KPMG

CARROLL COUNTY HEALTH SERVICES CORPORATION AND SUBSIDIARIES

Consolidated Financial Statements and Supplemental Schedules

June 30, 2014 and 2013

(With Independent Auditors' Report Thereon)

CARROLL COUNTY HEALTH SERVICES CORPORATION
AND SUBSIDIARIES

Table of Contents

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

Independent Auditors' Report

The Board of Directors
Carroll County Health Services Corporation and Subsidiaries:

We have audited the accompanying consolidated financial statements of Carroll County Health Services Corporation and Subsidiaries (the Health System), which comprise the consolidated balance sheets as of June 30, 2014 and 2013, and the related consolidated statements of operations, 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 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 auditors consider 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 Carroll County Health Services Corporation and Subsidiaries as of June 30, 2014 and 2013, and the results of their operations and their cash flows for the years then ended, in accordance with U.S. generally accepted accounting principles.

Other Matter

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplementary information included in Schedules 1 through 4 is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

KPMG LLP

October 24, 2014

CARROLL COUNTY HEALTH SERVICES CORPORATION
AND SUBSIDIARIES

Consolidated Balance Sheets

June 30, 2014 and 2013

(In thousands)

Assets		**2014**	**2013**
Current assets:			
Cash and cash equivalents	$	28,144	41,176
Short-term investments		14,800	14,615
Current portion of assets limited as to use		20,164	13,848
Patient receivables, net of allowance for uncollectible of $9,468 in 2014 and $8,249 in 2013		30,440	27,481
Other receivables		2,542	2,970
Inventory		4,028	3,937
Prepaid expenses		6,378	6,709
Total current assets		106,496	110,736
Property and equipment, net		170,865	161,406
Long-term investments		66,458	59,965
Long-term investments – other		20,745	21,749
Investments in joint ventures		3,696	4,007
Assets limited as to use, less current portion		21,252	24,244
Other assets		14,737	14,897
Total assets	$	404,249	397,004
Liabilities and Net Assets			
Current liabilities:			
Current portion of long-term debt	$	5,717	3,760
Current obligation under capital lease		555	406
Accounts payable and accrued expenses		31,420	36,674
Accrued payroll and related taxes		12,657	10,719
Deferred revenue		153	94
Advances from third-party payors		6,505	6,716
Total current liabilities		57,007	58,369
Long-term debt, less current portion		135,963	137,813
Long-term obligation under capital lease, less current portion		598	337
Other liabilities		24,964	27,469
Accrued pension and postretirement benefits		7,808	9,592
Total liabilities		226,340	233,580
Net assets:			
Unrestricted:			
Unrestricted net assets		162,023	147,079
Noncontrolling interest in consolidated subsidiaries		4,511	4,747
Total unrestricted net assets		166,534	151,826
Restricted:			
Temporarily restricted		10,202	10,425
Permanently restricted		1,173	1,173
Total restricted net assets		11,375	11,598
Total net assets		177,909	163,424
Total liabilities and net assets	$	404,249	397,004

See accompanying notes to consolidated financial statements.

CARROLL COUNTY HEALTH SERVICES CORPORATION AND SUBSIDIARIES

Consolidated Statements of Operations

Years ended June 30, 2014 and 2013

(In thousands)

	2014	2013
Unrestricted revenues, gains, and other support:		
Patient service revenue (net of contractuals)	$ 273,624	267,724
Less provision for bad debts	9,921	7,406
Net patient service revenue	263,703	260,318
Other operating revenues	22,702	25,205
Net assets released from restrictions used for operations	16	17
Total unrestricted revenues, gains, and other support	286,421	285,540
Expenses:		
Salaries and wages	123,169	120,810
Employee benefits	19,308	24,260
Departmental supplies and expenses	49,719	46,904
Professional fees	24,567	18,724
Purchased services	38,489	39,960
Depreciation and amortization	18,125	17,995
Interest	6,004	6,183
Total expenses	279,381	274,836
Operating income	7,040	10,704
Other income (expense):		
Investment income	9,732	6,262
Unrestricted gifts	1,153	1,343
Change in fair value of interest rate hedge, including settlement payments	(2,107)	4,959
Other, net	(1,113)	(855)
Excess of revenues over expenses	$ 14,705	22,413

See accompanying notes to consolidated financial statements.

CARROLL COUNTY HEALTH SERVICES CORPORATION
AND SUBSIDIARIES

Consolidated Statements of Changes in Net Assets

Years ended June 30, 2014 and 2013

(In thousands)

		Unrestricted net assets	Temporarily restricted net assets	Permanently restricted net assets	Total net assets
Balance at June 30, 2012	$	119,267	10,528	1,115	130,910
Excess of revenues over expenses		22,413	—	—	22,413
Restricted gifts, bequests, and contributions		—	3,176	58	3,234
Change in unrealized gains/losses other than trading securities		—	165	—	165
Net assets released from restrictions used for capital expenditures		3,427	(3,427)	—	—
Net assets released from restrictions used for operations		—	(17)	—	(17)
Distributions to noncontrolling owners		(1,670)	—	—	(1,670)
Contributions from noncontrolling owners		46	—	—	46
Change in funded status of pension plan and postretirement		8,343	—	—	8,343
Changes in net assets		32,559	(103)	58	32,514
Balance at June 30, 2013		151,826	10,425	1,173	163,424
Excess of revenues over expenses		14,705	—	—	14,705
Restricted gifts, bequests, and contributions		—	2,615	—	2,615
Change in unrealized gains/losses other than trading securities		—	192	—	192
Net assets released from restrictions used for capital expenditures		3,014	(3,014)	—	—
Net assets released from restrictions used for operations		—	(16)	—	(16)
Distributions to noncontrolling owners		(1,730)	—	—	(1,730)
Contributions from noncontrolling owners		30	—	—	30
Change in funded status of pension plan and postretirement		(1,311)	—	—	(1,311)
Changes in net assets		14,708	(223)	—	14,485
Balance at June 30, 2014	$	166,534	10,202	1,173	177,909

See accompanying notes to consolidated financial statements.

CARROLL COUNTY HEALTH SERVICES CORPORATION
AND SUBSIDIARIES

Consolidated Statements of Cash Flows

Years ended June 30, 2014 and 2013

(In thousands)

		2014	2013
Cash flows from operating activities:			
Change in net assets	$	14,485	32,514
Adjustments to reconcile change in net assets to net cash provided by operating activities:			
Depreciation and amortization		18,125	17,995
Provision for bad debts		9,921	7,406
Change in funded status of pension plan and postretirement		1,311	(8,343)
Equity in earnings of joint ventures and alternative investments		(2,378)	(1,494)
Loss (gain) on disposition of property and equipment		21	(10)
Distributions to noncontrolling interest holder		1,730	1,670
Contributions from non controlling interest holder		(30)	(46)
Restricted gifts, bequests, and contributions		(2,615)	(3,234)
Change in net unrealized gains on investments		(3,530)	(1,877)
Realized gains on sales of investments		(353)	(475)
Change in unrealized and realized losses (gains) on derivative instruments		2,107	(4,959)
Changes in assets and liabilities:			
Patient and other receivables		(12,452)	(9,850)
Inventory		(91)	43
Prepaid expenses		331	(3,350)
Other assets		(468)	2,432
Accounts payable, accrued expenses, accrued payroll and related taxes, and other liabilities		(9,720)	6,580
Deferred revenue		59	(74)
Advances from third-party payors		(211)	(1,775)
Net cash provided by operating activities		16,242	33,153
Cash flows from investing activities:			
Purchases of property and equipment, net		(26,296)	(25,510)
Proceeds from sale of property and equipment		262	175
Investment in joint ventures		(210)	333
Net purchases of investments		(80)	(7,355)
Net purchases (sales) of assets limited as to use, net		(3,132)	3,935
Distributions from joint ventures		996	135
Payment on derivative instrument		(1,303)	(1,272)
Net cash used in investing activities		(29,763)	(29,559)
Cash flows from financing activities:			
Proceeds from issuance of long-term debt		3,767	2,435
Payments on long-term debt		(3,660)	(1,604)
Payments on capital lease obligation		(533)	(374)
Distributions to noncontrolling interest holder		(1,730)	(1,670)
Contributions from noncontrolling interest holder		30	46
Proceeds from restricted gifts, bequests, and contributions		2,615	3,234
Net cash provided by financing activities		489	2,067
Net decrease in cash and cash equivalents		(13,032)	5,661
Cash and cash equivalents, beginning of year		41,176	35,515
Cash and cash equivalents, end of year	$	28,144	41,176
Supplemental cash flow information:			
Interest paid	$	6,172	5,046
Medical office building		662	282
Additions to property and equipment for capital leases and other obligations		943	3,704

See accompanying notes to consolidated financial statements.

(1) Summary of Significant Accounting Policies

(a) Organization

Carroll County Health Services Corporation (CCHS) is a private, not-for-profit, nonstock Maryland membership corporation. The accompanying consolidated financial statements include the accounts of the CCHS and its wholly or partially owned subsidiaries, as described below (collectively referred to as the Health System).

Carroll Hospital Center, Inc. (the Hospital) is a not-for-profit entity engaged in providing comprehensive healthcare services through an integrated network in Carroll County, Maryland. The Hospital is a wholly owned subsidiary of CCHS. Wholly and partially owned subsidiaries of the Hospital include the following:

- *Carroll Hospital Center Foundation, Inc.* (the Foundation) is a wholly owned subsidiary, which is a charitable organization formed with the intent of fund-raising for the Hospital and Carroll Hospice, Inc.
- *Carroll Hospice, Inc.* (CH) is a wholly owned subsidiary, which provides healthcare services to terminally ill patients.
- *Cen-Mar Assurance Co.* (the Captive or Cen-Mar) is a wholly owned subsidiary managed by Marsh Management Services (Cayman) Ltd. The Captive is an offshore, medical malpractice insurance company domiciled in the Cayman Islands.
- *Carroll County Radiology, LLC* (CCR) is a 60% owned, consolidated joint venture that provides outpatient diagnostic imaging services.

Carroll County Med-Services, Inc. (CCMS) is a wholly owned subsidiary of CCHS that is involved in real estate holdings, physician recruitment, and support service activities and maintains ownership interests in various joint ventures as described in note 7. Wholly owned subsidiaries of CCMS include: Carroll Health Group, LLC, which is a multi-specialty physician practice, Carroll County CMO, LLC, which is a contract management organization for physician's on CHC's medical staff that obtain fee-for-service contracts with payors and Carroll PHO LLC, which is a collaboration among physicians and CHC that focuses on care coordination and health information sharing and solutions. Carroll Care Pharmacies, LLC is a 60% owned and consolidated joint venture that owns and operates retail pharmacies. Carroll Occupational Health, LLC is a 75% owned and consolidated joint venture that provides occupational health and wellness services.

(b) Basis of Presentation

The consolidated financial statements are prepared on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles (GAAP). All majority-owned and direct member entities are consolidated. All entities where the Health System 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.

(c) Use of Estimates

The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(d) Excess of Revenues over Expenses

The consolidated statements of operations and changes in net assets include a performance indicator, excess of revenues over expenses. Changes in unrestricted net assets that are excluded from excess of revenue 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), certain changes in accounting principle, contribution from and distributions to noncontrolling owners and defined benefit obligations in excess of recognized pension cost, among others.

(e) Cash and Cash Equivalents

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

(f) Inventory

Inventory, which primarily consists of medical supplies and pharmaceuticals, is stated at the lower of cost or market, with cost being determined primarily under the average cost or first-in, first-out methods.

(g) Assets Limited as to Use

Assets limited as to use primarily include assets held by trustees under bond indenture agreements, self-insurance trust arrangements, collateral related to derivative instruments and lines of credit, pledges receivable, 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.

(h) Property and Equipment, net

Property and equipment acquisitions are recorded at cost and are depreciated over the estimated useful lives of the assets. Estimated useful lives range from 3 to 50 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.

(In thousands)

The Health System periodically evaluates the realizability of property and equipment based upon projected undiscounted cash flows and operating income for each business. There were no impairments of long lived assets during the years ended June 30, 2014 and 2013.

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	5–50 years
Equipment	3–10 years

Gifts of long-lived assets, such as land, building, 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 reported are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as temporarily restricted net assets. Absent explicit donor stipulations about how long those long-lived assets must be maintained, expirations of donor restrictions are reported as released from restrictions when the donated or acquired long-lived assets are placed in service.

(i) Long-Term Investments and Long-Term Investment – Other

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

The Health System has investments in alternative investments, primarily hedge funds of funds totaling $20,745 and $21,749 at June 30, 2014 and 2013, 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 investment income on the consolidated statements of operations and changes in net assets.

Investment income (interest and dividends) including realized gains and losses on investment sales are reported as other income (expense) 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. Realized gains and losses are determined based on the specific security's original purchase price and recorded as investment income within the excess of revenues over expenses. Unrealized gains and losses are included as investment income within the excess of revenue over expenses.

(j) Investments in Joint Ventures

In addition to investments in CCR, Carroll Care Pharmacies, LLC, Carroll Occupational Health, LLC described in note 1(a), CCMS and the Hospital have investments in unconsolidated affiliates for which their ownership interests range from less than 1% to 50%, as noted in 1(a).These investments are accounted for under the cost or equity method of accounting, as appropriate and are included in Investments in joint ventures in the consolidated balance sheets. The Health System utilizes the equity method of accounting for its investments in entities over which it exercises significant influence. The Health System's equity income or loss is recognized in investment income.

(k) Derivative Instruments

The Health System accounts for derivatives and hedging activities in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 815, *Derivatives and Hedging*, which requires that all derivative instruments be recorded on the balance sheet at their respective fair values. In addition, for those derivative instruments that meet the criteria of an effective fair value hedge, it requires the hedged item to be recorded at fair value.

The Health System utilizes derivative financial instruments to manage its interest rate risks associated with tax-exempt debt. The Health System does not hold or issue derivative financial instruments for trading purposes. The Health System's current derivative instruments do not qualify for hedge accounting, therefore, the changes in fair value and settlement payments made or received have been recognized in other income (expenses) on the consolidated statements of operations and changes in net assets as mark-to-market adjustments including the credit valuation adjustment.

(l) Bond Issuance and Financing Costs

Costs related to issuance of debt instruments are deferred and amortized using the effective-interest method over the life of the instrument. Accumulated amortization was $319 and $245 as of June 30, 2014 and 2013, respectively.

(m) Net Patient Service Revenue

Patient service revenue of the Hospital is recorded at rates established by the State of Maryland Health Services Cost Review Commission (HSCRC) and, accordingly, reflects actual charges to patients based on rates in effect during the period in which the services are rendered.

Effective July 1, 2010, the Hospital and the HSCRC agreed to a three year contract for the Hospital to implement the Total Patient Revenue (TPR) methodology, which was renewed for an additional three year period effective July 1, 2013. The TPR agreement establishes a prospective, fixed revenue base, the "TPR cap," for the upcoming year. This includes both inpatient and outpatient regulated services. Under TPR, the Hospital's revenue for all HSCRC regulated services is predetermined for the upcoming year, regardless of changes in volume, service mix intensity, or mix of inpatient or outpatient services that occurred during the year. The TPR agreement allows the Hospital to adjust unit rates, within certain limits, to achieve the overall revenue base for the Hospital at year end. Any overcharge or undercharge versus the TPR cap is prospectively added to the subsequent year's TPR cap. Although the TPR cap does not adjust for changes in volume or service mix, the TPR cap is adjusted annually for inflation, and for changes in payor mix and uncompensated care. Beginning in year three of the three year contract, the Hospital will receive an annual adjustment to its cap for the change in population in the Hospital's service area. TPR is designed to encourage hospitals to operate efficiently by reducing utilization and managing patients in the appropriate care delivery setting.

(In thousands)

Net patient service revenue for CH, CCMS and CCR is recorded at established rates net of contractual adjustments. Contractual adjustments result from the terms of certain reimbursement contracts.

(n) Provision for Bad Debts

Patient accounts receivable are reduced by provision for bad debts. In evaluating the collectability of accounts receivable, the Health System analyzes historical collections and write-offs and identifies trends for each of its major payor sources of revenue to estimate the appropriate provision for bad debts and provision for uncollectible accounts. Management regularly reviews its estimate and evaluates the sufficiency of the allowance for bad debts. The Health System analyzes contractual amounts due from patients who have third-party coverage and provides an allowance for doubtful accounts and a provision for bad debts. For patient accounts receivable associated with self-pay patients, which includes those patients without insurance coverage existing for a portion of the bill, the Health System records a significant provision for bad debts for patients that are unable or unwilling to pay for the portion of the bill representing their financial responsibility. Account balances are charged off against the allowance for bad debts after all means of collection has been exhausted.

The following table sets forth the components of the change in the allowance for uncollectible accounts for the years ended June 30:

		2014	2013
Beginning balance as of July 1	$	8,249	7,437
Provision for bad debts		9,921	7,406
Less write offs		(8,702)	(6,594)
Ending balance as of June 30	$	9,468	8,249

(o) Other Operating Revenue

Other operating revenue mostly comprises pharmaceutical sales from Carroll Care Pharmacies, LLC. Other operating revenue activities also include various community education and outreach programs, rental income, professional fee revenue, and cafeteria, vending sales and federal stimulus proceeds associated with meaningful use of CHC's information system, which is accounted for under the grant model.

(Continued)

(p) Self-Insurance

The Health System maintains self-insurance programs for workers' compensation and employee health benefits. The Health System is also self-insured for general and professional liability under a claims-made policy through its wholly owned subsidiary, Cen-Mar Assurance Company. Expenses related to these programs include estimates for incurred but not reported claims as of June 30, 2014 and 2013. The estimates are based on actuarial analysis of historical trends, claims asserted and reported incidents and are undiscounted.

(q) Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are those whose use by the Health System 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 Health System or individual operating units in perpetuity.

(r) Donor-Restricted Gifts

Unconditional promises to give cash and other assets to the Health System 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 statements of operations as net assets released from restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are reported as unrestricted contributions in the accompanying consolidated financial statements.

(s) Income Taxes

The Health System and its subsidiaries, except for CCMS, CCR, and Cen-Mar, have been recognized by the Internal Revenue Service (IRS) as tax-exempt under Section 501(c)(3) of the Internal Revenue Code and are exempt from income taxes on related income. CCMS is organized as a for-profit entity and, therefore, is subject to federal and state income taxes, which 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 income in the period that includes the enactment date.

(t) Reclassifications

Certain prior year amounts have been reclassified to conform to the 2014 presentation.

(In thousands)

(u) New Accounting Pronouncements

The Financial Accounting Standards Board (FASB) issued Accounting Standards update (ASU) 2014-09, *Revenue from Contracts with Customers (Topic 606)*. This ASU establishes principles for reporting useful information to users of financial statements about the nature, amount, timing, and uncertainty of revenue and cash flows arising from the entity's contracts with customers. Particularly, that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. ASU 2014-09 is effective for fiscal year 2018. The Health System expects to record a decrease in net patient service revenue and a corresponding decrease in bad debt expense upon adoption of the standard.

(2) Assets Limited as to Use

Assets limited as to use, stated at fair value, as of June 30, 2014 and 2013, include the following:

		2014	2013
Donor-restricted:			
Pledges receivable, less allowance of $924 in 2014 and $1,053 in 2013	$	7,644	8,368
Donor-restricted investments:			
Cash and cash equivalents		2,094	1,822
Government and corporate bonds		356	148
Mutual funds invested in equity securities		1,340	1,039
Investments in limited partnerships		184	308
		3,974	3,317
Cen-Mar Reserves held:			
Cash and cash equivalents		2,395	940
Government and corporate bonds		5,726	5,949
Mutual funds		1,409	594
		9,530	7,483
Funds held by trustee:			
Money market funds		3,265	1,060
Government and corporate bonds		3,699	6,048
		6,964	7,108

(In thousands)

		2014	2013
Collateral held for derivative instruments and lines of credit and other:			
Cash and cash equivalents	$	7,614	6,309
Government and corporate bonds		1,644	2,356
Mutual funds invested in equity securities		4,046	3,151
		13,304	11,816
Total assets limited as to use		41,416	38,092
Less current portion		20,164	13,848
Total assets limited as to use, less current portion	$	21,252	24,244

The net present value of donor-restricted pledges receivable at June 30, 2014 totaled $8,568, discounted at 6%, and net of an allowance for uncollectible pledges of $924. The payment terms of the net present value of the pledges receivable at June 30, 2014 are as follows for the years ending June 30:

2015	$	2,892
2016		2,416
2017		1,992
2018		509
2019 and thereafter		759
		8,568
Less allowance for uncollectible pledges		(924)
	$	7,644

Funds held by the trustee as of June 30, 2014 and 2013 are as follows:

		2014	2013
Debt service reserve fund	$	3,226	3,218
Principal and interest fund		3,738	3,890
	$	6,964	7,108

The debt service reserve fund has been established to provide for future deficiencies, if any, in various bond repayment terms established by the 2006 Maryland Health and Higher Educational Facilities Authority Loan Agreements. The principal and interest fund comprises monthly installment payments paid by the Health System to the trustee in accordance with the loan agreement. The trustee releases these funds to respective bondholders on January 1 and July 1 of each year.

(Continued)

(In thousands)

(3) Property and Equipment, Net

Property and equipment, net as of June 30, 2014 and 2013 are as follows:

	2014	2013
Land	$ 4,897	4,622
Land improvements	24,484	24,484
Building and building improvements	135,068	135,881
Computer software and hardware	55,753	46,110
Equipment	102,474	97,089
Leasehold improvements	7,401	6,564
	330,077	314,750
Less accumulated depreciation and amortization	(181,294)	(166,998)
	148,783	147,752
Construction in progress	22,082	13,654
	$ 170,865	161,406

Depreciation expense for the years ended June 30, 2014 and 2013 was $17,497 and $17,363, respectively. Construction in progress represents costs incurred on the Health System's expansion projects and other facility renovations not completed as of June 30, 2014.

During September 2008, the Hospital entered into a 50-year ground lease on the campus of the Hospital to a nonaffiliated developer. Under the terms of the ground lease, the developer constructed a Medical Office Building (MOB), which the developer owned and operated during the construction period. Construction was completed in December 2009 and ownership of the MOB was transferred to Carroll MOB Associates, LLC. The Hospital determined that due to certain structural elements installed by the Hospital during construction, the Hospital is required to be treated, for accounting purposes, as the "owner" of the MOB, in accordance with FASB ASC Subtopic 840-40, *Leases-Sale-Leaseback Transactions (Emerging Issues Task Force (EITF)* Issue No. 97-10, *The Effect of Lessee Involvement in Asset construction)*. The MOB has a total of 77,000 sq. ft., of which the Health System leases 58,800 sq ft., broken down as follows: Hospital (26,000 sq ft), CCR (18,400 sq ft), and CCMS (15,400 sq ft).

(In thousands)

The following table shows the future minimum lease payments for the Health System related to the MOB:

		Future minimum lease payments
Year ending June 30:		
2015	$	1,728
2016		1,758
2017		1,788
2018		1,820
2019		1,852
Thereafter		986
Total minimum lease payments	$	9,932

The cost of the asset was $17,192 and $16,530 as of June 30, 2014 and 2013, respectively, and is included in building and building improvements with the offsetting obligation in other long-term liabilities. Total accumulated depreciation on the MOB is $3,081 and $2,386 as of June 30, 2014 and 2013, respectively.

(4) Short-Term and Long-Term Investments

Investments, at fair value, as of June 30, 2014 and 2013 are as follows:

		2014	2013
Money market account and certificate of deposits	$	1,984	1,532
Government and corporate bonds		36,614	42,611
Mutual funds invested in equity securities		42,660	30,437
	$	81,258	74,580

Investments are classified as of June 30, 2014 and 2013 as follows:

		2014	2013
Short-term investments	$	14,800	14,615
Long-term investments		66,458	59,965
	$	81,258	74,580

(In thousands)

The Health System's consolidated total return on short-term and long-term investments, cash and cash equivalents, assets limited to use, long-term investments – other, and investments in joint ventures and partnerships were as follows for the years ended June 30, 2014 and 2013:

		2014	2013
Investment income:			
Interest and dividend income	$	2,432	2,064
Realized gains on securities		353	475
Unrealized gains on securities		3,338	1,712
Investments in joint ventures and partnerships:			
Equity method earnings		475	347
Cost method dividend income		1,231	517
Equity in gains on long-term investments – other:			
Equity method earnings		1,903	1,147
Total investment income		9,732	6,262
Other changes in net assets:			
Net change in unrealized gains on other-than-trading securities in restricted net assets		192	165
Total other changes in net assets		192	165
Total investment return	$	9,924	6,427

(5) Fair Value of Financial Instruments

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

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

Cash and cash equivalents, accounts receivable, due from affiliates, other assets, line of credit, accounts payable, advances from third-party payors, due to affiliates, accrued expenses, and other long-term liabilities: The carrying amounts, at face value or cost plus accrued interest, approximate fair value.

Board-designated and other investments: Equity and debt securities classified as trading are measured using quoted market prices at the reporting date multiplied by the quantity held.

(In thousands)

The Health System follows ASC Topic 820 for fair value measurements of financial assets and financial liabilities and for the fair value measurements of nonfinancial items that are recognized or disclosed at fair value in the consolidated financial statements on a recurring basis. ASC Topic 820 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Health System has the ability to access at the measurement date.
- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 inputs are unobservable inputs for the asset or liability, including nonexchange-traded funds, which are typically valued utilizing the net asset valuations provided by the underlying private investment companies.

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

The following table presents assets that are measured at fair value on a recurring basis as of June 30, 2014:

		Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Assets:					
Cash	$	11,896	—	—	11,896
Money market funds		5,455	—	—	5,455
Mutual funds and equity securities		42,000	1,409	—	43,409
Government and corporate bonds		49,513	4,573	—	54,086
Total assets	$	108,864	5,982	—	114,846
Liabilities:					
Derivative instrument	$	—	9,275	—	9,275

(In thousands)

The following table presents assets that are measured at fair value on a recurring basis as of June 30, 2013:

		Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Assets:					
Cash	$	7,249	—	—	7,249
Money market funds		4,415	—	—	4,415
Mutual funds and equity securities		35,221	5,088	—	40,309
Government and corporate bonds		51,429	594	—	52,023
Total assets	$	98,314	5,682	—	103,996
Liabilities:					
Derivative instrument	$	—	8,471	—	8,471

There were no significant transfers between Levels 1, 2 and 3 during the years ended June 30, 2014 and 2013. The Health System holds $184 and $308 in Alternative Investments at June 30, 2014 and 2013, respectively, which are restricted as to use as well as unrestricted alternate investments which are described in note 6.

(In thousands)

(6) Long-Term Investments – Other

Total long-term investments – other consists of limited partnership investments, which amount to $20,745 and $21,749 as of June 30, 2014 and 2013, respectively, as follows:

	2014	2013
Pine Grove	$ 4,124	3,804
Archstone Offshore Fund	3,292	2,983
Lanx Offshore Partners	2,810	2,516
Titan Masters International Fund	2,600	2,426
Seamark Fund	2,577	2,547
Greenspring Fund	942	669
Chesapeake Investments	775	850
Silver Creek Low Vol.	576	799
CAIS Millennium International	573	539
Blue Mountain CAIS CA	568	539
Virtus Real Estate Capital	498	505
WMS Income Opportunity Fund	471	529
Guggenheim Offshore Access	455	424
CAIS Balestra Global	222	237
Touchstone Opportunity Fund	102	146
Collins Capital	86	128
Silver Creek Early Advantage	74	137
Endowment Fund	—	908
Partners Group Private	—	578
Collins Capital	—	462
Oaktree Cap Management	—	23
Total	$ 20,745	21,749

The Health System's limited partnership investments are reported under the equity method, based on the fair value of the underlying investments of the partnership. In the case of certain less marketable underlying investments, principally real estate, natural resources, and private equity investments, value is established based on either external events, which substantiate a change in fair value, or a reasonable methodology that exists to capture and quantify changes in value. In some instances, those changes in value may require the use of significant estimates. Accordingly, such values may differ materially from the values that would have been used had an active market for the investments existed. The Silver Creek Early Advantage and Silver Creek Low Vol. funds are being liquidated. Management anticipates the liquidation process to be completed within the next 1 to 3 years.

(In thousands)

(7) Investments in Joint Ventures

Investments in joint ventures and partnerships, accounted for under the equity or cost method, consist of the following at June 30, 2014 and 2013:

Joint venture	Business purpose	2014 Percentage ownership	2014 Balance	2013 Percentage ownership	2013 Balance
Carroll County Dialysis Facilities, LP	Dialysis services	33%	$ 629	33%	$ 856
Carroll County Sleep Disorder Services, LLC	Sleep disorder services	33	9	33	42
Carroll Digestive Disease Center, LLC	Diagnostic services	10	18	10	18
Advanced PET Imaging of Maryland, LP	Diagnostic services	5	2	5	5
Mt. Airy Surgery Center	Diagnostic services	50	—	50	—
Colonial Health Alliance	Purchasing partnership	13	28	13	64
Mt. Airy Plaza, LLC	Real estate activities	50	1,507	50	1,401
Mt Airy Med-Services LLC	Real estate activities	50	141	—	—
Carroll MOB Associates, LLC	Medical Office Building	36	1,021	36	1,103
Premier Purchasing Partners, LP	Purchasing partnership	0.12	294	0.12	256
Mt. Airy Health Services, LLC	Diagnostic services	50	47	50	262
Total			$ 3,696		$ 4,007

For those joint ventures and partnerships accounted for using the equity method, CCMS and the Hospital recorded equity in earnings of joint ventures and partnerships. For those joint ventures and partnerships accounted for under the cost method, CCMS and the Hospital recorded dividend income. Such amounts are included in investment income in the consolidated statements of operations (note 4).

(8) Other Assets

Other assets as of June 30, 2014 and 2013 are as follows:

	2014	2013
Financing costs, net	$ 1,888	1,962
Goodwill	4,345	4,345
Other intangible assets, net	1,114	1,508
Deferred compensation assets	557	193
Reinsurance recoverable	6,405	6,249
Other	428	640
	$ 14,737	14,897

(In thousands)

Goodwill represents the excess of purchase price over the fair value of net assets acquired. The Health System adopted the provisions of ASC Topic 350 *Intangibles – Goodwill and Other* (ASC 350). Goodwill acquired in a purchase business combination that is determined to have an indefinite useful life is not amortized, but instead is tested for impairment at least annually in accordance with the provisions of ASC 350.

The Health System first assesses 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 as described in Topic 350. The Health System has identified the reporting units as the Hospital, CCR and CCMS. The more-likely than-not threshold is defined as having a likelihood of more than 50%. The Health System determined that is was not more-likely than-not that the fair value of its reporting units was less than its carrying amounts. Accordingly, the Health System concluded that goodwill was not impaired as of June 30, 2014 and 2013 without having to perform the two-step impairment test.

(9) Long-Term Debt

Long-term debt as of June 30, 2014 and 2013 is as follows:

	2014	2013
Bond payable:		
Maryland Health and Higher Educational Facilities Authority:		
Revenue Bonds, Carroll Hospital Center Issue, Series 2006; interest rates ranging from 4.5% to 5.0%; due in June 2041	$ 35,000	35,000
Maryland Health and Higher Educational Facilities Authority:		
Revenue Bonds, Carroll Hospital Center Issue, Series 2010; interest rates based on 68% of the 30-day LIBOR plus 1.1%, (1.19% and 1.24% at June 30, 2014 and 2013, respectively); due in July 2020	13,616	13,982
Maryland Health and Higher Educational Facilities Authority:		
Revenue Bonds, Carroll Hospital Center Issue, Series 2012A; interest rates ranging from 2% to 5%; due in July 2037	58,135	59,780

(Continued)

(In thousands)

		2014	2013
Maryland Health and Higher Educational Facilities Authority:			
Revenue Bonds, Carroll Hospital Center Issue, Series 2012 B&C; interest rates based on 78% of the 30-day LIBOR plus 1.05%, (1.17% and 1.20% at June 30, 2014 and 2013, respectively); due in May 2022	$	27,755	25,564
Mortgage Payable Line of Credit; interest rates based on 30-day LIBOR plus 1.7% (1.91% and 1.89% at June 30, 2014 and 2013, respectively) due in February 2015		2,106	1,831
Bank loan payable; interest at 5.125%; due in June 2014 (CCMS); secured by Carroll Care Pharmacies, LLC pharmacy inventory and equipment		230	400
Other		250	280
		137,092	136,837
Plus unamortized net premium		4,588	4,736
		141,680	141,573
Less current maturities		5,717	3,760
	$	135,963	137,813

The MHHEFA 2006, 2010 and 2012 Revenue Bonds are collateralized by a deed of trust on certain facilities and property and a pledge of certain receipts.

Aggregate maturities of long-term debt as of June 30, 2014 are as follows during the years ending June 30:

2015	$	5,717
2016		3,509
2017		3,551
2018		3,570
2019		3,617
Thereafter		117,128
		137,092

In November 2006, MHHEFA issued Carroll Hospital Center Issue Series 2006 Bonds on behalf of the Health System, resulting in proceeds of $35,000. The Series 2006 Bonds were issued as $3,165 of term bonds maturing in 2026, $7,420 of terms bonds maturing in 2036 and $24,415 of term bonds maturing in 2040.

In June 2010, the Health System entered into a $15,000 MHHEFA Direct Purchase financing transaction with Branch Banking and Trust Company (the Series 2010 Bonds). The Series 2010 Bonds mature monthly from July 1, 2010 through July 1, 2020. As of June 30, 2014 and 2013, the total outstanding principle balance was $13,616 and $13,982, respectively. The Series 2010 Bonds are subject to refinancing at the option of the bank in 2020 and later.

In May 2012, MHHEFA issued Carroll Hospital Center Series 2012A Bonds on behalf of the Health System, resulting in proceeds of $59,780. The Series 2012A Bonds were issued as $26,995 of serial bonds maturing in 2013 through 2027, $7,505 of terms bonds maturing in 2030 and $25,280 of term bonds maturing in 2037. The proceeds were utilized to repay the MHEEFA 2002 Series Bonds, which had a remaining principal balance of $85,315.

In May 2012, the Health System entered into a $30,010 MHEEFA Direct Purchase financing transaction with Branch Banking and Trust Company (the Series 2012B and C Bonds). As of June 30, 2014 the Health System has drawn $30,010 of the available debt. The Series 2012B and C Bonds mature monthly from August 1, 2012 through July 1, 2042. The primary use of the proceeds was to repay Series 2002 debt and to fund certain capital projects. The Series 2012B and C Bonds are subject to refinancing at the option of the bank in 2022 and later.

The fair value of outstanding tax-exempt bonds is estimated to be $141,433 and $137,605 as of June 30, 2014 and 2013, respectively. The fair value of other long-term debt, mortgage payable, and bank loans payable approximates its carrying value.

Under the Series 2006, 2010 and 2012 Bonds, the Health System is required to comply with certain financial and nonfinancial covenants such as a coverage ratio, days cash on hand, debt to capitalization ratio, payments of interest and principal on specified due dates, limitations on merger, consolidation, transfer, or acquisition of assets, and limitations on the disposition of assets.

On February 23, 2007, the Health System entered into a floating-to-fixed (90.1% of three-month LIBOR to 4.6%) interest rate swap agreement (Swap) with Merrill Lynch Capital Services, Inc. to hedge a future debt issuance. During fiscal year 2011, the Health System paid down the swap liability by $2,760, which decreased the notional amount from $50,000 to $30,000. The Health System has recorded the change in fair value from the swap agreement in the amount of $(804) and $6,231 and settlement payments of $(1,303) and $(1,272) as a component of other income (expense) in the consolidated statements of operations for the years ended June 30, 2014 and 2013, respectively. The fair value of the interest rate swap was $(9,275) and $(8,471) at June 30, 2014 and 2013, respectively, and is included in other liabilities. The Health system is subject to a collateral posting requirement with the swap counterparty. Collateral posting requirements are based on the net liability position of the total interest rate swap agreement outstanding with the counterparty. The amount of such posted collateral was $9,259 and $8,664 at June 30, 2014 and 2013, respectively.

(In thousands)

(10) Other Liabilities

Other liabilities as of June 30, 2014 and 2013 are as follows:

		2014	2013
Medical office building	$	14,111	14,144
Interest rate swap		9,275	8,471
Deferred revenue		150	450
Deferred compensation liability		557	193
Equipment commitments		—	3,236
Other		871	975
	$	24,964	27,469

(11) Income Tax

At June 30, 2014, the Health System has approximately $43,429 of net operating loss carryforwards, primarily at CCMS, that will expire through 2034. The net operating loss carryforwards created a net deferred tax asset of approximately $19,042 and $15,497 as of June 30, 2014 and 2013, respectively. Management has determined that it is more likely than not that the Health System will not be able to utilize the deferred tax assets; therefore, a full valuation allowance has been recorded against the deferred tax asset as of June 30, 2014 and 2013.

(12) Retirement Plans

The Health System sponsors a Defined Benefit Cash Balance Plan (the Plan) covering substantially all of the employees of the Hospital, CCMS, and the Foundation. The Health System's funding policy is to make contributions to the Plan 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 and IRS regulations, plus such amounts as the Health System may determine to be appropriate from time to time. Under the cash balance plan structure, the benefits under the Plan are determined based on employees' tenure rather than age. The Health System elected to freeze benefit accruals and participation in its defined benefit pension plan on December 31, 2006.

(In thousands)

The following tables set forth the changes in the projected benefit obligation, the changes in the Plan's assets, the Plan's funded status, the amounts recognized in the Health System's consolidated financial statements, and the Plan's net periodic pension cost as of June 30, 2014 and 2013:

		2014	2013
Change in projected benefit obligation:			
Projected benefit obligation at beginning of period	$	59,769	63,996
Interest cost		2,785	2,675
Actuarial loss (gain)		5,566	(4,967)
Benefits paid		(2,090)	(1,935)
Projected benefit obligation at end of period		66,030	59,769
Change in plan assets:			
Fair value of plan assets at beginning of period		50,680	44,393
Actual return on plan assets		6,358	4,622
Employer contribution		3,600	3,600
Benefits paid		(2,090)	(1,935)
Fair value of plan assets at end of period		58,548	50,680
Funded status	$	7,482	9,089

The accumulated benefit obligation for the Plan was $66,030 and $59,769 at June 30, 2014 and 2013, respectively.

Net periodic pension expense for the years ended June 30, 2014 and 2013 was as follows:

		2014	2013
Components of net periodic pension expense:			
Interest cost	$	2,785	2,675
Expected return on plan assets		(3,595)	(3,160)
Amortization of actuarial loss		1,360	2,095
Net periodic pension expense	$	550	1,610

Assumptions used by the Health System to determine the benefit obligation as of June 30, 2014 and 2013 (the measurement date) are as follows:

	2014	2013
Discount rate	4.25%	4.75%

(In thousands)

Assumptions used by the Hospital in the determination of net periodic pension expense for the years ended June 30, 2014 and 2013 are as follows:

	2014	2013
Discount rate	4.75%	4.25%
Expected long-term rate of return on plan assets	7.00	7.00

Deferred pension costs, which have not yet been recognized in periodic pension expense but are accrued in unrestricted net assets are $21,357 and $19,913 at June 30, 2014 and 2013, respectively. Deferred pension costs represent unrecognized actuarial losses or unexpected changes in the projected benefit obligation and plan assets over time primarily due to changes in assumed discount rates and investment experience. The amount of deferred pension costs expected to be recognized as a component of net periodic pension costs during the year ending June 30, 2015 is $99.

The Health System's weighted average asset allocations for the plan assets as of June 30, 2014 and 2013 are as follows:

	2014	2013
Mutual funds and equity securities	31.0%	50.2%
Government and corporate bonds	47.0	20.6
Alternative investments	18.0	20.5
Cash and cash equivalents	4.0	8.7
	100.0	100.0

Pension plan assets are invested in accordance with the Health System's investment policy statement objectives in an attempt to maximize return with reasonable and prudent levels of risk. This structure includes various assets classes, investment management styles, asset allocation, and acceptable ranges that, in total, are expected to produce a sufficient level of overall diversification and total investment return over the long term. The Health System periodically reviews performance to test progress toward attainment of longer term targets, to compare results with appropriate indices and peer groups, and to assess overall investment risk levels.

(In thousands)

The following table presents the Plan's assets measured at fair value at June 30, 2014:

	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Assets:				
Cash and cash equivalents	$ 2,153	—	—	2,153
Mutual funds and equity securities	18,282	—	—	18,282
Government and corporate bonds	27,410	—	—	27,410
Alternative investments	—	—	10,703	10,703
Total assets	$ 47,845	—	10,703	58,548

The following table presents the Plan's assets measured at fair value at June 30, 2013:

	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Assets:				
Cash and cash equivalents	$ 4,420	—	—	4,420
Mutual funds and equity securities	25,402	—	—	25,402
Government and corporate bonds	10,465	—	—	10,465
Alternative investments	—	—	10,393	10,393
Total assets	$ 40,287	—	10,393	50,680

During fiscal year 2014, Level 3 investments within the pension plan assets increased by $310. This increase was the result of purchases of $0, redemptions of $535 and gain on earnings in investments of $845. During fiscal year 2013, Level 3 investments increased by $827. This increase was the result of purchases of $500, redemption of $441 and gain on earnings in investments of $768. There were no significant transfers between Levels 1, 2 and 3 during the years ended June 30, 2014 and 2013.

The Health System follows ASU No. 2009-12, and applied its provisions to its pension plan asset portfolio. The guidance amends ASC Topic 820 and permits, as a practical expedient, fair value of investments within its scope to be estimated using NAV or its equivalent. The alternative investments classified within Level 3 of the fair value hierarchy have been recorded using NAV.

(In thousands)

The Health System's pension plan invests in alternative investments which are primarily hedge fund of funds and real estate funds.

For the alternative investments, the frequency which redemption requests can be made are either quarterly or annually. The notice required by the Hospital in order to make a redemption is within a range of 65 to 100 days. The audit reserve requirements are 10% for each fund. There are generally no gate provisions with the exception of one fund which has a gate of 25% of net asset value (NAV).

The Health System expects to contribute $3,600 to the Plan in 2015.

The following benefit payments, which reflect future services, as appropriate, are expected to be paid from the Plan's assets during the years ending June 30:

2015	$	2,397
2016		2,515
2017		2,623
2018		2,773
2019		2,956
Years 2020–2023		17,595
	$	30,859

The current defined contribution (403(b)) program was redesigned and serves as the primary retirement program beginning as of January 1, 2007. The Health System has accrued a liability of $0 and $725 as of June 30, 2014 and 2013, respectively, for benefits earned under this plan. The Health System expensed total employees contributions of $1,087 and $2,175 for the years ended June 30, 2014 and 2013, respectively.

(13) Postretirement Plan Other than Pension

The Health System sponsors a postretirement plan other than pension for employees. The Health System employees retired from active employment at 65 years of age or older or at 55 years of age after earning at least 10 years of vesting service are eligible for health and prescription drug benefits under the Hospital's self-insured health plan. Effective January 1, 2009, individuals are no longer permitted to participate in this Plan once they are Medicare eligible. Plan participants contribute premiums to the Plan in amounts determined by the Health System for Pre-Medicare and post-Medicare age retirees. During 2014, the Health System amended the plan to include higher deductibles, which resulted in the liability decrease.

(In thousands)

The following tables set forth the changes in the projected benefit obligation, the changes in the Plan's assets, the Plan's funded status, the amounts recognized in the Health System's consolidated financial statements, and the Plan's postretirement benefit expense at June 30, 2014 and 2013:

		2014	2013
Change in projected benefit obligation:			
Projected benefit obligation at beginning of year	$	503	246
Service cost		25	44
Interest cost		13	20
Actuarial (loss) gain		(230)	179
Employer contribution		14	14
Projected benefit obligation at end of year	$	325	503
Change in plan assets:			
Employer withdrawal	$	(14)	(14)
Plan participant contribution		20	15
Benefits paid, net		(6)	(1)
Fair value of plan assets at end of year	$	—	—

		2014	2013
Reconciliation of funded status to net amounts recognized in the consolidated financial statements:			
Funded status	$	(325)	(503)
Accrued benefit cost	$	(325)	(503)
Components of postretirement benefit expense:			
Service cost	$	25	44
Interest cost		13	20
Amortization of prior service cost		—	63
Recognized actuarial gain		(70)	(50)
Postretirement benefit expense	$	(32)	77

The accumulated benefit obligation for the Plan was $325 and $503 at June 30, 2014 and 2013, respectively.

(In thousands)

Assumptions used by the Health System in the determination of the postretirement benefit obligation and benefit expense for the years ended June 30, 2014 and 2013 (the measurement date) are as follows:

	2014	**2013**
Weighted average rate used to determine benefit expense for the years ended June 30	4.75%	4.25%
Weighted average rate used to determine benefit obligations at June 30	4.25	4.75
Next year trend rate	6.00	7.00
Ultimate trend rate	3.40	3.40
Ultimate trend rate year	2099	2099

The Health System expects to contribute $8 to the postretirement benefit plan during the year ended June 30, 2015.

The following are the projected benefit payments, which reflect expected future service as appropriate, used in determining the benefit obligation:

2015	$	9
2016		11
2017		15
2018		17
2019		21
Years 2020–2021		159
	$	232

(Continued)

(In thousands)

(14) Noncontrolling Interests

Effective June 30, 2011, the Health System adopted new accounting guidance (applied retroactively to June 30, 2009) that requires a not-for-profit reporting entity to account for and present noncontrolling interests in a consolidated subsidiary as separate component of the appropriate class of consolidated net assets (equity). The reconciliation of noncontrolling interest reported in unrestricted net assets is as follows:

		Total	CHC unrestricted net assets	Noncontrolling interest
Unrestricted net assets – June 30, 2012	$	119,267	114,019	5,248
Excess of revenues over expenses		22,413	21,290	1,123
Net assets released from restrictions used for capital expenditures		3,427	3,427	—
Change in funded status of pension plan and postretirement		8,343	8,343	—
Contributions from noncontrolling owners		46	—	46
Distributions to noncontrolling owners		(1,670)	—	(1,670)
Change in unrestricted net assets		32,559	33,060	(501)
Unrestricted net assets – June 30, 2013		151,826	147,079	4,747
Excess of revenues over expenses		14,705	13,241	1,464
Net assets released from restrictions used for capital expenditures		3,014	3,014	—
Change in funded status of pension plan and postretirement		(1,311)	(1,311)	—
Contributions from noncontrolling owners		30	—	30
Distributions to noncontrolling owners		(1,730)	—	(1,730)
Change in unrestricted net assets		14,708	14,944	(236)
Unrestricted net assets – June 30, 2014	$	166,534	162,023	4,511

(In thousands)

(15) Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are restricted as of June 30, 2014 and 2013 for the following:

		2014	2013
Hospice program	$	1,223	728
Cardiac services		312	166
Cancer programs		663	663
Capital campaign		6,813	8,188
Emergency department		250	3
Other		941	677
	$	10,202	10,425

Permanently restricted net assets are to be held in perpetuity, the income from which is expendable for the treatment of heart disease, oncology, cardiology, support of emergency room services, scholarships, and general building maintenance. Permanently restricted net assets, stated at fair value, totaled $1,173 at June 30, 2014 and 2013, respectively.

(16) Functional Expenses

The Health System provides general healthcare services to residents within its geographic location. Expenses related to providing these services, based on management estimates of expense allocations as of June 30, 2014 and 2013, are as follows:

		2014	2013
Healthcare services	$	235,141	233,341
General and administrative		44,240	41,493
	$	279,381	274,834

(17) Concentrations of Credit Risk

The Health System provides healthcare services through its inpatient and outpatient care facilities located primarily in Carroll County. The Health System 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).

(In thousands)

The mix of receivables for the Health System at June 30, 2014 and 2013 is as follows:

	2014	**2013**
Medicare	26%	30%
Medicaid	18	9
Blue Cross	16	16
Commercial, HMOs, and other	26	31
Self-pay	14	14
	100%	100%

The mix of net patient service revenue for the Health System for the years ended June 30, 2014 and 2013 is as follows:

	2014	**2013**
Medicare	41%	40%
Medicaid	12	9
Blue Cross	13	14
Commercial, HMOs, and other	29	31
Self-pay	5	6
	100%	100%

(18) Health Services Cost Review Commission

The Hospital charges are subject to review and approval by the HSCRC. Management has made the required filings with the HSCRC and believes the Hospital is in compliance with HSCRC requirements.

During 1997, the HSCRC established an uncompensated care fund whereby the majority of hospitals are required to contribute a portion of revenues to this fund to help provide for the cost associated with charity care for all Maryland hospitals. The Hospital contributed $4,991 and $5,358 to this fund for the years ended June 30, 2014 and 2013, respectively. This contribution is recorded within net patient service revenue.

(19) Certain Significant Risks, Uncertainties, and Commitments

(a) Regulation and Reimbursement

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

- Dependence on revenues derived from reimbursement by the Federal Medicare and state Medicaid programs
- Regulation of hospital rates by the HSCRC

- Government regulation, government budgetary constraints, and proposed legislative and regulatory changes
- Lawsuits alleging malpractice or other claims

Such inherent risks require the use of certain management estimates in the preparation of the System'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 Health System's revenues and the Health System's operations are subject to a variety of other federal, state, and local regulatory requirements. Failure to maintain required regulatory approvals and licenses and/or changes in such regulatory requirements could have a significant adverse effect on the Health System.

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

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

The federal government and many states have aggressively increased enforcement under Medicare and Medicaid antifraud and abuse laws and physician self-referral laws (STARK law and regulation). Recent federal initiatives have prompted a national review of federally funded healthcare programs. The Health System has implemented a compliance program to monitor conformance with applicable laws and regulations, but the possibility of future government review and interpretation exists.

(b) Malpractice Insurance

The Health System is involved in litigation arising in the normal course of business. Claims alleging malpractice have been asserted and are currently in various states of litigation. Additional claims may be asserted arising from services provided to patients through June 30, 2014. On June 25, 2007, the Hospital established Cen-Mar Assurance Co. (the Captive) an offshore, medical malpractice insurance company domiciled in the Cayman Islands. The Captive is a wholly owned subsidiary of the Hospital managed by Marsh Management Services (Cayman) Ltd. Malpractice insurance coverage through the Captive is effective July 1, 2007.

The Captive was incorporated as an exempted company under the Companies Law of the Cayman Islands on June 20, 2007 and holds an Unrestricted Class 'B' Insurer's License under Section 4(2) of the Cayman Islands Insurance Law. The Captive is a wholly owned subsidiary of the Hospital.

The Captive insures the Hospital, its subsidiaries, and employed physicians on a claims-made basis for medical professional liability and general liability. Effective July 1, 2007, the Captive issued a claims-made professional and general liability policy with a retroactive date of July 1, 2007 for general liability and a retroactive date of October 1, 1984 for medical professional liability. The limits of liability provided are $1,000 per incident and a total annual aggregate of $3,000, covering claims to the extent they are reported to the Captive and are within the scope of coverage afforded under the policy terms and conditions. The Captive also issued a claims-made excess policy, which is fully reinsured with unrelated reinsurance parties, of which are highly rated. The Health System has accrued a liability of approximately $13,934 and $14,394 at June 30, 2014 and 2013, respectively, for known claims and incurred but not reported claims.

(c) Health Insurance

The Health System is self-insured for employee health claims. Under the self-insurance plan, the Health System has accrued a liability of $1,460 and $1,600 at June 30, 2014 and 2013, respectively, for known claims and incurred but not reported claims.

The Health System maintains a stop-loss policy on health insurance claims. The Health System is insured for individual claims exceeding $350.

(d) Workers' Compensation

In 2003, the Health System became self-insured for workers' compensation claims. Under the Plan, the Health System has accrued a liability of $1,146 and $1,215 for known claims and incurred but not reported claims as of June 30, 2014 and 2013, respectively.

The Health System maintains a stop-loss policy on workers' compensation claims. The Health System is insured for individual claims exceeding $500. The Health System maintains a letter of credit with a commercial bank in the amount of $1,500 to secure payments on the outstanding workers' compensation claims as required by the State of Maryland Workers' Compensation Commission. There were no amounts outstanding on this letter of credit as of June 30, 2014 and 2013.

(e) Leases

The Health System leases facilities under several operating leases, the last of which expires in 2019. The Health System has various options to renew the leases. Rent expense on all operating leases was $3,207 and $3,278 for the years ended June 30, 2014 and 2013, respectively.

(Continued)

(In thousands)

Future minimum payments under operating leases and capital leases (with initial or remaining lease terms in excess of one year) as of June 30, 2014 are as follows:

		Operating leases		Capital leases
Year ending June 30:				
2015	$	2,503		603
2016		2,411		427
2017		1,978		199
2018		1,338		—
2019		1,023		—
Thereafter		1,203		—
Total minimum lease payments	$	10,456		1,229
Less amount representing interest				76
Total minimum lease payments			$	1,153

As of June 30, 2014, scheduled annual principal portion of obligations under capital leases is as follows:

Year ending June 30:		
2015	$	555
2016		406
2017		192
	$	1,153

(f) Litigation

The Health System is subject to numerous laws and regulations from federal, state, and local governments. The Health System's compliance with these laws and regulations can be subject to periodic governmental review and interpretation, which can result in regulatory action unknown or unasserted at this time. Management is aware of certain asserted and unasserted legal claims and regulatory matters arising in the ordinary course of business. After consultation with legal counsel, it is management's opinion that the ultimate resolution of these claims will not have a material adverse effect on the Health System's consolidated balance sheets or changes in net assets.

(Continued)

(20) Charity Care

The Health System provides care to patients who meet certain criteria under its charity care policy. The Health System charges at its established rates but waives all or a portion of reimbursement. Because the Health System does not pursue collection of amounts determined to qualify as charity care, such amounts are not reported as gross patient service revenue. The Health System maintains records to identify and monitor the level of charity care it provides. The Health System provided $2,463 and $4,510 of charity care at cost during the years ended June 30, 2014 and 2013, respectively, based on the cost to charge ratio.

(21) Subsequent Events

The Health System has evaluated subsequent events from the consolidated balance sheet date through October 24, 2014, the date at which the consolidated financial statements were issued, and determined there were no other items to disclose.

Schedule 1

CARROLL COUNTY HEALTH SERVICES CORPORATION AND SUBSIDIARIES

Consolidating Balance Sheet Information

June 30, 2014

(In thousands)

Assets		**Carroll County Health Services Corporation**	**Carroll Hospital Center Inc. & Subsidiaries**	**Carroll County Med-Services, Inc. & Subsidiaries**	**Eliminations**	**Consolidated**
Current assets:						
Cash and cash equivalents	$	262	25,365	2,517	—	28,144
Short-term investments		—	14,800	—	—	14,800
Current portion of assets limited as to use		4,046	16,118	—	—	20,164
Patient receivables, net		—	26,189	4,251	—	30,440
Other receivables		—	1,333	1,209	—	2,542
Due from affiliates		—	441	127	(568)	—
Inventory		—	3,053	975	—	4,028
Prepaid expenses		—	5,694	684	—	6,378
Total current assets		4,308	92,993	9,763	(568)	106,496
Property and equipment, net		2,344	159,589	10,001	(1,069)	170,865
Long-term investments		1,706	64,752	—	—	66,458
Long-term investments – other		1,259	19,486	—	—	20,745
Investment in subsidiaries		165,944	—	—	(165,944)	—
Investment in joint ventures		—	1,389	2,307	—	3,696
Assets limited as to use, less current portion		—	21,252	—	—	21,252
Other assets		—	13,861	876	—	14,737
Total assets	$	175,561	373,322	22,947	(167,581)	404,249
Liabilities and Net Assets						
Current portion of long-term debt	$	2,106	3,268	343	—	5,717
Current obligations under capital lease		—	468	87	—	555
Accounts payable and accrued expenses		1	29,630	1,789	—	31,420
Accrued payroll and related taxes		—	10,310	2,347	—	12,657
Deferred revenue		—	153	—	—	153
Advances from third-party payors		—	6,505	—	—	6,505
Due to affiliates		56	—	512	(568)	—
Total current liabilities		2,163	50,334	5,078	(568)	57,007
Long-term debt, less current portion		—	135,827	136	—	135,963
Long-term obligations under capital lease, less current portion		—	524	74	—	598
Other liabilities		—	25,761	271	(1,068)	24,964
Accrued pension and postretirement benefits		—	7,808	—	—	7,808
Total liabilities		2,163	220,254	5,559	(1,636)	226,340
Net assets:						
Unrestricted:						
Unrestricted net assets		162,023	137,822	16,748	(154,570)	162,023
Noncontrolling interest in consolidated subsidiaries		—	3,871	640	—	4,511
Total unrestricted net assets		162,023	141,693	17,388	(154,570)	166,534
Restricted:						
Temporarily restricted		10,202	10,202	—	(10,202)	10,202
Permanently restricted		1,173	1,173	—	(1,173)	1,173
Total restricted net assets		11,375	11,375	—	(11,375)	11,375
Total net assets		173,398	153,068	17,388	(165,945)	177,909
Total liabilities and net assets	$	175,561	373,322	22,947	(167,581)	404,249

See accompanying independent auditors' report.

Schedule 1

CARROLL COUNTY HEALTH SERVICES CORPORATION AND SUBSIDIARIES

Consolidating Balance Sheet Information

June 30, 2014

(In thousands)

		Carroll Hospital Center Inc. & Subsidiaries					
Assets	**Carroll Hospital Center Inc. & Subsidiaries**	**Carroll Hospice, Inc.**	**Carroll Hospital Center Foundation, Inc.**	**Carroll County Radiology, LLC.**	**Cen-Mar Assurance Co.**	**Eliminations**	**Consolidated**
Current assets:							
Cash and cash equivalents	$ 22,324	2,651	306	84	—	—	25,365
Short-term investments	14,800	—	—	—	—	—	14,800
Current portion of assets limited as to use	3,738	—	2,850	—	9,530	—	16,118
Patient receivables, net	23,389	607	—	2,193	—	—	26,189
Other receivables	531	—	—	802	—	—	1,333
Due from affiliates	12,358	—	—	—	80	(11,997)	441
Inventory	3,042	—	—	11	—	—	3,053
Prepaid expenses	5,660	18	4	4	8	—	5,694
Total current assets	85,842	3,276	3,160	3,094	9,618	(11,997)	92,993
Property and equipment, net	151,176	4,507	—	5,918	—	(2,012)	159,589
Beneficial interest in net assets of Foundation	22,828	—	—	—	—	(22,828)	—
Long-term investments	53,796	—	10,956	—	—	—	64,752
Long-term investments – other	18,428	—	1,058	—	—	—	19,486
Investment in subsidiaries	18,484	—	—	—	—	(18,484)	—
Investment in joint ventures	1,389	—	—	—	—	—	1,389
Assets limited as to use, less current portion	12,485	932	7,835	—	—	—	21,252
Other assets	5,325	1	23	2,107	6,405	—	13,861
Total assets	$ 369,753	8,716	23,032	11,119	16,023	(55,321)	373,322
Liabilities and Net Assets							
Current portion of long-term debt	$ 3,268	—	—	—	—	—	3,268
Current obligations under capital lease	468	—	—	—	—	—	468
Accounts payable and accrued expenses	19,004	101	202	229	11,900	(1,806)	29,630
Accrued payroll and related taxes	9,865	—	—	445	—	—	10,310
Deferred revenue	153	—	—	—	—	—	153
Advances from third-party payors	6,505	—	—	—	—	—	6,505
Due to affiliates	—	60	2	—	—	(62)	—
Total current liabilities	39,263	161	204	674	11,900	(1,868)	50,334
Long-term debt, less current portion	135,827	—	—	—	—	—	135,827
Long-term obligations under capital lease, less current portion	524	—	—	—	—	—	524
Other liabilities	37,134	—	—	768	—	(12,141)	25,761
Accrued pension and postretirement benefits	7,808	—	—	—	—	—	7,808
Total liabilities	220,556	161	204	1,442	11,900	(14,009)	220,254
Net assets:							
Unrestricted:							
Unrestricted net assets	137,822	7,623	12,385	5,806	4,123	(29,937)	137,822
Noncontrolling interest in consolidated subsidiaries	—	—	—	3,871	—	—	3,871
Total unrestricted net assets	137,822	7,623	12,385	9,677	4,123	(29,937)	141,693
Restricted:							
Temporarily restricted	10,202	932	9,270	—	—	(10,202)	10,202
Permanently restricted	1,173	—	1,173	—	—	(1,173)	1,173
Total restricted net assets	11,375	932	10,443	—	—	(11,375)	11,375
Total net assets	149,197	8,555	22,828	9,677	4,123	(41,312)	153,068
Total liabilities and net assets	$ 369,753	8,716	23,032	11,119	16,023	(55,321)	373,322

See accompanying independent auditors’ report.

Schedule 2

CARROLL COUNTY HEALTH SERVICES CORPORATION AND SUBSIDIARIES

Consolidating Balance Sheet Information – Obligated Group Format

June 30, 2014

(In thousands)

Assets	Carroll County Health Services Corporation	Carroll Hospital Center Inc. & Subsidiaries	Carroll County Med-Services, Inc. & Subsidiaries	Carroll Hospice, Inc.	Carroll Hospital Center Foundation, Inc.	Eliminations	Obligated Group	Non-Obligated Group	Eliminations	Total
Current assets:										
Cash and cash equivalents	$ 262	22,324	2,390	2,651	306	—	27,933	211	—	28,144
Short-term investments	—	14,800	—	—	—	—	14,800	—	—	14,800
Current portion of assets limited as to use	4,046	3,738	—	—	2,850	—	10,634	9,530	—	20,164
Patient receivables, net	—	23,389	3,052	607	—	—	27,048	3,392	—	30,440
Other receivables	—	531	1,100	—	—	—	1,631	911	—	2,542
Due from affiliates	—	12,358	128	—	—	(631)	11,855	80	(11,935)	—
Inventory	—	3,042	—	—	—	—	3,042	986	—	4,028
Prepaid expenses	—	5,660	665	18	4	—	6,347	31	—	6,378
Total current assets	4,308	85,842	7,335	3,276	3,160	(631)	103,290	15,141	(11,935)	106,496
Property and equipment, net	2,344	151,176	9,588	4,507	—	(2,233)	165,382	6,331	(848)	170,865
Beneficial interest in net assets of Foundation	—	22,828	—	—	—	(22,828)	—	—	—	—
Long-term investments	1,706	53,796	—	—	10,956	—	66,458	—	—	66,458
Long-term investments – other	1,259	18,428	—	—	1,058	—	20,745	—	—	20,745
Investment in subsidiaries	165,944	18,484	—	—	—	(171,091)	13,337	—	(13,337)	—
Investment in joint ventures	—	1,389	—	—	—	—	1,389	2,307	—	3,696
Assets limited as to use, less current portion	—	12,485	—	932	7,835	—	21,252	—	—	21,252
Other assets	—	5,325	672	1	23	—	6,021	8,716	—	14,737
Total assets	$ 175,561	369,753	17,595	8,716	23,032	(196,783)	397,874	32,495	(26,120)	404,249
Liabilities and Net Assets										
Current portion of long-term debt	$ 2,106	3,268	—	—	—	—	5,374	343	—	5,717
Current obligations under capital lease	—	468	87	—	—	—	555	—	—	555
Accounts payable and accrued expenses	1	19,004	1,131	101	202	—	20,439	12,787	(1,806)	31,420
Accrued payroll and related taxes	—	9,865	2,180	—	—	—	12,045	612	—	12,657
Deferred revenue	—	153	—	—	—	—	153	—	—	153
Advances from third-party payors	—	6,505	—	—	—	—	6,505	—	—	6,505
Due to affiliates	56	—	512	60	2	(630)	—	4	(4)	—
Total current liabilities	2,163	39,263	3,910	161	204	(630)	45,071	13,746	(1,810)	57,007
Long-term debt, less current portion	—	135,827	—	—	—	—	135,827	136	—	135,963
Long-term obligations under capital lease, less current portion	—	524	74	—	—	—	598	—	—	598
Other liabilities	—	37,134	271	—	—	(2,233)	35,172	767	(10,975)	24,964
Accrued pension and postretirement benefits	—	7,808	—	—	—	—	7,808	—	—	7,808
Total liabilities	2,163	220,556	4,255	161	204	(2,863)	224,476	14,649	(12,785)	226,340
Net assets:										
Unrestricted:										
Unrestricted net assets	162,023	137,822	13,340	7,623	12,385	(171,170)	162,023	13,335	(13,335)	162,023
Noncontrolling interest in consolidated subsidiaries	—	—	—	—	—	—	—	4,511	—	4,511
Total unrestricted net assets	162,023	137,822	13,340	7,623	12,385	(171,170)	162,023	17,846	(13,335)	166,534
Restricted:										
Temporarily restricted	10,202	10,202	—	932	9,270	(20,404)	10,202	—	—	10,202
Permanently restricted	1,173	1,173	—	—	1,173	(2,346)	1,173	—	—	1,173
Total restricted net assets	11,375	11,375	—	932	10,443	(22,750)	11,375	—	—	11,375
Total net assets	173,398	149,197	13,340	8,555	22,828	(193,920)	173,398	17,846	(13,335)	177,909
Total liabilities and net assets	$ 175,561	369,753	17,595	8,716	23,032	(196,783)	397,874	32,495	(26,120)	404,249

See accompanying independent auditors' report.

Schedule 3

CARROLL COUNTY HEALTH SERVICES CORPORATION
AND SUBSIDIARIES

Consolidating Statement of Operations Information

Year ended June 30, 2014

(In thousands)

		Carroll County Health Services Corporation	Carroll Hospital Center Inc. & Subsidiaries	Carroll County Med-Services, Inc. & Subsidiaries	Eliminations	Consolidated
Unrestricted revenues, gains, and other support:						
Patient service revenue (net of contractuals)	$	—	251,807	21,817	—	273,624
Less provision for bad debts		—	9,143	778	—	9,921
Net patient service revenue		—	242,664	21,039	—	263,703
Other operating revenue		101	5,585	20,103	(3,087)	22,702
Net assets released from restrictions used for operations		—	16	—	—	16
Total unrestricted revenues, gains, and other support		101	248,265	41,142	(3,087)	286,421
Expenses:						
Salaries and wages		—	96,880	26,289	—	123,169
Employee benefits		—	15,965	3,343	—	19,308
Departmental supplies and expenses		—	37,286	12,433	—	49,719
Professional fees		—	25,972	1,113	(2,518)	24,567
Purchased services		78	31,548	8,221	(1,358)	38,489
Depreciation and amortization		—	16,856	972	297	18,125
Interest		36	5,441	35	492	6,004
Total expenses		114	229,948	52,406	(3,087)	279,381
Operating income (loss)		(13)	18,317	(11,264)	—	7,040
Other income (expense):						
Investment income		654	8,442	636	—	9,732
Unrestricted gifts		—	1,153	—	—	1,153
Change in fair value of interest rate hedge, including settlement payments		—	(2,107)	—	—	(2,107)
Other		—	(1,133)	20	—	(1,113)
Excess (deficit) of revenues over (under) expenses	$	641	24,672	(10,608)	—	14,705

See accompanying independent auditors' report.

Schedule 3

CARROLL COUNTY HEALTH SERVICES CORPORATION
AND SUBSIDIARIES

Consolidating Statement of Operations Information

Year ended June 30, 2014

(In thousands)

	Carroll Hospital Center Inc. & Subsidiaries						
	Carroll Hospital Center Inc. & Subsidiaries	**Carroll Hospice, Inc.**	**Carroll Hospital Center Foundation, Inc.**	**Carroll County Radiology, LLC.**	**Cen-Mar Assurance Co.**	**Eliminations**	**Consolidated**
Unrestricted revenues, gains, and other support:							
Patient service revenue (net of contractuals)	$ 225,432	4,564	—	22,640	—	(829)	251,807
Less provision for bad debts	7,994	—	—	1,149	—	—	9,143
Net patient service revenue	217,438	4,564	—	21,491	—	(829)	242,664
Other operating revenue	5,584	1	—	—	3,070	(3,070)	5,585
Net assets released from restrictions used for operations	—	8	8	—	—	—	16
Total unrestricted revenues, gains, and other support	223,022	4,573	8	21,491	3,070	(3,899)	248,265
Expenses:							
Salaries and wages	89,229	2,945	—	4,706	—	—	96,880
Employee benefits	14,889	343	—	733	—	—	15,965
Departmental supplies and expenses	35,868	369	—	1,049	—	—	37,286
Professional fees	19,325	48	—	6,599	—	—	25,972
Purchased services	30,401	778	—	3,583	1,743	(4,957)	31,548
Depreciation and amortization	14,890	166	—	1,401	—	399	16,856
Interest	4,782	—	—		—	659	5,441
Total expenses	209,384	4,649	—	18,071	1,743	(3,899)	229,948
Operating income (loss)	13,638	(76)	8	3,420	1,327	—	18,317
Other income (expense):							
Investment income	7,003	(1)	1,124	—	316	—	8,442
Unrestricted gifts	—	503	650	—	—	—	1,153
Change in fair value of interest rate hedge, including settlement payments	(2,107)	—	—	—	—	—	(2,107)
Other	(575)	(305)	(253)	—	—	—	(1,133)
Excess (deficit) of revenues over (under) expenses	$ 17,959	121	1,529	3,420	1,643	—	24,672

See accompanying independent auditors' report.

CARROLL COUNTY HEALTH SERVICES CORPORATION
AND SUBSIDIARIES

Consolidating Statement of Operations Information – Obligated Group Format

Year ended June 30, 2014

(In thousands)

	Carroll County Health Services Corporation	Carroll Hospital Center Inc. & Subsidiaries	Carroll County Med-Services, Inc. & Subsidiaries	Carroll Hospice, Inc.	Carroll Hospital Center Foundation, Inc.	Eliminations	Obligated Group	Non-Obligated Group	Eliminations	Total
Unrestricted revenues, gains, and other support:										
Patient service revenue (net of contractuals)	$ —	225,432	21,817	4,564	—	—	251,813	22,640	(829)	273,624
Less provision for bad debts	—	7,994	778	—	—	—	8,772	1,149	—	9,921
Net patient service revenue	—	217,438	21,039	4,564	—	—	243,041	21,491	(829)	263,703
Other operating revenue	101	5,584	4,296	1	—	(3,086)	6,896	18,876	(3,070)	22,702
Net assets released from restrictions used for operations	—	—	—	8	8	—	16	—	—	16
Total unrestricted revenues, gains, and other support	101	223,022	25,335	4,573	8	(3,086)	249,953	40,367	(3,899)	286,421
Expenses:										
Salaries and wages	—	89,229	23,226	2,945	—	—	115,400	7,769	—	123,169
Employee benefits	—	14,889	3,059	343	—	—	18,291	1,017	—	19,308
Departmental supplies and expenses	—	35,868	1,374	369	—	—	37,611	12,108	—	49,719
Professional fees	—	19,325	1,083	49	—	(2,518)	17,939	6,628	—	24,567
Purchased services	78	30,401	7,251	778	—	(1,828)	36,680	6,294	(4,485)	38,489
Depreciation and amortization	—	14,889	871	166	—	474	16,400	1,505	220	18,125
Interest	36	4,783	15	—	—	786	5,620	18	366	6,004
Total expenses	114	209,384	36,879	4,650	—	(3,086)	247,941	35,339	(3,899)	279,381
Operating income (loss)	(13)	13,638	(11,544)	(77)	8	—	2,012	5,028	—	7,040
Other income (expense):										
Investment income (loss)	654	7,003	—	(1)	1,124	—	8,780	952	—	9,732
Unrestricted gifts	—	—	—	503	650	—	1,153	—	—	1,153
Change in fair value of interest rate hedge, including settlement payments	—	(2,107)	—	—	—	—	(2,107)	—	—	(2,107)
Other	—	(575)	23	(305)	(253)	—	(1,110)	(3)	—	(1,113)
Excess (deficit) of revenues over (under) expenses	$ 641	17,959	(11,521)	120	1,529	—	8,728	5,977	—	14,705

See accompanying independent auditors' report.