



WESTERN MARYLAND HEALTH SYSTEM CORPORATION

Consolidated Financial Statements
and Supplementary Information

June 30, 2010 and 2009

(With Independent Auditors' Report thereon)

WESTERN MARYLAND HEALTH SYSTEM CORPORATION

Table of Contents

	Page
Independent Auditors' Report	1
Consolidated Balance Sheets	2
Consolidated Statements of Operations	3
Consolidated Statements of Changes in Net Assets	4
Consolidated Statements of Cash Flows	5
Notes to Consolidated Financial Statements	6 – 26
Consolidating Balance Sheet Information	27 – 28
Consolidating Statement of Operation Information	29 – 30
Consolidating Statement of Changes in Net Assets Information	31



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

Independent Auditors' Report

The Board of Directors
Western Maryland Health System Corporation:

We have audited the accompanying consolidated balance sheets of Western Maryland Health System Corporation (the Health System) as of June 30, 2010 and 2009 and the related consolidated statements of operations, changes in net assets and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Health System's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes 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 Health System'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, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Western Maryland Health System Corporation as of June 30, 2010 and 2009, and the results of their operations and their cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Our audits were made for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The consolidating information included in schedules 1 through 3 is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position, results of operations, and changes in unrestricted net assets of the individual corporations or programs. The consolidating information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the consolidated financial statements taken as a whole.

KPMG LLP

September 30, 2010

WESTERN MARYLAND HEALTH SYSTEM CORPORATION

Consolidated Balance Sheets

June 30, 2010 and 2009

(Dollars in thousands)

Assets	2010	2009
Current assets:		
Cash and cash equivalents	\$ 48,795	29,374
Investments	19,413	16,345
Funds on deposit with trustee	14,933	13,010
Accounts receivable, less allowance for uncollectible accounts of \$7,487 in 2010 and \$7,393 in 2009	36,592	34,264
Pledge receivable, net	2,326	—
Other receivables, less allowance for uncollectible accounts of \$1,616 in 2010 and \$4,294 in 2009	2,927	4,037
Inventories and other current assets	13,339	11,449
Total current assets	138,325	108,479
Funds on deposit with trustee	22,382	110,333
Board designated investments	1,012	789
Other long-term investments	721	717
Investments restricted by donor or grantor	2,424	2,279
Beneficial interest in trustee held and Foundation's assets	1,491	11,741
Property and equipment, net	394,732	338,350
Unamortized financing fees	4,881	5,247
Investments in affiliates	13,672	10,095
Other assets	1,249	4,343
Total assets	\$ 580,889	592,373
Liabilities and Net Assets		
Current liabilities:		
Current portion of long-term debt	\$ 7,361	4,830
Accounts payable and accrued liabilities	9,827	21,160
Accrued bond interest payable	8,173	8,446
Accrued salaries and benefits	11,701	12,000
Payable to third-party payors	6,953	5,348
Total current liabilities	44,015	51,784
Long-term debt, net of current portion	345,419	357,988
Pension benefits in excess of pension assets	33,875	17,920
Other liabilities	23,576	21,738
Total liabilities	446,885	449,430
Minority interest in consolidated subsidiaries	1,916	2,117
Commitments and contingencies		
Net assets:		
Unrestricted	124,649	126,806
Temporarily restricted	5,702	12,474
Permanently restricted	1,737	1,546
Total net assets	132,088	140,826
Total liabilities and net assets	\$ 580,889	592,373

See accompanying notes to consolidated financial statements.

WESTERN MARYLAND HEALTH SYSTEM CORPORATION

Consolidated Statements of Operations

Years ended June 30, 2010 and 2009

(Dollars in thousands)

	2010	2009
Unrestricted revenues, gains and other support:		
Net patient service revenue	\$ 272,442	269,067
Other revenue	4,476	3,291
Net assets released from restrictions used for operations	234	62
	<u>277,152</u>	<u>272,420</u>
Expenses:		
Salaries and wages	100,743	101,276
Employee benefits	36,880	29,453
Professional fees	9,980	9,689
Purchased services	18,921	17,430
Supplies	60,491	57,992
Utilities	5,563	5,203
Insurance	5,002	3,988
Bad debts	6,680	7,845
Interest	10,336	685
Depreciation and amortization	17,883	18,030
Minority interest in consolidated subsidiaries	3,449	4,877
Other	6,938	7,473
	<u>282,866</u>	<u>263,941</u>
Total expenses	<u>282,866</u>	<u>263,941</u>
Operating income	<u>(5,714)</u>	<u>8,479</u>
Nonoperating income:		
Equity in income of affiliates	3,576	909
Investment income, including realized gains on trading portfolio	2,317	1,284
Unrealized gains on trading portfolio	527	203
Other	922	185
	<u>7,342</u>	<u>2,581</u>
Total nonoperating income	<u>7,342</u>	<u>2,581</u>
Excess of revenues over expenses	<u>1,628</u>	<u>11,060</u>
Other changes in net assets:		
Net assets released from restrictions used for purchase of property and equipment	1,785	1,630
Change in funded status of pension plan	(10,277)	(27,272)
Western Maryland Health System Foundation beginning net assets	4,707	—
	<u>4,707</u>	<u>—</u>
Decrease in unrestricted net assets	<u>4,707</u>	<u>—</u>
	<u>\$ (2,157)</u>	<u>(14,582)</u>

See accompanying notes to consolidated financial statements.

WESTERN MARYLAND HEALTH SYSTEM CORPORATION

Consolidated Statements of Changes in Net Assets

Years ended June 30, 2010 and 2009

(Dollars in thousands)

	Unrestricted net assets	Temporarily restricted net assets	Permanently restricted net assets	Total net assets
Balance at June 30, 2008	\$ 141,388	10,550	1,792	153,730
Excess of revenues over expenses	11,060	—	—	11,060
Donations	—	3,489	—	3,489
Grants	—	70	—	70
Change in funded status of pension plan	(27,272)	—	—	(27,272)
Net assets released for purchase of property and equipment	1,630	(1,630)	—	—
Change in beneficial interest of trustee-held and Foundations' assets	—	(5)	(246)	(251)
Change in net assets	<u>(14,582)</u>	<u>1,924</u>	<u>(246)</u>	<u>(12,904)</u>
Balance at June 30, 2009	<u>126,806</u>	<u>12,474</u>	<u>1,546</u>	<u>140,826</u>
Western Maryland Health System Foundation beginning net assets	4,707	5,735	—	10,442
Excess of revenues over expenses	1,628	—	—	1,628
Investment income	—	24	16	40
Change in unrealized gain on investments	—	—	191	191
Donations	—	348	—	348
Grants	—	2,014	—	2,014
Change in funded status of pension plan	(10,277)	—	—	(10,277)
Net assets released from restrictions used for operations	—	(2,666)	(16)	(2,682)
Net assets released for purchase of property and equipment	1,785	(1,785)	—	—
Change in beneficial interest of trustee-held and Foundations' assets	—	(10,442)	—	(10,442)
Change in net assets	<u>(2,157)</u>	<u>(6,772)</u>	<u>191</u>	<u>(8,738)</u>
Balance at June 30, 2010	\$ <u>124,649</u>	<u>5,702</u>	<u>1,737</u>	<u>132,088</u>

See accompanying notes to consolidated financial statements.

WESTERN MARYLAND HEALTH SYSTEM CORPORATION

Consolidated Statements of Cash Flows

Years ended June 30, 2010 and 2009

(Dollars in thousands)

	<u>2010</u>	<u>2009</u>
Cash flows from operating activities:		
Change in net assets	\$ (8,738)	(12,904)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	17,883	18,030
Change in funded status of pension plan	15,955	27,272
Provision for bad debts	6,680	7,845
Minority interest in consolidated subsidiaries	3,449	4,877
Gains on sale of assets	—	(162)
Equity in income of affiliates	(3,576)	(909)
Realized and unrealized gains on investments	1,701	69
Change in beneficial interest in trustee held and Foundation's assets	(191)	269
Restricted contributions and restricted investment income	—	(3,489)
Changes in assets and liabilities:		
Accounts receivable	(9,008)	(7,376)
Other receivables	1,110	304
Inventories and other current assets	(1,890)	456
Accounts payable and accrued liabilities and accrued salaries and benefits	(11,905)	11
Payable to third-party payors	1,605	(74)
Other assets, due to affiliates, funded status of pension plan, and other liabilities	7,882	(4,238)
Net cash provided by operating activities	<u>20,957</u>	<u>29,981</u>
Cash flows from investing activities:		
Purchase of long-lived assets	(73,899)	(117,487)
Change in funds on deposit with trustee	86,028	89,197
Net change in investments	2,974	91
Net cash provided by investing activities	<u>15,103</u>	<u>(28,199)</u>
Cash flows from financing activities:		
Repayments of long-term debt	(11,360)	(523)
Proceeds from restricted contributions and restricted investment income	(1,629)	3,489
Distributions to minority interest holders	(3,650)	(4,650)
Net cash used in financing activities	<u>(16,639)</u>	<u>(1,684)</u>
Net increase in cash and cash equivalents	19,421	98
Cash and cash equivalents at beginning of year	<u>29,374</u>	<u>29,276</u>
Cash and cash equivalents at end of year	\$ <u><u>48,795</u></u>	<u><u>29,374</u></u>

Noncash investing and financing activities:

In 2010 and 2009, the Health System had \$113 and \$13,010, respectively, in accounts payable relating to purchases of long-lived assets.

In 2010, the Health System was deemed to be the "owner" of a medical office building for \$20,500.

See accompanying notes to consolidated financial statements.

WESTERN MARYLAND HEALTH SYSTEM CORPORATION

Notes to Consolidated Financial Statements

June 30, 2010 and 2009

(Dollars in thousands)

(1) **Mission and Organization**

Western Maryland Health System Corporation (the Health System or WMHS) is a not-for-profit community health system. The mission of the Health System is to improve the health status and quality of life of the individuals and the communities served, especially those in need. The Health System provides patient and family centered services through responsible management of human and fiscal resources. The Health System is a values-driven health system that respects and supports life, preserves the dignity of each individual, and promotes a healthy and just society through collaboration with others who share the Health System's values.

The Health System accepts patients regardless of their ability to pay. Those patients who meet certain criteria under its charity care policies receive services at no charge or at an amount less than full charges. Essentially, these policies define charity services as those services for which no payment is anticipated. In addition to providing charity care, the Health System provides other programs and services for the general community. The Health System offers over 90 community health programs that include programs that target health education programs and health screenings to patients. A wide variety of health screenings are offered throughout the year for the general community that are free of charge or offered for a nominal fee. The Health System provides free education programs on a variety of health topics. The Health System also sponsors an annual community health fair, which provides health screenings, education and activities targeted to health and safety.

The Health System is comprised of the following wholly or partially owned, and controlled, consolidated subsidiaries in Cumberland, Maryland:

(a) ***Acute Care Hospitals***

Western Maryland Regional Medical Center – wholly owned (opened November 21, 2009)

The Memorial Hospital and Medical Center of Cumberland, Inc. (Memorial) – wholly owned, ceased serving patients November 21, 2009 (see note 11)

Braddock Hospital Corporation – previously wholly owned and operated as Western Maryland Health System Corporation until November 21, 2009 at which time it ceased serving patients

(b) ***Long-Term Care***

Frostburg Nursing and Rehabilitation Center (Frostburg) – wholly owned

(c) ***Other***

Western Maryland Health System Foundation, Inc.

Western Maryland Insurance Company, Ltd. (WMIC) – wholly owned

Haystack Consolidated Services Inc. (Haystack) – wholly owned

Cumberland Properties, Inc. – wholly owned

Memorial Medical Center Services, Inc. (MMCS) – wholly owned

Johnson Heights Medical Building Partnership (Johnson Heights) – 84% owned

Haystack Imaging Services, LLC (Haystack Imaging) – 50% owned

WESTERN MARYLAND HEALTH SYSTEM CORPORATION

Notes to Consolidated Financial Statements

June 30, 2010 and 2009

(Dollars in thousands)

In addition, the Health System has investments in several unconsolidated affiliates which are accounted for on the cost or equity methods of accounting, as appropriate (see note 6).

(2) Summary of Significant Accounting Policies

(a) *Principles of Consolidation*

The consolidated financial statements are prepared on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles, and include the accounts of the Health System and its subsidiaries and controlled entities. Significant intercompany accounts and transactions have been eliminated in consolidation. The Health System's consolidated financial statements reflect the respective interests of the minority investors in the joint ventures' net assets and changes in net assets.

(b) *Investments in Affiliates*

Investments in certain joint ventures, which are not controlled by the Health System are accounted for using the cost or equity method of accounting as appropriate (see note 6). These investments are included as investments in affiliates in the accompanying consolidated balance sheets. The Health System's proportionate share of income or loss of the unconsolidated joint ventures is included in nonoperating income in the accompanying consolidated statements of operations.

(c) *Cash Equivalents*

Cash equivalents consist primarily of temporary investments with maturities of three months or less when purchased and certain overnight repurchase agreements. Overnight repurchases are principally unsecured and are subject to normal credit risk.

(d) *Accounts Receivable*

Patient accounts receivable are stated at estimated net realizable amounts from patients, third-party payors and other insurers when services are provided. The Health System bills the insurer directly for services provided. Insurance coverage and credit information is obtained from patients when available. No collateral is obtained for accounts receivable.

(e) *Inventories*

Inventories primarily consist of medical supplies and drugs and are carried at lower of cost or market. Cost is determined principally using the average cost method, which approximates the first-in first-out (FIFO) method.

(f) *Investments*

The Health System's investment portfolio, including board designated investments, is considered a trading portfolio and is classified as current or noncurrent assets based on management's intention as to use. Accordingly, realized and unrealized gains and losses are included in investment income in the accompanying consolidated statements of operations. Dividend and interest income, as well as realized gains on sales of securities, are included in investment income.

WESTERN MARYLAND HEALTH SYSTEM CORPORATION

Notes to Consolidated Financial Statements

June 30, 2010 and 2009

(Dollars in thousands)

Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value in the balance sheet. Investment income or loss (including realized gains and losses on investments, interest and dividends) is included in the excess of revenues over expenses unless the income or loss is restricted by donor or law. Unrealized gains and losses on investments are excluded from the excess of revenues over expenses unless the investments are trading securities.

(g) *Property and Equipment*

Property and equipment are stated at cost or, if donated, at fair market value at date of gift. Depreciation is determined using a straight-line basis over the estimated useful lives of the related assets. Repairs and maintenance are expensed as incurred.

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

The Health System opened a 275-bed, state-of-the-art hospital on November 21, 2009, at which time Braddock and Memorial Hospitals ceased serving patients. Adjacent to the new hospital is a 120,000-square-foot medical office building (MOB) owned and operated by a third-party medical office building developer (note 15). The MOB includes both hospital services and physicians' office space. The Health System determined that due to certain costs as paid for by the Health System, that the Health System is required to be treated, for accounting purposes, as the "owner" of the MOB, in accordance with Emerging Issues Task Force (EITF) No. 97-10, *The Effect of Lessee Involvement in Asset Construction*.

(h) *Impairment of Long-Lived Assets*

Management regularly evaluates whether events or changes in circumstances have occurred that could indicate an impairment in the value of long-lived assets. In accordance with the provisions of ASC Subtopic 360-10, *Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of*, if there is an indication that the carrying amount of an asset is not recoverable, the Health System projects undiscounted cash flows, excluding interest, to determine if an impairment loss should be recognized. The amount of impairment loss is determined by comparing the historical carrying value of the asset to its estimated fair value. Estimated fair value is determined through an evaluation of recent and projected financial performance using discounted cash flows.

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

WESTERN MARYLAND HEALTH SYSTEM CORPORATION

Notes to Consolidated Financial Statements

June 30, 2010 and 2009

(Dollars in thousands)

In estimating the future cash flows for determining whether an asset is impaired and if expected future cash flows used in measuring assets are impaired, the Health System groups the assets at the lowest level for which there are identifiable cash flows independent of other groups of assets. If such assets are impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the estimated fair value of the assets. Based on management's evaluation, no long-lived assets were identified as impaired for the years ended June 30, 2010 and 2009.

(i) *Financing Costs*

Financing costs incurred in issuing long-term debt have been deferred and are shown separately on the balance sheet. These costs are being amortized using the effective interest method over the term of the related debt. The unamortized balances were \$4,881 and \$5,247 at June 30, 2010 and 2009, respectively.

(j) *Temporarily and Permanently Restricted Net Assets*

Temporarily restricted net assets are limited as to use by donors to a specific time period or purpose. Permanently restricted net assets are to be held in perpetuity at the instruction of the donor. Income from permanently restricted net assets is used as defined by the donor.

(k) *Net Patient Service Revenue*

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

Contractual adjustments, which represent the difference between amounts billed as patient service revenue and amounts paid by third-party payors, are accrued in the period in which the related services are rendered. Because the Health System does not pursue collection of amounts determined to qualify as charity care, such amounts are not reported as revenue.

The Maryland Medicaid program is administered primarily through independent licensed managed care organizations. The State of Maryland has contracts with these independent managed care organizations to manage the care to eligible participants. Amounts due from the Medicaid program in Maryland are primarily due from the independent managed care organizations.

(l) *Excess of Revenues over Expenses*

The statement of operations includes the performance indicator, excess of revenues over expenses. Changes in unrestricted net assets, which are excluded from excess of revenues over expenses,

WESTERN MARYLAND HEALTH SYSTEM CORPORATION

Notes to Consolidated Financial Statements

June 30, 2010 and 2009

(Dollars in thousands)

include unrealized gains and losses on other than trading securities, permanent transfers of assets to and from affiliates for other than goods and services, and contributions of long-lived assets (including assets acquired using contributions which by donor restriction were to be used for the purposes of acquiring such assets).

(m) *Charity Care*

The Health System, as an integral part of its mission, accepts and treats all patients without regard to their ability to pay. A patient is classified as a charity patient in accordance with established criteria. Charity care is the recognition of services rendered for which no payment is expected.

(n) *Donations*

Unconditional donations are included in income when pledged or received. Donations restricted as to use by the donor are reflected as additions to temporarily or permanently restricted net assets. Expenditures of temporarily restricted net assets are transferred to unrestricted net assets if for capital additions, or reported as other revenue if for operating purposes.

(o) *Income Taxes*

The Health System, the Western Maryland Regional Medical Center, Health System Memorial, Braddock, Frostburg, and Cumberland Properties, Inc. are not-for-profit corporations as described in Section 501(c)(3) of the Internal Revenue Code and are exempt from federal income taxes on related income pursuant to Section 501(a) of the Internal Revenue Code.

Johnson Heights is a general partnership and Haystack Imaging is a limited liability company and both are not directly subject to income taxes. The results of their operations are included in the tax returns of their partners. Haystack and MMCS are taxable for-profit entities and a provision for income taxes is recognized in accordance with ASC Topic 740, *Income Taxes*.

(p) *Use of Estimates*

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

(q) *Beneficial Interest in Foundation's Assets*

The Health System accounts for the activities of the Western Maryland Health System Foundation (the Foundation) in accordance with ASC Topic 958 *Not-for-Profit Entities*.

For fiscal years ending June 30, 2009 and prior, the Health System recognized a beneficial interest in the net assets of the Foundation as it was a financially interrelated organization. As of June 30, 2009 the Foundation's total assets and net assets were \$10,529 and \$10,442, respectively.

WESTERN MARYLAND HEALTH SYSTEM CORPORATION

Notes to Consolidated Financial Statements

June 30, 2010 and 2009

(Dollars in thousands)

During fiscal year 2010, control of the Foundation was consolidated under the Health System and their assets, liabilities, net assets and results of operations are now consolidated within the Health System.

(r) *Beneficial Interest in Trustee Held Assets*

The Health System records a beneficial interest in several trusts (the assets of which are to be held in perpetuity) for which a portion of the income is to be distributed to the Health System. These changes in the fair value of the trusts are recorded as unrealized gains/losses in permanently restricted net assets.

(s) *Pension Plan*

The Health System has a noncontributory defined benefit pension plan covering substantially all of its employees upon their retirement. The benefits are based on age, years of service and the level of compensation during the five years before retirement.

The Health System records annual amounts relating to its pension plan based on calculations that incorporate various actuarial and other assumptions including, discount rates, mortality, assumed rates of return, compensation increases, turnover rates and healthcare cost trend rates. The Health System reviews its assumptions on an annual basis and makes modifications to the assumptions based on current rates and trends when it is appropriate to do so. The Health System believes that the assumptions utilized in recording its obligations under its plans are reasonable based on its experience and market conditions.

(t) *New Accounting Pronouncements*

In 2006, the Financial Accounting Standards Board (FASB) issued Accounting Standards Codification (ASC) Topic 820, *Fair Value Measurements and Disclosures*, which establishes a framework for measuring fair value in U.S. generally accepted accounting principles (GAAP) and expands disclosures about fair value measurements. Topic 820 applies to the accounting for assets and liabilities required or permitted to be measured at fair value. Topic 820 prioritizes the inputs used to measure fair value as follows: quoted prices in active markets for identical assets or liabilities (Level 1), significant other observable inputs (Level 2) and significant unobservable inputs (Level 3). The fair value measurement is assigned an overall input level based on the lowest level input that is significant to the fair value measurement in its entirety.

The Health System adopted Topic 820, effective July 1, 2008. It did not have a material effect on the consolidated financial statements of the Health System in 2009 or 2010. The effect on future consolidated financial statements will depend upon the future circumstances in which fair value measurement will be required. The expanded disclosures required by Topic 820 are included in note 14.

In August 2010, the FASB issued ASU No. 2010 23, *Health Care Entities (Topic 954): Measuring Charity Care for Disclosure*. ASU 2010 2 is intended to reduce the diversity in practice regarding the measurement basis used in the disclosure of charity care. ASU 2010 23 requires that cost be used at

WESTERN MARYLAND HEALTH SYSTEM CORPORATION

Notes to Consolidated Financial Statements

June 30, 2010 and 2009

(Dollars in thousands)

the measurement basis for charity care disclosure purposes and that cost be identified as the direct and indirect cost of providing the charity care, and requires disclosure of the method used to identify or determine such costs. This ASU is effective for the Company on July 1, 2011. The Company is currently evaluating the impact on its disclosures from the adoption of this pronouncement.

In August 2010, the FASB issued ASU No. 2010 24, *Health Care Entities (Topic 954): Presentation of Insurance Claims and Related Insurance Recoveries*. The amendments in the ASU clarify that a health care entity may not net insurance recoveries against related claim liabilities. In addition, the amount of the claim liability must be determined without consideration of insurance recoveries. This ASU is effective on July 1, 2011. The Company is currently evaluating the impact on its financial position and results of operations from the adoption of this pronouncement.

(u) *Subsequent Events*

In May 2009, the FASB issued FASB ASC Topic 855, *Subsequent Events*. ASC Topic 855 defines the period after the balance sheet date during which management shall evaluate events or transactions that may occur for potential recognition or disclosure, the circumstances under which an organization shall recognize events occurring after the balance sheet date and the disclosures that an organization shall make about those events or transactions. The Health System adopted ASC Topic 855 on June 30, 2010. Management evaluated all events and transactions that occurred after June 30, 2010 and through September 30, 2010. The Health System did not have any material recognizable subsequent events during this period.

(3) **Accounts Receivable and Business Concentrations**

The following table sets forth the detail of net accounts receivable as of June 30:

	<u>2010</u>	<u>2009</u>
Gross accounts receivable	\$ 47,717	46,679
Less:		
Allowance for uncollectible accounts	7,487	7,393
Allowance for contractual and charity adjustments	3,638	5,022
Net accounts receivable	<u>\$ 36,592</u>	<u>34,264</u>

WESTERN MARYLAND HEALTH SYSTEM CORPORATION

Notes to Consolidated Financial Statements

June 30, 2010 and 2009

(Dollars in thousands)

During fiscal years 2010 and 2009 net patient service revenue was received from the following payors:

	<u>2010</u>	<u>2009</u>
Medicare	55%	53%
Medicaid	13	13
Blue Cross	13	13
Self-pay	3	3
Other	16	18
	<u>100%</u>	<u>100%</u>

Gross accounts receivable at June 30, 2010 and 2009 consisted of the following payors:

	<u>2010</u>	<u>2009</u>
Medicare	43%	48%
Medicaid	13	12
Blue Cross	9	10
Self-pay	18	15
Other	17	15
	<u>100%</u>	<u>100%</u>

(4) Investments

Investments, which include Funds on deposit with trustees, Board designated investments and Investments restricted by donor or grantor, consist of the following as of June 30:

	<u>2010</u>	<u>2009</u>
U.S. government obligations	\$ 969	3,465
Corporate bonds/notes	11,696	7,461
Money market funds	3,472	2,284
Corporate stocks and other	7,433	6,920
Fixed income securities	37,315	123,343
	<u>\$ 60,885</u>	<u>143,473</u>

WESTERN MARYLAND HEALTH SYSTEM CORPORATION

Notes to Consolidated Financial Statements

June 30, 2010 and 2009

(Dollars in thousands)

Investments have been classified in the accompanying consolidated balance sheets as follows as of June 30:

	2010	2009
Short-term investments	\$ 19,413	16,345
Board designated investments	1,012	789
Investments restricted by donor or grantor	2,424	2,279
Other long-term investments	721	717
Funds on deposit with trustee	37,315	123,343
	\$ 60,885	143,473

Investment income and gains for assets limited as to use, cash equivalents, and other investments are comprised of the following for the years ended June 30:

	2010	2009
Income:		
Investment income	\$ 1,143	1,556
Realized gains (losses) on trading investment portfolio	1,174	(272)
Unrealized gains (losses) on trading investment portfolio	527	203
	\$ 2,844	1,487

(5) Property and Equipment

Property and equipment and estimated useful lives (in years) are summarized as follows as of June 30:

	2010	2009
Land and land improvements (2 – 25 years)	\$ 16,169	10,017
Buildings and improvements (5 – 40 years)	401,660	127,671
Equipment (3 – 20 years)	155,780	114,193
Construction in progress	2,686	295,150
	576,295	547,031
Less accumulated depreciation	181,563	208,681
Property and equipment, net	\$ 394,732	338,350

In connection with the new medical center (see note 1), the Health System adjusted the remaining estimated useful lives of its two acute care hospitals and related improvements to coincide with their closing and the opening of the new hospital replacement facility.

WESTERN MARYLAND HEALTH SYSTEM CORPORATION

Notes to Consolidated Financial Statements

June 30, 2010 and 2009

(Dollars in thousands)

The Health System entered into a construction contract for the new medical center with guaranteed maximum price of \$225,996. As of June 30, 2010, costs completed totaled \$225,941.

Depreciation expense for the years ended June 30, 2010 and 2009 was \$17,517 and \$17,705, respectively.

A summary of interest cost and investment income on borrowed funds held by the trustee under the 2006 revenue bond indentures for the years ended June 30 is as follows:

	2010	2009
Interest cost:		
Capitalized	\$ 6,313	16,289
Charged to operations	9,824	603
Total	\$ 16,137	16,892
Interest income capitalized	\$ 1,253	6,879

(6) Investments in Affiliates

Investments in affiliates and equity in income (loss) of affiliates are as follows as of and for the years ended June 30:

Name	Interest	Business	Investment		Equity in income (loss)	
			2010	2009	2010	2009
Maryland Physicians Care, Inc.	25.00%	State of Maryland Medicaid managed care	\$ 13,188	9,608	3,580	936
Other affiliates	0.21 to 33.33	Supply purchasing and medical equipment	484	487	(4)	(27)
			\$ 13,672	10,095	3,576	909

WESTERN MARYLAND HEALTH SYSTEM CORPORATION

Notes to Consolidated Financial Statements

June 30, 2010 and 2009

(Dollars in thousands)

(7) Long-Term Debt

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

	2010	2009
Maryland Health and Higher Educational Facilities Authority (MHHEFA) Series 2006A and B Revenue (FHA Insured) Bonds, interest rate 5.50% through November 30, 2009, 4.0 to 5.3% thereafter	\$ 339,470	350,830
Capital leases	1,743	—
Net unamortized bond premium	11,567	11,988
Long-term debt	352,780	362,818
Less current portion of long-term debt	7,361	4,830
Long-term debt less current portion	\$ 345,419	357,988

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

2011	\$ 7,361
2012	7,514
2013	7,863
2014	8,229
2015	8,300

Cash paid for interest during the years ended June 30, 2010 and 2009 was approximately \$16,487 and \$16,904, respectively.

In February 2004, Haystack Imaging received proceeds of \$2,071 on a promissory note from Bank of America. These funds were used to purchase equipment, and were repaid in 2009.

In November 2006, proceeds from issuance of \$348,650 and \$2,180 Maryland Health and Higher Education Facilities Authority Series 2006, Series A, and Series B bonds were obtained for the purpose of (1) financing the costs of acquisition, construction and equipping a New Medical Center, (the Property) (see note 1), and (2) to refund prior debt issuances. The Health System redeemed \$11,360 of the Series 2006A bonds in conjunctions with their final endorsement in 2010.

Principal payments on the Series 2006A revenue bonds commence on July 1, 2010, and are due semi-annually through January 1, 2035. Interest payments are due semi-annually commencing July 1, 2007. The total outstanding balance on the Series 2006B revenue bonds is due July 1, 2010. Interest payments are due semi-annually commencing July 1, 2007. Interest on the 2006 Series A and B revenue bonds accrue at a rate of 5.50% per annum through November 30, 2009, and 4.0% to 5.3% thereafter.

The Federal Housing Authority (FHA) has issued a commitment for mortgage insurance with respect to the project. The financing document contains quantitative and qualitative covenants (measured quarterly). The

WESTERN MARYLAND HEALTH SYSTEM CORPORATION

Notes to Consolidated Financial Statements

June 30, 2010 and 2009

(Dollars in thousands)

quantitative covenants include a debt service coverage ratio, a day's cash on hand requirement, current ratio requirement, a net days in accounts receivable requirement, and restrictions on operating losses and revenue over expenses.

In 2010, the Health System entered into a line of credit agreement with a bank that permits the Health System to borrow up to \$1,000, the interest rate as of June 30, 2010 was 4.50%. The line of credit primarily supports a letter of credit agreement in the amount of \$300. There was no outstanding balance as of June 30, 2010.

(8) Charity Care

The amount of charges foregone for services and supplies furnished under the Health System's Charity Care policy aggregated approximately \$5,796 and \$7,141 for the years ended June 30, 2010 and 2009, respectively.

(9) Retirement Plans

The WMHS Retirement Plan (the Plan) is a noncontributory defined benefit plan, which covers substantially all full-time employees who meet certain age and service requirements. The Plan's funding policy is to contribute, annually, the pension costs as determined by the Plan's actuary, subject to adjustment for full funding limitations as defined by the Internal Revenue Code.

The Health System's investment policy, established by the Investment Committee of the Finance Committee and approved by the Health System's Board of Directors, is to ensure current and future benefit obligations are adequately funded in a cost effective manner. The investment guidelines are based on a time horizon of greater than five years. In establishing the risk tolerances, the ability to withstand short and intermediate term variability with some interim fluctuations in market value and rates of return may be tolerated in order to achieve the longer-term objectives.

The measurement date of the Plan is June 30.

WESTERN MARYLAND HEALTH SYSTEM CORPORATION

Notes to Consolidated Financial Statements

June 30, 2010 and 2009

(Dollars in thousands)

The component of the Plan's funded status, net periodic benefit costs and actuarial assumptions used in accounting for defined benefit plans for the years ended June 30, 2010 and 2009 are as follows:

	2010	2009
Change in projected benefit obligation:		
Projected benefit obligation at beginning of year	\$ 131,021	115,892
Service cost	4,758	4,214
Interest cost	8,459	7,811
Amendments	3,258	—
Assumptions	11,883	7,451
Actuarial loss	6,429	—
Benefits paid	(4,686)	(4,347)
Projected benefit obligation at end of year	161,122	131,021
Change in plan assets:		
Plan assets at fair value at beginning of year	113,101	122,036
Actual return	12,832	(12,088)
Employer contributions	6,000	7,500
Benefits paid	(4,686)	(4,347)
Fair value of plan assets at end of year	127,247	113,101
Funded status at end of year	\$ (33,875)	(17,920)
	2010	2009
Components of net periodic benefit costs:		
Service cost	\$ 4,758	4,214
Interest cost	8,459	7,811
Expected return on plan assets	(7,781)	(8,400)
Recognized prior service cost	(593)	(593)
Recognized net loss	3,576	1,260
Effect of Plan Amendment	3,258	—
Net periodic pension cost	\$ 11,677	4,292

WESTERN MARYLAND HEALTH SYSTEM CORPORATION

Notes to Consolidated Financial Statements

June 30, 2010 and 2009

(Dollars in thousands)

	2010	2009
Weighted average assumptions – benefit obligations:		
Discount rate	5.48%	6.25%
Salary scale	2.00	2.00
Return on assets	7.00	7.00
Weighted average assumptions – net periodic expense:		
Discount rate	6.25%	6.86%
Salary scale	2.00	2.00
Return on assets	7.00	7.00

The Health System’s pension plan weighted average asset allocations at the measurement dates of June 30, 2010 and 2009, by asset category are as follows:

	Percentage of Plan assets		
	Target allocation	2010	2009
Asset class:			
Equities	40%	33%	46%
Fixed	60	67	54

The Health System expects to contribute \$6.5 million to the Plan for the fiscal year ending June 30, 2011.

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

2011	\$	6,759
2012		6,065
2013		6,621
2014		6,912
2015		7,692
2016 – 2020		50,743

The expected benefits to be paid are based on the same assumptions used to measure the Health System’s benefit obligation as of June 30, 2010.

The Health System also sponsors a defined contribution retirement plan in accordance with Section 403(b) of the Internal Revenue Code. The Health System’s expense related to this plan for the years ending June 30, 2010 and 2009 was \$1,501 and \$1,329, respectively, and is included in employee benefits in the accompanying consolidated statements of operations.

WESTERN MARYLAND HEALTH SYSTEM CORPORATION

Notes to Consolidated Financial Statements

June 30, 2010 and 2009

(Dollars in thousands)

(10) Self-Insurance Programs

(a) *General and Professional Liability (GLPL)*

On December 14, 2004, the Health System formed a new wholly owned insurance subsidiary, Western Maryland Insurance Company, Ltd. (WMIC), an exempted company under the Companies Law of the Cayman Islands, to provide GLPL insurance to the Health System and certain affiliates. Effective January 1, 2005, this subsidiary insures the Health System for its GLPL risks under a claims-made policy with a limit of \$1,000 per claim and \$8,000 in the aggregate. Claims in excess of \$1,000 per claim and \$8,000 in the aggregate, up to a limit of \$20,000, have been reinsured with Zurich American Insurance Company, an independent third-party insurance company. The Health System's retained self-insurance risk under these policies is \$1,000 per occurrence.

Management's estimate of the liability for GLPL claims, including incurred but not reported claims, is principally based on actuarial estimates performed by an independent third-party actuary. The Company's estimated liability for GLPL claims, including incurred but not reported claims, totaled \$6,562 and \$6,831 as of June 30, 2010 and 2009, respectively. These amounts are included in other noncurrent liabilities in the accompanying financial statements. While management believes that this liability is adequate as of June 30, 2010, the ultimate liability may exceed the amount recorded.

(b) *Workers' Compensation Insurance*

In 2010 and 2009, the Health System participated in a self-insured plan for workers' compensation claims. Stop-loss coverage has been purchased through a commercial carrier for claims in excess of \$400.

The Health System has accrued a liability of \$1,900 and \$1,804 as of June 30, 2010 and 2009, respectively, for known and incurred but not reported claims. Management believes this accrual is adequate to provide for all workers' compensation claims that have been incurred through June 30, 2010.

(c) *Health Insurance*

The Health System is self-insured for employee health claims. Under these self-insurance plans, the Health System has accrued a liability of \$1,665 and \$1,667 as of June 30, 2010 and 2009, respectively, for known claims and incurred but not reported claims. Management believes this accrual is adequate to provide for all employee health claims that may have been incurred through June 30, 2010.

WESTERN MARYLAND HEALTH SYSTEM CORPORATION

Notes to Consolidated Financial Statements

June 30, 2010 and 2009

(Dollars in thousands)

(11) Lease Commitments

Future minimum payments under noncancelable operating leases, excluding lease payments for space in the MOB as disclosed in note 15, with terms in excess of one year or more for the years ending June 30 are as follows:

2011	\$	2,135
2012		1,703
2013		1,404
2014		827
2015		387
Thereafter		<u>133</u>
Total	\$	<u><u>6,589</u></u>

Rental expense under operating leases amounted to \$2,157 and \$2,968 for the years ended June 30, 2010 and 2009, respectively.

Effective May 14, 1982, Memorial entered into a lease for the Memorial property from the City of Cumberland (the City) for a period of 40 years for a nominal annual rent. On February 15, 2000, Memorial and the City signed an amendment and extension agreement that makes the Health System a new party to the lease and the term of the lease was changed to 50 years from the date of the amended agreement with two automatic renewal terms of 10 years each. This lease is classified as a capital lease for financial reporting purposes and the related capital lease obligation and asset (which are nominal amounts) are recorded in the Health System's consolidated financial statements (the net book value of the Memorial property consists of land improvements, building improvements and fixed equipment recorded at cost and depreciated over the lesser of useful life or the term of the lease). The lease terminated effective January 12, 2010 and the Health System returned the Memorial property to the City "as is."

(12) Related Party Transactions

For the year ended 2009, the Health System received \$1,596 in contributions from the Foundation. For the year ended June 30, 2010 the Foundation was a wholly owned entity (note 1).

WESTERN MARYLAND HEALTH SYSTEM CORPORATION

Notes to Consolidated Financial Statements

June 30, 2010 and 2009

(Dollars in thousands)

(13) Temporarily and Permanently Restricted Net Assets

Temporarily and permanently restricted net assets as of June 30, 2010 and 2009 are available for the following purposes:

	2010	2009
Temporary restrictions:		
Beneficial interest in Foundation's assets	\$ —	10,442
Specific support of healthcare services	5,702	2,032
	\$ 5,702	12,474
Permanent restrictions:		
Trustee held assets to be held in perpetuity, the income from which primarily is expendable to support health care services	\$ 1,737	1,546

(14) Fair Value of Financial Instruments

(a) Fair Value of Financial Instruments

The following methods and assumptions were used by the Health System in estimating the fair value of their financial instruments:

Cash and cash equivalents, investments, funds on deposit with trustee, board designated investments, patient accounts receivable, other assets, accounts payable, and accrued liabilities, payable to third-party payors, and other long term liabilities: The carrying amounts reported in the consolidated balance sheets approximate the related fair values.

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

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

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

WESTERN MARYLAND HEALTH SYSTEM CORPORATION

Notes to Consolidated Financial Statements

June 30, 2010 and 2009

(Dollars in thousands)

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

(b) Long-Term Debt

The Series 2006 Bonds bear interest at fixed rates and, accordingly, had a carrying amount and fair value of \$339,470 and \$341,450, respectively.

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

(c) Fair Value Hierarchy

The Health System adopted Topic 820 on July 1, 2008 for fair value measurements of financial assets and financial liabilities and for fair value measurements of nonfinancial items that are recognized or disclosed at fair value in the consolidated financial statements on a recurring basis. Topic 820 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Health System has the ability to access at the measurement date.
- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 inputs are unobservable inputs for the asset or liability.

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

WESTERN MARYLAND HEALTH SYSTEM CORPORATION

Notes to Consolidated Financial Statements

June 30, 2010 and 2009

(Dollars in thousands)

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

		2010			
		Level 1	Level 2	Level 3	Total
Assets:					
U.S. government obligations	\$	969	—	—	969
Corporate bonds/notes		11,696	—	—	11,696
Money market funds		3,472	—	—	3,472
Corporate stocks and other		7,433	—	—	7,433
Fixed income securities		37,315	—	—	37,315
Total assets	\$	60,885	—	—	60,885
		2009			
		Level 1	Level 2	Level 3	Total
Assets:					
U.S. government obligations	\$	3,465	—	—	3,465
Corporate bonds/notes		7,461	—	—	7,461
Money market funds		2,284	—	—	2,284
Corporate stocks and other		6,920	—	—	6,920
Fixed income securities		123,343	—	—	123,343
Total assets	\$	143,473	—	—	143,473

(15) Medical Office Building

As discussed in note 2(g), the Health System is required to be treated as the “owner” of the MOB, in accordance with EITF No. 97-10. As of June 30, 2010, the total cost of the asset is \$21.4 million, and is included in buildings with the offsetting obligation in other long-term liabilities. The asset and financing obligation are reflected on the Health System’s consolidated balance sheets until completion of the lease term, when they will be removed from the Health System’s consolidated financial statements. At such time, the net of the remaining obligation and carrying value of the asset will be recognized as a gain on disposal.

WESTERN MARYLAND HEALTH SYSTEM CORPORATION

Notes to Consolidated Financial Statements

June 30, 2010 and 2009

(Dollars in thousands)

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

2011	\$	773
2012		773
2013		773
2014		773
2015		773
Thereafter		<u>3,090</u>
Total	\$	<u><u>6,955</u></u>

(16) Commitments and Contingencies

(a) *Litigation*

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

(b) *Other Matters*

The Health System has contracts with various physician groups to provide certain emergency and surgical services. Those contracts include certain income guarantee levels which eliminate as volumes related to services provided increase. The Health System paid \$1,480 and \$2,713 related to the guarantee provisions of the contracts in 2010 and 2009, respectively.

(17) Regulation and Reimbursement

The Health System provides health care services primarily through two general acute care hospitals. The Health System and other healthcare providers in Maryland are subject to certain inherent risks, including the following:

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

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

WESTERN MARYLAND HEALTH SYSTEM CORPORATION

Notes to Consolidated Financial Statements

June 30, 2010 and 2009

(Dollars in thousands)

The Medicare and state Medicaid reimbursement programs represent a substantial portion of the Health System's revenues and the Health System's operations are subject to a variety of other federal, state and local regulatory requirements. Failure to maintain required regulatory approvals and licenses and/or changes in such regulatory requirements could have a significant adverse effect on the Health System.

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

The current rate of reimbursement for services to patients under the Medicare and Medicaid programs is based on an agreement between the Center for Medicaid and Medicare Services (CMS) and the HSCRC. This agreement is based upon a waiver from Medicare prospective pay system reimbursement principles granted to the State of Maryland under Section 1814(b) of the Social Security Act and will continue as long as all third-party payors elect to be reimbursed in Maryland under this program and the rate of increase for costs per hospital inpatient admission in Maryland is below the national average.

The Health System's policy is to record revenue based on actual charges for services to patients in the year in which the services are performed and billed. However, revenue attributed to amounts billed in excess of the approved CPC target is deferred. To the extent that the actual average charge per case exceeds the target, the overcharge will reduce the approved target for future years. Under the CPC target methodology, the hospitals monitor their average CPC compared to HSCRC case mix adjusted targets on a monthly basis. The Health System did not defer any charges in 2010 or 2009 as they were at or below their CPC targets.

(18) Functional Expenses

The Health System considers healthcare services and general and administrative to be its primary functional categories for purposes of expense classification. The Health System's operating expenses by functional classification are as follows for the years ended June 30:

	<u>2010</u>	<u>2009</u>
Healthcare services	\$ 260,802	243,354
General and administrative	22,064	20,587
	<u>\$ 282,866</u>	<u>263,941</u>

SUPPLEMENTARY INFORMATION

WESTERN MARYLAND HEALTH SYSTEM CORPORATION

Consolidating Balance Sheet Information

June 30, 2010

(Dollars in thousands)

Assets	Western Maryland Health System Corporation	Frostburg Nursing & Rehabilitation Center	Haystack Consolidated Services, Inc.	Western Maryland Health System Foundation Inc.	Eliminations	Consolidated
Current assets:						
Cash and cash equivalents	\$ 38,447	5,290	1,367	3,691	—	48,795
Short-term investments	16,111	—	648	2,654	—	19,413
Funds on deposit with trustee	14,933	—	—	—	—	14,933
Accounts receivable, net	35,524	1,068	—	—	—	36,592
Pledge receivable, net	—	—	—	2,326	—	2,326
Other receivables, net	4,634	5	67	5	(1,784)	2,927
Inventories and other current assets	14,384	491	—	—	(1,536)	13,339
Total current assets	124,033	6,854	2,082	8,676	(3,320)	138,325
Funds on deposit with trustee	22,382	—	—	—	—	22,382
Unamortized financing fees	4,881	—	—	—	—	4,881
Board designated investments	1,012	—	—	—	—	1,012
Other long-term investments	73	—	—	648	—	721
Investments restricted by donor or grantor	1,093	—	—	1,331	—	2,424
Beneficial interest in trustee held and Foundation's assets	—	—	—	1,491	—	1,491
Property and equipment, net	394,440	292	—	—	—	394,732
Investments in affiliates	13,309	—	363	—	—	13,672
Other assets	1,249	—	—	—	—	1,249
Total assets	\$ 562,472	7,146	2,445	12,146	(3,320)	580,889

WESTERN MARYLAND HEALTH SYSTEM CORPORATION

Consolidating Balance Sheet Information

June 30, 2010

(Dollars in thousands)

Liabilities and Net Assets	Western Maryland Health System Corporation	Frostburg Nursing & Rehabilitation Center	Haystack Consolidated Services, Inc.	Western Maryland Health System Foundation Inc.	Eliminations	Consolidated
Current liabilities:						
Current portion of long-term debt	\$ 7,361	—	—	—	—	7,361
Accounts payable and accrued liabilities	10,197	103	1,062	1,785	(3,320)	9,827
Accrued bond interest payable	8,173	—	—	—	—	8,173
Accrued salaries and benefits	11,513	188	—	—	—	11,701
Payable to third-party payors	6,953	—	—	—	—	6,953
Total current liabilities	44,197	291	1,062	1,785	(3,320)	44,015
Long-term debt, net of current portion	345,419	—	—	—	—	345,419
Pension benefits in excess of pension assets	33,875	—	—	—	—	33,875
Other liabilities	23,576	—	—	—	—	23,576
Total liabilities	447,067	291	1,062	1,785	(3,320)	446,885
Minority interest in consolidated subsidiaries	1,916	—	—	—	—	1,916
Net assets:						
Unrestricted	111,197	6,855	1,383	5,214	—	124,649
Temporarily restricted	2,046	—	—	3,656	—	5,702
Permanently restricted	246	—	—	1,491	—	1,737
Total net assets	113,489	6,855	1,383	10,361	—	132,088
Total liabilities and net assets	\$ 562,472	7,146	2,445	12,146	(3,320)	580,889

See accompanying independent auditors' report.

WESTERN MARYLAND HEALTH SYSTEM CORPORATION

Consolidating Statement of Operations Information

Year ended June 30, 2010

(Dollars in thousands)

	The Memorial Hospital and Medical Center of Cumberland, Inc. (through November 21, 2009)	Western Maryland Health System Corporation (see note 1)	Frostburg Nursing & Rehabilitation Center	Haystack Consolidated Services, Inc.	Western Maryland Health System Foundation Inc.	Eliminations	Consolidated
Unrestricted revenues, gains and other support:							
Net patient service revenue	\$ 44,094	221,352	6,996	—	—	—	272,442
Other revenue	709	3,707	35	25	—	—	4,476
Net assets released from restrictions and used for operations	3	231	—	—	—	—	234
Total revenues, gains and other support	<u>44,806</u>	<u>225,290</u>	<u>7,031</u>	<u>25</u>	<u>—</u>	<u>—</u>	<u>277,152</u>
Expenses:							
Salaries and wages	17,860	79,752	3,131	—	—	—	100,743
Employee benefits	5,329	30,197	1,354	—	—	—	36,880
Professional fees	2,268	7,665	47	—	—	—	9,980
Purchased services	4,173	14,197	262	—	289	—	18,921
Supplies	7,794	51,765	932	—	—	—	60,491
Utilities	791	4,573	199	—	—	—	5,563
Insurance	823	4,173	6	—	—	—	5,002
Bad debts	927	5,155	598	—	—	—	6,680
Interest	253	10,316	—	—	—	(233)	10,336
Depreciation and amortization	962	16,862	58	1	—	—	17,883
Minority interest in consolidated subsidiaries	—	3,449	—	—	—	—	3,449
Other	868	5,764	248	24	34	—	6,938
Total expenses	<u>42,048</u>	<u>233,868</u>	<u>6,835</u>	<u>25</u>	<u>323</u>	<u>(233)</u>	<u>282,866</u>
Operating income	<u>2,758</u>	<u>(8,578)</u>	<u>196</u>	<u>—</u>	<u>(323)</u>	<u>233</u>	<u>(5,714)</u>

WESTERN MARYLAND HEALTH SYSTEM CORPORATION

Consolidating Statement of Operations Information

Year ended June 30, 2010

(Dollars in thousands)

	The Memorial Hospital and Medical Center of Cumberland, Inc.	Western Maryland Health System Corporation	Frostburg Nursing & Rehabilitation Center	Haystack Consolidated Services, Inc.	Western Maryland Health System Foundation Inc.	Eliminations	Consolidated
Nonoperating income:							
Equity in income of affiliates	\$ 627	2,941	—	8	—	—	3,576
Investment income	957	1,389	10	35	159	(233)	2,317
Unrealized gains on trading portfolio	1,344	(753)	—	6	(70)	—	527
Other	(4)	854	—	—	72	—	922
Total nonoperating income	2,924	4,431	10	49	161	(233)	7,342
Excess of revenue over expenses	5,682	(4,147)	206	49	(162)	—	1,628
Other changes in net assets:							
Net assets released from restrictions used for purchase of property and equipment	—	1,785	—	—	—	—	1,785
Transfer (to)/from affiliates	(77,044)	76,375	—	—	669	—	—
Change in funded status of pension plan Western Maryland Health System Foundation beginning net assets	—	(10,277)	—	—	—	—	(10,277)
	—	—	—	—	4,707	—	4,707
Increase (decrease) in unrestricted net assets	\$ (71,362)	63,736	206	49	5,214	—	(2,157)

See accompanying independent auditors' report.

WESTERN MARYLAND HEALTH SYSTEM CORPORATION

Consolidating Statement of Changes in Net Assets Information

Year ended June 30, 2010

(Dollars in thousands)

	The Memorial Hospital and Medical Center of Cumberland, Inc.	Western Maryland Health System Corporation	Frostburg Nursing & Rehabilitation Center	Haystack Consolidated Services, Inc.	Western Maryland Health System Foundation Inc.	Consolidated
Unrestricted net assets:						
Balance at June 30, 2009	\$ 71,362	47,461	6,649	1,334	4,707	131,513
Excess of revenues over expenses	5,682	(4,147)	206	49	(162)	1,628
Transfers (to)/from affiliates	(77,044)	76,375	—	—	669	—
Change in funded status of pension plan	—	(10,277)	—	—	—	(10,277)
Net assets released for purchase of property and equipment	—	1,785	—	—	—	1,785
Balance at June 30, 2010	—	111,197	6,855	1,383	5,214	124,649
Temporarily restricted net assets:						
Balance at June 30, 2009	6,386	6,088	—	—	5,735	18,209
Investment income	—	—	—	—	24	24
Donations	—	—	—	—	348	348
Grants	—	2,014	—	—	—	2,014
Net assets released from restrictions used for operations	—	(215)	—	—	(2,451)	(2,666)
Net assets released for purchase of property and equipment	—	(1,785)	—	—	—	(1,785)
Change in beneficial interest of Foundation's assets	—	(10,442)	—	—	—	(10,442)
Transfers (to)/from affiliates	(6,386)	6,386	—	—	—	—
Balance at June 30, 2010	—	2,046	—	—	3,656	5,702
Permanently restricted net assets:						
Balance at June 30, 2009	1,036	510	—	—	—	1,546
Change in beneficial interest of trustee-held assets	178	73	—	—	(60)	191
Transfers (to)/from affiliates	(1,214)	(337)	—	—	1,551	—
Balance at June 30, 2010	—	246	—	—	1,491	1,737
Net assets at June 30, 2010	\$ —	113,489	6,855	1,383	10,361	132,088

See accompanying independent auditors' report.