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Certified Public Accountants



**Audited Consolidated Financial
Statements**

**Calvert Memorial Hospital of
Calvert County and Subsidiaries**

June 30, 2012 and 2011

Calvert Memorial Hospital of Calvert County and Subsidiaries
Consolidated Financial Statements
Years Ended June 30, 2012 and 2011

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Report of Independent Auditors

Audit Committee of the Board of Directors of
Calvert Memorial Hospital of Calvert County

We have audited the accompanying consolidated statements of financial position of Calvert Memorial Hospital of Calvert County (the Hospital) as of June 30, 2012 and 2011, 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 Hospital'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 our audits to obtain reasonable assurance about whether the consolidated 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 Hospital'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 consolidated financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statements 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 financial position of Calvert Memorial Hospital of Calvert County, Inc. and subsidiaries as of June 30, 2012 and 2011, and the consolidated results of its operations, changes in net assets and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1 to the consolidated financial statements, during 2012 the Hospital changed its method of reporting and disclosing charity care provided, and as described Note 8 to the consolidated financial statements, during 2012 the Hospital changed its method of accounting for malpractice liabilities and related insurance recoveries.

Cohen, Rutherford + Knight, P.C.

October 19, 2012
Bethesda, Maryland

Calvert Memorial Hospital of Calvert County and Subsidiaries

Consolidated Statements of Financial Position

	June 30	
	2012	2011
<i>ASSETS</i>		
CURRENT ASSETS		
Cash and cash equivalents	\$ 12,289,341	\$ 13,753,698
Short-term investments -- Note 3	106,741	53,831
Patient accounts receivable, net of allowance for uncollectible accounts of \$3,991,363 in 2012 and \$4,680,320 in 2011 -- Note 10	13,477,902	12,771,631
Inventories	2,331,589	2,322,829
Prepaid expenses and other assets	3,399,785	2,616,987
Assets limited as of use, current -- Note 3	2,295,170	2,296,749
TOTAL CURRENT ASSETS	33,900,528	33,815,725
INVESTMENTS AND OTHER ASSETS		
Investments -- Note 3	2,194,818	4,802,753
Investments in affiliated enterprises -- Note 2	4,372,527	3,969,713
Assets limited as of use -- Notes 3 and 13	6,695,483	6,960,831
Property and equipment, net -- Note 5	62,290,188	66,349,712
Insurance recoverable -- Note 8	3,696,401	0
Other assets	588,435	671,943
TOTAL ASSETS	\$ 113,738,380	\$ 116,570,677
<i>LIABILITIES AND NET ASSETS</i>		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 16,190,368	\$ 15,629,538
Current portion of long-term debt -- Note 6	895,000	850,000
Advances from third party payers	4,712,571	4,054,939
TOTAL CURRENT LIABILITIES	21,797,939	20,534,477
Long-term debt, less current portion -- Note 6	51,279,352	52,132,421
Accrued pension cost -- Note 7	10,331,636	4,646,563
Professional liability -- Note 8	4,724,811	0
Other long-term liabilities	2,194,818	4,802,753
TOTAL LIABILITIES	90,328,556	82,116,214
NET ASSETS		
Unrestricted - general	19,158,748	30,253,773
Unrestricted - board designated	2,822,631	2,766,352
Unrestricted - noncontrolling interest in subsidiary	359,928	423,142
Temporarily restricted -- Note 4	410,299	361,041
Permanently restricted -- Note 4	658,218	650,155
TOTAL NET ASSETS	23,409,824	34,454,463
TOTAL LIABILITIES AND NET ASSETS	\$ 113,738,380	\$ 116,570,677

See the accompanying notes to the consolidated financial statements.

Calvert Memorial Hospital of Calvert County and Subsidiaries

Consolidated Statements of Operations and Other Changes in Unrestricted Net Assets

	Year Ended June 30	
	2012	2011
REVENUE		
Net patient service revenue -- Note 10	\$ 126,525,095	\$ 123,400,360
Rental revenue -- Note 12	160,771	320,593
Other operating revenue	7,494,817	5,262,895
TOTAL OPERATING REVENUE	134,180,683	128,983,848
 EXPENSES -- Note 11		
Salaries and wages	57,439,686	54,431,445
Employee benefits -- Note 7	11,892,140	11,877,710
Supplies	23,364,153	23,034,631
Purchased services	6,793,680	5,839,451
Professional fees	4,597,580	4,139,381
Depreciation and amortization -- Note 5	8,009,192	7,391,085
Interest -- Note 6	2,865,173	2,901,726
Provision for uncollectible accounts	1,223,320	3,853,759
Other -- Note 12	15,808,768	14,863,112
TOTAL OPERATING EXPENSES	131,993,692	128,332,300
INCOME FROM OPERATIONS	2,186,991	651,548
 NONOPERATING GAINS		
Investment income -- Note 3	144,485	185,975
Income from equity investments	442,030	420,271
NONOPERATING GAINS, NET	586,515	606,246
EXCESS OF REVENUE OVER EXPENSES	2,773,506	1,257,794
Transfer of net assets	(2,458,056)	0
Net assets released from restrictions for capital acquisitions	59,881	448,846
Equity contribution to parent	(4,000,000)	0
Distributions to noncontrolling interest in subsidiary	(142,100)	(78,400)
Pension-related changes other than net periodic pension cost -- Note 7	(6,291,848)	3,431,020
Cumulative effect of change in accounting principle -- Note 8	(1,028,410)	0
Net unrealized (losses) gains on marketable investments -- Note 3	(14,933)	250,698
(DECREASE) INCREASE IN UNRESTRICTED NET ASSETS	\$ (11,101,960)	\$ 5,309,958

See the accompanying notes to the consolidated financial statements.

Calvert Memorial Hospital of Calvert County and Subsidiaries Consolidated Statements of Changes in Net Assets

	<u>Unrestricted</u>	<u>Noncontrolling Interest</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
NET ASSETS, JUNE 30, 2010	\$ 27,761,785	\$ 371,524	\$ 700,993	\$ 565,254	\$ 29,399,556
Excess of revenue over expenses	1,127,776	130,018	0	0	1,257,794
Transfer of net assets	0	0	46,150	(46,150)	0
Contributions	0	0	606,812	50	606,862
Net assets released from restrictions for capital acquisitions	448,846	0	(448,846)	0	0
Net assets released from restrictions to fund operating programs	0	0	(544,068)	0	(544,068)
Distributions to noncontrolling interest in subsidiary	0	(78,400)	0	0	(78,400)
Investment income on restricted net assets -- Note 3	0	0	0	15,484	15,484
Pension-related changes other than net periodic pension cost -- Note 7	3,431,020	0	0	0	3,431,020
Net unrealized gains on marketable investments -- Note 3	250,698	0	0	115,517	366,215
Increase (decrease) in net assets	<u>5,258,340</u>	<u>51,618</u>	<u>(339,952)</u>	<u>84,901</u>	<u>5,054,907</u>
NET ASSETS, JUNE 30, 2011	33,020,125	423,142	361,041	650,155	34,454,463
Excess of revenue over expenses	2,694,620	78,886	0	0	2,773,506
Transfer of net assets	(2,458,056)	0	250	0	(2,457,806)
Contributions	0	0	640,892	0	640,892
Net assets released from restrictions for capital acquisitions	59,881	0	(59,881)	0	0
Net assets released from restrictions to fund operating programs	0	0	(532,003)	0	(532,003)
Equity contribution to parent	(4,000,000)	0	0	0	(4,000,000)
Distributions to noncontrolling interest in subsidiary	0	(142,100)	0	0	(142,100)
Investment income on restricted net assets -- Note 3	0	0	0	17,261	17,261
Pension-related changes other than net periodic pension cost -- Note 7	(6,291,848)	0	0	0	(6,291,848)
Cumulative effect of change in accounting principle -- Note 8	(1,028,410)	0	0	0	(1,028,410)
Net unrealized losses on marketable investments -- Note 3	(14,933)	0	0	(9,198)	(24,131)
Increase (decrease) in net assets	<u>(11,038,746)</u>	<u>(63,214)</u>	<u>49,258</u>	<u>8,063</u>	<u>(11,044,639)</u>
NET ASSETS, JUNE 30, 2012	<u>\$ 21,981,379</u>	<u>\$ 359,928</u>	<u>\$ 410,299</u>	<u>\$ 658,218</u>	<u>\$ 23,409,824</u>

See the accompanying notes to the consolidated financial statements.

Calvert Memorial Hospital of Calvert County and Subsidiaries Consolidated Statements of Cash Flows

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
(Decrease) increase in net assets	\$ (11,044,639)	\$ 5,054,907
Adjustments to reconcile (decrease) increase in net assets to net cash and cash equivalents provided by operating activities:		
Provision for uncollectible accounts	1,223,320	3,853,759
Depreciation and amortization	8,009,192	7,391,085
Cash donations restricted for capital acquisition	(162,218)	(380,091)
Equity in earnings of affiliated enterprises	(442,030)	(420,271)
Investment income on restricted assets	(17,261)	(15,484)
Unrealized net losses (gains) on investments	24,131	(366,215)
Pension-related changes other than net periodic pension cost	6,291,848	(3,431,020)
Increase in patient accounts receivable	(1,877,860)	(1,990,424)
(Increase) decrease in inventories	(8,760)	64,464
Increase in prepaid expenses and other assets	(779,927)	(1,471,703)
(Decrease) increase in accounts payable, accrued expenses and other liabilities	(925,906)	5,491,545
NET CASH AND CASH EQUIVALENTS PROVIDED BY OPERATING ACTIVITIES	289,890	13,780,552
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investments	(331,835)	(1,852,581)
Sales of investments	2,934,724	0
Net decrease (increase) in assets limited as to use	191,065	(89,699)
Purchases of property and equipment	(3,916,896)	(8,281,313)
NET CASH AND CASH EQUIVALENTS USED IN INVESTING ACTIVITIES	(1,122,942)	(10,223,593)
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment of long-term debt	(850,000)	(815,000)
Total cash received restricted for capital acquisitions	162,218	380,091
Net distributions from investees	39,216	70,157
Investment income on restricted assets	17,261	15,484
NET CASH AND CASH EQUIVALENTS USED IN FINANCING ACTIVITIES	(631,305)	(349,268)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(1,464,357)	3,207,691
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	13,753,698	10,546,007
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 12,289,341	\$ 13,753,698

See the accompanying notes to the consolidated financial statements.

Calvert Memorial Hospital of Calvert County and Subsidiaries

Notes to the Consolidated Financial Statements

Note 1 - Organization and Summary of Significant Accounting Policies

Organization

Calvert Memorial Hospital of Calvert County (the Hospital), located in Prince Frederick, Maryland is a not-for-profit acute care hospital. The Hospital provides inpatient, outpatient and emergency care services for the residents of Calvert County and the surrounding area. The Hospital was incorporated in Maryland in 1917. Calvert Health System, Inc. (the System), a Maryland corporation formed on January 1, 2000, is the sole member of the Hospital.

The Hospital has four wholly owned or controlled subsidiaries: Calvert Memorial Hospital Foundation, Inc. (the Foundation); Calvert Health Ventures, Inc. (CHV); Calvert Physician Associates, LLC (CPA); and Calvert Community Health, Inc. (CCH). The Foundation is a non-profit corporation which holds and manages certain investment assets for the benefit of the Hospital. CHV is a for-profit corporation which owns and manages investments in certain health care related entities, including Calvert Medical Management, LLC (CMM), an imaging center, a physical therapy and sports rehabilitation center, and a medical office building in Dunkirk, Maryland. Effective November 2011, the medical office building was transferred from CHV to CMH II Holding Company, a subsidiary of the System. CPA is a limited liability company which employs physicians who provide health care services for the residents of Calvert County and the surrounding area. CMM is a medical service organization that supports CPA's operations and the Hospital's ambulatory electronic health record project. CCH is the Hospital's for-profit organization to establish managed care contracts. CCH is currently inactive.

CHV holds a 51% indirect interest in Calvert Physical Therapy and Sports Fitness Center (CPTSFC), a joint venture between CHV, Kubb Physical Therapy Partnership (Kubb) and NRH Ambulatory Services, Inc. (NRH). The Hospital's consolidated financial statements include CPTSFC as a consolidated subsidiary and reflect Kubb's and NRH's non-controlling interests in CPTSFC's net assets and net income.

Principles of Consolidation

At June 30, 2012 and 2011, the Hospital's consolidated financial statements include the accounts of the Hospital, CPTSFC, and its wholly owned or controlled subsidiaries, the Foundation, CHV and CPA. All material intercompany transactions are eliminated.

Basis of Presentation

The Hospital classifies net assets, revenues, expenses, gains and losses, based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Hospital and changes therein are classified and reported as follows:

Unrestricted net assets — Net assets that are not subject to donor-imposed stipulations.

Calvert Memorial Hospital of Calvert County and Subsidiaries

Notes to the Consolidated Financial Statements – Continued

Note 1 - Organization and Summary of Significant Accounting Policies - Continued

Basis of Presentation - Continued

Temporarily restricted net assets —Net assets subject to donor-imposed stipulations that may or will be met either by actions of the Hospital and/or the passage of time.

Permanently restricted net assets —Net assets subject to donor-imposed stipulations that will be maintained permanently by the Hospital. Generally, the donors of these assets permit the Hospital to use all or part of the income earned on related investments for general or specific purposes.

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law. Contributions with no donor-imposed restrictions are recognized as revenues in the period received as increases in unrestricted net assets. Contributions with donor-imposed restrictions are reported as increases in temporarily or permanently restricted net assets unless such contributions are expended in the same fiscal year, in which case they are recorded as unrestricted contributions. Expirations of temporary restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as net assets released from restriction and reclassified between the applicable classes of net assets. In accordance with applicable accounting standards, assets that have been released to support the Hospital's operating programs are reported as a component of other operating revenue in the accompanying consolidated statements of operations; whereas assets that are released for the acquisition of property and equipment are reported as a direct increase to unrestricted net assets in the accompanying statements of changes in net assets.

Income and realized net gains/losses on investments of specific purpose funds are reported as follows:

- Increases in permanently restricted net assets if the terms of the gift or the Hospital's interpretation of relevant state law require that they be added to the principal of a permanent endowment fund;
- Increases in temporarily restricted net assets if the terms of the gift impose restrictions on the use of the income;
- Increases in unrestricted net assets in all other cases.

Calvert Memorial Hospital of Calvert County and Subsidiaries

Notes to the Consolidated Financial Statements – Continued

Note 1 - Organization and Summary of Significant Accounting Policies - Continued

Use of Estimates

The preparation of consolidated 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 reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the period. Actual results could differ from those estimates.

During 2012 the Hospital adopted Accounting Standards Update 2010-23, *Measuring Charity Care for Disclosure*, which required health care entities to use cost as the measurement basis for charity care and that cost be identified as the direct and indirect costs of providing the charity care.

Cash and Cash Equivalents

Cash and cash equivalents consist primarily of highly liquid, unrestricted, short-term investments in U.S. Treasury bills, commercial paper, and other interest bearing deposits with maturities of less than one year from date of purchase. Primarily all of the Hospital's cash and cash equivalents are maintained in one commercial bank, of which an aggregate maximum of \$250,000 is insured by the Federal Deposit Insurance Corporation (FDIC). The Hospital's cash balance routinely exceeds the maximum amount insured by the FDIC.

Investments

Investments in fixed maturity and equity securities are recorded at fair value. Investment income, realized gains and losses and unrealized gains and losses on trading securities are reported in the consolidated statements of operations unless restricted by the donor, in which case they are reported as an addition to, or deduction from, the fund balance of the appropriate donor-restricted fund. In accordance with applicable accounting standards, unrealized gains and losses on securities classified as other than trading are reported as a direct charge to net assets in the accompanying consolidated statements of changes in net assets. The specific identification method is used to compute realized gains or losses on sales of investments. Other investments, when acquired by gift or bequest, are carried at fair value at the date received and adjusted in future periods to reflect the fair market value of the assets. Approximately \$2,302,000 and \$4,857,000 of the investments balance at June 30, 2012 and 2011, respectively, has been designated to fund an executive severance and deferred compensation plan that has been established to provide benefits to the System's executive management team.

The Hospital periodically evaluates whether any declines in the fair value of investments are other-than-temporary. This evaluation consists of a review of several factors, including but not limited to: length of time and extent that a security has been in an unrealized loss position; the existence of an event that would impair the issuer's future earnings potential; the near term prospects for recovery

Calvert Memorial Hospital of Calvert County and Subsidiaries

Notes to the Consolidated Financial Statements – Continued

Note 1 - Organization and Summary of Significant Accounting Policies - Continued

Investments - Continued

of the fair value of a security; and the intent and ability of the Hospital to hold the security until the fair value recovers. Declines in fair value below cost that are deemed to be other-than-temporary result in realized losses with the market value becoming the new cost basis for the security.

Investments in Affiliated Enterprises

Investments in affiliated, non-controlled enterprises are accounted for using the equity method of accounting.

Assets Limited as to Use

Assets limited as to use primarily include assets held by trustees under indenture agreements and designated assets set aside by the Board of Trustees for future capital improvements, over which the Board retains control and may, at its discretion, subsequently use for other purposes. These assets are stated at market value, which approximates fair value. This balance also reflects the discounted net present value of pledges receivable reported by the Foundation (*see Notes 3 and 13*).

Property and Equipment

Property and equipment acquisitions are recorded at cost, except for donated items which are recorded at fair value at the date of donation. Renovations, alterations, and improvements that increase the useful lives or the functionality of the related assets are capitalized and subsequently depreciated over the remaining useful life of each class of depreciable asset. Depreciation is provided on a straight-line basis over the estimated useful lives of the assets. Useful lives range from 20-40 years for buildings, 5-10 years for equipment and 10-20 years for leasehold improvements. Interest cost incurred on borrowed funds during the construction period of capital assets is capitalized as a component of the cost of acquiring those assets.

Other Assets

Other assets consist of deferred financing costs, long term prepaid rent, and long term other receivables. Gross deferred financing costs are amortized over the life of the related bonds and amounted to \$885,867 at June 30, 2012 and 2011. Accumulated amortization of such costs amounted to \$405,449 and \$372,676 at June 30, 2012 and 2011, respectively.

Third Party Advances

The Hospital receives advances from third party payers to provide working capital for services rendered to the beneficiaries of such services. These advances are subject to periodic adjustment, and are principally determined based on the timing difference between the provision of care and the anticipated payment date of the claim for service.

Calvert Memorial Hospital of Calvert County and Subsidiaries

Notes to the Consolidated Financial Statements – Continued

Note 1 - Organization and Summary of Significant Accounting Policies - Continued

Consolidated Statements of Operations

For purposes of display, transactions deemed by management to be on-going, major or central to the provision of health care services are reported as revenue and expenses. Peripheral or incidental transactions are reported as non-operating gains or losses.

Excess of Revenues over Expenses

The consolidated statements of operations and other changes in unrestricted net assets report excess of revenue over expenses. Changes in unrestricted net assets which are excluded from this performance indicator, consistent with industry practice, include unrealized gains and losses on investments other than trading securities, permanent transfers of assets to and from affiliates for other than goods and services, contributions of (and assets released from donor restrictions related to) long-lived assets.

Net Patient Service Revenue and Patient Accounts Receivable

Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payers, and others for services rendered, after contractual adjustments. Patient accounts receivable include charges for amounts due from Medicare, Maryland Medical Assistance (Medicaid), Blue Cross, commercial insurers, and self-pay patients (*see Note 10*). Contractual adjustments represent the differences between amounts billed as patient service revenue and amounts allowed by third party payers, and are accrued on an estimated basis in the period in which the related services are rendered and adjusted in future periods as final settlements are determined. Contractual adjustments are included in the determination of net patient service revenue as reported in the accompanying consolidated statements of operations, whereas the provision for uncollectible self-pay amounts is reported as an operating expense. Rates charged are based primarily on rates established by the State of Maryland Health Services Cost Review Commission (HSCRC); accordingly, revenue reflects actual charges to patients based on rates in effect during the period in which the services are rendered (*see Notes 9 and 10*).

The Hospital grants credit without collateral to its patients, most of whom are local residents insured under third-party payer agreements (*see Note 10*). Accounts receivable are reported at their net realizable value from third-party payers, patients, residents and others for services rendered. Allowances are provided for third-party payers based on estimated reimbursement rates. Allowances are also provided for bad debts on an estimate of uncollectible accounts. Write-off of uncollectible accounts is determined on a case-by-case basis after a review of the circumstances surrounding individual patient accounts.

Calvert Memorial Hospital of Calvert County and Subsidiaries Notes to the Consolidated Financial Statements – Continued

Note 1 - Organization and Summary of Significant Accounting Policies - Continued

Charity Care

The Hospital provides care to patients regardless of their ability to pay. In identifying charity care, the Hospital assesses the patient's ability to pay, utilizing generally recognized poverty income levels for the community, and identifies certain cases where incurred charges are considered to be beyond the patient's ability to pay. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, such amounts are not reported as a component of net patient service revenue or patient accounts receivable (*see Note 10*). The Hospital maintains records to identify and monitor the level of charity care it provides. These records represent the amount of charges forgone under its charity care policy. The charity policy of the Hospital provides free care to patients up to 200% of the federal poverty level and provides free care on a sliding scale up to 300% of the federal poverty level.

Under current accounting standards, the Hospital is required to report the cost of providing charity care. The cost of charity care provided by the Hospital amounted to approximately \$7,100,000 in 2012 and \$4,318,000 in 2011. Rates charged by the Hospital for regulated services are determined based on an assessment of direct and indirect cost calculated pursuant to the methodology established by the HSCRC (*see Note 9*), and therefore the cost of charity services noted above for the Hospital are equivalent to its established rates for those services. For any charity services rendered by the System other than the regulated services of the Hospital, the cost of charity care is calculated by applying the estimated total cost-to-charge ratio for the non-Hospital services to the total amount of charges for services provided to patients benefitting from the charity care policies of the System's non-Hospital affiliates.

The Hospital receives monthly payments from the HSCRC or submits monthly payments with respect to an Uncompensated Care Fund ("UCC") established for rate-regulated hospitals in Maryland. The UCC is intended to provide Maryland hospitals with funds to support the provision of uncompensated care at those hospitals as determined by the HSCRC. The Hospital contributed \$1,072,145 for 2012 and \$1,203,422 for 2011 to the UCC as required by the HSCRC.

Other Operating Revenue

Other operating revenue of the Hospital includes cafeteria income, grant income, and revenue from instructional classes and other operating programs.

Calvert Memorial Hospital of Calvert County and Subsidiaries Notes to the Consolidated Financial Statements – Continued

Note 1 - Organization and Summary of Significant Accounting Policies - Continued

Tax-Exempt Status

The Hospital is exempt from federal income tax under section 501(c)(3) of the Internal Revenue Code as a public charity. The Hospital is entitled to rely on this determination as long as there are no substantial changes in its character, purposes, or methods of operation. Management has concluded that there have been no such changes and therefore the Hospital's status as a public charity exempt from federal income taxation remains in effect.

The state in which the Hospital operates also provides general exemption from state income taxation for organizations that are exempt from federal income taxation. However, the Hospital is subject to both federal and state income taxation at corporate tax rates on its unrelated business income. Exemption from other state taxes, such as real and personal property taxes, is separately determined.

The Hospital had no unrecognized tax benefits or such amounts were immaterial during the periods presented. For tax periods with respect to which no unrelated business income was recognized, no tax return was required. Tax periods for which no return is filed remain open for examination indefinitely. Although information returns were filed, no tax returns were filed during 2012 and 2011.

Management has also considered the impact of unrelated business activities and has concluded that the Hospital is not subject to unrelated business tax or any other taxes that could be imposed by the Internal Revenue Code or state taxing authorities. As such no provision is made for income taxes and no asset or liability has been recognized for deferred taxes.

Inventories

Inventories consist primarily of drugs and medical supplies and are carried at the lower of cost or market, as determined principally by the first-in, first-out method.

Subsequent Events

Subsequent events have been evaluated by management through October 19, 2012, which is the date the financial statements were available to be issued. In July 2012, the 1998 Revenue Bonds and the Commercial Loan were refinanced (*see Note 6*).

Calvert Memorial Hospital of Calvert County and Subsidiaries

Notes to the Consolidated Financial Statements – Continued

Note 1 - Organization and Summary of Significant Accounting Policies - Continued

Recent Changes in Accounting Standards

In May 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2011-04, *Fair Value Measurement: Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs*. Some of the amendments clarify the Board's intent about the application of existing fair value measurement requirements. Other amendments change a particular principle or requirement for measuring fair value or for disclosing information about fair value measurements. Some of the disclosures required by the amendments in this update are not required for nonpublic entities. Those disclosures include information about transfers between Level 1 and Level 2, Level 3 fair value measurement sensitivity and categorization by level for items not measured at fair value in the statement of financial position. For nonpublic entities, the amendments are effective for annual periods beginning after December 15, 2011.

In July 2011, the FASB issued ASU 2011-07, *Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts, and the Allowance for Doubtful Accounts for Certain Health Care Entities*. This standard requires certain health care entities to change the presentation of their statement of operations by reclassifying the provision for bad debts associated with patient service revenue from an operating expense to a deduction from patient service revenue (net of contractual allowances and discounts). Additionally, these entities are required to provide enhanced disclosure about their policies for recognizing revenue and assessing bad debts. This amendment is effective for fiscal years beginning after December 15, 2012.

Management is evaluating the impact, if any, that adoption of these updates may have on the consolidated financial statements of the Hospital.

Calvert Memorial Hospital of Calvert County and Subsidiaries

Notes to the Consolidated Financial Statements – Continued

Note 2 - Investments in Affiliated Enterprises

A summary of investments in affiliated enterprises at June 30, follows:

	2012		2011	
	Investment	Income	Investment	Income
Calvert Medical Imaging Center	\$ 1,079,293	\$ 65,347	\$ 1,013,946	\$ (20,585)
NRH/CPT Regional Rehab, LLC	57,230	45,737	50,709	31,867
Chesapeake-Potomac Healthcare Alliance, LLC	3,229,905	341,090	2,888,815	426,623
Chesapeake Physical Medicine, LLC	1,019	(3,779)	4,798	(13,439)
Freestate Healthcare Insurance Company, LTD	20,452	0	20,452	113
Maryland eCare, LLC	(15,372)	(6,365)	(9,007)	(4,308)
	<u>\$ 4,372,527</u>	<u>\$ 442,030</u>	<u>\$ 3,969,713</u>	<u>\$ 420,271</u>

An overview of these organizations is presented in this note. Because the Hospital's investment in Calvert Medical Imaging Center (CMIC) represents approximately 25% and 26% and the Hospital's investment in Chesapeake-Potomac Healthcare Alliance (the Alliance) represents approximately 74% and 73% of the reported investment balance in affiliates as of June 30, 2012 and 2011, respectively, summarized financial information for CMIC and the Alliance is also presented in this note.

Calvert Medical Imaging Center

Calvert Medical Imaging Center is a joint venture between CHV and American Radiology Services, Inc., which operates diagnostic imaging facilities. CHV has a 50% interest in CMIC.

Summarized unaudited financial information of CMIC as of and for the years ended June 30 is presented below:

	2012	2011
Total assets	<u>\$ 5,636,009</u>	<u>\$ 6,355,874</u>
Total liabilities	3,578,434	4,398,156
Partners' capital	<u>2,057,575</u>	<u>1,957,718</u>
Total liabilities and partners' capital	<u>\$ 5,636,009</u>	<u>\$ 6,355,874</u>
	<u>2012</u>	<u>2011</u>
Total revenue	\$ 5,624,826	\$ 5,627,447
Net income	150,970	12,676

Calvert Memorial Hospital of Calvert County and Subsidiaries Notes to the Consolidated Financial Statements – Continued

Note 2 - Investments in Affiliated Enterprises - Continued

NRH/CPT Regional Rehab, LLC

CHV invested in NRH/CPT Regional Rehab, LLC (NRH/CPT) for the purpose of providing comprehensive and coordinated physical therapy and rehabilitation services in St. Mary's and Charles counties. CHV has a 15% interest in NRH/CPT.

Chesapeake-Potomac Healthcare Alliance, LLC

Chesapeake-Potomac Healthcare Alliance, LLC (the Alliance) is a joint venture in which the Hospital and two other hospitals have invested equally. It was created to provide certain healthcare services to the population of southern Maryland. The Alliance is a 60% owner of Chesapeake Potomac Regional Cancer Center, LLC (CPRCC), a limited liability company which owns and operates two outpatient radiation oncology centers. The other 40% of CPRCC is owned by Holy Cross Hospital of Silver Spring and Adventist Healthcare, Inc. The Alliance is also one of two members in Chesapeake-Potomac Home Health Agency, Inc., a Maryland non-stock corporation that was formed in 1995 for the purpose of providing home health care and other health care services to individuals in need of such services in Calvert, Charles and St. Mary's counties.

Summarized unaudited financial information of the Alliance as of and for the years ended June 30 is presented below:

	<u>2012</u>	<u>2011</u>
Total assets	<u>\$ 16,332,537</u>	<u>\$ 16,019,080</u>
Total liabilities	3,874,552	5,126,415
Members' equity	<u>12,457,985</u>	<u>10,892,665</u>
Total liabilities and members' equity	<u>\$ 16,332,537</u>	<u>\$ 16,019,080</u>
	<u>2012</u>	<u>2011</u>
Total revenue	\$ 13,660,213	\$ 13,421,334
Net income	1,006,313	1,279,870

Chesapeake Physical Medicine, LLC

Chesapeake Physical Medicine, LLC (CPM) is a joint venture of CHV and a group of medical professionals created to provide outpatient chiropractic services to the population of Calvert County. CHV maintains a 25% interest in this joint venture. In June 2011, the partners of CPM agreed to discontinue operations. Activity for the year ended June 30, 2012 represents the run out of the operations and accounts receivable.

Calvert Memorial Hospital of Calvert County and Subsidiaries

Notes to the Consolidated Financial Statements – Continued

Note 2 - Investments in Affiliated Enterprises - Continued

Freestate Healthcare Insurance Company, LTD

Freestate Healthcare Insurance Company, LTD is a captive insurance company formed in the Cayman Islands. It is owned by six Maryland hospitals. Freestate provides insurance coverage to its shareholders for professional liability and comprehensive general liability (*see Note 8*).

Maryland eCare, LLC

Maryland eCare, LLC is a joint venture formed by seven Maryland hospitals to provide remote monitoring technology with clinical decision support and physician/nursing services for their use in intensive care units and other clinical areas within their respective hospitals. The Hospital maintains a 7.8% interest in this joint venture.

Note 3 - Investments

Unrestricted investments, stated at market value, which approximates fair value at June 30 include:

	<u>2012</u>	<u>2011</u>
Equity mutual funds	\$ 1,114,309	\$ 1,878,578
Fixed income mutual funds	561,413	865,413
Guaranteed investment account	625,837	2,112,593
	<u>2,301,559</u>	<u>4,856,584</u>
Less short-term investments	106,741	53,831
Long-term investments	<u>\$ 2,194,818</u>	<u>\$ 4,802,753</u>

Assets limited as to use, stated at fair value, at June 30 include:

	<u>2012</u>	<u>2011</u>
Internally designated for capital acquisition and scholarships:		
Cash and cash equivalents	\$ 471,235	\$ 751,014
Net pledges receivable (see Note 13)	0	66,342
Equity mutual funds	2,480,799	2,416,447
	<u>2,952,034</u>	<u>3,233,803</u>
Held by trustee under indenture agreement:		
Cash and cash equivalents	2,438,927	2,418,952
U.S. Government issues	3,599,692	3,604,825
	<u>\$ 8,990,653</u>	<u>\$ 9,257,580</u>

Calvert Memorial Hospital of Calvert County and Subsidiaries

Notes to the Consolidated Financial Statements – Continued

Note 3 - Investments - Continued

Assets held by a trustee under indenture agreements consist of the following funds at June 30:

	<u>2012</u>	<u>2011</u>
Debt service fund	\$ 2,295,170	\$ 2,296,749
Debt service reserve fund	3,743,449	3,727,028
	<u>\$ 6,038,619</u>	<u>\$ 6,023,777</u>

The debt service fund is comprised of principal and interest funds held by a trustee in accordance with the Hospital's bond indentures. The debt service fund is classified as a current asset in the accompanying consolidated statements of financial position.

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

	<u>2012</u>	<u>2011</u>
Income:		
Interest and dividend income	\$ 88,776	\$ 133,074
Realized gains	72,970	68,385
Total investment income	<u>\$ 161,746</u>	<u>\$ 201,459</u>
Unrealized (losses) gains on investments	<u>\$ (24,131)</u>	<u>\$ 366,215</u>

Current accounting standards define fair value as the price 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 and establish a framework for measuring fair value, and establish a three-level hierarchy for fair value measurements based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date, as follows:

Level 1: Quoted prices in active markets for identical assets or liabilities.

Level 2: Observable input other than Level 1 prices such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3: Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

Calvert Memorial Hospital of Calvert County and Subsidiaries

Notes to the Consolidated Financial Statements – Continued

Note 3 - Investments - Continued

The following discussion describes the valuation methodologies used for financial assets measured at fair value. The techniques utilized in estimating the fair values are affected by the assumptions used, including discount rates, and estimates of the amount and timing of future cash flows. Care should be exercised in deriving conclusions about the Hospital's business, its value, or financial position based on the fair value information of financial assets presented below.

Fair value estimates are made at a specific point in time, based on available market information and judgments about the financial asset, including estimates of the timing, amount of expected future cash flows, and the credit standing of the issuer. In some cases, the fair value estimates cannot be substantiated by comparison to independent markets. In addition, the disclosed fair value may not be realized in the immediate settlement of the financial asset. Furthermore, the disclosed fair values do not reflect any premium or discount that could result from offering for sale at one time an entire holding of a particular financial asset. Potential taxes and other expenses that would be incurred in an actual sale or settlement are not reflected in the amounts disclosed.

Fair values for the Hospital's fixed maturity securities are based on prices provided by its investment managers, who use a variety of pricing sources to determine market valuations. Each designate specific pricing services or indexes for each sector of the market based upon the provider's experience. The Hospital's fixed maturity securities portfolio is highly liquid, which allows for a high percentage of the portfolio to be priced through pricing services.

Fair values of equity securities have been determined by the Hospital from observable market quotations, when available. Private placement securities and other equity securities where a public quotation is not available are valued by using broker quotes.

The guaranteed investment account is valued at contract value, (which includes contributions made, adjusted for interest earned, withdrawals, and administrative expenses) which approximates fair value.

Calvert Memorial Hospital of Calvert County and Subsidiaries Notes to the Consolidated Financial Statements – Continued

Note 3 - Investments - Continued

The following table presents the Hospital's fair value hierarchy for assets measured at fair value on a recurring basis as of June 30, 2012:

	Level 1
Cash and cash equivalents	\$ 2,910,162
Equity mutual funds	
Foreign large blend	264,140
Large growth	38,662
Large value	43,362
Large blend	628,920
Mid cap growth	9,739
Mid cap value	92,048
Mid cap blend	6,173
Small growth	9,285
Small value	9,479
Small blend	12,182
World allocation	1,918,878
Moderate allocation	562,240
Fixed income mutual funds	
Intermediate term bond	561,413
U.S. Government issues (Maturity 1-10 years)	3,599,692
Guaranteed investment account	625,837
	\$ 11,292,212

Calvert Memorial Hospital of Calvert County and Subsidiaries Notes to the Consolidated Financial Statements – Continued

Note 3 - Investments - Continued

The following table presents the Hospital's fair value hierarchy for assets measured at fair value on a recurring basis as of June 30, 2011:

	Level 1
Cash and cash equivalents	\$ 3,169,966
Equity mutual funds	
Foreign Large Blend	536,213
Large Blend	858,443
Mid Cap Value	350,906
Small Blend	60,573
World Allocation	1,859,308
Moderate Allocation	557,139
Other	72,443
Fixed income mutual funds	
Intermediate term bond	865,413
U.S. Government issues (Maturity 1-10 years)	3,604,825
Guaranteed investment account	2,112,593
	\$ 14,047,822

Note 4 - Temporarily and Permanently Restricted Net Assets

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

	2012	2011
Purchase of equipment	\$ 220,480	\$ 210,703
Health education	74,960	38,795
Health care services	114,859	111,543
	\$ 410,299	\$ 361,041

Permanently restricted net assets at June 30 are restricted to:

	2012	2011
Investments to be held in perpetuity, the income from which is expendable to support health education	\$ 658,218	\$ 650,155

Calvert Memorial Hospital of Calvert County and Subsidiaries Notes to the Consolidated Financial Statements – Continued

Note 5 - Property and Equipment

A summary of property and equipment at June 30 follows:

	2012	2011
Land improvements	\$ 2,532,320	\$ 2,486,177
Buildings	34,594,271	37,586,602
Building improvements	35,363,650	34,891,171
Fixed equipment	4,936,712	4,442,361
Movable equipment	56,328,980	51,555,028
	133,755,933	130,961,339
Less accumulated depreciation and amortization	77,160,246	71,170,410
	56,595,687	59,790,929
Land	4,881,046	5,406,046
Construction in progress	813,455	1,152,737
Property and equipment, net	\$ 62,290,188	\$ 66,349,712

Interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets. No interest was capitalized for the years ended June 30, 2012 and 2011.

Depreciation expense for the years ended June 30, 2012 and 2011 amounted to \$7,976,420 and \$7,357,666 respectively.

Calvert Memorial Hospital of Calvert County and Subsidiaries

Notes to the Consolidated Financial Statements – Continued

Note 6 - Long-Term Debt

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

	<u>2012</u>	<u>2011</u>
Maryland Health and Higher Educational Facilities Authority Revenue Bonds (1998 Revenue Bonds); maturing in varying amounts from July 1, 1999 to July 1, 2028; interest due semi-annually at rates ranging from 3.9% to 5.25%; (5.0% at June 30, 2012 and 2011).	\$ 20,390,000	\$ 21,140,000
Maryland Health and Higher Educational Facilities Authority Revenue Bonds (2004 Revenue Bonds); maturing in varying amounts from July 1, 2008 to July 1, 2039; interest due semi-annually at rates ranging from 3.5% to 5.5%; (4.25% and 4.0% at June 30, 2012 and 2011, respectively).	<u>32,535,000</u>	<u>32,635,000</u>
	52,925,000	53,775,000
Less current portion	<u>895,000</u>	<u>850,000</u>
	52,030,000	52,925,000
Less amortized original issue discount	<u>750,648</u>	<u>792,579</u>
	<u>\$ 51,279,352</u>	<u>\$ 52,132,421</u>

Series 1998 Revenue Bonds

The 1998 Revenue Bonds were issued by the Maryland Health and Higher Educational Facilities Authority (the Authority) on June 11, 1998 (the 1998 Revenue Bonds) for the purpose of financing and refinancing the costs of acquisition, construction, renovation and equipping of certain Hospital facilities. The Obligated Group for the 1998 Revenue Bonds is composed of the Hospital and the System. As security for the performance of its obligations under the related Loan Agreement, the Obligated Group members have granted a security interest in the receipts, revenues, rental income and other moneys received by or on behalf of any Obligated Group member to the Authority. The Obligated Group is required to maintain certain deposits in the form of a debt service reserve fund with a trustee. Such deposits are included in assets limited as to use in the accompanying consolidated financial statements. The 1998 Revenue Bonds also place limits on the incurrence of additional borrowings. The required debt service coverage ratio is 1.10. In July 2012, the 1998 Revenue Bonds were extinguished and refinanced privately through a commercial bank. Terms of the loan include a fixed rate of 2.6% for 10 years with an amortization schedule of 16 years. A total of \$19,199,000 was refinanced, which represents the remaining principal on the 1998 Revenue Bonds at the date of the refinancing, and costs related to the refinancing. The remaining financing costs and original issue discount from the 1998 Revenue Bonds were not adjusted in the accompanying financial statements until July 2012.

Calvert Memorial Hospital of Calvert County and Subsidiaries

Notes to the Consolidated Financial Statements – Continued

Note 6 - Long-Term Debt - Continued

Series 2004 Revenue Bonds

The 2004 Revenue Bonds were issued by the Authority on July 8, 2004 for the purpose of financing the costs of acquisition, construction, renovation and equipping of certain hospital facilities. The Obligated Group for the 2004 Revenue Bonds is composed of Calvert Memorial Hospital and Calvert Health System. As security for the performance of its obligations under the related Loan Agreement, the Obligated Group members have granted a security interest in its receipts, revenues, rental income and other moneys received by or on behalf of any Obligated Group member to the Authority. The Obligated Group is required to maintain certain deposits in the form of a debt service reserve fund with a trustee. Such deposits are included in assets limited as to use. The revenue bonds also place limits on the incurrence of additional borrowings. The required debt service coverage ratio is 1.10. Annual payments (ranging from \$145,000 in 2019 to \$3,320,000 in 2038) to a sinking fund relating to the revenue bonds will commence in 2019 with a final balance of \$3,500,000 on July 1, 2039. Series 2004 bonds maturing on or after July 1, 2015 are subject to redemption prior to maturity beginning on July 1, 2014 at the option of the Authority upon the direction of the Hospital. Management believes it is in compliance with all applicable covenants.

Principal payments due under all debt instruments as of June 30, 2012 are as follows:

2013	\$ 895,000
2014	1,201,567
2015	1,240,825
2016	1,269,750
2017	1,306,675
and thereafter	<u>47,011,183</u>
Total	<u>\$ 52,925,000</u>

The total principal payments due after the refinancing will be \$52,524,000. Interest paid on indebtedness by the Hospital was \$2,820,300 and \$2,860,210 in 2012 and 2011, respectively.

In November 2008, the System obtained a loan from a commercial bank for the purpose of financing a portion of the construction of the Calvert Medical Arts Center. In July 2012, the loan was refinanced with another commercial bank for \$7 million. The new loan will be amortized for 25 years. Principal and interest payments will be made monthly starting September 2012. Interest will be paid at a rate of LIBOR plus 0.85%. The interest rate is guaranteed for 3 years. The loan is guaranteed by the Hospital and the System.

Calvert Memorial Hospital of Calvert County and Subsidiaries Notes to the Consolidated Financial Statements – Continued

Note 7 - Employee Pension Plans

The Hospital has a defined contribution plan whereby contributions are made on an annual basis by participating employees and the Hospital. Substantially all employees are eligible to participate, subject to meeting the criteria specified by the plan. Participating employees are permitted to contribute up to 20% of their annual compensation, not to exceed a maximum threshold as set forth by the Internal Revenue Service on an annual basis. The Hospital provides a matching contribution not to exceed 2% of each employee's base annual compensation. Employees hired January 1, 2008 and later are only eligible to participate in the defined contribution plan and cannot participate in the defined benefit plan sponsored by the Hospital described below. They receive an employer contribution of 2.5% of their annual W-2 wages. They may receive an additional employer matching contribution of up to 2% based upon the participant's own contribution.

Additionally, the Hospital has a qualified non-contributory defined benefit pension plan covering substantially all employees who were employed by the Hospital prior to January 1, 2008, as well as certain employees of the Hospital who meet certain age and service requirements. Effective January 1, 2008, the Hospital instituted a "soft freeze" of the defined benefit plan. The plan was amended effective January 1, 1993 from a defined benefit plan, the benefits of which were calculated primarily upon age and employee compensation near retirement, to a cash balance defined benefit plan, which calculates benefits based upon age and years of service. The Hospital makes annual contributions to the plan based on the advice of consulting actuaries. Contributions are intended to provide not only for benefits attributed to service to date but also for those expected to be earned in the future. The Hospital used a June 30 measurement date for its plan in 2012 and 2011.

The following table sets forth the changes in the projected benefit obligation at June 30:

	<u>2012</u>	<u>2011</u>
Benefit obligation at beginning of year	\$ 29,331,556	\$ 27,584,779
Service cost	983,427	975,488
Interest cost	1,708,150	1,550,875
Changes in assumptions	5,007,265	(394,971)
Actuarial loss	84,783	161,434
Benefits paid	(556,784)	(546,049)
Benefit obligation at end of year	<u>\$ 36,558,397</u>	<u>\$ 29,331,556</u>

Calvert Memorial Hospital of Calvert County and Subsidiaries Notes to the Consolidated Financial Statements – Continued

Note 7 - Employee Pension Plans - Continued

The following table sets forth the changes in the plan assets at June 30:

	2012	2011
Fair value of plan assets at beginning of year	\$ 24,684,993	\$ 19,477,056
Actual return on plan assets	166,885	3,753,982
Employer contributions	1,931,667	2,000,004
Actual benefits paid	(556,784)	(546,049)
Fair value of plan assets at end of year	\$ 26,226,761	\$ 24,684,993

In accordance with current standards, the Hospital recognized the full extent of the underfunded (a liability) status of the plan, which is measured as the difference between the fair value of the Plan assets and the projected benefit obligation. As of June 30, 2012 and 2011, the plan's projected benefit obligation exceeded the fair value of the plan's assets by \$10,331,636 and \$4,646,563, respectively. The plan's accumulated benefit obligation was \$34,588,923 and \$27,799,445 as of June 30, 2012 and 2011, respectively.

Net periodic pension cost for the years ended June 30 include the following components:

	2012	2011
Service cost	\$ 983,427	\$ 975,488
Interest cost	1,708,150	1,550,875
Expected return on plan assets	(2,018,992)	(1,703,695)
Amortization of prior service cost	(29,633)	(29,633)
Recognized net actuarial loss	681,940	1,176,829
Net periodic benefit cost	\$ 1,324,892	\$ 1,969,864

The following table sets forth the weighted average assumptions used to determine benefit obligations as of June 30:

	2012	2011
Discount rate	4.90%	5.66%
Rate of compensation increase	3.00%	3.00%

The following table sets forth the weighted average assumptions used to determine net periodic benefit costs for the years ended June 30:

	2012	2011
Discount rate	4.90%	5.66%
Expected return on plan assets	8.00%	8.50%
Rate of compensation increase	3.00%	3.00%

Calvert Memorial Hospital of Calvert County and Subsidiaries Notes to the Consolidated Financial Statements – Continued

Note 7 - Employee Pension Plans - Continued

Amounts recognized in unrestricted net assets as of June 30 consist of:

	2012	2011
Net loss	\$ 14,896,387	\$ 8,634,172
Prior service cost	(92,449)	(122,082)
Total	\$ 14,803,938	\$ 8,512,090

The investment of pension assets is guided by the pension investment policy. Pension assets are invested to ensure that the pension plan has the ability to pay all benefit and expense obligations when due, to maximize return within prudent levels of risk for pension assets and to maintain a funding cushion for unexpected developments. The target weighted-average asset allocation of pension investments is 60% equities and 40% debt securities and cash. Equity securities primarily include investments in large-cap and mid-cap companies. Fixed income securities primarily include corporate bonds. Mutual funds (fixed income and equity) are valued by observable market quotations. The guaranteed deposit account is valued at contract value, (which includes contributions made, adjusted for interest earned, participant withdrawals, and administrative expenses) which approximates fair value.

The fair values of the Hospital's pension plan assets at June 30, 2012, by asset category are as follows:

	Level 1	Level 2	Total
Equity mutual funds			
Mid-Cap Growth	\$ 1,568,797	\$ 0	\$ 1,568,797
Foreign Large Blend	2,319,383	0	2,319,383
Mid-Cap Value	1,557,115	0	1,557,115
Large Growth	3,308,930	0	3,308,930
Large Value	3,457,308	0	3,457,308
Large Blend	3,455,490	0	3,455,490
Fixed income mutual funds			
Intermediate-Term Bond	2,338,216	0	2,338,216
High Yield Bond	923,461	0	923,461
Inflation-protected Bond	1,798,936	0	1,798,936
Short-term Bond	2,272,695	0	2,272,695
Guaranteed deposit account	0	3,227,603	3,227,603
	\$ 23,000,331	\$ 3,227,603	\$ 26,227,934

Calvert Memorial Hospital of Calvert County and Subsidiaries Notes to the Consolidated Financial Statements – Continued

Note 7 - Employee Pension Plans – Continued

The fair values of the Hospital's pension plan assets at June 30, 2011, by asset category are as follows:

	<u>Level 1</u>	<u>Level 2</u>	<u>Total</u>
Cash and cash equivalents	\$ 22,562	\$ 0	\$ 22,562
Equity mutual funds			
Mid-Cap Growth	1,604,984	0	1,604,984
Foreign Large Blend	2,126,293	0	2,126,293
Mid-Cap Value	1,557,674	0	1,557,674
Large Growth	3,149,883	0	3,149,883
Large Value	3,084,048	0	3,084,048
Large Blend	3,199,649	0	3,199,649
Fixed income mutual funds			
High Yield Bond	808,261	0	808,261
Intermediate-Term Bond	2,168,577	0	2,168,577
Inflation-Protected Bond	1,532,977	0	1,532,977
Short-Term Bond	2,162,583	0	2,162,583
Guaranteed deposit account	0	3,267,503	3,267,503
	<u>\$ 21,417,490</u>	<u>\$ 3,267,503</u>	<u>\$ 24,684,993</u>

The Hospital expects to contribute \$2,553,000 to its pension plan for fiscal year ending June 30, 2013. The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid:

2013	\$ 884,748
2014	939,492
2015	1,055,688
2016	1,168,629
2017	1,269,712
2018-2022	8,780,272
Total expected benefit payments	<u>\$ 14,098,541</u>

Note 8 - Malpractice Insurance

Prior to March 1, 2005, the Hospital maintained a professional liability insurance policy on a claims-made basis. Under this insurance policy, the Hospital was insured for individual claims up to \$1,000,000 with a total annual aggregate of \$3,000,000 with no deductible for claims made. The Hospital also had excess coverage of up to \$10,000,000 for individual claims and in the aggregate.

Effective March 1, 2005, the Hospital became a shareholder of the newly formed Freestate Healthcare Insurance Company, Ltd. (Freestate), a captive insurance company formed in the Cayman Islands. As of June 30, 2012, the Hospital maintains a 16.7% shareholder interest in

Calvert Memorial Hospital of Calvert County and Subsidiaries Notes to the Consolidated Financial Statements – Continued

Note 8 - Malpractice Insurance - Continued

Freestate. The Hospital decided to become a shareholder of Freestate when the Hospital's insurance company decided not to continue to write insurance policies for hospitals within the State of Maryland effective March 1, 2005. The Hospital believes that becoming a shareholder of a captive insurance company provides the best long-term solution to providing insurance coverage that is cost effective and predictable. Freestate provides insurance coverage on a claims-made basis to its owners and their affiliates for professional liability claims and comprehensive general liability of \$1,000,000 for each and every claim. Freestate has entered into reinsurance and excess policy agreements with independent insurance companies to limit its losses for professional liability and comprehensive general liability claims. The Hospital has \$10,000,000 of additional insurance in the aggregate through such reinsurance arrangements. Retrospective premium assessments and credits are calculated based on the aggregate experience of all named insureds under the policy. Each named insured's assessment or credit is based on the percentage of their actual exposure to the actual exposure of all named insureds. In management's opinion, the assets of Freestate are sufficient to meet its obligations as of June 30, 2012. If the financial condition of Freestate were to materially deteriorate in the future, and Freestate was unable to pay its claim obligations, the responsibility to pay those claims would return to the member hospitals.

CPTSFC maintains a professional liability insurance policy on a claims-made basis. CPTSFC is insured for individual claims up to \$1,000,000 with a total annual aggregate of \$3,000,000 with no deductible.

The Hospital is involved in litigation arising in the ordinary course of business. Claims alleging malpractice have been asserted against the Hospital and are currently in various stages of litigation. Additional claims may be asserted against the Hospital arising from services provided through June 30, 2012.

During 2012, the Hospital adopted ASU 2010-24, *Health Care Entities (Topic 954): Presentation of Insurance Claims and Related Insurance Recoveries*, which requires a health care entity to report gross insurance recoveries separately from the related professional liability claims already reported to its insurance carrier. As of June 30, 2012, the Hospital recorded insurance recoverables and related professional claims liability of \$3,696,401 in long-term liabilities in the accompanying consolidated balance sheet. An estimated liability for incurred but not reported professional liability claims has also been recorded in the amount of approximately \$1,028,000 in long-term liabilities. Management believes this estimate is adequate to provide for all professional liability claims that have been incurred through June 30, 2012 but not reported to its insurance carriers.

Note 9 - Maryland Health Services Cost Review Commission

Patient service revenue is recorded at rates established by the HSCRC. Effective July 1, 2010, the Hospital entered into a Total Patient Revenue (TPR) rate agreement with the HSCRC. This agreement is effective for three years. Under the TPR system, the Hospital is provided a fixed revenue amount (CAP) under which it must operate each year. The CAP is adjusted annually for inflation, change in the Hospital's payer mix and uncompensated care, and change in population.

Calvert Memorial Hospital of Calvert County and Subsidiaries Notes to the Consolidated Financial Statements – Continued

Note 10 - Concentration of Credit and Business Risk

The Hospital provides health care services to residents located primarily in Calvert, St. Mary's, southern Anne Arundel and Charles counties. The Hospital generally does not require collateral or other security in extending credit; however, it routinely obtains assignment of (or is otherwise entitled to receive) patients' benefits receivable under their health insurance programs, plans or policies (e.g., Medicare, Medicaid, health maintenance organizations and commercial insurance policies).

At June 30, the Hospital had patient accounts receivable from third party payers and others as follows:

	2012		2011	
Medicare	\$ 4,744,226	23.4 %	\$ 4,461,914	22.2 %
Medicaid (including managed care)	2,004,276	9.9	1,991,390	9.9
Blue Cross	2,468,570	12.2	2,978,063	14.8
Commercial and other	1,680,030	8.3	1,918,713	9.6
HMO	4,264,478	21.0	3,974,377	19.8
Self-pay	5,132,764	25.3	4,748,193	23.7
	\$ 20,294,344	100.0 %	\$ 20,072,650	100.0 %
Less contractual adjustments	(2,825,079)		(2,620,699)	
	\$ 17,469,265		\$ 17,451,951	

Patient service revenue, by payer class, consisted of the following for the years ended June 30:

	2012		2011	
Medicare	\$ 57,979,051	35.2 %	\$ 54,804,369	35.0 %
Medicaid (including managed care)	20,645,307	12.5	19,274,589	12.3
Blue Cross	30,218,839	18.4	29,123,590	18.6
Commercial and other	9,387,444	5.7	8,967,344	5.7
HMO	38,273,464	23.3	36,658,755	23.5
Self-pay	8,035,601	4.9	7,569,962	4.9
	\$ 164,539,706	100.0 %	\$ 156,398,609	100.0 %
Less contractual adjustments	(30,914,572)		(28,680,253)	
Less charity care	(7,100,039)		(4,317,996)	
	\$ 126,525,095		\$ 123,400,360	

Calvert Memorial Hospital of Calvert County and Subsidiaries Notes to the Consolidated Financial Statements – Continued

Note 11 - Functional Expenses

The Hospital provides general health care services to residents within its geographic location. Expenses related to providing these services are as follows for the years ended June 30:

	2012	2011
Health care services	\$ 111,195,188	\$ 108,895,117
General and administrative	20,798,504	19,437,183
	\$ 131,993,692	\$ 128,332,300

Note 12 - Lease Obligations

The Hospital leases various equipment and facilities. Total office rent and equipment lease expense was \$1,544,442 and \$1,488,184 for the years ended June 30, 2012 and 2011, respectively, and is reported as a component of other expenses in the accompanying consolidated statements of operations and other changes in unrestricted net assets. The future minimum lease payments expected to be made to non-affiliated parties under non-cancelable operating leases are as follows for the years ended June 30:

2013	\$ 1,197,686
2014	872,655
2015	658,955
2016	430,906
2017	103,488
	\$ 3,263,690

In November 2011, the medical office building was owned by CHV was transferred from CHV to CMH II Holding Company, a subsidiary of the System. Rental income totaling \$160,771 and \$320,593 has been recognized in the consolidated statement of operations and other changes in unrestricted net assets for the years ended June 30, 2012 and 2011, respectively.

Calvert Memorial Hospital of Calvert County and Subsidiaries Notes to the Consolidated Financial Statements – Continued

Note 13 - Pledges Receivable

During 2004, the Hospital commenced a capital campaign. Contributions from the campaign are being used to fund major equipment purchases for various construction projects. At June 30, 2012 pledges receivable of \$70,367 were completely reserved. The entire pledges receivable balance is reported as a non-current asset in the accompanying consolidated statements of financial position because it is temporarily restricted for the acquisition of property, plant, and equipment.

Note 14 - Certain Risks and Uncertainties

The Hospital's ability to maintain and/or increase future revenues could be adversely affected by: (1) proposed and/or future changes in the laws, rules, regulations, and policies relating to the definition, activities, and/or taxation of not-for-profit tax-exempt entities; (2) the enactment into law of all or any part of the current budget resolutions under consideration by Congress related to Medicare and Medicaid reimbursement methodology and/or further reductions in payments to hospitals and other health care providers; (3) limited supply of physicians nationally which may limit the Hospital's ability to meet the healthcare demands of the population within its primary and secondary service areas (4) the ultimate impact of the federal Patient Protection and Affordable Care Act and the Health Care Education Affordability Reconciliation Act of 2010.

The Joint Commission a non-governmental privately owned entity, provides accreditation status to hospitals and other health care organizations in the United States. Such accreditation is based upon a number of requirements such as undergoing periodic surveys conducted by Joint Commission personnel. Certain managed care payers require hospitals to have appropriate Joint Commission accreditation in order to participate in those programs. In addition, the Center for Medicare and Medicaid Services (CMS), the agency with oversight of the Medicare and Medicaid programs, provides "deemed status" for facilities having Joint Commission accreditation. By being Joint Commission accredited, facilities are "deemed" to be in compliance with the Medicare and Medicaid conditions of participation. Termination as a Medicare provider or exclusion from any or all of these programs/payers would have a materially negative impact on the future financial position, operating results and cash flows of the Hospital. In November 2011 the Hospital was surveyed by the Joint Commission and received a full three-year Joint Commission accreditation through February 2015.

Calvert Memorial Hospital of Calvert County and Subsidiaries

Notes to the Consolidated Financial Statements – Continued

Note 14 - Certain Risks and Uncertainties – Continued

During September 2008, certain large U.S. financial institutions failed, primarily as a result of holdings in troubled subprime loans or assets collateralized with such distressed loans. These institutional failures, and the negative economic conditions that contributed to these failures, generated substantial volatility in global financial markets and substantial uncertainty regarding access to capital and the continued viability of many other financial institutions. Despite the federal legislative initiatives to ameliorate these conditions, global credit markets remain volatile and the health of the global economy continues to be uncertain. These conditions create uncertainty regarding the future valuation of the Hospitals' invested funds and the resulting impact on the future financial position, results of operations and cash flows of the Hospital could be material.

Note 15 – Fair Value of Financial Instruments

The carrying amounts reported in the consolidated statements of financial position for cash and cash equivalents, investments, patient accounts receivable, assets limited as of use, accounts payable and accrued expenses, and third party advances approximate the related fair values. The composition and related fair values of assets limited as to use and investments are disclosed in Note 3. The fair value of the Hospital's outstanding long-term obligations as of June 30, 2012 and 2011 was approximately \$55,259,763 and \$53,898,504, respectively.

Note 16 – Endowment

Current accounting standards provide guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA) and additional disclosures about an organization's endowment funds. The State of Maryland has adopted UPMIFA. The adoption of UPMIFA had no impact on the accounting for the Hospital's endowment.

The Hospital's endowment consists of two donor-restricted funds. Net assets associated with the endowment fund are classified and reported based on the existence of absence or donor-imposed restrictions.

Calvert Memorial Hospital of Calvert County and Subsidiaries

Notes to the Consolidated Financial Statements – Continued

Note 16 – Endowment – Continued

The Board of Directors of the Hospital has interpreted the Maryland State Prudent Management of Institutional Funds Act (SPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Hospital classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

In accordance with SPMIFA, the Hospital considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. The duration and preservation of the fund
2. The purposes of the Hospital and the donor-restricted endowment fund
3. General economic conditions
4. The possible effect of inflation and deflation
5. The expected total return from income and the appreciation of investments
6. Other resources of the Hospital
7. The investment policies of the Hospital

From time to time, the fair value of assets associated with the endowment fund may fall below the level that the donor or SPMIFA required the Hospital to retain as a fund of perpetual duration. There were no such deficiencies as of June 30, 2012 or 2011.

The Hospital has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the organization must hold in perpetuity. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results of the Lehman Intermediate Government/Corporate Bond index while assuming a moderate level of investment risk. The Hospital expects its endowment funds, over time, to provide an average rate of return of approximately 8% percent annually. Actual returns in any given year may vary from this amount.

Calvert Memorial Hospital of Calvert County and Subsidiaries

Notes to the Consolidated Financial Statements – Continued

Note 16 – Endowment - Continued

To satisfy its long-term rate-of-return objectives, the Hospital relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Hospital targets a diversified asset allocation that places a greater emphasis on highly liquid investments such as money market accounts to achieve its long-term return objectives within prudent risk constraints.

The endowment's net asset composition as of June 30, 2012 and 2011 and the changes therein were as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted
Donor-restricted endowment	\$ 0	\$ 0	\$ 658,218
Changes in Endowment Net Assets for the Fiscal Year June 30, 2012			
	Unrestricted	Temporarily Restricted	Permanently Restricted
Endowment net assets, beginning of year	\$ 0	\$ 0	\$ 650,155
Investment return:			
Net appreciation (realized and unrealized)	0	0	8,063
Endowment net assets, end of year	\$ 0	\$ 0	\$ 658,218
	Unrestricted	Temporarily Restricted	Permanently Restricted
Donor-restricted endowment	\$ 0	\$ 0	\$ 650,155
Changes in Endowment Net Assets for the Fiscal Year June 30, 2011			
	Unrestricted	Temporarily Restricted	Permanently Restricted
Endowment net assets, beginning of year	\$ 0	\$ 0	\$ 565,254
Investment return:			
Net appreciation (realized and unrealized)	0	46,150	84,851
Other changes:			
Contributions	0	0	50
Released from restriction	0	(46,150)	0
Endowment net assets, end of year	\$ 0	\$ 0	\$ 650,155

Report of Independent Auditors on Accompanying Consolidating Information

Audit Committee of the Board of Directors of
Calvert Memorial Hospital of Calvert County

The 2012 audited consolidated financial statements of Calvert Memorial Hospital of Calvert County and subsidiaries and our report thereon are presented in the preceding section of this report. That audit was conducted for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The consolidating information presented hereinafter as of and for the year ended June 30, 2012 is presented for purposes of additional analysis and is not a required part of the basic consolidated financial statements. Such information is the responsibility of management and was derived from and related 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 consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with the auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation the consolidated financial statements as a whole.

Cohen, Rutherford + Knight, P.C.

October 19, 2012
Bethesda, Maryland

Calvert Memorial Hospital of Calvert County and Subsidiaries
Consolidating Statement of Financial Position
June 30, 2012

<i>ASSETS</i>	<u>Calvert Memorial Hospital</u>	<u>Calvert Physician Associates</u>	<u>Calvert Memorial Hospital Foundation</u>	<u>Calvert Health Ventures</u>	<u>Consolidating and Eliminating Entries</u>	<u>Consolidated Calvert Memorial Hospital</u>
CURRENT ASSETS						
Cash and cash equivalents	\$ 10,818,116	\$ 263,055	\$ 225,667	\$ 982,503	\$ 0	\$ 12,289,341
Short-term investments	106,741	0	0	0	0	106,741
Patient accounts receivable, net	12,623,246	620,559	0	234,097	0	13,477,902
Inventories	2,303,317	12,490	0	15,782	0	2,331,589
Prepaid expenses and other assets	2,305,290	748,264	0	1,099,917	(753,686) (1)	3,399,785
Assets limited as of use, current	2,295,170	0	0	0	0	2,295,170
TOTAL CURRENT ASSETS	<u>30,451,880</u>	<u>1,644,368</u>	<u>225,667</u>	<u>2,332,299</u>	<u>(753,686)</u>	<u>33,900,528</u>
Investments	2,194,818	0	0	0	0	2,194,818
Investments in wholly owned subsidiaries	5,384,335	0	0	0	(5,384,335) (2)(5)	0
Investments in affiliated enterprises	3,234,985	0	0	1,137,542	0	4,372,527
Assets limited as of use	3,854,460	0	2,841,023	0	0	6,695,483
Property and equipment, net	60,645,536	1,463,058	0	181,594	0	62,290,188
Insurance recoverables	3,696,401	0	0	0	0	3,696,401
Other assets	561,419	27,016	0	0	0	588,435
TOTAL ASSETS	<u>\$ 110,023,834</u>	<u>\$ 3,134,442</u>	<u>\$ 3,066,690</u>	<u>\$ 3,651,435</u>	<u>\$ (6,138,021)</u>	<u>\$ 113,738,380</u>
<i>LIABILITIES AND NET ASSETS</i>						
CURRENT LIABILITIES						
Accounts payable and accrued expenses	\$ 12,835,750	163,586	\$ 89,210	\$ 3,855,508	\$ (753,686) (1)	\$ 16,190,368
Current portion of long-term debt	895,000	0	0	0	0	895,000
Advances from third party payers	4,712,571	0	0	0	0	4,712,571
TOTAL CURRENT LIABILITIES	<u>18,443,321</u>	<u>163,586</u>	<u>89,210</u>	<u>3,855,508</u>	<u>(753,686)</u>	<u>21,797,939</u>
Long-term debt, less current portion	51,279,352	0	0	0	0	51,279,352
Accrued pension cost	10,331,636	0	0	0	0	10,331,636
Accrued professional liabilities	4,724,811	0	0	0	0	4,724,811
Other long-term liabilities	2,194,818	0	0	0	0	2,194,818
TOTAL LIABILITIES	<u>86,973,938</u>	<u>163,586</u>	<u>89,210</u>	<u>3,855,508</u>	<u>(753,686)</u>	<u>90,328,556</u>
NET ASSETS						
General	19,158,748	2,970,856	197,343	(564,001)	(2,604,198) (2)	19,158,748
Board designated	2,822,631	0	1,822,631	0	(1,822,631) (2)	2,822,631
Noncontrolling interest in subsidiary	0	0	0	359,928	0	359,928
Temporarily restricted	410,299	0	299,288	0	(299,288) (2)	410,299
Permanently restricted	658,218	0	658,218	0	(658,218) (2)	658,218
TOTAL NET ASSETS	<u>23,049,896</u>	<u>2,970,856</u>	<u>2,977,480</u>	<u>(204,073)</u>	<u>(5,384,335)</u>	<u>23,409,824</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 110,023,834</u>	<u>\$ 3,134,442</u>	<u>\$ 3,066,690</u>	<u>\$ 3,651,435</u>	<u>\$ (6,138,021)</u>	<u>\$ 113,738,380</u>

Calvert Memorial Hospital of Calvert County and Subsidiaries
Consolidating Statement of Operations
For the year ended June 30, 2012

	Calvert Memorial Hospital	Calvert Physician Associates	Calvert Memorial Hospital Foundation	Calvert Health Ventures	Consolidating and Eliminating Entries	Consolidated Calvert Memorial Hospital
REVENUE						
Net patient service revenue	\$ 117,194,632	\$ 5,681,090	\$ 0	\$ 3,649,373	\$ 0	\$ 126,525,095
Rental revenue	74,328	0	0	124,165	(37,722) (3)	160,771
Other operating revenue	6,726,001	352,144	389,365	593,145	(565,838) (3)(6)(7)	7,494,817
TOTAL OPERATING REVENUE	123,994,961	6,033,234	389,365	4,366,683	(603,560)	134,180,683
EXPENSES						
Salaries & wages	48,367,811	6,454,315	0	2,328,779	288,781 (3)	57,439,686
Employee benefits	10,878,310	628,868	0	384,962	0	11,892,140
Supplies	22,329,063	984,155	0	50,935	0	23,364,153
Purchased services	5,815,552	754,734	0	419,488	(196,094) (3)	6,793,680
Professional fees	4,365,655	224,410	0	7,515	0	4,597,580
Depreciation and amortization	7,687,188	231,014	0	90,990	0	8,009,192
Interest	2,865,173	0	0	0	0	2,865,173
Provision for uncollectible accounts	1,031,068	126,858	51,731	13,663	0	1,223,320
Other	14,262,797	906,169	354,950	981,099	(696,247) (3)(6)(7)	15,808,768
TOTAL OPERATING EXPENSES	117,602,617	10,310,523	406,681	4,277,431	(603,560)	131,993,692
INCOME (LOSS) FROM OPERATIONS	6,392,344	(4,277,289)	(17,316)	89,252	0	2,186,991
NONOPERATING GAINS						
Investment Income	71,532	0	72,953	0	0	144,485
Income (loss) from equity investments	(3,842,208)	0	0	107,305	4,176,933 (4)	442,030
NONOPERATING GAINS AND (LOSSES), NET EXCESS OF REVENUE OVER EXPENSES (EXPENSES OVER REVENUE)	(3,770,676)	0	72,953	107,305	4,176,933	586,515
	2,621,668	(4,277,289)	55,637	196,557	4,176,933	2,773,506
Transfer of net assets	(250)	0	(250)	(2,457,806)	2,458,056 (5)	(250)
Net assets released from restrictions for capital acquisitions	59,881	0	0	0	0	59,881
Equity contribution	(6,457,806)	5,018,100	0	0	(5,018,100) (5)	(6,457,806)
Distribution to noncontrolling interest in subsidiary	0	0	0	(142,100)	0	(142,100)
Pension-related changes other than net periodic pension cost	(6,291,848)	0	0	0	0	(6,291,848)
Cumulative effect of change in accounting principle	(1,028,410)	0	0	0	0	(1,028,410)
Net unrealized gains (losses) on investments	1,740	0	(16,673)	0	0	(14,933)
INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS	\$ (11,095,025)	\$ 740,811	\$ 38,714	\$ (2,403,349)	\$ 1,616,889	\$ (11,101,960)

Calvert Memorial Hospital of Calvert County and Subsidiaries
Consolidating Statement of Cash Flows
For the year ended June 30, 2012

	<u>Calvert Memorial Hospital</u>	<u>Calvert Physician Associates</u>	<u>Calvert Memorial Hospital Foundation</u>	<u>Calvert Health Ventures</u>	<u>Consolidating and Eliminating Entries</u>	<u>Consolidated Calvert Memorial Hospital</u>
CASH FLOWS FROM OPERATING ACTIVITIES						
Increase (decrease) in net assets	\$ (10,981,425)	\$ 740,811	\$ 104,719	\$ (2,403,349)	\$ 1,494,606 (2)	\$ (11,044,638)
Adjustments to reconcile increase in net assets to net cash provided by operating activities:						
Provision for uncollectible accounts	1,031,068	126,858	51,731	13,663	0	1,223,320
Depreciation and amortization	7,687,188	231,014	0	90,990	0	8,009,192
Cash donations restricted for capital acquisition	0	0	(162,218)	0	0	(162,218)
Equity in earnings of wholly owned subsidiaries	6,512,706	0	0	0	(6,512,706) (2)(5)	0
Equity in earnings of affiliated enterprises	(334,725)	0	0	(107,305)	0	(442,030)
Investment income on restricted assets	0	0	(17,261)	0	0	(17,261)
Unrealized net gains on investments	(1,740)	0	25,871	0	0	24,131
Pension-related changes other than net periodic pension cost	6,291,848	0	0	0	0	6,291,848
Increase in patient accounts receivable	(2,144,509)	241,363	0	25,286	0	(1,877,860)
Increase in inventories	1,709	(12,490)	0	2,021	0	(8,760)
Decrease (increase) in prepaid expenses and other assets	487,936	77,019	0	(621,863)	(723,019) (1)	(779,927)
(Decrease) increase in accounts payable, accrued expenses & other liabilities	(716,733)	(416,447)	(384,020)	(131,725)	723,019 (1)	(925,906)
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	<u>7,833,323</u>	<u>988,128</u>	<u>(381,178)</u>	<u>(3,132,282)</u>	<u>(5,018,100)</u>	<u>289,890</u>
CASH FLOWS FROM INVESTING ACTIVITIES						
Purchases of investments	(331,835)	0	0	0	0	(331,835)
Sales of investments	2,934,724	0	0	0	0	2,934,724
Net decrease in assets limited as to use	(4,418)	0	195,483	0	0	191,065
Purchases of property and equipment	(5,008,567)	(1,221,794)	0	2,313,465	0	(3,916,896)
NET CASH USED IN INVESTING ACTIVITIES	<u>(2,410,096)</u>	<u>(1,221,794)</u>	<u>195,483</u>	<u>2,313,465</u>	<u>0</u>	<u>(1,122,942)</u>
CASH FLOWS FROM FINANCING ACTIVITIES						
Repayment of long-term debt	(850,000)	0	0	0	0	(850,000)
Total cash received restricted for capital acquisitions	0	0	162,218	0	0	162,218
Net distributions from investees	(5,018,100)	0	0	39,216	5,018,100 (2)	39,216
Investment income on restricted assets	0	0	17,261	0	0	17,261
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	<u>(5,868,100)</u>	<u>0</u>	<u>179,479</u>	<u>39,216</u>	<u>5,018,100</u>	<u>(631,305)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	<u>(444,874)</u>	<u>(233,666)</u>	<u>(6,216)</u>	<u>(779,601)</u>	<u>0</u>	<u>(1,464,357)</u>
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>11,262,990</u>	<u>496,721</u>	<u>231,883</u>	<u>1,762,104</u>	<u>0</u>	<u>13,753,698</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 10,818,116</u>	<u>\$ 263,055</u>	<u>\$ 225,667</u>	<u>\$ 982,503</u>	<u>\$ 0</u>	<u>\$ 12,289,341</u>

Calvert Memorial Hospital of Calvert County and Subsidiaries

Description of Consolidating and Eliminating Entries

1. To eliminate intercompany payables/receivables.
2. To eliminate investment in subsidiaries and related net asset accounts.
3. To eliminate intercompany income/expense generated from support and building service fees, staffing contracts and operating leases.
4. To eliminate income of wholly owned subsidiaries.
5. To eliminate intercompany transfer of equity and assets.
6. To eliminate revenue/expense for Calvert Memorial Hospital Foundation, Inc. for contributions transferred to the Hospital for the acquisition of property, plant and equipment.
7. To eliminate revenue/expense for Calvert Memorial Hospital Foundation, Inc. for contributions transferred to the Hospital to fund operating programs.