CIVISTA HEALTH INC. AND SUBSIDIARIES

Consolidated Financial Statements and
Supplemental Information

June 30, 2010 and 2009

(With Independent Auditors' Report Thereon)

CIVISTA HEALTH INC. AND SUBSIDIARIES

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

Independent Auditors' Report

The Board of Directors
Civista Health Inc. and Subsidiaries:

We have audited the accompanying consolidated balance sheets of Civista Health Inc. and subsidiaries (the Company) 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 Company'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 Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, 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 financial position of Civista Health Inc. and subsidiaries as of June 30, 2010 and 2009 and the results of their operations, the changes in their net assets 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 4 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 companies. 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 29, 2010

CIVISTA HEALTH INC. AND SUBSIDIARIES

Consolidated Balance Sheets

June 30, 2010 and 2009

Assets		**2010**	**2009**
Current assets:			
Cash and cash equivalents	$	29,478,207	24,418,651
Patient accounts receivable, net of allowance for uncollectible accounts of $4,250,505 and $4,641,610 in 2010 and 2009, respectively (note 2)		11,265,003	9,624,588
Assets limited as to use (notes 4, 5, and 15)		3,502,632	3,657,957
Other receivables		1,866,308	977,113
Inventories		1,588,468	1,533,892
Prepaid expenses		1,042,636	1,355,747
Total current assets		48,743,254	41,567,948
Investments (notes 3 and 15)		156,551	158,315
Assets limited as to use, net of current portion (notes 4, 5, and 15)		5,081,856	6,322,918
Property and equipment, net (notes 6 and 9)		71,386,779	75,559,733
Investments in joint ventures (note 7)		2,910,139	3,001,549
Deferred financing costs (note 1 (l))		2,307,627	2,464,584
Other assets		735,416	398,658
Total assets	$	131,321,622	129,473,705
Liabilities and Net Assets			
Current liabilities:			
Current portion of long-term debt (note 9)	$	1,701,692	1,644,492
Note payable (note 8)		9,500,000	9,500,000
Accounts payable		10,478,556	10,035,248
Accrued interest payable		1,344,632	1,352,957
Accrued expenses and other current liabilities (note 14)		6,793,476	6,717,976
Advances from third-party payors (note 11)		2,240,611	1,625,214
Total current liabilities		32,058,967	30,875,887
Long-term debt, net of current portion (note 9)		73,153,190	74,877,976
Accrued pension costs (note 12)		8,003,140	5,291,610
Total liabilities		113,215,297	111,045,473
Commitments and contingencies (notes 6, 8, 9, 10, 13, and 14)			
Net assets:			
Unrestricted net assets		14,473,795	15,108,313
Temporarily restricted net assets (notes 4 and 5)		3,632,530	3,319,919
Total net assets		18,106,325	18,428,232
Total liabilities and net assets	$	131,321,622	129,473,705

See accompanying notes to consolidated financial statements.

CIVISTA HEALTH INC. AND SUBSIDIARIES

Consolidated Statements of Operations

Years ended June 30, 2010 and 2009

	2010	2009
Net patient service revenue (notes 2, 9, and 10)	$ 104,359,863	97,519,124
Other revenue (note 13)	1,847,306	2,004,303
Nonmonetary contribution from Charles County (notes 1 (f) and 13)	1,268,484	1,268,484
Total revenues	107,475,653	100,791,911
Expenses (note 16):		
Salaries and wages	43,410,232	41,831,966
Employee benefits (notes 12 and 14)	7,734,173	7,234,852
Purchased services	5,845,215	6,448,856
Professional fees	2,175,265	4,190,337
Supplies and drugs	16,259,046	15,695,490
Depreciation and amortization (note 6)	5,403,650	6,072,867
Administrative expenses	10,073,737	8,730,379
Provision for uncollectible accounts	5,379,006	4,632,816
Interest (notes 8 and 9)	3,517,647	3,606,114
Utilities and maintenance	4,960,612	4,396,070
Facilities use charge (notes 1(f) and 13)	1,268,484	1,268,484
Total expenses	106,027,067	104,108,231
Income (loss) from operations	1,448,586	(3,316,320)
Nonoperating income (loss):		
Equity in earnings of joint ventures (note 7)	355,806	651,705
Unrestricted gifts	—	500,000
Investment income (notes 3 and 4)	128,056	275,215
Other nonoperating expense	(11,111)	(157,605)
Nonoperating income	472,751	1,269,315
Excess (deficiency) of revenues over expenses	1,921,337	(2,047,005)
Other changes in unrestricted net assets:		
Change in funded status of defined benefit plan (note 12)	(2,825,671)	(3,741,425)
Net assets released from restriction used for purchase of property and equipment	238,783	713,979
Contributions	31,033	—
Decrease in unrestricted net assets	$ (634,518)	(5,074,451)

See accompanying notes to consolidated financial statements.

CIVISTA HEALTH INC. AND SUBSIDIARIES

Consolidated Statements of Changes in Net Assets

Years ended June 30, 2010 and 2009

	Unrestricted net assets	Temporarily restricted net assets	Total
Balance at June 30, 2008	$ 20,182,764	1,710,521	21,893,285
Deficiency of revenues over expenses	(2,047,005)	—	(2,047,005)
Change in funded status of defined benefit plan	(3,741,425)	—	(3,741,425)
Net assets released from restriction	—	(713,979)	(713,979)
Net assets released from restriction used for purchases of property and equipment	713,979	—	713,979
Contributions	—	2,323,377	2,323,377
(Decrease) increase in net assets	(5,074,451)	1,609,398	(3,465,053)
Balance at June 30, 2009	15,108,313	3,319,919	18,428,232
Excess of revenues over expenses	1,921,337	—	1,921,337
Change in funded status of defined benefit plan	(2,825,671)	—	(2,825,671)
Net assets released from restriction	—	(238,783)	(238,783)
Net assets released from restriction used for purchases of property and equipment	238,783	—	238,783
Contributions	31,033	551,394	582,427
(Decrease) increase in net assets	(634,518)	312,611	(321,907)
Balance at June 30, 2010	$ 14,473,795	3,632,530	18,106,325

See accompanying notes to consolidated financial statements.

CIVISTA HEALTH INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

Years ended June 30, 2010 and 2009

		2010	2009
Cash flows from operating activities:			
Decrease in net assets	$	(321,907)	(3,465,053)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:			
Depreciation and amortization		5,403,650	6,072,867
Provision for uncollectible accounts		5,379,006	4,632,816
Change in funded status of defined benefit plan		2,825,671	3,741,425
Contributions restricted by donors for specific purposes		(238,783)	(713,979)
Net realized and unrealized losses on investments		29,726	52,815
Equity in earnings of joint ventures		(355,806)	(651,705)
Increase in beneficial interest in trust		—	(1,750,000)
Changes in operating assets and liabilities:			
Patient accounts receivable		(7,019,421)	(2,971,021)
Other receivables		(889,195)	88,142
Inventories		(54,576)	48,255
Prepaid expenses		313,111	(281,290)
Deferred financing costs and other assets		(410,862)	72,738
Accounts payable, accrued expenses, and other current liabilities		510,482	2,337,074
Advances from third parties		615,397	163,279
Accrued pension costs		(114,141)	(504,692)
Net cash provided by operating activities		5,672,352	6,871,671
Cash flows from investing activities:			
Purchases of property and equipment		(1,022,728)	(1,471,003)
Proceeds from assets limited as to use and investments, net		1,368,425	704,343
Distribution from joint ventures		447,216	2,264,505
Investment in joint ventures		—	(2,000,000)
Net cash provided by (used in) investing activities		792,913	(502,155)
Cash flows from financing activities:			
Proceeds from note payable		19,000,000	16,500,000
Repayments on note payable		(19,000,000)	(9,500,000)
Principal payments on long-term debt		(1,644,492)	(1,595,279)
Proceeds from contributions restricted by donors		238,783	713,979
Net cash (used in) provided by financing activities		(1,405,709)	6,118,700
Increase in cash and cash equivalents		5,059,556	12,488,216
Cash and cash equivalents, beginning of year		24,418,651	11,930,435
Cash and cash equivalents, end of year	$	29,478,207	24,418,651
Supplemental disclosures of cash flow information:			
Cash payments for interest	$	3,424,255	3,614,214
Income taxes paid		11,548	—

See accompanying notes to consolidated financial statements.

(1) Organization and Summary of Significant Accounting Policies

(a) Organization

Civista Health Inc. and subsidiaries, Civista Medical Center, Inc. (CMC), Civista Care Partners, Inc. (CCP), and Civista Health Foundation, Inc. (CHF) (referred to collectively as the Company or CHI), is dedicated to leadership in health care for Charles County, Maryland (the County) and Southern Maryland. The Company comprises a not-for-profit hospital and other community health care resources and is committed to deliver the highest quality care to those served. The Company provides inpatient, outpatient and emergency care services for residents of Charles County and Southern Maryland. This commitment distinguishes the Company in its service area as dedicated to excellence in service, the dignity and empowerment of the individual, and care and compassion for all, including those without financial resources. The community that is Civista Health Inc., its patients, medical staff, auxillians, volunteers, and administration, are bonded together by this shared vision of excellence.

(b) Principles of Consolidation

The consolidated financial statements include Civista Health Inc. and subsidiaries, Civista Medical Center, Inc., Civista Care Partners, Inc., and Civista Health Foundation, Inc. All significant intercompany accounts and transactions have been eliminated in consolidation.

(c) Cash and Cash Equivalents

For purposes of the consolidated financial statements, the Company considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents. The carrying amount of these assets approximates their fair value.

(d) Investments and Assets Whose Use is Limited

The Company classifies its debt and equity securities as trading securities. All debt and equity securities are reported at fair value principally based on quoted market prices on the consolidated balance sheets.

Certain other investments are recorded under the cost or equity method as appropriate. Assets limited as to use primarily include funds held by third party trustees, which are required under a related promissory note to be used for future repayment of outstanding debt.

Donor restricted investments are also included within assets whose use is limited.

Investment income (interest and dividends), including realized gains and losses on investment sales, are recorded on the accrual basis and is reported as investment income in the excess (deficiency) of revenues over expenses in the accompanying consolidated statements of operations, unless the income or loss is restricted by the donor or law. Investment income including realized and unrealized gains and losses that are restricted by the donor are recorded as a component of changes in temporarily or permanently restricted net assets, in accordance with donor-imposed restrictions.

(Continued)

(e) Inventories

Inventories are stated at the lower of cost (determined by the first-in/first-out method) or market.

(f) Property and Equipment

Property and equipment is recorded at cost. Property and equipment donated for Company operations are recorded at fair value at the date of receipt. Depreciation is recorded over the assets' estimated useful lives on a straight-line method.

Interest costs incurred on borrowings for construction projects are capitalized as a component of property and equipment during the period of construction (net of interest income earned on the unexpended tax exempt bond proceeds).

When land, building improvements, and equipment are retired or otherwise disposed of, the property and accumulated depreciation accounts are removed and any gain or loss is recognized in operating income when incurred.

The Company is a party to a lease agreement with Charles County government expiring in 2045, pursuant to which the facilities and real estate owned by the County and occupied by the Company are leased by the Company at a nominal rental fee. These facilities and real estate are not included in the Company's financial statements.

A facilities use charge is included in operating expenses to properly recognize the benefit received by the Company for use of the County owned property and equipment. This expense is based on an estimate of the fair rental value of the County owned assets. A corresponding benefit has also been recognized in the statements of operations as contributed services from the County.

(g) Investments in Joint Ventures

Investments in joint ventures where the Company exercises significant influence are accounted for using the equity method of accounting, otherwise the cost method is employed.

(h) Estimated Malpractice Costs

The provision for estimated malpractice claims includes estimates of the ultimate costs for both reported claims and claims incurred but not reported. Actual results may differ. These liabilities are recorded on an undiscounted basis.

(i) Statements of Operations and Excess (Deficiency) of Revenues over Expenses

For purposes of display, transactions deemed by management to be ongoing, major, or central to the provision of health care services are reported as revenues and expenses. Peripheral or incidental transactions are reported as nonoperating gains and losses.

The consolidated statement of operations includes a performance indicator (excess (deficiency) of revenues over expenses). Changes in unrestricted net assets, which are excluded from the performance indicator consistent with industry practice, include non-periodic changes in the funded status of defined benefit plan (further described in note 12), any permanent transfers of assets to and from affiliates for other than goods or services, and contributions of long-lived assets, including assets acquired using contributions, which by donor restriction, were to be used for the purpose of acquiring such assets, if any.

(j) Bond Premium

Premium received in connection with the issuance of long-term debt is amortized on the effective interest method over the term of the related obligations. Accumulated amortization of the bond premium amounted to $124,074 and $100,980 as of June 30, 2010 and 2009, respectively. Total premium received on the Series 2005 debt offering was $748,115, and net of accumulated amortization is $624,041 and $647,135 at June 30, 2010 and 2009, respectively.

(k) Net Patient Revenue

Net patient revenue is reported as services are rendered at the estimated net realizable amounts from patients and third-party payors based on rates in effect when the related services are provided. Rates for patient services in Maryland hospitals are subject to investigation, review, and approval by the Health Services Cost Review Commission (HSCRC), an independent commission created by a State of Maryland legislative act. All third-party payors are required to pay the HSCRC approved rates. The major government third-party payors (Medicare and Medicaid), as recognized by the HSCRC, are generally allowed discounts of 6% on approved rates.

As discussed in note 10, the Company has a charge per case (CPC) agreement with the HSCRC. The CPC agreement establishes a prospectively approved average charge per inpatient case and an estimated case mix index. The agreement allows the Company to adjust approved unit rates, within certain limits, to achieve the average charge per case target. The HSCRC allows for certain corridors related to the approved rates such that variances within those corridors do not adversely impact the Company. The Company’s policy is to defer revenue above the approved amounts and beyond the approved corridors. In no event, to the extent an undercharge occurs, does the Company accrue additional revenue. No amounts were deferred at June 30, 2010 and 2009.

(l) Deferred Financing Costs

Costs incurred with the issuance of long-term debt are amortized on the effective-interest method over the term of the related obligations. Accumulated amortization of long-term debt issuance costs amounted to $776,798 and $619,841 as of June 30, 2010 and 2009, respectively. Deferred financing costs net of accumulated amortization are $2,307,627 and $2,464,584 as of June 30, 2010 and 2009, respectively.

(m) Temporarily Restricted Net Assets

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

(n) Donor-Restricted Gifts

Unconditional promises to give cash and other assets to the Company are reported at fair value at the date the pledge is received. Conditional promises to give and indications of intentions to give are reported at fair value at the date the promise becomes unconditional or when the gift is received. The gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or the purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the accompanying consolidated statements of operations as net assets released from restrictions.

(o) Use of Estimates

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

(p) Charity Care

The Company provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. The Company's criteria for charity service consider the family income in relation to the federal poverty guidelines. Because the Company does not expect collection of amounts resulting from charity care services, they do not impact net revenue or accounts receivable. Estimated revenue foregone for charity service provided was $1,841,767 and $1,530,797 based on established rates, in 2010 and 2009, respectively.

(q) Income Taxes

Civista Medical Center, Inc., Civista Health Foundation, Inc., and Civista Health, Inc. were recognized as public charities generally exempt from federal income taxation under 501(c)(3) of the Internal Revenue Code pursuant to determination letters issued by the IRS in 1980, 1986, and 2001, respectively. Civista Care Partners, Inc. (CCP) is a for-profit entity subject to federal and state income taxes, which are recorded under FASB Accounting Standards Codification (ASC) Topic 740, *Accounting for Income Taxes* (ASC 740). Accordingly, income taxes are accounted for under the asset and liability method. Under this method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and credit carry forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

Deferred income taxes reflect the net effect of the temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and amounts used for income tax purposes. The Company recognized a net deferred tax asset of $123,509 and a net deferred tax liability of $187,831 at June 30, 2010 and 2009, respectively. Current income tax (benefit) expense was ($166,370) and $101,528 for the years ended June 30, 2010 and 2009, respectively. Deferred income tax (benefit) expense was ($311,340) and $23,621 for the years ended June 30, 2010 and 2009, respectively.

(Continued)

(r) Subsequent Events Review

Management has evaluated the potential impact of subsequent events on the amounts and disclosures included in the consolidated financial statements through September 29, 2010.

(2) Concentrations of Credit Risk

The Company provides services to patients living principally in the Charles County, Maryland area. The majority of these patients have insurance through either a federal Medicare or state Medicaid program, commercial insurance organizations, or other insurance carriers.

The Company's net patient service revenue, by payor classification, consisted of the following percentages for the years ended June 30:

	2010	2009
Medicare	40%	40%
Commercial	10	10
Medical assistance	12	11
Health maintenance organizations	10	10
Blue Cross	20	19
Self-pay and other	8	10
	100%	100%

The Company's patient accounts receivable, by payor classification, consisted of the following percentages as of June 30:

	2010	2009
Medicare	28%	24%
Commercial	19	23
Medical assistance	11	13
Health maintenance organizations	5	5
Blue Cross	13	12
Self-pay and other (none more than 10%)	24	23
	100%	100%

(3) Investments

Investments consist of the following as of June 30:

		2010	2009
Common stock	$	75,000	75,000
Mutual funds		41,220	37,097
Investment in limited partnership		40,331	46,218
	$	156,551	158,315

Investments in mutual funds are carried at fair value. The investment in limited partnership represents a multi-strategy fund designed to invest in various types of equity securities and is accounted for using the equity method of accounting. The investment in common stock in a private entity is carried at cost.

(4) Assets Limited as to Use and Investment Income

Assets limited as to use consist of cash and cash equivalents, funds held by trustees invested in money market funds and federal government-backed securities and donor-restricted funds, including cash and pledges receivable. Amounts required to meet current liabilities of the Company have been reclassified in the balance sheets as of June 30, 2010 and 2009. Assets limited as to use consist of the following as of June 30:

		2010	2009
Funds held by Trustees for capital improvements and debt service:			
Debt service reserve fund	$	4,514,151	4,555,101
Principal fund		575,229	555,729
Interest fund		1,424,105	1,459,690
Other		98,344	90,436
		6,611,829	6,660,956
Donor-restricted funds:			
Pledges receivable (note 5)		389,659	1,569,919
Beneficial interest in a trust		1,583,000	1,750,000
		1,972,659	3,319,919
Total assets limited as to use		8,584,488	9,980,875
Less current portion		3,502,632	3,657,957
	$	5,081,856	6,322,918

Investment income comprises the following for the years ended June 30:

		2010	2009
Interest and dividend income	$	157,782	328,030
Net realized and unrealized losses on investments		(29,726)	(52,815)
	$	128,056	275,215

During 2009, Civista became the beneficiary of a certain trust. Assets of the trust are expected to be received in fiscal year 2011.

(5) Pledges Receivable

Pledges receivable included in assets limited as to use consist of the following as of June 30:

		2010	2009
Pledges receivable, net of unamortized discount of $23,398 and $136,591, respectively	$	774,816	1,742,230
Less allowance for uncollectible pledges		385,157	172,311
	$	389,659	1,569,919

Pledges receivable, categorized by year of expected collection, consist of the following:

2011	$	646,207
2012		99,466
2013		52,541
	$	798,214

Pledges receivable are discounted at an average rate of 5% to reflect the time value of money.

(6) Property and Equipment and Lease Commitments

Property and equipment consist of the following as of June 30:

	Depreciable life		2010	2009
Land and land improvements	15 – 20 years	$	1,217,380	1,217,380
Building and building improvements	5 – 39 years		82,146,081	82,050,803
Fixed equipment	7 – 20 years		7,890,420	7,857,126
Major movable equipment	3 – 15 years		34,531,121	33,817,244
Construction in progress			294,805	—
			126,079,807	124,942,553
Less accumulated depreciation			54,693,028	49,382,820
		$	71,386,779	75,559,733

Depreciation expense for the years ended June 30, 2010 and 2009 was $5,195,682 and $5,807,417, respectively. Amortization expense for the years ended June 30, 2010 and 2009 was $207,968 and $265,450, respectively.

The Company leases office space under operating lease arrangements expiring through 2026.

The future minimum lease payments of operating leases under noncancelable lease terms, in excess of one year, are as follows:

Year ending June 30:		
2011	$	2,615,196
2012		1,736,113
2013		957,045
2014		802,867
2015		198,740
Thereafter		2,669,012
	$	8,978,973

Rent expense for operating leases was $2,619,427 and $2,226,587 for the years ended June 30, 2010 and 2009, respectively.

(7) Investments in Joint Ventures

The Company has investments in joint ventures, accounted for using the cost or equity method, aggregating $2,910,139 and $3,001,549 as of June 30, 2010 and 2009, respectively, in the following:

Joint venture	Type of organization	Business purpose	Percent ownership 2010	Percent ownership 2009
Chesapeake-Potomac Healthcare Alliance (CPHA)	Not-for-profit	Healthcare related services	33.0%	33.0%
Ambulatory Surgery Center, Inc. (ASC)	For-profit	Ambulatory surgical services	50.0	50.0
NRH/CPT/St. Mary's/Civista Regional Rehab, LLC (Rehab)	For-profit	Medical, rehabilitative, and therapy services	15.0	15.0
Freestate Healthcare Insurance Company, LTD (Malpractice Captive)	For-profit	Malpractice insurance	16.7	12.5
Maryland eCare, LLC (eCare)	Not-for-profit	Remote monitoring technology	14.1	14.1
Premier, Inc. (Premier)	For-profit	Purchasing cooperative	0.6	0.6

(Continued)

The Company's investment balance and equity in earnings (proportionate share of losses) of the joint ventures as of and for the years ended June 30 is as follows:

	Investment balance		Equity in earnings (losses)	
	2010	**2009**	**2010**	**2009**
CPHA	$ 2,403,544	2,436,269	(32,725)	350,000
ASC	446,618	428,743	329,399	132,953
Rehab	20,895	26,312	3,762	(8,829)
Malpractice captive	15,441	10,441	—	—
Premier	13,641	89,784	55,370	177,581
eCare	10,000	10,000	—	—
Total	$ 2,910,139	3,001,549	355,806	651,705

Summary combined financial information (unaudited) for these joint ventures as of and for the years ended June 30 is as follows:

	2010	**2009**
Current assets	$ 39,730,614	34,341,653
Noncurrent assets	12,013,336	12,503,888
Total assets	$ 51,743,950	46,845,541
Current liabilities	$ 36,364,171	31,043,501
Noncurrent liabilities	5,107,495	5,816,981
Net assets	10,272,284	9,985,059
Total liabilities and net assets	$ 51,743,950	46,845,541
Total operating revenue	$ 21,927,255	22,231,347
Total operating expense	21,021,753	18,340,094
Total operating income	$ 905,502	3,891,253

(8) Note Payable

The Company maintains a line of credit which provides for up to $9,500,000 borrowing with an interest rate equal to the higher of 5% or the Wall Street Journal Prime Rate plus 0.25%, to be paid monthly on amounts borrowed. The line is secured on a parity basis by the same pledge of receipts and deed of trust securing the Series 2005 Bonds. Pursuant to the financial covenants regarding short-term debt in the Master Loan Agreement, the principal amount of all outstanding advances from the line of credit must be fully repaid for at least 15 days during any 12 month period. On December 23, 2009, Civista borrowed $9,500,000 under the line and repaid the amount borrowed in full on January 19, 2010 and did not access the line of credit until June 25, 2010, when $9,500,000 was borrowed which was repaid in full on July 2, 2010. The line of credit was renewed through July 31, 2011.

The outstanding balance under the applicable line of credit facilities was $9,500,000 as of June 30, 2010 and 2009, respectively. The corresponding interest rate was 5.00% at June 30, 2010 and 2009, respectively.

(9) Long-Term Debt

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

	2010	2009
Maryland Health and Higher Educational Facilities Authority (MHHEFA) Revenue Bonds (Series 2005), interest payable semi-annually at rates of interest ranging from 3% to 5%, principal payable annually through July 2037	$ 57,905,000	58,460,000
2004 loan payable to Charles County Government, principal and interest payable monthly at a rate of 3.05% through March 2021	11,420,214	12,304,652
Promissory note payable to Grandbridge Real Estate Capital, principal and interest payable monthly beginning January 2005 at a rate of 5.7% through December 2014	4,905,627	5,110,681
	74,230,841	75,875,333
Series 2005 bond premium $748,115, net of accumulated amortization	624,041	647,135
	74,854,882	76,522,468
Less current portion	1,701,692	1,644,492
Long-term debt, less current portion	$ 73,153,190	74,877,976

Payment of principal and interest on the Series 2005 Bonds is insured by Radian Asset Assurance Inc. (Radian).

The Series 2005 Bonds are comprised of the following components as of June 30, 2010:

Type	Amount	Due dates
Serial	$ 7,530,000	Annually from 2010 – 2020
Term	7,900,000	July 1, 2024
Term	10,425,000	July 1, 2028
Term	32,050,000	July 1, 2037
	$ 57,905,000	

The Term Bonds are subject to annual sinking fund requirements through July 2037.

The Series 2005 Bond proceeds were loaned to CMC pursuant to a Master Loan Agreement (MLA) with MHHEFA to fund the costs of a construction and renovation project at the Medical Center, which was completed in 2007, pay the issuance costs related to the Series 2005 Bonds, pay interest during the construction period, and fund a trustee-held debt service reserve fund.

CMC is the sole member of the Obligated Group as defined in the MLA. As security for repayment of its obligations under the MLA, CMC granted to MHHEFA a security interest in substantially all of its receipts. In addition, the Series 2005 Bonds are secured by a deed of trust in certain assets of the Medical Center, including land, leasehold interest, and tangible personal property.

The MLA requires the Obligated Group to adhere to certain covenants, including limitations on mergers, disposition of assets, additional indebtedness, and certain financial covenants. The financial covenants include a Rate Covenant which requires CMC to achieve a debt service coverage ratio of 1.25, as of the last day of each fiscal year, and a Liquidity Covenant, which requires CMC to maintain 65 days cash on hand, measured as of December 31 and June 30 in each fiscal year.

In 2004, CMC borrowed $15,000,000 from the County Commissioners of Charles County. The loan is secured by a deed of trust on certain real property of the Medical Center. Repayment of this loan is subordinate to repayment of debt under the MLA and the note payable described in note 8.

Civista Cambridge Properties, LLC (Cambridge), a wholly owned subsidiary of CCP, has a $4,905,627 loan outstanding with Grandbridge Real Estate Capital secured by a mortgage on a medical office building.

The scheduled annual maturities of long-term debt for the next five years and thereafter are as follows as of June 30, 2010:

2011	$	1,701,692
2012		1,761,626
2013		1,822,749
2014		1,884,169
2015		5,639,997
Thereafter		61,420,608
	$	74,230,841

(10) Maryland Health Services Cost Review Commission (HSCRC)

The Company participates in the HSCRC charge per case methodology (CPC) for inpatient services. This CPC agreement establishes a prospectively approved average charge per inpatient case (inpatient cases are 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 agreement allows the hospital to adjust approved unit rates, within certain limits, to achieve the average charge per case target for each rate year ending June 30. Changes in the CPC are made prospectively commencing on July 1 of each year based on the case mix index experienced in the preceding 12-month period ended June 30, as well as inflation and other factors.

Due to the nature of the CPC methodology, significant estimates are required to manage revenue amounts to the approved targets. The HSCRC allows for certain corridors related to the approved rates such that variances within these corridors do not adversely impact the hospital. To the extent these corridors are not

(Continued)

attained, hospitals may be subject to monetary penalties, as well as reductions of future rate increases or forfeiture of rates not charged, in the case of an undercharge.

(11) Advances from Third-Party Payors

Advances from third-party payors represent funds advanced from CareFirst Blue Cross Blue Shield, the State of Maryland and others for the operation of the respective payors' programs, and are subject to periodic adjustment.

(12) Pension Plan

The Company has a defined benefit cash balance pension plan covering employees that have worked at least 1,000 hours per year during five or more plan years. Plan benefits are accumulated based upon a combination of years of service and percent of annual compensation. The Company makes annual contributions to the plan based upon amounts required to be funded under provisions of the Employee Retirement Income Security Act of 1974 (ERISA). 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. Pension assets are invested primarily in short-term and intermediate-term, fixed income, and stock market index funds.

The Company uses a June 30 measurement date for its plan.

The following table sets forth the changes in the benefit obligation as of and for the year ended June 30:

		2010	2009
Benefit obligation at beginning of year	$	18,409,673	16,800,944
Service cost		546,023	523,076
Interest cost		1,160,525	1,121,191
Actuarial loss		3,779,676	490,965
Benefits paid		(570,511)	(526,503)
Benefit obligation at the end of the year	$	23,325,386	18,409,673

The following table sets forth the changes in the plan assets as of and for the year ended June 30:

		2010	2009
Fair value of plan assets at beginning of the year	$	13,118,063	14,746,067
Actual gain/(loss) on plan assets		1,668,612	(2,078,339)
Employer contribution		1,106,082	976,838
Benefits paid		(570,511)	(526,503)
Fair value of plan assets at end of the year	$	15,322,246	13,118,063
Funded status and accrued benefit cost	$	(8,003,140)	(5,291,610)

The amounts recognized in unrestricted net assets consist of the following as of June 30:

		2010	2009
Net actuarial loss	$	8,316,263	5,502,250
Prior service cost		(104,924)	(116,582)
Net amount recognized	$	8,211,339	5,385,668

The components of the net periodic benefit cost recognized in operating expenses consist of the following for the years ended June 30:

		2010	2009
Service cost	$	546,023	523,076
Interest cost		1,160,525	1,121,191
Expected return on plan assets		(1,074,324)	(1,206,854)
Amortization of prior service cost		(11,658)	(11,658)
Recognized net actuarial loss		371,376	46,391
Net periodic benefit cost	$	991,942	472,146

The weighted average assumptions used in the accounting for the benefit obligation are as follows as of June 30:

	2010	2009
Discount rates	5.50%	6.40%
Rate of compensation increase	3.25	3.25

The weighted average assumptions used in the accounting for the net periodic benefit cost for the years ended June 30 are as follows:

	2010	2009
Discount rate	6.40%	6.75%
Expected long-term return on plan assets	8.00	8.00
Rate of compensation increase	3.25	3.25

The overall rate of expected return on assets assumption was based on historical returns, with adjustments made to reflect expectations of future events.

The asset allocation for the Company's pension benefits and post-retirement benefits as of the June 30, 2010 measurement date are as follows:

		Quoted prices in active markets for identical assets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Asset category:				
Cash equivalents	$	108,370	—	—
Equities:				
Mutual funds		8,637,853	—	—
Fixed income:				
Bond index mutual fund		6,576,023	—	—
Total	$	15,322,246	—	—

Actual asset allocations approximated the targets as of June 30, 2010 and 2009.

The Company expects to contribute $1,140,196 to the plan in 2011.

The following benefit payments, which reflect expended future service, as appropriate, are expected to be paid from plan assets for the years ended June 30:

2011	$	622,205
2012		652,234
2013		685,692
2014		739,480
2015		796,650
Thereafter		5,183,633
	$	8,679,894

The Company expects to recognize $544,748 of net periodic benefit cost during fiscal 2011 for amounts in unrestricted net assets as of June 30, 2010.

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

(13) Related-Party Transactions

The Company and the County Commissioners of Charles County (County) are party to an agreement concerning the rights, duties, and responsibilities of each party with respect to the operation and management of Civista Medical Center, Inc. The agreement expires in 2045.

(Continued)

The main provisions of the agreement are as follows:

- The Company shall have sole and exclusive control over and responsibility for the operation, management, and conduct of the Medical Center.
- Civista Medical Center, Inc. shall be operated in the best interest of the general public.
- The Company shall maintain the grounds and buildings owned by the County in good order and condition.
- In the event of default by the Company, the agreement shall terminate at the option of the County. The County shall then have the right of re-entry and possession of the leased premises.

The County owns a portion of the land, buildings and certain fixed equipment upon which, and within which, the Medical Center operates.

In November 2004, CCP through its subsidiary, Cambridge, purchased the property within which ASC is located. Rental income charged to ASC approximates $386,000 per year and is included in other revenue in the related consolidated statement of operations. The lease agreement expires in 2012.

(14) Commitments and Contingent Liabilities

(a) Medical Malpractice Insurance Coverage

Effective March 2005, the Company formed a malpractice insurance captive, Freestate Healthcare Insurance Company, Ltd. (the captive), with 8 other member hospitals (6 member hospitals as of June 2010) (note 7). The insurance policy with the captive covers the Company on a claims-made basis. Prior to March, the Company carried claims-made professional liability insurance for protection against losses from malpractice claims. The Company has accrued $1,244,304 and $1,094,304 for claims incurred but not reported as of June 30, 2010 and 2009, respectively. These liabilities are recorded on an undiscounted basis.

(b) Workers Compensation Insurance

On July 1, 1993, the Company entered into a trust and indemnity agreement (the Trust) with certain member hospitals of the Maryland Hospital Association (MHA). The Trust was established to enable group member hospitals to collectively insure their workers compensation and employers' liability insurance claims and administrative costs. All of the Company's payments to the trust have been treated as a period expense.

(c) Litigation

The Company is subject to certain legal proceedings and claims arising in the ordinary course of business. After consultation with legal counsel, it is management's opinion that the ultimate resolution of these claims will not have a material adverse effect on the Company's financial position.

(Continued)

(d) Employee Health Insurance

The Company is self-insured against employee medical claims. Plan expenses include claims incurred and provisions for unreported claims. The Company has accrued approximately $1,063,226 and $1,223,924 as of June 30, 2010 and 2009, respectively, to provide for costs of employee medical claims incurred but not reported as of that date. The program maintains a commercial insurance policy providing individual and annual aggregate stop loss protection.

(15) Fair Value Measurements

The carrying amounts reported in the consolidated balance sheets approximate the related fair values for cash and cash equivalents, accounts receivable, assets limited as to use, investments, accounts payable, accrued expenses and advances from third-party payors.

Long-term debt: The fair value of the long-term debt, based on quoted market prices for the same or similar issues, as of June 30, 2010 was approximately $48,679,662 for the Series 2005 Bonds. For all remaining long-term debt, carrying amounts reported in the consolidated balance sheet approximate the related fair values.

The Company adopted ASC Topic 820, *Fair Value Measurements and Disclosures* (ASC 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 financial statements on a recurring basis. ASC Topic 820 establishes a fair value hierarchy that prioritizes the inputs to the 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 unadjusted quoted prices in active markets for identical assets or liabilities that the Company has the ability to access at the measurement date.

Level 2 – Inputs other than quoted prices included in 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 value measurement in its entirety falls is based upon the lowest level input that is significant to the fair value measurement in its entirety.

The following table presents assets that are measured at fair value on a recurring basis, including items that are required to be measured at fair value at June 30, 2010 and 2009:

	Fair value measurements at June 30, 2010			
	Quoted prices in active markets for identical assets (Level 1)	**Significant observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**	**Total**
Cash and cash equivalents				
Cash	$ 98,344	—	—	98,344
Money market	647,523	—	—	647,523
Fixed income securities				
U.S. treasuries	1,354,000	—	—	1,354,000
U.S. government agency backed	4,511,962	—	—	4,511,962
Mutual funds	41,220	—	—	41,220
Beneficial interest in a trust	—	1,583,000	—	1,583,000
Total	$ 6,653,049	1,583,000	—	8,236,049

	Fair value measurements at June 30, 2009			
	Quoted prices in active markets for identical assets (Level 1)	**Significant observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**	**Total**
Cash and cash equivalents				
Cash	$ 78,561	—	—	78,561
Money market	2,017,044	—	—	2,017,044
Equity securities	11,875	—	—	11,875
Fixed income securities				
U.S. government agency backed	4,553,476	—	—	4,553,476
Mutual funds	37,097	—	—	37,097
Beneficial interest in a trust	—	—	1,750,000	1,750,000
Total	$ 6,698,053	—	1,750,000	8,448,053

(Continued)

The following table presents the Company's activity for assets measured at fair value using significant observable inputs (Level 2) and significant unobservable inputs (Level 3) as defined in ASC Topic 820 for the years ended June 30, 2010 and 2009:

		Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Balance at June 30, 2009	$	—	1,750,000	1,750,000
Reclassification of beneficial interest in a trust		1,750,000	(1,750,000)	—
Change in valuation of beneficial interest in a trust		(167,000)	—	(167,000)
Balance at June 30, 2010	$	1,583,000	—	1,583,000

(16) Functional Expenses

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

		2010	2009
Program services	$	77,112,110	77,377,093
Management and general		28,914,957	26,731,138
	$	106,027,067	104,108,231

SUPPLEMENTAL SCHEDULES

Schedule 1

CIVISTA HEALTH INC. AND SUBSIDIARIES

Consolidating Balance Sheet Information

June 30, 2010

Assets		**Civista Medical Center, Inc.**	**Civista Care Partners, Inc. and Subsidiary**	**Civista Health Foundation, Inc.**	**Eliminations**	**Total**
Current assets:						
Cash and cash equivalents	$	29,116,659	305,293	56,255	—	29,478,207
Patient accounts receivable, net		10,886,077	378,926	—	—	11,265,003
Assets limited as to use		1,919,632	—	1,583,000	—	3,502,632
Due from affiliates		1,908,660	—	570,715	(2,479,375)	—
Other receivables		35,480	180,828	1,650,000	—	1,866,308
Inventories		1,588,468	—	—	—	1,588,468
Prepaid expenses		854,589	185,247	2,800	—	1,042,636
Total current assets		46,309,565	1,050,294	3,862,770	(2,479,375)	48,743,254
Investments		75,000	—	81,551	—	156,551
Beneficial interest in net assets of Foundation		4,409,405	—	—	(4,409,405)	—
Assets limited as to use, net of current portion		4,593,853	—	488,003	—	5,081,856
Property and equipment, net		65,421,049	5,963,184	2,546	—	71,386,779
Investments in joint ventures		2,442,626	467,513	—	—	2,910,139
Deferred financing costs		2,307,627	—	—	—	2,307,627
Other assets		133,719	601,697	—	—	735,416
Total assets	$	125,692,844	8,082,688	4,434,870	(6,888,780)	131,321,622
Liabilities and Net Assets						
Current liabilities:						
Current portion of long-term debt	$	1,484,469	217,223	—	—	1,701,692
Note payable		9,500,000	—	—	—	9,500,000
Due to affiliates		570,715	1,908,660	—	(2,479,375)	—
Accounts payable		10,155,811	297,280	25,465	—	10,478,556
Accrued interest payable		1,344,632	—	—	—	1,344,632
Accrued expenses and other current liabilities		6,631,009	162,467	—	—	6,793,476
Advances from third-party payors		2,240,611	—	—	—	2,240,611
Total current liabilities		31,927,247	2,585,630	25,465	(2,479,375)	32,058,967
Long-term debt, net of current portion		68,464,786	4,688,404	—	—	73,153,190
Accrued pension costs		8,003,140	—	—	—	8,003,140
Total liabilities		108,395,173	7,274,034	25,465	(2,479,375)	113,215,297
Net assets:						
Unrestricted net assets		13,665,141	808,654	776,875	(776,875)	14,473,795
Temporarily restricted net assets		3,632,530	—	3,632,530	(3,632,530)	3,632,530
Total net assets		17,297,671	808,654	4,409,405	(4,409,405)	18,106,325
	$	125,692,844	8,082,688	4,434,870	(6,888,780)	131,321,622

See accompanying independent auditors' report.

Schedule 2

CIVISTA HEALTH INC. AND SUBSIDIARIES

Consolidating Statement of Operations and Changes in Unrestricted Net Assets Information

Year ended June 30, 2010

	Civista Medical Center, Inc.	Civista Care Partners, Inc. and Subsidiary	Civista Health Foundation, Inc.	Eliminations	Total
Net patient service revenue	$ 101,981,695	2,378,168	—	—	104,359,863
Other revenue	521,166	904,434	421,706	—	1,847,306
Nonmonetary contribution from Charles County	1,268,484	—	—	—	1,268,484
Total revenues	103,771,345	3,282,602	421,706	—	107,475,653
Expenses:					
Salaries and wages	41,352,164	1,885,830	172,238	—	43,410,232
Employee benefits	7,457,620	264,131	12,422	—	7,734,173
Purchased services	5,587,306	239,485	18,424	—	5,845,215
Professional fees	2,175,265	—	—	—	2,175,265
Supplies and drugs	16,151,457	105,186	2,403	—	16,259,046
Depreciation and amortization	5,149,234	253,668	748	—	5,403,650
Administrative expenses	9,546,325	322,074	205,338	—	10,073,737
Provision for uncollectible accounts	5,315,173	63,833	—	—	5,379,006
Interest	3,227,565	290,082	—	—	3,517,647
Utilities and maintenance	4,858,451	100,049	2,112	—	4,960,612
Facilities use charge	1,268,484	—	—	—	1,268,484
Total expenses	102,089,044	3,524,338	413,685	—	106,027,067
Income (loss) from operations	1,682,301	(241,736)	8,021	—	1,448,586
Nonoperating income (loss):					
Equity in earnings of joint ventures	22,645	333,161	—	—	355,806
Change in beneficial interest in foundation	36,002	—	—	(36,002)	—
Investment income	131,108	—	(3,052)	—	128,056
Other nonoperating expenses	(11,111)	—	—	—	(11,111)
Nonoperating income (loss)	178,644	333,161	(3,052)	(36,002)	472,751
Excess (deficiency) of revenues over expenses	1,860,945	91,425	4,969	(36,002)	1,921,337
Change in funded status of defined benefit plan	(2,825,671)	—	—	—	(2,825,671)
Net assets released from restriction used for purchases of property and equipment	238,783	—	—	—	238,783
Contributions	—	—	31,033		31,033
(Decrease) increase in unrestricted net assets	$ (725,943)	91,425	36,002	(36,002)	(634,518)

See accompanying independent auditors' report.

Schedule 3

CIVISTA HEALTH INC. AND SUBSIDIARIES

Consolidating Balance Sheet Information

June 30, 2009

Assets	Civista Medical Center, Inc.	Civista Care Partners, Inc. and Subsidiary	Civista Health Foundation, Inc.	Eliminations	Total
Current assets:					
Cash and cash equivalents	$ 24,142,941	240,066	35,644	—	24,418,651
Patient accounts receivable, net	9,140,952	483,636	—	—	9,624,588
Assets limited as to use	1,907,957	—	1,750,000	—	3,657,957
Due from affiliates	1,034,398	—	572,690	(1,607,088)	—
Other receivables	422,036	555,077	—	—	977,113
Inventories	1,533,892	—	—	—	1,533,892
Prepaid expenses	1,185,201	170,546	—	—	1,355,747
Total current assets	39,367,377	1,449,325	2,358,334	(1,607,088)	41,567,948
Investments	85,735	—	72,580	—	158,315
Beneficial interest in net assets of Foundation	4,060,792	—	—	(4,060,792)	—
Assets limited as to use, net of current portion	4,662,563	—	1,660,355	—	6,322,918
Property and equipment, net	69,663,504	5,892,936	3,293	—	75,559,733
Investments in joint ventures	2,546,494	455,055	—	—	3,001,549
Deferred financing costs	2,464,584	—	—	—	2,464,584
Other assets	14,298	384,360	—	—	398,658
Total assets	$ 122,865,347	8,181,676	4,094,562	(5,667,880)	129,473,705
Liabilities and Net Assets					
Current liabilities:					
Current portion of long-term debt	$ 1,439,438	205,054	—	—	1,644,492
Note payable	9,500,000	—	—	—	9,500,000
Due to affiliates	572,690	1,034,398	—	(1,607,088)	—
Accounts payable	9,382,041	619,437	33,770	—	10,035,248
Accrued interest payable	1,352,957	—	—	—	1,352,957
Accrued expenses and other current liabilities	6,018,045	699,931	—	—	6,717,976
Advances from third-party payors	1,625,214	—	—	—	1,625,214
Total current liabilities	29,890,385	2,558,820	33,770	(1,607,088)	30,875,887
Long-term debt, net of current portion	69,972,349	4,905,627	—	—	74,877,976
Accrued pension costs	5,291,610	—	—	—	5,291,610
Total liabilities	105,154,344	7,464,447	33,770	(1,607,088)	111,045,473
Net assets:					
Unrestricted net assets	14,391,084	717,229	740,873	(740,873)	15,108,313
Temporarily restricted net assets	3,319,919	—	3,319,919	(3,319,919)	3,319,919
Total net assets	17,711,003	717,229	4,060,792	(4,060,792)	18,428,232
	$ 122,865,347	8,181,676	4,094,562	(5,667,880)	129,473,705

See accompanying independent auditors' report.

Schedule 4

CIVISTA HEALTH INC. AND SUBSIDIARIES

Consolidating Statement of Operations and Changes in Unrestricted Net Assets Information

Year ended June 30, 2009

	Civista Medical Center, Inc.	Civista Care Partners, Inc. and Subsidiary	Civista Health Foundation, Inc.	Eliminations	Total
Net patient service revenue	$ 95,312,096	2,207,028	—	—	97,519,124
Other revenue	876,374	878,030	249,899	—	2,004,303
Nonmonetary contribution from Charles County	1,268,484	—	—	—	1,268,484
Total revenues	97,456,954	3,085,058	249,899	—	100,791,911
Expenses:					
Salaries and wages	39,937,086	1,751,839	143,041	—	41,831,966
Employee benefits	7,061,634	155,378	17,840	—	7,234,852
Purchased services	6,178,027	267,518	3,311	—	6,448,856
Professional fees	4,187,337	3,000	—	—	4,190,337
Supplies and drugs	15,565,148	126,583	3,759	—	15,695,490
Depreciation and amortization	5,606,651	465,983	233	—	6,072,867
Administrative expenses	8,121,597	421,249	187,533	—	8,730,379
Provision for uncollectible accounts	4,497,317	135,499	—	—	4,632,816
Interest	3,306,789	299,325	—	—	3,606,114
Utilities and maintenance	4,252,009	142,079	1,982	—	4,396,070
Facilities use charge	1,268,484	—	—	—	1,268,484
Total expenses	99,982,079	3,768,453	357,699	—	104,108,231
Loss from operations	(2,525,125)	(683,395)	(107,800)	—	(3,316,320)
Nonoperating income (loss):					
Equity in earnings of joint ventures	527,580	124,125	—	—	651,705
Unrestricted gifts	—	—	500,000	—	500,000
Change in beneficial interest in foundation	345,484	—	—	(345,484)	—
Investment income	321,931	—	(46,716)	—	275,215
Other nonoperating expenses	(157,605)	—	—	—	(157,605)
Nonoperating income (loss)	1,037,390	124,125	453,284	(345,484)	1,269,315
(Deficiency) excess of revenues over expenses	(1,487,735)	(559,270)	345,484	(345,484)	(2,047,005)
Change in funded status of defined benefit plan	(3,741,425)	—	—	—	(3,741,425)
Net assets released from restriction used for purchases of property and equipment	713,979	—	—	—	713,979
(Decrease) increase in unrestricted net assets	$ (4,515,181)	(559,270)	345,484	(345,484)	(5,074,451)

See accompanying independent auditors' report.