes in unrestricted net assets			
Contributions for purchases of property and equipment	377	1,094	1,471
Pension – related changes other than net periodic pension cost	(668)	(286)	(954)
Transfers (to) from affiliates, net	(13,916)	129	(13,787)
Increase in unrestricted net assets	1,338	9,204	10,542
Changes in temporarily restricted net assets			
Donor restricted gifts	4,383	—	4,383
Increase in temporarily restricted net assets	4,383	—	4,383
Net assets, beginning of year	86,732	24,971	111,703
Net assets, end of year	\$ 92,453	34,175	126,628

See accompanying independent auditors' report