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Form **990**

Department of the Treasury
Internal Revenue Service

Return of Organization Exempt From Income Tax

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

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

OMB No 1545-0047

2012

Open to Public Inspection

A For the 2012 calendar year, or tax year beginning 07-01-2012 , 2012, and ending 06-30-2013

B Check if applicable
- ☐ Address change
- ☐ Name change
- ☐ Initial return
- ☐ Terminated
- ☐ Amended return
- ☐ Application pending

C Name of organization
FRANKLIN SQUARE HOSPITAL CENTER INC

Doing Business As
MEDSTAR FRANKLIN SQUARE MEDICAL CTR

Number and street (or P O box if mail is not delivered to street address) | Room/suite
9000 FRANKLIN SQUARE DRIVE
Suite

City or town, state or country, and ZIP + 4
BALTIMORE, MD 21237

D Employer identification number
52-0608007

E Telephone number
(410)772-6719

G Gross receipts $ 458,855,565

F Name and address of principal officer
Adrienne Kirby
9000 Franklin Square Drive
Baltimore, MD 21237

H(a) Is this a group return for affiliates? ☐ Yes ☑ No

H(b) Are all affiliates included? ☐ Yes ☐ No
If "No," attach a list (see instructions)

H(c) Group exemption number ▶

I Tax-exempt status ☑ 501(c)(3) ☐ 501(c) ( ) ◀ (insert no) ☐ 4947(a)(1) or ☐ 527

J Website: ▶ WWW FRANKLINSQUARE ORG

K Form of organization ☑ Corporation ☐ Trust ☐ Association ☐ Other ▶

L Year of formation 1898

M State of legal domicile MD

Part I Summary

1 Briefly describe the organization's mission or most significant activities
MEDSTAR FRANKLIN SQUARE MEDICAL CENTER, A MEMBER OF MEDSTAR HEALTH, PROVIDES THE HIGHEST QUALITY HEALTHCARE AND EDUCATION TO OUR COMMUNITIES

2 Check this box ▶☐ if the organization discontinued its operations or disposed of more than 25% of its net assets

3	Number of voting members of the governing body (Part VI, line 1a)	**3**	22
4	Number of independent voting members of the governing body (Part VI, line 1b)	**4**	18
5	Total number of individuals employed in calendar year 2012 (Part V, line 2a)	**5**	4,159
6	Total number of volunteers (estimate if necessary)	**6**	400
7a	Total unrelated business revenue from Part VIII, column (C), line 12	**7a**	0
b	Net unrelated business taxable income from Form 990-T, line 34	**7b**	

		Prior Year	Current Year
8	Contributions and grants (Part VIII, line 1h)	1,554,945	1,181,245
9	Program service revenue (Part VIII, line 2g)	476,231,442	452,184,727
10	Investment income (Part VIII, column (A), lines 3, 4, and 7d)	12,182	99,356
11	Other revenue (Part VIII, column (A), lines 5, 6d, 8c, 9c, 10c, and 11e)	3,185,246	5,390,237
12	Total revenue—add lines 8 through 11 (must equal Part VIII, column (A), line 12)	480,983,815	458,855,565
13	Grants and similar amounts paid (Part IX, column (A), lines 1–3)	0	0
14	Benefits paid to or for members (Part IX, column (A), line 4)	0	0
15	Salaries, other compensation, employee benefits (Part IX, column (A), lines 5–10)	232,143,143	242,954,088
16a	Professional fundraising fees (Part IX, column (A), line 11e)	0	0
b	Total fundraising expenses (Part IX, column (D), line 25) ▶0		
17	Other expenses (Part IX, column (A), lines 11a–11d, 11f–24e)	233,809,279	211,879,258
18	Total expenses Add lines 13–17 (must equal Part IX, column (A), line 25)	465,952,422	454,833,346
19	Revenue less expenses Subtract line 18 from line 12	15,031,393	4,022,219

		Beginning of Current Year	End of Year
20	Total assets (Part X, line 16)	310,089,431	295,979,507
21	Total liabilities (Part X, line 26)	78,798,968	78,972,768
22	Net assets or fund balances Subtract line 21 from line 20	231,290,463	217,006,739

Part II Signature Block

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

Sign Here

****** | 2014-05-08
Signature of officer | Date

MARC R BERGER AVP, TAXATION/FINANCIAL
Type or print name and title

Paid Preparer Use Only

Print/Type preparer's name	Preparer's signature	Date	Check ☐ if self-employed	PTIN
Firm's name ▶ KPMG LLP			Firm's EIN ▶	
Firm's address ▶ 1676 International Drive McLean, VA 22102			Phone no (703) 286-8000	

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

Part III Statement of Program Service Accomplishments

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

1 Briefly describe the organization's mission

AS A PROUD MEMBER OF MEDSTAR HEALTH, MEDSTAR FRANKLIN SQUARE MEDICAL CENTER'S (MFSMC) MISSION IS TO PROVIDE SAFE, HIGH QUALITY CARE, EXCELLENT SERVICE, AND EDUCATION TO IMPROVE THE HEALTH OF THE COMMUNITY MFSMC IS AN ACUTE-CARE TEACHING HOSPITAL LOCATED IN EASTERN BALTIMORE COUNTY, MARYLAND MFSMC IS THE LARGEST COMMUNITY TEACHING HOSPITAL IN MARYLAND AND OFFERS A FULL RANGE OF SERVICES FOR CHILDREN AND ADULTS A SEVEN-STORY PATIENT TOWER WITH 291 PRIVATE PATIENT ROOMS WAS COMPLETED IN NOVEMBER 2010 AND INCLUDES A NEW EMERGENCY DEPARTMENT WHICH IS ONE OF THE BUSIEST IN THE STATE THE HOSPITAL'S CANCER INSTITUTE IS A 64,000 SQUARE FOOT FACILITY PROVIDING CANCER PATIENTS AND THEIR FAMILIES WITH A BROAD RANGE OF ONCOLOGY SERVICES, INCLUDING SCREENING, DIAGNOSIS AND TREATMENT IN FISCAL YEAR 2013, MFSMC HAD 24,370 INPATIENT ADMISSIONS, 286,886 OUTPATIENT VISITS, AND 111,258 EMERGENCY VISITS

2 Did the organization undertake any significant program services during the year which were not listed on the prior Form 990 or 990-EZ? . . . . . ☐ Yes ☑ No

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

3 Did the organization cease conducting, or make significant changes in how it conducts, any program services? . . . . . ☐ Yes ☑ No

If "Yes," describe these changes on Schedule O

4 Describe the 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 $ 353,095,623 including grants of $ 0) (Revenue $ 432,990,356)

MEDSTAR FRANKLIN SQUARE MEDICAL CENTER'S LARGEST PROGRAM IS ACCESS TO AND THE PROVISION OF ACUTE HOSPITAL SERVICES TO THE COMMUNITIES OF EASTERN BALTIMORE COUNTY, MARYLAND AND THE SURROUNDING AREAS IN ADDITION TO THE PROGRAM SERVICE EXPENSES LISTED ABOVE, MFSMC INCURRED $63 6M OF MANAGEMENT AND GENERAL EXPENSES IN PROVIDING SERVICES TO ITS COMMUNITIES FOR ADDITIONAL INFORMATION, SEE SCHEDULE O

4b (Code) (Expenses $ 22,711,758 including grants of $ 0) (Revenue $ 19,194,371)

MEDSTAR FRANKLIN SQUARE MEDICAL CENTER PROVIDED $22 7M IN SUBSIDIZED (MISSION DRIVEN) HEALTH SERVICES IN FISCAL YEAR 2013 THESE CRITICAL SERVICES, WHICH ARE DRIVEN BY COMMUNITY NEEDS, OPERATE AT A LOSS THEY ADDRESS PRIORITIES PRIMARILY THROUGH DISEASE PREVENTION AND IMPROVEMENT OF HEALTH STATUS SERVICES INCLUDE OPERATION AND MANAGEMENT OF THE FAMILY HEALTH CENTER, HOMELESS HEALTH SERVICES, PRIMARY CARE SERVICES, HOSPITALISTS, AND EMERGENCY AND TRAUMA SERVICES

4c (Code) (Expenses $ 15,455,121 including grants of $ 0) (Revenue $ 0)

MEDSTAR FRANKLIN SQUARE MEDICAL CENTER PROVIDED $15 5M IN HEALTH PROFESSIONS EDUCATION IN FISCAL YEAR 2013 THIS CATEGORY INCLUDES TRAINING IN GRADUATE MEDICAL EDUCATION, AND EDUCATION FOR PHYSICIANS, MEDICAL STUDENTS, NURSES, AND OTHER HEALTH PROFESSIONS

4d Other program services (Describe in Schedule O)

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

4e **Total program service expenses** ▶ 391,262,502

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	**Section 501(c)(3) organizations.** Did the organization engage in lobbying activities, or have a section 501(h) election in effect during the tax year? *If "Yes," complete Schedule C, Part II*	4		No
5	Is the organization a section 501(c)(4), 501(c)(5), or 501(c)(6) organization that receives membership dues, assessments, or similar amounts as defined in Revenue Procedure 98-19? *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		No
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? *If "Yes," complete Schedule I, Parts I and II*	**21**		No
22	Did the organization report more than $5,000 of grants and other assistance to individuals in the United States on Part IX, column (A), line 2? *If "Yes," complete Schedule I, Parts I and III*	**22**		No
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? *If "Yes," complete Schedule J*	**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? *If "Yes," answer lines 24b through 24d and complete Schedule K. If "No," go to line 25*	**24a**		No
b	Did the organization invest any proceeds of tax-exempt bonds beyond a temporary period exception?	**24b**		
c	Did the organization maintain an escrow account other than a refunding escrow at any time during the year to defease any tax-exempt bonds?	**24c**		
d	Did the organization act as an "on behalf of" issuer for bonds outstanding at any time during the year?	**24d**		
25a	**Section 501(c)(3) and 501(c)(4) organizations.** Did the organization engage in an excess benefit transaction with a disqualified person during the year? *If "Yes," complete Schedule L, Part 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? *If "Yes," complete Schedule L, Part 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? *If "Yes," complete Schedule L, Part II*	**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? *If "Yes," complete Schedule L, Part III*	**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? *If "Yes," complete Schedule L, Part IV*	**28a**		No
b	A family member of a current or former officer, director, trustee, or key employee? *If "Yes," complete Schedule L, Part IV*	**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? *If "Yes," complete Schedule L, Part IV*	**28c**	Yes	
29	Did the organization receive more than $25,000 in non-cash contributions? *If "Yes," complete Schedule M*	**29**		No
30	Did the organization receive contributions of art, historical treasures, or other similar assets, or qualified conservation contributions? *If "Yes," complete Schedule M*	**30**		No
31	Did the organization liquidate, terminate, or dissolve and cease operations? *If "Yes," complete Schedule N, Part I*	**31**		No
32	Did the organization sell, exchange, dispose of, or transfer more than 25% of its net assets? *If "Yes," complete Schedule N, Part II*	**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? *If "Yes," complete Schedule R, Part I*	**33**	Yes	
34	Was the organization related to any tax-exempt or taxable entity? *If "Yes," complete Schedule R, Part II, III, or IV, and Part V, line 1*	**34**	Yes	
35a	Did the organization have a controlled entity within the meaning of section 512(b)(13)?	**35a**	Yes	
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)? *If "Yes," complete Schedule R, Part V, line 2*	**35b**	Yes	
36	**Section 501(c)(3) organizations.** Did the organization make any transfers to an exempt non-charitable related organization? *If "Yes," complete Schedule R, Part V, line 2*	**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? *If "Yes," complete Schedule R, Part VI*	**37**		No
38	Did the organization complete Schedule O and provide explanations in Schedule O for Part VI, lines 11b and 19? **Note.** All Form 990 filers are required to complete Schedule O	**38**	Yes	

Part V Statements Regarding Other IRS Filings and Tax Compliance

Check if Schedule O contains a response to any question in this Part V . . . . . ☐

				Yes	No
1a	Enter the number reported in Box 3 of Form 1096 Enter -0- if not applicable . .	1a	0		
b	Enter the number of Forms W-2G included in line 1a *Enter -0-* if not applicable	1b	0		
c	Did the organization comply with backup withholding rules for reportable payments to vendors and reportable gaming (gambling) winnings to prize winners?		1c	Yes	
2a	Enter the number of employees reported on Form W-3, Transmittal of Wage and Tax Statements, filed for the calendar year ending with or within the year covered by this return	2a	4,159		
b	If at least one is reported on line 2a, did the organization file all required federal employment tax returns? **Note.** If the sum of lines 1a and 2a is greater than 250, you may be required to e-file (see instructions)		2b	Yes	
3a	Did the organization have unrelated business gross income of $1,000 or more during the year? . . .		3a		No
b	If "Yes," has it filed a Form 990-T for this year? *If "No," provide an explanation in Schedule O*		3b		
4a	At any time during the calendar year, did the organization have an interest in, or a signature or other authority over, a financial account in a foreign country (such as a bank account, securities account, or other financial account)?		4a		No
b	If "Yes," enter the name of the foreign country ▶ _____ See instructions for filing requirements for Form TD F 90-22 1, Report of Foreign Bank and Financial Accounts				
5a	Was the organization a party to a prohibited tax shelter transaction at any time during the tax year? . .		5a		No
b	Did any taxable party notify the organization that it was or is a party to a prohibited tax shelter transaction?		5b		No
c	If "Yes," to line 5a or 5b, did the organization file Form 8886-T?		5c		
6a	Does the organization have annual gross receipts that are normally greater than $100,000, and did the organization solicit any contributions that were not tax deductible as charitable contributions? . . .		6a		No
b	If "Yes," did the organization include with every solicitation an express statement that such contributions or gifts were not tax deductible?		6b		
7	**Organizations that may receive deductible contributions under section 170(c).**				
a	Did the organization receive a payment in excess of $75 made partly as a contribution and partly for goods and services provided to the payor?		7a	Yes	
b	If "Yes," did the organization notify the donor of the value of the goods or services provided?		7b	Yes	
c	Did the organization sell, exchange, or otherwise dispose of tangible personal property for which it was required to file Form 8282?		7c		No
d	If "Yes," indicate the number of Forms 8282 filed during the year	7d			
e	Did the organization receive any funds, directly or indirectly, to pay premiums on a personal benefit contract?		7e		No
f	Did the organization, during the year, pay premiums, directly or indirectly, on a personal benefit contract? . .		7f		No
g	If the organization received a contribution of qualified intellectual property, did the organization file Form 8899 as required?		7g		
h	If the organization received a contribution of cars, boats, airplanes, or other vehicles, did the organization file a Form 1098-C?		7h		
8	**Sponsoring organizations maintaining donor advised funds and section 509(a)(3) supporting organizations.** Did the supporting organization, or a donor advised fund maintained by a sponsoring organization, have excess business holdings at any time during the year?		8		
9	**Sponsoring organizations maintaining donor advised funds.**				
a	Did the organization make any taxable distributions under section 4966?		9a		
b	Did the organization make a distribution to a donor, donor advisor, or related person?		9b		
10	**Section 501(c)(7) organizations.** Enter				
a	Initiation fees and capital contributions included on Part VIII, line 12 . . .	10a			
b	Gross receipts, included on Form 990, Part VIII, line 12, for public use of club facilities	10b			
11	**Section 501(c)(12) organizations.** Enter				
a	Gross income from members or shareholders	11a			
b	Gross income from other sources (Do not net amounts due or paid to other sources against amounts due or received from them)	11b			
12a	**Section 4947(a)(1) non-exempt charitable trusts.** Is the organization filing Form 990 in lieu of Form 1041?		12a		
b	If "Yes," enter the amount of tax-exempt interest received or accrued during the year	12b			
13	**Section 501(c)(29) qualified nonprofit health insurance issuers.**				
a	Is the organization licensed to issue qualified health plans in more than one state? **Note.** See the instructions for additional information the organization must report on Schedule O		13a		
b	Enter the amount of reserves the organization is required to maintain by the states in which the organization is licensed to issue qualified health plans	13b			
c	Enter the amount of reserves on hand	13c			
14a	Did the organization receive any payments for indoor tanning services during the tax year?		14a		No
b	If "Yes," has it filed a Form 720 to report these payments? *If "No," provide an explanation in Schedule O* . .		14b		

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

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

Section A. Governing Body and Management

			Yes	No
1a	Enter the number of voting members of the governing body at the end of the tax year	**1a** 22		
	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** 18		
2	Did any officer, director, trustee, or key employee have a family relationship or a business relationship with any other officer, director, trustee, or key employee?	**2**		No
3	Did the organization delegate control over management duties customarily performed by or under the direct supervision of officers, directors or trustees, or key employees to a management company or other person? .	**3**		No
4	Did the organization make any significant changes to its governing documents since the prior Form 990 was filed?	**4**		No
5	Did the organization become aware during the year of a significant diversion of the organization's assets? .	**5**		No
6	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**	Yes	
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**	Yes	
8	Did the organization contemporaneously document the meetings held or written actions undertaken during the year by the following			
a	The governing body?	**8a**	Yes	
b	Each committee with authority to act on behalf of the governing body?	**8b**	Yes	
9	Is there any officer, director, trustee, or key employee listed in Part VII, Section A, who cannot be reached at the organization's mailing address? *If "Yes," provide the names and addresses in Schedule O*	**9**		No

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

			Yes	No
10a	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**		No
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**		

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

☐ Own website ☐ Another's website ☑ Upon request ☐ 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

▶ MARC BERGER 5565 STERRETT PLACE 5TH FLOOR COLUMBIA, MD (410)772-6719

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

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

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

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

- List all of the organization's **current** officers, directors, trustees (whether individuals or organizations), regardless of amount of compensation 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			
See Additional Data Table										

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			
1b **Sub-Total** . . . . . ▶										
c **Total from continuation sheets to Part VII, Section A** . . . . ▶										
d **Total (add lines 1b and 1c)** . . . . . ▶								4,086,791	3,794,743	275,754

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 ▶ 268

			Yes	No
3	Did the organization list any **former** officer, director or trustee, key employee, or highest compensated employee on line 1a? *If "Yes," complete Schedule J for such individual*	**3**	Yes	
4	For any individual listed on line 1a, is the sum of reportable compensation and other compensation from the organization and related organizations greater than $150,000? *If "Yes," complete Schedule J for such individual*	**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? *If "Yes," complete Schedule J for such person*	**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
CHESAPEAKE PERIOPERATIVE SERVICES , PO BOX 17568 BALTIMORE MD 212971568	MEDICAL SERVICES	10,436,000
MORRISON MANAGEMENT SPECIALIST , 4721 MORRISON DRIVE MOBILE AL 36609	FOOD SRVC PROVIDER	3,972,210
PULMONARY CRITICAL CARE , 400 REDLAND CT STE 208 OWINGS MILLS MD 211173292	MEDICAL SERVICES	1,556,975
NURSEFINDERS , PO BOX 910738 DALLAS TX 753910738	MEDICAL SERVICES	1,045,324
SLEEP SERVICES OF AMERICA , PO BOX 198320 ATLANTA GA 30384	MEDICAL STAFFING	932,267
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 ▶ 58		

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				
	b	Membership dues	1b				
	c	Fundraising events	1c				
	d	Related organizations	1d				
	e	Government grants (contributions)	1e				
	f	All other contributions, gifts, grants, and similar amounts not included above	1f	1,181,245			
	g	Noncash contributions included in lines 1a-1f $					
	h	**Total.** Add lines 1a-1f		1,181,245			
Program Service Revenue			Business Code				
	2a	NET PATIENT SERVICE REVENUE	621300	447,981,431	447,981,431		
	b	PHARMACY	900099	4,159,841	4,159,841		
	c	HEALTH EDUCATION	900099	43,455	43,455		
	d						
	e						
	f	All other program service revenue					
	g	**Total.** Add lines 2a–2f		452,184,727			
	3	Investment income (including dividends, interest, and other similar amounts)		8,003	0	0	8,003
	4	Income from investment of tax-exempt bond proceeds		0			
	5	Royalties		0			
			(i) Real / (ii) Personal				
	6a	Gross rents	345,412 /				
	b	Less rental expenses	/				
	c	Rental income or (loss)	345,412 / 0				
	d	Net rental income or (loss)		345,412			345,412
			(i) Securities / (ii) Other				
	7a	Gross amount from sales of assets other than inventory	91,353 /				
	b	Less cost or other basis and sales expenses	/				
	c	Gain or (loss)	91,353 /				
	d	Net gain or (loss)		91,353			91,353
Other Revenue	8a	Gross income from fundraising events (not including $ _____ of contributions reported on line 1c) See Part IV, line 18	a				
	b	Less direct expenses	b				
	c	Net income or (loss) from fundraising events		0			
	9a	Gross income from gaming activities See Part IV, line 19	a				
	b	Less direct expenses	b				
	c	Net income or (loss) from gaming activities		0			
	10a	Gross sales of inventory, less returns and allowances	a				
	b	Less cost of goods sold	b				
	c	Net income or (loss) from sales of inventory		0			
		Miscellaneous Revenue	Business Code				
	11a	REBATE INCOME	900099	1,365,129			1,365,129
	b	PARKING LOT REVENUE	812930	83,381			83,381
	c	NSABP REVENUE	900099	83,559			83,559
	d	All other revenue		3,512,756			3,512,756
	e	**Total.** Add lines 11a–11d		5,044,825			
	12	**Total revenue.** See Instructions		458,855,565	452,184,727	0	5,489,593

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	0			
2 Grants and other assistance to individuals in the United States See Part IV, line 22	0			
3 Grants and other assistance to governments, organizations, and individuals outside the United States See Part IV, lines 15 and 16	0			
4 Benefits paid to or for members	0			
5 Compensation of current officers, directors, trustees, and key employees	2,070,339	1,859,794	210,545	
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	196,054,483	176,116,559	19,937,924	
8 Pension plan accruals and contributions (include section 401(k) and 403(b) employer contributions)	5,002,944	4,494,165	508,779	
9 Other employee benefits	25,674,076	23,063,129	2,610,947	
10 Payroll taxes	14,152,246	12,456,861	1,695,385	
11 Fees for services (non-employees)				
a Management	28,142,744	162,702	27,980,042	
b Legal	1,225	1,225		
c Accounting	0			
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)	45,275,204	41,098,886	4,176,318	
12 Advertising and promotion	2,064,193	35,355	2,028,838	
13 Office expenses	3,132,929	1,916,960	1,215,969	
14 Information technology	78,958	80,518	-1,560	
15 Royalties . .	0			
16 Occupancy	1,809,194	1,821,401	-12,207	
17 Travel	572,264	404,393	167,871	
18 Payments of travel or entertainment expenses for any federal, state, or local public officials	0			
19 Conferences, conventions, and meetings	57,031	43,263	13,768	
20 Interest	10,870,958	10,870,958		
21 Payments to affiliates	0			
22 Depreciation, depletion, and amortization	23,546,842	23,546,842		0
23 Insurance	6,023,331	5,585,942	437,389	
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 DRUGS/PHARMACY	28,514,989	28,481,336	33,653	
b MEDICAL/SURGICAL SUPPLIES	26,933,859	26,908,186	25,673	
c IMPLANTS/PROSTHESES	9,625,050	9,625,050		
d FOOD SERVICE	5,545,427	5,233,967	311,460	
e All other expenses	19,685,060	17,455,010	2,230,050	
25 **Total functional expenses.** Add lines 1 through 24e	454,833,346	391,262,502	63,570,844	0
26 **Joint costs.** Complete this line only if the organization reported in column (B) joint costs from a combined educational campaign and fundraising solicitation Check here ▶ ☐ 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) Beginning of year		(B) End of year
Assets	1	Cash—non-interest-bearing		6,828	1	7,356
	2	Savings and temporary cash investments		349,327	2	331,710
	3	Pledges and grants receivable, net		0	3	0
	4	Accounts receivable, net		72,880,403	4	59,303,330
	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		5,919,485	8	6,143,560
	9	Prepaid expenses and deferred charges		1,453,322	9	1,442,961
	10a	Land, buildings, and equipment cost or other basis Complete Part VI of Schedule D	10a 468,831,406			
	b	Less accumulated depreciation	10b 241,725,410	227,740,365	10c	227,105,996
	11	Investments—publicly traded securities		0	11	0
	12	Investments—other securities See Part IV, line 11		451,916	12	882,308
	13	Investments—program-related See Part IV, line 11		0	13	0
	14	Intangible assets		0	14	0
	15	Other assets See Part IV, line 11		1,287,785	15	762,286
	16	**Total assets.** Add lines 1 through 15 (must equal line 34)		310,089,431	16	295,979,507
Liabilities	17	Accounts payable and accrued expenses		42,397,495	17	44,721,711
	18	Grants payable		0	18	0
	19	Deferred revenue		221,279	19	608,849
	20	Tax-exempt bond liabilities		0	20	0
	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		36,180,194	25	33,642,208
	26	**Total liabilities.** Add lines 17 through 25		78,798,968	26	78,972,768
Net Assets or Fund Balances		**Organizations that follow SFAS 117 (ASC 958), check here ▶ ☑ and complete lines 27 through 29, and lines 33 and 34.**				
	27	Unrestricted net assets		230,838,547	27	216,724,430
	28	Temporarily restricted net assets		451,916	28	282,309
	29	Permanently restricted net assets		0	29	0
		Organizations that do not follow SFAS 117 (ASC 958), check here ▶ ☐ 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		231,290,463	33	217,006,739
	34	Total liabilities and net assets/fund balances		310,089,431	34	295,979,507

Part XI Reconcilliation 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	458,855,565
2	Total expenses (must equal Part IX, column (A), line 25)	2	454,833,346
3	Revenue less expenses Subtract line 2 from line 1	3	4,022,219
4	Net assets or fund balances at beginning of year (must equal Part X, line 33, column (A))	4	231,290,463
5	Net unrealized gains (losses) on investments	5	29,295
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	-18,335,238
10	Net assets or fund balances at end of year Combine lines 3 through 9 (must equal Part X, line 33, column (B))	10	217,006,739

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 ☐ Cash ☑ Accrual ☐ 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?	2a		No
	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 ☐ Separate basis ☐ Consolidated basis ☐ Both consolidated and separate basis			
b	Were the organization's financial statements audited by an independent accountant?	2b	Yes	
	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 ☐ Separate basis ☑ Consolidated basis ☐ Both consolidated and separate basis			
c	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?	2c	Yes	
	If the organization changed either its oversight process or selection process during the tax year, explain in Schedule O			
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?	3a		No
b	If "Yes," did the organization undergo the required audit or audits? If the organization did not undergo the required audit or audits, explain why in Schedule O and describe any steps taken to undergo such audits	3b		

Additional Data

Software ID:
Software Version:
EIN: 52-0608007
Name: FRANKLIN SQUARE HOSPITAL CENTER INC

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

(A) Name and Title	(B) Average hours per week (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			
MOHAMAD M ALABRASH MD DIRECTOR	1 0 0 0	X						26,250	0	0
WILLIAM D MCLAUGHLIN DIRECTOR	1 0 0 0	X						0	0	0
KENNETH A SAMET DIRECTOR	1 0 39 0	X						0	3,794,743	59,637
HATEM ABDO MD DIRECTOR	1 0 0 0	X						0	0	0
KHALID AL-TALIB MD DIRECTOR	1 0 0 0	X						0	0	0
IRA GUBERNICK MD DIRECTOR	1 0 0 0	X						0	0	0
GEORGE J JABAJI MD DIRECTOR	1 0 0 0	X						32,736	0	0
VINCENT MARTORANA DPM DIRECTOR	1 0 0 0	X						0	0	0
MICHAEL D SUTER MD DIRECTOR	1 0 0 0	X						0	0	0
DEBRA B DOYLE DIRECTOR	1 0 0 0	X						0	0	0
MICHAEL DIETRICH DIRECTOR	1 0 0 0	X						0	0	0
ELIZABETH S GLENN DIRECTOR	1 0 0 0	X						0	0	0
BISHOP CLIFFORD M JOHNSON JR DIRECTOR	1 0 0 0	X						0	0	0
COLLEEN LOPRESTO DIRECTOR	1 0 0 0	X						0	0	0
PATRICIA R NORMAN DIRECTOR	1 0 0 0	X						0	0	0
CHARLES PICCININI DIRECTOR	1 0 0 0	X						0	0	0
RICHARD W SINGLE SR ESQ DIRECTOR	1 0 0 0	X						0	0	0
DEBORAH M TURNER DIRECTOR	1 0 0 0	X						0	0	0
THOMAS S WINTZ DIRECTOR	1 0 0 0	X						0	0	0
HOWARD L GOLDMAN MD DIRECTOR	1 0 0 0	X						0	0	0
JUDITH NEEDHAM DIRECTOR	1 0 0 0	X						0	0	0
SAMUEL MOSKOWITZ PRESIDENT/DIRECTOR	40 0 0 0	X		X				466,500	0	11,551
ANTHONY SCLAMA VICE PRESIDENT	40 0 0 0			X				533,946	0	34,934
ROBERT LALLY VICE PRESIDENT	40 0 0 0			X				356,370	0	46,592
LAWRENCE STRASSNER VICE PRESIDENT	40 0 0 0				X			320,462	0	21,700

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

(A) Name and Title	(B) Average hours per week (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			
KAMYUN AUYEUNG CHIEF	40 0 0 0					X		406,040	0	16,598
YVONNE OTTAVIANO PHYSICIAN DIR SERVICE LINE	40 0 0 0					X		420,562	0	25,350
DAVID TARANTINO CHIEF	40 0 0 0					X		400,804	0	14,729
ALBERT FLEISHER MEDICAL DIRECTOR	40 0 0 0					X		544,780	0	22,720
JEROLD FLEISHMAN PHYSICIAN	40 0 0 0					X		433,263	0	21,943
GLENN VISBEEN FORMER KEY EMPLOYEE	40 0 0 0						X	145,078	0	0

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SCHEDULE A (Form 990 or 990EZ)

Department of the Treasury
Internal Revenue Service

Public Charity Status and Public Support

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

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

OMB No 1545-0047

2012

Open to Public Inspection

Name of the organization
FRANKLIN SQUARE HOSPITAL CENTER INC

Employer identification number
52-0608007

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

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

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

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

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

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

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

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

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

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

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

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

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

a ☐ Type I **b** ☐ Type II **c** ☐ Type III - Functionally integrated **d** ☐ Type III - 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?

		Yes	No
(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?	**11g(i)**		
(ii) A family member of a person described in (i) above?	**11g(ii)**		
(iii) A 35% controlled entity of a person described in (i) or (ii) above?	**11g(iii)**		

h Provide the following information about the supported organization(s)

(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									

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 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

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SCHEDULE D (Form 990)

Department of the Treasury
Internal Revenue Service

Supplemental Financial Statements

▶ Complete if the organization answered "Yes," to Form 990, Part IV, line 6, 7, 8, 9, 10, 11a, 11b, 11c, 11d, 11e, 11f, 12a, or 12b
▶ Attach to Form 990. ▶ See separate instructions.

OMB No 1545-0047

2012

Open to Public Inspection

Name of the organization
FRANKLIN SQUARE HOSPITAL CENTER INC

Employer identification number
52-0608007

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? ☐ Yes ☐ No

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? ☐ Yes ☐ No

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	2a
b	Total acreage restricted by conservation easements	2b
c	Number of conservation easements on a certified historic structure included in (a)	2c
d	Number of conservation easements included in (c) acquired after 8/17/06, and not on a historic structure listed in the National Register	2d

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 ▶ $ _____

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
c	Beginning balance	1c
d	Additions during the year	1d
e	Distributions during the year	1e
f	Ending balance	1f

2a Did the organization include an amount on Form 990, Part X, line 21? ☐ Yes ☐ No

b If "Yes," explain the arrangement in Part 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

		Yes	No
(i) unrelated organizations	3a(i)		
(ii) related organizations	3a(ii)		
b If "Yes" to 3a(ii), are the related organizations listed as required on Schedule R?	3b		

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		386,702		386,702
b Buildings		162,957,669	80,564,018	82,393,651
c Leasehold improvements		2,810,982	1,768,429	1,042,553
d Equipment		272,797,341	152,007,243	120,790,098
e Other		29,878,712	7,385,720	22,492,992
Total. Add lines 1a through 1e *(Column (d) must equal Form 990, Part X, column (B), line 10(c).)* ▶				227,105,996

Part VII Investments—Other Securities. See Form 990, Part X, line 12.

(a) Description of security or category (including name of security)	(b) Book value	(c) Method of valuation Cost or end-of-year market value
(1) Financial derivatives		
(2) Closely-held equity interests		
Other		
Total. *(Column (b) must equal Form 990, Part X, col (B) line 12)* ▶		

Part VIII Investments—Program Related. See Form 990, Part X, line 13.

(a) Description of investment type	(b) Book value	(c) Method of valuation Cost or end-of-year market value
Total. *(Column (b) must equal Form 990, Part X, col (B) line 13)* ▶		

Part IX Other Assets. See Form 990, Part X, line 15.

(a) Description	(b) Book value
Total. *(Column (b) must equal Form 990, Part X, col.(B) line 15.)* . . . . . ▶	

Part X Other Liabilities. See Form 990, Part X, line 25.

1 (a) Description of liability	(b) Book value
Federal income taxes	0
ADVANCES FROM 3RD PARTY PAYORS	15,275,025
WORKERS COMPENSATION	5,628,607
STOCK OPTION PLAN	650,014
ASBESTOS ABATEMENT LIABILITY	63,640
OTHER LIABILITY	12,024,922
Total. *(Column (b) must equal Form 990, Part X, col (B) line 25)* ▶	33,642,208

2. Fin 48 (ASC 740) Footnote In Part XIII, provide the text of the footnote to the organization's financial statements that reports the organization's liability for uncertain tax positions under FIN 48 (ASC 740) Check here if the text of the footnote has been provided in Part XIII ☑

Part XI Reconciliation of Revenue per Audited Financial Statements With Revenue per Return

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

Part XII Reconciliation of Expenses per Audited Financial Statements With Expenses per Return

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

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
FIN 48 FOOTNOTE	SCHEDULE D, PART X	INCOME TAXES ARE ACCOUNTED FOR UNDER THE ASSET AND LIABILITY METHOD DEFERRED TAX ASSETS AND LIABILITIES ARE RECOGNIZED FOR THE FUTURE TAX CONSEQUENCES ATTRIBUTABLE TO DIFFERENCES BETWEEN THE FINANCIAL STATEMENT CARRYING AMOUNTS OF EXISTING ASSETS AND LIABILITIES AND THEIR RESPECTIVE TAX BASES AND OPERATING LOSS AND TAX CREDIT CARRYFORWARDS DEFERRED TAX ASSETS AND LIABILITIES ARE MEASURED USING ENACTED TAX RATES EXPECTED TO APPLY TO TAXABLE INCOME IN THE YEARS IN WHICH THOSE TEMPORARY DIFFERENCES ARE EXPECTED TO BE RECOVERED OR SETTLED THE EFFECT ON DEFERRED TAX ASSETS AND LIABILITIES OF A CHANGE IN TAX RATES IS RECOGNIZED IN THE PERIOD THAT INCLUDES THE ENACTMENT DATE ANY CHANGES TO THE VALUATION ALLOWANCE ON THE DEFERRED TAX ASSET ARE REFLECTED IN THE YEAR OF CHANGE THE CORPORATION ACCOUNTS FOR UNCERTAIN TAX POSITIONS IN ACCORDANCE WITH THE FASB ACCOUNTING STANDARDS CODIFICATION (ASC) TOPIC 740, INCOME TAXES THERE WAS NO LIABILITY RECORDED FOR UNCERTAIN TAX POSITIONS AS OF JUNE 30, 2013

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SCHEDULE H (Form 990)

Department of the Treasury
Internal Revenue Service

Hospitals

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

OMB No 1545-0047

2012

Open to Public Inspection

Name of the organization
FRANKLIN SQUARE HOSPITAL CENTER INC

Employer identification number
52-0608007

Part I Financial Assistance and Certain Other Community Benefits at Cost

			Yes	No
1a	Did the organization have a financial assistance policy during the tax year? If "No," skip to question 6a	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 ☑ Applied uniformly to all hospital facilities ☐ Applied uniformly to most hospital facilities ☐ 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			
a	Did the organization use Federal Poverty Guidelines (FPG) as a factor in determining eligibility for providing *free* care? If "Yes," indicate which of the following was the FPG family income limit for eligibility for *free* care ☐ 100% ☐ 150% ☑ 200% ☐ Other _____ %	3a	Yes	
b	Did the organization use FPG as a factor in determining eligibility for providing *discounted* care? If "Yes," indicate which of the following was the family income limit for eligibility for discounted care ☐ 200% ☐ 250% ☐ 300% ☐ 350% ☑ 400% ☐ Other _____ %	3b	Yes	
c	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			
4	Did the organization's financial assistance policy that applied to the largest number of its patients during the tax year provide for free or discounted care to the "medically indigent"?	4	Yes	
5a	Did the organization budget amounts for free or discounted care provided under its financial assistance policy during the tax year?	5a	Yes	
b	If "Yes," did the organization's financial assistance expenses exceed the budgeted amount?	5b	Yes	
c	If "Yes" to line 5b, as a result of budget considerations, was the organization unable to provide free or discounted care to a patient who was eligibile for free or discounted care?	5c		No
6a	Did the organization prepare a community benefit report during the tax year?	6a	Yes	
b	If "Yes," did the organization make it available to the public?	6b	Yes	
	Complete the following table using the worksheets provided in the Schedule H instructions Do not submit these worksheets with the Schedule H			

7 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)			11,532,368	0	11,532,368	2 500 %
b Medicaid (from Worksheet 3, column a)			0	0	0	0 %
c Costs of other means-tested government programs (from Worksheet 3, column b)			0	0	0	0 %
d **Total** Financial Assistance and Means-Tested Government Programs			11,532,368	0	11,532,368	2 500 %
Other Benefits						
e Community health improvement services and community benefit operations (from Worksheet 4)			1,594,296	65,302	1,528,994	0 340 %
f Health professions education (from Worksheet 5)			15,455,121	0	15,455,121	3 400 %
g Subsidized health services (from Worksheet 6)			22,711,758	19,194,371	3,517,387	0 780 %
h Research (from Worksheet 7)			22,849	0	22,849	0 010 %
i Cash and in-kind contributions for community benefit (from Worksheet 8)			185,138	600	184,538	0 040 %
j **Total.** Other Benefits			39,969,162	19,260,273	20,708,889	4 570 %
k **Total.** Add lines 7d and 7j			51,501,530	19,260,273	32,241,257	7 070 %

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			0	0	0	0 %
2	Economic development			0	0	0	0 %
3	Community support			52,196	0	52,196	0 %
4	Environmental improvements						
5	Leadership development and training for community members			4,424	0	4,424	0 %
6	Coalition building						
7	Community health improvement advocacy			29,486	0	29,486	0 %
8	Workforce development			49,495	0	49,495	0 %
9	Other			0	0	0	0 %
10	**Total**			135,601	0	135,601	0 %

Part III **Bad Debt, Medicare, & Collection Practices**

Section A. Bad Debt Expense

				Yes	No
1	Did the organization report bad debt expense in accordance with 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	19,587,804		
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	0		
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	
6	Enter Medicare allowable costs of care relating to payments on line 5	6	
7	Subtract line 6 from line 5 This is the surplus (or shortfall)	7	
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					

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

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)

Name of hospital facility or facility reporting group FRANKLIN SQUARE HOSPITAL CENTER

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	**1**	Yes	
	If "Yes," indicate what the CHNA report describes (check all that apply)			
a	☑ A definition of the community served by the hospital facility			
b	☑ Demographics of the community			
c	☑ Existing health care facilities and resources within the community that are available to respond to the health needs of the community			
d	☑ How data was obtained			
e	☑ The health needs of the community			
f	☑ Primary and chronic disease needs and other health issues of uninsured persons, low-income persons, and minority groups			
g	☑ The process for identifying and prioritizing community health needs and services to meet the community health needs			
h	☑ The process for consulting with persons representing the community's interests			
i	☑ Information gaps that limit the hospital facility's ability to assess the community's health needs			
j	☐ Other (describe in Part VI)			
2	Indicate the tax year the hospital facility last conducted a CHNA 20 11			
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**	Yes	
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**		No
5	Did the hospital facility make its CHNA report widely available to the public?	**5**	Yes	
	If "Yes," indicate how the CHNA report was made widely available (check all that apply)			
a	☑ Hospital facility's website			
b	☑ Available upon request from the hospital facility			
c	☐ 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	☑ Adoption of an implementation strategy that addresses each of the community health needs identified through the CHNA			
b	☑ Execution of the implementation strategy			
c	☑ Participation in the development of a community-wide plan			
d	☑ Participation in the execution of a community-wide plan			
e	☑ Inclusion of a community benefit section in operational plans			
f	☑ Adoption of a budget for provision of services that address the needs identified in the CHNA			
g	☑ Prioritization of health needs in its community			
h	☑ Prioritization of services that the hospital facility will undertake to meet health needs in its community			
i	☐ 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**		No
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**		No
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
9 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?	**9**	Yes	
10 Used federal poverty guidelines (FPG) to determine eligibility for providing *free* care?	**10**	Yes	
If "Yes," indicate the FPG family income limit for eligibility for free care 200 % If "No," explain in Part VI the criteria the hospital facility used			
11 Used FPG to determine eligibility for providing *discounted* care?	**11**	Yes	
If "Yes," indicate the FPG family income limit for eligibility for discounted care 400 % If "No," explain in Part VI the criteria the hospital facility used			
12 Explained the basis for calculating amounts charged to patients?	**12**	Yes	
If "Yes," indicate the factors used in determining such amounts (check all that apply)			
a ☑ Income level			
b ☑ Asset level			
c ☑ Medical indigency			
d ☑ Insurance status			
e ☑ Uninsured discount			
f ☑ Medicaid/Medicare			
g ☐ State regulation			
h ☐ Other (describe in Part VI)			
13 Explained the method for applying for financial assistance?	**13**	Yes	
14 Included measures to publicize the policy within the community served by the hospital facility?	**14**	Yes	
If "Yes," indicate how the hospital facility publicized the policy (check all that apply)			
a ☐ The policy was posted on the hospital facility's website			
b ☐ The policy was attached to billing invoices			
c ☑ The policy was posted in the hospital facility's emergency rooms or waiting rooms			
d ☑ The policy was posted in the hospital facility's admissions offices			
e ☑ The policy was provided, in writing, to patients on admission to the hospital facility			
f ☑ The policy was available upon request			
g ☐ Other (describe in Part VI)			
Billing and Collections			
15 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?	**15**	Yes	
16 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			
a ☐ Reporting to credit agency			
b ☐ Lawsuits			
c ☐ Liens on residences			
d ☐ Body attachments			
e ☐ Other similar actions (describe in Part VI)			
17 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?	**17**		No
If "Yes," check all actions in which the hospital facility or a third party engaged			
a ☐ Reporting to credit agency			
b ☐ Lawsuits			
c ☐ Liens on residences			
d ☐ Body attachments			
e ☐ 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?	**19**	Yes	
If "No," indicate why			
a ☐ The hospital facility did not provide care for any emergency medical conditions			
b ☐ The hospital facility's policy was not in writing			
c ☐ The hospital facility limited who was eligible to receive care for emergency medical conditions (describe in Part VI)			
d ☐ 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 ☐ The hospital facility used its lowest negotiated commercial insurance rate when calculating the maximum amounts that can be charged			
b ☑ The hospital facility used the average of its three lowest negotiated commercial insurance rates when calculating the maximum amounts that can be charged			
c ☐ The hospital facility used the Medicare rates when calculating the maximum amounts that can be charged			
d ☐ 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?	**21**		No
If "Yes," explain in Part VI			
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?	**22**		No
If "Yes," explain in Part VI			

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?

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

Part VI Supplemental Information

Complete this part to provide the following information

1 **Required descriptions.** Provide the descriptions required for Part I, lines 3c, 6a, and 7, Part II, Part III, lines 4, 8, and 9b, 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
CHARITY CARE AT COST	PART I, LINE 7A	MARYLAND'S REGULATORY SYSTEM CREATES A UNIQUE PROCESS FOR HOSPITAL PAYMENT THAT DIFFERS FROM THE REST OF THE NATION THE HEALTH SERVICES COST REVIEW COMMISSION (HSCRC), DETERMINES PAYMENT THROUGH A RATE-SETTING PROCESS AND ALL PAYORS, INCLUDING GOVERNMENTAL PAYORS, PAY THE SAME AMOUNT FOR THE SAME SERVICES DELIVERED AT THE SAME HOSPITAL MARYLAND'S UNIQUE ALL-PAYOR SYSTEM INCLUDES A METHOD FOR REFERENCING UNCOMPENSATED CARE IN EACH PAYORS' RATES, WHICH DOES NOT ENABLE MARYLAND HOSPITALS TO BREAKOUT ANY OFFSETTING REVENUE RELATED TO UNCOMPENSATED CARE
UNREIMBURSED MEDICAID	PART I, LINE 7B	MARYLAND'S REGULATORY SYSTEM CREATES A UNIQUE PROCESS FOR HOSPITAL PAYMENT THAT DIFFERS FROM THE REST OF THE NATION THE HEALTH SERVICES COST REVIEW COMMISSION (HSCRC), DETERMINES PAYMENT THROUGH A RATE-SETTING PROCESS AND ALL PAYORS, INCLUDING GOVERNMENTAL PAYORS, PAY THE SAME AMOUNT FOR THE SAME SERVICES DELIVERED AT THE SAME HOSPITAL MARYLAND'S UNIQUE ALL-PAYOR SYSTEM INCLUDES A METHOD FOR REFERENCING UNCOMPENSATED CARE IN EACH PAYORS' RATES, WHICH DOES NOT ENABLE MARYLAND HOSPITALS TO BREAKOUT ANY OFFSETTING REVENUE RELATED TO UNCOMPENSATED CARE COMMUNITY BENEFIT EXPENSES ARE EQUAL TO MEDICAID REVENUES IN MARYLAND, AS SUCH, THE NET EFFECT IS ZERO THE EXCEPTION TO THIS IS THE IMPACT ON THE HOSPITAL OF ITS SHARE OF THE MEDICAID ASSESSMENT IN RECENT YEARS, THE STATE OF MARYLAND HAS CLOSED FISCAL GAPS IN THE STATE MEDICAID BUDGET BY ASSESSING HOSPITALS THROUGH THE RATE-SETTING SYSTEM

Identifier	ReturnReference	Explanation
HEALTH PROFESSIONS EDUCATION	PART I, LINE 7F	MARYLAND'S REGULATORY SYSTEM CREATES A UNIQUE PROCESS FOR HOSPITAL PAYMENT THAT DIFFERS FROM THE REST OF THE NATION THE HEALTH SERVICES COST REVIEW COMMISSION (HSCRC), DETERMINES PAYMENT THROUGH A RATE-SETTING PROCESS AND ALL PAYORS, INCLUDING GOVERNMENTAL PAYORS, PAY THE SAME AMOUNT FOR THE SAME SERVICES DELIVERED AT THE SAME HOSPITAL MARYLAND'S UNIQUE ALL-PAYOR SYSTEM INCLUDES A METHOD FOR REFERENCING UNCOMPENSATED CARE IN EACH PAYORS' RATES, WHICH DOES NOT ENABLE MARYLAND HOSPITALS TO BREAKOUT ANY OFFSETTING REVENUE RELATED TO UNCOMPENSATED CARE
BAD DEBT	PART III, LINE 4	MEDSTAR HEALTH AND ITS AFFILIATED ORGANIZATIONS REPORT BAD DEBT EXPENSE IN ACCORDANCE WITH ASU 2011-07, WHICH REQUIRES CERTAIN HEALTHCARE ENTITIES TO CHANGE THE PRESENTATION OF THEIR STATEMENT OF OPERATIONS BY RECLASSIFYING THE PROVISION FOR BAD DEBTS ASSOCIATED WITH PATIENT SERVICE REVENUE FROM AN OPERATING EXPENSE TO A DEDUCTION FROM PATIENT SERVICE REVENUE (NET OF CONTRACTUAL ALLOWANCES AND DISCOUNTS) HOWEVER, MEDSTAR AND ITS AFFILIATED ENTITIES DO NOT MAKE A DETERMINATION AS TO WHETHER SELF PAY AMOUNTS ARE COLLECTIBLE IN DETERMINING REVENUE RECOGNITION RESERVE MODELS, WHICH HAVE BEEN DEVELOPED BASED ON HISTORICAL COLLECTION RESULTS AND WHICH ARE ADJUSTED PERIODICALLY BASED ON ACTUAL COLLECTIONS EXPERIENCE, ARE USED TO ESTIMATE UNCOLLECTIBLE AMOUNTS ACROSS ALL PAYORS INCLUDING SELF PAY BAD DEBT DETERMINATIONS ARE MADE ONLY AFTER SUFFICIENT EVIDENCE IS OBTAINED TO SUPPORT THAT AN AMOUNT IS NOT COLLECTIBLE

Identifier	ReturnReference	Explanation
MEDICARE	PART III, LINE 8	MARYLAND'S REGULATORY SYSTEM CREATES A UNIQUE PROCESS FOR HOSPITAL PAYMENT THAT DIFFERS FROM THE REST OF THE NATION THE HEALTH SERVICES COST REVIEW COMMISSION (HSCRC) DETERMINES PAYMENT THROUGH A RATE-SETTING PROCESS AND ALL PAYORS, INCLUDING GOVERNMENTAL PAYORS, PAY THE SAME AMOUNT FOR THE SAME SERVICES DELIVERED AT THE SAME HOSPITAL MARYLAND'S UNIQUE ALL-PAYOR SYSTEM INCLUDES A METHOD FOR REFERENCING UNCOMPENSATED CARE IN EACH PAYORS' RATES, WHICH DOES NOT ENABLE MARYLAND HOSPITALS TO BREAKOUT ANY OFFSETTING REVENUE RELATED TO UNCOMPENSATED CARE AS SUCH, THE NET EFFECT FOR MEDICARE EXPENSES AND REVENUES IN MARYLAND IS ZERO
NEEDS ASSESSMENT	PART V, SECTION B, LINE 7	THE IMPLEMENTATION STRATEGIES SERVE AS A ROADMAP FOR HOW COMMUNITY BENEFIT RESOURCES WILL BE ALLOCATED AND DEPLOYED MEDSTAR'S HOSPITALS WILL BE ABLE TO MEASURE OUR CONTRIBUTION TO IMPROVING THE HEALTH OF UNDERSERVED AND VULNERABLE POPULATIONS IN THE REGIONS WE SERVE THREE-YEAR IMPLEMENTATION STRATEGIES WITH MEASURABLE OBJECTIVES WERE DEVELOPED FOR EACH HOSPITAL'S COMMUNITY BENEFIT SERVICE AREA - A SPECIFIC COMMUNITY OR TARGET POPULATION OF FOCUS PRIORITIES WERE BASED ON COMMUNITY NEED AS DETERMINED BY QUANTITATIVE DATA AND COMMUNITY INPUT, AS WELL AS ON HOSPITAL EXPERTISE, RESOURCES, STRENGTHS OF EXISTING PROGRAMMING AND PARTNERSHIPS, AND ALIGNMENT WITH NATIONAL, STATE, AND LOCAL HEALTH GOALS THE MEDSTAR HEALTH CORPORATE COMMUNITY HEALTH DEPARTMENT WILL PROVIDE SYSTEM-WIDE COORDINATION AND OVERSIGHT OF COMMUNITY BENEFIT PROGRAMMING PART VI, LINE 2 IN FY12, MEDSTAR FRANKLIN SQUARE MEDICAL CENTER (MEDSTAR FRANKLIN SQUARE) CONDUCTED A COMMUNITY HEALTH NEEDS ASSESSMENT (CHNA) IN ACCORDANCE WITH THE GUIDELINES ESTABLISHED BY THE PATIENT PROTECTION AND AFFORDABLE CARE ACT AND THE INTERNAL REVENUE SERVICE THE HOSPITAL'S CHNA WAS LED BY 14 ADVISORY TASK FORCE (ATF) MEMBERS, WHICH WAS COMPRISED OF A DIVERSE GROUP OF INDIVIDUALS, INCLUDING COMMUNITY RESIDENTS, HOSPITAL REPRESENTATIVES, PUBLIC HEALTH LEADERS, AND OTHER STAKEHOLDER ORGANIZATIONS, SUCH AS REPRESENTATIVES FROM LOCAL HEALTH DEPARTMENTS THE ATF REVIEWED QUANTITATIVE AND QUALITATIVE COMMUNITY HEALTH DATA, AS WELL AS LOCAL, REGIONAL AND NATIONAL HEALTH GOALS BASED ON THEIR FINDINGS, ATF MEMBERS DESIGNED A SURVEY TO IDENTIFY TRENDS IN HOW PARTICIPANTS PERCEIVED THE SEVERITY OF KEY HEALTH ISSUES IN THE FOLLOWING CATEGORIES WELLNESS AND PREVENTION, ACCESS TO CARE, QUALITY OF LIFE, AND ENVIRONMENT COMMUNITY MEMBERS RESPONDED TO THE SURVEY BY ATTENDING A COMMUNITY INPUT SESSION OR COMPLETING IT ONLINE OR VIA HARDCOPY BASED ON THE ATF'S RECOMMENDATION, THE HOSPITAL IDENTIFIED SOUTHEAST BALTIMORE COUNTY AS ITS COMMUNITY BENEFIT SERVICE AREA (CBSA) - A GEOGRAPHY WITH A HIGH DENSITY OF LOW-INCOME OR VULNERABLE RESIDENTS WITHIN CLOSE PROXIMITY OF THE HOSPITAL HEALTH PRIORITIES FOR THE CBSA INCLUDE HEART DISEASE, SUBSTANCE ABUSE, AND ASTHMA THE HOSPITAL'S FY12 CHNA AND 3-YEAR IMPLEMENTATION STRATEGIES WERE ENDORSED BY MEDSTAR FRANKLIN SQUARE'S BOARD OF DIRECTORS AND APPROVED BY THE MEDSTAR HEALTH BOARD OF DIRECTORS THE DOCUMENT BECAME AVAILABLE ON THE HOSPITAL'S WEBSITE ON JUNE 30, 2012 AS A PROUD MEMBER OF MEDSTAR HEALTH, REPRESENTATIVES FROM MEDSTAR FRANKLIN SQUARE ROUTINELY PARTICIPATE IN THE MEDSTAR HEALTH COMMUNITY BENEFIT WORKGROUP THE WORKGROUP IS COMPRISED OF COMMUNITY HEALTH PROFESSIONALS WHO REPRESENT ALL TEN MEDSTAR HOSPITALS THE TEAM ANALYZES LOCAL AND REGIONAL COMMUNITY HEALTH DATA, ESTABLISHES SYSTEM-WIDE COMMUNITY HEALTH PROGRAMMING PERFORMANCE AND EVALUATION MEASURES AND SHARES BEST PRACTICES

Identifier	ReturnReference	Explanation
PATIENT EDUCATION OF ELIGIBILITY FOR ASSISTANCE	PART VI, LINE 3	AS ONE OF THE REGION'S LEADING NOT-FOR-PROFIT HEALTHCARE SYSTEMS, MEDSTAR HEALTH IS COMMITTED TO ENSURING THAT UNINSURED PATIENTS WITHIN THE COMMUNITIES WE SERVE WHO LACK FINANCIAL RESOURCES HAVE ACCESS TO NECESSARY HOSPITAL SERVICES MEDSTAR HEALTH AND ITS HEALTHCARE FACILITIES WILL " TREAT ALL PATIENTS EQUITABLY, WITH DIGNITY, WITH RESPECT AND WITH COMPASSION " SERVE THE EMERGENCY HEALTH CARE NEEDS OF EVERYONE WHO PRESENTS AT OUR FACILITIES REGARDLESS OF A PATIENT'S ABILITY TO PAY FOR CARE " ASSIST THOSE PATIENTS WHO ARE ADMITTED THROUGH OUR ADMISSIONS PROCESS FOR NON-URGENT, MEDICALLY NECESSARY CARE WHO CANNOT PAY FOR PART OF ALL OF THE CARE THEY RECEIVE " BALANCE NEEDED FINANCIAL ASSISTANCE FOR SOME PATIENTS WITH BROADER FISCAL RESPONSIBILITIES IN ORDER TO KEEP ITS HOSPITALS' DOORS OPEN FOR ALL WHO MAY NEED CARE IN THE COMMUNITY IN MEETING ITS COMMITMENTS, MEDSTAR HEALTH'S FACILITIES WILL WORK WITH THEIR UNINSURED PATIENTS TO GAIN AN UNDERSTANDING OF EACH PATIENT'S FINANCIAL RESOURCES PRIOR TO ADMISSION (FOR SCHEDULED SERVICES) OR PRIOR TO BILLING (FOR EMERGENCY SERVICES) BASED ON THIS INFORMATION AND PATIENT ELIGIBILITY, MEDSTAR HEALTH'S FACILITIES WILL ASSIST UNINSURED PATIENTS WHO RESIDE WITHIN THE COMMUNITIES WE SERVE IN ONE OR MORE OF THE FOLLOWING WAYS " ASSIST WITH ENROLLMENT IN PUBLICLY-FUNDED ENTITLEMENT PROGRAMS (E G , MEDICAID) " ASSIST WITH CONSIDERATION OF FUNDING THAT MAY BE AVAILABLE FROM OTHER CHARITABLE ORGANIZATIONS " PROVIDE CHARITY CARE AND FINANCIAL ASSISTANCE ACCORDING TO APPLICABLE GUIDELINES " PROVIDE FINANCIAL ASSISTANCE FOR PAYMENT OF FACILITY CHARGES USING A SLIDING SCALE BASED ON PATIENT FAMILY INCOME AND FINANCIAL RESOURCES " OFFER PERIODIC PAYMENT PLANS TO ASSIST PATIENTS WITH FINANCING THEIR HEALTHCARE SERVICES EACH FACILITY WILL POST THE POLICY, INCLUDING A DESCRIPTION OF THE APPLICABLE COMMUNITIES IT SERVES, IN EACH MAJOR PATIENT REGISTRATION AREA AND IN ANY OTHER AREAS REQUIRED BY APPLICABLE REGULATIONS, WILL COMMUNICATE THE INFORMATION TO PATIENTS AS REQUIRED BY THIS POLICY AND APPLICABLE REGULATIONS AND WILL MAKE A COPY OF THE POLICY AVAILABLE TO ALL PATIENTS ADDITIONALLY, THE MARYLAND PATIENT INFORMATION SHEET/MEDSTAR'S PATIENT INFORMATION SHEET WILL BE PROVIDED TO INPATIENTS ON ADMISSION AND AT TIME OF FINAL ACCOUNT BILLING MEDSTAR HEALTH BELIEVES THAT ITS PATIENTS HAVE PERSONAL RESPONSIBILITIES RELATED TO THE FINANCIAL ASPECTS OF THEIR HEALTHCARE NEEDS THE CHARITY CARE, FINANCIAL ASSISTANCE, AND PERIODIC PAYMENT PLANS AVAILABLE UNDER THIS POLICY WILL NOT BE AVAILABLE TO THOSE PATIENTS WHO FAIL TO FULFILL THEIR RESPONSIBILITIES FOR PURPOSES OF THIS POLICY, PATIENT RESPONSIBILITIES INCLUDE " COMPLETING FINANCIAL DISCLOSURE FORMS NECESSARY TO EVALUATE THEIR ELIGIBILITY FOR PUBLICLY-FUNDED HEALTHCARE PROGRAMS, CHARITY CARE PROGRAMS, AND OTHER FORMS OF FINANCIAL ASSISTANCE THESE DISCLOSURE FORMS MUST BE COMPLETED ACCURATELY, TRUTHFULLY, AND TIMELY TO ALLOW MEDSTAR HEALTH'S FACILITIES TO PROPERLY COUNSEL PATIENTS CONCERNING THE AVAILABILITY OF FINANCIAL ASSISTANCE " WORKING WITH THE FACILITY'S FINANCIAL COUNSELORS AND OTHER FINANCIAL SERVICES STAFF TO ENSURE THERE IS A COMPLETE UNDERSTANDING OF THE PATIENT'S FINANCIAL SITUATION AND CONSTRAINTS " COMPLETING APPROPRIATE APPLICATIONS FOR PUBLICLY-FUNDED HEALTHCARE PROGRAMS THIS RESPONSIBILITY INCLUDES RESPONDING IN A TIMELY FASHION TO REQUESTS FOR DOCUMENTATION TO SUPPORT ELIGIBILITY " MAKING APPLICABLE PAYMENTS FOR SERVICES IN A TIMELY FASHION, INCLUDING ANY PAYMENTS MADE PURSUANT TO DEFERRED AND PERIODIC PAYMENT SCHEDULES " PROVIDING UPDATED FINANCIAL INFORMATION TO THE FACILITY'S FINANCIAL COUNSELORS ON A TIMELY BASIS AS THE PATIENT'S CIRCUMSTANCES MAY CHANGE " IT IS THE RESPONSIBILITY OF THE PATIENT TO INFORM THE MEDSTAR HOSPITAL OF THEIR EXISTING ELIGIBILITY UNDER A MEDICAL HARDSHIP DURING THE 12 MONTH PERIOD UNINSURED PATIENTS OF MEDSTAR HEALTH'S FACILITIES MAY BE ELIGIBLE FOR CHARITY CARE OR SLIDING-SCALE FINANCIAL ASSISTANCE UNDER THIS POLICY THE FINANCIAL COUNSELORS AND FINANCIAL SERVICES STAFF WILL DETERMINE ELIGIBILITY FOR CHARITY CARE AND SLIDING-SCALE FINANCIAL ASSISTANCE BASED ON REVIEW OF INCOME FOR THE PATIENT AND THEIR FAMILY (HOUSEHOLD), OTHER FINANCIAL RESOURCES AVAILABLE TO THE PATIENT'S FAMILY, FAMILY SIZE, AND THE EXTENT OF THE MEDICAL COSTS TO BE INCURRED BY THE PATIENT
COMMUNITY INFORMATION	PART VI, LINE 4	GEOGRAPHIC LOCATED IN THE ROSEDALE SECTION OF EASTERN BALTIMORE COUNTY, MARYLAND, MEDSTAR FRANKLIN SQUARE'S COMMUNITY BENEFIT SERVICE AREA (CBSA) INCLUDES NEIGHBORHOODS IN SOUTHEASTERN BALTIMORE COUNTY AND ADJACENT TO THE CHESAPEAKE BAY INCLUDING OVERLEA (21206), EDGEMERE (21219), MIDDLE RIVER (21220), ESSEX (21221), DUNDALK (21222, 21224), ROSEDALE (21237), NOTTINGHAM (21236) AND PERRY HALL (21128) THIS REGION WAS SELECTED IN PART DUE TO MEDSTAR FRANKLIN SQUARE'S PRE-EXISTING PARTNERSHIP WITH THE BALTIMORE COUNTY SOUTHEAST AREA NETWORK (NETWORK) - A VOLUNTEER COMMUNITY ORGANIZATION THAT MONITORS AND WORKS TO IMPROVE THE HEALTH OF RESIDENTS IN THE SOUTHEASTERN PORTION OF BALTIMORE COUNTY DEMOGRAPHIC THE MAJORITY (72 4 PERCENT) OF THE SOUTHEAST AREA'S POPULATION IS WHITE, COMPARED TO 74 4 PERCENT IN BALTIMORE COUNTY OVERALL AND 64 0 PERCENT IN MARYLAND AFRICAN-AMERICANS ACCOUNT FOR 19 6 PERCENT OF THE SOUTHEAST AREA'S POPULATION, AS OPPOSED TO 19 9 PERCENT OF BALTIMORE COUNTY'S POPULATION AND 27 7 PERCENT OF MARYLAND'S POPULATION THE REMAINING RACIAL/ETHNIC BREAKDOWN IS 4 5 PERCENT HISPANIC, 2 7 PERCENT ASIAN/PACIFIC ISLANDERS AND 0 6 PERCENT AMERICAN INDIANS/ALASKAN NATIVES IN THE SOUTHEAST AREA POPULATION, THE ESTIMATED PERCENTAGE OF ALL PEOPLE WHOSE INCOME WAS BELOW THE FEDERAL POVERTY LEVEL IS 11 4 PERCENT, COMPARED TO 8 2 PERCENT IN BALTIMORE COUNTY (AMERICAN COMMUNITY SURVEY, 2007-2011) FOUR OF THE ZIP CODES-21206, 21221, 21222, AND 21224-HAVE POVERTY RATES THAT ARE CONSIDERABLY HIGHER (11 0-19 2 PERCENT) THAN THE COUNTY AVERAGE BASED ON RESULTS FROM MEDSTAR FRANKLIN SQUARE'S FY12 COMMUNITY HEALTH ASSESSMENT, PEDIATRIC ASTHMA, AWARENESS OF RESOURCES CONCERNING ALCOHOL AND SUBSTANCE ABUSE AND HEART HEALTH HAVE BEEN IDENTIFIED AS THE COMMUNITY HEALTH PRIORITIES THE RATE OF ED VISITS FOR ASTHMA PER 10,000 POPULATION FOR BALTIMORE COUNTY (66 1) IS GREATER THAN THE STATE AVERAGE (MD SHIP, 2011) AND THE MARYLAND STATE HEALTH IMPROVEMENT PROCESS (MD SHIP) 2014 TARGET (59 1 AND 49 5, RESPECTIVELY) BALTIMORE COUNTY'S HEART DISEASE DEATH RATE (198 4 PER 100,000 POPULATION) IS HIGHER THAN THE NATIONAL AVERAGE OF 185 2 THE HEART DISEASE DEATH RATE PERCENTAGE IN THE SOUTHEAST AREA (25 9 PERCENT) IS ALSO HIGHER THAN THE NATIONAL AVERAGE (24 6 PERCENT) SMOKING CONTRIBUTES TO ASTHMA, HEART DISEASE AND CANCER CANCER IS THE SECOND LEADING CAUSE OF DEATH IN THE UNITED STATES AND MARYLAND THE SOUTHEAST AREA HAS A HIGHER CANCER DEATH RATE AS A PERCENTAGE OF ALL DEATHS (24 5 PERCENT) THAN EITHER BALTIMORE COUNTY (23 3 PERCENT) OR MARYLAND (23 7 PERCENT) THE PERCENTAGE OF ADULTS WHO CURRENTLY SMOKE IN BALTIMORE COUNTY (15 4 PERCENT) IS ABOVE THE 2014 MD SHIP TARGET (13 5 PERCENT)

Identifier	ReturnReference	Explanation
PROMOTION OF COMMUNITY HEALTH	PART VI, LINE 5	AS A COMMUNITY PARTNER, MEDSTAR FRANKLIN SQUARE ENGAGES IN A NUMBER OF COMMUNITY BENEFIT ACTIVITIES TO IMPROVE AND PROMOTE THE HEALTH AND WELLBEING OF THE COMMUNITY FOR EXAMPLE, THE HOSPITAL PROVIDES ACCESS TO HIGH QUALITY HEALTH SERVICES FOR THE HOMELESS, AS WELL AS COMPREHENSIVE CHILD ABUSE SERVICES IN PARTNERSHIP WITH THE BALTIMORE COUNTY DEPARTMENT OF HEALTH, THE BALTIMORE COUNTY DEPARTMENT OF SOCIAL SERVICES, AND HEALTHCARE FOR THE HOMELESS IN BALTIMORE CITY, MEDSTAR FRANKLIN SQUARE PROVIDES FINANCIAL AND IN-KIND SUPPORT TO ENSURE ACCESS TO PRIMARY CARE SERVICES FOR HOMELESS PERSONS THE HOSPITAL ALSO PROVIDES STAFFING, IN-KIND SUPPORT FOR TECHNICAL ASSISTANCE, INFORMATION TECHNOLOGY, BUDGETING/BILLING, AND PUBLIC RELATIONS AND MARKETING MEDSTAR FRANKLIN SQUARE ALSO UNDERWRITES EXPENSES FOR LABS AND SPECIALTY SERVICES MEDSTAR FRANKLIN SQUARE EVALUATES OVER 300 CHILDREN EACH YEAR WHO ARE SUSPECTED OF BEING ABUSED IN RESPONSE TO THE HIGH INCIDENCE OF ABUSE, THE DEPARTMENT OF PEDIATRICS DEVELOPED A COMPREHENSIVE PROGRAM TO DIAGNOSE AND PREVENT CHILD ABUSE THE MEDSTAR FRANKLIN SQUARE CHILD PROTECTION TEAM (CPT) BEGAN TO FUNCTION IN NOVEMBER, 2000 THE TEAM IS COMPRISED OF A SOCIAL WORKER COORDINATOR, MEDICAL DIRECTOR, AND ON-CALL SOCIAL WORK AND MEDICAL STAFF THE TEAM PROVIDES 24/7 COVERAGE TO THE HOSPITAL AND EVALUATES ANY CHILD SUSPECTED OF BEING PHYSICALLY OR SEXUALLY ABUSED THIS SERVICE HAS PROVEN TO BE A SIGNIFICANT CONTRIBUTION TO THE COMMUNITY - IMPACTING THOUSANDS OF PARENTS AND CHILDREN
AFFILIATED HEALTH CARE SYSTEM	PART VI, LINE 6	AS A PROUD MEMBER OF MEDSTAR HEALTH, MEDSTAR FRANKLIN SQUARE IS ABLE TO EXPAND ITS CAPACITY TO MEET THE NEEDS OF THE COMMUNITY BY PARTNERING WITH OTHER MEDSTAR HOSPITALS AND ASSOCIATED ENTITIES MEDSTAR HEALTH RESOURCES ASSIST THE HOSPITAL IN COMMUNITY HEALTH PLANNING TO MEET THE NEEDS OF THE UNINSURED AND OTHER VULNERABLE POPULATIONS THROUGH ITS COMMUNITY HEALTH FUNCTION, MEDSTAR HEALTH PROVIDES MEDSTAR FRANKLIN SQUARE WITH TECHNICAL SUPPORT TO ENHANCE COMMUNITY HEALTH PROGRAMMING AND EVALUATION MEDSTAR'S CORPORATE PHILANTHROPY DEPARTMENT IDENTIFIES AND SEEKS PUBLIC AND PRIVATE FUNDING SOURCES TO ENSURE THE AVAILABILITY OF HIGH QUALITY HEALTH SERVICES, REGARDLESS OF ABILITY TO PAY

Identifier	ReturnReference	Explanation
STATE FILING OF COMMUNITY BENEFIT REPORT	PART VI, LINE 7	THE COMMUNITY BENEFIT REPORT FOR MEDSTAR FRANKLIN SQUARE MEDICAL CENTER IS FILED IN THE STATE OF MARYLAND
PERCENT OF TOTAL EXPENSE	PART I, LINE 7, COLUMN (F)	BAD DEBT EXPENSE OF $19,587,804 HAS BEEN REMOVED FROM TOTAL EXPENSE TO CALCULATE THE PERCENTAGES IN COLUMN (F)

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Schedule J (Form 990)

Department of the Treasury
Internal Revenue Service

Compensation Information

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

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

▶ Attach to Form 990. ▶ See separate instructions.

OMB No 1545-0047

2012

Open to Public Inspection

Name of the organization
FRANKLIN SQUARE HOSPITAL CENTER INC

Employer identification number
52-0608007

Part I Questions Regarding Compensation

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

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

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

Note. The sum of columns (B)(i)-(iii) 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 III Supplemental 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
SOCIAL CLUB DUES	SCHEDULE J, PART I, LINE 1A	THE ORGANIZATION PAID SOCIAL CLUB DUES FOR ONE OF ITS OFFICERS DURING THIS YEAR PARTICIPATION IN THESE ACTIVITIES BY THE OFFICERS WAS FOR BUSINESS PURPOSES, AND HELPED THE ORGANIZATION FURTHER ITS EXEMPT PURPOSES
Supplemental Non-Qualified Retirement Plan	SCHEDULE J, PART I, LINE 4B	KENNETH SAMET MR SAMET'S OTHER REPORTABLE COMPENSATION IN PART II, COLUMN (B) (III) INCLUDES $928,678 REPRESENTING HIS BENEFIT RECEIVED FROM A SUPPLEMENTAL RETIREMENT PLAN, WHICH WAS EARNED DURING THE PAST 24 YEARS OF SERVICE A PORTION OF THIS AMOUNT, $208,524 WAS ALSO REPORTED ON FORM 990 IN PRIOR YEARS GLENN VISBEEN GLENN VISBEEN'S OTHER REPORTABLE COMPENSATION IN PART II, COLUMN (B) (III) INCLUDES $145,078 REPRESENTING THE AMOUNT OF SEVERANCE PAYMENTS RECEIVED BY MR VISBEEN

Additional Data

Return to Form

Software ID:
Software Version:
EIN: 52-0608007
Name: FRANKLIN SQUARE HOSPITAL CENTER INC

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				
KENNETH A SAMET	(I)	0	0	0	0	0	0	0
	(II)	1,264,204	1,589,134	941,405	40,108	19,529	3,854,380	208,524
SAMUEL MOSKOWITZ	(I)	379,098	87,402	0	0	11,551	478,051	0
	(II)	0	0	0	0	0	0	0
KAMYUN AUYEUNG	(I)	244,499	161,541	0	15,725	873	422,638	0
	(II)	0	0	0	0	0	0	0
YVONNE OTTAVIANO	(I)	370,240	50,322	0	11,375	13,975	445,912	0
	(II)	0	0	0	0	0	0	0
DAVID TARANTINO	(I)	378,054	22,750	0	0	14,729	415,533	0
	(II)	0	0	0	0	0	0	0
ALBERT FLEISHER	(I)	398,258	146,522	0	7,350	15,370	567,500	0
	(II)	0	0	0	0	0	0	0
JEROLD FLEISHMAN	(I)	396,821	36,442	0	6,620	15,323	455,206	0
	(II)	0	0	0	0	0	0	0
ANTHONY SCLAMA	(I)	370,785	163,161	0	11,226	23,708	568,880	0
	(II)	0	0	0	0	0	0	0
ROBERT LALLY	(I)	244,152	110,160	2,058	25,953	20,639	402,962	0
	(II)	0	0	0	0	0	0	0
LAWRENCE STRASSNER	(I)	222,064	98,398	0	10,283	11,417	342,162	0
	(II)	0	0	0	0	0	0	0
GLENN VISBEEN	(I)	0	0	145,078	0	0	145,078	0
	(II)	0	0	0	0	0	0	0

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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
FRANKLIN SQUARE HOSPITAL CENTER INC

Employer identification number
52-0608007

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

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

1 (a) Name of disqualified person	(b) 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? To	From	(e) Original principal amount	(f) Balance due	(g) In default? Yes	No	(h) Approved by board or committee? Yes	No	(i) Written agreement? 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) ORTHOPEDIC HAND SURGERY ASSOCIATE	SEE PART V		ORTHOPEDIC SERVICES		
(2) MARYLAND KIDNEY GROUP LLC	SEE PART V		NEPHROLOGY SERVICES		

Part V Supplemental Information

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

Identifier	Return Reference	Explanation
BUSINESS TRANSACTIONS INVOLVING INTERESTED PERSONS	SCHEDULE L, PART IV	Dr Ira Gubernick, a Board member at MedStar Franklin Square Medical Center, owns more than 5% of Orthopedic & Hand Surgery Associates, P A (OHSA), which provides management and support services to MedStar Franklin Square Medical Center's orthopedic, sports medicine, and emergency departments OHSA's gross revenues received from the hospital for the year were $0 3 million Dr Khalid Al-Talib, a Board member at MedStar Franklin Square Medical Center, owns more than 5% of Maryland Kidney Group, LLC (MKC), which provides nephrology services to MedStar Franklin Square Medical Center MKC's gross revenues received from the hospital for the year were $0 2 million

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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
FRANKLIN SQUARE HOSPITAL CENTER INC

Employer identification number
52-0608007

Identifier	Return Reference	Explanation
DESCRIPTION OF EXEMPT PURPOSE ACHIEVEMENTS	PART III, IINE 4A	MFSMC OFFERS CLINICAL SERVICES IN MEDICINE, SURGERY, ONCOLOGY, OBSTETRICS, CARDIOLOGY (INCLUDING ANGIOPLASTY), PEDIATRICS, GYNECOLOGY, AND PSYCHIATRY MFSMC ATTAINED MAGNET RECOGNITION BY THE AMERICAN NURSES CREDENTIALING CENTER (ANCC) IN 2008 AND IS RECOGNIZED BY THE JOINT COMMISSION AS AN ADVANCED PRIMARY STROKE CENTER IN 2013, US NEWS AND WORLD REPORT RECOGNIZED MFSMC AS A HIGH PERFORMING HOSPITAL IN CANCER, DIABETES AND ENDOCRINOLOGY, OTOLARYNGOLOGY, GERIATRICS, GYNECOLOGY, NEPHROLOGY, NEUROLOGY AND NEUROSURGERY, ORTHOPEDICS, PULMONOLOGY, AND UROLOGY THE HOSPITAL IS ALSO NATIONALLY RANKED FOR GASTROENTEROLOGY AND GI SURGERY SERVICES

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

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

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

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

Identifier	Return Reference	Explanation	
OTHER CHANGES IN NET ASSETS	PART XI, LINE 9	EQUITY TRANSFERS	$(18,335,238)

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

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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
FRANKLIN SQUARE HOSPITAL CENTER INC

Employer identification number
52-0608007

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
(1) Medstar Health Anesthesia Services B LLC 9000 Franklin Square Drive Baltimore, MD 21237 20-5909703	Health Svcs	MD	8,261,282	868,935	NA

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) Disproprtionate allocations? Yes	(h) No	(i) Code V—UBI amount in box 20 of Schedule K-1 (Form 1065)	(j) General or managing partner? Yes	(j) No	(k) Percentage ownership
(1) Surgicenter at Pasadena LLC 5565 Sterrett Place 5th Floor Columbia, MD 21044 52-2009504	Medical Servi	MD	NA					No				
(2) SJMC-RA LLC 5565 Sterrett Place 5th Floor Columbia, MD 21044 75-3160895	Radiation The	MD	NA					No				
(3) Physician Imaging of Washington Hospital 6525 Belcrest Road Suite G 50 Hyattsville, MD 20782 56-2616090	Lab Services	MD	NA					No				

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	(i) No
See Additional Data Table									

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

		Yes	No
1	During the tax year, did the orgranization 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		**No**
b	Gift, grant, or capital contribution to related organization(s)		**No**
c	Gift, grant, or capital contribution from related organization(s)		**No**
d	Loans or loan guarantees to or for related organization(s)		**No**
e	Loans or loan guarantees by related organization(s)		**No**
f	Dividends from related organization(s)		**No**
g	Sale of assets to related organization(s)		**No**
h	Purchase of assets from related organization(s)		**No**
i	Exchange of assets with related organization(s)		**No**
j	Lease of facilities, equipment, or other assets to related organization(s)		**No**
k	Lease of facilities, equipment, or other assets from related organization(s)		**No**
l	Performance of services or membership or fundraising solicitations for related organization(s)		**No**
m	Performance of services or membership or fundraising solicitations by related organization(s)		**No**
n	Sharing of facilities, equipment, mailing lists, or other assets with related organization(s)		**No**
o	Sharing of paid employees with related organization(s)		**No**
p	Reimbursement paid to related organization(s) for expenses	**Yes**	
q	Reimbursement paid by related organization(s) for expenses	**Yes**	
r	Other transfer of cash or property to related organization(s)		**No**
s	Other transfer of cash or property from related organization(s)		**No**

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

(a) Name of other organization	(b) Transaction type (a-s)	(c) Amount involved	(d) Method of determining amount involved
(1) CHURCH HOME AND HOSPITAL OF THE CITY OF BALTI	P	600,000	FMV

Part VI **Unrelated Organizations Taxable as a Partnership** (Complete if the organization answered "Yes" to Form 990, Part IV, line 37.)

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

(a) Name, address, and EIN of entity	(b) Primary activity	(c) Legal domicile (state or foreign country)	(d) Predominant income (related, unrelated, excluded from tax under section 512-514)	(e) Are all partners section 501(c)(3) organizations?		(f) Share of total income	(g) Share of end-of-year assets	(h) Disproprtionate 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		Yes	No	

Software ID:
Software Version:
EIN: 52-0608007
Name: FRANKLIN SQUARE HOSPITAL CENTER INC

Part VII Supplemental Information

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

Identifier	Return Reference	Explanation

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

(a) Name, address, and EIN of related organization	(b) Primary activity	(c) Legal domicile (state or foreign country)	(d) Direct controlling entity	(e) Type of entity (C corp, S corp, or trust)	(f) Share of total income	(g) Share of end-of-year assets	(h) Percentage ownership	(i) Section 512(b)(13) controlled entity? Yes	(i) Section 512(b)(13) controlled entity? No
MedStar Pharmacies Inc 5565 Sterrett Place 5th Floor Columbia, MD 21044 52-1513056	Drug Sales	MD	NA	C Corp					
ExtenCare Inc 5565 Sterrett Place 5th Floor Columbia, MD 21044 52-1556228	Medical Servi	MD	NA	C Corp					
Helix Resources Management Inc 5565 Sterrett Place 5th Floor Columbia, MD 21044 52-1913070	Admin Service	MD	NA	C Corp					
HelixCare Medical Group LLC 5565 Sterrett Place 5th Floor Columbia, MD 21044 52-1955580	Medical Servi	MD	NA	C Corp					
HelixCare Properties LLC 5565 Sterrett Place 5th Floor Columbia, MD 21044 52-1966695	Medical Servi	MD	NA	C Corp					
Parkway Ventures Inc 5565 Sterrett Place 5th Floor Columbia, MD 21044 52-1893569	Holding Compa	MD	NA	C Corp					
Physicians Administrative Services Inc 5565 Sterrett Place 5th Floor Columbia, MD 21044 23-7042074	Billing Servi	MD	NA	C Corp					
MedStar Family Choice Inc 5565 Sterrett Place 5th Floor Columbia, MD 21044 52-1995521	Managed Care	MD	NA	C Corp					
Medstar Enterprises Inc 4061 Powdermill Road Suite 210 Calverton, MD 20705 52-2139841	Admin Service	MD	NA	C Corp					
Nascott Inc 4061 Powdermill Road Suite 210 Calverton, MD 20705 52-1693808	Medical Servi	MD	NA	C Corp					
Star Billing Inc 4061 Powdermill Road Suite 210 Calverton, MD 20705 52-1850113	Billing Servi	MD	NA	C Corp					
Washington Risk Network Management Inc 4061 Powdermill Road Suite 210 Calverton, MD 20705 52-2132677	Medical Servi	MD	NA	C Corp					
Washington Hospital Center Physician Hos 100 Irving Street NW Washington, DC 20010 52-1931000	Medical Servi	MD	NA	C Corp					
Medstar Physician Partners Inc 4061 Powdermill Road Suite 210 Calverton, MD 20705 52-2030809	Medical Servi	MD	NA	C Corp					
Franklin Square Drive Land Condo Associa 5565 Sterrett Place 5th Floor Columbia, MD 21044 76-0756352	Condo Owner A	MD	NA	C Corp					

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

(a) Name, address, and EIN of related organization	(b) Primary activity	(c) Legal domicile (state or foreign country)	(d) Direct controlling entity	(e) Type of entity (C corp, S corp, or trust)	(f) Share of total income	(g) Share of end-of-year assets	(h) Percentage ownership	(i) Section 512(b)(13) controlled entity?	
								Yes	No
MGH Diversified Services Inc 18101 Prince Philip Drive Olney, MD 20832 52-1943602	Medical Servi	MD	NA	C Corp					
St Mary's Health Alliance Inc 25500 Point Lookout Road Leonardtown, MD 20650 52-1930331	Medical Servi	MD	NA	C Corp					
Greenspring Financial Insurance Limited 23 Lime Tree Bay Avenue PO Box 1051 KY1-1102 Grand Cayman CJ 98-0188617	Insurance	CJ	NA	C Corp					
St Mary's Condo Asssociation 25500 POINT LOOKOUT RD LEONARDTOWN, MD 20650 27-3377216	CONDOMINIUMS	MD	NA	C CORP					

KPMG

MEDSTAR HEALTH, INC.

Consolidated Financial Statements

June 30, 2013 and 2012

(With Independent Auditors' Report Thereon)

MEDSTAR HEALTH, INC.

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

Independent Auditors' Report

The Board of Directors
MedStar Health, Inc

We have audited the accompanying consolidated financial statements of MedStar Health, Inc (the Corporation), which comprise the consolidated balance sheets as of June 30, 2013 and 2012, and the related consolidated statements of operations and changes in net assets and cash flows for the years then ended and the related notes to the consolidated financial statements

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with U S generally accepted accounting principles, this responsibility includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated 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 consolidated financial statements based on our audits We conducted our audits in accordance with auditing standards generally accepted in the United States of America Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly in all material respects, the financial position of MedStar Health, Inc as of June 30, 2013 and 2012, and the results of their operations and their cash flows for the years then ended in accordance with U S generally accepted accounting principles

KPMG LLP is a Delaware limited liability partnership
the U S member firm of KPMG International Cooperative
(KPMG International) a Swiss entity

Emphasis of Matter

As discussed in note 1(y) to the consolidated financial statements, the Corporation adopted the provisions of Financial Accounting Standards Update No 2011-07, *Health Care Entities (Topic 954) Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts, and Allowance for Doubtful Accounts for Certain Health Care Entities* Our opinion is not modified with respect to this matter

KPMG LLP

October 4, 2013

MEDSTAR HEALTH, INC.

Consolidated Balance Sheets

June 30, 2013 and 2012

(Dollars in millions)

Assets		2013	2012
Current assets			
Cash and cash equivalents	$	445 4	568 6
Investments		61 6	19 0
Assets whose use is limited or restricted		64 7	63 4
Receivables			
From patient services (less allowances for uncollectible accounts of $204 3 in 2013 and $189 7 in 2012)		546 3	540 7
Other		51 2	49 1
		597 5	589 8
Inventories		57 0	48 5
Prepaids and other current assets		38 4	30 5
Total current assets		1,264 6	1,319 8
Investments		733 6	612 3
Assets whose use is limited or restricted		483 9	376 1
Property and equipment, net		1,137 1	1,037 6
Interest in net assets of foundation		54 8	48 5
Goodwill and other intangible assets, net		202 0	24 6
Other assets		135 8	125 9
Total assets	$	4,011 8	3,544 8

(Continued)

MEDSTAR HEALTH, INC.

Consolidated Balance Sheets

June 30, 2013 and 2012

(Dollars in millions)

Liabilities and Net Assets		2013	2012
Current liabilities			
Accounts payable and accrued expenses	$	357.4	323.5
Accrued salaries, benefits, and payroll taxes		281.5	253.3
Amounts due to third-party payors, net		66.7	61.1
Current portion of long-term debt		61.2	18.5
Current portion of self insurance liabilities		87.5	79.5
Other current liabilities		87.3	100.8
Total current liabilities		941.6	836.7
Long-term debt, net of current portion		1,207.2	1,010.1
Self insurance liabilities, net of current portion		253.2	228.2
Pension liabilities		304.9	470.3
Other long-term liabilities, net of current portion		140.0	146.0
Total liabilities		2,846.9	2,691.3
Net assets			
Unrestricted net assets			
MedStar Health, Inc		1,017.4	726.9
Noncontrolling interests		9.4	8.7
Total unrestricted net assets		1,026.8	735.6
Temporarily restricted		99.0	80.5
Permanently restricted		39.1	37.4
Total net assets		1,164.9	853.5
Total liabilities and net assets	$	4,011.8	3,544.8

See accompanying notes to consolidated financial statements

MEDSTAR HEALTH, INC.

Consolidated Statements of Operations and Changes in Net Assets

Years ended June 30, 2013 and 2012

(Dollars in millions)

	2013	2012
Operating revenues		
Net patient service revenue		
Hospital inpatient services	$ 2,240.8	2,145.2
Hospital outpatient services	1,444.1	1,343.3
Physician services	290.5	257.2
Other patient service revenue	124.5	123.9
Total net patient service revenue	4,099.9	3,869.6
Provision for bad debts	214.5	191.3
Total net patient service revenue, net of provision for bad debts	3,885.4	3,678.3
Premium revenue	138.2	116.3
Other operating revenue	193.6	190.0
Net operating revenues	4,217.2	3,984.6
Operating expenses		
Personnel	2,310.7	2,152.0
Supplies	658.9	629.7
Purchased services	562.1	514.4
Other operating	393.9	384.3
Interest expense	45.7	45.4
Depreciation and amortization	167.1	156.5
Total operating expenses	4,138.4	3,882.3
Earnings from operations	78.8	102.3
Nonoperating gains (losses)		
Investment income	15.5	14.6
Net realized gains (losses) on investments	24.9	(9.7)
Unrealized gain (loss) on derivative instrument	6.7	(7.8)
Unrealized gains (losses) on trading investments	43.9	(13.1)
Change in equity interest in alternative investments	20.1	(15.4)
Income tax benefit	1.9	3.6
Other nonoperating losses	(6.1)	(4.6)
Total nonoperating gains (losses)	106.9	(32.4)
Excess of revenues over expenses	$ 185.7	69.9

(Continued)

MEDSTAR HEALTH, INC.

Consolidated Statements of Operations and Changes in Net Assets

Years ended June 30, 2013 and 2012

(Dollars in millions)

	2013	2012
Unrestricted net assets		
Excess of revenues over expenses	$ 185.7	69.9
Change in funded status of defined benefit plans	106.9	(250.8)
Distributions to noncontrolling interests	(6.3)	(3.3)
Net assets released from restrictions used for purchase of property and equipment and other	4.9	7.6
Increase (decrease) in unrestricted net assets	291.2	(176.6)
Temporarily restricted net assets		
Contributions	17.4	10.8
Realized net gains on restricted investments	4.7	2.2
Change in unrealized gains (losses) on restricted investments	6.2	(2.6)
Net assets released from restrictions	(9.8)	(15.3)
Increase (decrease) in temporarily restricted net assets	18.5	(4.9)
Permanently restricted net assets		
Contributions and other	1.5	(0.3)
Realized net gains on marketable restricted investments	0.1	0.1
Change in unrealized gains (losses) on restricted investments	0.1	(0.1)
Increase (decrease) in permanently restricted net assets	1.7	(0.3)
Increase (decrease) in net assets	311.4	(181.8)
Net assets, beginning of year	853.5	1,035.3
Net assets, end of year	$ 1,164.9	853.5

See accompanying notes to consolidated financial statements

MEDSTAR HEALTH, INC.

Consolidated Statements of Cash Flows

Years ended June 30, 2013 and 2012

(Dollars in millions)

	2013	2012
Cash flows from operating activities		
Change in net assets	$ 311 4	(181 8)
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation and amortization	167 1	156 5
Amortization of bond financing costs, premiums and discounts	(0 3)	0 1
(Gain) loss on sale of property and equipment	(0 1)	0 1
Change in funded status of defined benefit plans	(106 9)	250 8
Realized net (gains) losses on marketable investments	(29 7)	7 4
Change in unrealized (gains) losses of marketable investments	(50 2)	15 8
Change in value of equity interest in alternative investments	(20 1)	15 4
Unrealized (gain) loss on derivative instrument	(6 7)	7 8
Net settlement payment on derivative instrument	3 9	4 1
Loss on extinguishment of debt	2 5	2 7
Distributions to noncontrolling interests	6 3	3 3
Deferred income tax benefit	(1 8)	(4 3)
Provision for bad debts	214 5	191 3
Temporarily and permanently restricted contributions	(18 9)	(10 5)
Changes in operating assets and liabilities		
Receivables	(188 5)	(206 9)
Inventories and other assets	(44 6)	0 5
Accounts payable and accrued expenses	50 2	59 7
Amounts due to third-party payors	(4 9)	15 7
Other liabilities	(45 5)	(19 0)
Net cash provided by operations	237 7	308 7
Cash flows from investing activities		
Purchases of investments and assets whose use is limited or restricted, net	(179 3)	(59 7)
Net settlement payment on derivative instrument	(3 9)	(4 1)
Purchases of property and equipment and acquisition of Southern Maryland Hospital Center and other	(427 1)	(164 8)
Net cash used in investing activities	(610 3)	(228 6)
Cash flows from financing activities		
Proceeds from long-term borrowings	498 9	136 6
Repayments of long-term borrowings	(18 5)	(17 1)
Repayments of refinanced bonds and other borrowings	(240 6)	(135 4)
Payment of deferred issuance costs	(3 0)	(1 4)
Temporarily and permanently restricted contributions and other	18 9	10 5
Distributions to noncontrolling interests	(6 3)	(3 3)
Net cash provided by (used in) financing activities	249 4	(10 1)
(Decrease) increase in cash and cash equivalents	(123 2)	70 0
Cash and cash equivalents at beginning of year	568 6	498 6
Cash and cash equivalents at end of year	$ 445 4	568 6
Supplemental disclosure of cash flow information		
Interest paid	$ 44 8	44 8
Noncash investing and financing activities		
Accounts payable for fixed asset purchases	$ 19 2	5 7

See accompanying notes to consolidated financial statements

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

(a) Organization

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

Tax-Exempt

- MedStar Ambulatory Services (formerly known as Bay Development Corporation)
- MedStar Franklin Square Medical Center
- MedStar Georgetown University Hospital
- MedStar Good Samaritan Hospital
- MedStar Harbor Hospital
- MedStar Health Research Institute
- MedStar Health Visiting Nurse Association, Inc
- MedStar Montgomery Medical Center
- MedStar National Rehabilitation Network
- MedStar Southern Maryland Hospital Center
- MedStar St Mary's Hospital
- MedStar Surgery Center, Inc
- MedStar Union Memorial Hospital
- MedStar Washington Hospital Center
- Church Home and Hospital of the City of Baltimore, Inc
- HH MedStar Health, Inc

Taxable

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

(Continued)

(b) Acquisition of Southern Maryland Hospital, Inc.

On December 10, 2012, the Corporation and Southern Maryland Hospital, Inc (the Hospital) closed on an asset purchase agreement, whereby the Corporation purchased substantially all of the assets and assumed certain obligations of the Hospital As a result of the transaction, the Corporation recognized approximately $80 0 of property, plant and equipment, approximately $150 0 of goodwill and other intangible assets, and working capital amounts In December 2012, the Corporation entered into a $180 0 bridge loan, that was replaced by permanent financing in May 2013 (see note 6), and used the proceeds to fund the acquisition The Hospital is a 263-bed acute care hospital located in Clinton, Maryland in Prince George's County The consolidated financial statements include the operations of the Hospital since the closing date The net operating revenues and total operating expenses of the Hospital are less than 3% of consolidated operating revenues and expenses for the year ended June 30, 2013, which are not considered significant to the Corporation's operations for the year ended June 30, 2013

Due to significant changes in the legal, organizational and reporting structure of the Hospital subsequent to the purchase, the Corporation has determined that the presentation of supplemental pro forma results for the years ended June 30, 2013 and 2012 is impracticable In addition, the asset purchase agreement provides for certain adjustments to the purchase price and net working capital calculations As such, the amounts currently recorded in the consolidated financial statements are considered provisional and subject to final measurement period adjustments in future reporting periods

(c) Basis of Presentation

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

(d) Use of Estimates

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

(e) Cash Equivalents

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

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

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

The Corporation has investments which under U S GAAP are considered alternative investments, including commingled equity funds totaling $103 3 and $67 5 as of June 30, 2013 and 2012, respectively, inflation hedging equity, commodity, and fixed income funds totaling $62 6 and $57 0 as of June 30, 2013 and 2012, respectively, and hedge fund of funds and private equity totaling $176 5 and $137 0 as of June 30, 2013 and 2012, respectively These funds utilize various types of debt and equity securities and derivative instruments in their investment strategies Alternative investments are recorded under the equity method and the change in equity interest is included in nonoperating gains (losses) on the consolidated statements of operations and changes in net assets

Investments in unconsolidated affiliates are accounted for under the cost or equity method of accounting, as appropriate, and are included in other assets in the consolidated balance sheets The Corporation utilizes the equity method of accounting for its investments in entities over which it exercises significant influence The Corporation's equity income or loss is recognized in other operating revenue on the consolidated statements of operations and changes in net assets

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

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

(g) Inventories

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

(h) Property and Equipment

Property and equipment acquisitions are recorded at cost and are depreciated or amortized over the estimated useful lives of the assets. Estimated useful lives range from three to forty years. Amortization of assets held under capital leases are computed using the shorter of the lease term or the estimated useful life of the leased asset and is included in depreciation and amortization expense. Interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets. Depreciation is computed on a straight-line basis. Major classes and estimated useful lives of property and equipment are as follows:

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

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

Management routinely evaluates the carrying value of its long-lived assets for impairment. No impairment charges were recorded against the carrying value of the Corporation's long-lived assets during the periods ended June 30, 2013 and 2012.

(i) Interest in Net Assets of Foundation

The Corporation recognizes its rights to assets held by a recipient organization, which accepts cash or other financial assets from a donor and agrees to use those assets on behalf of or transfer those assets, the return on investment of those assets, or both, to the Corporation. Changes in the Corporation's economic interests in the financially interrelated organization are recognized in the consolidated statements of operations and changes in net assets as a component of changes in temporarily restricted net assets.

(j) Goodwill and Other Intangible Assets

Goodwill is an asset representing the future economic benefits arising from other assets acquired in a business combination that are not individually identified and separately recognized. As of June 30, 2013 and 2012, the Corporation had one reporting unit, which included all subsidiaries of the Corporation and held goodwill, net on its balance sheet of $163.8 and $21.2, respectively. The increase from the prior year is primarily a result of the Corporation's acquisition of Southern Maryland Hospital discussed in section *(b)* above. Goodwill is evaluated for impairment annually using a qualitative assessment to determine whether there are events or circumstances that indicate it

is more likely than not that the reporting unit's fair value is less than its carrying amount Based on this qualitative assessment, the Corporation determined that there was no goodwill impairment for the years ended June 30, 2013 and 2012

Other intangible assets recorded at fair value and amortized over their estimated useful lives Other intangible assets were $41 9 and $4 9 as of June 30, 2013 and 2012, respectively, and related accumulated amortization was $3 7 and $1 5, respectively The Corporation recognized amortization expense of $2 0 and $1 0 for the years ended June 30, 2013 and 2012, respectively, related to identifiable intangible assets

(k) Internal-Use Software

The Corporation capitalizes the direct costs, including internal personnel costs, associated with the implementation of new information systems for internal use The Corporation capitalized $4 6 and $6 3 during the years ended June 30, 2013 and 2012, respectively Capitalized amounts are amortized over the estimated lives of the software, which is generally three to five years

(l) Financing Costs

Financing costs incurred in issuing bonds have been capitalized and are included in other assets on the consolidated balance sheets These costs are being amortized over the estimated duration of the related debt using the effective interest method Accumulated amortization totaled $4 7 and $4 5 as of June 30, 2013 and 2012, respectively

(m) Estimated Professional Liability Costs

The provision for estimated self-insured professional liability claims includes estimates of the ultimate costs for both reported claims and claims incurred but not reported These estimates are based on actuarial analysis of historical trends, claims asserted and reported incidents The receivables related to such claims are recorded at their net realizable value

(n) Leases

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

(o) Derivative

The Corporation utilizes a derivative financial instrument to manage its interest rate risks associated with tax-exempt debt The Corporation does not hold or issue derivative financial instruments for trading purposes The derivative instrument is recorded on the consolidated balance sheets at its fair value The Corporation's current derivative investment does not qualify for hedge accounting, therefore, the changes in fair value have been recognized in the accompanying consolidated statements of operations and changes in net assets as mark-to-market adjustments in nonoperating

gains (losses) The fair market value of the derivative instrument is included in other long-term liabilities in the accompanying consolidated balance sheets

(p) Net Patient Service Revenue and Net Patient Accounts Receivable

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

The Corporation's policy is to write-off all patient receivables which are identified as uncollectible Patient accounts receivable are reduced by an allowance for uncollectible accounts to reserve for accounts which are expected to become uncollectible in future years In evaluating the collectability of accounts receivable, the Corporation analyzes historical collections and write-offs and identifies trends for each of its major payor sources of revenue and amounts due from patients to estimate the appropriate allowance for uncollectible accounts and provision for bad debts

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

(q) Charity Care

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

(r) Grants

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

(s) Contributions

Unconditional promises to give cash and other assets to the Corporation are reported at fair value at the date the promise is received Conditional promises to give and indications of intentions to give are reported at fair value at the date the gift is received The gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the consolidated statements of operations and changes in net assets as net assets released from restrictions in other operating revenue Donor-restricted contributions whose restrictions are met within the same year as received are reported as unrestricted net assets and reported within other operating revenue in the accompanying consolidated financial statements

(t) Meaningful Use Incentives

Under certain provisions of the American Recovery and Reinvestment Act of 2009 (ARRA), federal incentive payments are available to hospitals, physicians and certain other professionals (Providers) when they adopt, implement or upgrade certified electronic health record (EHR) technology or become "meaningful users," as defined under ARRA, of EHR technology in ways that demonstrate improved quality, safety and effectiveness of care Incentive payments will be paid out over varying transitional schedules depending on the type of incentive (Medicare and Medicaid) and recipient (hospital or eligible provider) Eligible hospitals can attest for both Medicare and Medicaid incentives, while physicians must select to attest for either Medicare or Medicaid incentives For Medicare incentives, eligible hospitals receive payments over four years while eligible physicians receive payments over five years For Medicaid incentives, eligible hospitals receive payments based on the relevant State adopted payment structure and physicians receive payments over six years

The Corporation recognizes EHR incentives when it is reasonably assured that the Corporation will successfully demonstrate compliance with the meaningful use criteria During the years ended June 30, 2013 and 2012, certain hospitals and physicians satisfied the meaningful use criteria As a result, the Corporation recognized $16 6 and $6 6 of EHR incentives during fiscal year 2013 and 2012, respectively, in other operating revenue

(u) Excess of Revenues over Expenses

The consolidated statements of operations and changes in net assets include a performance indicator, which is the excess of revenues over expenses Changes in unrestricted net assets that are excluded from excess of revenues over expenses, include contributions of long-lived assets (including assets acquired using contributions that by donor restriction were to be used for the purpose of acquiring such assets), contributions from and distributions to noncontrolling interests, and defined benefit obligations in excess of recognized pension cost, among others

(v) Income Taxes

Income taxes are accounted for under the asset and liability method Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the

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

(w) Temporarily and Permanently Restricted Net Assets

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

(x) Fair Value of Financial Instruments

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

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

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

(y) New Accounting Pronouncements

In July 2011, FASB issued ASU No 2011-07, *Health Care Entities (Topic 954), Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts, and the Allowance for Doubtful Accounts for Certain Health Care Entities* (ASU 2011-07), which requires certain healthcare entities to change the presentation of their statement of operations by reclassifying the provision for bad debts associated with patient service revenue from an operating expense to a deduction from patient service revenue (net of contractual allowances and discounts) Additionally, enhanced disclosures about an entity's policies for recognizing revenue, assessing bad debts, as well as qualitative and quantitative information about changes in the allowance for doubtful accounts are required These disclosures are included in note 8 to the consolidated financial statements The provision for bad debts of $191 3 for the year ended June 30, 2012 has been reclassified as a component of net patient service revenue, net of provision for bad debts on the consolidated statement of operations and changes in net assets to conform with ASU 2011-07

In September 2011, FASB issued ASU 2011-08, *Intangibles – Goodwill and Other (Topic 350), Testing Goodwill for Impairment* (ASU 2011-08), which permits an entity to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less

than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test described in Topic 350 The more likely than not threshold is defined as having a likelihood of more than 50% The Corporation adopted this ASU effective July 1, 2012 which is described in note 1(j)

(z) Reclassifications

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

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

Investments and assets whose use is limited or restricted as of June 30, 2013 and 2012, at fair value or under the equity method of accounting in the case of alternative investments, consist of the following

	2013	2012
Collateralized guaranteed investment contract and cash	$ 98 5	89 4
Fixed income securities and funds	393 1	336 4
Equity securities	509 8	383 5
Alternative investments		
Commingled equity funds	103 3	67 5
Inflation hedging equity, commodity, fixed income fund	62 6	57 0
Hedge fund of funds and private equity	176 5	137 0
Total investments and assets whose use is limited or restricted	1,343 8	1,070 8
Less short-term investments and assets whose use is limited or restricted	(126 3)	(82 4)
Long-term investments and assets whose use is limited or restricted	$ 1,217 5	988 4

Assets whose use is limited or restricted as of June 30, 2013 and 2012, included in the table above, consist of the following

	2013	2012
Funds held by trustees	$ 71 1	13 0
Self-insurance funds	216 8	186 1
Funds restricted by donors for specific purposes and endowment	69 7	62 2
Funds designated by Board and management	191 0	178 2
	548 6	439 5
Less assets required for current obligations	(64 7)	(63 4)
	$ 483 9	376 1

Investment income and realized and unrealized gains (losses) for assets whose use is limited, cash equivalents and investments are comprised of the following for the years ended June 30, 2013 and 2012

	2013	2012
Other operating revenue		
Investment income	$ 4 9	3 8
Nonoperating gains (losses)		
Investment income	15 5	14 6
Net realized gains (losses) on investments	24 9	(9 7)
Unrealized gains (losses) on trading investments	43 9	(13 1)
Change in equity interest in alternative investments	20 1	(15 4)
	104 4	(23 6)
Other changes in net assets		
Realized net gains on temporarily and permanently restricted net assets	4 8	2 3
Change in unrealized gains (losses) on temporarily and permanently restricted net assets	6 3	(2 7)
Total investment return	$ 120 4	(20 2)

(3) Fair Value of Financial Instruments

The Corporation follows the guidance within FASB ASC Topic 820, *Fair Value Measurement (ASC 820)*, which defines fair value and establishes methods used to measure fair value The fair value hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3) A financial instrument's categorization within the

(Continued)

valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement The three levels of the fair value hierarchy under ASC 820 are described below

- Level 1 – Quoted prices in active markets for identical assets or liabilities at the measurement date.
- Level 2 – Observable inputs other than quoted prices for the asset, either directly or indirectly observable, that reflect assumptions market participants would use to price the asset based on market data obtained from sources independent of the Corporation
- Level 3 – Unobservable inputs that reflect the Corporations own assumptions about the assumptions market participants would use to price an asset based on the best information available in the circumstances

The Corporation has incorporated an Investment Policy Statement (IPS) into the investment program The IPS, which has been formally adopted by the Corporation's Board of Directors, contains numerous standards designed to ensure adequate diversification by asset class and geography The IPS also limits all investments by manager and position size, and limits fixed income position size based on credit ratings, which serves to further mitigate the risks associated with the investment program At June 30, 2013 and 2012, management believes that all investments were being managed in a manner consistent with the IPS

The table below presents the Corporation's investable assets and liabilities as of June 30, 2013, aggregated by the three level valuation hierarchy

	Level 1	Level 2	Level 3	Total
Assets				
Cash and cash equivalents	$ 543 9	—	—	543 9
U S treasury bonds	60 6	—	—	60 6
U S agency mortgage backed securities	124 2	—	—	124 2
Corporate bonds	—	90 7	—	90 7
Fixed income mutual funds	0 7	78 2	—	78 9
All other fixed income securities	4 8	33 9	—	38 7
Equity mutual funds & ETF's	101 8	—	—	101 8
Common stocks	408 0	—	—	408 0
Total assets	$ 1,244 0	202 8	—	1,446 8
Liabilities				
Interest rate swap	$ —	16 4	—	16 4
Total liabilities	$ —	16 4	—	16 4

(Continued)

The table below presents the Corporation's investable assets and liabilities as of June 30, 2012, aggregated by the three level valuation hierarchy

	Level 1	Level 2	Level 3	Total
Assets				
Cash and cash equivalents	$ 658 0	—	—	658 0
U S treasury bonds	48 6	—	—	48 6
U S agency mortgage backed securities	85 9	—	—	85 9
Corporate bonds	—	84 1	—	84 1
Fixed income mutual funds	1 3	79 3	—	80 6
All other fixed income securities	3 8	33 4	—	37 2
Equity mutual funds & ETF's	68 2	—	—	68 2
Common stocks	315 3	—	—	315 3
Total assets	$ 1,181 1	196 8	—	1,377 9
Liabilities				
Interest rate swap	$ —	23 2	—	23 2
Total liabilities	$ —	23 2	—	23 2

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

For the years ended June 30, 2013 and 2012, there were no significant transfers into or out of Levels 1, 2 or 3

(4) Property and Equipment

Property and equipment as of June 30, 2013 and 2012 is as follows

	2013	2012
Land	$ 70 4	59 6
Buildings and improvements	1,249 4	1,167 2
Equipment	1,646 3	1,505 7
	2,966 1	2,732 5
Less accumulated depreciation and amortization	(1,914 1)	(1,784 6)
	1,052 0	947 9
Construction-in-progress	85 1	89 7
	$ 1,137 1	1,037 6

(Continued)

Construction-in-progress includes a variety of ongoing capital projects at the Corporation as of June 30, 2013 and 2012. Depreciation and amortization expense related to property and equipment amounted to $165.1 and $155.5 for the years ended June 30, 2013 and 2012, respectively.

(5) Other Assets

Other assets as of June 30, 2013 and 2012 consist of the following:

	2013	2012
Deferred financing costs, net	$ 13.8	12.5
Investments in unconsolidated entities	15.0	15.7
Reinsurance receivables	44.6	40.3
Deferred tax asset	28.4	26.1
Other assets	34.0	31.3
	$ 135.8	125.9

The Corporation has investments in other healthcare related organizations that are accounted for under the equity method which total $15.0 and $15.7 at June 30, 2013 and 2012, respectively. Under the equity method, original investments are recorded at cost and adjusted by the Corporation's share of the undistributed earnings or losses of these organizations. The related ownership interest in these organizations ranges from 8% to 50%. The Corporation's share of earnings in these organizations was $4.2 and $4.1 for the years ended June 30, 2013 and 2012, respectively, and are recognized in other operating revenue in the consolidated statements of operations and changes in net assets. Certain other nonconsolidated entities are recorded under the cost method.

(Continued)

(6) Debt

As of June 30, 2013 and 2012, the Corporation's outstanding borrowings include the following

	2013	2012
Maryland Health and Higher Educational Facilities Authority Revenue Bonds		
4.25% – 5.25% Serial bonds (Series 1998A, due 2008 – 2012)	$ —	4.5
4.75% Term bonds (Series 1998A, due 2028)	—	30.7
5.25% Term bonds (Series 1998A, due 2038)	82.0	82.1
4.75% Term bonds (Series 1998B, due 2028)	—	20.9
5.25% Term bonds (Series 1998B, due 2038)	57.0	57.0
4.25% – 5.75% Serial bonds (Series 2004, due 2009 – 2025)	25.8	29.7
5.375% Term bonds (Series 2004, due 2024)	49.7	49.7
5.50% Term bonds (Series 2004, due 2033)	80.1	80.1
4.75% Term bonds (Series 2007, due 2042)	56.0	56.0
5.25% Term bonds (Series 2007, due 2046)	89.0	89.0
2.00% – 5.00% Serial bonds (Series 2011, due 2012 – 2023)	51.8	53.9
5.00% Term bonds (Series 2011, due 2031)	5.6	5.6
5.00% Term bonds (Series 2011, due 2041)	35.4	35.4
2.19% Direct Purchase (Series 2012, due 2017 – 2022)	38.6	38.6
3.00% – 5.00% Serial bonds (Series 2013A, due 2016 – 2028)	60.9	—
5.00% Term bonds (Series 2013A, due 2038)	17.3	—
5.00% Term bonds (Series 2013A, due 2041)	25.0	—
4.00% Term bonds (Series 2013A, due 2041)	14.6	—
3.00% – 5.00% Serial bonds (Series 2013B, due 2025 – 2033)	60.8	—
4.00% Term bonds (Series 2013B, due 2038)	45.0	—
5.00% Term bonds (Series 2013B, due 2038)	44.0	—
Plus unamortized net premium	30.0	9.3
	868.6	642.5

(Continued)

		2013	2012
District of Columbia Hospital Revenue Bonds			
Multimodal Revenue bonds			
0 04% – 0 12% at June 30, 2013 Serial bonds (Series 1998A due 2008-2038) (and 0 14% – 0 21% at June 30, 2012)	$	128 9	131 7
2 75% – 5 00% Serial bonds (Series 1998B, due 2008 – 2019)		11 0	12 3
5 00% Term bonds (Series 1998B, due 2028)		20 2	20 2
5 00% Term bonds (Series 1998B, due 2038)		33 9	33 9
2 75% – 5 00% Serial bonds (Series 1998C, due 2008 – 2019)		11 0	12 3
5 50% Term bonds (Series 1998C, due 2028)		20 1	20 1
5 00% Term bonds (Series 1998C, due 2038)		34 0	34 0
Less unamortized net discount		(1 2)	(1 2)
		257 9	263 3
Other			
Notes payable to financial institutions or state agencies under mortgages (floating rates ranging between 0 9% – 6 0%) and other		12 1	15 0
Line of credit due August 2016 (0 25% – 0 90% at June 30, 2013 and 0 25% – 0 95% at June 30, 2012)		129 8	107 8
		141 9	122 8
Total debt		1,268 4	1,028 6
Less current portion of long-term debt		(61 2)	(18 5)
Long-term debt, net	$	1,207 2	1,010 1

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

2014	$	61 2
2015		18 6
2016		19 1
2017		151 0
2018		22 2
Thereafter		967 5
Total	$	1,239 6

The fair value of outstanding tax exempt bonds is estimated to be $1,122 4 and $965 2 as of June 30, 2013 and 2012, respectively The fair value of other long-term debt approximates its carrying value

(Continued)

In December 1998, the Maryland Health and Higher Education Facilities Authority (MHHEFA) and the District of Columbia (District) issued bonds (Series 1998 Bonds) on behalf of the Corporation Bond proceeds of approximately $588 6 were loaned to the Corporation under separate loan agreements with MHHEFA and the District upon execution of obligations pursuant to the Master Trust Indenture The District issued $300 0 of Multimodal Revenue Bonds, including $150 0 Series 1998A ($24 1 repaid through August 2013), $75 0 Series 1998B ($11 3 repaid through August 2013), and $75 0 Series 1998C ($11 2 repaid through August 2013)

The District Series 1998A bonds, which consist of three tranches totaling $125 9 at August 2013, trade as uninsured Variable Rate Demand Obligations backed by bank letters of credit The Series 1998A Tranche I bonds which remained outstanding in August 2013 consisted of approximately $42 0 bonds trading in a daily mode backed by a letter of credit issued by Wells Fargo Bank, National Association (formerly Wachovia Bank, National Association) and remarketed by J P Morgan Securities Inc The letter of credit expires in May 2014 In the event of a failed remarketing, the Tranche I bonds would be tendered to the bank and repaid over a four-year period, beginning 367 days following the date of the failed remarketing The Series 1998A Tranche II bonds totaled $42 0 in August 2013 These bonds trade in a weekly mode and are remarketed by Citigroup Global Markets Inc The letter of credit backing these bonds was issued by JPMorgan Chase Bank, N A and expires in May 2015 In the event of a failed remarketing, the Tranche II bonds would be tendered to the bank and repaid over a four-year period, beginning 367 days following the failed remarketing The Series 1998A Tranche III bonds totaled $42 0 in August 2013 These bonds trade in a weekly mode and are remarketed by Citigroup Global Markets Inc The letter of credit backing these bonds was issued by PNC Bank, National Association The term of the letter of credit is five years, and expires in May 2017 In the event of a failed remarketing, the Tranche III bonds would be tendered to the bank and repaid over a four-year period, beginning 367 days following the failed remarketing No portion of the Series 1998A bonds has been put at June 30, 2013 and 2012, respectively The $63 7 Series 1998B and $63 8 Series 1998C bonds (as of August 2013) are at a fixed rate, insured by Assured Guaranty, Ltd (Assured, formerly Financial Security Assurance, Inc) The reimbursement obligation with respect to the letters of credit are evidenced and secured by obligations issued by the Corporation under the Master Trust Indenture

MHHEFA issued $283 5 of Revenue Bonds, including the $166 6 Series 1998A ($82 0 outstanding after August 2013) and $116 9 Series 1998B ($57 0 outstanding after August 2013) All Series 1998 MHHEFA bonds were issued at fixed rates Principal and interest under the Series 1998 MHHEFA bonds are insured under municipal insurance policies with Assured and Ambac Of the Series 1998 MHHEFA bonds, $51 7 was refinanced in March 2013 in conjunction with the MHHEFA Series 2013A financing described below

Related to the District borrowings, the Corporation entered into an interest rate swap with Wells Fargo Bank, National Association in a notional amount totaling $150 0 (reduced to $103 4 at August 2013) The swap agreement expires in fiscal year 2027 The interest rate swap is part of a comprehensive and long-term capital structure strategy The purpose of the swap is to mitigate the effect of potential interest rate volatility and minimize the variability of the Corporation's average cost of capital Under the terms of the swap, the Corporation pays a fixed rate and receives a variable rate Collateral is only required to be posted under the swap in the event that the Corporation's credit ratings are downgraded by two rating agencies below the BBB – or Baa2 – level To date, no collateral postings have been required As of

June 30, 2013 and 2012, the variable interest rate under these agreements was 0 13% and 0 16%, respectively The fixed rate was 3 69% as of June 30, 2013 and 2012 The variable rates are capped at 14 0% The change in fair value of the swap is reported in nonoperating gains (losses) in the statements of operations and changes in net assets

In February 2004, MHHEFA issued $170 3 in bonds (Series 2004 Bonds) on behalf of the Corporation The proceeds of the Series 2004 Bonds were loaned to the Corporation pursuant to a loan agreement with MHHEFA upon execution of an obligation pursuant to the Master Trust Indenture The Series 2004 Bonds were issued as $40 5 serial bonds maturing 2009 through 2025 ($18 9 repaid through August 2013), $49 7 term bonds maturing 2024, and $80 1 term bonds maturing 2033 Such bonds were issued at fixed rates Series 2004 Bonds maturing on or after August 2015 are subject to redemption or purchase at the option of the Corporation prior to maturity beginning in 2014

In January 2007, MHHEFA issued $145 0 in bonds (Series 2007 Bonds) on behalf of the Corporation The Series 2007 Bonds were issued at a premium, resulting in total proceeds of $148 6 The proceeds of the Series 2007 Bonds were loaned to the Corporation pursuant to a loan agreement with MHHEFA upon execution of an obligation pursuant to the Master Trust Indenture The Series 2007 Bonds were issued as $56 0 term bonds maturing 2042 and $89 0 term bonds maturing 2046 Such bonds were issued at fixed rates Series 2007 Bonds maturing on or after May 2042 are subject to redemption or purchase at the option of the Corporation prior to maturity beginning in 2016

In November 2011, MHHEFA issued $94 9 in bonds (Series 2011 Bonds) on behalf of the Corporation The proceeds of the Series 2011 Bonds were loaned to the Corporation pursuant to a loan agreement with MHHEFA upon execution of an obligation pursuant to the Master Trust Indenture The Series 2011 Bonds were issued as $53 9 serial bonds maturing 2012 through 2023 ($9 2 repaid through August 2013), $5 6 term bonds maturing 2031, and $35 4 term bonds maturing 2041 The Series 2011 Bonds maturing on or after August 2022 are subject to redemption or purchase at the option of the Corporation prior to maturity beginning in 2021 The Series 2011 Bonds were issued at fixed rates The proceeds from the transaction were used to refund $20 2 of the Series 1998 A&B bonds, to refund debt outstanding on the Corporation's Revolving Credit Facility, and to refund certain debt associated with MedStar St Mary's Hospital

In June 2012, the Corporation entered into a $38 6 MHHEFA Direct Purchase financing transaction with JP Morgan Chase Bank, N A (the Series 2012 Bond) The proceeds from the transaction were used to redeem certain outstanding MHHEFA Series 1998A bonds that were due to mature in 2018 as well as a portion of the outstanding MHHEFA Series 1998 A&B bonds due to mature in 2028 The repayment of the Series 2012 Bond is evidenced by an obligation issued under the Master Trust Indenture The term of the Series 2012 Bond is ten years and the repayment terms approximate the previous repayment terms of the Series 1998 bonds that were refunded Covenants, conditions, and security for the Series 2012 Bond is similar to the revolving credit agreement

In March 2013, MHHEFA issued $117 8 in bonds (Series 2013A Bonds) on behalf of the Corporation The Series 2013A Bonds were issued at a premium, resulting in total proceeds of $128 7 The proceeds of the Series 2013A Bonds were loaned to the Corporation pursuant to a loan agreement with MHHEFA upon execution of an obligation pursuant to the Master Trust Indenture The Series 2013A Bonds were issued as $60 9 serial bonds maturing 2016 through 2028, $17 3 term bonds maturing 2038, $25 0 term bonds due

2041, and $14 6 term bonds maturing 2041 The Series 2013A Bonds maturing on or after August 2024 are subject to redemption or purchase at the option of the Corporation prior to maturity beginning in 2023 The Series 2013A Bonds were issued at fixed rates The proceeds from the transaction were used to refund $51 7 of the Series 1998 A&B bonds, to fund various capital projects and capitalized interest on those projects

In May 2013, MHHEFA issued $149 8 in bonds (Series 2013B Bonds) on behalf of the Corporation The Series 2013B Bonds were issued at a premium, resulting in total proceeds of $159 4 The proceeds of the Series 2013B Bonds were loaned to the Corporation pursuant to a loan agreement with MHHEFA upon execution of an obligation pursuant to the Master Trust Indenture The Series 2013B Bonds were issued as $60 8 serial bonds maturing 2025 through 2033, $45 0 term bonds maturing 2038, and $44 0 term bonds maturing 2038 The Series 2013B Bonds maturing on or after August 2024 are subject to redemption or purchase at the option of the Corporation prior to maturity beginning in 2023 The Series 2013B Bonds were issued at fixed rates The proceeds from the transaction were used to refinance a portion of the bridge loan put in place when MedStar acquired the assets of Southern Maryland Hospital Center in December 2012

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

Under the Master Trust Indenture, the Corporation is required to maintain, among other covenants, a maximum annual debt service coverage ratio of not less than 1 10 Under the loan agreements relating to the Series 1998 Bonds, the Corporation is required to maintain a historical debt service coverage ratio of not less than 2 0 and to maintain at least 65 days cash on hand In the event the Corporation does not meet either of these requirements, it is required to fund a trustee-held debt service reserve fund securing the Series 1998 Bonds The amount to be deposited shall equal the lesser of 10% of the principal amount of such outstanding bonds, or the largest annual debt service with respect to such bonds in any future year, or 125% of the average annual debt service of future years As of June 30, 2013 and 2012, there were no funds required to be held in the debt service reserve fund for the Series 1998 Bonds

The Corporation maintains a $250 0 revolving credit agreement provided by a group of banks The facility was renewed in August 2013, and now has a three-year term expiring in August 2016 The facility is evidenced by an obligation issued under the Master Trust Indenture The outstanding balance on the facility was $129 8 at June 30, 2013 and $107 8 at June 30, 2012 As of June 30, 2013 and 2012, the outstanding balance being held in operating cash in order to maximize the Corporation's liquidity was $47 8 The facility includes certain covenants, including a requirement to maintain Days Cash on Hand of 70 days, measured semi-annually at each June 30 and December 31, and a Debt Service Coverage ratio of

1.25, measured quarterly on a rolling four quarters basis. In addition, the Corporation is required to maintain a minimum credit rating of Baa2 from Moody's Investor's Service, and BBB from Standard & Poor's and Fitch Ratings. In addition, the Corporation maintains a $30.0 letter of credit facility, provided by a single lender, which is also evidenced by an obligation issued under the Master Trust Indenture. This facility is principally used to securitize certain regulatory obligations under various insurance programs, and has terms and conditions similar to the revolving credit agreement. The facility was renewed in August 2013 and now has a three-year term expiring in August 2016. However, the standby letters of credit issued under the facility can be canceled at the bank's option each year. As of June 30, 2013 and 2012, standby letters of credit issued pursuant to the facility were $18.2 and $18.0, respectively. No amounts have been drawn by the beneficiaries under the standby letters of credit.

(7) Retirement Plans

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

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

The Corporation's investment policies are established by the MedStar Health, Inc.'s Investment Committee, which is comprised of members of the board of directors, other community leaders, and management. Among its responsibilities, the Investment Committee is charged with establishing and reviewing asset allocation strategies, monitoring investment manager performance, and making decisions to retain and terminate investment managers. Assets of each of the Corporation's pension plans are managed in a similar fashion by the same group of investment managers. The Corporation has incorporated an Investment Policy Statement (IPS) into the investment program. The IPS, which has been formally adopted by the Corporation's board of directors, contains numerous standards designed to ensure adequate diversification by asset class and geography. The IPS also limits all investments by manager and position size, and limits fixed income position size based on credit ratings, which serves to further mitigate the risks associated with the investment program. As of June 30, 2013 and 2012, management believes that all investments were being managed in a manner consistent with the IPS.

The Investment Committee has adopted certain target ranges for various asset classes within the pension portfolio. As of June 30, 2013 these targets included the investment of approximately 48% of the portfolio in publicly traded equities, 18% in fixed income securities, 23% in hedge funds and private equity, 10% in inflation hedging strategies (including real estate), and 1% in cash. As of June 30, 2012 these targets included the investment of approximately 49% of the portfolio in publicly traded equities, 25% in fixed income securities, 15% in hedge funds and private equity, 10% in inflation hedging strategies (including

real estate), and 1% in cash Actual asset allocations fluctuate depending upon gains and losses within asset classes over periods of time, the timing of plan contributions and distributions, and rebalancing decisions Due to these fluctuations, actual asset allocations could exceed these levels over certain periods in time

The following table illustrates the actual allocations as of June 30

	Actual allocation June 30, 2013	**Actual allocation June 30, 2012**
Publicly traded equities – domestic	34%	29%
Publicly traded equities – international	12	11
Fixed income securities	21	24
Alternative investments		
Commingled equity funds	9	7
Inflation hedging equity, commodity, fixed income fund	5	6
Hedge funds	13	11
Private equities	2	2
Cash	4	10
Total	100%	100%

(Continued)

The table below presents the Corporation's pension plans' investable assets as of June 30, 2013 aggregated by the three level valuation hierarchy

	Level 1	Level 2	Level 3	Total
Assets				
Cash and cash equivalents	$ 36 2	—	—	36 2
U S Treasury bonds	34 3	—	—	34 3
U S agency mortgage backed securities	31 5	—	—	31 5
Corporate bonds	—	43 8	—	43 8
Fixed income mutual funds	—	60 1	—	60 1
All other fixed income securities	0 6	16 4	—	17 0
Equity mutual funds and ETF's	80 5	—	—	80 5
Common stocks	326 1	—	—	326 1
Alternative investments				
Commingled equity funds	—	75 2	—	75 2
Inflation hedging equity, commodity, fixed income fund	—	47 9	—	47 9
Private equity	—	—	17 0	17 0
Hedge funds	—	—	111 4	111 4
Total assets	$ 509 2	243 4	128 4	881 0

(Continued)

The table below presents the Corporation's pension plans' investable assets as of June 30, 2012 aggregated by the three level valuation hierarchy

	Level 1	Level 2	Level 3	Total
Assets				
Cash and cash equivalents	$ 77 7	—	—	77 7
U S Treasury bonds	37 4	—	—	37 4
U S agency mortgage backed securities	31 8	—	—	31 8
Corporate bonds	—	41 0	—	41 0
Fixed income mutual funds	—	61 5	—	61 5
All other fixed income securities	0 1	16 8	—	16 9
Equity mutual funds and ETF's	56 6	—	—	56 6
Common stocks	254 0	—	—	254 0
Alternative investments				
Commingled equity funds	—	50 4	—	50 4
Inflation hedging equity, commodity, fixed income fund	—	47 0	—	47 0
Private equity	—	—	17 1	17 1
Hedge funds	—	—	82 4	82 4
Total assets	$ 457 6	216 7	99 5	773 8

For the years ended June 30, 2013 and 2012, there were no significant transfers between Levels 1, 2 or 3

(Continued)

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

		Private equity	Hedge funds	Total
Balance as of June 30, 2011	$	15 1	61 1	76 2
Additions				
Contributions/purchases		1 8	23 4	25 2
Disbursements				
Withdrawals/sales		(2 6)	(0 4)	(3 0)
Net change in value		2 8	(1 7)	1 1
Balance as of June 30, 2012		17 1	82 4	99 5
Additions				
Contributions/purchases		0 9	20 2	21 1
Disbursements				
Withdrawals/sales		(2 6)	(0 3)	(2 9)
Net change in value		1 6	9 1	10 7
Balance as of June 30, 2013	$	17 0	111 4	128 4

The following summarizes redemption terms for the hedge fund-of-funds vehicles held as of June 30, 2013

	Fund 1	Fund 2	Fund 3
Redemption timing			
Redemption frequency	Quarterly	Quarterly	Quarterly
Required notice	70 Days	90 Days	65 Days
Audit reserve			
Percentage held back for audit reserve	10%	10%	10%
Gates			
Potential gate holdback	—	—	—
Potential gate release timeframe	N/A	N/A	N/A

Investments in hedge fund-of-funds are typically carried at estimated fair value Fair value is based on the Net Asset Value (NAV) of the shares in each investment company or partnership Such investment companies or partnerships mark-to-market or mark-to-fair value the underlying assets and liabilities in accordance with U S GAAP Realized and unrealized gains and losses of the investment companies and partnerships are included in their respective operations in the current year Changes in unrealized gains or losses on investments, including those for which partial liquidations were effected in the course of the year, are calculated as the difference between the NAV of the investment at year-end less the NAV of the investment at the beginning of the year, as adjusted for contributions and redemptions made during the year and certain lock-up provisions Generally, no dividends or other distributions are paid

(Continued)

The following summarizes the status of contributions to the private equity fund-of-funds vehicles held as of June 30, 2013

		Total commitment	Percentage of commitment contributed	Percentage of commitment remaining
Fund 1	$	9 0	90 7%	9 3%
Fund 2		8 5	93 8	6 2
Fund 3		8 5	73 5	26 5
Total	$	26 0		

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

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

The Corporation has established a long-term investment return target of 8 00% and 8 25% for both PEP and CBRP in 2013 and 2012, respectively These assumptions are based on historical returns achieved in the investment portfolios over the last ten years and represent the return that can reasonably be expected to be generated on a similarly structured portfolio in the future

The Corporation recognizes the funded status of defined benefit pension plans in the consolidated balance sheets and the recognition in unrestricted net assets of unrecognized gains or losses, prior service costs or credits and transition assets or obligations The funded status is measured as the difference between the fair value of the plan's assets and the projected benefit obligation of the plan The measurement date for the plans is June 30

(Continued)

In November 2011, the collective bargaining agreement for the Service Employees International Union (SEIU) Local 722 was reached and communicated to employees. As part of the new agreement, the SEIU employees' pension benefit accruals were frozen as of December 31, 2011. As such, the CBRP was remeasured at November 30, 2011, the month in which the agreement was finalized and communicated. As a result of the remeasurement, the Corporation recognized a $39.7 reduction in net assets, which is included in the change in funded status of defined benefit plans in the consolidated statements of operations and changes in net assets.

By letter dated March 12, 2012, the IRS notified the Corporation that it has selected the retirement plans for a routine examination. The examination covers the plan year ended December 31, 2010.

The following are deferred pension costs which have not yet been recognized in periodic pension expense but instead are accrued in unrestricted net assets, as of June 30, 2013 and 2012. Unrecognized actuarial losses represent unexpected changes in the projected benefit obligation and plan assets over time, primarily due to changes in assumed discount rates and investment experience. Unrecognized prior service cost is the impact of changes in plan benefits applied retrospectively to employee service previously rendered. Deferred pension costs are amortized into annual pension expense over the expected future lifetime for active employees with frozen benefits.

	Amounts in unrestricted net assets to be recognized during the next fiscal year	Amounts recognized in unrestricted net assets as of June 30, 2013	Amounts recognized in unrestricted net assets as of June 30, 2012
Net actuarial loss	$ 14.2	547.2	654.2

(Continued)

The following table sets forth the plans' funded status and amounts recognized in the accompanying consolidated financial statements as of June 30, 2013 and 2012

		2013	2012
Change in benefit obligation			
Benefit obligation at beginning of year	$	1,244 1	1,039 7
Service cost		—	1 4
Interest cost		55 9	58 7
Participants contributions		—	0 2
Actuarial (gain) loss		(74 2)	184 9
Benefits paid		(42 8)	(40 1)
Curtailments		—	(0 9)
Settlements		—	0 2
Benefit obligation at end of year		1,183 0	1,244 1
Change in plan assets			
Plan assets at fair value at beginning of year		773 8	725 8
Actual return on plan assets		81 4	(22 2)
Company contributions		68 6	110 1
Plan participants' contributions		—	0 2
Benefits paid		(42 8)	(40 1)
Plan assets at fair value at end of year		881 0	773 8
Funded status/net amount recognized	$	(302 0)	(470 3)

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

		2013	2012
Pension assets (included in other assets)	$	2 9	—
Pension liabilities		(304 9)	(470 3)

Expected contributions for the defined benefit plans are $56 6 for the year ending June 30, 2014

The accumulated benefit obligation is $1,183 0 and $1,244 1 at June 30, 2013 and 2012, respectively

(Continued)

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

2014	$	56 2
2015		55 9
2016		57 6
2017		61 7
2018		65 2
2019-2023		371 1
Total	$	667 7

Net periodic pension expense for the years ended June 30, 2013 and 2012 is as follows

		2013	2012
Service cost – benefits earned during the year	$	—	1 4
Interest cost on projected benefit obligation		55 9	58 7
Return on plan assets		(65 3)	(59 6)
Net amortization and deferral		—	0 3
Recognized actuarial loss		16 7	15 3
Curtailment charges		—	(0 3)
Net periodic pension expense	$	7 3	15 8

(Continued)

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

	2013	2012
Discount rates for obligations at year end		
MedStar Health, Inc Pension Equity Plan	5 20%	4 60%
MedStar Health, Inc Cash Balance Retirement Plan	5 05	4 55
MedStar St Mary's Hospital Pension Plan	5 00	4 35
Discount rates for pension cost		
MedStar Health, Inc Pension Equity Plan – July 1 – June 30	4 60%	5 85%
MedStar Health, Inc Cash Balance Retirement Plan – July 1 – June 30	4 55	5 70
MedStar St Mary's Hospital Pension Plan – July 1 – June 30	4 35	5 60
Expected long-term rate of return on plan assets – PEP and CBRP	8 00%	8 25%
Expected long-term rate of return on plan assets – MedStar St Mary's Hospital	7 50	7 75
Rate of compensation increase for pension cost		
MedStar Health, Inc Cash Balance Retirement Plan – July 1 – June 30	N/A	4 00%

The Corporation also has various contributory, tax deferred annuity and savings plans with participation available to certain employees The Corporation matches employee contributions up to 3 0% of compensation in certain plans The Corporation contributed approximately $26 1 and $23 5 during the years ended June 30, 2013 and 2012, respectively

(8) Business and Credit Concentrations

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

The Corporation estimates the allowance for uncollectible accounts based on the aging of accounts receivable, historical collection experience, payor mix and other relevant factors A significant portion of the allowance for uncollectible accounts relates to self-pay patients, as well as co-payments and deductibles owed by patients with insurance There are various factors that can impact collection trends, such as changes in the economy, which in turn have an impact on unemployment rates and the number of uninsured and underinsured patients Other factors include the volume of patients through the emergency

departments and the increased level of co-payments and deductibles due from patients with insurance These factors continuously change and can have an impact on collection trends and the estimation process

The activity in the allowance for uncollectible accounts is summarized as follows for the years ended June 30, 2013 and 2012

		2013	2012
Beginning balance	$	189 7	238 6
Provision for bad debts		214 5	191 3
Write-offs		(199 9)	(240 2)
Ending balance	$	204 3	189 7

As of June 30, 2013 and 2012, the Corporation's allowance for uncollectible accounts was approximately 27 2% and 26 0%, respectively, as a percentage of patient service receivables The Corporation's provision for bad debts represents 5 2% and 4 9% of net patient service revenue for the years ended June 30, 2013 and 2012, respectively In fiscal year 2012, the Corporation had a higher level of write-offs of accounts that were previously reserved, due to the transition of one of the billing services departments to the centralized hospital billing operations

A summary of net patient service revenue by major category of payor for the years ended June 30, 2013 and 2012 is as follows

	2013	2012
Medicare and Medicare HMO	35%	35%
Medicaid and Medicaid HMO	13	14
Carefirst Blue Cross Blue Shield	18	18
Other commercial and managed care payors	26	25
Self-pay	8	8
	100%	100%

A summary of net patient receivables by major category of payor as of June 30, 2013 and 2012 is as follows

	2013	2012
Medicare and Medicare HMO	27%	27%
Medicaid and Medicaid HMO	19	19
Carefirst Blue Cross Blue Shield	13	13
Other commercial and managed care payors	29	29
Self-pay	12	12
	100%	100%

(Continued)

Under the Maryland Health Services Cost Review Commission (HSCRC) rate methodology, amounts payable for services in 2013 and 2012 to Maryland hospital patients under the Medicare and Medicaid insurance programs are computed at 94% of regulated charges This discount amount does not include MCO granted discounts for medical education Hospital patients under the Blue Cross and approved health maintenance organization insurance programs are computed at 98% of regulated charges Maryland accounts receivable from these third-party payors have been adjusted to reflect the difference between charges and the payable amounts

Certain Maryland-based hospital charges are subject to review and approval by the HSCRC The HSCRC has jurisdiction over hospital reimbursement in Maryland by agreement with the Centers for Medicare and Medicaid Services (CMS) This agreement is based on a waiver from the Medicare Prospective Payment System reimbursement principles granted under Section 1814(b) of the Social Security Act The waiver will continue as long as cumulative comparisons of cost per admission between Maryland and the nation continue to be favorable Management believes that the waiver will remain in effect at least through June 30, 2014

Effective July 1, 2000 through June 30, 2003 under a contract with the HSCRC and the Maryland Hospitals, a charge per case methodology was implemented to more effectively tie compliance standards to waiver performance Under this methodology, actual charges per case are required to meet hospital specific targets established by the HSCRC, which are adjusted for changes in actual case-mix The HSCRC and Maryland Hospitals completed a three year contract that expired on June 30, 2006 and has been renewed annually During the Corporation's 2012 fiscal year, the Maryland Hospitals signed a new three year agreement that changed the charge per case target to a charge per episode target defining episode as inpatient care provided within 30 days Effective July 1, 2010 the HSCRC modified its rate setting methodologies to expand the use of observation services, which resulted in certain one-day stay cases that used to be considered as inpatient admissions and are now considered as outpatient visits

Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount Management periodically reviews recorded amounts receivable from or payable to third-party payors and may adjust these balances as new information becomes available In addition, revenue received under certain third-party agreements is subject to audit During 2013 and 2012, certain of the Corporation's prior year third-party cost reports were audited and settled, or tentatively settled, by third-party payors Adjustments resulting from such audits and management reviews of unaudited years and open claims are reflected as adjustments to revenue in the year that the adjustment becomes known The effect of these adjustments was to increase net patient service revenue by $16 1 and $13 4 during the years ended June 30, 2013 and 2012, respectively Although certain other prior year cost reports submitted to third-party payors remain subject to audit and retroactive adjustment, management does not expect any material adverse settlements

The Budget Control Act of 2011 (the Budget Control Act) mandated significant reductions and spending caps on the federal budget for fiscal years 2012 through 2021 As part of this legislation, a 2% reduction in Medicare spending, known as Sequestration, was implemented beginning April 1, 2013 and the Corporation's Medicare payments subsequent to that date were reduced by the mandatory 2% It is not

possible to determine how future congressional actions to reduce the federal deficit in order to end Sequestration will impact the Corporation's revenues

Through its MedStar Family Choice, Inc subsidiary, the Corporation enters into fee-for-service and capitation agreements with independent health professionals and organizations to provide covered services to eligible enrollees where such services cannot be provided by its employed physicians or controlled entities Medical and clinical expenses from these agreements include claim payments, capitation payments, and estimates of outstanding claims liabilities for services provided prior to the balance sheet date The estimates of outstanding claims liabilities ($17 0 and $12 8 as of June 30, 2013 and 2012, respectively), are based on management's analysis of historical claims paid reports and as well as review of health services utilization during the period Changes in these estimates are recorded in the period of change Claims payments and capitation payments are expensed in the period services are provided to eligible enrollees

(9) Certain Significant Risks and Uncertainties

The Corporation provides general healthcare services in the State of Maryland, the District of Columbia and Northern Virginia As a healthcare provider, the Corporation is subject to certain significant inherent risks, including the following

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

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

The Medicare and state Medicaid reimbursement programs represent a substantial portion of the Corporation's revenues and the Corporation's operations are subject to a variety of other federal, state and local regulatory requirements In addition, changes in federal and state reimbursement funding mechanisms and related government budgetary constraints could have a significant adverse effect on the Corporation Similarly, failure by the Corporation to maintain required regulatory approvals and licenses and/or changes in related regulatory requirements could have a significant adverse effect

The healthcare industry is subject to numerous laws and regulations from federal, state and local governments, and the government has increased enforcement of Medicare and Medicaid anti-fraud and abuse laws, as well as physician self referral laws (STARK law and regulation) The Corporation's compliance with these laws and regulations is subject to periodic governmental review, which could result in enforcement actions unknown or unasserted at this time The Corporation is aware of certain asserted and unasserted legal claims by the government, and has provided requested information The final outcomes of these government investigations cannot be determined at this time

Recent federal initiatives have prompted a national review of federally funded healthcare programs To this end, the federal government, and many states, implemented programs to audit and recover potential overpayments to providers from the Medicare and Medicaid programs Since June 2010, the Corporation's hospitals have received audit requests from the Medicare Recovery Audit Contractor (RAC) program These RAC audit requests have focused on medical necessity of inpatient admissions and hospital coding practices In addition, the hospitals have continued to receive routine audit requests from other Medicare contractors and the Office of Inspector General The Corporation's hospitals have cooperated with each of these audit requests and implemented a program to track and manage their effect

As a result of recently enacted and pending federal healthcare reform legislation, rules and regulations, substantial changes are occurring in the United States healthcare system These include 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 significantly affect the 2013 or 2012 consolidated financial statements

The Corporation, in the normal course of business, is a party to legal and regulatory proceedings These include a lawsuit filed in June 2011 by several MedStar Washington Hospital Center (MWHC) employees alleging violations by the Corporation of wage-hour laws The plaintiffs in this action are seeking certification of a class that would include hourly employees at all of the Corporation's hospitals The Corporation is opposing class certification and taking other steps to defend itself and the hospitals in this litigation The final outcome of this litigation cannot be determined at this time

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

(10) Self-Insurance Programs

The Corporation maintains self-insurance programs for professional and general liability risks, employee health and workers' compensation Estimated liabilities have been recorded based on actuarial estimation of reported and incurred but not reported claims The combined accrued liabilities for these programs at June 30, 2013 and 2012 were as follows

		2013	2012
Professional and general liability	$	285 9	257 7
Employee health		21 9	18 3
Workers' compensation		32 9	31 7
Total liabilities		340 7	307 7
Less current portion		(87 5)	(79 5)
	$	253 2	228 2

(Continued)

The Corporations' self insurance program for professional and general liability is responsible for the following exposures as of June 30, 2013

(a) For professional liability during the periods of July 1, 2011 to June 30, 2012 and July 1, 2012 to June 30, 2013, for all MedStar entities except MedStar Montgomery Medical Center and MedStar St Mary's Hospital, the Corporation is responsible for the first $5 0 exposure for each and every claim plus an additional exposure above $5 0 referred to as an "inner aggregate "

For the period July 1, 2011 to December 31, 2012 the applicable inner aggregate was the inner aggregate that was in effect for the 24 month period January 1, 2010 through December 31, 2012 This inner aggregate exposed the Corporation to up to $2 5 per claim above the $5 0 per claim self-insured retention up to a total of $5 0 above the $5 0 per claim self-insured retention for all claims incurred during the period January 1, 2011 through December 31, 2012

For the period January 1, 2013 to June 30, 2013 the applicable inner aggregate was the inner aggregate that was in effect for the 12 month period January 1, 2013 through December 31, 2013 This inner aggregate exposes the Corporation to up to $3 0 per claim above the $5 0 per claim self-insured retention up to a total of $6 0 above the $5 0 per claim self-insured retention for all claims incurred during the period January 1, 2013 through December 31, 2013

For MedStar Montgomery Medical Center and MedStar St Mary's Hospital, the Corporation is responsible for the first $2 0 exposure for each claim (not subject to the inner aggregate structures noted above)

Effective December 10, 2012, Southern Maryland Hospital joined the MedStar Health system as MedStar Southern Maryland Hospital Center (MSMHC) MSMHC is covered for all professional liability exposure for activities on or after December 10, 2012 under the same program of coverage described above The Corporation did not assume responsibility for Southern Maryland Hospital's prior acts exposure or any tail claims that might arise in future years related to activities that occurred prior to the acquisition by MedStar

(b) For general liability, the Corporation is responsible for the first $3 0 exposure for each claim (for MedStar Montgomery Medical Center, the first $2 0 exposure for each claim) General liability claims are not subject to the inner aggregate excess retention MSMHC is covered under the Corporation's general liability program effective December 10, 2012

(c) Commercial excess re-insurance has been purchased above the self-insured retentions described above in multiple layers and in twin towers for professional and general liability During the period of July 1, 2011 to December 31, 2012, each tower has seven layers of excess re-insurance coverage which provides coverage of up to $100 0 per claim and $100 0 in the annual aggregate Effective January 1, 2013, the Corporation purchased an additional layer of commercial excess re-insurance During the period of January 1, 2013 through June 30, 2013, each tower has eight layers of excess re-insurance which provides coverage of up to $125 0 per claim and $125 0 in the annual aggregate The Corporation maintains reinsurance contracts with various "A" rated commercial insurance companies

The professional and general liabilities as of June 30, 2013 and 2012 have been discounted at a rate of 1.75% and 1.25%, respectively. The workers' compensation liabilities as of June 30, 2013 and 2012 have been discounted at a rate of 1.50%.

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

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(11) Unrestricted Net Assets

The Corporation accounts for and presents noncontrolling interests in a consolidated subsidiary as a separate component of the appropriate class of consolidated net assets The income attributable to noncontrolling interests is included within operating income on the consolidated statements of operations and changes in net assets The following table presents a reconciliation of the changes in consolidated unrestricted net assets attributable to the Corporation's controlling interest and noncontrolling interest, including amounts such as the performance indicator and other changes in unrestricted net assets as of and for the years ended June 30, 2013 and 2012

	MedStar Health, Inc.	Noncontrolling interests	Total unrestricted net assets
Balance as of June 30, 2011	$ 904 4	7 8	912 2
Excess of revenues over expenses	65 7	4 2	69 9
Change in funded status of defined benefit plans	(250 8)	—	(250 8)
Net assets released for property and equipment	7 6	—	7 6
Distributions to noncontrolling interests	—	(3 3)	(3 3)
(Decrease) increase in unrestricted net assets	(177 5)	0 9	(176 6)
Balance as of June 30, 2012	726 9	8 7	735 6
Excess of revenues over expenses	180 6	5 1	185 7
Change in funded status of defined benefit plans	106 9	—	106 9
Net assets released for property and equipment and other	3 0	1 9	4 9
Distributions to noncontrolling interests	—	(6 3)	(6 3)
Increase in unrestricted net assets	290 5	0 7	291 2
Balance as of June 30, 2013	$ 1,017 4	9 4	1,026 8

(Continued)

(12) Temporarily and Permanently Restricted Net Assets

Temporarily and permanently restricted net assets as of June 30, 2013 and 2012 are available for the following purposes

		2013	2012
Temporary restrictions			
Interest in net assets of foundation	$	54 8	48 5
Other		44 2	32 0
	$	99 0	80 5
Permanent restrictions			
Investments to be held in perpetuity, the income from which is available to support healthcare services	$	39 1	37 4

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

(13) Endowment Net Assets

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

(a) Interpretation of Relevant Law

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

(1) The duration and preservation of the fund

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

(3) General economic conditions

(Continued)

(4) The possible effect of inflation and deflation

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

(6) Other resources of the Corporation

(7) The investment policies of the Corporation

(b) Endowment Net Assets Consist of the Following as of June 30, 2013

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor-restricted endowment funds	$ —	3 6	39 1	42 7
Total endowed net assets	$ —	3 6	39 1	42 7

(c) Endowment Net Assets Consist of the Following as of June 30, 2012

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor-restricted endowment funds	$ (0 4)	1 4	37 4	38 4
Total endowed net assets	$ (0 4)	1 4	37 4	38 4

(d) Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or SPMIFA requires the Corporation to retain as a fund of perpetual duration In accordance with U S GAAP, deficiencies of this nature that are reported in unrestricted net assets were $0 and $0 4 as of June 30, 2013 and 2012, respectively These deficiencies resulted from unfavorable market fluctuations

(e) Investment Strategies

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

(Continued)

endowment funds, over time, to provide an average rate of return that generates earnings to achieve the endowment purpose

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

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

(14) Income Taxes

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

The Corporation's taxable subsidiaries have approximately $231 4 of net operating loss (NOL) carryforwards as of June 30, 2013, which expire in varying periods through 2033, available to offset future taxable income This NOL carryforward represents $87 9 of gross deferred tax assets In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment During the years ended June 30, 2013 and 2012, the Corporation increased its net deferred tax asset by $1 8 and $4 3 respectively, which was recorded in nonoperating income The remaining amount of the deferred tax asset considered realizable, $31 5 as of June 30, 2013, could be reduced if estimates of future taxable income during the carry forward period are reduced The current tax provisions for the years ended June 30, 2013 and 2012 were immaterial

(15) Charity Care

The Corporation's hospitals utilize a cost to charge ratio methodology to convert charity care to cost The estimated cost of services provided is determined based on the relationship of total operating costs to gross charges Total operating costs for purposes of this ratio exclude bad debt expense as well as costs associated with community benefit activities Total gross patient charges are then offset with any related reimbursements The Corporation provided $51 5 and $48 2 of charity care at cost during the years ended June 30, 2013 and 2012, respectively, based on the cost to charge ratio

(Continued)

In addition to charity care, the Corporation funds numerous programs designed to benefit the healthcare interests of the communities it serves, examples of which are health education programs and services, health information and referral services, school-based clinics, public health screenings and home care The costs associated with these programs are recorded in the appropriate operating expense categories

(16) Leases

The Corporation is obligated under various operating leases with initial terms of one year or more Aggregate future minimum payments as of June 30, 2013 are as follows

2014	$	46 6
2015		32 1
2016		25 2
2017		18 9
2018		13 6
2019 and thereafter		40 2
Total minimum lease payments	$	176 6

Certain leases include provisions allowing the minimum rental payments to be adjusted annually for increases in operating costs and, in some cases, real estate taxes attributable to leased property Total rental expense for all operating leases amounted to approximately $56 0 and $59 0 during the years ended June 30, 2013 and 2012, respectively

(17) Commitments and Contingencies

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

In recognition of the value of the transaction, the Corporation shall annually pay the University 50% of the amount by which the combined operating earnings before interest, taxes, depreciation and amortization (EBITDA), as defined in the asset purchase agreement, of certain entities of the Corporation in the Washington D C area (collectively referred to as the Washington Clinical Enterprises) exceeds $60 0,

subject to certain adjustments These additional payments expire when cumulative payments reach $70 0 The Corporation paid $14 5 to the University through the year ended June 30, 2013

The Corporation also entered into an Academic Affiliation and Operations Agreement (Affiliation Agreement) with the University The purpose of this agreement is to make available to the University the facilities of the Transferred Businesses and provide the Corporation with a first-class University medical center The University shall make payments to the Corporation determined by multiplying the University School of Medicine's total undergraduate tuition revenue by 36% for providing teaching services The Corporation recognized $12 8 and $12 3 of tuition revenue during the years ended June 30, 2013 and 2012, respectively In support of academic programs at the University, for each fiscal year following the termination of the additional payment terms in the asset purchase agreement described above, the Corporation shall pay to the University 17 5% of the operating EBITDA of the Washington Clinical Enterprises in excess of $60 0, subject to certain adjustments No amounts have been paid under this Affiliation Agreement through June 30, 2013

The Corporation and the University also entered into a Research Agreement to sustain and advance a program of health-related University research at the Transferred Business facilities Under this agreement the University is required to reimburse the Corporation for certain costs incurred by the Corporation in support of University sponsored research Amounts reimbursed to the Corporation were $3 1 and $3 0 for the years ended June 30, 2013 and 2012, respectively

MedStar Georgetown University Hospital and the University are parties to a fixed fee shared services agreement Georgetown University provided to MedStar Georgetown University Hospital the following services utilities, telephone/IT services, transportation services and library services Expenses charged for such services were $12 2 and $12 3 for the years ended June 30, 2013 and 2012, respectively

The MedStar Washington Hospital Center campus is subject to the lien of a Permitted Encumbrance in the amount of $21 5 to the United States government This encumbrance was created in the deed of the hospital property from the United States government to MedStar Washington Hospital Center in February 1960 There is no repayment date for this lien stated in the deed Under enabling legislation, repayment could be required after a determination that the property is no longer required for hospital services or the property is disposed of, in which event all or a portion of the lien may be payable to the government This lien is subordinated to the Deed of Trust on the MedStar Washington Hospital Center campus

(18) Functional Expenses

The Corporation considers integrated health services, research and management and general to be its primary functional categories for purposes of expense classification Management and general include information systems, general corporate management, advertising and marketing Functional categories of expenses for the years ended June 30, 2013 and 2012 are as follows

		2013	2012
Integrated health services	$	3,319 9	3,130 5
Management and general		782 9	713 1
Research		31 0	30 9
Fundraising		4 6	7 8
	$	4,138 4	3,882 3

(19) Subsequent Events

Management evaluated all events and transactions that occurred after June 30, 2013 and through October 4, 2013 The Corporation did not have any events that were required to be recognized or disclosed