

Exempt Organization Declaration and Signature for Electronic Filing

For calendar year 2011, or tax year beginning 07/01, 2011, and ending 06/30, 2012
For use with Forms 990, 990-EZ, 990-PF, 1120-POL, and 8868

2011

Department of the Treasury
Internal Revenue Service

▶ See instructions on back.

Name of exempt organization

FREDERICK MEMORIAL HOSPITAL, INC.

Employer identification number

52-0591612

Part I Type of Return and Return Information (Whole Dollars Only)

Check the box for the type of return being filed with Form 8453-EO and enter the applicable amount, if any, from the return. If you check the box on line 1a, 2a, 3a, 4a, or 5a below and the amount on that line of the return being filed with this form was blank, then leave line 1b, 2b, 3b, 4b, or 5b, whichever is applicable, blank (do not enter -0-). If you entered -0- on the return, then enter -0- on the applicable line below. Do not complete more than one line in Part I.

1a Form 990 check here ▶ <input checked="" type="checkbox"/>	b Total revenue, if any (Form 990, Part VIII, column (A), line 12) . . .	1b	<u>356545098.</u>
2a Form 990-EZ check here ▶ <input type="checkbox"/>	b Total revenue, if any (Form 990-EZ, line 9)	2b	_____
3a Form 1120-POL check here ▶ <input type="checkbox"/>	b Total tax (Form 1120-POL, line 22)	3b	_____
4a Form 990-PF check here ▶ <input type="checkbox"/>	b Tax based on investment income (Form 990-PF, Part VI, line 5)	4b	_____
5a Form 8868 check here ▶ <input type="checkbox"/>	b Balance due (Form 8868, Part I, line 3c or Part II, line 8c)	5b	_____

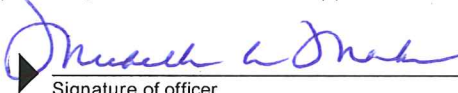
Part II Declaration of Officer

6 I authorize the U.S. Treasury and its designated Financial Agent to initiate an Automated Clearing House (ACH) electronic funds withdrawal (direct debit) entry to the financial institution account indicated in the tax preparation software for payment of the organization's federal taxes owed on this return, and the financial institution to debit the entry to this account. To revoke a payment, I must contact the U.S. Treasury Financial Agent at 1-888-353-4537 no later than 2 business days prior to the payment (settlement) date. I also authorize the financial institutions involved in the processing of the electronic payment of taxes to receive confidential information necessary to answer inquiries and resolve issues related to the payment.

If a copy of this return is being filed with a state agency(ies) regulating charities as part of the IRS Fed/State program, I certify that I executed the electronic disclosure consent contained within this return allowing disclosure by the IRS of this Form 990/990-EZ/990-PF (as specifically identified in Part I above) to the selected state agency(ies).

Under penalties of perjury, I declare that I am an officer of the above named organization and that I have examined a copy of the organization's 2011 electronic return and accompanying schedules and statements, and to the best of my knowledge and belief, they are true, correct, and complete. I further declare that the amount in Part I above is the amount shown on the copy of the organization's electronic return. I consent to allow my intermediate service provider, transmitter, or electronic return originator (ERO) to send the organization's return to the IRS and to receive from the IRS (a) an acknowledgement of receipt or reason for rejection of the transmission, (b) the reason for any delay in processing the return or refund, and (c) the date of any refund.

Sign Here



Signature of officer

5-15-13
Date

CFU
Title

Part III Declaration of Electronic Return Originator (ERO) and Paid Preparer (see instructions)

I declare that I have reviewed the above organization's return and that the entries on Form 8453-EO are complete and correct to the best of my knowledge. If I am only a collector, I am not responsible for reviewing the return and only declare that this form accurately reflects the data on the return. The organization officer will have signed this form before I submit the return. I will give the officer a copy of all forms and information to be filed with the IRS, and have followed all other requirements in Pub. 4163, Modernized e-File (MeF) Information for Authorized IRS e-file Providers for Business Returns. If I am also the Paid Preparer, under penalties of perjury I declare that I have examined the above organization's return and accompanying schedules and statements, and to the best of my knowledge and belief, they are true, correct, and complete. This Paid Preparer declaration is based on all information of which I have any knowledge.

ERO's Use Only	ERO's signature ▶ 	Date <u>05/14/2013</u>	Check if also paid preparer <input checked="" type="checkbox"/>	Check if self-employed <input type="checkbox"/>	ERO's SSN or PTIN <u>P00968722</u>
	Firm's name (or yours if self-employed), address, and ZIP code ▶	<u>ERNST & YOUNG U.S. LLP</u>			EIN <u>34-6565596</u>
		<u>155 NORTH WACKER DRIVE</u>			Phone no. <u>312-879-2000</u>
		<u>CHICAGO</u>	<u>IL 60606</u>		

Under penalties of perjury, I declare that I have examined the above return and accompanying schedules and statements, and to the best of my knowledge and belief, they are true, correct, and complete. Declaration of preparer is based on all information of which the preparer has any knowledge.

Paid Preparer Use Only	Print/Type preparer's name	Preparer's signature	Date	Check <input type="checkbox"/> if self-employed	PTIN
	Firm's name ▶				Firm's EIN ▶
	Firm's address ▶				Phone no.

For Privacy Act and Paperwork Reduction Act Notice, see back of form.

Form **8453-EO** (2011)

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)

Department of the Treasury
Internal Revenue Service

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

A For the 2011 calendar year, or tax year beginning 07/01, 2011, and ending 06/30, 2012

B Check if applicable: <input type="checkbox"/> Address change <input type="checkbox"/> Name change <input type="checkbox"/> Initial return <input type="checkbox"/> Terminated <input type="checkbox"/> Amended return <input type="checkbox"/> Application pending	C Name of organization FREDERICK MEMORIAL HOSPITAL, INC. Doing Business As			D Employer identification number 52-0591612	
	Number and street (or P.O. box if mail is not delivered to street address)		Room/suite	E Telephone number (240) 566-3300	
	City or town, state or country, and ZIP + 4 FREDERICK, MD 21701			G Gross receipts \$ 398,441,099.	
	F Name and address of principal officer: THOMAS A. KLEINHANZL 400 WEST 7TH STREET FREDERICK, MD 21701			H(a) Is this a group return for affiliates? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No H(b) Are all affiliates included? <input type="checkbox"/> Yes <input type="checkbox"/> No If "No," attach a list. (see instructions)	
I Tax-exempt status: <input checked="" type="checkbox"/> 501(c)(3) <input type="checkbox"/> 501(c) () ◀ (insert no.) <input type="checkbox"/> 4947(a)(1) or <input type="checkbox"/> 527					
J Website: ▶ WWW.FMH.ORG					
K Form of organization: <input checked="" type="checkbox"/> Corporation <input type="checkbox"/> Trust <input type="checkbox"/> Association <input type="checkbox"/> Other ▶					
L Year of formation: 1897				M State of legal domicile: MD	

Part I Summary

Activities & Governance	1 Briefly describe the organization's mission or most significant activities: TO CONTRIBUTE TO THE HEALTH AND WELL-BEING OF AREA RESIDENTS BY PROVIDING QUALITY HEALTHCARE IN A CARING, COST EFFICIENT, SAFE AND CONVENIENT MANNER.			
	2 Check this box <input type="checkbox"/> if the organization discontinued its operations or disposed of more than 25% of its net assets.			
	3	Number of voting members of the governing body (Part VI, line 1a)	18.	
	4	Number of independent voting members of the governing body (Part VI, line 1b)	13.	
	5	Total number of individuals employed in calendar year 2011 (Part V, line 2a)	3,233.	
	6	Total number of volunteers (estimate if necessary)	790.	
	7a	Total unrelated business revenue from Part VIII, column (C), line 12	9,843.	
7b	Net unrelated business taxable income from Form 990-T, line 34	0		
Revenue			Prior Year	Current Year
	8	Contributions and grants (Part VIII, line 1h)	1,975,386.	1,544,404.
	9	Program service revenue (Part VIII, line 2g)	340,072,234.	349,642,033.
	10	Investment income (Part VIII, column (A), lines 3, 4, and 7d)	7,459,520.	5,813,060.
	11	Other revenue (Part VIII, column (A), lines 5, 6d, 8c, 9c, 10c, and 11e)	-876,778.	-454,399.
	12	Total revenue - add lines 8 through 11 (must equal Part VIII, column (A), line 12)	348,630,362.	356,545,098.
Expenses	13	Grants and similar amounts paid (Part IX, column (A), lines 1-3)	100,000.	100,000.
	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)	167,577,086.	178,059,458.
	16a	Professional fundraising fees (Part IX, column (A), line 11e)	0	0
	b	Total fundraising expenses (Part IX, column (D), line 25) ▶ 760,292.		
	17	Other expenses (Part IX, column (A), lines 11a-11d, 11f-24e)	164,986,730.	171,529,894.
18	Total expenses. Add lines 13-17 (must equal Part IX, column (A), line 25)	332,663,816.	349,689,352.	
19	Revenue less expenses. Subtract line 18 from line 12	15,966,546.	6,855,746.	
Net Assets or Fund Balances			Beginning of Current Year	End of Year
	20	Total assets (Part X, line 16)	406,175,936.	415,327,620.
	21	Total liabilities (Part X, line 26)	228,526,672.	253,045,947.
22	Net assets or fund balances. Subtract line 21 from line 20	177,649,264.	162,281,673.	

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		Date			
	Type or print name and title				
Paid Preparer Use Only	Print/Type preparer's name	Preparer's signature	Date	Check <input type="checkbox"/> if self-employed	PTIN P00968722
	Firm's name ▶ ERNST & YOUNG U.S. LLP			Firm's EIN ▶ 34-656596	
	Firm's address ▶ 155 NORTH WACKER DRIVE CHICAGO, IL 60606			Phone no. 312-879-2000	
May the IRS discuss this return with the preparer shown above? (see instructions) <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No					

For Paperwork Reduction Act Notice, see the separate instructions.

Part III Statement of Program Service Accomplishments

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

1 Briefly describe the organization's mission:

SEE SCHEDULE O.

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 [X] 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 [X] 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 and section 4947(a)(1) trusts are required to report the amount of grants and allocations to others, the total expenses, and revenue, if any, for each program service reported.

4a (Code:) (Expenses \$ 40,119,017. including grants of \$ 100,000.) (Revenue \$ 62,184,089.)

ATTACHMENT 1

4b (Code:) (Expenses \$ 20,819,263. including grants of \$) (Revenue \$ 28,512,457.)

ATTACHMENT 2

4c (Code:) (Expenses \$ 36,101,543. including grants of \$) (Revenue \$ 50,478,801.)

PMH'S PERIOPERATIVE SERVICES PROVIDED HIGH QUALITY CARE TO 13,800 SURGICAL AND ENDOSCOPY PATIENTS IN FISCAL YEAR 2012. PROCEDURES WERE PERFORMED IN OUR STATE OF THE ART FACILITY WHICH INCLUDES A DEDICATED IMAGING ROOM FOR VASCULAR AND OTHER PROCEDURES. OUR TOTAL JOINT REPLACEMENT PATIENTS PARTICIPATE IN A PROGRAM DEEMED AS A CENTER OF EXCELLENCE. IN FY2012 WE PERFORMED THORACIC AND GYN ROBOTICS CASES AS OUR ROBOTICS PROGRAM BEGAN. WE HAVE PARTICIPATED IN THE SCIP QUALITY IMPROVEMENT PROJECT FOR CONTINUAL IMPROVEMENTS IN CARE FOLLOWING EVIDENCE BASED MEDICINE.

4d Other program services (Describe in Schedule O.)

(Expenses \$ 214,145,953. including grants of \$) (Revenue \$ 208,466,686.)

4e Total program service expenses 311,185,776.

Part IV Checklist of Required Schedules

	Yes	No
1 Is the organization described in section 501(c)(3) or 4947(a)(1) (other than a private foundation)? <i>If "Yes," complete Schedule A</i>	X	
2 Is the organization required to complete <i>Schedule B, Schedule of Contributors</i> (see instructions)?	X	
3 Did the organization engage in direct or indirect political campaign activities on behalf of or in opposition to candidates for public office? <i>If "Yes," complete Schedule C, Part I</i>		X
4 Section 501(c)(3) organizations. Did the organization engage in lobbying activities, or have a section 501(h) election in effect during the tax year? <i>If "Yes," complete Schedule C, Part II</i>	X	
5 Is the organization a section 501(c)(4), 501(c)(5), or 501(c)(6) organization that receives membership dues, assessments, or similar amounts as defined in Revenue Procedure 98-19? <i>If "Yes," complete Schedule C, Part III</i>		X
6 Did the organization maintain any donor advised funds or any similar funds or accounts for which donors have the right to provide advice on the distribution or investment of amounts in such funds or accounts? <i>If "Yes," complete Schedule D, Part I</i>		X
7 Did the organization receive or hold a conservation easement, including easements to preserve open space, the environment, historic land areas, or historic structures? <i>If "Yes," complete Schedule D, Part II</i>		X
8 Did the organization maintain collections of works of art, historical treasures, or other similar assets? <i>If "Yes," complete Schedule D, Part III</i>		X
9 Did the organization report an amount in Part X, line 21; serve as a custodian for amounts not listed in Part X; or provide credit counseling, debt management, credit repair, or debt negotiation services? <i>If "Yes," complete Schedule D, Part IV</i>		X
10 Did the organization, directly or through a related organization, hold assets in temporarily restricted endowments, permanent endowments, or quasi-endowments? <i>If "Yes," complete Schedule D, Part V</i>	X	
11 If the organization's answer to any of the following questions is "Yes," then complete Schedule D, Parts VI, VII, VIII, IX, or X as applicable.		
a Did the organization report an amount for land, buildings, and equipment in Part X, line 10? <i>If "Yes," complete Schedule D, Part VI</i>	X	
b Did the organization report an amount for investments—other securities in Part X, line 12 that is 5% or more of its total assets reported in Part X, line 16? <i>If "Yes," complete Schedule D, Part VII</i>		X
c Did the organization report an amount for investments-program related in Part X, line 13 that is 5% or more of its total assets reported in Part X, line 16? <i>If "Yes," complete Schedule D, Part VIII</i>	X	
d Did the organization report an amount for other assets in Part X, line 15 that is 5% or more of its total assets reported in Part X, line 16? <i>If "Yes," complete Schedule D, Part IX</i>		X
e Did the organization report an amount for other liabilities in Part X, line 25? <i>If "Yes," complete Schedule D, Part X</i>	X	
f Did the organization's separate or consolidated financial statements for the tax year include a footnote that addresses the organization's liability for uncertain tax positions under FIN 48 (ASC 740)? <i>If "Yes," complete Schedule D, Part X</i>		X
12a Did the organization obtain separate, independent audited financial statements for the tax year? <i>If "Yes," complete Schedule D, Parts XI, XII, and XIII</i>		X
b Was the organization included in consolidated, independent audited financial statements for the tax year? <i>If "Yes," and if the organization answered "No" to line 12a, then completing Schedule D, Parts XI, XII, and XIII is optional</i>	X	
13 Is the organization a school described in section 170(b)(1)(A)(ii)? <i>If "Yes," complete Schedule E</i>		X
14a Did the organization maintain an office, employees, or agents outside of the United States?		X
b Did the organization have aggregate revenues or expenses of more than \$10,000 from grantmaking, fundraising, business, investment, and program service activities outside the United States, or aggregate foreign investments valued at \$100,000 or more? <i>If "Yes," complete Schedule F, Parts I and IV</i>	X	
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? <i>If "Yes," complete Schedule F, Parts II and IV</i>		X
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? <i>If "Yes," complete Schedule F, Parts III and IV</i>		X
17 Did the organization report a total of more than \$15,000 of expenses for professional fundraising services on Part IX, column (A), lines 6 and 11e? <i>If "Yes," complete Schedule G, Part I (see instructions)</i>		X
18 Did the organization report more than \$15,000 total of fundraising event gross income and contributions on Part VIII, lines 1c and 8a? <i>If "Yes," complete Schedule G, Part II</i>		X
19 Did the organization report more than \$15,000 of gross income from gaming activities on Part VIII, line 9a? <i>If "Yes," complete Schedule G, Part III</i>		X
20a Did the organization operate one or more hospital facilities? <i>If "Yes," complete Schedule H</i>	X	
b If "Yes" to line 20a, did the organization attach a copy of its audited financial statements to this return?	X	

Part IV Checklist of Required Schedules (continued)

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

Part V Statements Regarding Other IRS Filings and Tax Compliance

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

Table with columns for question number, description, and Yes/No checkboxes. Includes questions 1a through 14b regarding IRS filings and tax compliance.

Part VI Governance, Management, and Disclosure For each "Yes" response to lines 2 through 7b below, and for a "No" response to line 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. [X]

Section A. Governing Body and Management

Table with 3 columns: Question, Yes, No. Rows include 1a (18), 1b (13), 2, 3, 4, 5, 6, 7a, 7b, 8, 8a, 8b, 9.

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

Table with 3 columns: Question, Yes, No. Rows include 10a, 10b, 11a, 11b, 12a, 12b, 12c, 13, 14, 15, 15a, 15b, 16a, 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 Forms 1023 (or 1024 if applicable), 990, and 990-T (Section 501(c)(3)s only) available for public inspection. Indicate how you made these available. Check all that apply.
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: MICHELLE MAHAN 400 WEST 7TH STREET FREDERICK, MD 21701 240-566-3300

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, and highest compensated employees who received more than \$100,000 of reportable compensation from the organization and any related organizations.
- List all of the organization's **former directors or trustees** that received, in the capacity as a former director or trustee of the organization, more than \$10,000 of reportable compensation from the organization and any related organizations.

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

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

(A) Name and Title	(B) Average hours per week (describe hours for related organizations in Schedule O)	(C) Position (do not check more than one box, unless person is both an officer and a director/trustee)						(D) Reportable compensation from the organization (W-2/1099-MISC)	(E) Reportable compensation from related organizations (W-2/1099-MISC)	(F) Estimated amount of other compensation from the organization and related organizations
		Individual trustee or director	Institutional trustee	Officer	Key employee	Highest compensated employee	Former			
(1) THOMAS A. KLEINHANZL PRESIDENT AND CEO	40.00	X	X				700,823.	0	155,432.	
(2) NEIL WARAVDEKAR, MD CHIEF OF STAFF	10.00	X	X				42,319.	0	0	
(3) RAVI YALAMANCHILI VICE CHIEF OF STAFF	6.00	X	X				66,499.	0	0	
(4) ADRIANE WODEY CHAIRMAN	6.00	X	X				0	0	0	
(5) ANNE HERBERT ROLLINS VICE CHAIRMAN	6.00	X	X				0	0	0	
(6) E. JAMES REINSCH SECRETARY AND TREASURER	2.00	X	X				0	0	0	
(7) MARVIN AUSERMAN DIRECTOR	2.00	X					0	0	0	
(8) JAMES R. DIXON DIRECTOR (END 10/1/11)	2.00	X					0	0	0	
(9) GREGORY P. DORMITZER DIRECTOR	2.00	X					0	0	0	
(10) BERNARD GOUIN DIRECTOR	2.00	X					0	0	0	
(11) THEODORE LUCK DIRECTOR	2.00	X					0	0	0	
(12) J. FREDERICK MANNING DIRECTOR	2.00	X					0	0	0	
(13) JOANN RAMSBURG DIRECTOR	2.00	X					0	0	0	
(14) ADRIANA ROA, BSN DIRECTOR	2.00	X					0	0	0	

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

(A) Name and title	(B) Average hours per week (describe hours for related organizations in Schedule O)	(C) Position (do not check more than one box, unless person is both an officer and a director/trustee)						(D) Reportable compensation from the organization (W-2/1099-MISC)	(E) Reportable compensation from related organizations (W-2/1099-MISC)	(F) Estimated amount of other compensation from the organization and related organizations
		Individual trustee or director	Institutional trustee	Officer	Key employee	Highest compensated employee	Former			
(15) REV. ROGER W. WILMER, JR. DIRECTOR	2.00	X					0	0	0	
(16) GERALD WINNAN, MD DIRECTOR	2.00	X					0	0	0	
(17) SHAWN WOLF DIRECTOR	2.00	X					0	0	0	
(18) SAEED ZAIDI MD PAST CHIEF OF STAFF	2.00	X					1,000.	0	0	
(19) P. GREGORY RAUSCH, MD CHAIR, FMH DEVLOPMENT COUNCIL	6.00	X					12,883.	0	0	
(20) GREG POWELL, PH.D PAST CHAIRMAN OF THE BOARD	8.00	X					0	0	0	
(21) JOHN MOLESWORTH, DO PAST CHIEF OF STAFF	10.00	X					38,997.	0	0	
(22) MICHELLE MAHAN SR VP AND CFO	40.00			X			375,640.	0	64,944.	
(23) JOHN VERBUS SR VP AND COO	40.00			X			372,760.	0	39,123.	
(24) MANUEL A CASIANO VP MEDICAL STAFF	40.00				X		337,731.	0	68,322.	
(25) KENNETH R COFFEY II VP CHIEF DEVELOPMENT OFFICER	40.00				X		186,802.	0	28,691.	
1b Sub-total							809,641.	0	155,432.	
c Total from continuation sheets to Part VII, Section A							5,072,352.	0	563,180.	
d Total (add lines 1b and 1c)							5,881,993.	0	718,612.	

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 ► 141

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

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
ATTACHMENT 3		

2 Total number of independent contractors (including but not limited to those listed above) who received more than \$100,000 in compensation from the organization ► 23

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

(A) Name and title	(B) Average hours per week (describe hours for related organizations in Schedule O)	(C) Position (do not check more than one box, unless person is both an officer and a director/trustee)						(D) Reportable compensation from the organization (W-2/1099-MISC)	(E) Reportable compensation from related organizations (W-2/1099-MISC)	(F) Estimated amount of other compensation from the organization and related organizations
		Individual trustee or director	Institutional trustee	Officer	Key employee	Highest compensated employee	Former			
26) HANNAH R. JACOBS VP FINANCE	40.00				X		149,903.	0	8,115.	
27) ROSE A. LABRIOLA SR VP PATIENT CARE	40.00				X		272,122.	0	25,410.	
28) TERRY P. O'MALLEY VP HUMAN RESOURCES	40.00				X		199,161.	0	40,867.	
29) DAVID QUIKE VP CHIEF INFORMATION OFFICER	40.00				X		247,732.	0	41,398.	
30) CRAIG F. ROSENDALE VP ANCILLARY SERVICES	40.00				X		187,752.	0	26,913.	
31) DONALD R. SCHILLING VP AMBULATORY SERVICES	40.00				X		192,473.	0	22,629.	
32) LUCY A. SHAMASH VP SRVC LINE DEV & OPS	40.00				X		230,036.	0	16,722.	
33) JENNIFER G. TEETER AVP PAYOR CONTRACTING	40.00				X		157,935.	0	20,774.	
34) JIM R. WILLIAMS VP BUS DEV AND PROF SRVCS	40.00				X		194,547.	0	27,217.	
35) JARED R BERKOWITZ PHYSICIAN	40.00					X	355,730.	0	19,782.	
36) PAUL N CHOMIAK PHYSICIAN	40.00					X	438,131.	0	24,624.	
1b Sub-total										
c Total from continuation sheets to Part VII, Section A										
d Total (add lines 1b and 1c)										

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 **141**

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

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

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

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

(A) Name and title	(B) Average hours per week (describe hours for related organizations in Schedule O)	(C) Position (do not check more than one box, unless person is both an officer and a director/trustee)						(D) Reportable compensation from the organization (W-2/1099-MISC)	(E) Reportable compensation from related organizations (W-2/1099-MISC)	(F) Estimated amount of other compensation from the organization and related organizations
		Individual trustee or director	Institutional trustee	Officer	Key employee	Highest compensated employee	Former			
(37) ELHAMY D. ESKANDER PHYSICIAN	40.00					X		382,593.	0	33,609.
(38) BRIAN M. O'CONNOR PHYSICIAN	40.00					X		383,987.	0	33,976.
(39) BRIAN T. TULLY PHYSICIAN	40.00					X		354,437.	0	20,064.
1b Sub-total										
c Total from continuation sheets to Part VII, Section A										
d Total (add lines 1b and 1c)										

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 **▶ 141**

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

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

2 Total number of independent contractors (including but not limited to those listed above) who received more than \$100,000 in compensation from the organization **▶**

Part VIII Statement of Revenue

				(A) Total revenue	(B) Related or exempt function revenue	(C) Unrelated business revenue	(D) Revenue excluded from tax under sections 512, 513, or 514
Contributions, Gifts, Grants and Other Similar Amounts	1a Federated campaigns	1a					
	b Membership dues	1b					
	c Fundraising events	1c					
	d Related organizations	1d					
	e Government grants (contributions) . .	1e					
	f All other contributions, gifts, grants, and similar amounts not included above .	1f	1,544,404.				
	g Noncash contributions included in lines 1a-1f: \$		26,592.				
	h Total. Add lines 1a-1f ▶			1,544,404.			
Program Service Revenue		Business Code					
	2a <u>INPATIENT REVENUE</u>		624100	168,299,302.	168,299,302.		
	b <u>OUTPATIENT REVENUE</u>		621400	173,056,704.	173,056,704.		
	c <u>TRANSCRIPTION SERVICES</u>		561000	460,187.	460,187.		
	d <u>GROUP PURCHASING (PREMIER)</u>		525990	778,773.	768,930.	9,843.	
	e <u>HITECH AND MEDICAL HOME REVENUES</u>		621610	4,818,644.	4,818,644.		
	f All other program service revenue		900099	2,228,423.	2,228,423.		
	g Total. Add lines 2a-2f ▶			349,642,033.			
Other Revenue	3 Investment income (including dividends, interest, and other similar amounts) ▶			3,632,188.			3,632,188.
	4 Income from investment of tax-exempt bond proceeds . . . ▶			0			
	5 Royalties ▶			0			
			(i) Real	(ii) Personal			
	6a Gross rents		572,964.				
	b Less: rental expenses						
	c Rental income or (loss)		572,964.				
	d Net rental income or (loss) ▶				572,964.		572,964.
			(i) Securities	(ii) Other			
	7a Gross amount from sales of assets other than inventory		44,020,960.	55,913.			
	b Less: cost or other basis and sales expenses		41,773,753.	122,248.			
	c Gain or (loss)		2,247,207.	-66,335.			
	d Net gain or (loss) ▶				2,180,872.		2,180,872.
	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 <u>CAFETERIA AND COFFEE SHOP</u>		722210		1,257,794.			1,257,794.
b <u>MT. AIRY JOINT VENTURE MANAGEMENT FEE</u>		541610		302,669.			302,669.
c <u>REALIZED LOSSES ON INTEREST RATE SWAP</u>		900099		-2,587,826.			-2,587,826.
d All other revenue							
e Total. Add lines 11a-11d ▶				-1,027,363.			
12 Total revenue. See instructions ▶				356,545,098.	349,632,190.	9,843.	5,358,661.

Part IX Statement of Functional Expenses

Section 501(c)(3) and 501(c)(4) organizations must complete all columns. All other organizations must complete column (A) but are not required to complete columns (B), (C), and (D).

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

Do not include amounts reported on lines 6b, 7b, 8b, 9b, and 10b of Part VIII.	(A) Total expenses	(B) Program service expenses	(C) Management and general expenses	(D) Fundraising expenses
1 Grants and other assistance to governments and organizations in the United States. See Part IV, line 21	100,000.	100,000.		
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	5,642,767.		5,642,767.	
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	135,501,022.	125,137,898.	10,060,358.	302,766.
8 Pension plan accruals and contributions (include section 401(k) and 403(b) employer contributions)	7,014,470.	6,486,956.	521,513.	6,001.
9 Other employee benefits	20,089,058.	18,507,510.	1,514,512.	67,036.
10 Payroll taxes	9,812,141.	9,074,231.	729,515.	8,395.
11 Fees for services (non-employees):				
a Management	12,841,423.	11,612,907.	1,220,516.	8,000.
b Legal	811,300.	200.	810,200.	900.
c Accounting	312,280.		312,280.	
d Lobbying	0			
e Professional fundraising services. See Part IV, line 17	0			
f Investment management fees	399,680.		399,680.	
g Other	36,944,735.	31,826,779.	5,055,581.	62,375.
12 Advertising and promotion	931,776.	27,152.	742,351.	162,273.
13 Office expenses	5,306,668.	4,620,298.	575,751.	110,619.
14 Information technology	3,292,475.	3,292,475.		
15 Royalties	0			
16 Occupancy	4,317,171.	3,682,515.	634,656.	
17 Travel	121,425.	74,436.	46,590.	399.
18 Payments of travel or entertainment expenses for any federal, state, or local public officials	0			
19 Conferences, conventions, and meetings	283,324.	173,685.	108,709.	930.
20 Interest	4,569,501.	4,281,644.	278,719.	9,138.
21 Payments to affiliates	0			
22 Depreciation, depletion, and amortization	19,949,560.	16,003,920.	3,933,990.	11,650.
23 Insurance	5,136,180.	361,055.	4,775,125.	
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 <u>SUPPLIES AND COGS</u>	62,471,742.	62,081,461.	380,471.	9,810.
b <u>BAD DEBT EXPENSE</u>	13,840,654.	13,840,654.		
c				
d				
e All other expenses				
25 Total functional expenses. Add lines 1 through 24e	349,689,352.	311,185,776.	37,743,284.	760,292.
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 <input type="checkbox"/> if following SOP 98-2 (ASC 958-720)	0			

Part X Balance Sheet

		(A) Beginning of year		(B) End of year
Assets	1 Cash - non-interest-bearing	0	1	0
	2 Savings and temporary cash investments	25,713,868.	2	29,890,405.
	3 Pledges and grants receivable, net	3,277,527.	3	3,136,826.
	4 Accounts receivable, net	45,891,896.	4	50,427,786.
	5 Receivables from current and former officers, directors, trustees, key employees, and highest compensated employees. Complete Part II of Schedule L	135,316.	5	81,190.
	6 Receivables from other disqualified persons (as defined under section 4958(f)(1)), persons described in section 4958(c)(3)(B), and contributing employers and sponsoring organizations of section 501(c)(9) voluntary employees' beneficiary organizations (see instructions)	0	6	0
	7 Notes and loans receivable, net	0	7	0
	8 Inventories for sale or use	4,355,878.	8	4,648,660.
	9 Prepaid expenses and deferred charges	2,357,935.	9	2,430,944.
	10a Land, buildings, and equipment: cost or other basis. Complete Part VI of Schedule D	10a 392,792,936.		
	b Less: accumulated depreciation	10b 203,755,335.	174,734,246.	10c 189,037,601.
	11 Investments - publicly traded securities	107,206,670.	11	99,649,453.
	12 Investments - other securities. See Part IV, line 11	0	12	0
	13 Investments - program-related. See Part IV, line 11	36,930,641.	13	28,573,661.
	14 Intangible assets	0	14	0
	15 Other assets. See Part IV, line 11	5,571,959.	15	7,451,094.
16 Total assets. Add lines 1 through 15 (must equal line 34)	406,175,936.	16	415,327,620.	
Liabilities	17 Accounts payable and accrued expenses	35,316,086.	17	41,374,475.
	18 Grants payable	0	18	0
	19 Deferred revenue	0	19	0
	20 Tax-exempt bond liabilities	138,926,650.	20	137,149,099.
	21 Escrow or custodial account liability. Complete Part IV of Schedule D	0	21	0
	22 Payables to current and former officers, directors, trustees, key employees, highest compensated employees, and disqualified persons. Complete Part II of Schedule L	0	22	0
	23 Secured mortgages and notes payable to unrelated third parties	372,575.	23	278,511.
	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	53,911,361.	25	74,243,862.
	26 Total liabilities. Add lines 17 through 25	228,526,672.	26	253,045,947.
Net Assets or Fund Balances	Organizations that follow SFAS 117, check here <input checked="" type="checkbox"/> and complete lines 27 through 29, and lines 33 and 34.			
	27 Unrestricted net assets	171,475,327.	27	156,164,358.
	28 Temporarily restricted net assets	5,197,760.	28	5,141,138.
	29 Permanently restricted net assets	976,177.	29	976,177.
	Organizations that do not follow SFAS 117, check here <input type="checkbox"/> and complete lines 30 through 34.			
	30 Capital stock or trust principal, or current funds		30	
	31 Paid-in or capital surplus, or land, building, or equipment fund		31	
	32 Retained earnings, endowment, accumulated income, or other funds		32	
33 Total net assets or fund balances	177,649,264.	33	162,281,673.	
34 Total liabilities and net assets/fund balances	406,175,936.	34	415,327,620.	

Part XI Reconciliation of Net Assets

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

1	Total revenue (must equal Part VIII, column (A), line 12)	1	356,545,098.
2	Total expenses (must equal Part IX, column (A), line 25)	2	349,689,352.
3	Revenue less expenses. Subtract line 2 from line 1	3	6,855,746.
4	Net assets or fund balances at beginning of year (must equal Part X, line 33, column (A))	4	177,649,264.
5	Other changes in net assets or fund balances (explain in Schedule O)	5	-22,223,337.
6	Net assets or fund balances at end of year. Combine lines 3, 4, and 5 (must equal Part X, line 33, column (B))	6	162,281,673.

Part XII Financial Statements and Reporting

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

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

SCHEDULE A
(Form 990 or 990-EZ)

Department of the Treasury
Internal Revenue Service

Public Charity Status and Public Support

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

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

OMB No. 1545-0047

2011

Open to Public Inspection

Name of the organization FREDERICK MEMORIAL HOSPITAL, INC.	Employer identification number 52-0591612
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Part I Reason for Public Charity Status (All organizations must complete this part.) See instructions.

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

- 1 A church, convention of churches, or association of churches described in **section 170(b)(1)(A)(i)**.
- 2 A school described in **section 170(b)(1)(A)(ii)**. (Attach Schedule E.)
- 3 A hospital or a cooperative hospital service organization described in **section 170(b)(1)(A)(iii)**.
- 4 A medical research organization operated in conjunction with a hospital described in **section 170(b)(1)(A)(iii)**. Enter the hospital's name, city, and state: _____
- 5 An organization operated for the benefit of a college or university owned or operated by a governmental unit described in **section 170(b)(1)(A)(iv)**. (Complete Part II.)
- 6 A federal, state, or local government or governmental unit described in **section 170(b)(1)(A)(v)**.
- 7 An organization that normally receives a substantial part of its support from a governmental unit or from the general public described in **section 170(b)(1)(A)(vi)**. (Complete Part II.)
- 8 A community trust described in **section 170(b)(1)(A)(vi)**. (Complete Part II.)
- 9 An organization that normally receives: (1) more than 33 1/3% of its support from contributions, membership fees, and gross receipts from activities related to its exempt functions - subject to certain exceptions, and (2) no more than 33 1/3% of its support from gross investment income and unrelated business taxable income (less section 511 tax) from businesses acquired by the organization after June 30, 1975. See **section 509(a)(2)**. (Complete Part III.)

- 10 An organization organized and operated exclusively to test for public safety. See **section 509(a)(4)**.
- 11 An organization organized and operated exclusively for the benefit of, to perform the functions of, or to carry out the purposes of one or more publicly supported organizations described in section 509(a)(1) or section 509(a)(2). See **section 509(a)(3)**. Check the box that describes the type of supporting organization and complete lines 11e through 11h.

- a Type I b Type II c Type III - Functionally integrated d Type III - Other

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

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

g Since August 17, 2006, has the organization accepted any gift or contribution from any of the following persons?

- (i) A person who directly or indirectly controls, either alone or together with persons described in (ii) and (iii) below, the governing body of the supported organization?
- (ii) A family member of a person described in (i) above?
- (iii) A 35% controlled entity of a person described in (i) or (ii) above?

	Yes	No
11g(i)		
11g(ii)		
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 support
			Yes	No	Yes	No	Yes	No	
(A)									
(B)									
(C)									
(D)									
(E)									
Total									

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

Schedule A (Form 990 or 990-EZ) 2011

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

Table with 7 columns: (a) 2007, (b) 2008, (c) 2009, (d) 2010, (e) 2011, (f) Total. Rows include: 1 Gifts, grants, contributions, and membership fees received; 2 Tax revenues levied for the organization's benefit; 3 The value of services or facilities furnished by a governmental unit; 4 Total. Add lines 1 through 3; 5 The portion of total contributions by each person; 6 Public support. Subtract line 5 from line 4.

Section B. Total Support

Table with 7 columns: (a) 2007, (b) 2008, (c) 2009, (d) 2010, (e) 2011, (f) Total. Rows include: 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; 10 Other income. Do not include gain or loss from the sale of capital assets; 11 Total support. Add lines 7 through 10; 12 Gross receipts from related activities; 13 First five years. If the Form 990 is for the organization's first, second, third, fourth, or fifth tax year as a section 501(c)(3) organization, check this box and stop here.

Section C. Computation of Public Support Percentage

Table with 2 columns: Percentage, and a checkbox. Rows include: 14 Public support percentage for 2011; 15 Public support percentage from 2010 Schedule A, Part II, line 14; 16a 33 1/3% support test - 2011; b 33 1/3% support test - 2010; 17a 10%-facts-and-circumstances test - 2011; b 10%-facts-and-circumstances test - 2010; 18 Private foundation.

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) 2007	(b) 2008	(c) 2009	(d) 2010	(e) 2011	(f) Total
1 Gifts, grants, contributions, and membership fees received. (Do not include any "unusual grants.")						
2 Gross receipts from admissions, merchandise sold or services performed, or facilities furnished in any activity that is related to the organization's tax-exempt purpose						
3 Gross receipts from activities that are not an unrelated trade or business under section 513						
4 Tax revenues levied for the organization's benefit and either paid to or expended on its behalf						
5 The value of services or facilities furnished by a governmental unit to the organization without charge						
6 Total. Add lines 1 through 5						
7a Amounts included on lines 1, 2, and 3 received from disqualified persons						
b Amounts included on lines 2 and 3 received from other than disqualified persons that exceed the greater of \$5,000 or 1% of the amount on line 13 for the year						
c Add lines 7a and 7b.						
8 Public support (Subtract line 7c from line 6.)						

Section B. Total Support

Calendar year (or fiscal year beginning in) ►	(a) 2007	(b) 2008	(c) 2009	(d) 2010	(e) 2011	(f) Total
9 Amounts from line 6.						
10a Gross income from interest, dividends, payments received on securities loans, rents, royalties and income from similar sources						
b Unrelated business taxable income (less section 511 taxes) from businesses acquired after June 30, 1975						
c Add lines 10a and 10b						
11 Net income from unrelated business activities not included in line 10b, whether or not the business is regularly carried on						
12 Other income. Do not include gain or loss from the sale of capital assets (Explain in Part IV.)						
13 Total support. (Add lines 9, 10c, 11, and 12.)						

14 First five years. If the Form 990 is for the organization's first, second, third, fourth, or fifth tax year as a section 501(c)(3) organization, check this box and **stop here**

Section C. Computation of Public Support Percentage

15 Public support percentage for 2011 (line 8, column (f) divided by line 13, column (f))	15	%
16 Public support percentage from 2010 Schedule A, Part III, line 15	16	%

Section D. Computation of Investment Income Percentage

17 Investment income percentage for 2011 (line 10c, column (f) divided by line 13, column (f))	17	%
18 Investment income percentage from 2010 Schedule A, Part III, line 17	18	%

19a 33 1/3% support tests - 2011. If the organization did not check the box on line 14, and line 15 is more than 33 1/3%, and line 17 is not more than 33 1/3%, check this box and **stop here**. The organization qualifies as a publicly supported organization ►

b 33 1/3% support tests - 2010. If the organization did not check a box on line 14 or line 19a, and line 16 is more than 33 1/3%, and line 18 is not more than 33 1/3%, check this box and **stop here**. The organization qualifies as a publicly supported organization ►

20 Private foundation. If the organization did not check a box on line 14, 19a, or 19b, check this box and see instructions ►

Part IV **Supplemental Information.** 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).

SCHEDULE C
(Form 990 or 990-EZ)

Political Campaign and Lobbying Activities

OMB No. 1545-0047

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

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

▶ **See separate instructions.**

2011

Open to Public Inspection

Department of the Treasury
Internal Revenue Service

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

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

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

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

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

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

Name of organization FREDERICK MEMORIAL HOSPITAL, INC.	Employer identification number 52-0591612
--	---

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

- 1 Provide a description of the organization's direct and indirect political campaign activities in Part IV.
- 2 Political expenditures ▶ \$ _____
- 3 Volunteer hours _____

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

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

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

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

(a) Name	(b) Address	(c) EIN	(d) Amount paid from filing organization's funds. If none, enter -0-.	(e) Amount of political contributions received and promptly and directly delivered to a separate political organization. If none, enter -0-.
(1)	-----			
(2)	-----			
(3)	-----			
(4)	-----			
(5)	-----			
(6)	-----			

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

Schedule C (Form 990 or 990-EZ) 2011

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

- A** Check if the filing organization belongs to an affiliated group (and list in Part IV each affiliated group member's name, address, EIN, expenses, and share of excess lobbying expenditures).
- B** Check if the filing organization checked box A and "limited control" provisions apply.

Limits on Lobbying Expenditures (The term "expenditures" means amounts paid or incurred.)	(a) Filing organization's totals	(b) Affiliated group totals												
1 a Total lobbying expenditures to influence public opinion (grass roots lobbying)														
b Total lobbying expenditures to influence a legislative body (direct lobbying)														
c Total lobbying expenditures (add lines 1a and 1b)														
d Other exempt purpose expenditures														
e Total exempt purpose expenditures (add lines 1c and 1d)														
f Lobbying nontaxable amount. Enter the amount from the following table in both columns.														
<table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 50%; text-align: left;">If the amount on line 1e, column (a) or (b) is:</th> <th style="width: 50%; text-align: left;">The lobbying nontaxable amount is:</th> </tr> </thead> <tbody> <tr> <td>Not over \$500,000</td> <td>20% of the amount on line 1e.</td> </tr> <tr> <td>Over \$500,000 but not over \$1,000,000</td> <td>\$100,000 plus 15% of the excess over \$500,000.</td> </tr> <tr> <td>Over \$1,000,000 but not over \$1,500,000</td> <td>\$175,000 plus 10% of the excess over \$1,000,000.</td> </tr> <tr> <td>Over \$1,500,000 but not over \$17,000,000</td> <td>\$225,000 plus 5% of the excess over \$1,500,000.</td> </tr> <tr> <td>Over \$17,000,000</td> <td>\$1,000,000.</td> </tr> </tbody> </table>	If the amount on line 1e, column (a) or (b) is:	The lobbying nontaxable amount is:	Not over \$500,000	20% of the amount on line 1e.	Over \$500,000 but not over \$1,000,000	\$100,000 plus 15% of the excess over \$500,000.	Over \$1,000,000 but not over \$1,500,000	\$175,000 plus 10% of the excess over \$1,000,000.	Over \$1,500,000 but not over \$17,000,000	\$225,000 plus 5% of the excess over \$1,500,000.	Over \$17,000,000	\$1,000,000.		
If the amount on line 1e, column (a) or (b) is:	The lobbying nontaxable amount is:													
Not over \$500,000	20% of the amount on line 1e.													
Over \$500,000 but not over \$1,000,000	\$100,000 plus 15% of the excess over \$500,000.													
Over \$1,000,000 but not over \$1,500,000	\$175,000 plus 10% of the excess over \$1,000,000.													
Over \$1,500,000 but not over \$17,000,000	\$225,000 plus 5% of the excess over \$1,500,000.													
Over \$17,000,000	\$1,000,000.													
g Grassroots nontaxable amount (enter 25% of line 1f)														
h Subtract line 1g from line 1a. If zero or less, enter -0-														
i Subtract line 1f from line 1c. If zero or less, enter -0-														
j If there is an amount other than zero on either line 1h or line 1i, did the organization file Form 4720 reporting section 4911 tax for this year?		<input type="checkbox"/> Yes <input type="checkbox"/> No												

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

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

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

For each "Yes" response to lines 1a through 1i below, provide in Part IV a detailed description of the lobbying activity.	(a)		(b)
	Yes	No	Amount
1 During the year, did the filing organization attempt to influence foreign, national, state or local legislation, including any attempt to influence public opinion on a legislative matter or referendum, through the use of:			
a Volunteers?			
b Paid staff or management (include compensation in expenses reported on lines 1c through 1i)?			
c Media advertisements?		X	
d Mailings to members, legislators, or the public?		X	
e Publications, or published or broadcast statements?		X	
f Grants to other organizations for lobbying purposes?		X	
g Direct contact with legislators, their staffs, government officials, or a legislative body?		X	
h Rallies, demonstrations, seminars, conventions, speeches, lectures, or any similar means?		X	
i Other activities?	X		24,666.
j Total. Add lines 1c through 1i			24,666.
2a Did the activities in line 1 cause the organization to be not described in section 501(c)(3)?		X	
b If "Yes," enter the amount of any tax incurred under section 4912			
c If "Yes," enter the amount of any tax incurred by organization managers under section 4912			
d If the filing organization incurred a section 4912 tax, did it file Form 4720 for this year?			

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

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

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

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

Part IV Supplemental Information

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

DESCRIPTION OF LOBBYING ACTIVITIES

SCHEDULE C PART II-B LINE 1I

THE EXPENSE OF \$24,666 IS A PORTION OF DUES PAID TO THE AMERICAN HOSPITAL ASSOCIATION, MARYLAND HOSPITAL ASSOCIATION, NATIONAL ASSOCIATION FOR HOME CARE, AND NATIONAL HOSPICE AND PALLIATIVE CARE ORGANIZATION.

Part IV Supplemental Information *(continued)*

**SCHEDULE D
(Form 990)**

Supplemental Financial Statements

OMB No. 1545-0047

2011

Open to Public Inspection

Department of the Treasury
Internal Revenue Service

**▶ 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.**

Name of the organization FREDERICK MEMORIAL HOSPITAL, INC.	Employer identification number 52-0591612
--	---

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?	<input type="checkbox"/> Yes <input type="checkbox"/> 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?	<input type="checkbox"/> Yes <input type="checkbox"/> 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).

<input type="checkbox"/> Preservation of land for public use (e.g., recreation or education)	<input type="checkbox"/> Preservation of an historically important land area
<input type="checkbox"/> Protection of natural habitat	<input type="checkbox"/> Preservation of a certified historic structure
<input type="checkbox"/> 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 Tax 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 XIV, describe how the organization reports conservation easements in its revenue and expense statement, and balance sheet, and include, if applicable, the text of the footnote to the organization's financial statements that describes the organization's accounting for conservation easements.

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

1a If the organization elected, as permitted under SFAS 116 (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 XIV, 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 XIV.

5 During the year, did the organization solicit or receive donations of art, historical treasures, or other similar assets to be sold to raise funds rather than to be maintained as part of the organization's collection? Yes No

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

1a Is the organization an agent, trustee, custodian or other intermediary for contributions or other assets not included on Form 990, Part X? Yes No

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

	Amount
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 XIV.

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

	(a) Current year	(b) Prior year	(c) Two years back	(d) Three years back	(e) Four years back
1a Beginning of year balance	976,177.	976,177.	976,177.	976,177.	
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	976,177.	976,177.	976,177.	976,177.	

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 ▶ 100.0000 %

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

3a Are there endowment funds not in the possession of the organization that are held and administered for the organization by:

- (i) unrelated organizations
- (ii) related organizations

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

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

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

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

Description of property	(a) Cost or other basis (investment)	(b) Cost or other basis (other)	(c) Accumulated depreciation	(d) Book value
1a Land		2,421,745.		2,421,745.
b Buildings		173,584,497.	57,203,764.	116,380,733.
c Leasehold improvements		18,776,137.	14,200,767.	4,575,370.
d Equipment		184,504,575.	132,350,804.	52,153,771.
e Other		13,505,982.		13,505,982.
Total. Add lines 1a through 1e. (Column (d) must equal Form 990, Part X, column (B), line 10(c). ▶				189,037,601.

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		
(3) Other _____		
(A) _____		
(B) _____		
(C) _____		
(D) _____		
(E) _____		
(F) _____		
(G) _____		
(H) _____		
(I) _____		
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
(1) ASSETS LIMITED AS TO USE	11,097,224.	FMV
(2) INVESTMENTS IN SUBSIDIARIES	17,476,437.	FMV
(3)		
(4)		
(5)		
(6)		
(7)		
(8)		
(9)		
(10)		
Total. (Column (b) must equal Form 990, Part X, col. (B) line 13.) ▶	28,573,661.	

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

(a) Description	(b) Book value
(1)	
(2)	
(3)	
(4)	
(5)	
(6)	
(7)	
(8)	
(9)	
(10)	
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	
(1) Federal income taxes		
(2) ADVANCES FROM THIRD PARTIES	10,065,289.	
(3) INTEREST RATE SWAP CONTRACT	16,512,477.	
(4) PENSION LIABILITY	26,368,362.	
(5) MALPRACTICE INSURANCE LIABILITY	7,510,975.	
(6) CAPITAL LEASE OBLIGATIONS	7,416,649.	
(7) OTHER LIABILITIES	6,370,110.	
(8)		
(9)		
(10)		
(11)		
Total. (Column (b) must equal Form 990, Part X, col. (B) line 25.) ▶	74,243,862.	

2. FIN 48 (ASC 740) Footnote. In Part XIV, 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).

Part XI Reconciliation of Change in Net Assets from Form 990 to Audited Financial Statements

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

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

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

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

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

Part XIV Supplemental Information

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

SEE PAGE 5

Part XIV Supplemental Information *(continued)*

INTENDED USE OF ENDOWMENT FUNDS

FORM 990, SCHEDULE D, PART V, LINE 4

ENDOWMENT FUNDS ARE USED FOR HEALTH CARE SERVICES.

ASC 740 FOOTNOTE DISCLOSURE

FORM 990, SCHEDULE D, PART X, LINE 2

THERE WAS NO ASC 740 FOOTNOTE IN THE AUDITED FINANCIAL STATEMENTS BECAUSE

THERE WERE NO MATERIAL UNCERTAIN TAX POSITIONS AS OF JUNE 30, 2012.

**SCHEDULE F
(Form 990)**

Statement of Activities Outside the United States

OMB No. 1545-0047

2011

Open to Public Inspection

Department of the Treasury
Internal Revenue Service

▶ **Complete if the organization answered "Yes" to Form 990, Part IV, line 14b, 15, or 16.**

▶ **Attach to Form 990.** ▶ **See separate instructions.**

Name of the organization

FREDERICK MEMORIAL HOSPITAL, INC.

Employer identification number

52-0591612

Part I General Information on Activities Outside the United States. Complete if the organization answered "Yes" to Form 990, Part IV, line 14b.

1 For grantmakers. Does the organization maintain records to substantiate the amount of its grants and other assistance, the grantees' eligibility for the grants or assistance, and the selection criteria used to award the grants or assistance? **Yes** **No**

2 For grantmakers. Describe in Part V the organization's procedures for monitoring the use of its grants and other assistance outside the United States.

3 Activities per Region. (The following Part I, line 3 table can be duplicated if additional space is needed.)

(a) Region	(b) Number of offices in the region	(c) Number of employees, agents, and independent contractors in region	(d) Activities conducted in region (by type) (e.g., fundraising, program services, investments, grants to recipients located in the region)	(e) If activity listed in (d) is a program service, describe specific type of service(s) in region	(f) Total expenditures for and investments in region
(1) CENTRAL AMERICA/CARIBBEAN	1.		INVESTMENTS		6,574,661.
(2) CENTRAL AMERICA/CARIBBEAN	1.		PROGRAM SERVICES	SELF-INSURANCE	2,347,614.
(3)					
(4)					
(5)					
(6)					
(7)					
(8)					
(9)					
(10)					
(11)					
(12)					
(13)					
(14)					
(15)					
(16)					
(17)					
3a Sub-total	2.				8,922,275.
b Total from continuation sheets to Part I					
c Totals (add lines 3a and 3b)	2.				8,922,275.

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

Schedule F (Form 990) 2011

Part II **Grants and Other Assistance to Organizations or Entities Outside the United States.** Complete if the organization answered "Yes" to Form 990, Part IV, line 15, for any recipient who received more than \$5,000. Check this box if no one recipient received more than \$5,000 Part II can be duplicated if additional space is needed.

1	(a) Name of organization	(b) IRS code section and EIN (if applicable)	(c) Region	(d) Purpose of grant	(e) Amount of cash grant	(f) Manner of cash disbursement	(g) Amount of non-cash assistance	(h) Description of non-cash assistance	(i) Method of valuation (book, FMV, appraisal, other)
(1)									
(2)									
(3)									
(4)									
(5)									
(6)									
(7)									
(8)									
(9)									
(10)									
(11)									
(12)									
(13)									
(14)									
(15)									
(16)									

2 Enter total number of recipient organizations listed above that are recognized as charities by the foreign country, recognized as tax-exempt by the IRS, or for which the grantee or counsel has provided a section 501(c)(3) equivalency letter

3 Enter total number of other organizations or entities

Part III Grants and Other Assistance to Individuals Outside the United States. Complete if the organization answered "Yes" to Form 990, Part IV, line 16. Part III can be duplicated if additional space is needed.

(a) Type of grant or assistance	(b) Region	(c) Number of recipients	(d) Amount of cash grant	(e) Manner of cash disbursement	(f) Amount of non-cash assistance	(g) Description of non-cash assistance	(h) Method of valuation (book, FMV, appraisal, other)
(1)							
(2)							
(3)							
(4)							
(5)							
(6)							
(7)							
(8)							
(9)							
(10)							
(11)							
(12)							
(13)							
(14)							
(15)							
(16)							
(17)							
(18)							

Part IV Foreign Forms

- 1 Was the organization a U.S. transferor of property to a foreign corporation during the tax year? *If "Yes," the organization may be required to file Form 926, Return by a U.S. Transferor of Property to a Foreign Corporation (see Instructions for Form 926).* Yes No
- 2 Did the organization have an interest in a foreign trust during the tax year? *If "Yes," the organization may be required to file Form 3520, Annual Return to Report Transactions with Foreign Trusts and Receipt of Certain Foreign Gifts, and/or Form 3520-A, Annual Information Return of Foreign Trust With a U.S. Owner (see Instructions for Forms 3520 and 3520-A).* Yes No
- 3 Did the organization have an ownership interest in a foreign corporation during the tax year? *If "Yes," the organization may be required to file Form 5471, Information Return of U.S. Persons With Respect To Certain Foreign Corporations. (see Instructions for Form 5471).* Yes No
- 4 Was the organization a direct or indirect shareholder of a passive foreign investment company or a qualified electing fund during the tax year? *If "Yes," the organization may be required to file Form 8621, Information Return by a Shareholder of a Passive Foreign Investment Company or Qualified Electing Fund. (see Instructions for Form 8621)* Yes No
- 5 Did the organization have an ownership interest in a foreign partnership during the tax year? *If "Yes," the organization may be required to file Form 8865, Return of U.S. Persons With Respect To Certain Foreign Partnerships. (see Instructions for Form 8865).* Yes No
- 6 Did the organization have any operations in or related to any boycotting countries during the tax year? *If "Yes," the organization may be required to file Form 5713, International Boycott Report (see Instructions for Form 5713)* Yes No

Part V **Supplemental Information**

Complete this part to provide the information required by Part I, line 2 (monitoring of funds); Part I, line 3, column (f) (accounting method; amounts of investments vs. expenditures per region); Part II, line 1 (accounting method); Part III (accounting method); and Part III, column (c) (estimated number of recipients), as applicable. Also complete this part to provide any additional information (see instructions).

**SCHEDULE H
(Form 990)**

Hospitals

OMB No. 1545-0047

2011

Open to Public Inspection

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

Department of the Treasury
Internal Revenue Service

Name of the organization: **FREDERICK MEMORIAL HOSPITAL, INC.** Employer identification number: **52-0591612**

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	X	
b If "Yes," was it a written policy?	X	
2 If the organization had multiple hospital facilities, indicate which of the following best describes application of the financial assistance policy to its various hospital facilities during the tax year. <input checked="" type="checkbox"/> Applied uniformly to all hospital facilities <input type="checkbox"/> Applied uniformly to most hospital facilities <input type="checkbox"/> Generally tailored to individual hospital facilities		
3 Answer the following based on the financial assistance eligibility criteria that applied to the largest number of the organization's patients during the tax year.		
a Did the organization use Federal Poverty Guidelines (FPG) to determine eligibility for providing <i>free</i> care? If "Yes," indicate which of the following was the FPG family income limit for eligibility for free care: <input type="checkbox"/> 100% <input type="checkbox"/> 150% <input checked="" type="checkbox"/> 200% <input type="checkbox"/> Other _____ %	X	
b Did the organization use FPG to determine eligibility for providing <i>discounted</i> care? If "Yes," indicate which of the following was the family income limit for eligibility for discounted care: <input type="checkbox"/> 200% <input type="checkbox"/> 250% <input checked="" type="checkbox"/> 300% <input type="checkbox"/> 350% <input type="checkbox"/> 400% <input type="checkbox"/> Other _____ %	X	
c If the organization did not use FPG to determine eligibility, describe in Part VI the income based criteria for determining eligibility for free or discounted care. Include in the description whether the organization used an asset test or other threshold, regardless of income, to determine eligibility for free or discounted care.		
4 Did the organization's financial assistance policy that applied to the largest number of its patients during the tax year provide for free or discounted care to the "medically indigent"?	X	
5a Did the organization budget amounts for free or discounted care provided under its financial assistance policy during the tax year?	X	
b If "Yes," did the organization's financial assistance expenses exceed the budgeted amount?	X	
c If "Yes" to line 5b, as a result of budget considerations, was the organization unable to provide free or discounted care to a patient who was eligible for free or discounted care?		X
6a Did the organization prepare a community benefit report during the tax year?	X	
b If "Yes," did the organization make it available to the public?	X	

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)			6,928,711.		6,928,711.	2.06
b Medicaid (from Worksheet 3, column a)			31,120,266.	21,965,939.	9,154,327.	2.73
c Costs of other means-tested government programs (from Worksheet 3, column b)						
d Total Financial Assistance and Means-Tested Government Programs			38,048,977.	21,965,939.	16,083,038.	4.79
Other Benefits						
e Community health improvement services and community benefit operations (from Worksheet 4)			2,464,195.	871,460.	1,592,735.	.47
f Health professions education (from Worksheet 5)			115,495.		115,495.	.03
g Subsidized health services (from Worksheet 6)			15,424,981.	1,968,152.	13,456,829.	4.01
h Research (from Worksheet 7)						
i Cash and in-kind contributions for community benefit (from Worksheet 8)			174,700.		174,700.	.05
j Total. Other Benefits			18,179,371.	2,839,612.	15,339,759.	4.56
k Total. Add lines 7d and 7j.			56,228,348.	24,805,551.	31,422,797.	9.35

For Paperwork Reduction Act Notice, see the Instructions for Form 990. Schedule H (Form 990) 2011

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

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

Part III Bad Debt, Medicare, & Collection Practices

Section A. Bad Debt Expense

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

	Yes	No
1		X
2		
3		
4		
5		
6		
7		
9a	X	
9b	X	

Section B. Medicare

- 5 Enter total revenue received from Medicare (including DSH and IME)
- 6 Enter Medicare allowable costs of care relating to payments on line 5
- 7 Subtract line 6 from line 5. This is the surplus (or shortfall)
- 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?
- 9b 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

Part IV Management Companies and Joint Ventures (see instructions)

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

Part V Facility Information

Section A. Hospital Facilities

(list in order of size, from largest to smallest)

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

Name and address

1 FREDERICK MEMORIAL HOSPITAL
400 WEST SEVENTH STREET
FREDERICK MD 21701

Table with 8 columns: Licensed hospital, General medical & surgical, Children's hospital, Teaching hospital, Critical access hospital, Research facility, ER-24 hours, ER-other, and Other (describe). Row 1 has 'X' marks in the first three columns and the ER-24 hours column.

Part V Facility Information (continued)

Section B. Facility Policies and Practices

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

Name of Hospital Facility: FREDERICK MEMORIAL HOSPITAL

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

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

Part V Facility Information (continued) FREDERICK MEMORIAL HOSPITAL

	Yes	No
10 Used FPG to determine eligibility for providing <i>discounted care</i> ? If "Yes," indicate the FPG family income limit for eligibility for discounted care: <u>3</u> <u>0</u> <u>0</u> % If "No," explain in Part VI the criteria the hospital facility used.	X	
11 Explained the basis for calculating amounts charged to patients? If "Yes," indicate the factors used in determining such amounts (check all that apply):	X	
a <input checked="" type="checkbox"/> Income level		
b <input checked="" type="checkbox"/> Asset level		
c <input checked="" type="checkbox"/> Medical indigency		
d <input type="checkbox"/> Insurance status		
e <input type="checkbox"/> Uninsured discount		
f <input type="checkbox"/> Medicaid/Medicare		
g <input checked="" type="checkbox"/> State regulation		
h <input type="checkbox"/> Other (describe in Part VI)		
12 Explained the method for applying for financial assistance?	X	
13 Included measures to publicize the policy within the community served by the hospital facility? If "Yes," indicate how the hospital facility publicized the policy (check all that apply):	X	
a <input checked="" type="checkbox"/> The policy was posted on the hospital facility's website		
b <input checked="" type="checkbox"/> The policy was attached to billing invoices		
c <input checked="" type="checkbox"/> The policy was posted in the hospital facility's emergency rooms or waiting rooms		
d <input checked="" type="checkbox"/> The policy was posted in the hospital facility's admissions offices		
e <input checked="" type="checkbox"/> The policy was provided, in writing, to patients on admission to the hospital facility		
f <input checked="" type="checkbox"/> The policy was available on request		
g <input type="checkbox"/> Other (describe in Part VI)		

Billing and Collections

14 Did the hospital facility have in place during the tax year a separate billing and collections policy, or a written financial assistance policy (FAP) that explained actions the hospital facility may take upon non-payment?	X	
15 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 <input type="checkbox"/> Reporting to credit agency		
b <input type="checkbox"/> Lawsuits		
c <input type="checkbox"/> Liens on residences		
d <input type="checkbox"/> Body attachments		
e <input type="checkbox"/> Other similar actions (describe in Part VI)		
16 Did the hospital facility or an authorized third party perform any of the following actions during the tax year before making reasonable efforts to determine the patient's eligibility under the facility's FAP? If "Yes," check all actions in which the hospital facility or a third party engaged:		X
a <input type="checkbox"/> Reporting to credit agency		
b <input type="checkbox"/> Lawsuits		
c <input type="checkbox"/> Liens on residences		
d <input type="checkbox"/> Body attachments		
e <input type="checkbox"/> Other similar actions (describe in Part VI)		
17 Indicate which efforts the hospital facility made before initiating any of the actions checked in line 16 (check all that apply):		
a <input type="checkbox"/> Notified patients of the financial assistance policy on admission		
b <input type="checkbox"/> Notified patients of the financial assistance policy prior to discharge		
c <input type="checkbox"/> Notified patients of the financial assistance policy in communications with the patients regarding the patients' bills		
d <input type="checkbox"/> Documented its determination of whether patients were eligible for financial assistance under the hospital facility's financial assistance policy		
e <input type="checkbox"/> Other (describe in Part VI)		

Part V Facility Information (continued) FREDERICK MEMORIAL HOSPITAL

Policy Relating to Emergency Medical Care

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

Individuals Eligible for Financial Assistance

19	Indicate how the hospital facility determined, during the tax year, the maximum amounts that can be charged to FAP-eligible individuals for emergency or other medically necessary care.		
a	<input type="checkbox"/> The hospital facility used its lowest negotiated commercial insurance rate when calculating the maximum amounts that can be charged		
b	<input type="checkbox"/> The hospital facility used the average of its three lowest negotiated commercial insurance rates when calculating the maximum amounts that can be charged		
c	<input type="checkbox"/> The hospital facility used the Medicare rates when calculating the maximum amounts that can be charged		
d	<input checked="" type="checkbox"/> Other (describe in Part VI)		
20	Did the hospital facility charge any of its patients who were eligible for assistance under the hospital facility's financial assistance policy, and to whom the hospital facility provided emergency or other medically necessary services, more than the amounts generally billed to individuals who had insurance covering such care?		X
If "Yes," explain in Part VI.			
21	Did the hospital facility charge any of its FAP-eligible patients an amount equal to the gross charge for any service provided to that patient?		X
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? 17

Name and address	Type of Facility (describe)
1 FMH KLINE HOSPICE HOUSE 7000 KIMMEL ROAD MT AIRY MD 21771	INPATIENT HOSPICE PATIENT FACILITY
2 MT AIRY HEALTH SERVICES 1502 SOUTH MAIN STREET MT AIRY MD 21771	OUTPATIENT HLTH SRVC FACILITY
3 PARKVIEW MEDICAL GROUP 1502 SOUTH MAIN STREET MT AIRY MD 21771	PHYSICIAN PRACTICE
4 PARKVIEW MEDICAL GROUP 3000-D VENTRIE COURT MYERSVILLE MD 21773	PHYSICIAN PRACTICE
5 PARKVIEW MEDICAL GROUP 1564 OPPOSSUMTOWN PIKE FREDERICK MD 21702	PHYSICIAN PRACTICE
6 FMH REGIONAL CANCER CARE THERAPY CENTER 501 WEST SEVENTH STREET FREDERICK MD 21701	OUTPATIENT CANCER TREATMENT CENTER
7 FMH ROSE HILL 1562 OPPOSSUMTOWN PIKE FREDERICK MD 21701	OUTPATIENT HLTH SRVC FACILITY
8 UNION BRIDGE FAMILY PRACTICE 104 NORTH MAIN STREET UNION BRIDGE MD 21791	PHYSICIAN PRACTICE
9 FMH HOME MEDICAL EQUIPMENT AND SUPPLIES 605 EAST CHURCH STREET FREDERICK MD 21701	DURABLE MEDICAL GOODS ORGANIZATION
10 FMH HOME HEALTH SERVICES 605 EAST CHURCH STREET, SUITE 2 FREDERICK MD 21701	HOME HEALTH NURSING ORG

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 HOSPICE OF FREDERICK COUNTY PO BOX 1799, 516 TRAIL AVE. FREDERICK MD 21702	HOSPICE CARE ORGANIZATION
2 FMH ROSE HILL REHAB SERVICES 1562 OPOSSUMTOWN PIKE FREDERICK MD 21702	REHABILITATION CLINIC
3 FMH CRESTWOOD 7211 BANK COURT FREDERICK MD 21703	OUTPATIENT HLTH SRVC FACILITY
4 FMH WELLNESS CENTER 5500 BUCKEYSTOWN PIKE FREDERICK MD 21702	HEALTH SERVICE CENTER
5 FMH ECHO AND VASCULAR LAB 1560 OPOSSUMTOWN PIKE FREDERICK MD 21702	HEALTH SERVICE CENTER
6 FMH URBANA 3430 WORHTINGTON BLVD FREDERICK MD 21704	OUTPATIENT HLTH SRVC FACILITY
7 FMH IMMEDIATE CARE 850 OAK STREET FREDERICK MD 21702	WALK-IN CLINIC
8 	
9 	
10 	

Part VI Supplemental Information

Complete this part to provide the following information.

- 1 Required descriptions.** Provide the descriptions required for Part I, lines 3c, 6a, and 7; Part II; Part III, lines 4, 8, and 9b; and Part V, Section B, lines 1j, 3, 4, 5c, 6i, 7, 9, 10, 11h, 13g, 15e, 16e, 17e, 18d, 19d, 20, and 21.
- 2 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 hospitals 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.

SUPPLEMENTAL INFORMATION

PART I, LINE 7B

FOR THE LAST 30 YEARS, MARYLAND HOSPITALS HAVE MET THEIR COMMUNITY BENEFIT OBLIGATIONS IN A UNIQUE MANNER THAT BUILDS THE COSTS OF UNCOMPENSATED CARE (CHARITY CARE AND PATIENT BAD DEBT) AND GRADUATE MEDICAL EDUCATION INTO THE RATES THAT HOSPITALS ARE REIMBURSED BY ALL PAYORS. THE SYSTEM IS BASED IN FEDERAL AND STATE LAW AND BENEFITS ALL MARYLAND RESIDENTS, INCLUDING THOSE IN NEED OF FINANCIAL ASSISTANCE TO PAY THEIR HOSPITAL BILLS.

MARYLAND IS THE ONLY STATE IN WHICH ALL PAYORS (GOVERNMENTALLY-INSURED, COMMERCIALY-INSURED, OR SELF-PAY) ARE CHARGED THE SAME PRICE FOR SERVICES AT ANY GIVEN HOSPITAL.

UNDER THIS SYSTEM, MARYLAND HOSPITALS ARE REGULATED BY A STATE AGENCY -THE HEALTH SERVICES COST REVIEW COMMISSION (HSCRC)-THAT IS REQUIRED TO:
 -PUBLICLY DISCLOSE INFORMATION ON THE COST AND FINANCIAL POSITION OF

Part VI Supplemental Information

Complete this part to provide the following information.

- 1 Required descriptions.** Provide the descriptions required for Part I, lines 3c, 6a, and 7; Part II; Part III, lines 4, 8, and 9b; and Part V, Section B, lines 1j, 3, 4, 5c, 6i, 7, 9, 10, 11h, 13g, 15e, 16e, 17e, 18d, 19d, 20, and 21.
- 2 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 hospitals 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.

HOSPITALS;

-REVIEW AND APPROVE HOSPITAL RATES;

-COLLECT INFORMATION DETAILING TRANSACTIONS BETWEEN HOSPITALS AND FIRMS

WITH WHICH THEIR TRUSTEES HAVE A FINANCIAL INTEREST; AND,

-MAINTAIN THE SOLVENCY OF EFFICIENT AND EFFECTIVE HOSPITALS.

SINCE 2000, THE RATE SETTING COMMISSION HAS HAD ITS OWN FRAMEWORK FOR REPORTING HOSPITALS' COMMUNITY BENEFITS AND ISSUING A REPORT ANNUALLY REGARDING HOSPITALS' COMMUNITY BENEFIT TOTALS. THAT REPORT IS AVAILABLE ON [HTTP://WWW.HSRCR.STATE.MD.US/](http://www.hsrcr.state.md.us/)

BECAUSE OF THIS UNIQUE STRUCTURE MARYLAND HOSPITALS' COMMUNITY BENEFITS NUMBERS WILL NOT COMPARE WITH THE REST OF THE NATION'S HOSPITALS.

HOWEVER, MARYLAND HOSPITALS MEET OR EXCEED THE COMMUNITY BENEFIT STANDARD ESTABLISHED BY THE IRS IN 1969. ADDITIONAL DETAIL ILLUSTRATING THIS CAN BE FOUND WITHIN THIS SCHEDULE H REPORT.

PART I, LINE 7, COLUMN (F)

Part VI Supplemental Information

Complete this part to provide the following information.

- 1 Required descriptions.** Provide the descriptions required for Part I, lines 3c, 6a, and 7; Part II; Part III, lines 4, 8, and 9b; and Part V, Section B, lines 1j, 3, 4, 5c, 6i, 7, 9, 10, 11h, 13g, 15e, 16e, 17e, 18d, 19d, 20, and 21.
- 2 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 hospitals 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.
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OUR TOTAL EXPENSE FROM FORM 990, PART IX, LINE 25, COLUMN (A) IS
 \$349,689,352. THE BAD DEBT EXPENSE INCLUDED IN THIS AMOUNT IS
 \$13,840,654. THIS LEFT A TOTAL EXPENSE OF \$335,848,698 FOR PURPOSES OF
 CALCULATING LINE 7, COLUMN (F).

PART I, LINE 7

AMOUNTS WERE CALCULATED USING THE COST-TO-CHARGE RATIO DERIVED FROM
 WORKSHEET 2.

PART III, LINE 4

THE AMOUNT INCLUDED IN PART III, LINE 2 IS THE AMOUNT OF CHARGES WRITTEN
 OFF OF PATIENT ACCOUNTS AFTER PURSUING PAYMENT AND OTHER ALTERNATIVES
 SUCH AS QUALIFYING THE PATIENT FOR CHARITY CARE OR FOR STATE AND FEDERAL
 GOVERNMENT PROGRAMS. THE CHARGES ARE REDUCED TO APPROXIMATE COST USING
 THE COST TO CHARGE RATIO COMPUTED IN SCHEDULE H, WORKSHEET 2. ANY
 ADJUSTMENTS OR PAYMENTS RECEIVED ON ACCOUNTS PREVIOUSLY WRITTEN OFF TO
 BAD DEBT HAVE THE IMPACT OF REDUCING THE REPORTED BAD DEBT COST. FMH
 ADOPTED FASB-ISSUED ASU 2011-07 WHICH PROVIDED GUIDANCE ON THE

Part VI Supplemental Information

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PRESENTATION AND DISCLOSURE OF PATIENT SERVICE REVENUE, PROVISIONS FOR
BAD DEBTS, AND THE ALLOWANCE FOR DOUBTFUL ACCOUNTS FOR CERTAIN HEALTH
CARE ENTITIES EFFECTIVE FOR THE FISCAL YEAR ENDING JUNE 30, 2012.

THE HOSPITAL'S POLICY IS TO WRITE OFF ALL PATIENT ACCOUNTS THAT HAVE BEEN
IDENTIFIED AS UNCOLLECTIBLE. AN ALLOWANCE FOR DOUBTFUL ACCOUNTS IS
RECORDED FOR ACCOUNTS NOT YET WRITTEN OFF THAT ARE ANTICIPATED TO BECOME
UNCOLLECTIBLE IN FUTURE PERIODS. INSURANCE COVERAGE AND CREDIT
INFORMATION ARE OBTAINED FROM PATIENTS WHEN AVAILABLE. NO COLLATERAL IS
OBTAINED FOR ACCOUNTS RECEIVABLE. ACCOUNTS RECEIVABLE FROM THIRD-PARTY
PAYORS HAVE BEEN ADJUSTED TO REFLECT THE DIFFERENCE BETWEEN CHARGES AND
THE ESTIMATED REIMBURSABLE AMOUNTS. RECOVERIES OF PREVIOUSLY WRITTEN OFF
PATIENT RECEIVABLES ARE RECORDED WHEN RECEIVED.

PART III, LINE 8

AMOUNTS WERE CALCULATED USING THE COST-TO-CHARGE RATIO CALCULATED USING
WORKSHEET 2.

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PART III, LINE 9B

PATIENTS WHO QUALIFY FOR CHARITY CARE OR FINANCIAL ASSISTANCE ARE SPECIFICALLY EXCLUDED FROM THE COLLECTION PROCESS.

PART V, SEC B, LINE 19D

MARYLAND'S HSCRC DETERMINES RATES CHARGED.

NEEDS ASSESSMENT

IN 2011, THE COMMUNITY FOUNDATION OF FREDERICK COUNTY COMMISSIONED A FREDERICK COUNTY HUMAN NEEDS ASSESSMENT. ONE OF THE PRIORITY AREAS COVERED IN THE ASSESSMENT WAS THE COUNTY'S HEALTH NEEDS. THREE AREAS WERE IDENTIFIED IN THE ASSESSMENT AS REQUIRING SPECIAL ATTENTION:

1. AFFORDABLE HEALTH CARE
2. A "MEDICAL HOME" FOR LOW-INCOME FAMILIES AND INDIVIDUALS
3. THE NEED FOR AFFORDABLE MENTAL HEALTH SERVICES

LOCAL HEALTH IMPROVEMENT PRIORITY SETTING SUMMIT

FREDERICK MEMORIAL HOSPITAL PARTNERED WITH THE FREDERICK COUNTY HEALTH

Part VI Supplemental Information

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DEPARTMENT AND THE FREDERICK COUNTY HEALTH CARE COALITION TO SPONSOR AND PARTICIPATE IN THE LOCAL HEALTH IMPROVEMENT PRIORITY (LHIP) SETTING SUMMIT. THE PURPOSE OF THE DAY-LONG SUMMIT WAS TO ESTABLISH THE PRIORITIES FOR HEALTH IMPROVEMENT IN FREDERICK COUNTY AND TO DEVELOP GOALS AND ACTION PLANS TO ACHIEVE IMPROVEMENT IN THOSE PRIORITY AREAS THROUGH COMMUNITY ENGAGEMENT.

FREDERICK COUNTY LOCAL HEALTH IMPROVEMENT PLAN (LHIP)
 THE FREDERICK HEALTH IMPROVEMENT PLAN SETS FREDERICK-SPECIFIC OBJECTIVES FOR IMPROVING THE HEALTH OF FREDERICK COUNTY RESIDENTS. IN ADDITION, THE LHIP PRESENTS ACTION STEPS FOR HOW TO ACHIEVE THESE OBJECTIVES. THE PRIORITY AREAS INCLUDED IN THE DOCUMENT WERE CHOSEN BY THE OCTOBER 2011 SUMMIT ATTENDEES. ATTENDEES THEN MET IN WORKGROUPS TO CLARIFY AND DEFINE THE TOP 5 PRIORITIES FOR LOCAL HEALTH IMPROVEMENT. THOSE AREAS ARE:

1. MENTAL HEALTH
2. AFFORDABLE DENTAL CARE
3. WELLNESS & PREVENTION
4. HEALTH INEQUITIES AWARENESS

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5. ACCESS TO CARE

WHAT IS THE RELATIONSHIP OF THE LHIP TO HEALTHY PEOPLE 2020?

HEALTHY PEOPLE 2020 PROVIDES SCIENCE-BASED, 10-YEAR NATIONAL OBJECTIVES FOR IMPROVING THE HEALTH OF ALL AMERICANS. FOR THREE DECADES, HEALTHY PEOPLE HAS ESTABLISHED BENCHMARKS AND MONITORED PROGRESS OVER TIME IN ORDER TO ENCOURAGE COLLABORATIONS ACROSS SECTORS; GUIDE INDIVIDUALS TOWARD MAKING INFORMED HEALTH DECISIONS; AND MEASURE THE IMPACT OF PREVENTION ACTIVITIES. THE FREDERICK COUNTY LOCAL HEALTH IMPROVEMENT PLAN FOCUSES ON A SMALL SUBSET OF THE CDC'S HEALTHY PEOPLE 2020 OBJECTIVES SO THAT (1) WE CAN FOCUS ON FACTORS THAT ARE MOST CRITICAL TO HEALTH EQUITY AND IMPROVING THE HEALTH OF ALL FREDERICK COUNTY RESIDENTS, (2) AND WE CAN MEASURE OUR SUCCESS AND IMPROVE OUR LEADERSHIP IF OUR PLANS AREN'T MEETING OUR GOALS.

FREDERICK REGIONAL HEALTH SYSTEM'S COMMUNITY BENEFITS PROGRAM THE FINDINGS OF THE SURVEY TOOLS DESCRIBED ABOVE COINCIDE REMARKABLY WELL WITH THE HEALTH SYSTEM'S INTERNAL DATA THAT CLEARLY INDICATES THAT RESOURCES NEED TO FOCUS UPON THE SAME 5 AREAS OF NEED IDENTIFIED BY THE

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LOCAL HEALTH IMPROVEMENT PLAN AND THE HUMAN NEEDS ASSESSMENT. THESE DOCUMENTS AND OUR CLOSE WORKING RELATIONSHIP WITH THE FREDERICK COUNTY HEALTH DEPARTMENT AND THE FREDERICK COUNTY HEALTH CARE COALITION WILL HELP TO FOCUS THE HEALTH SYSTEM'S COMMUNITY BENEFITS PROGRAM MOVING FORWARD. FMH WILL ALLOCATE RESOURCES TO ADDRESS MORE SPECIFICALLY THOSE IDENTIFIED COMMUNITY NEEDS, WHILE CONTINUING TO PROVIDE EDUCATIONAL AND SUPPORT PROGRAMS, EARLY DETECTION SCREENINGS AND WELLNESS CLASSES, COUNSELING AND DEMONSTRATIONS TO A BROADER AUDIENCE IN OUR COMMUNITY.

PATIENT EDUCATION OF ELIGIBILITY FOR ASSISTANCE FREDERICK MEMORIAL HOSPITAL POSTS ITS CHARITY CARE POLICY AND FINANCIAL ASSISTANCE CONTACT INFORMATION IN ADMISSION AREAS, THE FMH EMERGENCY DEPARTMENT, AND IN ALL OF OUR SATELLITE FACILITIES IN AREAS WHERE ELIGIBLE PATIENTS ARE LIKELY TO PRESENT. FMH PROVIDES A SUMMARY OF THE CHARITY CARE POLICY AND FINANCIAL ASSISTANCE CONTACT INFORMATION TO ALL PATIENTS AT THE TIME OF ADMISSION TO THE HOSPITAL. FMH ADMISSIONS PERSONNEL DISCUSS THE AVAILABILITY OF VARIOUS GOVERNMENT BENEFITS SUCH AS MEDICAID OR STATE PROGRAMS WITH PATIENTS AND/OR THEIR FAMILY MEMBERS, AND

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THEY ASSIST PATIENTS WITH QUALIFICATION FOR THE PROGRAMS.

FREDERICK MEMORIAL HOSPITAL INCREASED ITS EFFORTS TO PROVIDE FINANCIAL ASSISTANCE TO ITS PATIENTS THROUGH A VARIETY OF INITIATIVES. FMH INCREASED ITS FINANCIAL ASSISTANCE FOR CATASTROPHIC SITUATIONS. IN OUR PROGRAM, PATIENTS MAY RECEIVE FINANCIAL ASSISTANCE IF THEIR BILL IS 25% OR MORE OF THEIR ANNUAL INCOME. IN FY11 A FINANCIAL COUNSELOR MET WITH PATIENTS WHO HAD NO INSURANCE THE DAY AFTER ADMISSION TO EXPLAIN OUR FINANCIAL ASSISTANCE PROGRAM AND THE STATE'S MEDICAL ASSISTANCE PROGRAM.

BECAUSE THE MEETING WITH THE PATIENT WAS EARLY IN THEIR STAY, THE PATIENT'S ACCUMULATED CHARGES TYPICALLY DID NOT REACH A CATASTROPHIC STAGE. THEREFORE, WE HAD PATIENTS WHO LEFT THE HOSPITAL WITHOUT A DETAILED CATASTROPHIC FINANCIAL ASSISTANCE DISCUSSION AND WITHOUT A FINANCIAL ASSISTANCE APPLICATION. NOW, EVERY INPATIENT OR OUTPATIENT WHO ACCUMULATES \$10,000 OR MORE IN CHARGES WILL RECEIVE A SECOND VISIT FROM A FINANCIAL COUNSELOR ALONG WITH A FINANCIAL ASSISTANCE APPLICATION. ALSO, WE MAIL THESE PATIENTS ANOTHER FINANCIAL ASSISTANCE APPLICATION WITH A COVER LETTER STATING THAT DUE TO THE BALANCE OF THEIR BILL, THEY MAY QUALIFY FOR FINANCIAL ASSISTANCE.

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FREDERICK MEMORIAL HOSPITAL ATTEMPTS TO IDENTIFY AND NOTIFY ALL PATIENTS ELIGIBLE FOR FINANCIAL ASSISTANCE. ALL PATIENTS ARE NOTIFIED AT THE TIME OF REGISTRATION OF OUR FINANCIAL ASSISTANCE POLICY. DESPITE OUR EFFORTS, WE ESTIMATE AS MUCH AS 10% OF OUR BAD DEBT EXPENSE COULD BE THE RESULT OF A LACK OF INFORMATION ON PATIENTS THAT WOULD OTHERWISE QUALIFY FOR ASSISTANCE IF THIS INFORMATION WAS AVAILABLE TO US. FREDERICK MEMORIAL HOSPITAL CONTINUES TO LOOK FOR WAYS TO IMPROVE OUR CHARITY CARE PROCESS TO ENSURE THAT ALL PATIENTS ELIGIBLE FOR CHARITY DO RECEIVE CHARITY.

COMMUNITY INFORMATION

IN THE YEAR ENDED JUNE 30, 2012, FREDERICK MEMORIAL HOSPITAL ADMITTED 24,156 PATIENTS. THE FMH EMERGENCY DEPARTMENT TREATED MORE THAN 85,000 PATIENTS. 8.6% OF ALL COUNTY RESIDENTS LACK HEALTH INSURANCE AND 10.3% ARE MEDICAID RECIPIENTS. FMH DEFINES ITS PRIMARY SERVICE AREA AS FREDERICK COUNTY, MARYLAND, WHICH ACCOUNTED FOR APPROXIMATELY 73.2% OF FMH'S DISCHARGES IN FISCAL YEAR 2012. THE HOSPITAL IS THE ONLY HOSPITAL LOCATED IN ITS PRIMARY SERVICE AREA AND THE ONLY HOSPITAL WITHIN A

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25-MILE RADIUS OF THE CITY OF FREDERICK.

MT. AIRY

THE MOUNT AIRY AREA IS PREDOMINANTLY WHITE (90.7%), WITH SMALLER HISPANIC OR LATINO (4.7%), AFRICAN AMERICAN (2.4%) AND ASIAN (2.2%) POPULATIONS.

THE MEDIAN AGE IS 36, WITH APPROXIMATELY 20% OF THE POPULATION IN EACH OF TWO RANGES: 5-14 AND 40-49 YEARS OF AGE. ABOUT 10% OF ALL RESIDENTS ARE AGE 62 OR OLDER. THE POPULATION IS 51.5% FEMALE AND 48.5% MALE. 79% OF MOUNT AIRY RESIDENTS LIVE IN FAMILY HOUSEHOLDS (A HOUSEHOLDER AND ONE OR MORE OTHER PEOPLE RELATED BY BIRTH, MARRIAGE, OR ADOPTION). 86.9% OF THE HOUSING UNITS ARE OWNER-OCCUPIED. THE POVERTY LEVEL IN MOUNT AIRY IS 5.3%, WELL BELOW THE STATE-WIDE RATE OF 12.0%. LIFE EXPECTANCY IS ABOVE THE STATE AVERAGE AT 80.1%. CANCER AND HEART DISEASE (INCLUDING STROKE) RATE HIGHEST IN TERMS OF CAUSES OF DEATH AND YEARS OF POTENTIAL LIFE LOST. ABOUT 5.0% OF THE RESIDENTS IN THIS AREA LIVE WITH CHRONIC HEART DISEASE, JUST 1.3% HAVE HAD A STROKE, AND 28.5% HAVE BEEN TOLD THEY HAVE HIGH BLOOD PRESSURE. 6.1% HAVE BEEN DIAGNOSED WITH SKIN CANCER AND ANOTHER 6.8% HAVE BEEN DIAGNOSED WITH ANOTHER FORM OF CANCER.

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THURMONT

THURMONT'S POPULATION IS FAIRLY EVENLY DISTRIBUTED IN TERMS OF AGE, WITH THE LARGEST COHORT (18%) IN THE 40-49 AGE BRACKET. RESIDENTS ARE 95.8% WHITE, 2.4% HISPANIC OR LATINO, AND 1% AFRICAN AMERICAN. NEARLY 16% OF THURMONT'S POPULATION IS AGE 62 OR OLDER. SIMILARLY TO MOUNT AIRY, THE POPULATION IS 48.4% MALE AND 51.6% FEMALE. 72% OF THURMONT RESIDENTS LIVE IN FAMILY HOUSEHOLDS, WITH 74.7% OF HOUSING UNITS OCCUPIED BY THE PROPERTY OWNER. 7.2% OF RESIDENTS IN THE AREA EARN INCOME BELOW THE POVERTY LEVEL. AGAIN, CANCER AND HEART DISEASE (INCLUDING STROKE) RATE HIGHEST IN TERMS OF CAUSES OF DEATH AND YEARS OF POTENTIAL LIFE LOST. ABOUT 4.6% OF RESIDENTS IN THIS AREA SUFFER FROM CHRONIC HEART DISEASE, 4.1% HAVE HAD A STROKE, AND 24.7% HAVE BEEN TOLD THEY HAVE HIGH BLOOD PRESSURE. 6.8% HAVE BEEN DIAGNOSED WITH SKIN CANCER AND ANOTHER 8.1% HAVE BEEN DIAGNOSED WITH ANOTHER FORM OF CANCER.

FREDERICK CITY AND SUBURBS

FREDERICK CITY AND ITS IMMEDIATE SUBURBS ARE MORE RACIALLY DIVERSE THAN

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EITHER THURMONT OR MT. AIRY, WITH WHITE (61.2%), AFRICAN AMERICAN (18.6%), HISPANIC OR LATINO (14.4%) AND ASIAN (5.8%) GROUPS ACCOUNTING FOR THE LARGEST PERCENTAGES. RESIDENTS ARE EVENLY DISTRIBUTED IN TERMS OF AGE, WITH THE LARGEST GROUP (17%) APPEARING IN THE 25-34 AGE BRACKET. THE POPULATION IS 48.2% MALE AND 51.8% FEMALE.

JUST 60.5% OF THIS AREA'S RESIDENTS LIVE IN FAMILY HOUSEHOLDS, WITH A RELATIVELY EVEN SPLIT BETWEEN OWNER-OCCUPIED (57.6%) AND RENTER-OCCUPIED (42.4%) HOUSING. 12.1% OF RESIDENTS IN THIS AREA LIVE BELOW THE POVERTY LEVEL, WHICH IS JUST ABOVE THE STATE AVERAGE OF 12.0%. AS IN THE OTHER TWO AREAS DESCRIBED, CANCER AND HEART DISEASE (INCLUDING STROKE) RATE HIGHEST IN TERMS OF CAUSES OF DEATH AND YEARS OF POTENTIAL LIFE LOST.

6.5% OF THE RESIDENTS IN THIS AREA LIVE WITH CHRONIC HEART DISEASE, 3.1% HAVE SUFFERED A STROKE, 30.2% HAVE BEEN TOLD THEY HAVE HIGH BLOOD PRESSURE. 4.0% REPORT BEING DIAGNOSED WITH SKIN CANCER AND ANOTHER 4.5% HAVE BEEN DIAGNOSED WITH ANOTHER FORM OF CANCER.

PROMOTION OF COMMUNITY HEALTH

A MAJORITY OF THE SYSTEM'S GOVERNING BODY (13 OUT OF 18) ARE PERSONS WHO

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RESIDE IN THE HOSPITAL'S PRIMARY SERVICE AREA AND WHO ARE NEITHER EMPLOYEES NOR INDEPENDENT CONTRACTORS OF THE SYSTEM, NOR FAMILY MEMBERS THEREOF. THE SYSTEM EXTENDS MEDICAL STAFF PRIVILEGES TO ALL QUALIFIED PHYSICIANS IN THE COMMUNITY. THE SYSTEM SPENT NEARLY \$30 MILLION DOLLARS ON CAPITAL EXPENDITURES DURING FISCAL YEAR 2012, FOR UPGRADES TO PHYSICAL PLANT, MEDICAL EQUIPMENT AND INFORMATION TECHNOLOGY INVESTMENTS.

FREE LAB & X-RAY:

FREDERICK MEMORIAL HOSPITAL HAS DONATED THOUSANDS OF INDIVIDUAL LABORATORY AND RADIOLOGY SERVICES TO THE MISSION OF MERCY, THE FREDERICK COUNTY COMMUNITY ACTION AGENCY, AND THE FREDERICK COUNTY HEALTH CARE COALITION'S ACCESS TO CARE PROGRAM. THE DOLLAR TOTALS PER ORGANIZATION ARE: MISSION OF MERCY = \$186,603; COMMUNITY ACTION AGENCY = \$240,483; FCHCC ACCESS PROGRAM = \$47,009.

PROSTATE CANCER SCREENS:

THE PROSTATE CANCER SCREENING EVENT TOOK PLACE ON SEPTEMBER 22, 2012 AT THE FMH WELLNESS CENTER LOCATED IN THE FRANCIS SCOTT KEY MALL IN FREDERICK. DIGITAL RECTAL EXAMS (DRE), WERE PERFORMED ON 21 MEN BY FMH

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UROLOGISTS AND 20 MEN HAD THE PSA CHEMISTRY BLOOD TEST. THE COST FOR PROVIDING THE PROSTATE CANCER SCREEN WAS \$3,000.

PROSTATE CANCER SYMPOSIUM:

THE 5TH ANNUAL PROSTATE CANCER SYMPOSIUM WAS HELD ON SEPTEMBER 20, 2012 AT THE FMH REGIONAL CANCER THERAPY CENTER. SIXTY-FOUR (64) PARTICIPANTS (40 MEN) LISTENED TO PRESENTATIONS FROM ONCOLOGISTS ABOUT THE NEW PSA GUIDELINES, AND NEW TREATMENTS IN RADIATION THERAPY. THE COST OF PROVIDING THE SYMPOSIUM WAS \$3,000.

BASED UPON THE 1 IN 6 MEN WILL BE DIAGNOSED WITH PROSTATE CANCER GUIDELINE, THERE WERE 7 MEN IN THE AUDIENCE WHO COULD POTENTIALLY CONTRACT PROSTATE CANCER. THE COST TO TREAT ONE MAN FOR PROSTATE CANCER FOR A YEAR IS APPROXIMATELY \$55,000, SO WITH THE EDUCATION AND AWARENESS GAINED FROM THE PROSTATE CANCER SYMPOSIUM THERE IS A COST SAVINGS POTENTIAL OF \$385,000 PER YEAR.

COPD AWARENESS:

COPD SCREENING EVENT:

ON SEPTEMBER 30, 2011 THE PULMONARY OUTREACH PROGRAM PRESENTED A COPD SCREENING EVENT AT THE ELK'S LODGE IN FREDERICK, MARYLAND. TWENTY-FIVE

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(25) COMMUNITY MEMBERS PARTICIPATED IN THE COPD SCREEN THAT CONSISTED OF SPIROMETRY AND CARBON MONOXIDE SCREENINGS. COPD MANAGEMENT BROCHURES, TOBACCO CESSATION INFORMATION AND PULMONARY FUNCTION TECHNOLOGISTS AND RESPIRATORY THERAPISTS WERE PRESENT AT THE FUNCTION.

MANAGING COPD EDUCATION:

ON JANUARY 12, 2012 A MANAGING COPD EDUCATIONAL SEMINAR WAS HELD AT THE FMH WELLNESS CENTER IN THE FSK MALL. A PHYSICIAN SPEAKER PROVIDED EDUCATION ABOUT COPD TO 45 PARTICIPANTS. ASTHMA EDUCATORS AND RESPIRATORY THERAPISTS OFFERED PARTICIPANT PULSE OXIMETRY, SPIROMETRY SCREENINGS, CARBON MONOXIDE SCREENINGS, TOBACCO EDUCATION AND PULMONARY REHABILITATION INFORMATION.

COPING WITH COPD - IT'S NEVER TOO LATE

ON NOVEMBER 15, 2012 A WORKSHOP WAS PRESENTED AT THE AMERICAN LEGION IN FREDERICK. THE COMMUNITY WAS INVITED TO LEARN ABOUT COPD, WAYS TO MANAGE THE DISEASE AND HOW TO RETAIN AN ACTIVE LIFESTYLE. THE COMMUNITY OUTREACH PROGRAM PROVIDED TOBACCO EDUCATION, SPIROMETRY, AND PROPER MEDICATION DELIVERY TO 32 PARTICIPANTS. INFORMATION WAS PROVIDED ABOUT ALPHA 1 ANTITRYPSIN DEFICIENCY AND A PHARMACIST WAS AVAILABLE FOR

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CONSULTATION.

CONTINUATION OF INITIATIVE - FMH PROVIDES ON-GOING HEALTH SCREENING

OPPORTUNITIES TARGETED TOWARD THE UNDERSERVED IN OUR COMMUNITY WHO WOULD OTHERWISE NOT HAVE THE OPPORTUNITY TO AVAIL THEMSELVES OF THESE BASELINE HEALTH EVALUATIONS.

COST OF PROVIDING BENEFIT - \$481,000

OTHER CHRONIC DISEASE SCREENINGS AND EDUCATIONAL EVENTS CONDUCTED BY FMH FOR WHICH OUTCOMES ARE NOT REPORTED INCLUDE: DIABETES SCREENS; VASCULAR SCREENS; BLOOD PRESSURE SCREENS, STROKE AWARENESS WORKSHOPS, FREDERICK FAMILY OLYMPICS, WOMEN & HEART DISEASE SYMPOSIUM, THE FREDERICK NEWS POST HEALTH FAIR, THE ELDER EXPO.

FMH LAUNCHED A SERIES OF BREAST CANCER COMMUNITY EDUCATION EVENTS AND AWARENESS OPPORTUNITIES DESIGNED TO INFLUENCE A WOMAN'S DECISION TO PRACTICE MONTHLY BREAST SELF EXAMINATIONS, BE EXAMINED YEARLY BY A HEALTH CARE PROVIDER, HAVE A YEARLY MAMMOGRAM AS INDICATED BY SCREENING PROTOCOLS.

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BREAST CANCER SYMPOSIUM - THE 8TH ANNUAL BREAST CANCER SYMPOSIUM
 ATTRACTED 131 ATTENDEES. THE THEME FOR THIS FREE AND OPEN TO THE PUBLIC
 EVENT WAS "CELEBRATING LIFE & EMBRACING CHANGES" PHYSICIAN SPEAKERS
 DISCUSSED LIFE AFTER BREAST CANCER, INCLUDING EXPECTED CHALLENGES,
 RECOMMENDED LIFESTYLE CHANGES AND HEALTHY LIVING STRATEGIES. FMH STAFF
 MANNED THE REGISTRATION BOOTH AND HANDED OUT BREAST SELF EXAMINATION
 "HOW-TO" CARDS THAT HANG IN THE SHOWER, AND OTHER BREAST CANCER EDUCATION
 MATERIALS.

THE PATTI HURWITZ PINK RIBBON 5K RUN - 610 RUNNERS PARTICIPATED IN THIS
 YEAR'S EVENT RAISING \$33,000 FOR THE PATTI HURWITZ BREAST CANCER FUND.
 FMH STAFF MANNED THE REGISTRATION BOOTH AND HANDED OUT BREAST SELF
 EXAMINATION "HOW-TO" CARDS THAT HANG IN THE SHOWER, AND OTHER BREAST
 CANCER EDUCATION MATERIALS. THE EVENT WAS OPEN TO THE ENTIRE COMMUNITY
 AND BOOTHS SET UP ALONG THE RUN ROUTE HANDED OUT EDUCATIONAL MATERIALS
 AND "HOW-TO" CARDS TO APPROXIMATELY 800 RACE-WATCHERS.

THE HURWITZ BREAST CANCER FUND AT FREDERICK MEMORIAL HOSPITAL WAS
 ESTABLISHED IN 1999 BY JEFF AND PATTY HURWITZ, AFTER PATTY'S DIAGNOSIS OF
 BREAST CANCER. BELIEVING THAT EARLY DIAGNOSIS IS THE KEY TO SUCCESSFUL

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OUTCOMES, THE GOAL OF THE FUND HAS BEEN TO PROVIDE THE MOST INNOVATIVE
OPTIONS IN EARLY DETECTION AND TREATMENT OF BREAST CANCER.

HERE ARE JUST A FEW OF THE DIAGNOSTIC TOOLS PURCHASED AND SERVICES
PROVIDED THANKS TO THE HURWITZ BREAST CANCER FUND:

-A SPECIAL BREAST COIL WAS PURCHASED FOR USE WITH DIGITAL IMAGING OF THE
BREAST.

-TWO CAD MAMMOGRAPHY SYSTEMS HAVE BEEN PURCHASED TO ASSIST IN THE
DETECTION OF BREAST CANCER AT AN EARLIER STAGE; ALLOWING FOR MORE
SUCCESSFUL OUTCOMES.

-SUPPORTED A BREAST CANCER SYMPOSIUM AND OTHER GROUP EVENTS FOR
PATIENTS.

-CREATED A HEALING SPACE FOR PATIENTS AND FAMILIES AT THE WOMEN'S CENTER
FOR BREAST CARE AT FMH CRESTWOOD.

-PURCHASED A DEVICE THAT ENABLES THE SURGEON AND RADIOLOGIST TO EXAMINE
BIOPSY TISSUE IN THE OPERATING ROOM; THIS MAKES BIOPSIES EASIER ON THE
PATIENT AND RETURNS RESULTS MORE QUICKLY.

BRAS FOR A CAUSE - 13,000 BRAS WERE COLLECTED AND \$20,000 WAS RAISED FOR
THE WOMEN'S CENTER AT FMH CRESTWOOD. HUNDREDS OF WOMEN WERE GIVEN

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EDUCATIONAL HANDOUTS ABOUT HOW TO PROPERLY CONDUCT A BREAST SELF EXAMINATION.

THANKS TO THE INCREASED AWARENESS NOT ONLY AROUND THE ISSUE OF BREAST CANCER, BUT THE AVAILABILITY OF SAME-DAY MAMMOGRAPHY RESULTS AT THE FMH WOMEN'S CENTER AT CRESTWOOD MANY MORE WOMEN AVAILED THEMSELVES OF THE SERVICES.

THE ADDITION OF A PATIENT NAVIGATOR TO THE TEAM HAS REDUCED THE AMOUNT OF TIME BETWEEN A POSITIVE MAMMOGRAM FINDING AND DIAGNOSTIC STEREOTACTIC TUMOR BIOPSY. THE PATIENT NAVIGATOR MAKES ALL OF THE APPOINTMENTS FOR THE PATIENT AND EXPEDITES THE SCHEDULING PROCESS. OFTENTIMES THE BIOPSY CAN OCCUR ON THE SAME DAY AS THE MAMMOGRAPHY.

EVENTS, PROGRAMS AND SUPPORT GROUPS SPONSORED BY FMH, FOR WHICH OUTCOMES ARE NOT PRESENTED IN THIS REPORT INCLUDE: S.O.S. (SURVIVORS OFFERING SUPPORT/BREAST CANCER), CANCER ON CANVAS (EDUCATIONAL EVENT DISPLAYING ARTWORK CREATED BY CANCER PATIENTS), WOMEN'S HEALTH DAY (MAY 19TH).

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CAMP YESUCAN WAS HELD AT WHITTIER ELEMENTARY SCHOOL ON SATURDAY, MAY 12, 2012. THE GOAL OF THE CAMP WAS TO REMIND CHILDREN WITH ASTHMA THAT THEY CAN SAFELY ENJOY SPORTS AND MANY OTHER OUTDOOR ACTIVITIES WITHOUT FEARING THE ONSET OF AN ASTHMA ATTACK.

TWELVE (12) CHILDREN (THREE OF WHICH HAD (HAVE) NO HEALTH INSURANCE) PARTICIPATED IN THE EVENT. STAFF CREATED A FRIENDLY, ENGAGING ENVIRONMENT - AND, UNDER THE WATCHFUL SUPERVISION OF HIGHLY SKILLED NURSES, RESPIRATORY THERAPISTS AND CERTIFIED ASTHMA EDUCATORS - THE CAMPERS LEARNED HOW ASTHMA ATTACKS START AND HOW THEY CAN BE AVOIDED. THEY WERE TAUGHT HOW TO TAKE THEIR MEDICATIONS APPROPRIATELY AND WHAT TO DO TO MANAGE THE ONSET OF AN ATTACK.

IN FY 12, JULY 1, 2011 - JUNE 30, 2012, THE COST OF CARING FOR THE 12 CHILDREN WHO ATTENDED CAMP YESUCAN WAS \$13,586. SO FAR, IN FY 13, JULY 1, 2012 THROUGH NOVEMBER 8, 2012, THE CHILDREN WHO ATTENDED THE CAMP HAVE LOGGED ONLY \$478 IN CARE EXPENSE. THIS PUTS THE CAMP EXPERIENCE ON TRACK FOR DECREASING COST FOR CARING FOR PARTICIPANTS BY MORE THAN \$12,000.

CONTINUATION OF INITIATIVE - THE FMH PULMONARY COMMUNITY OUTREACH PROGRAM WILL CONTINUE WITH CAMP YESUCAN AND THE OTHER PROGRAMS, EVENTS AND

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EDUCATIONAL OPPORTUNITIES TO INFORM THE COMMUNITY ABOUT PRACTICING GOOD
LUNG HEALTH AND CONTROLLING ENVIRONMENTAL TRIGGERS.

COST OF PROVIDING BENEFIT - \$23,303

OTHER SCREENING EVENTS CONDUCTED BY FMH FOR WHICH OUTCOMES ARE NOT
REPORTED INCLUDE:

ASTHMA 101 (EDUCATIONAL PROGRAM IN FREDERICK COUNTY PUBLIC SCHOOLS),
CONVOY OF HOPE, NATIONAL NIGHT OUT, IN THE STREETS FESTIVAL, ELDER EXPO,
FREDERICK NEWS POST HEALTH AND WELLNESS EXPO, FORT DETRICK HEALTH EXPO.

COUNSELING SERVICES

PROVIDES PROFESSIONAL OUTPATIENT THERAPY FOR INDIVIDUALS, COUPLES,
CHILDREN AND ADOLESCENTS, FAMILIES, AND GROUPS WITHOUT REGARD TO ABILITY
TO PAY. COUNSELING SERVICES ALSO ACTS AS A TRAINING PRACTICUM FOR
MASTER'S AND DOCTORATE LEVEL COUNSELING, PSYCHOLOGY, AND SOCIAL WORK
STUDENTS IN THEIR ADVANCE YEAR(S) OF GRADUATE LEVEL WORK.

BUILDING STRONG FAMILIES

PROVIDES FAMILIES WITH TOOLS AND SUPPORT TO BUILD A STRONG FOUNDATION FOR

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A HEALTHY FUTURE BY SUPPLYING DIRECT SUPPORT, EDUCATION AND RESOURCES TO PARENTS AND CAREGIVERS, AND A SAFE AND NEUTRAL LOCATION FOR NON-CUSTODIAL PARENTS TO SPEND TIME WITH THEIR CHILDREN.

EMPOWERING YOUTH

PROVIDES YOUTH WITH KNOWLEDGE ABOUT BULLYING, CHILD ABUSE, DRUG ABUSE, SMOKING, HEALTHY EATING HABITS, AND INTERNET SAFETY IN A FUN, INTERACTIVE AND CHALLENGING WAY. EMPOWERING YOUTH ALSO PROVIDES TRAINING AND TECHNICAL ASSISTANCE TO SEVERAL AFTER SCHOOL PROGRAMS IN FREDERICK COUNTY, AND OFFERS PRACTICAL INFORMATION TO PARENTS AND CAREGIVERS THROUGH A SERIES OF EDUCATIONAL COURSES.

COURT APPOINTED SPECIAL ADVOCATES

IS PART OF A NATIONAL PROGRAM TO ENSURE THAT ABUSED AND NEGLECTED CHILDREN HAVE A VOICE IN THE COURT SYSTEM. TRAINED VOLUNTEERS ADVOCATE FOR THE BEST INTEREST OF CHILDREN.

FREDERICK COUNTY HOTLINE

PROVIDES INFORMATION AND REFERRALS, SUPPORT, AND CRISIS INTERVENTION 24 HOURS A DAY, 365 DAYS A YEAR. TRAINED AND CARING STAFF AND VOLUNTEERS HANDLE MORE THAN 21,000 CALLS TO HOTLINE EACH YEAR.

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PUBLIC EDUCATION AND ADVOCACY

PROVIDES THE ANNUAL GUIDE TO MENTAL HEALTH AND COMMUNITY SUPPORT SERVICES

REFERRAL SOURCE, ON-SITE SPEAKER SERVICE, MENTAL HEALTH FIRST AID

TRAINING, LEGISLATIVE BREAKFAST, AND ONGOING COMMUNITY EDUCATION

AFFILIATED HEALTH CARE SYSTEM

ON JUNE 28, 2011 FREDERICK MEMORIAL HOSPITAL, INC. (FMH) BOARD OF

DIRECTORS APPROVED A CORPORATE RESTRUCTURING WHICH INCLUDED THE CREATION

OF A NON-PROFIT PARENT CORPORATION KNOWN AS FREDERICK REGIONAL HEALTH

SYSTEM (FRHS). ADDITIONALLY TWO NEW ENTITIES WERE ORGANIZED, MONOCACY

INSURANCE, LTD AND MONOCACY HEALTH PARTNERS, LLC, BOTH OF WHICH ARE 100%

CONTROLLED BY FRHS. MONOCACY INSURANCE, LTD IS A CAYMAN ISLANDS

DOMICILED SINGLE PARENT CAPTIVE ORGANIZED TO PROVIDE A FLEXIBLE RISK

FINANCING STRUCTURE TO MEET THE NEEDS OF FRHS. MONOCACY HEALTH PARTNERS,

LLC WILL SERVE AS A NON-PROFIT PHYSICIAN ENTERPRISE, PROVIDING

GOVERNANCE, MANAGEMENT AND SUPPORT FUNCTIONS FOR EMPLOYED PHYSICIANS.

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- 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 hospitals 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.

COMPLETION OF THIS RESTRUCTURING WILL OCCUR DURING FISCAL YEAR 2012. FRHS IS THE SOLE MEMBER OF FMH. AS SOLE MEMBER, FRHS SHALL EXERCISE ALL POWERS CONFERRED ON FMH BY THE FMH ARTICLES OF INCORPORATION, BYLAWS, AND THE LAWS OF THE STATE OF MARYLAND. FRHS SHALL ACT AS MEMBER THROUGH ITS BOARD OF DIRECTORS, EXECUTIVE COMMITTEE, OR SUCH OFFICER(S) DESIGNATED BY ITS BOARD OF DIRECTORS FROM TIME TO TIME.

ALL STATES WHICH ORGANIZATION FILES A COMMUNITY BENEFIT REPORT
MD

**SCHEDULE I
(Form 990)**

Department of the Treasury
Internal Revenue Service

**Grants and Other Assistance to Organizations,
Governments, and Individuals in the United States**

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

▶ Attach to Form 990.

OMB No. 1545-0047

2011

**Open to Public
Inspection**

Name of the organization

FREDERICK MEMORIAL HOSPITAL, INC.

Employer identification number

52-0591612

Part I General Information on Grants and Assistance

- 1 Does the organization maintain records to substantiate the amount of the grants or assistance, the grantees' eligibility for the grants or assistance, and the selection criteria used to award the grants or assistance? Yes No
- 2 Describe in Part IV the organization's procedures for monitoring the use of grant funds in the United States.

Part II Grants and Other Assistance to Governments and Organizations in the United States. Complete if the organization answered "Yes" to Form 990, Part IV, line 21, for any recipient that received more than \$5,000. Check this box if no one recipient received more than \$5,000. Part II can be duplicated if additional space is needed

1	(a) Name and address of organization or government	(b) EIN	(c) IRC section if applicable	(d) Amount of cash grant	(e) Amount of non-cash assistance	(f) Method of valuation (book, FMV, appraisal, other)	(g) Description of non-cash assistance	(h) Purpose of grant or assistance
(1)	FREDERICK COMMUNITY COLLEGE 7932 OPOSSUMTOWN PIKE FREDERICK, MD 21702	52-0743590	501(C)(3)	100,000.		CASH	N/A	SUPPORT OF ALLIED HEALTH EDU PRGMS
(2)								
(3)								
(4)								
(5)								
(6)								
(7)								
(8)								
(9)								
(10)								
(11)								
(12)								

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

3 Enter total number of other organizations listed in the line 1 table ▶

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

Schedule I (Form 990) (2011)

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

(a) Type of grant or assistance	(b) Number of recipients	(c) Amount of cash grant	(d) Amount of non-cash assistance	(e) Method of valuation (book, FMV, appraisal, other)	(f) Description of non-cash assistance
1					
2					
3					
4					
5					
6					
7					

Part IV Supplemental Information. Complete this part to provide the information required in Part I, line 2, and any other additional information.

FORM 990, SCHEDULE I

DESCRIPTION OF ORGANIZATION'S PROCEDURES FOR MONITORING THE USE OF GRANTS
 THE HOSPITAL PROVIDES FUNDING TO A LOCAL COMMUNITY COLLEGE (501(C)(3)) IN
 AN EFFORT TO ENHANCE ITS ALLIED HEALTH PROGRAM. THROUGH THIS PROGRAM, A
 FORMAL EDUCATION FORUM IS ESTABLISHED RESULTING IN FULLY ACCREDITED
 PROGRAMS THAT MEET THE HOSPITAL'S NEEDS.

**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, line 23.

▶ Attach to Form 990. ▶ See separate instructions.

OMB No. 1545-0047

2011

Open to Public Inspection

Name of the organization

FREDERICK MEMORIAL HOSPITAL, INC.

Employer identification number

52-0591612

Part I Questions Regarding Compensation

1a Check the appropriate box(es) if the organization provided any of the following to or for a person listed in Form 990, Part VII, Section A, line 1a. Complete Part III to provide any relevant information regarding these items.

- | | |
|--|---|
| <input type="checkbox"/> First-class or charter travel | <input type="checkbox"/> Housing allowance or residence for personal use |
| <input type="checkbox"/> Travel for companions | <input type="checkbox"/> Payments for business use of personal residence |
| <input type="checkbox"/> Tax indemnification and gross-up payments | <input checked="" type="checkbox"/> Health or social club dues or initiation fees |
| <input type="checkbox"/> Discretionary spending account | <input type="checkbox"/> Personal services (e.g., maid, chauffeur, chef) |

b If any of the boxes on line 1a are checked, did the organization follow a written policy regarding payment or reimbursement or provision of all of the expenses described above? If "No," complete Part III to explain

2 Did the organization require substantiation prior to reimbursing or allowing expenses incurred by all officers, directors, trustees, and the CEO/Executive Director, regarding the items checked in line 1a?

3 Indicate which, if any, of the following the filing organization used to establish the compensation of the organization's CEO/Executive Director. Check all that apply. Do not check any boxes for methods used by a related organization to establish compensation of the CEO/Executive Director. Explain in Part III.

- | | |
|---|---|
| <input checked="" type="checkbox"/> Compensation committee | <input checked="" type="checkbox"/> Written employment contract |
| <input checked="" type="checkbox"/> Independent compensation consultant | <input checked="" type="checkbox"/> Compensation survey or study |
| <input type="checkbox"/> Form 990 of other organizations | <input checked="" type="checkbox"/> Approval by the board or compensation committee |

4 During the year, did any person listed in Form 990, Part VII, Section A, line 1a, with respect to the filing organization or a related organization:

- a** Receive a severance payment or change-of-control payment?
- b** Participate in, or receive payment from, a supplemental nonqualified retirement plan?
- c** Participate in, or receive payment from, an equity-based compensation arrangement?
- If "Yes" to any of lines 4a-c, list the persons and provide the applicable amounts for each item in Part III.

Only section 501(c)(3) and 501(c)(4) organizations 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?
- b** Any related organization?
- 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?
- b** Any related organization?
- 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

8 Were any amounts reported in Form 990, Part VII, paid or accrued pursuant to a contract that was subject to the initial contract exception described in Regulations section 53.4958-4(a)(3)? If "Yes," describe in Part III

9 If "Yes" to line 8, did the organization also follow the rebuttable presumption procedure described in Regulations section 53.4958-6(c)?

	Yes	No
1b	X	
2	X	
4a		X
4b	X	
4c		X
5a		X
5b		X
6a	X	
6b		X
7		X
8		X
9		

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

Schedule J (Form 990) 2011

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	(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					
1 THOMAS A. KLEINHANZL	(i)	538,976.	158,508.	3,339.	140,143.	15,289.	856,255.	0
	(ii)	0	0	0	0	0	0	0
2 MANUEL A CASIANO	(i)	301,303.	34,106.	2,322.	53,297.	15,025.	406,053.	0
	(ii)	0	0	0	0	0	0	0
3 KENNETH R COFFEY II	(i)	166,646.	17,834.	2,322.	14,033.	14,658.	215,493.	0
	(ii)	0	0	0	0	0	0	0
4 HANNAH R. JACOBS	(i)	149,797.	0	106.	6,968.	1,147.	158,018.	0
	(ii)	0	0	0	0	0	0	0
5 ROSE A. LABRIOLA	(i)	247,013.	22,787.	2,322.	12,907.	12,503.	297,532.	0
	(ii)	0	0	0	0	0	0	0
6 MICHELLE MAHAN	(i)	306,947.	66,371.	2,322.	52,758.	12,186.	440,584.	0
	(ii)	0	0	0	0	0	0	0
7 TERRY P. O'MALLEY	(i)	175,134.	20,463.	3,564.	28,959.	11,908.	240,028.	0
	(ii)	0	0	0	0	0	0	0
8 DAVID QUIKE	(i)	222,503.	24,689.	540.	31,378.	10,020.	289,130.	0
	(ii)	0	0	0	0	0	0	0
9 CRAIG F. ROSENDALE	(i)	166,508.	17,680.	3,564.	15,075.	11,838.	214,665.	0
	(ii)	0	0	0	0	0	0	0
10 DONALD R. SCHILLING	(i)	172,429.	17,722.	2,322.	10,762.	11,867.	215,102.	0
	(ii)	0	0	0	0	0	0	0
11 LUCY A. SHAMASH	(i)	194,576.	34,650.	810.	4,809.	11,913.	246,758.	0
	(ii)	0	0	0	0	0	0	0
12 JENNIFER G. TEETER	(i)	139,821.	16,872.	1,242.	9,118.	11,656.	178,709.	0
	(ii)	0	0	0	0	0	0	0
13 JOHN VERBUS	(i)	314,939.	55,499.	2,322.	31,436.	7,687.	411,883.	0
	(ii)	0	0	0	0	0	0	0
14 JIM R. WILLIAMS	(i)	173,541.	18,684.	2,322.	15,337.	11,880.	221,764.	0
	(ii)	0	0	0	0	0	0	0
15 JARED R BERKOWITZ	(i)	355,514.	0	216.	5,638.	14,144.	375,512.	0
	(ii)	0	0	0	0	0	0	0
16 PAUL N CHOMIAK	(i)	437,771.	0	360.	10,216.	14,408.	462,755.	0
	(ii)	0	0	0	0	0	0	0

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	(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					
1 ELHAMY D. ESKANDER	(i)	381,561.	0	1,032.	19,201.	14,408.	416,202.	0
	(ii)	0	0	0	0	0	0	0
2 BRIAN M. O'CONNOR	(i)	382,403.	0	1,584.	19,568.	14,408.	417,963.	0
	(ii)	0	0	0	0	0	0	0
3 BRIAN T. TULLY	(i)	354,245.	0	192.	5,656.	14,408.	374,501.	0
	(ii)	0	0	0	0	0	0	0
4	(i)							
	(ii)							
5	(i)							
	(ii)							
6	(i)							
	(ii)							
7	(i)							
	(ii)							
8	(i)							
	(ii)							
9	(i)							
	(ii)							
10	(i)							
	(ii)							
11	(i)							
	(ii)							
12	(i)							
	(ii)							
13	(i)							
	(ii)							
14	(i)							
	(ii)							
15	(i)							
	(ii)							
16	(i)							
	(ii)							

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.

SUPPLEMENTAL COMPENSATION INFORMATION

SCHEDULE J, PART I, LINE 1

FREDERICK MEMORIAL HOSPITAL HOLDS TWO CORPORATE MEMBERSHIPS TO A LOCAL GOLF/COUNTRY CLUB THAT ARE USED BY THE CHIEF EXECUTIVE OFFICER AND THE CHIEF FUND DEVELOPMENT OFFICER OF THE HOSPITAL. WHILE THE MAJORITY OF THE FEES ASSOCIATED WITH THE CLUB DUES, ETC. IS BUSINESS RELATED, GENERAL PERSONAL USE EXPENSES ARE REIMBURSED BACK TO THE HOSPITAL BY THESE INDIVIDUALS AS NEEDED.

SCHEDULE J, PART I, LINE 4B

FREDERICK MEMORIAL HOSPITAL HAS ONE 457(F) NON-QUALIFIED DEFERRED COMPENSATION PLAN FOR CERTAIN MEMBERS OF SENIOR MANAGEMENT. UNDER THE PLAN, THEY MAY CONTRIBUTE AMOUNTS FROM THEIR COMPENSATION TO THE PLAN AND MAY RECEIVE A DISCRETIONARY EMPLOYER CONTRIBUTION. EMPLOYEES ARE FULLY VESTED IN ALL EMPLOYEE CONTRIBUTIONS TO THE PLAN. VESTING IN EMPLOYER CONTRIBUTIONS OCCURS IN ACCORDANCE WITH THE UNDERLYING PLAN DOCUMENTS. ALL ASSETS OF THE PLAN ARE HELD IN A SEPARATE TRUST. TOTAL HOSPITAL CONTRIBUTIONS TO THIS PLAN WERE \$191,707 AND THERE WERE NO PAYMENTS FROM THE PLAN DURING THE YEAR.

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.

SCHEDULE J, PART I, LINE 6A

THE EXECUTIVE COMPENSATION PROGRAM IS DESIGNED TO CARRY OUT THE HEALTH SYSTEM MISSION, TO ACHIEVE THE CHARITABLE PURPOSE, TO ATTRACT, RETAIN, MOTIVATE AND REWARD EXECUTIVE MANAGEMENT, AND TO MAINTAIN A COMPETITIVE POSITION WITH PEER ORGANIZATIONS IN THE REGION. OVERSIGHT OF THE EXECUTIVE COMPENSATION PROGRAM IS PROVIDED BY THE EXECUTIVE COMPENSATION COMMITTEE OF THE BOARD, COMPOSED OF THE BOARD CHAIR, VICE CHAIR, IMMEDIATE PRECEDING CHAIR, CHAIR OF THE FINANCE COMMITTEE AND CHAIR OF THE GOVERNANCE COMMITTEE. ANNUALLY, THE COMMITTEE REVIEWS AND RECOMMENDS TO THE BOARD VARIABLE PAY GOALS FOR THE COMING YEAR, AND PAYMENT LEVELS BASED ON PERFORMANCE FOR THE CURRENT YEAR. THE EXECUTIVE COMPENSATION PHILOSOPHY OF THE BOARD PROVIDES FOR BASE COMPENSATION AT THE 50TH TO 60TH PERCENTILE WITH VARIABLE PAY DESIGNED TO PROVIDE A TARGET OPPORTUNITY FOR TOTAL COMPENSATION TO REACH THE 75TH PERCENTILE. VARIABLE PAY CRITERIA ARE CLINICAL QUALITY (33%), CUSTOMER SERVICE (11%), PEOPLE (11%), FINANCIAL VIABILITY (28%), AND GROWTH (17%). GOALS USING THE VARIABLE PAY CRITERIA ARE ESTABLISHED AT BOTH THE CORPORATE AND

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.

INDIVIDUAL LEVEL. INDIVIDUAL PAYMENTS ARE BASED ON PERFORMANCE AGAINST
CORPORATE GOALS, INDIVIDUALS GOALS, AND DISCRETION OF THE BOARD.

**SCHEDULE K
(Form 990)**

Supplemental Information on Tax-Exempt Bonds

OMB No. 1545-0047

2011

**Open to Public
Inspection**

▶ **Complete if the organization answered "Yes" to Form 990, Part IV, line 24a. Provide descriptions, explanations, and any additional information in Part VI.**

▶ **Attach to Form 990.** ▶ **See separate instructions.**

Department of the Treasury
Internal Revenue Service

Name of the organization

FREDERICK MEMORIAL HOSPITAL, INC.

Employer identification number

52-0591612

Part I Bond Issues

(a) Issuer name	(b) Issuer EIN	(c) CUSIP #	(d) Date issued	(e) Issue price	(f) Description of purpose	(g) Defeased		(h) On behalf of issuer		(i) Pooled financing	
						Yes	No	Yes	No	Yes	No
A MARYLAND HEALTH & HIGHER EDUC FACILITIES AUTHORITY	52-0936091	574217Y25	07/09/2008	72,160,000.	SEE PART VI		X		X		X
B											
C											
D											

Part II Proceeds

	A		B		C		D	
1 Amount of bonds retired								
2 Amount of bonds legally defeased								
3 Total proceeds of issue	72,160,000.							
4 Gross proceeds in reserve funds								
5 Capitalized interest from proceeds								
6 Proceeds in refunding escrows								
7 Issuance costs from proceeds	975,844.							
8 Credit enhancement from proceeds	166,621.							
9 Working capital expenditures from proceeds								
10 Capital expenditures from proceeds								
11 Other spent proceeds	71,017,535.							
12 Other unspent proceeds								
13 Year of substantial completion	2008							
	Yes	No	Yes	No	Yes	No	Yes	No
14 Were the bonds issued as part of a current refunding issue?	X							
15 Were the bonds issued as part of an advance refunding issue?		X						
16 Has the final allocation of proceeds been made?	X							
17 Does the organization maintain adequate books and records to support the final allocation of proceeds?	X							

Part III Private Business Use

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

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

Schedule K (Form 990) 2011

Part III Private Business Use (Continued)		MARYLAND HEALTH & HIGHER EDUC FACILITIES AUTHORITY							
		A		B		C		D	
		Yes	No	Yes	No	Yes	No	Yes	No
3a	Are there any management or service contracts that may result in private business use of bond-financed property?		X						
b	If "Yes" to line 3a, does the organization routinely engage bond counsel or other outside counsel to review any management or service contracts relating to the financed property?								
c	Are there any research agreements that may result in private business use of bond-financed property?		X						
d	If "Yes" to line 3c, does the organization routinely engage bond counsel or other outside counsel to review any research agreements relating to the financed property?								
4	Enter the percentage of financed property used in a private business use by entities other than a section 501(c)(3) organization or a state or local government ▶	.8000 %							
5	Enter the percentage of financed property used in a private business use as a result of unrelated trade or business activity carried on by your organization, another section 501(c)(3) organization, or a state or local government ▶								
6	Total of lines 4 and 58000 %							
7	Has the organization adopted management practices and procedures to ensure the post-issuance compliance of its tax-exempt bond liabilities?		X						

Part IV Arbitrage									
		A		B		C		D	
		Yes	No	Yes	No	Yes	No	Yes	No
1	Has a Form 8038-T, Arbitrage Rebate, Yield Reduction and Penalty in Lieu of Arbitrage Rebate, been filed with respect to the bond issue?		X						
2	Is the bond issue a variable rate issue?	X							
3a	Has the organization or the governmental issuer entered into a qualified hedge with respect to the bond issue?	X							
b	Name of provider	UBS AG STAMFORD							
c	Term of hedge	3.804							
d	Was the hedge superintegrated?		X						
e	Was the hedge terminated?		X						
4a	Were gross proceeds invested in a guaranteed investment contract (GIC)?		X						
b	Name of provider								
c	Term of GIC								
d	Was the regulatory safe harbor for establishing the fair market value of the GIC satisfied?								
5	Were any gross proceeds invested beyond an available temporary period?		X						
6	Did the bond issue qualify for an exception to rebate?	X							

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

Part VI Supplemental Information. Complete this part to provide additional information for responses to questions on Schedule K (see instructions).
 DESCRIPTION OF TAX-EXEMPT BONDS
 SCHEDULE K, PART I, COLUMN F

Part III Private Business Use (Continued)	MARYLAND HEALTH & HIGHER EDUC FACILITIES AUTHORITY							
	A		B		C		D	
	Yes	No	Yes	No	Yes	No	Yes	No
3a Are there any management or service contracts that may result in private business use of bond-financed property?								
b If "Yes" to line 3a, does the organization routinely engage bond counsel or other outside counsel to review any management or service contracts relating to the financed property?								
c Are there any research agreements that may result in private business use of bond-financed property?								
d If "Yes" to line 3c, does the organization routinely engage bond counsel or other outside counsel to review any research agreements relating to the financed property?								
4 Enter the percentage of financed property used in a private business use by entities other than a section 501(c)(3) organization or a state or local government ▶		%		%		%		%
5 Enter the percentage of financed property used in a private business use as a result of unrelated trade or business activity carried on by your organization, another section 501(c)(3) organization, or a state or local government ▶		%		%		%		%
6 Total of lines 4 and 5		%		%		%		%
7 Has the organization adopted management practices and procedures to ensure the post-issuance compliance of its tax-exempt bond liabilities?								

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

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

Part VI Supplemental Information. Complete this part to provide additional information for responses to questions on Schedule K (see instructions).
 THE MHHEFA SERIES 2008 REVENUE BONDS, ISSUED ON JULY 9, 2008 WERE A
 REFUNDING OF THE SERIES 2006 BONDS, WHICH WERE ISSUED ON MAY 23, 2006.

Part III Private Business Use (Continued)		MARYLAND HEALTH & HIGHER EDUC FACILITIES AUTHORITY							
		A		B		C		D	
		Yes	No	Yes	No	Yes	No	Yes	No
3a	Are there any management or service contracts that may result in private business use of bond-financed property?								
b	If "Yes" to line 3a, does the organization routinely engage bond counsel or other outside counsel to review any management or service contracts relating to the financed property?								
c	Are there any research agreements that may result in private business use of bond-financed property?								
d	If "Yes" to line 3c, does the organization routinely engage bond counsel or other outside counsel to review any research agreements relating to the financed property?								
4	Enter the percentage of financed property used in a private business use by entities other than a section 501(c)(3) organization or a state or local government ▶		%		%		%		%
5	Enter the percentage of financed property used in a private business use as a result of unrelated trade or business activity carried on by your organization, another section 501(c)(3) organization, or a state or local government ▶		%		%		%		%
6	Total of lines 4 and 5		%		%		%		%
7	Has the organization adopted management practices and procedures to ensure the post-issuance compliance of its tax-exempt bond liabilities?								

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

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

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

MANAGEMENT PRACTICES AND PROCEDURES

Part III Private Business Use (Continued)	MARYLAND HEALTH & HIGHER EDUC FACILITIES AUTHORITY							
	A		B		C		D	
	Yes	No	Yes	No	Yes	No	Yes	No
3a Are there any management or service contracts that may result in private business use of bond-financed property?								
b If "Yes" to line 3a, does the organization routinely engage bond counsel or other outside counsel to review any management or service contracts relating to the financed property?								
c Are there any research agreements that may result in private business use of bond-financed property?								
d If "Yes" to line 3c, does the organization routinely engage bond counsel or other outside counsel to review any research agreements relating to the financed property?								
4 Enter the percentage of financed property used in a private business use by entities other than a section 501(c)(3) organization or a state or local government ▶		%		%		%		%
5 Enter the percentage of financed property used in a private business use as a result of unrelated trade or business activity carried on by your organization, another section 501(c)(3) organization, or a state or local government ▶		%		%		%		%
6 Total of lines 4 and 5		%		%		%		%
7 Has the organization adopted management practices and procedures to ensure the post-issuance compliance of its tax-exempt bond liabilities?								

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

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

Part VI Supplemental Information. Complete this part to provide additional information for responses to questions on Schedule K (see instructions).
 SCHEDULE K, PART III, LINE 7
 THE ORGANIZATION HAS POLICIES AND PROCEDURES IN PLACE TO ENSURE

Part III Private Business Use (Continued)		MARYLAND HEALTH & HIGHER EDUC FACILITIES AUTHORITY							
		A		B		C		D	
		Yes	No	Yes	No	Yes	No	Yes	No
3a	Are there any management or service contracts that may result in private business use of bond-financed property?								
b	If "Yes" to line 3a, does the organization routinely engage bond counsel or other outside counsel to review any management or service contracts relating to the financed property?								
c	Are there any research agreements that may result in private business use of bond-financed property?								
d	If "Yes" to line 3c, does the organization routinely engage bond counsel or other outside counsel to review any research agreements relating to the financed property?								
4	Enter the percentage of financed property used in a private business use by entities other than a section 501(c)(3) organization or a state or local government ▶		%		%		%		%
5	Enter the percentage of financed property used in a private business use as a result of unrelated trade or business activity carried on by your organization, another section 501(c)(3) organization, or a state or local government ▶		%		%		%		%
6	Total of lines 4 and 5		%		%		%		%
7	Has the organization adopted management practices and procedures to ensure the post-issuance compliance of its tax-exempt bond liabilities?								

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

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

Part VI Supplemental Information. Complete this part to provide additional information for responses to questions on Schedule K (see instructions).
 TAX-EXEMPT BOND POST ISSUANCE COMPLIANCE, BUT WRITTEN POLICIES ARE BEING CREATED AND EVALUATED AND WILL BE ADOPTED BY THE FMH BOARD PRIOR TO JUNE

Part III Private Business Use (Continued)		MARYLAND HEALTH & HIGHER EDUC FACILITIES AUTHORITY							
		A		B		C		D	
		Yes	No	Yes	No	Yes	No	Yes	No
3a	Are there any management or service contracts that may result in private business use of bond-financed property?								
b	If "Yes" to line 3a, does the organization routinely engage bond counsel or other outside counsel to review any management or service contracts relating to the financed property?								
c	Are there any research agreements that may result in private business use of bond-financed property?								
d	If "Yes" to line 3c, does the organization routinely engage bond counsel or other outside counsel to review any research agreements relating to the financed property?								
4	Enter the percentage of financed property used in a private business use by entities other than a section 501(c)(3) organization or a state or local government ▶		%		%		%		%
5	Enter the percentage of financed property used in a private business use as a result of unrelated trade or business activity carried on by your organization, another section 501(c)(3) organization, or a state or local government ▶		%		%		%		%
6	Total of lines 4 and 5		%		%		%		%
7	Has the organization adopted management practices and procedures to ensure the post-issuance compliance of its tax-exempt bond liabilities?								

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

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

Part VI Supplemental Information. Complete this part to provide additional information for responses to questions on Schedule K (see instructions).
 30, 2013.

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, line 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

2011

Open To Public Inspection

Name of the organization

FREDERICK MEMORIAL HOSPITAL, INC.

Employer identification number

52-0591612

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

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

1	(a) Name of disqualified person	(b) Description of transaction	(c) Corrected?	
			Yes	No
(1)				
(2)				
(3)				
(4)				
(5)				
(6)				

- 2 Enter the amount of tax imposed on the organization managers or disqualified persons during the year under section 4958 ▶ \$ _____
- 3 Enter the amount of tax, if any, on line 2, above, reimbursed by the organization ▶ \$ _____

Part II Loans to and/or From Interested Persons.

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

(a) Name of interested person and purpose	(b) Loan to or from the organization?		(c) Original principal amount	(d) Balance due	(e) In default?		(f) Approved by board or committee?		(g) Written agreement?	
	To	From			Yes	No	Yes	No	Yes	No
	(1) PAUL CHOMIAK SEE SCH L, PART V				X	649,518.	81,190.		X	
(2)										
(3)										
(4)										
(5)										
(6)										
(7)										
(8)										
(9)										
(10)										
Total ▶ \$				81,190.						

Part III Grants or Assistance Benefiting 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 and type of assistance
(1)		
(2)		
(3)		
(4)		
(5)		
(6)		
(7)		
(8)		
(9)		
(10)		

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

Schedule L (Form 990 or 990-EZ) 2011

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)					
(2)					
(3)					
(4)					
(5)					
(6)					
(7)					
(8)					
(9)					
(10)					

Part V Supplemental Information

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

LOANS TO AND FROM INTERESTED PERSONS

SCHEDULE L, PART II

PURPOSE OF LOAN: PHYSICIAN RECRUITMENT AND INCOME GUARANTEE AGREEMENT.

**SCHEDULE M
(Form 990)**

Department of the Treasury
Internal Revenue Service

Noncash Contributions

▶ **Complete if the organizations answered "Yes" on Form 990, Part IV, lines 29 or 30.**
▶ **Attach to Form 990.**

OMB No. 1545-0047

2011

**Open To Public
Inspection**

Name of the organization
FREDERICK MEMORIAL HOSPITAL, INC.

Employer identification number
52-0591612

Part I Types of Property

	(a) Check if applicable	(b) Number of contributions or items contributed	(c) Noncash contribution amounts reported on Form 990, Part VIII, line 1g	(d) Method of determining noncash contribution amounts
1 Art - Works of art				
2 Art - Historical treasures				
3 Art - Fractional interests				
4 Books and publications				
5 Clothing and household goods				
6 Cars and other vehicles				
7 Boats and planes				
8 Intellectual property				
9 Securities - Publicly traded	X	1.	26,592.	FMV
10 Securities - Closely held stock				
11 Securities - Partnership, LLC, or trust interests				
12 Securities - Miscellaneous				
13 Qualified conservation contribution - Historic structures				
14 Qualified conservation contribution - Other				
15 Real estate - Residential				
16 Real estate - Commercial				
17 Real estate - Other				
18 Collectibles				
19 Food inventory				
20 Drugs and medical supplies				
21 Taxidermy				
22 Historical artifacts				
23 Scientific specimens				
24 Archeological artifacts				
25 Other ▶ (_____)				
26 Other ▶ (_____)				
27 Other ▶ (_____)				
28 Other ▶ (_____)				

29 Number of Forms 8283 received by the organization during the tax year for contributions for which the organization completed Form 8283, Part IV, Donee Acknowledgement **29**

	Yes	No
30 a During the year, did the organization receive by contribution any property reported in Part I, lines 1-28 that it must hold for at least three years from the date of the initial contribution, and which is not required to be used for exempt purposes for the entire holding period?		X
b If "Yes," describe the arrangement in Part II.		
31 Does the organization have a gift acceptance policy that requires the review of any non-standard contributions?	X	
32 a Does the organization hire or use third parties or related organizations to solicit, process, or sell noncash contributions?		X
b If "Yes," describe in Part II.		
33 If the organization did not report an amount in column (c) for a type of property for which column (a) is checked, describe in Part II.		

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

Schedule M (Form 990) (2011)

Part II **Supplemental Information.** Complete this part to provide the information required by Part I, lines 30b, 32b, and 33. Also complete this part for any additional information.

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 990-EZ or to provide any additional information.
▶ Attach to Form 990 or 990-EZ.**

OMB No. 1545-0047

2011

**Open to Public
Inspection**

Name of the organization

FREDERICK MEMORIAL HOSPITAL, INC.

Employer identification number

52-0591612

ORGANIZATION'S MISSION STATEMENT

FORM 990, PART III, LINE 1

THE MISSION OF FREDERICK MEMORIAL HOSPITAL, INC. IS TO CONTRIBUTE TO THE HEALTH AND WELL-BEING OF AREA RESIDENTS BY PROVIDING QUALITY HEALTHCARE IN A CARING, COST EFFICIENT, SAFE AND CONVENIENT MANNER THROUGH A COORDINATED PROGRAM OF PREVENTION, DIAGNOSIS AND TREATMENT, REHABILITATION, AND SUPPORT.

DESCRIPTION OF RELATIONSHIPS

FORM 990, PART VI, QUESTION 2

MARVIN AUSERMAN, DIRECTOR OF FMH, INC. IS ENGAGED IN AN INDIRECT BUSINESS RELATIONSHIP WITH THOMAS KLEINHANZL, JOHN VERBUS, KENNETH COFFEY, JAMES REINSCH AND ANNE HERBERT ROLLINS.

FORM 990, PART VI, QUESTION 6

THE SOLE MEMBER OF THE ORGANIZATION IS FREDERICK REGIONAL HEALTH SYSTEM.

FORM 990, PART VI, QUESTION 7A

THE SOLE MEMBER, FREDERICK REGIONAL HEALTH SYSTEM, HAS THE POWER TO APPOINT THE PRESIDENT/CEO AND THE DIRECTORS OF FREDERICK MEMORIAL HOSPITAL.

FORM 990, PART VI, QUESTION 7B

THE SOLE MEMBER, FREDERICK REGIONAL HEALTH SYSTEM, MUST APPROVE THE

Name of the organization FREDERICK MEMORIAL HOSPITAL, INC.	Employer identification number 52-0591612
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INCURRENCE OF DEBT IF SUCH DEBT EXCEEDS A CERTAIN AMOUNT TO BE DESIGNATED BY THE MEMBER, CAPITAL EXPENDITURES EXCEEDING A CERTAIN AMOUNT TO BE DESIGNATED BY THE MEMBER, THE DECISION TO DISSOLVE OR LIQUIDATE, THE CREATION OF A SUBSIDIARY, AND AMENDMENTS TO THE BYLAWS.

DESCRIBE THE PROCESS USED BY MANAGEMENT/GOVERNING BODY TO REVIEW 990 FORM 990, PART VI, QUESTION 11B

FORM 990 IS PREPARED IN CONJUNCTION WITH OUTSIDE TAX ACCOUNTANTS AND REVIEWED BY UPPER MANAGEMENT PRIOR TO PROVIDING A COPY TO THE BOARD. A COPY OF FORM 990 WILL BE PROVIDED TO ALL MEMBERS OF THE BOARD PRIOR TO FILING.

DESCRIPTION OF PROCESS TO MONITOR TRANSACTIONS FOR CONFLICTS OF INTEREST FORM 990, PART VI, QUESTION 12C

THE FREDERICK MEMORIAL HOSPITAL, INC. BOARD OF DIRECTORS IS COMMITTED TO MEETING ITS FIDUCIARY RESPONSIBILITIES AND MAINTAINING ITS DUTY OF LOYALTY TO THE HOSPITAL AND THE COMMUNITY IT SERVES. TO THIS END, THE BOARD WILL EXERCISE VIGILANCE IN IDENTIFYING ANY CONFLICTS OF INTEREST. THE BOARD WILL ALSO MAINTAIN TRANSPARENCY AND OBJECTIVITY IN MAKING DECISIONS ABOUT CONFLICTS OF INTEREST SO THAT THE ORGANIZATION'S MISSION IS ALWAYS THE FIRST PRIORITY. THE CHAIRPERSON (OR VICE CHAIRPERSON IF THE CHAIR IS INVOLVED) WILL NOTIFY ALL DIRECTORS OF A REPORTED CONFLICT OF INTEREST AND DECIDE WHETHER TO TAKE THE MATTER TO THE FULL BOARD TO DECIDE WHETHER A CONFLICT EXISTS AND, IF SO, WHAT ACTION TO TAKE, OR WILL REFER THE MATTER TO THE GOVERNANCE COMMITTEE FOR AN IN-DEPTH EXAMINATION,

Name of the organization FREDERICK MEMORIAL HOSPITAL, INC.	Employer identification number 52-0591612
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SUMMARY, AND RECOMMENDATION PRIOR TO A FULL BOARD DISCUSSION AND DECISION. IF TIME IS OF THE ESSENCE, THE CHAIRPERSON OR VICE CHAIRPERSON WILL TAKE THE MATTER TO THE EXECUTIVE COMMITTEE FOR DISCUSSION AND A DECISION, AND WILL THEN NOTIFY THE FULL BOARD. WHERE A CONFLICT OF INTEREST HAS BEEN IDENTIFIED, THE BOARD MEMBER SHALL NOT VOTE OR BE PRESENT FOR THE DISCUSSION OR THE VOTE REGARDING THE TRANSACTION AT EITHER THE FULL BOARD, EXECUTIVE COMMITTEE, OR GOVERNANCE COMMITTEE MEETINGS, EXCEPT TO ANSWER QUESTIONS THAT MAY BE ASKED OF HIM OR HER. TO PREVENT ACTUAL OR PERCEIVED INFLUENCE ON THE BOARD'S DECISION, THE CONFLICTED MEMBER IS PROHIBITED, AFTER INITIAL DISCLOSURE, FROM DISCUSSING THE CONFLICT OF INTEREST EITHER FORMALLY OR INFORMALLY WITH FELLOW DIRECTORS OR WITH MEMBERS OF THE MANAGEMENT. THERE WILL BE AN ANNUAL REVIEW OF ALL BOARD MEMBERS' AND OFFICERS' TRANSACTIONS PREPARED BY THE ADMINISTRATION AND REVIEWED BY THE GOVERNANCE COMMITTEE AND THE FULL BOARD OF DIRECTORS. AT THAT TIME, ALL DIRECTORS WILL BE REMINDED OF THE IRS INTERMEDIATE SANCTIONS REGULATION THAT ESTABLISHES EXCISE TAXES AS A SANCTION AGAINST ADMINISTRATORS AND DIRECTORS OF TAX-EXEMPT ORGANIZATIONS WHO PARTICIPATE IN "EXCESS BENEFIT TRANSACTIONS" (E.G., UNREASONABLY HIGH EMPLOYMENT COMPENSATION OR BUSINESS DEALS). THE PRESIDENT AND CEO SHALL BE RESPONSIBLE FOR MONITORING TRANSACTIONS OR ARRANGEMENTS IN WHICH A DIRECTOR OR OFFICER MAY HAVE A CONFLICT OF INTEREST AND FOR ASSURING THAT THE DIRECTOR OR OFFICER SERVES THE ORGANIZATION'S BEST INTERESTS.

OFFICES & POSITIONS FOR WHICH PROCESS WAS USED, & YEAR PROCESS WAS BEGUN

Name of the organization FREDERICK MEMORIAL HOSPITAL, INC.	Employer identification number 52-0591612
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FORM 990, PART VI, QUESTIONS 15A & 15B

THE EXECUTIVE COMPENSATION PROGRAM IS DESIGNED TO CARRY OUT THE HEALTH SYSTEM MISSION, TO ACHIEVE THE CHARITABLE PURPOSE, TO ATTRACT, RETAIN, MOTIVATE AND REWARD EXECUTIVE MANAGEMENT, AND TO MAINTAIN A COMPETITIVE POSITION WITH PEER ORGANIZATIONS IN THE REGION. OVERSIGHT OF THE EXECUTIVE COMPENSATION PROGRAM IS PROVIDED BY THE EXECUTIVE COMPENSATION COMMITTEE OF THE BOARD, COMPOSED OF THE BOARD CHAIRMAN, VICE CHAIRMAN, IMMEDIATE PRECEDING CHAIRMAN, CHAIRMAN OF THE FINANCE COMMITTEE AND THE CHAIRMAN OF THE GOVERNANCE COMMITTEE. THE EXECUTIVE COMPENSATION PHILOSOPHY OF THE BOARD PROVIDES FOR BASE COMPENSATION AT THE 50TH TO 60TH PERCENTILE OF OUR PEER GROUP. IN ADDITION TO THE BOARD'S COMPENSATION COMMITTEE, WE UTILIZED AN EXTERNAL INDEPENDENT CONSULTANT AND MARKET SURVEYS FOR ALL EXECUTIVE MANAGEMENT COMPENSATION. THE PRESIDENT AND CEO HAS A WRITTEN EMPLOYMENT CONTRACT.

WRITTEN POLICIES AND PROCEDURES FOR JOINT VENTURES

FORM 990, PART VI, QUESTION 16B

FREDERICK MEMORIAL HOSPITAL USES LEGAL COUNSEL WHEN EVALUATING ANY POTENTIAL JOINT VENTURES WITH FOR-PROFIT ENTITIES. IN ADDITION, TAX EXPOSURES RELATED TO THESE ENTITIES ARE CONSIDERED ANNUALLY IN THE PREPARATION OF THE FIN 48 MEMO REQUIRED AS PART OF THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS. FMH IS IN THE PROCESS OF COMPILING A FORMAL POLICY IN THIS AREA AND WRITTEN POLICIES WILL BE ADOPTED PRIOR TO 6/30/13.

Name of the organization FREDERICK MEMORIAL HOSPITAL, INC.	Employer identification number 52-0591612
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AVAIL OF GOV DOCS, CONFL. OF INTEREST POLICY & FIN STMTS TO GEN PUBLIC
FORM 990, PART VI, QUESTION 19
GOVERNING DOCUMENTS AND THE CONFLICT OF INTEREST POLICY ARE AVAILABLE
UPON REQUEST. FREDERICK MEMORIAL HOSPITAL, INC. CONSOLIDATED ANNUAL
AUDITED FINANCIAL STATEMENTS ARE AVAILABLE AT WWW.FMH.ORG.

OTHER CHANGES IN NET ASSETS OR FUND BALANCES

FORM 990, PART XI, LINE 5

UNREALIZED LOSS ON INVESTMENT SECURITIES AND EBURG	(\$4,038,143)
UNREALIZED LOSS ON INTEREST RATE SWAP	(\$6,797,708)
PENSION ADJUSTMENT	(\$10,303,587)
TRANSFER TO FMH FROM EMMITSBURG, NET	(\$1,227,876)
CHANGE IN TEMP RESTRICTED NET ASSETS	(\$56,622)
RELEASES FROM RESTRICTION	\$198,171
OTHER	\$2,428

TOTAL	(\$22,223,337)

AVERAGE HOURS WORKED FOR A RELATED ORGANIZATION

FORM 990, PART VII, SECTION A, COLUMN B

THE FOLLOWING INDIVIDUALS ALSO WORK FOR HOSPICE OF FREDERICK, INC., A
RELATED ORGANIZATION.

THOMAS KLEINHANZL 1 HOUR

JOHN VERBUS 4 HOURS

MICHELLE MAHAN 1 HOUR

Name of the organization FREDERICK MEMORIAL HOSPITAL, INC.	Employer identification number 52-0591612
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ATTACHMENT 1FORM 990, PART III - PROGRAM SERVICE, LINE 4A

IN FY2012, FREDERICK MEMORIAL HOSPITAL'S INPATIENT MEDICAL-SURGICAL DEPARTMENTS PROVIDED QUALITY, PATIENT-CENTERED CARE, REGARDLESS OF ABILITY TO PAY, TO APPROXIMATELY 22,758 INPATIENTS AND OBSERVATION PATIENTS. MAJOR MEDICAL AND SURGICAL SERVICES INCLUDE CARDIOLOGY, CONGESTIVE HEART FAILURE, POST-CARDIAC CATHETERIZATION, CENTER FOR CHEST PAIN, HEMODIALYSIS, PERITONEAL DIALYSIS, NEUROLOGY, NEUROSURGERY, PULMONOLOGY, ONCOLOGY, ORTHOPEDICS, GENERAL MEDICINE AND SURGICAL CARE. INPATIENT CARE IS SUPPORTED BY A TEAM OF BOARD-CERTIFIED PHYSICIAN HOSPITALISTS. IN 2012 FMH OPENED A BRAND NEW 12-BED INPATIENT UNIT SPECIALIZING IN THE CARE OF PATIENTS REQUIRING MEDICAL AND SURGICAL ONCOLOGY, THORACIC SURGERY, AND INPATIENT HOSPICE CARE. THIS UNIT WAS DESIGNED WITH THE PATIENT AND FAMILY AT THE CENTER OF THOUGHT IN ALL PLANNING ACTIVITIES. THE FMH JOINT WORKS PROGRAM RECEIVED THE UNITEDHEALTH PREMIUM TOTAL JOINT REPLACEMENT SPECIALTY CENTER DESIGNATION IN RECOGNITION OF QUALITY CARE, SERVING APPROXIMATELY 2,150 PATIENTS IN 2012. IN ADDITION, FMH IS DESIGNATED AS A PRIMARY STROKE CENTER BY THE MARYLAND INSTITUTE OF EMERGENCY MEDICAL SERVICE SYSTEMS (MIEMSS) AND WE PURSUED AND ACHIEVED THE STROKE CENTER GOLD PERFORMANCE AWARD BY THE AMERICAN HEART ASSOCIATION IN 2012. IN ADDITION TO THE PROGRAM SERVICES EXPENSE LISTED HERE, FMH INCURRED \$37.7 MILLION OF GENERAL AND ADMINISTRATIVE EXPENSES IN MEETING THE HEALTH NEEDS OF OUR PRIMARY SERVICE AREA.

Name of the organization

FREDERICK MEMORIAL HOSPITAL, INC.

Employer identification number

52-0591612

ATTACHMENT 2FORM 990, PART III - PROGRAM SERVICE, LINE 4B

FMH'S ONCOLOGY PROGRAM PROVIDES INTEGRATED, MULTIDISCIPLINARY, PATIENT CENTERED CANCER CARE FOR PATIENTS WITH MALIGNANCIES, REGARDLESS OF ABILITY TO PAY. SERVICES INCLUDE MEDICAL ONCOLOGY CONSULTATIONS, CHEMOTHERAPY, RADIATION ONCOLOGY CONSULTATIONS AND TREATMENT, AND SURGICAL ONCOLOGY CONSULTATIONS AND TREATMENT. FMH OFFERS COORDINATED MULTIDISCIPLINARY CLINICS FOR PATIENTS WITH CANCERS OF THE LUNG, BREAST AND PROSTATE. INTEGRATED PALLIATIVE CARE AND HOSPICE SERVICES, BOTH INPATIENT AND OUTPATIENT ARE AVAILABLE FOR PATIENTS WITH ADVANCED MALIGNANCIES. SUPPORT SERVICES INCLUDE NUTRITION, PATIENT NAVIGATION AND SOCIAL WORK, AS WELL AS OTHER FORMS OF PSYCHOSOCIAL SUPPORT. FOR THOSE WITH ADDITIONAL FINANCIAL NEED, FINANCIAL COUNSELORS AND A PATIENT ASSISTANCE FUND ARE AVAILABLE. THE PROGRAM TREATS APPROXIMATELY 800 NEWLY DIAGNOSED CANCERS PER YEAR AND ALSO HAS A COMMUNITY OUTREACH PROGRAM THAT INCLUDES EDUCATION AND SCREENING. THIS PAST YEAR, EDUCATIONAL SEMINARS WERE HELD FOR THE COMMUNITY ON BREAST AND PROSTATE CANCER, AS WELL AS A COMMUNITY SCREENING EVENT FOR PROSTATE CANCER. THE PROGRAM IS ACCREDITED BY THE AMERICAN COLLEGE OF SURGEONS COMMISSION ON CANCER, AND IN 2013, RECEIVED AN AWARD OF EXCEPTIONAL ACHIEVEMENT FROM THE COMMISSION, MERITING COMMENDATION IN ALL 8 OF THE 8 ASSESSED COMPETENCIES.

ATTACHMENT 3

Name of the organization FREDERICK MEMORIAL HOSPITAL, INC.	Employer identification number 52-0591612
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ATTACHMENT 3 (CONT'D)

990, PART VII- COMPENSATION OF THE FIVE HIGHEST PAID IND. CONTRACTORS

<u>NAME AND ADDRESS</u>	<u>DESCRIPTION OF SERVICES</u>	<u>COMPENSATION</u>
TX:TEAM REHAB INC 4625 EAST STOP 11 ROAD INDIANAPOLIS, IN 46237		7,390,414.
PRIME DOC OF FREDERICK PA PO BOX 7568 ASHEVILLE, NC 28802		2,133,254.
ALLIANCE RADIOSURGERY, LLC PO BOX 6600 NEWPORT BEACH, CA 92658		1,945,320.
SLEEPMED / DIGITRACE CARE SERVICES 200 CORPORATE PLACE PEABODY, MA 01960		1,051,980.
FIRST COLONIES ANESTHESIA ASSOCIATES 7490 NEW TECHNOLOGY WAY FREDERICK, MD 21703		1,051,094.
TOTAL COMPENSATION		<u>13,572,062.</u>

**SCHEDULE R
(Form 990)**

Related Organizations and Unrelated Partnerships

OMB No. 1545-0047

2011

**Open to Public
Inspection**

Department of the Treasury
Internal Revenue Service

▶ **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.**

Name of the organization

FREDERICK MEMORIAL HOSPITAL, INC.

Employer identification number

52-0591612

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

(a) Name, address, and EIN of disregarded entity	(b) Primary activity	(c) Legal domicile (state or foreign country)	(d) Total income	(e) End-of-year assets	(f) Direct controlling entity
(1) EMMITSBURG PROPERTIES, LLC 52-1910823 400 WEST SEVENTH STREET FREDERICK, 21701	HOLDING INVTS	MD	105,439.	406,796.	N/A
(2) -----					
(3) -----					
(4) -----					
(5) -----					
(6) -----					

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
(1) HOSPICE OF FREDERICK COUNTY, INC. 52-1164513 400 WEST SEVENTH STREET FREDERICK, 21701	HOSPICE CARE	MD	501(C)(3)	7	N/A	X	
(2) FREDERICK REGIONAL HEALTH SYSTEM 45-4133096 400 WEST 7TH STREET FREDERICK, 21701	HEALTH SYSTEM	MD	501(C)(3)	11B	N/A		X
(3) MONOCACY HEALTH PARTNERS, LLC 45-3007639 400 WEST 7TH STREET FREDERICK, 21701	PHYSICIAN ORG	MD	501(C)(3)	7	N/A		X
(4) -----							
(5) -----							
(6) -----							
(7) -----							

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

Schedule R (Form 990) 2011

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

(a) Name, address, and EIN of related organization	(b) Primary activity	(c) Legal domicile (state or foreign country)	(d) Direct controlling entity	(e) Predominant income (related, unrelated, excluded from tax under sections 512-514)	(f) Share of total income	(g) Share of end-of-year assets	(h) Disproportionate allocations?		(i) Code V-UBI amount in box 20 of Schedule K-1 (Form 1065)	(j) General or managing partner?		(k) Percentage ownership
							Yes	No		Yes	No	
(1) -----												
(2) -----												
(3) -----												
(4) -----												
(5) -----												
(6) -----												
(7) -----												

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
(1) FREDERICK HEALTH SERVICES CORPORATION 52-1851661 400 WEST SEVENTH STREET FREDERICK, 21701	MANAGEMENT CO.	MD	N/A	C CORP	868,572.	10,054,214.	100.0000
(2) FREDERICK SURGICAL SERVICES CORPORATION 52-1642334 400 WEST SEVENTH STREET FREDERICK, 21701	HOLDING COMPANY	MD	FHSC	C CORP	336,446.	1,964,454.	100.0000
(3) MONOCACY INSURANCE, LTD 98-1011570 PO BOX 1159 GRAND CAYMAN KY1-1102,	INSURANCE	MD	N/A	C CORP			
(4) -----							
(5) -----							
(6) -----							
(7) -----							

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

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

	Yes	No
1 During the tax year, did the organization engage in any of the following transactions with one or more related organizations listed in Parts II-IV?		
a Receipt of (i) interest (ii) annuities (iii) royalties or (iv) rent from a controlled entity		X
b Gift, grant, or capital contribution to related organization(s)		X
c Gift, grant, or capital contribution from related organization(s)		X
d Loans or loan guarantees to or for related organization(s)		X
e Loans or loan guarantees by related organization(s)		X
f Sale of assets to related organization(s)		X
g Purchase of assets from related organization(s)		X
h Exchange of assets with related organization(s)		X
i Lease of facilities, equipment, or other assets to related organization(s)		X
j Lease of facilities, equipment, or other assets from related organization(s)		X
k Performance of services or membership or fundraising solicitations for related organization(s)		X
l Performance of services or membership or fundraising solicitations by related organization(s)		X
m Sharing of facilities, equipment, mailing lists, or other assets with related organization(s)		X
n Sharing of paid employees with related organization(s)	X	
o Reimbursement paid to related organization(s) for expenses	X	
p Reimbursement paid by related organization(s) for expenses	X	
q Other transfer of cash or property to related organization(s)		X
r Other transfer of cash or property from related organization(s)		X

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

(a) Name of other organization	(b) Transaction type (a-r)	(c) Amount involved	(d) Method of determining amount involved
(1) HOSPICE OF FREDERICK COUNTY, INC.	N	799,634.	FMV
(2) FREDERICK HEALTH SERVICES CORPORATION	N	192,388.	FMV
(3)			
(4)			
(5)			
(6)			

Part VI Unrelated Organizations Taxable as a Partnership (Complete if the organization answered "Yes" on 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) Disproportionate allocations?		(i) Code V-UBI amount in box 20 of Schedule K-1 (Form 1065)	(j) General or managing partner?		(k) Percentage ownership
				Yes	No			Yes	No		Yes	No	
(1) -----													
(2) -----													
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(11) -----													
(12) -----													
(13) -----													
(14) -----													
(15) -----													
(16) -----													

Part VII **Supplemental Information**

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



CONSOLIDATED FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION

Frederick Regional Health System, Inc. and Subsidiaries
Years Ended June 30, 2012 and 2011
With Reports of Independent Auditors

Ernst & Young LLP

 **ERNST & YOUNG**

Frederick Regional Health System, Inc. and Subsidiaries
Consolidated Financial Statements and Supplementary Information

Years Ended June 30, 2012 and 2011

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Report of Independent Auditors

The Board of Directors
Frederick Regional Health System, Inc. and Subsidiaries

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

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

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

A handwritten signature in black ink that reads 'Ernst & Young LLP'.

October 15, 2012

Frederick Regional Health System, Inc. and Subsidiaries

Consolidated Balance Sheets

(In Thousands)

	June 30	
	2012	2011
Assets		
Current assets:		
Cash and cash equivalents	\$ 32,216	\$ 27,295
Patient receivables, net	50,241	45,977
Other receivables	1,492	1,155
Inventory	4,649	4,356
Prepaid expenses	2,497	2,446
Assets limited as to use	3,796	3,702
Promises to give, net	570	613
Total current assets	<u>95,461</u>	<u>85,544</u>
Net property and equipment	194,864	180,833
Other assets:		
Assets limited as to use	7,383	14,003
Investments – donor restricted	2,977	2,896
Promises to give, net	2,567	2,665
Long-term investments	100,827	105,795
Other investments	3,092	3,423
Debt issuance costs, net	1,590	1,694
Other assets	3,425	177
Total other assets	<u>121,861</u>	<u>130,653</u>
Total assets	<u><u>\$ 412,186</u></u>	<u><u>\$ 397,030</u></u>

	June 30	
	2012	2011
Liabilities and net assets		
Current liabilities:		
Current maturities of long-term debt and capital lease obligations	\$ 4,119	\$ 3,732
Accounts payable	21,602	14,500
Accrued expenses	20,629	21,553
Advances from third-party payors	10,065	8,178
Other current liabilities	2,983	2,987
Total current liabilities	<u>59,398</u>	<u>50,950</u>
Long-term liabilities, net of current portion:		
Long-term debt and capital lease obligations	140,725	142,567
Interest rate swap contract	16,513	9,715
Accrued pension expense	26,368	16,476
Other long-term liabilities	13,633	9,481
Total long-term liabilities, net of current portion	<u>197,239</u>	<u>178,239</u>
Total liabilities	<u>256,637</u>	<u>229,189</u>
Net assets:		
Unrestricted	149,432	161,667
Temporarily restricted	5,141	5,198
Permanently restricted	976	976
Total net assets	<u>155,549</u>	<u>167,841</u>
Total liabilities and net assets	<u>\$ 412,186</u>	<u>\$ 397,030</u>

See accompanying notes.

Frederick Regional Health System, Inc. and Subsidiaries

Consolidated Statements of Operations

(In Thousands)

	June 30	
	2012	2011
Unrestricted revenue and other support:		
Net patient service revenue	\$ 346,012	\$ 341,584
Other operating revenues	12,419	9,831
Gifts, bequests, and contributions	3,049	2,294
Net assets released from restriction used for operations	251	368
Total unrestricted revenue and other support	<u>361,731</u>	<u>354,077</u>
Operating expenses:		
Salaries and wages	147,029	140,080
Employee benefits	39,051	35,401
Professional fees	12,022	11,768
Cost of goods sold	52,711	49,869
Supplies	10,998	10,740
Contract services	35,022	32,708
Other	11,447	11,996
Utilities	4,406	4,541
Insurance	5,070	4,737
Depreciation and amortization	20,342	19,304
Interest	4,571	4,665
Provision for uncollectible accounts	13,851	13,801
Total operating expenses	<u>356,520</u>	<u>339,610</u>
Operating income	<u>5,211</u>	<u>14,467</u>
Other income (loss), net:		
(Loss) gain on sale of assets	(67)	5
Investment gain, net	5,824	3,893
Change in unrealized (losses) gains on trading securities, net	(4,016)	8,391
Realized and unrealized losses on interest rate swap contract, net	(9,386)	(1,068)
Other non-operating income, net	304	61
Total other (loss) income, net	<u>(7,341)</u>	<u>11,282</u>
Excess (deficit) of unrestricted revenue and other support over expenses	<u>(2,130)</u>	<u>25,749</u>
Other changes in unrestricted net assets:		
Pension adjustment	(10,303)	6,504
Released from restriction used to purchase capital	198	256
(Decrease) increase in unrestricted net assets	<u>\$ (12,235)</u>	<u>\$ 32,509</u>

See accompanying notes.

Frederick Regional Health System, Inc. and Subsidiaries

Consolidated Statements of Changes in Net Assets

(In Thousands)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Net assets, June 30, 2010	\$ 129,158	\$ 4,683	\$ 976	\$ 134,817
Excess of unrestricted revenue and other support over expenses	25,749	-	-	25,749
Pension adjustment	6,504	-	-	6,504
Released from restriction used to purchase capital	256	(256)	-	-
Assets released from restrictions	-	(368)	-	(368)
Restricted gifts, bequests and contributions	-	1,139	-	1,139
Changes in net assets	<u>32,509</u>	<u>515</u>	<u>-</u>	<u>33,024</u>
Net assets, June 30, 2011	161,667	5,198	976	167,841
Deficit of unrestricted revenue and other support over expenses	(2,130)	-	-	(2,130)
Pension adjustment	(10,303)	-	-	(10,303)
Released from restriction used to purchase capital	198	(198)	-	-
Assets released from restrictions	-	(251)	-	(251)
Restricted gifts, bequests and contributions	-	392	-	392
Changes in net assets	<u>(12,235)</u>	<u>(57)</u>	<u>-</u>	<u>(12,292)</u>
Net assets, June 30, 2012	<u>\$ 149,432</u>	<u>\$ 5,141</u>	<u>\$ 976</u>	<u>\$ 155,549</u>

See accompanying notes.

Frederick Regional Health System, Inc. and Subsidiaries

Consolidated Statements of Cash Flows

(In Thousands)

	Year Ended June 30	
	2012	2011
Cash flows from operating activities		
Change in net assets	\$ (12,292)	\$ 33,024
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation of property and equipment	20,342	19,304
Amortization of original issue discount and bond issue costs	201	204
Equity in earnings of joint ventures	(331)	(384)
(Gain) loss on sale of property and equipment	67	(5)
Gain on sale of joint venture	-	(3,300)
Investments in subsidiaries	-	(620)
Change in unrealized (gains) losses on trading securities, net	4,016	(8,391)
Proceeds from realized (gains) losses on investments-trading	(2,266)	(1,338)
(Increase) decrease in investments-trading	3,137	(28,573)
(Increase) decrease in assets limited as to use-trading net	6,595	(2,716)
Proceeds from restricted contributions	(449)	(624)
Change in pledges receivable	141	(165)
Realized and unrealized (gains) losses in interest rate swap, net	9,386	1,068
Change in operating assets and liabilities:		
Receivables, patient and other	(4,601)	(1,583)
Other assets	(3,248)	143
Inventories and other assets	318	413
Accounts payable	7,102	(1,369)
Accrued expenses	(924)	3,189
Accrued pension expense	9,892	(5,940)
Advances from third-party payors	1,887	130
Other short-term liabilities	(4)	(60)
Other long-term liabilities	4,152	2,876
Net cash provided by (used in) operating activities	<u>43,121</u>	<u>5,283</u>
Cash flows from investing activities		
(Increase) decrease in assets limited as to use, non-trading, net	(69)	(1,057)
Realized gains (losses) on interest rate swap contract	(2,588)	(2,620)
Purchases of property and equipment	(32,075)	(14,322)
Net proceeds from sale of assets	(67)	2,445
Net proceeds from sale of joint venture	-	4,000
Other investing activities	-	300
Net cash used in investing activities	<u>(34,799)</u>	<u>(11,254)</u>
Cash flows from fundraising and financing activities		
Proceeds from restricted contributions	449	624
Repayments of long-term debt	(3,850)	(2,163)
Net cash (used in) provided by fundraising and financing activities	<u>(3,401)</u>	<u>(1,539)</u>
Net increase (decrease) in cash and cash equivalents	4,921	(7,510)
Cash and cash equivalents at the beginning of the year	27,295	34,805
Cash and cash equivalents at the end of the period	<u>\$ 32,216</u>	<u>\$ 27,295</u>
Supplemental disclosures		
Net capital lease obligation	\$ 2,298	\$ 6,584
Cash paid for interest	<u>\$ 4,599</u>	<u>\$ 4,655</u>

See accompanying notes.

Frederick Regional Health System, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Dollars in Thousands)

June 30, 2012

1. Organization and Mission

On June 28, 2011 the Frederick Memorial Hospital, Inc. (FMH) Board of Directors approved a corporate restructuring which included the creation of a non-profit 501(c)3 Parent Corporation known as Frederick Regional Health System, Inc. (the System). Additionally two other non-profit entities were organized, Monocacy Insurance, LTD (MIL) and Monocacy Health Partners, LLC (MHP), both of which are 100% owned by the System. The reorganization was effective as of July 1, 2011 and had no impact on the comparability of the overall consolidated operating results. FMH is a wholly owned subsidiary of the System. MIL is a Cayman Islands domiciled single parent captive to provide a flexible risk financing structure to meet the needs of the System. MHP will serve as a physician enterprise, providing governance, management and support functions for employed physicians. Currently the employed physicians and related functions are part of FMH. The System is a not-for-profit Parent Corporation formed on June 23, 2011 to be exempt from income tax under Section 501(a) of the Internal Revenue Code (the Code) as an organization described in Section 501(c)(3) whereby only unrelated business income as defined by Section 512(a)(1) of the Code, is subject to federal income tax. The System has filed for, but not yet received a determination letter from the Internal Revenue Service (IRS) stating that they are exempt from federal income taxes under Section 501(c) of the Code.

FMH is a not-for-profit hospital, exempt from federal income tax under Section 501(a) of the Code as an organization described in Section 501(c)(3) whereby only unrelated business income as defined by Section 512(a)(1) of the Code, is subject to federal income tax. The Hospital is located in Frederick, Maryland, and provides health care services primarily to residents of Frederick County. FMH has received a determination letter from the IRS stating that they are exempt from federal income taxes under Section 501(c) of the Internal Revenue Code.

MIL is a Cayman Islands domiciled single parent captive incorporated on May 24, 2011 and holds an Unrestricted Class B insurance license issued under Section 7(2) of the Cayman Island Insurance Law. MIL directly provides primary medical professional liability and primary general liability coverage to the System.

MHP will serve as a physician enterprise, providing governance, management and support functions for employed physicians. MHP is a not-for-profit corporation, formed on June 23, 2011 to be exempt from income tax under Section 501(a) of the Code as an organization described in Section 501(c)(3) whereby only unrelated business income as defined by Section 512(a)(1) of the Code, is subject to federal income tax. MHP has filed for, but not yet received a determination letter for the Internal Revenue Service (IRS) stating that they are exempt from federal income taxes under Section 501(c) of the Internal Revenue Code. There were no operations related to MHP during 2012 or 2011.

Frederick Regional Health System, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

1. Organization and Mission (continued)

Frederick Health Services Corporation (FHSC) is a Maryland for-profit corporation, all of the stock of which is owned by the System. FHSC is subject to federal and state income taxes. No provision for income taxes has been recorded for 2012 and 2011 as FHSC does not have taxable income or current tax liabilities.

2. Significant Accounting Policies

Principles of Consolidation

The accompanying financial statements include the accounts and transactions of the System and its wholly-owned subsidiaries; FMH, MIL, FHSC, and MHP.

FMH has two wholly-owned subsidiaries; Hospice of Frederick County, Inc. (HFC) and Emmitsburg Properties, LLC both of which have been consolidated with FMH into the System in the accompanying financial statements. HFC, an independent 501(c)(3) organization controlled by FMH, operates as a fundraising organization for the benefit of hospice services and operates the Kline Hospice House.

FHSC has three wholly-owned subsidiaries: Rosehill of Frederick, LLC and Corporate Occupational Health Solutions, LLC, which are for-profit limited liability companies, and Frederick Surgical Services Corporation, all of which have been consolidated with FHSC into the System in the accompanying financial statements.

The accompanying consolidated financial statements include the accounts of the System and its wholly-owned subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation.

Donor-Restricted Gifts

Unconditional promises to give cash and other assets 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 to

Frederick Regional Health System, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(Dollars in Thousands)

2. Significant Accounting Policies (continued)

unrestricted net assets if restricted for capital or reported in the statements of operations as net assets released from restrictions if restricted for operating purposes. Donations received with no restrictions and donor-restricted contributions whose restrictions are met within the same year as received are reported as unrestricted contributions in the accompanying consolidated statements of operations as other operating revenues.

Cash and Cash Equivalents

Cash and cash equivalents include investments in highly liquid debt instruments with an original maturity of three months or less. Those cash and money market funds which are classified as long-term investments are excluded from cash and cash equivalents.

Patient Receivables and Allowances

The System's policy is to write off all patient accounts that have been identified as uncollectible. An allowance for doubtful accounts is recorded for accounts not yet written off that are anticipated to become uncollectible in future periods. Insurance coverage and credit information are obtained from patients when available. No collateral is obtained for accounts receivable. Accounts receivable from third-party payors have been adjusted to reflect the difference between charges and the estimated reimbursable amounts. Recoveries of previously written off patient receivables are recorded when received.

Inventory

Inventory is stated at the lower of cost or market. Cost is determined using the first-in, first-out (FIFO) method.

Cost of Goods Sold

Cost of goods sold consists primarily of drugs, medical supplies, and surgical implants used in the care and treatment of patients.

Frederick Regional Health System, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

2. Significant Accounting Policies (continued)

Investments and Assets Limited as to Use

The fair values of individual investments are based on quoted market prices of individual securities or investments or estimated amounts using quoted market prices of similar investments. Private equity investments are carried at cost and hedge funds are accounted for using the equity method. Realized and unrealized investment return from all unrestricted investments and assets limited as to use is included in the consolidated statements of operations as part of nonoperating gains and losses. Investment income (loss) on investments of temporarily and permanently restricted assets is added to or deducted from the appropriate restricted fund balance if the income is restricted. The cost of securities sold is based on the specific-identification method. Investments are classified as either current or noncurrent based on maturity dates and availability for current operations.

Substantially all of the System's investment portfolio (excluding certain assets limited as to use) is classified as trading, with unrealized gains and losses included in excess of unrestricted revenue and other support over expenses. Certain trustee assets that are included in assets limited as to use are classified as other-than-trading. These assets primarily consist of debt reserve funds and funds held under trust arrangements related to unreleased bond proceeds.

Investment Risk and Uncertainties

The System invests in professionally managed portfolios that contain corporate bonds, United States Government obligations, municipal obligations, asset-backed securities, marketable equity securities, hedge funds, and money market funds. Such investments are exposed to various risks, such as interest rate, market, and credit. Due to the level of risk associated with such investments and the level of uncertainty related to changes in the value of such investments, it is at least reasonably possible that changes in risks in the near term would materially affect investment balances and the amounts reported in the financial statements.

Property and Equipment

Property and equipment is carried at historical cost. Items acquired by gift are recorded at fair value at the time of acquisition. Depreciation is recorded on the straight-line method over the estimated useful lives of the depreciable assets. Leasehold improvements are amortized using the straight-line method over the shorter of the lease term, or the estimated useful lives of the assets.

Frederick Regional Health System, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

2. Significant Accounting Policies (continued)

Valuation of Long-Lived Assets

The System accounts for the valuation of long-lived assets under *Accounting for the Impairment or Disposal of Long-Lived Assets*. This guidance requires that long-lived assets and certain identifiable intangible assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable.

Recoverability of the long-lived asset is measured by a comparison of the carrying amount of the asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the estimated fair value of the assets. Assets to be disposed of are reportable at the lower of the carrying amount or fair value, less costs to sell.

Debt Issuance Costs

Debt issuance costs related to the Series 2002 and Series 2008 MHHEFA bonds and the equipment note payable are being amortized over the life of the debt using the effective interest method.

Patient Service Revenue and Allowances

The System has agreements with third-party payors that provide for payments to the System for patient services at amounts different from its established rates. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated adjustments under reimbursement agreements with third-party payors. Estimated adjustments are accrued in the period the related services are rendered and adjusted in future periods as final settlements are determined.

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

Frederick Regional Health System, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(Dollars in Thousands)

2. Significant Accounting Policies (continued)

Other Operating Revenue

The American Recovery and Reinvestment Act of 2009 provides for Medicare and Medicaid incentive payments for eligible hospitals and professionals that implement and achieve meaningful use of certified electronic health record (EHR) technology. For Medicare and Medicaid EHR incentive payments, the Hospital uses a grant accounting method to recognize the revenues. Under this accounting policy, EHR incentive payments are recognized as revenue when attestation that the EHR meaningful use criteria for the required period of time was demonstrated. Accordingly, the System recognized approximately \$4,000 of EHR revenues for the year ended June 30, 2012, comprised of \$1,200 of Medicaid revenues and \$2,800 of Medicare revenues.

These amounts are included in other operating revenue in the consolidated statements of operations. The System's attestation of compliance with the meaningful use criteria is subject to audit by the federal government or its designee. The recognition of revenues is based on management's best estimate. Any subsequent changes in the recognition of the revenue will impact the results of operations in the period in which they occur.

Performance Indicator

The performance indicator is the excess of unrestricted revenue and other support over expenses. Changes in unrestricted net assets, consistent with industry practice, includes pension adjustments and net assets released from restriction for capital purposes.

Fair Value of Financial Instruments

The carrying amounts reported on the consolidated balance sheets for cash and cash equivalents, receivables, accounts payable, accrued expenses, and advances from third-party payors approximate their fair values. The fair value of the System's notes receivable, revenue bond notes, and other long-term debt approximate the carrying amounts, based on loans with similar terms and average maturities.

Frederick Regional Health System, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

2. Significant Accounting Policies (continued)

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Recent Accounting Pronouncements

In January 2010, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update, (ASU), No. 2010-24, (ASU 2010-24). ASU 2010-24 clarifies that a health care entity should not net insurance recoveries against a related claim liability. Additionally, the amount of the claim liability should be determined without consideration of insurance recoveries. The adoption of this guidance had the impact of increasing Other Assets and increasing Other Long-term Liabilities by \$3,143 on the System's accompanying consolidated balance sheet at June 30, 2012. The adoption of this new standard had no impact on the statement of operations or net assets. Prior year financial statements have not been restated.

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

In July 2011, the FASB issued ASU 2011-07 which provided guidance on the presentation and disclosure of patient service revenue, provisions for bad debts, and the allowance for doubtful accounts for certain health care entities. This guidance changes the presentation of the statement of operations by reclassifying the provision for bad debts associated with patient service revenue from an operating expense to a deduction from patient service revenue (net of contractual allowances and discounts). Additionally, the guidance requires enhanced disclosures about the policies for recognizing revenue and assessing bad debts, as well as qualitative and quantitative information about changes in the allowance for doubtful accounts. This guidance is effective for the System for the fiscal year ending June 30, 2013. The System is currently evaluating the impact of this guidance.

Frederick Regional Health System, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)
(Dollars in Thousands)

3. Patient Receivables and Patient Service Revenue

Patient receivables consist of the following at June 30:

	<u>2012</u>	<u>2011</u>
Gross patient receivables	\$ 67,366	\$ 64,121
Less estimated uncollectible accounts and contractual allowances	17,125	18,144
Net patient receivables	<u>\$ 50,241</u>	<u>\$ 45,977</u>

Patient service revenue consists of the following for the years ended June 30, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Inpatient charges	\$ 204,339	\$ 209,514
Outpatient charges	228,258	210,770
Gross charges	<u>432,597</u>	420,284
Less allowances, contractual and other	86,585	78,700
Net patient service revenue	<u>\$ 346,012</u>	<u>\$ 341,584</u>

The System provides care to patients who meet certain criteria under its charity care policy. The System charges at its established rates but waives all or a portion of reimbursement. Because the System does not pursue collection of amounts determined to qualify as charity care, these revenues are not reported as net patient service revenue. Using the cost to charge ratio to approximate cost, charity care provided for the years ended June 30, 2012 and 2011, was \$7,000 and \$5,673 respectively. The State of Maryland rate system includes components within the rates to partially compensate hospitals for uncompensated care.

Frederick Regional Health System, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)
(Dollars in Thousands)

4. Assets Limited as to Use

A summary of assets which are limited as to use substantially for debt service and self insurance at June 30 is as follows:

	<u>2012</u>	<u>2011</u>
Current:		
Principal and interest due – bonds	\$ 3,715	\$ 3,702
Loss escrow account	81	–
	<u>\$ 3,796</u>	<u>\$ 3,702</u>
Noncurrent:		
Debt service reserve funds	\$ 6,514	\$ 6,474
Self insurance trusts	–	6,984
Deferred compensation trusts	869	545
	<u>\$ 7,383</u>	<u>\$ 14,003</u>

The assets which are limited as to use consists of the following at June 30:

	<u>2012</u>	<u>2011</u>
Current:		
Cash and money market accounts	\$ 2,289	\$ 3,413
U.S. government obligations	1,507	289
	<u>\$ 3,796</u>	<u>\$ 3,702</u>
Noncurrent:		
Cash and money market accounts	\$ 281	\$ 837
U.S. government obligations	6,244	6,037
Corporate obligations	–	83
Equity securities	669	455
Mutual funds	189	6,591
	<u>\$ 7,383</u>	<u>\$ 14,003</u>

The noncurrent assets limited as to use mutual funds are primarily invested in cash and short-duration debt securities.

Frederick Regional Health System, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)
(Dollars in Thousands)

5. Promises to Give

Promises to give are discounted and are due as follows at June 30:

	<u>2012</u>	<u>2011</u>
Less than one year	\$ 671	\$ 721
One to five years	2,023	2,226
More than five years	1,453	1,542
	<u>4,147</u>	<u>4,489</u>
Less discounting and allowance for uncollectible promises	1,010	1,211
Total promises to give, net	<u>3,137</u>	<u>3,278</u>
Less current portion of promises to give, net	570	613
	<u>\$ 2,567</u>	<u>\$ 2,665</u>

Promises to give include \$876 related to charitable remainder trusts. This net amount represents the excess of the fair value of the related trust accounts over the net present value of the annuities to be paid out of the trust to the named beneficiaries over their estimated life expectancy.

6. Investments

Long-term investments represent unrestricted investments and unrestricted income earned on unrestricted, temporarily restricted, and permanently restricted investments.

Donor-restricted investments are designated by the donors for expenses relating to capital projects, replacement or improvement of existing assets, or to cover the cost of services rendered as charity care and other programs.

Frederick Regional Health System, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)
(Dollars in Thousands)

6. Investments (continued)

Long-term and donor restricted investments consist of the following at June 30:

	2012		2011	
	Cost	Fair Value	Cost	Fair Value
Cash and cash equivalents	\$ 5,712	\$ 5,680	\$ 8,811	\$ 8,807
U.S. government obligations	3,123	3,207	4,758	4,768
Corporate obligations	3,131	3,345	3,668	3,759
Mortgage-backed securities	4,822	5,020	4,011	4,186
Equity securities	29,498	30,628	30,429	34,026
Private equity	1,161	1,554	—	—
Mutual funds	42,332	42,022	38,768	40,799
	<u>\$ 89,779</u>	<u>\$ 91,456</u>	<u>\$ 90,445</u>	<u>\$ 96,345</u>

The hedge fund is accounted for under the equity method of accounting, which approximates fair value. The carrying value of the funds was \$12,741 and \$12,346 as of June 30, 2012 and 2011, respectively. Valuation of this equity investment is primarily based on financial data supplied by the underlying investee fund. The System has the ability to liquidate this investment on a quarterly basis. The System must provide notice of intent to redeem its shares 65 days prior to the redemption date. Ninety percent of the redemption value will be returned to the System within 45 days of the redemption date, with the balance payable 30 days after the receipt of the fund's annual audited financial statements. Value may be based on historical cost, appraisals, or other estimates that require varying degrees of judgment. The historic cost of these investments was \$11,500 as of both June 30, 2012 and 2011.

The private equity investments are shown at cost on the accompanying financial statements.

Frederick Regional Health System, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)
(Dollars in Thousands)

6. Investments (continued)

Investments are allocated as follows at June 30:

	<u>2012</u>	<u>2011</u>
Investment allocation:		
Unrestricted long-term investments	\$ 100,827	\$ 105,795
Donor restricted investments	2,977	2,896
	<u>\$ 103,804</u>	<u>\$ 108,691</u>

Investment income, including income from short-term investments, for the years ended June 30 are as follows:

	<u>2012</u>	<u>2011</u>
Unrestricted:		
Net realized gains	\$ 2,265	\$ 1,339
Interest and dividends, net of investment expense	3,228	2,170
Income from joint ventures	331	384
	<u>\$ 5,824</u>	<u>\$ 3,893</u>

Investment expense was \$417 and \$235 for the fiscal years ended June 30, 2012 and 2011, respectively.

Other investments consist of the following at June 30:

	<u>Carrying Value</u>		<u>Income</u>	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Joint ventures	\$ 3,092	\$ 2,735	\$ 331	\$ 384
Cash surrender value of life insurance policy	-	688	-	-
	<u>\$ 3,092</u>	<u>\$ 3,423</u>	<u>\$ 331</u>	<u>\$ 384</u>

Frederick Regional Health System, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

6. Investments (continued)

Investments in joint ventures accounted for using the equity method, unless otherwise noted, at June 30 are as follows:

	Entity	Interest %	2012	2011
Colonial Regional Alliance	FMH	14.3%	\$ 30	\$ 30
Carroll Occupational Health, LLC	FHSC	25.0%	11	(21)
Comp Claim Management, LLC	FHSC	50.0%	3	3
Open MRI of Frederick, LLC	FHSC	50.0%	136	195
Glade Valley Nursing and Rehabilitation Center, Inc.	FMH	50.0%	69	69
Premier Purchasing Partners (cost method)	FMH	<1.0%	649	447
Mt. Airy Health Services, LLC	FMH	50.0%	398	434
Mt. Airy Plaza, LLC	FHSC	50.0%	(330)	(345)
Mt. Airy Surgical Center LLC	FHSC	50.0%	187	167
Frederick Surgical Center, LLC	FHSC	34.7%	1,939	1,756
			\$ 3,092	\$ 2,735

7. Fair Value Measurements

Assets and liabilities recorded at fair value in the consolidated balance sheets are categorized based upon the level of judgment associated with the inputs used to measure their fair value.

FASB guidance defines fair value as the price that would be received to sell an asset or paid to transfer a liability (i.e., the “exit price”) in an orderly transaction between market participants at the measurement date, emphasizing that fair value is market-based measurement, not an entity-specific measurement. Therefore, a fair value measurement should be determined based on the assumptions that market participants would use in pricing the asset or liability. As a basis for considering market participant assumptions in fair value measurements, the FASB establishes a fair value hierarchy that distinguishes between market participant assumptions based on market data obtained from sources independent of the reporting entity (observable inputs that are classified within Level 1 and 2 of the hierarchy) and the reporting entity’s own assumptions about market participant assumptions (unobservable inputs classified within Level 3 of the hierarchy). The Level inputs, as defined by FASB guidance for fair value measurements and disclosures, are as follows:

Frederick Regional Health System, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

7. Fair Value Measurements

- Level 1 – Inputs utilize unadjusted quoted prices in active markets for identical assets or liabilities that the System has the ability to access at the measurement date.
- Level 2 – Inputs are inputs other than quoted prices included in Level 1 that are observable for the assets or liabilities, either directly or indirectly. Level 2 inputs may include quoted prices for similar assets and liabilities in active markets, as well as inputs that are observable for the assets or liabilities (other than quoted prices), such as interest rates, foreign exchange rates, and yield curves that are observable at commonly quoted intervals.
- Level 3 – Inputs are unobservable inputs for the assets or liabilities, which are typically based on an entity's own assumptions, as there is little, if any, related market activity.

The determination of the fair value level within which the entire fair value measurement falls is based on the lowest level input that is significant to the fair value measurement in its entirety. The System's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and considers factors specific to the assets or liabilities. The following tables present the System's assets and liabilities measured at fair value on a recurring basis, aggregated by the level in the fair value hierarchy within which those measurements fall, as of June 30, 2012 and June 30, 2011:

Frederick Regional Health System, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(Dollars in Thousands)

7. Fair Value Measurements (continued)

	Fair Value at June 30, 2012	Fair Value Measurements at Reporting Date Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Other Unobservable Inputs (Level 3)
Assets				
Cash and cash equivalents	\$ 40,466	\$ 40,466	\$ —	\$ —
Equity securities	31,298	31,298	—	—
U.S. government obligations	10,958	—	10,958	—
Corporate and other bonds	3,345	—	3,345	—
Mutual funds	42,211	42,211	—	—
Mortgage-backed securities	5,020	—	5,020	—
Private equity	1,554	—	—	1,554
Contributions receivable	3,137	—	—	3,137
Total assets	<u>\$ 137,989</u>	<u>\$ 113,975</u>	<u>\$ 19,323</u>	<u>\$ 4,691</u>
Liabilities				
Interest rate swap liability	\$ (16,513)	\$ —	\$ (16,513)	\$ —
Total liabilities	<u>\$ (16,513)</u>	<u>\$ —</u>	<u>\$ (16,513)</u>	<u>\$ —</u>

Frederick Regional Health System, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)
(Dollars in Thousands)

7. Fair Value Measurements (continued)

	Fair Value at June 30, 2011	Fair Value Measurements at Reporting Date Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Other Unobservable Inputs (Level 3)
Assets				
Cash and cash equivalents	\$ 40,353	\$ 40,353	\$ –	\$ –
Equity securities	34,480	34,480	–	–
U.S. government obligations	11,094	–	11,094	–
Corporate and other bonds	3,843	–	3,843	–
Mutual funds	47,390	47,390	–	–
Mortgage-backed securities	4,186	–	4,186	–
Private equity	–	–	–	–
Contributions receivable	3,278	–	–	3,278
Total assets	<u>\$ 144,624</u>	<u>\$ 122,223</u>	<u>\$ 19,123</u>	<u>\$ 3,278</u>
Liabilities				
Interest rate swap liability	\$ (9,715)	\$ –	\$ (9,715)	\$ –
Total liabilities	<u>\$ (9,715)</u>	<u>\$ –</u>	<u>\$ (9,715)</u>	<u>\$ –</u>

The fair value of the System's trading securities is determined by third-party service providers utilizing various methods dependent upon the specific type of investment. Where quoted prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. Where significant inputs, including benchmark yields, broker-dealer quotes, issuer spreads, bids, offers, the LIBOR curve, and measures of volatility, are used by these third-party dealers or independent pricing services to determine fair values the securities are classified within Level 2. Private equity investments are carried at cost. Hedge fund investments are carried under the equity method of accounting.

Frederick Regional Health System, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

7. Fair Value Measurements (continued)

Assets utilizing Level 1 inputs include exchange-traded equity securities and equity and fixed income mutual funds. Assets and liabilities utilizing Level 2 inputs include U.S. government securities, corporate bonds, mortgage-backed securities, and interest rate swaps. Assets utilizing Level 3 inputs are contributions receivable and private equity investments.

Interest Rate Swap

The System entered into an interest rate swap agreement in conjunction with the issuance of variable rate bonds. The swap contract is valued using models based on readily observable market parameters for all substantial terms of the contract. The fair market value of the swap agreement is included as interest rate swap contract in the accompanying balance sheets. The fair market value calculation, includes a credit valuation adjustment (CVA) as required of \$1,523 and \$918, reducing the interest rate swap agreement liability position on June 30, 2012 and 2011, respectively. The change in the fair market value of the swap agreement is included in excess (deficiency) of unrestricted revenue and other support over expenses, as the swap is not designated as an effective hedge.

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

Assets utilizing Level 3 inputs are contributions receivable and private equity investments. Contributions receivable are recorded net of allowance for uncollectible pledges and discounted to net present value. The present value of estimated future cash flows using a discount rate commensurate with the risks involved is an appropriate measure of fair value for unconditional promises to give cash and is considered Level 3. The private equity investments are carried at cost of \$1,161 on the accompanying financial statements.

Frederick Regional Health System, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)
(Dollars in Thousands)

7. Fair Value Measurements (continued)

The following table provides a reconciliation of the beginning and ending balances of items measured at fair value on a recurring basis in the table above that used significant unobservable inputs (Level 3):

	Contributions Receivable	Private Equity	Total
Balance at June 30, 2010	\$ 3,113	\$ –	\$ 3,113
Purchases, issuances and settlements	165	–	165
Balance at June 30, 2011	3,278	–	3,278
Purchases, issuances and settlements	(141)	1,554	1,413
Balance at June 30, 2012	\$ 3,137	\$ 1,554	\$ 4,691

8. Property and Equipment

Property and equipment consist of the following at June 30:

	Estimated Useful Lives	2012	2011
Land	–	\$ 3,765	\$ 3,765
Land improvements	8 – 20 years	1,249	1,249
Buildings	20 – 40 years	180,740	180,300
Fixed equipment	10 – 20 years	16,493	16,343
Movable equipment	3 – 20 years	168,213	148,265
Leasehold improvements	5 – 20 years	20,265	19,160
		390,725	369,082
Less accumulated depreciation		209,150	190,138
		181,575	178,944
Construction in process, renovations, and deposits	–	13,289	1,889
		\$ 194,864	\$ 180,833

Frederick Regional Health System, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)
(Dollars in Thousands)

8. Property and Equipment (continued)

Construction-in-progress consists of the System's building renovations. As these projects are completed, the related assets are transferred out of construction-in-progress and into the appropriate asset category and are depreciated over the applicable useful lives.

The net book value of assets under capital lease arrangements totaled \$7,025 and \$6,669 as of June 30, 2012 and 2011, respectively. Depreciation expense related to assets under capital lease arrangements was \$1,880 and \$1,404 for the fiscal years ended June 30, 2012 and 2011, respectively.

9. Long-Term Debt

Long-term debt consists of the following as of June 30:

	<u>2012</u>	<u>2011</u>
MHHEFA Series 2002 Bonds	\$ 66,196	\$ 66,983
MHHEFA Series 2008 Bonds	70,953	71,944
Note payable – Emmitsburg	279	373
Capital lease obligations	7,416	6,999
	<u>144,844</u>	146,299
Less current maturities	4,119	3,732
	<u>\$ 140,725</u>	<u>\$ 142,567</u>

Series 2008 MHHEFA Revenue Bonds

The Series 2008 MHHEFA Revenue Bonds are variable rate demand bonds and are net of original issue discounts of \$144 which are being amortized over the life of the bonds using the yield method. Accumulated amortization was \$37 at June 30, 2012. During the year ended June 30, 2012, the interest rate on these variable rate demand bonds has varied from 0.07% – 0.24%. Interest is payable monthly through July 1, 2035. The fair value of the Series 2008 MHHEFA Revenue Bonds is estimated based on the quoted market prices for the same or similar issues. As of June 30, 2012, the carrying value of the MHHEFA Series 2008 Bonds approximates fair value. Under the provisions of the bond agreement, the System has granted to the Authority a security interest in all receipts now owned and hereafter acquired. The Series 2008 Bonds are secured ratably with the Series 2002 Bonds.

Frederick Regional Health System, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

9. Long-Term Debt (continued)

In conjunction with the issuance of the Series 2008 Bonds, the System secured a three-year letter of credit with a bank covering the entire bond issue. The letter of credit was amended on September 21, 2012, with terms for tender advances of the greater of LIBOR +2.75% or 4.00% for the first 90 days, and the greater of LIBOR +3.25% or 4.00% for days 91-366. Tender advances are due beginning on the 367th day after initial draw and would be repaid over a 48-month period. The new termination date of the letter of credit is July 8, 2015.

There is no debt service reserve requirement associated with the Series 2008 Bonds.

The bond agreement contains certain financial covenants.

Series 2002 MHHEFA Revenue Bonds

In August 2002, the System obtained a loan of \$71,715 in MHHEFA Revenue Bonds, Frederick Memorial Hospital, Inc. Issue, Series 2002. The MHHEFA Series 2002 Bonds were issued to finance and refinance costs of construction, renovation, and equipping certain the System facilities. The Series 2002 Bonds are net of an original issue discount of \$2,361 which is being amortized over the life of the bonds using the yield method. Accumulated amortization was \$912 and \$824 at June 30, 2012 and 2011, respectively. The annual interest rate on the bond loan ranges between 3.25% and 5.125%. Interest is payable semiannually on each January 1 and July 1, through July 1, 2035.

The debt service reserve requirement for the Series 2002 Bonds is \$6,208.

Series 2002 Bonds maturing on or after July 1, 2012 are subject to redemption or purchase prior to maturity, beginning on July 1, 2012, at the option of the Authority at the principal amount of the Series 2002 Bonds to be redeemed plus accrued interest thereon to the date set for redemption.

Under the provisions of the bond agreement, the System has granted to the Authority a security interest in all receipts now owned and hereafter acquired. The Series 2002 Bonds are secured ratably with the 2008 Bonds. The fair value of the Series 2002 MHHEFA Revenue Bonds is estimated based on the quoted market prices for the same or similar issues. As of June 30, 2012, the fair value of the MHHEFA Series 2002 Bonds is estimated as \$67,645. The book value of the 2008 bonds approximates its fair value due to the variable interest rate on these bonds.

Frederick Regional Health System, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)
(Dollars in Thousands)

9. Long-Term Debt (continued)

The bond agreement contains certain financial covenants.

Note Payable – Emmitsburg

In December 1994, the System acquired a 100% interest in Emmitsburg Properties. In accordance with the terms of the purchase agreement, the System executed two notes payable to the former owners aggregating \$1,219. The notes are payable in monthly installments of principal and interest of \$10, bear interest at 8%, and are due December 31, 2014.

Capital Lease Obligations

During the fiscal year ended June 30, 2012, the System entered into certain capital lease obligations to secure major medical diagnostic equipment. Future payments under these obligations are as follows:

Years ending June 30:	
2013	\$ 2,322
2014	2,225
2015	1,906
2016	1,179
2017	342
Total payments	<u>7,974</u>
Less interest payments	<u>558</u>
Total lease obligations, principal	<u>7,416</u>
Less current portion	<u>2,066</u>
Long-term obligations under capital leases	<u><u>\$ 5,350</u></u>

Frederick Regional Health System, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(Dollars in Thousands)

9. Long-Term Debt (continued)

Debt service requirements on long-term debt and capital lease obligations, excluding the original issue discounts on the MHHEFA Bonds at June 30, 2012 and 2011, of \$1,556 and \$1,653, respectively, are as follows:

	<u>Principal</u>
Years ending June 30:	
2013	\$ 4,119
2014	4,206
2015	5,653
2016	5,074
2017	4,422
Thereafter	122,926
	<u>\$ 146,400</u>

10. Interest Rate Swap Contract

The System records their derivatives as assets or liabilities at fair value. A derivative is typically defined as an instrument, whose value is “derived” from an underlying instrument, index or rate, has a notional amount, requires little or no initial investment, and can be net settled. The System participates in an interest rate swap contract that is considered a derivative financial instrument.

In conjunction with the issuance of the Series 2008 Bonds, the System modified its interest rate swap contract with a third party to a notional amount of \$72,160 until July 1, 2010, at which point the notional amount amortizes over the term of the underlying Series 2008 Bonds, with a final maturity of July 1, 2035. The System is exposed to credit loss in the event of nonperformance by the counterparty to the interest rate swap contract. However, the System does not anticipate nonperformance by the counterparty. Under the swap contract, the System pays interest at a fixed rate of 3.804% and receives interest at a variable rate equal to 67% of the one-month London Interbank Offered Rate (LIBOR) (0.2432% as of June 30, 2012). The swap contract requires payments to be made or received monthly. The fair value of the swap contract was a liability of \$16,513 and \$9,715 at June 30, 2012 and 2011, respectively.

Frederick Regional Health System, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)
(Dollars in Thousands)

10. Interest Rate Swap Contract (continued)

The System accrued net payments under its interest rate swap program of \$2,588 and \$2,620 during fiscal years 2012 and 2011, respectively. These amounts are included within realized and unrealized loss on interest rate swap contract, net in the consolidated statements of operations and investing activities in the statement of cash flows.

The interest rate swap contract is not designated as an effective cash flow hedge. The System's objectives of entering into the interest rate swap contract include limiting or hedging variable interest rate payments, to achieve lower overall borrowing costs than a comparable unhedged fixed rate borrowing, to alter the pattern of debt service payments, and to improve asset/liability matching. Changes in the fair value of the derivative financial instrument are recognized in the consolidated statements of as a component of other loss. The carrying value of the System's derivative financial instrument approximates fair value. The interest rate swap contract is valued using models based on readily observable market parameters for all substantial terms of the contract.

Credit exposure associated with non-performance by the counterparties to derivative instruments is generally limited to the uncollateralized fair value of the asset related to instruments recognized in the consolidated balance sheets. The System attempts to mitigate the risk of non-performance by selecting counterparties with high credit ratings and monitoring their creditworthiness.

Our derivative agreements do not contain any credit support provisions that require us to post collateral if there are declines in the derivative value or our credit rating.

Balance Sheet Location	Fair Value	
	2012	2011
Asset derivatives		
Derivatives not designated as hedging instruments:		
Interest rate contracts	\$ —	\$ —
Liability derivatives		
Long-term liabilities	\$ 16,513	\$ 9,715
Total derivatives not designated as hedging instruments	<u>\$ 16,513</u>	<u>\$ 9,715</u>

Frederick Regional Health System, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)
(Dollars in Thousands)

10. Interest Rate Swap Contract (continued)

A summary of the effect of the non-hedging derivatives on the System's income statement for the year ended June 30, 2012, is as follows:

Type of Non-Hedging Derivatives	Income Statement Location of Loss Recognized	Derivative Loss Recognized
Interest rate swap contract – realized losses	Other loss	\$ (2,588)
Interest rate swap contract – unrealized losses	Other loss	(6,798)
Total		\$ (9,386)

A summary of the effect of the non-hedging derivatives on the System's income statement for the year ended June 30, 2011, is as follows:

Type of Non-Hedging Derivatives	Income Statement Location of Loss Recognized	Derivative Loss Recognized
Interest rate swap contract – realized losses	Other loss	\$ (2,620)
Interest rate swap contract – unrealized gains	Other income	1,552
Total		\$ (1,068)

11. Employee Benefit Plans

The System has a trustee, defined benefit pension plan that covers substantially all employees. The System's funding policy is to make a minimum annual contribution equal to net periodic pension cost for the Plan year as determined by its actuary. The System uses a measurement date of June 30 to determine plan assets and benefit obligations. Effective June 30, 2007, the System approved a curtailment of the Plan. The curtailment is such that participants will no longer accrue benefits under the Plan and no new participants will be accepted. Current participant

Frederick Regional Health System, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)
(Dollars in Thousands)

11. Employee Benefit Plans (continued)

accounts will not receive any service credits beyond June 30, 2007; however, the System will make annual contributions to the plan in accordance with actuarially determined amounts to meet future accumulated benefit obligations under the frozen plan. Effective July 1, 2007, a modified defined contribution plan (403b) was implemented as described below.

Effective January 1, 2011 the Plan was amended, as required by SFAS No. 87, by changing the prior plan balance interest crediting rate from 8.5% to 4.5% resulting in a \$643 reduction to the projected benefit obligation at June 30, 2012.

The following provides a reconciliation of the changes in fair value of the Plan's assets and projected benefit obligations, and the Plan's funded status based on a June 30, 2012 and 2011, measurement date:

	2012	2011
	<i>(In Thousands)</i>	
Accumulated benefit obligation	\$ 84,407	\$ 73,238
Change in projected benefit obligation:		
Projected benefit obligation at beginning of year	\$ 73,238	\$ 72,489
Service cost	354	374
Interest cost	4,047	3,939
Plan Amendment	–	(643)
Actuarial loss (gain)	8,587	(1,389)
Benefits paid	(1,819)	(1,532)
Projected benefit obligation at end of year	84,407	73,238
Change in plan assets:		
Fair value of plan assets at beginning of year	56,762	50,073
Actual return on plan assets	1,085	6,247
Employer contribution	2,011	1,974
Benefits paid	(1,819)	(1,532)
Fair value of plan assets at end of year	58,039	56,762
Funded status	(26,368)	(16,476)
Net amount recognized	\$ (26,368)	\$ (16,476)

Frederick Regional Health System, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)
(Dollars in Thousands)

11. Employee Benefit Plans (continued)

Actuarial assumptions that decreased the projected benefit obligation as of June 30, 2012, included a decrease in the rate on conversion of cash balance to annuity from 4.5% to 3.5% and a decrease cash balance interest accumulation rate from 4.5% to 4.0%. The total impact of these assumption changes were to decrease the projected benefit obligation by approximately \$9,500. This was offset by an approximately \$18,000 increase in the projected benefit obligation due to a reduction in the discount rate.

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

	June 30	
	2012	2011
Net actuarial loss	\$ 29,796	\$ 19,442
Prior service cost	392	443
Total recognized in unrestricted net assets	<u>\$ 30,188</u>	<u>\$ 19,885</u>

The following table sets forth the weighted-average assumptions used to determine benefit obligations:

	June 30	
	2012	2011
Discount rate	4.2%	5.60%
Rate of compensation increase	N/A	N/A

The following table sets forth the weighted-average assumptions used to determine net periodic benefit cost:

	Year Ended June 30	
	2012	2011
Discount rate	5.60%	5.50%
Expected return on plan assets	7.00%	7.00%
Rate of compensation increase	N/A	N/A

Frederick Regional Health System, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)
(Dollars in Thousands)

11. Employee Benefit Plans (continued)

Net periodic pension cost included the following components:

	<u>2012</u>	<u>2011</u>
Service cost	\$ 354	\$ 373
Interest cost	4,047	3,939
Expected return on plan assets	(3,989)	(3,550)
Amortization of prior service cost	51	127
Unrecognized net actuarial loss	1,137	1,649
Net periodic pension cost	<u>\$ 1,600</u>	<u>\$ 2,538</u>

The estimated net loss that is expected to be amortized from other changes in unrestricted net assets into net periodic benefit cost for the year ending June 30, 2013, is \$2,803.

The System determines the expected long-term rate of return on Plan assets by taking into consideration the historical returns of various asset classes and the types of investments the Plan is expected to hold.

The defined benefit pension plan asset allocation as of the measurement date presented as a percentage of total plan assets were as follows:

	<u>2012</u>	<u>2011</u>
Equity securities	23.4%	25.0%
Debt securities	58.2	55.9
Cash	1.8	2.1
Hedge funds	16.6	17.0
Total	<u>100.0%</u>	<u>100.0%</u>

The Plan assets are recorded at fair value and are categorized based upon the level of judgment associated with the inputs used to measure their fair value.

Frederick Regional Health System, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

11. Employee Benefit Plans (continued)

FASB guidance defines fair value as the price that would be received to sell an asset or paid to transfer a liability (i.e., the “exit price”) in an orderly transaction between market participants at the measurement date, emphasizing that fair value is market-based measurement, not an entity-specific measurement. Therefore, a fair value measurement should be determined based on the assumptions that market participants would use in pricing the asset or liability. As a basis for considering market participant assumptions in fair value measurements, the FASB establishes a fair value hierarchy that distinguishes between market participant assumptions based on market data obtained from sources independent of the reporting entity (observable inputs that are classified within Level 1 and 2 of the hierarchy) and the reporting entity’s own assumptions about market participant assumptions (unobservable inputs classified within Level 3 of the hierarchy). The Level inputs, as defined by FASB guidance for fair value measurements and disclosures, are as follows:

- Level 1 – Inputs utilize unadjusted quoted prices in active markets for identical assets or liabilities that the System has the ability to access at the measurement date.
- Level 2 – Inputs are inputs other than quoted prices included in Level 1 that are observable for the assets or liabilities, either directly or indirectly. Level 2 inputs may include quoted prices for similar assets and liabilities in active markets, as well as inputs that are observable for the assets or liabilities (other than quoted prices), such as interest rates, foreign exchange rates, and yield curves that are observable at commonly quoted intervals.
- Level 3 – Inputs are unobservable inputs for the assets or liabilities, which are typically based on an entity’s own assumptions, as there is little, if any, related market activity.

The determination of the fair value level within which the entire fair value measurement falls is based on the lowest level input that is significant to the fair value measurement in its entirety.

Frederick Regional Health System, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)
(Dollars in Thousands)

11. Employee Benefit Plans (continued)

The System's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and considers factors specific to the assets or liabilities. The following tables present the Plan's assets and liabilities measured at fair value on a recurring basis, aggregated by the level in the fair value hierarchy within which those measurements fall, as of June 30, 2012 and 2011:

	Fair Value Measurements at Reporting Date Using			
	Fair Value at June 30, 2012	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Other Unobservable Inputs (Level 3)
Assets				
Cash and cash equivalents	\$ 1,019	\$ 1,019	\$ -	\$ -
Equity securities	13,600	13,600	-	-
Fixed income mutual funds	33,817	33,817	-	-
Hedge funds	9,603	-	-	9,603
Total assets	\$ 58,039	\$ 48,436	\$ -	\$ 9,603

	Fair Value Measurements at Reporting Date Using			
	Fair Value at June 30, 2011	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Other Unobservable Inputs (Level 3)
Assets				
Cash and cash equivalents	\$ 1,220	\$ 1,220	\$ -	\$ -
Equity securities	14,163	14,163	-	-
Fixed income mutual funds	31,744	31,744	-	-
Hedge funds	9,635	-	-	9,635
Total assets	\$ 56,762	\$ 47,127	\$ -	\$ 9,635

Frederick Regional Health System, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)
(Dollars in Thousands)

11. Employee Benefit Plans (continued)

The following table provides a reconciliation of the beginning and ending balances of items measured at fair value on a recurring basis in the table above that used significant unobservable inputs (Level 3):

	<u>Hedge Funds</u>	<u>Total</u>
Balance at June 30, 2010	\$ 6,406	\$ 6,406
Purchases, issuances and settlements	3,229	3,229
Balance at June 30, 2011	9,635	9,635
Purchases, issuances and settlements	(32)	(32)
Balance at June 30, 2012	<u>\$ 9,603</u>	<u>\$ 9,603</u>

The fair value of the Plan's trading securities is determined by third-party service providers utilizing various methods dependent upon the specific type of investment. Where quoted prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. Assets utilizing Level 1 inputs include exchange-traded equity securities and equity and fixed income mutual funds. Assets utilizing Level 3 inputs are hedge funds.

The hedge fund is accounted for at fair value which has been estimated using the net asset value per share of the fund as of June 30, 2012. The Plan has the ability to liquidate this investment on a quarterly basis. The Plan must provide notice of intent to redeem its shares 65 days prior to the redemption date. Ninety percent of the redemption value will be returned to the Plan within 45 days of the redemption date, with the balance payable 30 days after the receipt of the fund's annual audited financial statements.

Assets of the Plan are invested in a manner consistent with fiduciary standards of the Employees Retirement Income Security Act of 1974 (ERISA); namely, (a) the safeguards and diversity to which a prudent investor would adhere must be present, and (b) all transactions undertaken on behalf of the Plan must be for the sole interest of Plan participants and beneficiaries, to provide benefits in a prudent manner. Investment objectives of the Plan also include:

- Achieve an annualized total return that equals or exceeds the actuarial target

Frederick Regional Health System, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

11. Employee Benefit Plans (continued)

- Preserve the value of the Plan's assets
- Diversify assets sufficiently, and, in accordance with modern portfolio theory, avoid large specific risks (losses) and minimize the volatility of the portfolio
- Provide sufficient liquidity to plan benefit payment outflows and meet the Plan's requirements

The strategic target asset allocation for the Plan is 24% in equities, 59% in debt securities, and 17% in other investments.

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

2013	\$	1,993
2014		2,207
2015		2,411
2016		2,623
2017		2,870
2018 – 2022		18,142

The System also has a tax-deferred annuity savings (403b) plan available to substantially all employees. In conjunction with the curtailment of the defined benefit pension plan, the System modified the 403b plan effective July 1, 2007. Under the terms of the modified plan, every eligible employee receives a base contribution of 2.5% of earnings. The System will match 50% – 70% on employee contributions up to 5% of employee earnings depending on years of service. In addition, certain employees are eligible for transition credits based on age and years of service to the System. The System's contribution for base matching and transition credits totaled \$5,249 and \$4,787 for fiscal years 2012 and 2011, respectively.

The System is partially self-insured against employee medical claims. Plan expenses include claims paid and a provision for claims incurred but not reported. As of June 30, 2012 and 2011, the System has recorded a liability for claims incurred but not reported of \$2,057 and \$1,600, respectively. The program has an annual aggregate stop loss provision of \$325 per employee.

Frederick Regional Health System, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)
(Dollars in Thousands)

11. Employee Benefit Plans (continued)

In December 2005, the System adopted two non-qualified deferred compensation plans with an effective date of December 15, 2004, for certain members of executive management. Under the plans, participating employees may contribute amounts from their compensation to the plan and may receive a discretionary employer contribution. Employees are fully vested in all employee contributions to the plans. Vesting in employer contributions occurs in accordance with the underlying plan documents. All assets of the plans are held in separate trusts. Total contributions by the System to the plans were \$278 and \$220 for the years ended June 30, 2012 and 2011, respectively.

12. Concentration of Credit Risk

The System has funds on deposit with financial institutions in excess of amounts insured by the Federal Deposit Insurance Corporation. The System grants credit without collateral to its patients, most of who are local residents and are insured under third-party payor agreements. The mix of receivables from patients and third-party payors (in percentages) at June 30 was as follows:

	<u>2012</u>	<u>2011</u>
Medicare	26%	21%
Medicaid	14	10
Blue Cross	17	18
HMOs and PPOs	18	19
Commercial insurance and other third-party payors	6	6
Patients	19	26
	<u>100%</u>	<u>100%</u>

13. Functional Expenses

The System and its subsidiaries provide general health care services to residents within its geographic location. Expenses related to providing these services are as follows:

	<u>2012</u>	<u>2011</u>
Health care services	\$ 314,952	\$ 304,010
General and administrative	41,568	35,600
	<u>\$ 356,520</u>	<u>\$ 339,610</u>

Frederick Regional Health System, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)
(Dollars in Thousands)

14. Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are available for the following purposes or periods at June 30:

	<u>2012</u>	<u>2011</u>
Health care services:		
Buildings and equipment	\$ 1,542	\$ 1,849
Restricted by time only	2,677	2,470
Education programs	542	574
Indigent care and research	380	305
	<u>\$ 5,141</u>	<u>\$ 5,198</u>

Permanently restricted net assets consist of investments to be held in perpetuity, the income from which is expendable for:

	<u>2012</u>	<u>2011</u>
General health care services (reported as operating income)	\$ 971	\$ 971
Specific health care services (reported as temporarily restricted income)	5	5
	<u>\$ 976</u>	<u>\$ 976</u>

During 2012 and 2011, net assets were released from donor restrictions by incurring expenses or capital expenditures satisfying the restricted purposes in the amounts of \$449 and \$624, respectively.

15. Contingencies

The System has been named as a defendant in various legal proceedings arising from the performance of their normal activities. In the opinion of management, after consultation with legal counsel and after consideration of applicable insurance, the amount of the System's ultimate liability under all current legal proceedings will not have a material adverse effect on their consolidated financial position or results of operations.

Frederick Regional Health System, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(Dollars in Thousands)

15. Contingencies (continued)

FMH was insured for professional liability under an occurrence based policy through June 30, 2005. Effective July 1, 2005, FMH established an irrevocable self-insurance trust to set aside funds to cover future professional liability claims. The initial funding to the trust was \$1,500. Total disbursements from the fund for a covered loss by one or more persons as a result of any one occurrence were not to exceed \$1,000 and \$3,000 in the aggregate in any one fiscal year. The funded balance of the trust was \$6,984 at June 30, 2011. Concurrently, FMH purchased excess "umbrella" coverage through a commercial carrier with a per-occurrence and aggregate limit of \$10,000 per policy period.

As of July 1, 2011, MIL, a single parent captive, was created to provide a flexible risk financing structure to meet the needs of the FRHS organization. MIL coverage limits are \$1,000 per incident and \$3,000 in the aggregate in any one fiscal year on a mature claims-made basis retroactive to July 1, 2005. Commercial general liability is covered under the captive program for \$1,000 per incident on a claims-made basis retroactive to July 1, 2005 as well.

As of June 30, 2012, MIL assumed the FMH Professional Liability and Comprehensive General Liability coverage previously included under the self-insurance trust for incidents occurring between July 1, 2005 and June 30, 2011 that were reported to FMH prior to June 30, 2011. The policy for this period provides limits of \$1,000 per medical incident with a \$3,000 annual aggregate limit. The FMH self-insurance trust was fully liquidated as of June 30, 2012.

There are known claims and incidents that could result in the assertion of additional claims, as well as claims from unknown incidents that could be asserted arising from services provided to patients. Effective July 1, 2011, the System adopted ASU 2010-23 which clarified that a health care entity should not net insurance recoveries against a related claim liability. The System maintains reserves including excess coverage, in the amount of \$10,159, and a related reinsurance receivable of \$3,143 at June 30, 2012. FMH maintained reserves in the amount of \$6,733 at June 30, 2011 to cover estimated costs incurred within the self-insured period. The System employs an independent actuary to estimate the ultimate settlement of such claims.

These reserves are recorded on an undiscounted basis at June 30, 2012 and 2011. In management's opinion, the amounts recorded provide an adequate reserve for loss contingencies. However, changes in circumstances affecting professional liability claims could cause these estimates to change by material amounts in the short term.

Frederick Regional Health System, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(Dollars in Thousands)

16. Commitments

Operating Leases

The System and its subsidiaries lease facilities under various operating leases, the last of which expires in 2030. The System has various options to renew the leases. The System also leases equipment under various operating leases. Rent expense under all operating leases was \$4,128 and \$4,953 for 2012 and 2011, respectively. Future minimum payments under non-cancelable operating leases are as follows:

Years ending June 30:	
2013	\$ 2,729
2014	2,579
2015	2,497
2016	2,227
2017	1,792
Thereafter	22,370
	<u>\$ 34,194</u>

Workers' Compensation

The System is self-insured against worker's compensation claims, up to \$500 per occurrence, and has excess insurance coverage of \$1,000 per occurrence. Expenses include claims paid and a provision for claims incurred but not reported.

Supply Chain Management Agreement

The System has a master service agreement with a vendor to provide supply chain management functions. This agreement contains certain purchase volume commitments.

Letter of Credit

The System has a letter of credit issued by a lending institution in the amount of \$1,377. This letter of credit is renewed on an annual basis and is required by the State of Maryland as collateral for unemployment benefits.

Frederick Regional Health System, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

17. Regulatory Environment

Medicare and Medicaid

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

Over the past several years, government activity has increased with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by health care providers. Violations of these laws and regulations could result in expulsion from government health care programs, together with the imposition of fines and penalties, as well as repayments for patient services previously billed. Compliance with fraud and abuse standards and other government regulations can be subject to future government review and interpretation.

Also, future changes in federal and state reimbursement funding mechanisms and related government budgeting constraints could have an adverse effect on the System.

In 1983, Congress approved a Medicare prospective payment plan for most inpatient services as part of the Social Security Amendment Act of 1983. Hospitals in Maryland are currently exempt from these federal reimbursement regulations under a special waiver. The waiver currently in effect is subject to renewal based upon criteria defined in the federal law. Under these payment arrangements with Medicare, a retroactive adjustment could occur if certain performance standards are not attained by all hospitals on a statewide basis. The impact, if any, of any retroactive adjustment of the Medicare prospective payment system, should hospitals in Maryland become subject to such system, on future operations of the System, has not been determined.

Frederick Regional Health System, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

17. Regulatory Environment (continued)

State of Maryland Health Services Cost Review Commission

Beginning in fiscal year 2011, the HSCRC adjusted its Charge Per Case policy and removed one-day stay (ODS) cases from the Hospital's case mix and charge per case revenue. ODS cases are now reimbursed on approved HSCRC charges rather than under the case mix adjusted CPC target.

Beginning in fiscal year 2012, the Hospital entered into a three-year agreement with the HSCRC to participate in the Admission Readmission Revenue (ARR) program. The ARR arrangement is a voluntary revenue constraint program to incentivize hospitals to coordinate care and reduce unnecessary readmissions. The ARR agreement imposes a case mix adjusted Charge per Episode (CPE) target to inpatient admissions and any subsequent readmission within 30 days of the discharge of the initial admission of the same patient. The CPE target is adjusted annually for inflation, case mix charges, and other factors.

Also beginning in fiscal year 2011, the Commission implemented the Charge Per Visit (CPV) methodology for certain outpatient services. Using fiscal year 2010 as the base period, the actual average 2011 CPV is compared with the base period target. Similar to the CPC target, the CPV target is adjusted annually for inflation, case mix changes, and other factors. The outpatient services that are excluded from the CPV methodology are reimbursed on approved HSCRC charges. In March 2012, the HSCRC suspended the outpatient CPV methodology retroactive to July 1, 2011. Until further notice, all outpatient services are reimbursed on approved HSCRC unit rate charge.

The timing of the HSCRC's rate adjustments in any given year could result in an increase or decrease in the succeeding year's rates due to the variances and penalties described above. The Hospital accrues revenue based on actual charges for services to patients in the year in which the services are performed.

The HSCRC established an uncompensated care fund whereby certain hospitals are required to contribute to the fund to help cover the costs associated with uncompensated care for all Maryland hospitals equitably. The Hospital's contribution to the fund was \$4,235 and \$4,004 for the years ended June 30, 2012 and 2011, respectively.

Frederick Regional Health System, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)
(Dollars in Thousands)

17. Regulatory Environment (continued)

The Hospital's policy is to recognize revenue based on actual charges for services to patients in the year in which the services are performed. The Hospital's revenues may be subject to adjustment as a result of examination by government agencies or contractors, and as a result of differing interpretation of government regulations, medical diagnosis, charge coding, medical necessity, or other contract terms. The resolution of these matters, if any, often is not finalized until subsequent to the period during which the services were rendered

18. Subsequent Events

The System has evaluated subsequent events for the year ended June 30, 2012 through October 15, 2012, the date these financial statements were issued.

No other significant subsequent events were noted that would require recognition or disclosure at this time.

Supplementary Information

Report of Independent Auditors on Supplementary Information

The Board of Directors
Frederick Regional Health System, Inc. and Subsidiaries

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

Ernst + Young LLP

October 15, 2012

Frederick Regional Health System, Inc. and Subsidiaries

Supplementary Consolidating Balance Sheets
(In Thousands)

June 30, 2012

	Frederick Regional Health System, Inc.	Frederick Memorial Hospital Inc.	Monocacy Insurance LTD	Monocacy Health Partners LLC	Frederick Health Services Corporation	Elimination	Consolidated
Assets							
Current assets:							
Cash and cash equivalents	\$ –	\$ 30,254	\$ 101	\$ –	\$ 1,861	\$ –	\$ 32,216
Patient receivables, net	–	48,971	–	–	1,270	–	50,241
Other receivables	–	1,583	3,901	–	–	(3,992)	1,492
Inventory	–	4,649	–	–	–	–	4,649
Prepaid expenses	–	2,432	6	–	59	–	2,497
Assets limited as to use	–	3,715	81	–	–	–	3,796
Promises to give, net	–	570	–	–	–	–	570
Total current assets	–	92,174	4,089	–	3,190	(3,992)	95,461
Net property and equipment	–	189,945	–	–	4,919	–	194,864
Other assets:							
Assets limited as to use	–	7,383	–	–	–	–	7,383
Investments – donor restricted	–	2,977	–	–	–	–	2,977
Promises to give, net	–	2,567	–	–	–	–	2,567
Long-term investments	–	99,314	1,513	–	–	–	100,827
Other investments	171,864	17,477	–	–	1,945	(188,194)	3,092
Debt issuance costs, net	–	1,590	–	–	–	–	1,590
Other assets	–	5,861	1,150	–	–	(3,586)	3,425
Total other assets	171,864	137,169	2,663	–	1,945	(191,780)	121,861
Total assets	\$ 171,864	\$ 419,288	\$ 6,752	\$ –	\$ 10,054	\$ (195,772)	\$ 412,186

Frederick Regional Health System, Inc. and Subsidiaries

Supplementary Consolidating Balance Sheets (continued)

(In Thousands)

	Frederick Regional Health System, Inc.	Frederick Memorial Hospital Inc.	Monocacy Insurance LTD	Monocacy Health Partners LLC	Frederick Health Services Corporation	Elimination	Consolidated
Liabilities and net assets							
Current liabilities:							
Current maturities of long-term debt and capital lease obligations	\$ -	\$ 4,119	\$ -	\$ -	\$ -	\$ -	\$ 4,119
Accounts payable	-	21,532	-	-	307	(237)	21,602
Accrued expenses	-	19,843	57	-	729	-	20,629
Advances from third-party payors	-	10,065	-	-	-	-	10,065
Other current liabilities	-	6,545	414	-	3,380	(7,356)	2,983
Total current liabilities	-	62,104	471	-	4,416	(7,593)	59,398
Long-term liabilities, net of current portion:							
Long-term debt and capital lease obligations	-	140,725	-	-	-	-	140,725
Interest rate swap contract	-	16,513	-	-	-	-	16,513
Accrued pension expense	-	26,368	-	-	-	-	26,368
Other long-term liabilities	-	7,472	6,161	-	-	-	13,633
Total long-term liabilities, net of current portion	-	191,078	6,161	-	-	-	197,239
Total liabilities	-	253,182	6,632	-	4,416	(7,593)	256,637
Net assets:							
Unrestricted	171,864	159,989	120	-	5,638	(188,179)	149,432
Temporarily restricted	-	5,141	-	-	-	-	5,141
Permanently restricted	-	976	-	-	-	-	976
Total net assets	171,864	166,106	120	-	5,638	(188,179)	155,549
Total liabilities and net assets	\$ 171,864	\$ 419,288	\$ 6,752	\$ -	\$ 10,054	\$ (195,772)	\$ 412,186

Frederick Regional Health System, Inc. and Subsidiaries

Supplementary Consolidating Statement of Operations and Changes in Net Assets

(In Thousands)

Year Ended June 30, 2012

	Frederick Regional Health System, Inc.	Frederick Memorial Hospital Inc.	Monocacy Insurance LTD	Monocacy Health Partners LLC	Frederick Health Services Corporation	Elimination	Consolidated
Unrestricted revenue and other support:							
Net patient service revenue	\$ -	\$ 341,623	\$ -	\$ -	\$ 4,574	\$ (185)	346,012
Other operating revenues	-	10,152	2,236	-	4,657	(4,626)	12,419
Gifts, bequests, and contributions	-	3,049	-	-	-	-	3,049
Net assets released from restriction used for operations	-	251	-	-	-	-	251
Total unrestricted revenue and other support	-	355,075	2,236	-	9,231	(4,811)	361,731
Operating expenses:							
Salaries and wages	-	142,106	-	-	5,170	(247)	147,029
Employee benefits	-	38,059	-	-	1,029	(37)	39,051
Professional fees	-	11,859	140	-	50	(27)	12,022
Cost of goods sold	-	51,962	-	-	749	-	52,711
Supplies	-	11,080	-	-	-	(82)	10,998
Contract services	-	36,318	-	-	262	(1,558)	35,022
Other	-	11,135	75	-	861	(624)	11,447
Utilities	-	4,332	-	-	74	-	4,406
Insurance	-	5,136	2,054	-	116	(2,236)	5,070
Depreciation and amortization	-	20,024	-	-	318	-	20,342
Interest	-	4,571	-	-	107	(107)	4,571
Provision for uncollectible accounts	-	13,841	-	-	10	-	13,851
Total operating expenses	-	350,423	2,269	-	8,746	(4,918)	356,520
Operating income (loss), net	-	4,652	(33)	-	485	107	5,211

Frederick Regional Health System, Inc. and Subsidiaries

Supplementary Consolidating Statement of Operations and Changes in Net Assets (continued)

(In Thousands)

	Frederick Regional Health System, Inc.	Frederick Memorial Hospital Inc.	Monocacy Insurance LTD	Monocacy Health Partners LLC	Frederick Health Services Corporation	Elimination	Consolidated
Other income (loss)							
(Loss) on sale of assets	\$ -	\$ (67)	\$ -	\$ -	\$ -	\$ -	\$ (67)
Investment gain (loss), net	-	5,548	-	-	383	(107)	5,824
Change in unrealized (losses) gains on trading securities, net	-	(4,049)	33	-	-	-	(4,016)
Realized and unrealized losses on interest rate swap contract, net	-	(9,386)	-	-	-	-	(9,386)
Other non operating income, net	-	304	-	-	-	-	304
Total other income (loss)	-	(7,650)	33	-	383	(107)	(7,341)
Excess (deficit) of unrestricted revenue and other support over expenses	-	(2,998)	-	-	868	-	(2,130)
Other changes in unrestricted net assets:							
Pension adjustment	-	(10,303)	-	-	-	-	(10,303)
Released from restriction used to purchase capital	-	198	-	-	-	-	198
Increase (decrease) in unrestricted net assets	\$ -	\$ (13,103)	\$ -	\$ -	\$ 868	\$ -	\$ (12,235)

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