CARROLL COUNTY HEALTH SERVICES CORPORATION
AND SUBSIDIARIES

Consolidated Financial Statements and Supplemental Schedules

June 30, 2012 and 2011

(With Independent Auditors' Report Thereon)

CARROLL COUNTY HEALTH SERVICES CORPORATION
AND SUBSIDIARIES

Table of Contents

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

Independent Auditors' Report

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

We have audited the accompanying consolidated balance sheets of Carroll County Health Services Corporation and Subsidiaries (the Health System) 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 Health System's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated balance sheets of Carroll County Health Services Corporation 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 U.S. generally accepted accounting principles.

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplementary information included in Schedules 1 and 2 is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

KPMG LLP

October 25, 2012

CARROLL COUNTY HEALTH SERVICES CORPORATION
AND SUBSIDIARIES

Consolidated Balance Sheets

June 30, 2012 and 2011

(In thousands)

Assets		**2012**	**2011**
Current assets:			
Cash and cash equivalents	$	35,515	32,432
Short-term investments		14,501	14,323
Current portion of assets limited as to use		12,232	12,350
Patient receivables, net of allowance for uncollectible of $7,437 in 2012 and $6,629 in 2011		24,745	23,017
Other receivables		3,262	1,554
Inventory		3,980	3,410
Prepaid expenses		3,359	2,747
Total current assets		97,594	89,833
Property and equipment, net		150,188	154,306
Long-term investments		54,293	55,455
Long-term investments – other		16,846	19,165
Investments in joint ventures		4,129	4,696
Assets limited as to use, less current portion		29,629	16,370
Other assets		17,961	14,118
Total assets	$	370,640	353,943
Liabilities and Net Assets			
Current liabilities:			
Current portion of long-term debt	$	3,568	1,921
Current obligation under capital lease		774	1,066
Accounts payable and accrued expenses		25,334	23,021
Accrued payroll and related taxes		8,915	9,287
Deferred revenue		168	214
Advances from third-party payors		8,491	6,724
Total current liabilities		47,250	42,233
Long-term debt, less current portion		137,174	135,607
Long-term obligation under capital lease, less current portion		343	696
Other liabilities		35,114	24,740
Accrued pension and postretirement benefits		19,849	6,874
Total liabilities		239,730	210,150
Net assets:			
Unrestricted:			
Unrestricted net assets		114,019	134,132
Noncontrolling interest in consolidated subsidiaries		5,248	4,316
Total unrestricted net assets		119,267	138,448
Restricted:			
Temporarily restricted		10,528	4,232
Permanently restricted		1,115	1,113
Total restricted net assets		11,643	5,345
Total net assets		130,910	143,793
Total liabilities and net assets	$	370,640	353,943

See accompanying notes to consolidated financial statements.

CARROLL COUNTY HEALTH SERVICES CORPORATION
AND SUBSIDIARIES

Consolidated Statements of Operations

Years ended June 30, 2012 and 2011

(In thousands)

		2012	2011
Unrestricted revenues, gains, and other support:			
Net patient service revenue	$	259,790	234,960
Other operating revenues		21,880	19,920
Net assets released from restrictions used for operations		21	20
Total unrestricted revenues, gains, and other support		281,691	254,900
Expenses:			
Salaries and wages		111,427	103,349
Employee benefits		22,175	19,581
Departmental supplies and expenses		47,376	38,206
Professional fees		18,598	18,325
Purchased services		37,428	31,461
Depreciation and amortization		17,420	15,993
Interest		8,746	8,556
Provision for bad debts		10,694	9,980
Total expenses		273,864	245,451
Operating income (loss)		7,827	9,449
Other income (expense):			
Investment income		20	8,855
Unrestricted gifts		1,855	2,039
Change in fair value of interest rate hedge, including settlement payments		(11,792)	1,559
Other, net		(2,152)	(854)
Excess (deficit) of revenues over expenses	$	(4,242)	21,048

See accompanying notes to consolidated financial statements.

CARROLL COUNTY HEALTH SERVICES CORPORATION
AND SUBSIDIARIES

Consolidated Statements of Changes in Net Assets

Years ended June 30, 2012 and 2011

(In thousands)

		Unrestricted net assets	Temporarily restricted net assets	Permanently restricted net assets	Total net assets
Balance at June 30, 2010	$	110,390	1,158	1,113	112,661
Excess of revenues over expenses		21,048	—	—	21,048
Restricted gifts, bequests, and contributions		—	3,306	—	3,306
Change in unrealized gains/losses other than trading securities		—	240	—	240
Net assets released from restrictions used for capital expenditures		452	(452)	—	—
Net assets released from restrictions used for operations		—	(20)	—	(20)
Distributions to noncontrolling owners		(924)	—	—	(924)
Change in funded status of pension plan and postretirement		7,482	—	—	7,482
Changes in net assets		28,058	3,074	—	31,132
Balance at June 30, 2011		138,448	4,232	1,113	143,793
Deficit of revenues over expenses		(4,242)	—	—	(4,242)
Restricted gifts, bequests, and contributions		—	6,843	2	6,845
Change in unrealized gains/losses other than trading securities		—	7	—	7
Net assets released from restrictions used for capital expenditures		533	(533)	—	—
Net assets released from restrictions used for operations		—	(21)	—	(21)
Distributions to noncontrolling owners		(1,475)	—	—	(1,475)
Contributions from noncontrolling owners		914	—	—	914
Change in funded status of pension plan and postretirement		(14,911)	—	—	(14,911)
Changes in net assets		(19,181)	6,296	2	(12,883)
Balance at June 30, 2012	$	119,267	10,528	1,115	130,910

See accompanying notes to consolidated financial statements.

CARROLL COUNTY HEALTH SERVICES CORPORATION
AND SUBSIDIARIES

Consolidated Statements of Cash Flows

Years ended June 30, 2012 and 2011

(In thousands)

		2012	2011
Cash flows from operating activities:			
Change in net assets	$	(12,883)	31,132
Adjustments to reconcile change in net assets to net cash provided by operating activities:			
Depreciation and amortization		17,420	15,993
Provision for bad debts		10,694	9,980
Change in funded status of pension plan and postretirement		14,911	(7,482)
Equity in losses (earnings) of joint ventures and alternative investments		568	22
Loss on disposition of property and equipment		198	129
Distributions to noncontrolling interest holder		1,475	924
Contributions from non controlling interest holder		(914)	—
Restricted gifts, bequests, and contributions		(6,845)	(3,306)
Change in net unrealized gains on investments		(186)	(5,766)
Loss on early extinguishment of debt		908	—
Realized gains on sales of investments		1,894	(649)
Change in unrealized and realized losses (gains) on derivative instruments		11,792	(1,559)
Changes in assets and liabilities:			
Patient and other receivables		(14,128)	(9,306)
Inventory		(570)	428
Prepaid expenses		(612)	364
Other assets		(3,043)	(1,424)
Accounts payable, accrued expenses, accrued payroll and related taxes, and other liabilities		(737)	(2,554)
Deferred revenue		(46)	18
Advances from third-party payors		1,767	2,270
Net cash provided by operating activities		21,663	29,214
Cash flows from investing activities:			
Purchases of property and equipment, net		(12,912)	(13,209)
Proceeds from sale of property and equipment		21	—
Investment in joint ventures		(87)	(546)
Net purchases of investments		974	(21,045)
Sales of long-term investments, other		—	1,465
Purchases of assets limited as to use, net		(13,134)	(4,612)
Distributions from joint ventures		700	659
Payment on derivative instrument		(676)	(2,760)
Cash paid for acquisitions		(2,300)	(5,933)
Net cash used in investing activities		(27,414)	(45,981)
Cash flows from financing activities:			
Proceeds from issuance of long-term debt		88,829	1,684
Payments on long-term debt		(85,634)	(1,524)
Payments on capital lease obligation		(645)	(1,156)
Distributions to noncontrolling interest holder		(1,475)	(924)
Contributions from noncontrolling interest holder		914	—
Proceeds from restricted gifts, bequests, and contributions		6,845	3,306
Net cash provided by financing activities		8,834	1,386
Net decrease in cash and cash equivalents		3,083	(15,381)
Cash and cash equivalents, beginning of year		32,432	47,813
Cash and cash equivalents, end of year	$	35,515	32,432
Supplemental cash flow information:			
Interest paid	$	8,746	8,556
Medical office building		23	391
Additions to property and equipment for capital leases		363	678

See accompanying notes to consolidated financial statements.

(1) Summary of Significant Accounting Policies

(a) Organization

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

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

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

Carroll County Med-Services, Inc. (CCMS) is a wholly owned subsidiary of CCHS that is involved in real estate holdings, physician recruitment, and support service activities, and maintains ownership interests in various joint ventures as described in note 7. CCMS physician practices consist of: Carroll OB/GYN Associates, LTD, Family Medical Associates (FMA), LLC, Advanced Urology Associates LLC, Carroll Endocrinology Associates Inc, Om Cardiovascular LLC (Dba Cardiovascular Consultants of Carroll County), Advanced OB GYN Care LLC, Carroll Neurosurgical Associates LLC, Carroll Orthopaedic Specialists LLC, Carroll Vascular Center LLC, Carroll Surgical Specialists LLC and Carroll Neurology Associates LLC are wholly owned subsidiaries of CCMS. Effective January 1, 2012, all of the aforementioned practices were consolidated into one multi-specialty practice called Carroll Health Group, LLC. Carroll County CMO, LLC is also a wholly owned subsidiary of CCMS, which is a contract management organization for physician's on CHC's medical staff that obtain fee-for-service contracts with payors. Carroll Care Pharmacies, LLC is a 60% owned joint venture that owns and operates retail pharmacies. Carroll Occupational Health, LLC is a 75% owned joint venture that provides occupational health and wellness services. Carroll Ear, Nose and Throat, LLC is a 50% owned joint venture that provides otolaryngology services.

(b) Basis of Presentation

The consolidated financial statements are prepared on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles (GAAP). All majority-owned and direct member entities are consolidated. All entities where the System exercises significant influence but for which it does not have control are accounted for under the equity method. All other entities are accounted for under the cost method. All significant intercompany accounts and transactions have been eliminated.

(c) Use of Estimates

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

(d) Excess (Deficit) of Revenues over Expenses

The consolidated statements of operations and changes in net assets include a performance indicator, excess (deficit) of revenues over expenses. Changes in unrestricted net assets that are excluded from excess (deficit) of revenue over expenses, include contributions of long-lived assets (including assets acquired using contributions that by donor restriction were to be used for the purpose of acquiring such assets), certain changes in accounting principle, contribution from and distributions to noncontrolling owners and defined benefit obligations in excess of recognized pension cost, among others.

(e) Cash and Cash Equivalents

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

(f) Inventory

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

(g) Assets Limited as to Use

Assets limited as to use primarily include assets held by trustees under bond indenture agreements, self-insurance trust arrangements, collateral related to derivative instruments and lines of credit, physician loan program, pledges receivable, assets restricted by donor, and assets designated by the board of directors for future capital improvements and other purposes over which it retains control and may, at its discretion, use for other purposes.

(Continued)

(In thousands)

(h) Property and Equipment

Property and equipment acquisitions are recorded at cost and are depreciated over the estimated useful lives of the assets. Estimated useful lives range from 3 to 50 years. Amortization of assets held under capital leases are computed using the shorter of the lease term or the estimated useful life of the leased asset and is included in depreciation and amortization expense.

The Health System periodically evaluates the realizability of property and equipment based upon projected undiscounted cash flows and operating income for each business. There were no impairments of long lived assets during the years ended June 30, 2012 and 2011.

Depreciation is computed on a straight-line basis. Major classes and estimated useful lives of property and equipment are as follows:

Leasehold improvements	Lease term
Building and improvements	5 – 50 years
Equipment	3 – 10 years

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

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

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

The Health System has investments in alternative investments, primarily hedge funds of funds totaling $16,846 and $19,165 at June 30, 2012 and 2011, respectively. These funds utilize various types of debt and equity securities and derivative instruments in their investment strategies. Alternative investments are recorded under the equity method and the change in equity interest is included in nonoperating gains (losses) on the consolidated statement of operations and changes in net assets.

Investment income (interest and dividends) including realized gains and losses on investment sales are reported as nonoperating gains or losses in the excess (deficit) of revenues over expenses in the accompanying consolidated statements of operations and changes in net assets unless the income or loss is restricted by the donor or law. Realized gains and losses are determined based on the specific security's original purchase price and recorded in nonoperating gains (losses). Unrealized gains and losses are included in nonoperating gains (losses) within the excess (deficit) of revenue over (under) expenses.

(j) Investments in Joint Ventures and Partnerships

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

(k) Derivative Instruments

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

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

(l) Bond Issuance and Financing Costs

Costs related to issuance of debt instruments are deferred and amortized using the effective-interest method over the life of the instrument. Accumulated amortization was $171 and $726 as of June 30, 2012 and 2011, respectively. In 2012, the Health System wrote off $589 of accumulated amortization related to the repayment of the 2002 Revenue Bonds in conjunction with the 2012 debt refinancing.

(m) Net Patient Service Revenue

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

On March 31, 2011, the Hospital and the HSCRC agreed to a three year contract for the Hospital to implement the Total Patient Revenue (TPR) methodology, effective July 1, 2010. The TPR agreement establishes a prospective, fixed revenue base, the "TPR cap," for the upcoming year. This includes both inpatient and outpatient regulated services. Under TPR, the Hospital's revenue for all HSCRC regulated services is predetermined for the upcoming year, regardless of changes in volume, service mix intensity, or mix of inpatient or outpatient services that occurred during the year. The TPR agreement allows the Hospital to adjust unit rates, within certain limits, to achieve the overall revenue base for the System at year end. Any overcharge or undercharge versus the TPR cap is prospectively added to the subsequent year's TPR cap. Although the TPR cap does not adjust for changes in volume or service mix, the TPR cap is adjusted annually for inflation, and for changes in payor mix and uncompensated care. Beginning in year three of the three year contract, the Hospital will receive an annual adjustment to its cap for the change in population in the Hospital's service area. TPR is designed to encourage hospitals to operate efficiently by reducing utilization and managing patients in the appropriate care delivery setting.

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

(n) Other Operating Revenue

Other operating revenue mostly comprises pharmaceutical sales from Carroll Care Pharmacies, LLC. Other operating revenue activities also include various community education and outreach programs, rental income, professional fee revenue, and cafeteria and vending sales.

(o) Self-Insurance

The Health System maintains self-insurance programs for workers' compensation and employee health benefits. The Health System is also self-insured for general and professional liability under a claims-made policy through its wholly owned subsidiary, Cen-Mar Assurance Company. Expenses related to these programs include estimates for incurred but not reported claims as of June 30, 2012 and 2011. The estimates are based on actuarial analysis of historical trends, claims asserted, and reported incidents and are discounted.

(p) Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are those whose use by the Health System or individual operating units has been limited by donors to a specific time period or purpose. Permanently restricted net assets have been restricted by donors to be maintained by the Health System or individual operating units in perpetuity.

(q) Donor-Restricted Gifts

Unconditional promises to give cash and other assets to the Health System are reported at fair value at the date the promise is received. Conditional promises to give and indications of intentions to give are reported at fair value at the date the gift is received. The gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or

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purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the statements of operations as net assets released from restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are reported as unrestricted contributions in the accompanying consolidated financial statements.

(r) Income Taxes

The Health System and its subsidiaries, except for CCMS, CCR, and Cen-Mar, have been recognized by the Internal Revenue Service (IRS) as tax-exempt under Section 501(c)(3) of the Internal Revenue Code and are exempt from income taxes on related income. CCMS is organized as a for-profit entity and, therefore, is subject to federal and state income taxes, which are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

(s) New Accounting Pronouncements

In August 2010, the FASB issued ASU No. 2010-24, *Health Care Entities (Topic 954), Presentation of Insurance Claims and Related Insurance Recoveries* (ASU 2010-24), which clarified that a healthcare entity should not net insurance recoveries against a related claim liability. Additionally, the amount of the claim liability should be determined without consideration of insurance recoveries. The Health System adopted ASU 2010-24 on July 1, 2011. The adoption of this ASU did not have an impact on the Health System’s consolidated financial statements.

In August 2010, the FASB issued ASU No. 2010-23, *Health Care Entities (Topic 954), Measuring Charity Care for Disclosure* (ASU 2010-23). ASU 2010-23 is intended to reduce the diversity in practice regarding the measurement basis used in the disclosure of charity care. ASU 2010-23 requires that cost be used as the measurement basis for charity care disclosure purposes and that cost be identified as the direct and indirect cost of providing the charity care, and requires disclosure of the method used to identify or determine such costs. The Health System adopted the provisions of ASU 2010-23 on July 1, 2011 (see note 20). Since the Health System does not recognize revenue when charity care is provided, adoption of this guidance did not have an impact on the consolidated financial statements.

In July 2011, the FASB issued Accounting Standards Update (ASU) No. 2011-07, *Health Care Entities (Topic 954), Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts, and the Allowance for Doubtful Accounts for Certain Health Care Entities* (ASU 2011-07), which requires a health care entity 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).

(In thousands)

Additionally, enhanced disclosures about an entity's policies for recognizing revenue, assessing bad debts, as well as qualitative and quantitative information about changes in the allowance for doubtful accounts are required. The adoption of ASU 2011-07 is effective for the Health System beginning July 1, 2012 and is not expected to have a material impact on the Health System's consolidated financial statements.

(2) Assets Limited as to Use

Assets limited as to use, stated at fair value, as of June 30, 2012 and 2011, include the following:

		2012	2011
Donor-restricted:			
Pledges receivable, less allowance of $1,164 in 2012 and $429 in 2011	$	9,162	3,468
Donor-restricted investments:			
Cash and cash equivalents		1,257	548
Government and corporate bonds		147	171
Mutual funds invested in equity securities		853	907
Investments in limited partnerships		241	267
		2,498	1,893
Cen-Mar Reserves held:			
Cash and cash equivalents		6,561	788
Government and corporate bonds		326	5,272
		6,887	6,060
Funds held by trustee:			
Money market funds		1,008	4,291
Government and corporate bonds		3,574	9,152
		4,582	13,443
Collateral held for derivative instruments and Lines of Credit and Other:			
Cash and cash equivalents		11,860	65
Government and corporate bonds		3,465	—
Mutual funds invested in equity securities		1,762	1,825
Investments in limited partnerships		1,645	1,966
		18,732	3,856
Total assets limited as to use		41,861	28,720
Less current portion		12,232	12,350
Total assets limited as to use, less current portion	$	29,629	16,370

(Continued)

(In thousands)

The net present value of donor-restricted pledges receivable at June 30, 2012 totaled $9,162, discounted at 6%, and net of an allowance for uncollectible pledges of $1,164. The payment terms of the net present value of the pledges receivable at June 30, 2012 are as follows for the years ending June 30:

2013	$	2,448
2014		2,042
2015		1,985
2016		1,920
2017 and thereafter		1,931
		10,326
Less allowance for uncollectible pledges		(1,164)
	$	9,162

Funds held by the trustee as of June 30, 2012 and 2011 are as follows:

		2012	2011
Debt service reserve fund	$	3,229	8,612
Principal and interest fund		1,353	4,831
	$	4,582	13,443

The debt service reserve fund has been established to provide for future deficiencies, if any, in various bond repayment terms established by the 2002 and the 2006 Maryland Health and Higher Educational Facilities Authority Loan Agreements. The principal and interest fund comprises monthly installment payments paid by the Health System to the trustee in accordance with the loan agreement. The trustee releases these funds to respective bondholders on January 1 and July 1 of each year. In May 2012, the Health System repaid the outstanding principal balance related to the 2002 Revenue Bonds with proceeds from the issuance of the 2012 Revenue Bonds. As of June 30, 2012, there are no longer debt service reserve requirements as it relates to the 2002 Revenue Bonds.

(In thousands)

(3) Property and Equipment, Net

Property and equipment, net as of June 30, 2012 and 2011 are as follows:

	2012	2011
Land	$ 4,622	3,583
Land improvements	24,438	24,412
Building and building improvements	131,080	128,378
Computer software and hardware	39,456	34,206
Equipment	93,022	87,095
Leasehold improvements	6,233	5,849
	298,851	283,523
Less accumulated depreciation and amortization	(152,151)	(134,594)
	146,700	148,929
Construction in progress	3,488	5,377
	$ 150,188	154,306

Depreciation expense for the years ended June 30, 2012 and 2011 was $16,811 and $15,894, respectively. Construction in progress represents costs incurred on the Health System's expansion projects and other facility renovations not completed as of June 30, 2012.

During September 2008, the Hospital entered into a 50-year ground lease on the campus of the Hospital to a nonaffiliated developer. Under the terms of the ground lease, the developer constructed a Medical Office Building (MOB), which the developer owned and operated during the construction period. Construction was completed in December 2009 and ownership of the MOB was transferred to Carroll MOB Associates, LLC. The Hospital determined that due to certain structural elements installed by the Hospital during construction, the Hospital is required to be treated, for accounting purposes, as the "owner" of the MOB, in accordance with FASB ASC Subtopic 840-40, *Leases-Sale-Leaseback Transactions* (Emerging Issues Task Force (EITF) Issue No. 97-10, *The Effect of Lessee Involvement in Asset construction*). The MOB has a total of 77,000 sq. ft., of which the Health System leases 70,800 sq ft., broken down as follows: Hospital (37,000 sq ft), CCR (18,400 sq ft), and CCMS (15,400 sq ft).

(In thousands)

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

		Future minimum lease payments
Year ending June 30:		
2013	$	2,058
2014		2,094
2015		1,928
2016		1,758
2017		1,788
Thereafter		4,658
Total minimum lease payments	$	14,284

The cost of the asset was $16,248 and $16,225 for the years ended June 30, 2012 and 2011, respectively, and is included in building and building improvements with the offsetting obligation in other long-term liabilities. Total accumulated depreciation on the MOB is $1,722 and $1,072 as of June 30, 2012 and 2011, respectively.

(4) Short-Term and Long-Term Investments

Investments, at fair value, as of June 30, 2012 and 2011 are as follows:

		2012	2011
Money market account and certificate of deposits	$	2,607	1,116
Government and corporate bonds		39,945	34,701
Mutual funds invested in equity securities		26,242	33,961
	$	68,794	69,778

Investments are classified as of June 30, 2012 and 2011 as follows:

		2012	2011
Short-term investments	$	14,501	14,323
Long-term investments		54,293	55,455
	$	68,794	69,778

(In thousands)

The Health System's consolidated total return on short-term and long-term investments, cash and cash equivalents, assets limited to use, long-term investments – other, and investments in joint ventures and partnerships were as follows for the years ended June 30, 2012 and 2011:

		2012	2011
Investment income:			
Interest and dividend income	$	1,729	2,156
Realized (losses)gains on securities		(1,894)	131
Unrealized gains on securities		179	4,130
Investments in joint ventures and partnerships:			
Equity method earnings (losses)		76	(22)
Cost method dividend income		544	546
Equity in gains on long-term investments – other:			
Equity method (losses) earnings		(614)	1,914
Total investment income		20	8,855
Other changes in net assets:			
Net change in unrealized gains on other-than-trading securities in restricted net assets		7	240
Total other changes in net assets		7	240
Total investment return	$	27	9,095

(5) Fair Value of Financial Instruments

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

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

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

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

(In thousands)

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

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

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

The following table presents assets that are measured at fair value on a recurring basis as of June 30, 2012:

	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Assets:				
Cash	$ 19,679	—	—	19,679
Money market funds	3,615	—	—	3,615
Mutual funds and equity securities	28,856	—	—	28,856
Government and corporate bonds	47,131	326	—	47,457
Total assets	$ 99,281	326	—	99,607
Liabilities:				
Derivative instrument	$ —	14,702	—	14,702

(In thousands)

The following table presents assets that are measured at fair value on a recurring basis as of June 30, 2011:

		Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Assets:					
Cash	$	1,408	—	—	1,408
Money market funds		5,400	—	—	5,400
Mutual funds and equity securities		36,693	—	—	36,693
Government and corporate bonds		44,024	5,272	—	49,296
Total assets	$	87,525	5,272	—	92,797
Liabilities:					
Derivative instrument	$	—	3,586	—	3,586

There were no significant transfers between levels 1, 2 and 3 during the years ended June 30, 2012 and 2011. The Health System holds $1,886 and $2,233 in Alternative Investments at June 30, 2012 and 2011 respectively, which are restricted as to use and pledged as collateral for a line of credit.

(In thousands)

(6) Long-Term Investments – Other

Total long-term investments – other consists of 17 limited partnership investments, which amount to $16,846 and $19,165 as of June 30, 2012 and 2011, respectively, as follows:

		2012	2011
Pine Grove	$	3,493	3,537
Silver Creek Low Vol.		946	1,120
Oaktree Cap Management		125	135
WMS Income Opportunity Fund		570	651
Touchstone Opportunity Fund		196	795
Mariner Access Fund		—	432
OZ OFII Access		365	366
Partners Group Private		234	214
Endowment Fund		1,002	1,043
Chesapeake Investments		891	867
Greenspring Fund		1,055	969
Lanx Offshore Partners		1,149	1,202
Silver Creek Early Advantage		322	744
Seamark Fund		2,598	2,949
Archstone Offshore Fund		2,624	2,739
Collins Capital		199	352
Titan Masters International Fund		1,077	1,050
Total	$	16,846	19,165

The Health System's limited partnership investments are reported under the equity method, based on the fair value of the underlying investments of the partnership. In the case of certain less marketable underlying investments, principally real estate, natural resources, and private equity investments, value is established based on either external events, which substantiate a change in fair value, or a reasonable methodology that exists to capture and quantify changes in value. In some instances, those changes in value may require the use of significant estimates. Accordingly, such values may differ materially from the values that would have been used had an active market for the investments existed. The Silver Creek Low Volatility and Silver Creek Early Advantage funds are being liquidated. Management anticipates the liquidation process to be completed within the next 2 to 4 years.

(In thousands)

(7) Investments in Joint Ventures

Investments in joint ventures and partnerships, accounted for under the equity or cost method, consist of the following at June 30, 2012 and 2011:

		2012		2011	
Joint venture	**Business purpose**	**Percentage ownership**	**Balance**	**Percentage ownership**	**Balance**
Carroll County Dialysis Facilities, LP	Dialysis services	33%	$ 678	33%	$ 519
Carroll County Sleep Disorder Services. LLC	Sleep disorder services	33	23	33	29
Carroll Digestive Disease Center, LLC	Diagnostic services	10	18	10	18
Advanced PET Imaging of Maryland, LP	Diagnostic services	5	8	5	8
New Maryland Kidney Stone Management, LLC	Lithotripsy services	1	—	1	—
Mt. Airy Surgery Center	Diagnostic services	50	4	50	117
Colonial Regional Alliance	Purchasing partnership	13	64	—	—
Mt. Airy Plaza, LLC	Real estate activities	50	1,289	50	1,278
Carroll MOB Associates, LLC	Medical Office Building	36	1,414	36	2,015
Premier Purchasing Partners, LP	Purchasing partnership	0.12	246	0.12	276
Mt. Airy Health Services, LLC	Diagnostic services	50	385	50	436
Total			$ 4,129		$ 4,696

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

(In thousands)

(8) Other Assets

Other assets as of June 30, 2012 and 2011 are as follows:

		2012	2011
Notes receivable, net	$	6	145
Financing costs, net		2,007	1,868
Goodwill		4,519	2,234
Other intangible assets, net		1,994	2,313
Deferred compensation assets		4,039	3,790
Reinsurance recoverable		4,913	3,376
Other		483	392
	$	17,961	14,118

On June 30th, 2011, the Health System purchased the assets of Carroll Regional Cancer Center for $5,933. Included above is $1,800 and $2,250 in Other intangible assets, net as of June 30th, 2012 and 2011, respectively. Goodwill related to the acquisition of the Cancer center was $2,150 in 2011. In February 2012, CCR acquired an imaging center in Westminster, MD for $2,300. Goodwill related to the acquisition was $2,285.

(In thousands)

(9) Long-Term Debt

Long-term debt as of June 30, 2012 and 2011 is as follows (the indebted entity is noted parenthetically):

		2012	2011
Bond payable:			
Maryland Health and Higher Educational Facilities Authority: Revenue Bonds, Carroll County General Hospital Issue, Series 2002; interest rates ranging from 3.5% to 6.0%; due in July 2037	$	—	85,315
Maryland Health and Higher Educational Facilities Authority: Revenue Bonds, Carroll Hospital Center Issue, Series 2006; interest rates ranging from 4.5% to 5.0%; due in June 2041		35,000	35,000
Maryland Health and Higher Educational Facilities Authority: Revenue Bonds, Carroll Hospital Center Issue, Series 2010; interest rates based on 68% of the 30-day LIBOR plus 1.1%, (1.34% and 1.24% at June 30, 2012 and 2011, respectively); due in July 2020		14,339	14,015
Maryland Health and Higher Educational Facilities Authority: Revenue Bonds, Carroll Hospital Center Issue, Series 2012A; interest rates ranging from 2% to 5%; due in July 2037		59,780	—
Maryland Health and Higher Educational Facilities Authority: Revenue Bonds, Carroll Hospital Center Issue, Series 2012 B&C; interest rates based on 78% of the 30-day LIBOR plus 1.05%, (1.26% at June 30, 2012); due in May 2022		24,133	—
Mortgage Payable Line of Credit; interest rates based on 30-day LIBOR plus 1.7% (1.94% and 1.89% at June 30, 2012 and 2011, respectively) due in February 2013		1,831	1,558
Bank loan payable; interest at 5.125%; due in June 2014 (CCMS); secured by Carroll Care Pharmacies, LLC pharmacy inventory and equipment		626	515
Other		150	30
		135,859	136,433
Plus Unamortized net premium		4,883	1,095
		140,742	137,528
Less current maturities		3,568	1,921
	$	137,174	135,607

(Continued)

(In thousands)

The MHHEFA 2002, 2006, 2010 and 2012 Revenue Bonds are collateralized by a deed of trust on certain facilities and property and a pledge of certain receipts.

Aggregate maturities of long-term debt as of June 30, 2012 are as follows during the years ending June 30:

2013	$	3,568
2014		3,339
2015		3,569
2016		3,411
2017		3,456
Thereafter		118,516
	$	135,859

In June 2002, the Maryland Health and Higher Education Facilities Authority (MHHEFA) issued Carroll County General Hospital Issue Series 2002 Bonds on behalf of the Health System, resulting in proceeds of $91,760, of which annual principal payments are made from July 1, 2005 through July 1, 2037. During 2012 the Health System repaid the outstanding principle balance of $85,315 utilizing proceeds from the MHHEFA 2012 Revenue Bonds issuance discussed below.

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

In June 2010, the Health System entered into a $15,000 MHHEFA Direct Purchase financing transaction with Branch Banking and Trust Company (the Series 2010 Bonds). The Series 2010 Bonds mature monthly from July 1, 2010 through July 1, 2020. As of June 30, 2012 and 2011, the total outstanding principle balance was $14,339 and $14,015, respectively.

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

In May 2012, the Health System entered into a $30,010 MHEEFA Direct Purchase financing transaction with Branch Banking and Trust Company (the Series 2012B and C Bonds). As of June 30, 2012 the Health System has drawn $24,133 of the available debt. The Series 2012B and C Bonds mature monthly from August 1, 2012 through July 1, 2042. The primary use of the proceeds was to repay the Series 2002 debt and to fund certain capital projects. The Series 2012B and C Bonds are subject to refinancing at the option of the bank in 2022.

(In thousands)

The fair value of outstanding tax-exempt bonds is estimated to be $140,714 and $136,195 as of June 30, 2012 and 2011, respectively. The fair value of other long-term debt and bank loans payable approximates its carrying value.

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

On February 23, 2007, the Health System entered into a floating-to-fixed interest rate swap agreement (Swap) with Merrill Lynch Capital Services, Inc. to hedge a future debt issuance. The Swap upon acquisition had a notional amount of $50,000 with an effective date of December 15, 2009 at a fixed rate of 4.6% and floating rate of 90.1% of three-month LIBOR. The swap has a termination date of December 15, 2039. During fiscal year 2010, the effective date was extended to December 15, 2011. During fiscal year 2011, The Health System paid down the swap liability by $2,760, which decreased the notional amount to $30,000. The Health System has recorded the change in fair value from the swap agreement in the amount of $(11,116) and $1,559 and settlement payments of $(676) and $0 as a component of other income/expense in the consolidated statements of operations for the years ended June 30, 2012 and 2011, respectively. The fair value of the interest rate swap was approximately $(14,702) and $(3,586) at June 30, 2012 and 2011, respectively, and is included in other liabilities. The Health system is subject to a collateral posting requirement with the swap counterparty. Collateral posting requirements are based on the net liability position of the total interest rate swap agreement outstanding with the counterparty. The amount of such posted collateral was $15,324 at June 30, 2012 (none at June 30, 2011).

(10) Other Liabilities

Other liabilities as of June 30, 2012 and 2011 are as follows:

		2012	2011
Medical office building	$	14,525	15,152
Interest rate swap		14,702	3,586
Deferred revenue		750	1,050
Deferred compensation liability		4,039	3,790
Other		1,098	1,162
	$	35,114	24,740

(11) Income Tax

At June 30, 2012, the Health System has approximately $28,150 of net operating loss carryforwards, primarily at CCMS, that will expire through 2032. The net operating loss carryforwards created a net deferred tax asset of approximately $12,858 and $9,664 as of June 30, 2012 and 2011, respectively. Management has determined that it is more likely than not that the Health System will not be able to utilize the deferred tax assets; therefore, a full valuation allowance has been recorded against the deferred tax asset as of June 30, 2012 and 2011.

(In thousands)

(12) Retirement Plans

The Health System sponsors a Defined Benefit Cash Balance Plan (the Plan) covering substantially all of the employees of the Hospital, CCMS, and the Foundation. The Health System's funding policy is to make contributions to the Plan based on actuarially determined amounts necessary to provide assets sufficient to meet benefits to be paid to plan participants and to meet the minimum funding requirements of the Employee Retirement Income Security Act of 1974 and IRS regulations, plus such amounts as the Health System may determine to be appropriate from time to time. Under the cash balance plan structure, the benefits under the Plan are determined based on employee tenure rather than age. The Health System elected to freeze benefit accruals and participation in its defined benefit pension plan on December 31, 2006.

The following tables set forth the changes in the projected benefit obligation, the changes in the Plan's assets, the Plan's funded status, the amounts recognized in the Health System's consolidated financial statements, and the Plan's net periodic pension cost as of June 30, 2012 and 2011:

		2012	2011
Change in projected benefit obligation:			
Projected benefit obligation at beginning of period	$	49,641	51,060
Interest cost		2,891	2,765
Actuarial loss		13,200	(2,531)
Benefits paid		(1,736)	(1,653)
Projected benefit obligation at end of period		63,996	49,641
Change in plan assets:			
Fair value of plan assets at beginning of period		43,603	35,855
Actual return on plan assets		(114)	6,161
Employer contribution		2,640	3,240
Benefits paid		(1,736)	(1,653)
Fair value of plan assets at end of period		44,393	43,603
Funded status	$	(19,603)	(6,038)

The accumulated benefit obligation for the Plan was $63,996 and $49,641 at June 30, 2012 and 2011, respectively.

(In thousands)

Net periodic pension expense for the years ended June 30, 2012 and 2011 was as follows:

		2012	2011
Components of net periodic pension expense:			
Interest cost	$	2,891	2,762
Expected return on plan assets		(3,080)	(2,543)
Amortization of actuarial loss		869	1,384
Net periodic pension expense	$	680	1,603

Assumptions used by the Health System to determine the benefit obligation as of June 30, 2012 and 2011 (the measurement date) are as follows:

	2012	2011
Discount rate	4.25%	5.75%

Assumptions used by the Hospital in the determination of net periodic pension expense for the years ended June 30, 2012 and 2011 are as follows:

	2012	2011
Discount rate	5.75%	5.50%
Expected long-term rate of return on plan assets	7.00	7.00

Deferred pension costs, which have not yet been recognized in periodic pension expense but are accrued in unrestricted net assets are $28,437 and $12,911 at June 30, 2012 and 2011 respectively. Deferred pension costs represent unrecognized actuarial losses or unexpected changes in the projected benefit obligation and plan assets over time primarily due to changes in assumed discount rates and investment experience. The amount of deferred pension costs expected to be recognized as a components of net periodic pension costs during the year ending June 30, 2013 is $1,610.

The Health System's weighted average asset allocations for the plan assets as of June 30, 2012 and 2011 are as follows:

	2012	2011
Mutual funds and equity securities	46.3%	46.3%
Government and corporate bonds	23.4	24.6
Alternative investments	21.5	19.5
Cash and cash equivalents	8.8	9.6
	100.0%	100.0%

(Continued)

(In thousands)

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

The following table presents the Plan's assets measured at fair value at June 30, 2012:

		Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Assets:					
Cash and cash equivalents	$	3,912	—	—	3,912
Mutual funds and equity securities		20,538	—	—	20,538
Government and corporate bonds		10,377	—	—	10,377
Alternative investments		—	—	9,566	9,566
Total assets	$	34,827	—	9,566	44,393

The following table presents the Plan's assets measured at fair value at June 30, 2011:

		Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Assets:					
Cash and cash equivalents	$	4,425	—	—	4,425
Mutual funds and equity securities		19,750	—	—	19,750
Government and corporate bonds		6,645	—	—	6,645
Alternative investments		—	4,297	8,486	12,783
Total assets	$	30,820	4,297	8,486	43,603

(Continued)

(In thousands)

During fiscal year 2012, Level 3 investments within the pension plan assets increased by $1,080. This increase was the result of purchases of $1,500, redemptions of $419 and loss on earnings in investments of $1. There were no significant transfers between levels 1, 2 and 3 during the years ended June 30, 2012 and 2011.

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

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

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

The Health System expects to contribute $3,600 to the Plan in 2013.

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

2013	$	2,108
2014		2,217
2015		2,323
2016		2,442
2017		2,557
Years 2018 – 2021		15,498
	$	27,145

The current defined contribution (403(b)) program was redesigned and serves as the primary retirement program beginning as of January 1, 2007. The Health System has accrued a liability of $675 and $625 as of June 30, 2012 and 2011, respectively, for benefits earned under this plan. The Health System expensed total employee contributions of $1,991 and $1,842 for the years ended June 30, 2012 and 2011, respectively.

The Health System has a supplemental retirement plan (Retirement Plan) for certain key employees. Employees become fully vested based on the vesting schedule pursuant to the Retirement Plan documents. The assets of the Retirement Plan remain as the property of the Health System until distributed to participants. The Health System can make discretionary contributions to the Retirement Plan. The Health System made contributions of $242 for the years ended June 30, 2012 and 2011, which are included in employee benefits expense in the accompanying consolidated statements of operations. The Health System has recorded a liability and deferred compensation asset related to the Retirement Plan of $4,039 and $3,790 as of June 30, 2012 and 2011, respectively.

(In thousands)

(13) Postretirement Plan Other than Pension

The Health System sponsors a postretirement plan other than pension for employees. The Health System employees retired from active employment at 65 years of age or older or at 55 years of age after earning at least 10 years of vesting service are eligible for health and prescription drug benefits under the Hospital's self-insured health plan. Effective January 1, 2009, individuals are no longer permitted to participate in this Plan once they are Medicare eligible. Plan participants contribute premiums to the Plan in amounts determined by the Health System for Pre-Medicare and post-Medicare age retirees. During 2012, the Health System amended the plan to include higher deductibles, which resulted in the liability decrease.

The following tables set forth the changes in the projected benefit obligation, the changes in the Plan's assets, the Plan's funded status, the amounts recognized in the Health System's consolidated financial statements, and the Plan's postretirement benefit expense at June 30, 2012 and 2011:

		2012	2011
Change in projected benefit obligation:			
Projected benefit obligation at beginning of year	$	836	670
Service cost		16	68
Interest cost		11	42
Plan amendment		—	—
Actuarial gain		(623)	92
Employer contribution		6	(36)
Projected benefit obligation at end of year	$	246	836
Change in plan assets:			
Employer contribution	$	6	(36)
Plan participant distribution, net		(7)	(16)
Benefits paid, net		1	52
Fair value of plan assets at end of year	$	—	—

		2012	2011
Reconciliation of funded status to net amounts recognized in the consolidated financial statements:			
Funded status	$	(246)	(836)
Accrued benefit cost	$	246	836
Components of postretirement benefit expense:			
Service cost	$	16	68
Interest cost		11	42
Amortization of prior service cost		68	68
Recognized actuarial gain		(77)	(26)
Postretirement benefit expense	$	18	152

The accumulated benefit obligation for the Plan was $246 and $836 at June 30, 2012 and 2011, respectively.

Assumptions used by the Health System in the determination of the postretirement benefit obligation and benefit expense for the years ended June 30, 2012 and 2011 (the measurement date) are as follows:

	2012	2011
Weighted average rate used to determine benefit expense for the years ended June 30	5.75%	5.50%
Weighted average rate used to determine benefit obligations at June 30	4.25%	5.75%
Initial healthcare cost trend rate	10.50%	10.50%
Next year trend rate	8.00%	5.80%
Ultimate trend rate	3.40%	4.20%
Ultimate trend rate year	2099	2080

The Health System expects to contribute $4 to the postretirement benefit plan in 2012 – 2013.

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

2013	$	4
2014		5
2015		4
2016		9
2017		11
Years 2018 – 2019		95
	$	128

(Continued)

(In thousands)

(14) Noncontrolling Interests

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

	Total	CHC unrestricted net assets	Noncontrolling interest
Unrestricted net assets – June 30, 2010	$ 110,390	106,925	3,465
Excess of revenues over expenses	21,048	19,273	1,775
Net assets released from restrictions used for capital expenditures	452	452	—
Change in funded status of pension plan and postretirement	7,482	7,482	—
Distributions to noncontrolling owners	(924)	—	(924)
Change in unrestricted net assets	28,058	27,207	851
Unrestricted net assets – June 30, 2011	138,448	134,132	4,316
Excess of revenues over expenses	(4,242)	(5,735)	1,493
Net assets released from restrictions used for capital expenditures	533	533	—
Change in funded status of pension plan and postretirement	(14,911)	(14,911)	—
Contributions from noncontrolling owners	914	—	914
Distributions to noncontrolling owners	(1,475)	—	(1,475)
Change in unrestricted net assets	(19,181)	(20,113)	932
Unrestricted net assets – June 30, 2012	$ 119,267	114,019	5,248

(In thousands)

(15) Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are restricted as of June 30, 2012 and 2011 for the following:

		2012	2011
Hospice program	$	466	274
Cardiac services		142	26
Cancer programs		496	261
Capital campaign		8,892	3,017
Emergency department		102	250
Other		430	404
	$	10,528	4,232

Permanently restricted net assets are to be held in perpetuity, the income from which is expendable for the treatment of heart disease, oncology, cardiology, support of emergency room services, scholarships, and general building maintenance. Permanently restricted net assets, stated at fair value, totaled $1,115 and $1,113 at June 30, 2012 and 2011, respectively.

(16) Functional Expenses

The Health System provides general healthcare services to residents within its geographic location. Expenses related to providing these services, based on management estimates of expense allocations as of June 30, 2012 and 2011, are as follows:

		2012	2011
Healthcare services	$	234,519	211,025
General and administrative		39,345	34,426
	$	273,864	245,451

(17) Concentrations of Credit Risk

The Health System provides healthcare services through its inpatient and outpatient care facilities located primarily in Carroll County. The Health System generally does not require collateral or other security in extending credit; however, it routinely obtains assignment of (or is otherwise entitled to receive) patients' benefits receivable under their health insurance programs, plans, or policies (e.g., Medicare, Medicaid, Blue Cross, Workers' Compensation, health maintenance organizations (HMOs), and commercial insurance policies).

(In thousands)

The mix of receivables for the Health System at June 30, 2012 and 2011 is as follows:

	2012	**2011**
Medicare	28%	28%
Medicaid	11	10
Blue Cross	13	15
Commercial, HMOs, and other	31	33
Self-pay	17	14
	100%	100%

The mix of net patient service revenue for the Health System for the years ended June 30, 2012 and 2011 is as follows:

	2012	**2011**
Medicare	40%	40%
Medicaid	9	9
Blue Cross	14	15
Commercial, HMOs, and other	31	30
Self-pay	6	6
	100%	100%

(18) Health Services Cost Review Commission

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

During 1997, the HSCRC established an uncompensated care fund whereby the majority of hospitals are required to contribute a portion of revenues to this fund to help provide for the cost associated with charity care for all Maryland hospitals. The Hospital contributed $4,429 and $4,477 to this fund for the years ended June 30, 2012 and 2011, respectively. This contribution is recorded within net patient service revenue.

(19) Certain Significant Risks, Uncertainties, and Commitments

(a) Regulation and Reimbursement

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

- Dependence on revenues derived from reimbursement by the Federal Medicare and state Medicaid programs

- Regulation of hospital rates by the HSCRC
- Government regulation, government budgetary constraints, and proposed legislative and regulatory changes
- Lawsuits alleging malpractice or other claims

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

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

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

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

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

(b) Malpractice Insurance

The Health System is involved in litigation arising in the normal course of business. Claims alleging malpractice have been asserted and are currently in various states of litigation. Additional claims may be asserted arising from services provided to patients through June 30, 2012. On June 25, 2007, the Hospital established Cen-Mar Assurance Co. (the Captive) – an offshore, medical malpractice insurance company domiciled in the Cayman Islands. The Captive is a wholly owned subsidiary of the Hospital managed by Marsh Management Services (Cayman) Ltd. Malpractice insurance coverage through the Captive is effective July 1, 2007.

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

The Captive insures the Hospital, its subsidiaries, and employed physicians on a claims-made basis for medical professional liability and general liability. Effective July 1, 2007, the Captive issued a claims-made professional and general liability policy with a retroactive date of July 1, 2007 for general liability and a retroactive date of October 1, 1984 for medical professional liability. The limits of liability provided are $1,000 per incident and a total annual aggregate of $3,000, covering claims to the extent they are reported to the Captive and are within the scope of coverage afforded under the policy terms and conditions. The Captive also issued a claims-made excess policy, which is fully reinsured with unrelated reinsurance parties. The Hospital has accrued a liability within accounts payable and accrued expenses of approximately $2,222 and $2,378 at June 30, 2012 and 2011, respectively, for known claims and incurred but not reported claims.

(c) Health Insurance

The Health System is self-insured for employee health claims. Under the self-insurance plan, the Health System has accrued a liability of $1,398 and $767 at June 30, 2012 and 2011, respectively, for known claims and incurred but not reported claims.

The Health System maintains a stop-loss policy on health insurance claims. The Health System is insured for individual claims exceeding $200.

(d) Workers’ Compensation

In 2003, the Health System became self-insured for workers’ compensation claims. Under the Plan, the Health System has accrued a liability of $836 and $771 for known claims and incurred but not reported claims as of June 30, 2012 and 2011, respectively.

The Health System maintains a stop-loss policy on workers’ compensation claims. The Health System is insured for individual claims exceeding $500. The Health System maintains a letter of credit with a commercial bank in the amount of $1,500 to secure payments on the outstanding workers’ compensation claims as required by the State of Maryland Workers’ Compensation Commission. There were no amounts outstanding on this letter of credit as of June 30, 2012 and 2011.

(e) Leases

The Health System leases facilities under several operating leases, the last of which expires in 2019. The Health System has various options to renew the leases. Rent expense on all operating leases was $3,399 and $2,526 for the years ended June 30, 2012 and 2011, respectively.

(In thousands)

Future minimum payments under operating leases and capital leases (with initial or remaining lease terms in excess of one year) as of June 30, 2012 are as follows:

		Operating leases		Capital leases
Year ending June 30:				
2013	$	1,946		816
2014		1,828		269
2015		1,693		89
2016		1,722		—
2017		1,212		—
Thereafter		2,455		—
Total minimum lease payments	$	10,856		1,174
Less amount representing interest				57
Total minimum lease payments			$	1,117

As of June 30, 2012, scheduled annual principal portion of obligations under capital leases is as follows:

Year ending June 30:		
2013	$	774
2014		256
2015		87
Thereafter		—
	$	1,117

(f) Litigation

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

(20) Charity Care

The Health System provides care to patients who meet certain criteria under its charity care policy. The Health System charges at its established rates but waives all or a portion of reimbursement. Because the Health System does not pursue collection of amounts determined to qualify as charity care, such amounts are not reported as gross patient service revenue. The Health System maintains records to identify and monitor the level of charity care it provides. The Health System provided \$2,331 and \$2,629 of charity care at cost during the years ended June 30, 2012 and 2011, respectively, based on the cost to charge ratio.

(21) Subsequent Events

The Health System has evaluated subsequent events from the consolidated balance sheet date through October 25, 2012, the date at which the consolidated financial statements were issued, and determined there were no other items to disclose.

Schedule 1

CARROLL COUNTY HEALTH SERVICES CORPORATION AND SUBSIDIARIES

Consolidating Balance Sheet Information

June 30, 2012

(In thousands)

Assets		**Carroll County Health Services Corporation**	**Carroll Hospital Center Inc. & Subsidiaries**	**Carroll County Med-Services, Inc. & Subsidiaries**	**Eliminations**	**Consolidated**
Current assets:						
Cash and cash equivalents	$	189	32,140	3,186	—	35,515
Short-term investments		—	14,501	—	—	14,501
Current portion of assets limited as to use		1,831	10,401	—	—	12,232
Patient receivables, net		—	21,207	3,538	—	24,745
Other receivables		—	2,893	369	—	3,262
Due from affiliates		—	127	—	(127)	—
Inventory		—	3,065	915	—	3,980
Prepaid expenses		—	3,058	301	—	3,359
Total current assets		2,020	87,392	8,309	(127)	97,594
Property and equipment, net		2,069	140,649	7,984	(514)	150,188
Long-term investments		1,884	52,409	—	—	54,293
Long-term investments – other		455	16,391	—	—	16,846
Investment in subsidiaries		119,489	—	—	(119,489)	—
Investment in joint ventures		—	2,108	2,021	—	4,129
Assets limited as to use, less current portion		1,576	28,053	—	—	29,629
Other assets		—	17,296	665	—	17,961
Total assets	$	127,493	344,298	18,979	(120,130)	370,640
Liabilities and Net Assets						
Current portion of long-term debt	$	1,831	1,362	375	—	3,568
Current obligations under capital lease		—	700	74	—	774
Accounts payable and accrued expenses		—	23,642	1,692	—	25,334
Accrued payroll and related taxes		—	8,026	889	—	8,915
Deferred revenue		—	168	—	—	168
Advances from third-party payors		—	8,491	—	—	8,491
Due to affiliates		—	—	127	(127)	—
Total current liabilities		1,831	42,389	3,157	(127)	47,250
Long-term debt, less current portion		—	136,773	401	—	137,174
Long-term obligations under capital lease, less current portion		—	263	80	—	343
Other liabilities		2	35,478	148	(514)	35,114
Accrued pension and postretirement benefits		—	19,849	—	—	19,849
Total liabilities		1,833	234,752	3,786	(641)	239,730
Net assets:						
Unrestricted:						
Unrestricted net assets		114,017	93,036	14,812	(107,846)	114,019
Noncontrolling interest in consolidated subsidiaries		—	4,867	381	—	5,248
Total unrestricted net assets		114,017	97,903	15,193	(107,846)	119,267
Restricted:						
Temporarily restricted		10,528	10,528	—	(10,528)	10,528
Permanently restricted		1,115	1,115	—	(1,115)	1,115
Total restricted net assets		11,643	11,643	—	(11,643)	11,643
Total net assets		125,660	109,546	15,193	(119,489)	130,910
Total liabilities and net assets	$	127,493	344,298	18,979	(120,130)	370,640

See accompanying independent auditors' report.

Schedule 1

CARROLL COUNTY HEALTH SERVICES CORPORATION
AND SUBSIDIARIES

Consolidating Balance Sheet Information

June 30, 2012

(In thousands)

	Carroll Hospital Center Inc. & Subsidiaries						
Assets	**Carroll Hospital Center Inc. & Subsidiaries**	**Carroll Hospice, Inc.**	**Carroll Hospital Center Foundation, Inc.**	**Carroll County Radiology, LLC.**	**Cen-Mar Assurance Co.**	**Eliminations**	**Consolidated**
Current assets:							
Cash and cash equivalents	$ 30,208	1,572	67	293	—	—	32,140
Short-term investments	14,501	—	—	—	—	—	14,501
Current portion of assets limited as to use	1,100	—	2,414	—	6,887	—	10,401
Patient receivables, net	17,620	390	—	3,197	—	—	21,207
Other receivables	1,973	—	—	920	—	—	2,893
Due from affiliates	10,037	—	44	—	—	(9,954)	127
Inventory	3,055	—	—	10	—	—	3,065
Prepaid expenses	3,035	13	3	1	6	—	3,058
Total current assets	81,529	1,975	2,528	4,421	6,893	(9,954)	87,392
Property and equipment, net	129,411	4,753	—	7,693	—	(1,208)	140,649
Beneficial interest in net assets of Foundation	21,054	—	—	—	—	(21,054)	—
Long-term investments	44,042	—	8,367	—	—	—	52,409
Long-term investments – other	15,245	—	1,146	—	—	—	16,391
Investment in subsidiaries	15,931	—	—	—	—	(15,931)	—
Investment in joint ventures	2,108	—	—	—	—	—	2,108
Assets limited as to use, less current portion	18,806	303	8,944	—	—	—	28,053
Other assets	9,996	2	100	2,285	4,913	—	17,296
Total assets	$ 338,122	7,033	21,085	14,399	11,806	(48,147)	344,298
Liabilities and Net Assets							
Current portion of long-term debt	$ 1,362	—	—	—	—	—	1,362
Current obligations under capital lease	347	—	—	353	—	—	700
Accounts payable and accrued expenses	14,535	208	13	584	9,969	(1,667)	23,642
Accrued payroll and related taxes	7,681	—	—	345	—	—	8,026
Deferred revenue	168	—	—	—	—	—	168
Advances from third-party payors	8,491	—	—	—	—	—	8,491
Due to affiliates	—	29	18	—	—	(47)	—
Total current liabilities	32,584	237	31	1,282	9,969	(1,714)	42,389
Long-term debt, less current portion	136,773	—	—	—	—	—	136,773
Long-term obligations under capital lease, less current portion	263	—	—	—	—	—	263
Other liabilities	43,977	—	—	948	—	(9,447)	35,478
Accrued pension and postretirement benefits	19,849	—	—	—	—		19,849
Total liabilities	233,446	237	31	2,230	9,969	(11,161)	234,752
Net assets:							
Unrestricted:							
Unrestricted net assets	93,036	6,493	9,714	7,302	1,837	(25,346)	93,036
Noncontrolling interest in consolidated subsidiaries	—	—	—	4,867	—	—	4,867
Total unrestricted net assets	93,036	6,493	9,714	12,169	1,837	(25,346)	97,903
Restricted:							
Temporarily restricted	10,525	303	10,225	—	—	(10,525)	10,528
Permanently restricted	1,115	—	1,115	—	—	(1,115)	1,115
Total restricted net assets	11,640	303	11,340	—	—	(11,640)	11,643
Total net assets	104,676	6,796	21,054	12,169	1,837	(36,986)	109,546
Total liabilities and net assets	$ 338,122	7,033	21,085	14,399	11,806	(48,147)	344,298

See accompanying independent auditors' report.

Schedule 1

CARROLL COUNTY HEALTH SERVICES CORPORATION
AND SUBSIDIARIES

Consolidating Balance Sheet Information

June 30, 2012

(In thousands)

Assets	Carroll County Health Services Corporation	Carroll Hospital Center Inc. & Subsidiaries	Carroll County Med-Services, Inc. & Subsidiaries	Carroll Hospice, Inc.	Carroll Hospital Center Foundation, Inc.	Eliminations	Obligated Group	Non-Obligated Group	Eliminations	Total
Current assets:										
Cash and cash equivalents	$ 189	30,208	2,813	1,572	67	—	34,849	666	—	35,515
Short-term investments	—	14,501	—	—	—	—	14,501	—	—	14,501
Current portion of assets limited as to use	1,831	1,100	—	—	2,414	—	5,345	6,887	—	12,232
Patient receivables, net	—	17,620	2,244	390	—	—	20,254	4,492	—	24,746
Other receivables	—	1,973	464	—	—	—	2,437	976	(151)	3,262
Due from affiliates	—	10,037	—	—	44	(175)	9,906	—	(9,906)	—
Inventory	—	3,055	—	—	—	—	3,055	925	—	3,980
Prepaid expenses	—	3,035	301	13	3	—	3,352	6	—	3,358
Total current assets	2,020	81,529	5,822	1,975	2,528	(175)	93,699	13,952	(10,057)	97,594
Property and equipment, net	2,069	129,411	7,469	4,753	—	(1,290)	142,412	8,208	(432)	150,188
Beneficial interest in net assets of Foundation	—	21,054	—	—	—	(21,055)	(1)	—	—	(1)
Long-term investments	1,884	44,042	—	—	8,367	—	54,293	—	—	54,293
Long-term investments – other	455	15,245	—	—	1,146	—	16,846	—	—	16,846
Investment in subsidiaries	119,489	15,931		—	—	(123,322)	12,098		(12,098)	—
Investment in joint ventures	—	2,108	—	—	—	—	2,108	2,021	—	4,129
Assets limited as to use, less current portion	1,576	18,806	—	303	8,944	—	29,629	—	—	29,629
Other assets	—	9,996	388	2	100	—	10,486	7,475	—	17,961
Total assets	$ 127,493	338,122	13,679	7,033	21,085	(145,842)	361,570	31,656	(22,587)	370,639
Liabilities and Net Assets										
Current portion of long-term debt	$ 1,831	1,362	—	—	—	—	3,193	375	—	3,568
Current obligations under capital lease	—	347	74	—	—	—	421	353	—	774
Accounts payable and accrued expenses	—	14,535	715	208	13	—	15,471	11,530	(1,667)	25,334
Accrued payroll and related taxes	—	7,681	685	—	—		8,366	549	—	8,915
Deferred revenue	—	168	—	—	—	—	168	—	—	168
Advances from third-party payors	—	8,491	—	—	—	—	8,491	—	—	8,491
Due to affiliates	—	—	127	29	18	(174)	—	201	(201)	—
Total current liabilities	1,831	32,584	1,601	237	31	(174)	36,110	13,008	(1,868)	47,250
Long-term debt, less current portion	—	136,773	—	—	—	—	136,773	401	—	137,174
Long-term obligations under capital lease, less current portion	—	263	80	—	—	—	343	—	—	343
Other liabilities	2	43,977	148	—	—	(1,292)	42,835	951	(8,672)	35,114
Accrued pension and postretirement benefits	—	19,849	—	—	—	—	19,849	—	—	19,849
Total liabilities	1,833	233,446	1,829	237	31	(1,466)	235,910	14,360	(10,540)	239,730
Net assets:										
Unrestricted:										
Unrestricted net assets	114,017	93,036	11,850	6,493	9,714	(121,092)	114,018	12,048	(12,047)	114,019
Noncontrolling interest in consolidated subsidiaries	—	—	—	—	—	—	—	5,248	—	5,248
Total unrestricted net assets	114,017	93,036	11,850	6,493	9,714	(121,092)	114,018	17,296	(12,047)	119,267
Restricted:										
Temporarily restricted	10,528	10,525	—	303	10,225	(21,054)	10,527	—	—	10,527
Permanently restricted	1,115	1,115	—	—	1,115	(2,230)	1,115	—	—	1,115
Total restricted net assets	11,643	11,640	—	303	11,340	(23,284)	11,642	—	—	11,642
Total net assets	125,660	104,676	11,850	6,796	21,054	(144,376)	125,660	17,296	(12,047)	130,909
Total liabilities and net assets	$ 127,493	338,122	13,679	7,033	21,085	(145,842)	361,570	31,656	(22,587)	370,639

See accompanying independent auditors' report.

Schedule 2

CARROLL COUNTY HEALTH SERVICES CORPORATION AND SUBSIDIARIES

Consolidating Statement of Operations Information

Year ended June 30, 2012

(In thousands)

	Carroll County Health Services Corporation	Carroll Hospital Center Inc. & Subsidiaries	Carroll County Med-Services, Inc. & Subsidiaries	Eliminations	Consolidated
Unrestricted revenues, gains, and other support:					
Net patient service revenue	$ —	245,359	14,431	—	259,790
Other operating revenue	102	4,828	17,370	(420)	21,880
Net assets released from restrictions used for operations	—	21	—	—	21
Total unrestricted revenues, gains, and other support	102	250,208	31,801	(420)	281,691
Expenses:					
Salaries and wages	—	94,702	16,725	—	111,427
Employee benefits	—	19,897	2,278	—	22,175
Departmental supplies and expenses	—	35,273	12,103	—	47,376
Professional fees	—	17,464	1,134	—	18,598
Purchased services	62	31,482	6,960	(1,076)	37,428
Depreciation and amortization	—	16,418	807	195	17,420
Interest	36	8,207	42	461	8,746
Provision for bad debts	—	9,919	775	—	10,694
Total expenses	98	233,362	40,824	(420)	273,864
Operating income (loss)	4	16,846	(9,023)	—	7,827
Other income (expense):					
Investment income (loss)	(192)	(41)	253	—	20
Unrestricted gifts	—	1,855	—	—	1,855
Interest Rate Hedge, including settlement payments		(11,792)	—	—	(11,792)
Other	—	(1,998)	(154)	—	(2,152)
Excess (deficit) of revenues over (under) expenses	$ (188)	4,870	(8,924)	—	(4,242)

See accompanying independent auditors' report.

Schedule 2

CARROLL COUNTY HEALTH SERVICES CORPORATION
AND SUBSIDIARIES

Consolidating Statement of Operations Information

Year ended June 30, 2012

(In thousands)

	Carroll Hospital Center Inc. & Subsidiaries						
	Carroll Hospital Center Inc. & Subsidiaries	**Carroll Hospice, Inc.**	**Carroll Hospital Center Foundation, Inc.**	**Carroll County Radiology, LLC.**	**Cen-Mar Assurance Co.**	**Eliminations**	**Consolidated**
Unrestricted revenues, gains, and other support:							
Net patient service revenue	$ 219,469	4,283	—	21,607	—	—	245,359
Other operating revenue	4,828	—	—	—	2,548	(2,548)	4,828
Net assets released from restrictions used for operations	—	9	12	—		—	21
Total unrestricted revenues, gains, and other support	224,297	4,292	12	21,607	2,548	(2,548)	250,208
Expenses:							
Salaries and wages	87,400	2,705	—	4,597	—	—	94,702
Employee benefits	18,877	312	—	708	—	—	19,897
Departmental supplies and expenses	33,926	292	—	1,055	—	—	35,273
Professional fees	11,647	45	—	5,772	—	—	17,464
Purchased services	29,179	621	—	3,489	2,276	(4,083)	31,482
Depreciation and amortization	14,451	186	—	1,325	—	456	16,418
Interest	7,070	—	—	58	—	1,079	8,207
Provision for bad debts	8,854	—	—	1,065	—	—	9,919
Total expenses	211,404	4,161	—	18,069	2,276	(2,548)	233,362
Operating income (loss)	12,893	131	12	3,538	272	—	16,846
Other income (expense):							
Investment income (loss)	301	(1)	39	—	(380)	—	(41)
Unrestricted gifts	—	592	1,263	—	—	—	1,855
Interest Rate Hedge, including settlement payments	(11,792)	—	—	—	—	—	(11,792)
Other	(1,489)	(275)	(234)	—	—	—	(1,998)
Excess (deficit) of revenues over (under) expenses	$ (87)	447	1,080	3,538	(108)	—	4,870

See accompanying independent auditors' report.

Schedule 2

CARROLL COUNTY HEALTH SERVICES CORPORATION
AND SUBSIDIARIES

Consolidating Statement of Operations Information

Year ended June 30, 2012

(In thousands)

	Carroll County Health Services Corporation	Carroll Hospital Center Inc. & Subsidiaries	Carroll County Med-Services, Inc. & Subsidiaries	Carroll Hospice, Inc.	Carroll Hospital Center Foundation, Inc.	Eliminations	Obligated Group	Non-Obligated Group	Eliminations	Total
Unrestricted revenues, gains, and other support:										
Net patient service revenue	$ —	219,469	14,293	4,283	—	—	238,045	21,745	—	259,790
Other operating revenue	102	4,828	1,118	—	—	(420)	5,628	18,800	(2,548)	21,880
Net assets released from restrictions used for operations	—	—	—	9	12	—	21	—	—	21
Total unrestricted revenues, gains, and other support	102	224,297	15,411	4,292	12	(420)	243,694	40,545	(2,548)	281,691
Expenses:										
Salaries and wages	—	87,401	13,745	2,705	—	—	103,851	7,576	—	111,427
Employee benefits	—	18,877	1,912	312	—	—	21,101	1,074	—	22,175
Departmental supplies and expenses	—	33,925	969	292	—	—	35,186	12,190	—	47,376
Professional fees	—	11,646	1,090	45	—	—	12,781	5,817	—	18,598
Purchased services	62	29,179	5,933	621	—	(2,058)	33,737	6,792	(3,101)	37,428
Depreciation and amortization	—	14,451	616	186	—	485	15,738	1,516	166	17,420
Interest	36	7,070	12	—	—	1,153	8,271	88	387	8,746
Provision for bad debts	—	8,854	436	—	—	—	9,290	1,404	—	10,694
Total expenses	98	211,403	24,713	4,161	—	(420)	239,955	36,457	(2,548)	273,864
Operating income (loss)	4	12,894	(9,302)	131	12	—	3,739	4,088	—	7,827
Other income (expense):										
Investment income (loss)	(192)	301	—	(1)	39	—	147	(127)	—	20
Unrestricted gifts	—	—	—	592	1,263	—	1,855	—	—	1,855
Interest Rate Hedge, including settlement payments	—	(11,792)	—	—	—	—	(11,792)	—	—	(11,792)
Other	$ —	(1,489)	(104)	(275)	(234)	—	(2,102)	(50)	—	(2,152)
Excess (deficit) of revenues over (under) expenses	(188)	(86)	(9,406)	447	1,080	—	(8,153)	3,911	—	(4,242)

See accompanying independent auditors' report.