COHEN
RUTHERFORD
+ KNIGHT PC
Certified Public Accountants

Dimensions Health Corporation and Subsidiaries

Audited Consolidated Financial Statements

June 30, 2012 and 2011

Consolidated Financial Statements

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June 30, 2012 and 2011

-Contents-

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Report of Independent Auditors

Board of Directors
Dimensions Health Corporation and Subsidiaries

We have audited the accompanying consolidated balance sheets of Dimensions Health Corporation and subsidiaries (the Corporation) as of June 30, 2012 and 2011, and the related consolidated statements of operations, changes in net assets (deficit) and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Corporation'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 audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statements presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Dimensions Health Corporation and subsidiaries as of June 30, 2012 and 2011, and the results of their operations, changes in net assets (deficit) and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

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As discussed in *Note B* to the consolidated financial statements, the Corporation's reliance on government and other grant funding to support its operations, its substantial capital needs, significant unfunded pension obligations, and limited cash resources raise substantial doubt about its ability to continue as a going concern. The consolidated financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts and classification of liabilities that may result from the outcome of this uncertainty.

Cohen, Rutherford + Knight, P.C.

October 17, 2012

Consolidated Balance Sheets
Dimensions Health Corporation and Subsidiaries
(Dollars in thousands)

	June 30 2012	June 30 2011
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 35,961	$ 31,709
Restricted cash and cash equivalents--*Note J*	2,699	2,039
Patient accounts receivable, net of allowance for uncollectible accounts ($40,282 and $38,600 in 2012 and 2011, respectively)	46,766	47,253
Other receivables	4,094	6,359
Inventories	5,063	5,321
Current portion of assets limited to use--*Note C*	4,635	4,554
Prepaid expenses and other assets	4,482	3,985
TOTAL CURRENT ASSETS	103,700	101,220
Assets limited as to use--*Note C*		
Short term investments--*Note J*	3,986	4,012
Held in trust under bond and note indentures--*Note E*	6,601	6,624
Investments held for self insurance--*Note G*	44,384	38,377
Total assets limited as to use	54,971	49,013
Property and equipment, net--*Note D*	54,284	57,104
Investments--*Note L*	3,911	3,524
Deferred financing costs	290	333
Other noncurrent assets	3,853	3,449
TOTAL ASSETS	$ 221,009	$ 214,643

(Continued)

Consolidated Balance Sheets - Continued

Dimensions Health Corporation and Subsidiaries

(Dollars in thousands)

	June 30 2012	June 30 2011
LIABILITIES AND NET ASSETS (DEFICIT)		
CURRENT LIABILITIES		
Current portion of long-term debt--*Note E*	$ 4,577	$ 4,253
Current portion of accrued employee benefit liabilities--*Note I*	17,646	15,476
Accounts payable and accrued expenses--*Note J*	39,070	41,051
Accrued compensation and related items	12,671	11,251
Advances from third-party payers	11,708	12,163
TOTAL CURRENT LIABILITIES	85,672	84,194
NONCURRENT LIABILITIES		
Long-term debt, net of current portion--*Note E*	57,418	60,743
Other liabilities:		
Accrued professional liabilities--*Notes G and J*	26,704	26,296
Accrued employee benefit liabilities--*Note I*	87,724	62,333
Total other liabilities	114,428	88,629
TOTAL LIABILITIES	257,518	233,566
NET ASSETS (DEFICIT)		
Unrestricted	(39,914)	(23,898)
Temporarily restricted	3,405	4,975
TOTAL NET ASSETS (DEFICIT)	(36,509)	(18,923)
TOTAL LIABILITIES AND NET ASSETS (DEFICIT)	$ 221,009	$ 214,643

See notes to the consolidated financial statements.

Consolidated Statements of Operations

Dimensions Health Corporation and Subsidiaries

(Dollars in thousands)

	Year Ended June 30	
	2012	**2011**
UNRESTRICTED REVENUE AND OTHER SUPPORT		
Net patient service revenue--*Note K*	$ 350,309	$ 337,639
Other operating income--*Note B*	35,898	36,712
TOTAL UNRESTRICTED REVENUE AND OTHER SUPPORT	386,207	374,351
OPERATING EXPENSES--*Note F*		
Salaries and benefits--*Note I*	205,267	196,242
Supplies	49,852	50,441
Purchased services--*Note J*	49,842	51,160
Provision for bad debts	28,449	24,031
Physician fees	23,391	21,536
Utilities	4,679	4,709
Interest expense	3,514	3,674
Depreciation and amortization	9,343	9,183
TOTAL OPERATING EXPENSES	374,337	360,976
INCOME FROM CONTINUING OPERATIONS BEFORE OTHER INCOME--*Note B*	11,870	13,375
OTHER INCOME		
Investment income--*Note C*	2,293	3,509
TOTAL OTHER INCOME	2,293	3,509
INCOME FROM CONTINUING OPERATIONS--*Note B*	14,163	16,884
DISCONTINUED OPERATIONS--*Note M*		
Loss on operations of discontinued operations	0	(3,877)
Loss on disposal of assets	0	(68)
LOSS ON DISCONTINUED OPERATIONS	0	(3,945)
EXCESS OF UNRESTRICTED REVENUE AND OTHER SUPPORT OVER EXPENSES	$ 14,163	$ 12,939

See notes to the consolidated financial statements.

Consolidated Statements of Changes in Net Assets (Deficit)

Dimensions Health Corporation and Subsidiaries

(Dollars in thousands)

	Year Ended June 30	
	2012	**2011**
Changes in unrestricted net assets (deficit):		
Excess of unrestricted revenue and other support over expenses	$ 14,163	$ 12,939
Appreciation (depreciation) of other-than-trading investments -- *Note C*	(12)	30
Net assets released from restriction for capital acquisition	1,722	0
Change in employee benefit obligation--*Note I*	(31,888)	26,394
INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS (DEFICIT)	(16,015)	39,363
Changes in temporarily restricted net assets:		
Contributions	775	3,213
Change in beneficial interest in net assets of Foundations --*Note L*	(44)	(33)
Net assets released from restriction for operations	(580)	(823)
Net assets released from restriction for capital acquisition	(1,722)	0
INCREASE (DECREASE) IN TEMPORARILY RESTRICTED NET ASSETS	(1,571)	2,357
CHANGE IN NET ASSETS (DEFICIT)	(17,586)	41,720
NET DEFICIT, BEGINNING OF YEAR	(18,923)	(60,643)
NET DEFICIT, END OF YEAR	$ (36,509)	$ (18,923)

See notes to the consolidated financial statements.

Consolidated Statements of Cash Flows

Dimensions Health Corporation and Subsidiaries

(Dollars in thousands)

	Year Ended June 30	
	2012	**2011**
OPERATING ACTIVITIES		
Change in net assets (deficit)	$ (17,586)	$ 41,720
Adjustments to reconcile change in net assets (deficit) to net cash and cash equivalents provided by operating activities:		
Provision for bad debts	28,449	24,031
Restricted contribution	(775)	(983)
Depreciation and amortization	9,343	9,183
Net unrealized gain on marketable investments	(100)	(1,290)
Increase (decrease) in employee benefit obligation	31,888	(26,394)
Changes in operating assets and liabilities:		
Decrease (increase) in assets		
Accounts receivable, net	(27,962)	(18,982)
Inventories	258	(522)
Prepaid expenses and other assets	1,768	(1,003)
Investments-trading	5,918	3,432
Other noncurrent assets	(404)	123
Increase (decrease) in liabilities		
Accounts payable and accrued expenses	(1,981)	3,782
Accrued annual leave	1,420	(4,643)
Accrued employee benefit liabilities	(4,327)	(1,748)
Accrued professional liabilities	408	506
NET CASH AND CASH EQUIVALENTS PROVIDED BY OPERATING ACTIVITIES	$ 26,317	$ 27,212

(Continued)

Consolidated Statements of Cash Flows - Continued

Dimensions Health Corporation and Subsidiaries

(Dollars in thousands)

	Year Ended June 30 2012	2011
INVESTING ACTIVITIES		
Net purchase of property and equipment	$ (4,996)	$ (4,949)
Net purchase of investments-other than trading	(12,244)	(7,400)
NET CASH AND CASH EQUIVALENTS USED IN INVESTING ACTIVITIES	(17,240)	(12,349)
FINANCING ACTIVITIES		
Payments of long-term debt and capital lease obligations	(4,485)	(3,910)
Net change in advances from third-party payers	(455)	598
Restricted contribution	775	983
NET CASH AND CASH EQUIVALENTS USED IN FINANCING ACTIVITIES	(4,165)	(2,329)
NET INCREASE IN CASH AND CASH EQUIVALENTS	4,912	12,534
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	33,748	21,214
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 38,660	$ 33,748
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Interest paid	$ 3,594	$ 3,750
SUPPLEMENTAL DISCLOSURES OF NONCASH TRANSACTIONS:		
Equipment acquired under capital lease	$ 1,484	$ 359

See notes to the consolidated financial statements

Notes to the Consolidated Financial Statements
Dimensions Health Corporation and Subsidiaries
(Dollars in thousands)

Note A - Organization and Summary of Significant Accounting Policies

Organization

Dimensions Health Corporation (the Corporation) is a not-for-profit, non-stock corporation, incorporated in Maryland for charitable and scientific purposes. The Corporation is operating under the name Dimensions Healthcare System. The principal mission of the Corporation is the provision of health care through various delivery sites and the provision of services supporting health care. The Corporation's principal facilities, subsidiaries, and affiliates are as follows:

Acute and Ambulatory Care Facilities:

- Prince George's Hospital Center (PGHC)
- Laurel Regional Hospital (LRH)
- Bowie Health Center (BHC)

Long-term Care Facilities:

- Gladys Spellman Specialty Hospital and Nursing Center (GSSHNC) – Division of LRH
- Madison Manor, Inc. (MM), a wholly owned subsidiary, which holds a 25% interest in the Larkin Chase Nursing and Restorative Center

Health Care Supporting Subsidiaries and Affiliates:

- Dimensions Healthcare Associates, Inc. (DHA), a wholly owned, not-for-profit corporation established to provide physician services to the Corporation’s acute and ambulatory care facilities
- Affiliated Enterprises, Inc. (AEI), a wholly owned, for-profit corporation, which owns and operates Mullikin Medical Center, a medical office building, on the Bowie campus
- Dimensions Assurance, Ltd. (DAL), a wholly owned, for-profit captive insurance company located in the Cayman Islands

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

Use of Estimates

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

Principles of Consolidation

The consolidated financial statements include the accounts of the Corporation and its subsidiaries. Investments in affiliates for which the Corporation has the ability to significantly influence operations, but does not control, are accounted for under the equity method. Significant intercompany accounts and transactions have been eliminated in consolidation.

Risk Factors

The Corporation's ability to maintain and/or increase future revenues could be adversely affected by: (1) the growth of managed care organizations promoting alternative methods for health care delivery and payment of services such as discounted fee for service networks and capitated fee arrangements (the rate setting process in the State of Maryland prohibits hospitals from entering into discounted fee arrangements, however managed care contracts may provide for exclusive service arrangements); (2) proposed and/or future changes in the laws, rules, regulations, and policies relating to the definition, activities, and/or taxation of not-for-profit tax-exempt entities; (3) the enactment into law of all or any part of the current budget resolutions under consideration by Congress related to Medicare and Medicaid reimbursement methodology and/or further reductions in payments to hospitals and other health care providers; (4) the ultimate impact of the federal Patient Protection and Affordable Care Act and the Health Care Education Affordability Reconciliation Act of 2010; (5) the future of Maryland's Certificate of Need (CON) program, where future deregulation could result in the entrance of new competitors, or future additional regulation may eliminate the Corporation's ability to expand new services.

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

Risk Factors - Continued

The Joint Commission (JC), a non-governmental privately owned entity, provides accreditation status to hospitals and other health care organizations in the United States. Such accreditation is based upon the healthcare organization demonstrating compliance with approximately three hundred standards designed to ensure quality and patient safety. JC conducts unannounced triennial and for cause surveys. Certain managed care payers require hospitals to have appropriate JC accreditation in order to participate in those programs. In addition, the Center for Medicare and Medicaid Services (CMS), the agency with oversight of the Medicare and Medicaid programs, provides "deemed status" for facilities having JC accreditation. By being accredited, facilities are "deemed" to be in compliance with the Medicare and Medicaid conditions of participation. Termination as a Medicare or Medicaid provider or exclusion from any or all of these programs/payers would have a materially negative impact on the future financial position, operating results and cash flows of the Corporation. The health care facilities of the Corporation have maintained full JC accreditation for 2012 and 2011.

The Washington Adventist Hospital (WAH) had filed a CON application with the Maryland Health Care Commission (MHCC) to relocate WAH to White Oak, Maryland. The proposed location of the new hospital is within the primary service area of LRH. The Corporation then filed a brief with the MHCC opposing this relocation due to the negative impact it would have on LRH. Management's opposition to the proposed CON to relocate WAH was joined by Holy Cross Hospital (HCH) and Montgomery General Hospital (MGH). The City of Takoma Park had also expressed its concerns about the potential relocation.

The MHCC conducted the first phase of hearings on the WAH CON request to relocate to White Oak, Maryland, from August 8, 2011 through August 12, 2011, with the closing hearing on September 8, 2011. Participating in the hearing process were representatives from WAH, MGH, HCH and LRH. Following the September 8, 2011 final hearing date, each party was asked to prepare summary closing statements for the MHCC, following the review of which a decision was to be rendered.

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

Risk Factors - Continued

On September 4, 2012, Commissioner McLean issued a letter, stating that her recommendation was for the Commission to deny the CON application. Her rationale was based on WAH's failure to show the project to be "financially feasible" currently, or "viable in the future". A meeting of the Commission was scheduled for October 18, 2012, but WAH has since withdrawn its CON application.

Due to a change in the required conditions for approval of coverage for chronic care services by the State of Maryland Department Health and Mental Hygiene, patient volumes and net patient service revenue at GSSHNC declined significantly during the fiscal year ended June 30, 2011. This large reduction in volume and revenue negatively affected the results from operations for the fiscal year ended June 30, 2011. During 2011 the Corporation discontinued the operations of the Gladys' Spellman Comprehensive Unit, as further discussed in *Note M*. In addition, the Corporation made a decision to relocate the chronic disease hospital beds from the Cheverly campus to LRH.

Cash, Cash Equivalents and Short-Term Investments

Cash and cash equivalents include cash and certain investments in highly liquid debt instruments and certificates of deposit, both with original maturities of three months or less when purchased. The Corporation routinely invests its surplus operating funds in overnight repurchase agreements. These funds generally invest in highly liquid U.S. government and agency obligations. Short-term investments are highly liquid assets that have an original maturity between three months and one year. Short term investments represents amounts held by commercial banks under custody agreements as collateral for outstanding letters of credit. Cash holdings in commercial banks routinely exceed the aggregate maximum insured ($250) by the Federal Deposit Insurance Corporation.

Marketable Investments and Investment Income

Marketable investments are carried at fair value as of the balance sheet date based on quoted market prices. Investments included in assets limited as to use are restricted under debt and bank agreements and self-insurance arrangements, and are not available for the general operations of the Corporation. Assets limited as to use, which will be utilized to meet related current liabilities, have been classified in the accompanying consolidated balance sheets as current assets. The cost of securities sold is based on the specific-identification method. Investment income for all investments is included in consolidated nonoperating income.

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

Marketable Investments and Investment Income - Continued

Management classifies the Corporation's investment portfolio restricted for self-insurance arrangements as a trading portfolio. Accordingly, realized and unrealized gains and losses on these investments are included in nonoperating gains (losses) in the accompanying consolidated statements of changes in net assets (deficit). Management classifies the investments restricted under debt and bank agreements as an other-than-trading portfolio, and these investments consist primarily of money market funds. Accordingly, unrealized gains and losses are recorded as changes in unrestricted net assets (deficit), which is excluded from the excess of revenues and gains over expenses and losses within the consolidated statements of changes in net assets (deficit).

The Corporation's investments are subject to credit, market and interest rate risks that cannot be predicted at this time. However, management has attempted to mitigate these risks by maintaining a diversified portfolio.

During September 2008, certain large U.S. financial institutions failed, primarily as a result of holdings in troubled subprime loans or assets collateralized with such distressed loans. These institutional failures, and the negative economic conditions that contributed to these failures, generated substantial volatility in global financial markets and substantial uncertainty regarding access to capital and the continued viability of many other financial institutions. These conditions create uncertainty regarding the Corporation's future ability to access capital and the cost of such capital. The resulting impact on the future financial position, results of operations and cash flows of the Corporation could be material.

Accounts Receivable and Contractual Allowances

The Corporation provides services to patients in Prince George's County and surrounding jurisdictions, the majority of whom are covered by third-party health insurance programs. The Corporation bills the insurers/programs directly for the services provided. Insurance and credit information is obtained from patients at time of service or upon admission when available. No collateral is obtained for patient accounts receivable.

The Corporation's policy is to write off all patient accounts that have been identified as uncollectible. An allowance for doubtful accounts is recorded for accounts not yet written off that are anticipated to become uncollectible in future periods.

(Dollars in thousands)

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

Accounts Receivable and Contractual Allowances- Continued

Discounts ranging from 2% to 6% of hospital charges are given to Medicare, Medicaid and certain approved commercial health insurance and health maintenance organizations. Also, these payers routinely review patient billings and deny payment for certain procedures that they deem medically unnecessary or performed without appropriate pre-authorization. Discounts and denials are recorded as reductions of net patient revenue. Accounts receivable from these third-party payers have been adjusted to reflect the difference between charges and the estimated reimbursable amounts.

At June 30, 2012 and 2011, gross patient accounts receivable, by payer class, consisted of the following:

	2012	2011
Medicare	10.9%	12.7%
Medicaid	21.9%	29.1%
Medicaid pending	19.1%	9.2%
Commercial	17.7%	20.4%
Self pay and others	30.4%	28.6%
	100.0%	100.0%

Inventories

Inventories, consisting principally of drugs and supplies, are carried at the lower of cost or market, using the average-cost method.

(Dollars in thousands)

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

Property and Equipment

Property and equipment is carried at cost or, if donated, at fair market value at the date of the gift. Depreciation is provided over the estimated useful life of each class of depreciable asset, ranging from two to thirty years. Amortization of assets under capital lease obligations is computed using the straight-line method over the estimated useful life of the equipment and is included in depreciation and amortization in the consolidated financial statements. Maintenance and repairs are charged to expense as incurred.

Deferred Financing Costs

Financing costs incurred in issuing the Prince George's County, Maryland Project and Refunding Revenue Bonds (Dimensions Health Corporation Issue), Series 1994, have been capitalized and are being amortized over the life of the issues using the bonds-outstanding method.

The following table summarizes deferred financing costs:

	June 30	
	2012	**2011**
Series 1994 revenue bonds	$ 891	$ 891
Other	125	127
	1,016	1,018
Less: accumulated amortization	726	685
	$ 290	$ 333

Impairment of Long-Lived Assets

The Corporation evaluates its long-lived assets and certain identifiable intangible assets for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of any asset to future net undiscounted cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the future discounted cash flows compared to the carrying amount of the asset.

(Dollars in thousands)

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

Temporarily Restricted Net Assets

Resources restricted by donors for specific purposes are reported as temporarily restricted net assets until expended, at which time they are reported as net assets released from restriction.

In accordance with accounting principles generally accepted in the United States of America, assets that are restricted for capital acquisitions (or that will not be available to the Corporation within the next operating cycle) are classified as noncurrent assets in the accompanying consolidated balance sheets. Assets that are temporarily restricted for supporting Corporation programs are classified as current assets if they are currently available for use by the Corporation. Temporarily restricted net assets are available for the following purposes at June 30:

	2012	2011
Capital purchases (state funded)	$ 698	$ 2,230
Healthcare	1,260	1,487
Health education	1,447	1,258
	$ 3,405	$ 4,975

Net Patient Service Revenue

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

	2012	2011
Medicare	29.9%	28.3%
Medicaid	30.0%	30.6%
Commercial	28.9%	30.4%
Other	11.2%	10.7%
	100.0%	100.0%

Revenue from the State of Maryland Medicaid program is primarily derived from independent managed care organizations that have contracted with the State of Maryland to cover eligible beneficiaries.

(Dollars in thousands)

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

Net Patient Service Revenue - Continued

The following table sets forth the detail of net patient service revenue:

	2012	2011
Gross patient service revenue	$ 447,660	$ 423,286
Revenue deductions:		
Charity care	32,779	29,060
Contractual allowances	64,572	56,587
Net patient service revenue	$ 350,309	$ 337,639

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. The Corporation believes that it is in compliance with all applicable laws and regulations, and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing that would have a material effect on the financial statements. While no such regulatory inquiries have been made, compliance with such laws and regulations can be subject to future government review and interpretation as well as significant regulatory action, including fines, penalties, and exclusion from the Medicare and Medicaid programs.

Other Income

Other income is primarily composed of private and government restricted and non-restricted donations and grant income. Restricted donations and grants are held as restricted assets and recorded as revenue once the restrictions are satisfied. Other income is also composed of miscellaneous hospital revenue such as rental income, parking garage and vending machine income.

Charity Care

In support of its mission, the Corporation provides charity care to patients who lack financial resources and are deemed to be medically indigent. Policies have been established that define charity cared and provide guidelines for assessing a patient's ability to pay. Evaluation procedures for charity care qualification have been established for those situations when previously unknown financial circumstances are revealed or when incurred charges are significant when compared to the individual patient's income and/or net assets. Because the Corporation does not pursue collection of amounts determined to qualify as charity care, such amounts are not reported as net patient service revenue. In addition, the Corporation provides services to other medically indigent patients under various state Medicaid programs, which pay providers amounts that are less than the costs incurred for the services provided to the recipients.

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

Charity Care - Continued

Under current accounting standards, the Corporation is required to report the cost of providing charity care. The cost of charity care provided by the Hospital totaled $21,962 and $20,110 for the years ended June 30, 2012 and 2011, respectively. Rates charged by the Corporation for regulated services are determined based on an assessment of direct and indirect cost calculated pursuant to the methodology established by the Maryland Health Services Cost Review Commission ("HSCRC" - see *Note K*), and therefore the costs of charity services noted above for the Corporation is equivalent to the Corporation's established rates for those services. For any charity services rendered by the Corporation other than from the Hospital, the cost of charity care is calculated by applying the estimated total cost-to-charge ratio for the non-Hospital services to the total amount of charges for services provided to patients benefitting from the charity care policies of the Corporation's non-Hospital affiliates.

The Corporation receives a payment from the HSCRC with respect to an Uncompensated Care Fund ("UCC") established for rate-regulated hospitals in Maryland. The UCC is intended to provide Maryland hospitals with funds to support the provision of uncompensated care (including both charity and bad debts) at those hospitals. The Corporation received $22,057 for 2012 and $20,029 for 2011 in UCC payments.

Estimated Professional Liability Costs

The provision for estimated professional liability claims includes estimates of the ultimate costs for both reported claims and claims incurred but not reported. The Corporation utilizes outside actuarial services in determining the aggregate professional liability reserve. The accrued professional liabilities amounts included in the accompanying consolidated balance sheets have not been discounted (see *Note G*).

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

Excess of Unrestricted Revenue and Other Support over Expenses

The consolidated statements of operations report excess of unrestricted revenue and other support over expenses. Changes in unrestricted net assets (deficit) that are excluded from this performance indicator, consistent with industry practice, include unrealized gains and losses on investments other than trading securities, permanent transfers of assets to and from affiliates for other than goods and services, contributions of (and assets released from donor restrictions related to) long-lived assets, and the recognition of (and subsequent adjustment to) certain changes in the employee post-retirement benefit liability reported by the Corporation.

Income Tax

The Corporation is exempt from federal income tax under section 501(c)(3) of the Internal Revenue Code as a public charity. Federal tax law requires that the Corporation be operated in a manner consistent with its initial exemption application in order to maintain its exempt status. Management has analyzed the operations of the Corporation and concluded that it remains in compliance with the requirements for exemption. The state in which the Corporation operates also recognizes this exemption for state income tax purposes.

Organizations otherwise exempt from federal and state income taxation are nonetheless subject to taxation at corporate tax rates at both the federal and state levels on their unrelated business income. Exemption from other state taxes, such as real and personal property tax, is separately determined. For 2012 and 2011, management has determined that it did not have any tax liability.

Although exempt from federal and state income taxes, the Corporation is required to file an annual federal information return on Form 990. In addition, to the extent that the Corporation has gross income from business activities unrelated to its exempt purpose in excess of $1,000 for any tax year, it must also file a Form 990-T tax return. Generally, federal and state taxing authorities must propose any taxable adjustments within three years from the due date of the 990-T or the actual filing date, whichever is later, unless unrelated business gross income is under reported by 25% or more, in which case the relevant time period is six years. No statute of limitations applies for years for which no 990-T has been filed. The Corporation is not currently under audit by any taxing authority and has not been notified of any impending audit.

Current accounting standards define the threshold for recognizing uncertain income tax return positions in the financial statements as "more likely than not" that the position is sustainable, based on its technical merits, and also provide guidance on the measurement, classification and disclosure of tax return positions in the financial statements. Management believes there is no impact on the Corporation's accompanying consolidated financial statements related to uncertain income tax positions.

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

Fair Value of Financial Instruments

The carrying amounts reported in the accompanying consolidated balance sheets for cash and cash equivalents, accounts receivable, accounts payable, accrued expenses, advances from third-party payers, and accrued annual leave approximates their fair value. The fair values of assets limited as to use and investments are based on quoted market prices of the individual securities or investments. The fair value of the Corporation's fixed-rate debt is based on current traded values. The fair value of the variable-rate debt is discussed in *Note E*. The fair values of investments are discussed in *Note C*.

Subsequent Events

Subsequent events have been evaluated by management through October 17, 2012, which is the date the consolidated financial statements were available to be issued.

Recent Pronouncements

In July 2011, FASB issued ASU No. 2011-7, *Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts, and the Allowance for Doubtful Accounts for Certain Health Care Entities*. ASU 2011-7 affects entities within the scope of Topic 954, *Health Care Entities,* that recognize significant amounts of patient service revenue at the time services are rendered even though the entities do not assess a patient's ability to pay. ASU 2011-7 requires certain health care entities to change the presentation of their statement of operations by reclassifying the provision for bad debts associated with patient service revenue from an operating expense to a deduction from patient service revenue (net of contractual allowances and discounts). Additionally, those health care entities are required to provide enhanced disclosure about their policies for recognizing revenue and assessing bad debts. ASU 2011-7 also requires disclosure of patient service revenue (net of contractual allowances and discounts) as well as qualitative and quantitative information about changes in the allowances for doubtful accounts. This change in accounting is effective for fiscal years beginning after December 15, 2011 for public entities and for the first annual period ending after December 15, 2012 for non-public entities (early adoption permitted). Application for periods presented in the consolidated statements of operations would be retrospective; however, the disclosures required by the amendments would be prospective.

Management is currently evaluating the impact of this change in accounting on the future consolidated financial statements of the Corporation.

(Dollars in thousands)

Note B - Management's Plans as to Continuing as a Going Concern

At June 30, 2012, the Corporation had substantial capital needs, significant unfunded pension obligations and limited cash resources. The Corporation continues to be reliant upon government and other grant funding to finance continuing operations. These circumstances raise substantial doubt about the ability of the Corporation to continue as a going concern absent governmental and/or other external support.

The following one-time operating grants were recorded in other income in the accompanying consolidated statements of operations and changes in net assets as of June 30, 2012 and 2011:

	2012	2011
Prince George's County Government	$ 15,000	$ 15,086
State of Maryland	15,242	15,010
Magruder Memorial Hospital Trust	1,042	1,042
	$ 31,284	$ 31,138

Should the government and private grant funding, most of which was reported as income in the financial records of PGHC, LRH and GSSHNC, not have been received by the Corporation, the consolidated income from operations of the Corporation for the years ended June 30, 2012 and 2011 would have resulted in deficits of $17,121 and $18,203, respectively. The Corporation’s cash flow continues to be stressed due primarily to the need to fund pre-existing obligations such as the Corporation's pension and other postretirement employee benefits (over $14,942 and $13,610 contributed during the years ended June 30, 2012 and 2011, respectively) and scheduled payments on long term debt principal and interest (approximately $7,600 and $7,500 for 2012 and 2011, respectively), as well as funding for new property and equipment (over $6,440 and $4,380 for the years ended June 30, 2012 and 2011, respectively). Consolidated days unrestricted cash available to fund operations was approximately thirty-six days as of June 30, 2012 and thirty-two days as of June 30, 2011.

Management and the Board of Directors determined that as a result of these issues, additional financial resources were necessary to ensure the Corporation's continued financial stability. Management's plans to address this situation are described below.

1. **Pension**: On July 12, 2007, the Corporation applied to the IRS for a modification of the 2004 funding waiver conditions related to the Pension Plan (*see Note I*) . Specifically, the Corporation requested the removal of the two conditions that prevented application for a second waiver needed to allow the Corporation to defer its 2007 plan year contributions. Per the IRS, such a filing would not result in any penalties to the Corporation.

Note B - Management's Plans as to Continuing as a Going Concern - Continued

Pension (continued): This deferment of payments afforded the Corporation $14,800 in additional cash to manage its operations through the specified period. As of September 15, 2010, the 2004 waiver and related pension payments were paid in full. The Corporation has been paying off the 2007 minimum funding requirement as if the request has been approved by the IRS and, as of June 30, 2012 the outstanding balance was $3.4 million and is anticipated to be paid off in September 13, 2013. In a July 19, 2011 letter to the Corporation, the IRS communicated a tentative decision to approve the 2004 waiver modification and the 2007 minimum funding waiver requests. Final approval was granted by IRS via a letter dated November 3, 2011. The Corporation accepted the conditions required in the IRS approval.

2. **Ownership Transfer**: On July 21, 2011, the Prince George's County of Maryland (the County), the University of Maryland Medical System (UMMS), the University System of Maryland (USM), the State of Maryland (the State) and the Corporation signed a Memorandum of Understanding (MOU) to forge a long term solution to the historical challenges related to the Prince George's County health care system facilities and assets currently leased to the Corporation (the System) by developing and implementing a strategy to transform the System into an efficient, effective and financially viable healthcare delivery system with a new regional medical center, located in Prince George's County, supported by a comprehensive ambulatory care network, which will improve the health of residents of the County and Southern Maryland region by providing community-based access to high quality, cost-effective medical care.

   UMMS has completed an initial study of the System and the health care needs of the County. The strategy includes the potential development of a University of Maryland Baltimore health sciences presence to accompany the regional medical center and the ambulatory care network in the mission to enhance the provision of quality health care services to the residents of the County and Southern Maryland. The initial study estimates the overall costs necessary to implement the vision and strategy to be in the range of $600 million, excluding the cost of implementing the comprehensive ambulatory system. Further, the study identified the additional need to resolve approximately $200 million of the Corporation's unfunded pension liabilities; outstanding debt and unfunded retiree health benefit costs. The costs for the project will be shared by the parties.

Note B - Management's Plans as to Continuing as a Going Concern - Continued

Ownership Transfer (continued): Plans for the project, as outlined in the MOU, are on track. Recently, the University Of Maryland College Park School Of Public Health completed a study and assessment of the public health impact on the population to be served. The findings were presented to the key stakeholders and were also made public. Currently, external consultants are assisting management to refine financial analyses to determine the appropriate cost and size of the new Regional Medical Center (RMC). In addition, the analyses will include cost estimates for the ambulatory care network.

Next steps for the project include the site selection and architectural design for the RMC, finalizing the sources of funding for the three main stakeholders, namely, the State, the County and UMMS, followed by the CON application for the RMC in 2013.

The MOU also includes provision for development of a plan for transfer of the System's assets to the Corporation or to a successor entity, subject to certain potential conditions. A copy of the MOU can be found on the County's website

If the plans that are outlined in the MOU are executed as envisioned, a new hospital in the County, along with a new USM health sciences campus and a primary care outpatient network, could be operational in the next four to seven years.

3. **Funding**: As part of the MOU, on October 20, 2011, Governor Martin O'Malley on behalf of the State, and County Executive Rushern L. Baker, III on behalf of the County, signed a letter of intent to demonstrate their commitment to provide the System with thirty million dollars ($30,000) in funding ($15,000 each) for fiscal year 2012. This funding was used both to support the System's operations and also for the continued discharging of its legacy liabilities. The State and County have also committed to seeking additional amounts of thirty million dollars ($30,000) annually ($15,000 each) to support the Corporation through fiscal years 2013 – 2015, as needed, for any continued operating losses and liabilities, and subject to their respective appropriations processes. As of September 25, 2012, the Corporation was already in receipt of the initial installments totaling $7.5 million ($3.75 million each) for the first quarter of FY 2013. The State has made an additional capital commitment of twenty four million dollars ($24,000) for fiscal years 2012 ($4 million), 2013 ($10 million) and 2014 ($10 million), as needed and subject to the approval of the General Assembly.

(Dollars in thousands)

Note B - Management's Plans as to Continuing as a Going Concern - Continued

4. **Strategic Plan:** Management has developed a series of strategic initiatives that include: (1) physician development in collaboration with UMMS; (2) increased focus on quality; (3) implementation of Electronic Health Record technology; (4) improving reputation and image; and (5) revenue enhancement and cost containment. These initiatives have been shared with both employees and the Board of Directors. In addition to the above, management strongly believes that the improvements achieved at GSSHNC during fiscal year 2012 will continue into fiscal year 2013, which will help to provide sufficient resources to meet the obligations of the Corporation.

The following table demonstrates the positive financial impact of actions that have been taken by the Corporation over the past five years:

	As of and for the years ended June 30				
	2008	2009	2010	2011	2012
Excess revenue over expenses	$ (4,206)	$ (553)	$ 1,427	$ 12,939	$ 14,163
Cash provided by operations	$ 8,488	$ 6,936	$ 13,227	$ 27,212	$ 26,317
Days cash available	18	17	19	32	36

The successful completion of these actions is contingent upon the continued support and cooperation of the County, the State, and Federal governments, as well as the Corporation. Management believes, but can provide no assurances, that all requirements will be satisfied and that the additional funding will be secured. Management further believes that this additional funding, combined with cash flow from operations, will provide resources sufficient to meet the obligations of the Corporation and therefore enable it to continue as a going concern. If the Corporation's operating results are less favorable than expected, then the future liquidity, financial position and operating results of the Corporation would likely be materially impacted. The consolidated financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts and classification of liabilities that may result from the outcome of this uncertainty.

(Dollars in thousands)

Note C - Investments

Marketable investments are included in the consolidated balance sheets as assets limited as to use at June 30, 2012 and 2011, respectively.

The fair values of marketable investments at June 30 are as follows:

	2012	2011
Money market funds	$ 17,462	$ 13,800
Certificate of deposits	3,986	4,012
Government and agency	22,866	21,326
Corporate bonds	5,298	5,972
Common stock	8,921	7,844
Asset-backed securities	1,073	613
Total marketable investments	59,606	53,567
Less amount needed for current debt service	4,635	4,554
Long-term investments	$ 54,971	$ 49,013

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

	2012	2011
Interest, dividends and realized gains	$ 2,181	$ 2,219
Unrealized gains on trading portfolio	112	1,290
	2,293	3,509
Unrealized gains (losses) on other-than-trading portfolio	(12)	30
	$ 2,281	$ 3,539

Note C – Investments - Continued

Current accounting standards define fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, and establish a three-level hierarchy for fair value measurements based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The three levels of inputs that may be used to measure fair value are:

> Level 1: Quoted prices in active markets for identical assets or liabilities. Level 1 assets and liabilities include debt and equity securities that are traded in an active exchange market, as well as U.S. Treasury securities.
>
> Level 2: Observable input other than Level 1 prices such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. Level 2 assets and liabilities include debt securities with quoted market prices that are traded less frequently than exchange-traded instruments. This category generally includes certain U.S. government and agency mortgage-backed debt securities, corporate-debt securities, and alternative investments.
>
> Level 3: Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation. This category generally includes certain private debt and equity instruments and alternative investments.

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

Notes to the Consolidated Financial Statements- Continued
Dimensions Health Corporation and Subsidiaries
(Dollars in thousands)

Note C – Investments - Continued

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

Fair values of government and agency securities, corporate bonds, common stock and asset-backed securities have been determined by the Corporation from observable market quotations, when available. Money market funds comprise short-term fixed maturity securities, and carrying amounts approximate fair values, which have been determined from public quotations when available.

The following table presents the Corporation's fair value hierarchy for financial instruments measured at fair value on a recurring basis as of June 30, 2012.

	Level 1	Level 2	Total
Money market funds	$ 0	$ 17,462	$ 17,462
Certificate of deposits	0	3,986	3,986
Government and agency			
Treasury notes	21,691	0	21,691
Mortgage asset	0	353	353
Federal home agency asset	0	822	822
Nonconvertible corporate bonds	0	5,298	5,298
Common stock			
Basic materials	1,971	0	1,971
Conglomerates	260	0	260
Consumer goods	573	0	573
Financial	926	0	926
Healthcare	1,448	0	1,448
Industrial goods	901	0	901
Services	762	0	762
Technology	1,443	0	1,443
Utilities	637	0	637
Mortgage asset-backed securities	0	1,073	1,073
Total	$ 30,612	$ 28,994	$ 59,606

(Dollars in thousands)

Note C – Investments - Continued

The following table presents the Corporation's fair value hierarchy for financial instruments measured at fair value on a recurring basis as of June 30, 2011.

	Level 1	Level 2	Total
Money market funds	$ 0	$ 13,800	$ 13,800
Certificate of deposits	0	4,012	4,012
Government and agency			
Treasury notes	19,990	0	19,990
Mortgage asset	0	499	499
Federal home agency asset	0	837	837
Nonconvertible corporate bonds	0	5,972	5,972
Common stock			
Basic materials	1,151	0	1,151
Consumer goods	755	0	755
Financial	395	0	395
Healthcare	1,547	0	1,547
Industrial goods	567	0	567
Services	1,218	0	1,218
Technology	1,506	0	1,506
Utilities	705	0	705
Mortgage asset-backed securities	0	613	613
Total	$ 27,834	$ 25,733	$ 53,567

No significant transfers were made between financial instruments classified at different levels during 2012 and 2011.

(Dollars in thousands)

Note D - Property and Equipment

A summary of property and equipment at June 30, 2012 and 2011 is as follows:

	2012	2011
Land	$ 743	$ 743
Land improvements	532	532
Buildings and improvements	70,588	69,105
Leasehold improvements	36,764	36,759
Equipment	132,634	128,756
Equipment under capital lease obligation	7,086	5,593
	248,347	241,488
Construction in progress	1,243	1,980
	249,590	243,468
Less: accumulated depreciation and amortization	195,306	186,364
	$ 54,284	$ 57,104

Accumulated amortization for equipment under capital leases was $3,683 and $2,415 at June 30, 2012 and 2011, respectively. The Corporation recognized amortization expense for assets under capital lease obligations of $1,268 and $1,080 for the periods ended June 30, 2012 and 2011, respectively. These amounts are included in depreciation and amortization expense within the accompanying consolidated statements of operations and changes in net deficit.

(Dollars in thousands)

Note E - Long-Term Debt

Long-term debt and capital lease obligations at June 30, 2012 and 2011 are summarized as follows:

	2012	2011
Series 1994 Bonds:		
5.38%-Term bonds due in 2014 with periodic sinking fund payments	$ 9,905	$ 12,875
5.30%-Term bonds due in 2024 with periodic sinking fund payment	46,710	46,710
Magruder Trust Mortgage - liability held for sale, three-year adjustable rate (3.25% at both June 30, 2012 and 2011), repayable in periodic installments through 2025	3,196	3,381
Capital lease obligations, payable in monthly installments collateralized by leased equipment	3,113	3,040
	62,924	66,006
Less: original issue discount of 1994 Bonds	929	1,010
	61,995	64,996
Less: current portion of long-term debt and capital lease obligations	4,577	4,253
Non-current portion	$ 57,418	$ 60,743

(Dollars in thousands)

Note E - Long-Term Debt - Continued

Scheduled principal repayments on long-term debt and capital leases are as follows:

Year ending:		
2013	$	4,577
2014		4,451
2015		4,165
2016		4,196
2017		4,168
2018 and thereafter		41,366
	$	62,924

The 1994 Bonds are secured under the Corporation's Master Trust Indenture by the revenues and receipts and certain assets of the Corporation, including those leased from Prince George's County. The Master Trust Indenture requires the satisfaction of certain restrictive covenants. A default under any of these covenants cross-defaults the remaining agreements.

The Master Trust Indenture specifically limits additional borrowing. Further, the Corporation is required to satisfy a debt-service coverage ratio of 1.10 to 1.00 (subject to certain exceptions), measured at the end of each fiscal year, as long as the long-term debt is outstanding. Debt-service coverage is defined as the ratio of the excess of revenues over expenses before interest expense and depreciation to the maximum annual debt service. The debt-service coverage is only measured on the Corporation's obligated group, which is comprised of the following operating divisions: PGHC, LRH, GSSHNC, BHC and Corporate. The results of the obligated group may differ from the results of the entire Corporation. Management believes it is in compliance with all applicable covenants. Management believes, but can provide no assurance, that it will be in compliance at the next annual measurement date of June 30, 2013. The maximum annual debt service is currently estimated to be $7,579 for the year ending June 30, 2013.

(Dollars in thousands)

Note E - Long-Term Debt - Continued

Management believes, but can provide no assurance, that its operating plan for the year ending June 30, 2012 will result in sufficient excess of unrestricted revenues and other support over expenses and cash flow to allow compliance with the relevant covenants. Based on these conclusions, management continues to classify the Series 1994 Bonds as long-term debt in the accompanying consolidated financial statements.

Interest costs on long-term debt and notes payable incurred and paid for the years ended June 30, 2012 and 2011, net of interest income, was $3,525 and $3,608, respectively.

The assets held in trust under the Series 1994 Bonds as of June 30, 2012 and 2011 are as follows:

	June 30	
	2012	**2011**
Debt-service reserve fund	$ 6,601	$ 6,624
Debt-service fund	4,635	4,554
	$ 11,236	$ 11,178

The fair value of the Corporation's Series 1994 Bond indentures, based on the quoted market prices at June 30, 2012 and 2011, was $54,880 and $42,003, respectively. The fair value of all other outstanding debt approximates its carrying value.

(Dollars in thousands)

Note F - Functional Expenses

The Corporation considers health care services and management and general to be its primary functional categories for purposes of expense classification. The Corporation's operating expenses by functional classification for the years ended June 30, 2012 and 2011 are as follows:

	2012	2011
Health care services	$ 342,502	$ 330,277
Management and general	31,835	30,699
	$ 374,337	$ 360,976

Note G - Insurance Programs

Dimensions Health Corporation maintains a wholly owned captive insurance company, located in the Cayman Islands, to administer certain professional and general liability exposures incurred by the Corporation, its employees and voluntary staff. Prior to January 1, 1998, the Corporation was self-insured for professional and general liability claims up to a limit of $2,000 per occurrence and $6,000 in the annual aggregate. Effective January 1, 1998, the Corporation's captive assumed this liability exposure, retroactive to the date of the Corporation's inception, with the same limits of liability. As of June 30, 2012 and 2011, the limits were $5,000 with no aggregate per occurrence for professional liability and $3,000 per occurrence for general liability. This insurance is provided to all employees including certain of the Corporation’s employed physicians.

The Corporation provides claims-management services to the captive insurance company. Losses from claims, both asserted and unasserted such as potentially compensable events identified under the Corporation's incident reporting system, are accrued based on actuarial estimates that incorporate the Corporation's past experience, as well as other considerations. These include the nature of each claim or incident and various relevant trend factors. An additional amount is accrued for potential incurred but not reported claims. The estimates for these losses are reported as accrued professional liabilities on the consolidated balance sheets.

(Dollars in thousands)

Note G - Insurance Programs - Continued

Physicians employed by the captive insurance company are insured for professional liability under commercial insurance policies with coverage limits of $1,000 and $3,000 in the annual aggregates.

The captive insurance company assets are included in assets limited as to use in the balance sheet. The combined fund activity is as follows:

	June 30	
	2012	**2011**
Balance at beginning of year	$ 38,377	$ 33,719
Deposits	5,434	5,894
Investment income	1,839	2,797
Claims and expenses paid	(1,266)	(4,033)
Balance at end of year	$ 44,384	$ 38,377

In calendar years 2012 and 2011, the captive insurance company provided umbrella excess liability coverage to the Corporation for general and professional liability exposures, with coverage limits totaling $15,000. This coverage is 100% reinsured through other commercial insurance companies. In management's opinion, the assets of the captive insurance company are sufficient to meet its obligations as of June 30, 2012. If the financial condition of the captive insurance company were to materially deteriorate in the future, and if it was unable to pay its claim obligations, the responsibility to pay those claims would revert to the Corporation.

As of June 30 2012 and 2011, the Corporation had payables to the captive insurance company of $130 and $1, respectively. As of October 5, 2012, all premium payments are current.

Note H - Employee Annuities

The Corporation maintained certain employee annuity contributions invested with an insurance company. The Corporation did not bear the risk of loss for these investments. During fiscal year 2010 the employee annuities were terminated. The amount of the employee annuity investment was $0 and $67 at June 30, 2012 and 2011, respectively.

Note I - Pension and Postretirement Benefits

The Corporation has a noncontributory defined benefit pension plan (the Plan) covering substantially all employees. For employees not covered under collective-bargaining agreements and employees who are represented by the 1199 SEIU Health Care Workers East - Health Care Workers union (formerly District 1199E-DC, SEIU union and formerly Local No. 63 union), the Plan operates as a cash balance plan. The annual contribution by the Corporation is allocated to individual employee accounts based on years of service and the individual's retirement account. For employees represented by the 1199 SEIU Health Care Workers East – Registered Nurses Chapter union (formerly Professional Staff Nurses Association union), benefits are based on years of service and average final compensation. On December 31, 2007, the Corporation elected to freeze the Pension Plan. No further benefit accruals will be made to the Plan. The Plan freeze substantially reduces annual funding obligations beginning with plan year 2008.

The Corporation's funding policy is to contribute such actuarially determined amounts as necessary to provide assets sufficient to meet the benefits to be paid to the Plan participants and to meet the funding requirements of the Employees Retirement Income Security Act of 1974 (ERISA). In 2005, the Corporation received a minimum contribution funding waiver from the Internal Revenue Service for the 2004 Plan year. The Corporation completed payments arising from the waiver with the final contribution for the 2009 Plan year on September 15, 2009. On July 2, 2007, the Corporation applied to the IRS for a modification of the 2004 funding waiver to allow the Corporation to apply for a minimum funding contribution waiver for Plan year 2007. On March 14, 2009, the Corporation applied for approval from the IRS to waive the minimum required contribution for the Plan year ended December 31, 2007. The contribution necessary to avoid an accumulated funding deficiency was $14,813. The Corporation has been paying down the 2007 minimum funding requirement as if the request has been approved by the IRS and, as of June 30, 2012 the outstanding balance was $3.4 million and is anticipated to be fully paid on September 13, 2013. In a July 19, 2011 letter to the Corporation, the IRS communicated a tentative decision to approve the 2004 waiver modification and the 2007 minimum funding waiver requests. The Corporation accepted the conditions required in the IRS tentative approval. Final approval was granted by IRS via a letter dated November 3, 2011. The Corporation accepted the conditions required in the IRS approval.

Postretirement Benefit Plans

The Corporation also sponsors two defined postretirement benefit plans that cover both salaried and non-salaried employees. One plan provides health care (medical, dental and vision) benefits and the other provides life insurance benefits. The postretirement health care plan is provided to employees who have retired and certain other employees who were eligible to retire prior to July 1, 1995. The plan is contributory for those who retired prior to July 1, 1995, with retiree contributions adjusted annually. Employees who retired on July 1, 1995 and later are eligible to participate in the plan by paying 100% of the premiums without corporate contributions. The Corporation's policy has been to fund this plan on an as needed basis.

Note I - Pension and Postretirement Benefits - Continued

Postretirement Benefit Plans - Continued

The second defined postretirement plan is a life insurance plan covering both salaried and non-salaried employees. The plan was non-contributory for all eligible retirees prior to July 1, 2001. For employees represented by the 1199 SEIU Health Care Workers East – Registered Nurses Chapter union, the plan was no longer offered to new retirees as of July 1, 1999. Effective July 1, 2001, the plan was modified to become contributory for the non-union employees and employees represented by the 1199 SEIU Health Care Workers East - Health Care Workers union who retired prior to July 1, 2001 and for the employees represented by the 1199 SEIU Health Care Workers East – Registered Nurses Chapter union who retired prior to July 1, 1999. The Corporation's policy has been to fund its share of these benefits as they are incurred.

Defined Contribution 403(b) Plan

On January 1, 2008 a defined contribution 403(b) plan, the Dimensions Health Corporation Retirement Savings Plan, was adopted as a replacement plan for the frozen pension plan. Previously the employer had a non-contributory deferred savings program offered to employees through multiple third party administrators.

The 403(b) plan provides a 2% employer contribution on gross wages. Eligible employees who defer wages into the program receive matching contributions from the Corporation equal to 50% of their contribution, up to 4% of their gross pay (thereby receiving an employer maximum match of 2%). Employees who are budgeted to work 40 hours per pay period receive their contribution and match on a biweekly basis. Employees, who are budgeted less than 40 hours per pay period but who actually work 1,000 or more hours in the plan year, receive their contribution and match in one payment early in the following year. The 403(b) plan has a three year "cliff" vesting schedule. Employer contributions under this plan totaled approximately $4,786 and $4,679 for the years ended June 30, 2012 and 2011, respectively.

In accordance with the collective bargaining agreement with 1199 SEIU Health Care Workers East – Registered Nurses Chapter, represented employees with fifteen years of service will receive a matching $25 for each pay period in which they defer $25 or more. This matching contribution is paid quarterly.

As the new plan results in a decrease in retirement benefits for older employees, "grandfathering" provisions were put in place. Non-represented employees, who, as of January 1, 2008, are both fifty-five years or older and who have at least one year of vesting service, receive an additional 3% contribution from the Corporation. Employees represented by 1199 SEIU Health Care Workers East – Registered Nurses Chapter and who, as of January 1, 2008 are both fifty-five years or older and who have fifteen years of vesting service receive an additional 6.5% contribution from the Corporation. To be eligible for the supplemental grandfathering contributions, employees must continue to work in positions budgeted for at least forty hours per pay period.

(Dollars in thousands)

Note I - Pension and Postretirement Benefits - Continued

Defined Contribution 403(b) Plan

On April 8, 2008 the Corporation filed a "de minimis" determination ruling request, exempting the Corporation from Section 412(f) of the IRS Code and 304(b) of ERISA on April 8, 2008, due to the establishment of the defined contribution 403(b) plan. As of the date of this report, the Corporation has not received disposition on the request.

Recorded Liability

The Corporation has recorded a pension liability in the accompanying consolidated balance sheets in the amount of $100,048 and $72,656, representing the amount of projected benefit obligation exceeding the fair value of the Plan's assets as of June 30, 2012 and 2011, respectively. The accumulated benefit obligation was $242,269 and $210,158 as of June 30, 2012 and 2011, respectively.

The Corporation has also recorded a post retirement benefit liability in the accompanying consolidated balance sheet in the amount of $5,322 and $5,154 as of June 30, 2012 and 2011, respectively, representing the underfunded status of the other postretirement benefit plans.

	Pension Benefits		Postretirement Benefits	
	2012	2011	2012	2011
Change in benefit obligation				
Benefit obligation at beginning of year	$ 210,158	$ 209,018	$ 5,154	$ 5,451
Service cost	0	0	0	0
Interest cost	11,358	11,105	271	282
Plan amendments	0	0	0	0
Plan participants contribution	0	0	0	188
Actuarial (gain) loss	27,333	(3,942)	373	(223)
Benefits paid	(6,580)	(6,023)	(476)	(544)
Benefit obligation at end of year	$ 242,269	$ 210,158	$ 5,322	$ 5,154
Change in plan assets				
Fair value of plan assets at beginning of year	$ 137,503	$ 108,518	$ 0	$ 0
Actual return on plan assets	(3,645)	21,397	0	0
Employer contribution	14,943	13,610	476	356
Plan participants contributions	0	0	-	188
Benefits paid	(6,580)	(6,022)	(476)	(544)
Fair value of plan assets at end of year	$ 142,221	$ 137,503	$ 0	$ 0
Funded status/accrued pension and other postretiremet benefit cost	$ (100,048)	$ (72,655)	$ (5,322)	$ (5,154)

(Dollars in thousands)

Note I - Pension and Postretirement Benefits - Continued

Recorded Liability - Continued

The unrecognized obligation for the postretirement benefits represents the remaining unamortized transition obligation.

Significant assumptions used in the accounting for the benefit plans on the measurement dates are as follows. For measurement purposes, certain rate assumptions are adjusted based upon periodic changes in market indicators.

	Pension Benefits		Postretirement Benefits	
	2012	**2011**	**2012**	**2011**
Weighted-average assumptions				
Discount rate	4.30%	5.51%	4.30%	5.51%
Expected return on plan assets	7.5%	7.5%	N/A	N/A
Health care trend rate	N/A	N/A	8.5%	8.2%
Components of net periodic benefit cost				
Service cost	$ 0	$ 0	$ 0	$ 0
Interest cost	11,358	11,105	271	282
Expected return on plan assets	(10,102)	(9,333)	0	0
Amortization of prior service cost	150	195	(135)	(135)
Amortization of net actuarial loss (gain)	9,406	10,022	68	90
Amortization of transition obligation	0	0	252	252
Net periodic benefit cost	$ 10,812	$ 11,989	$ 456	$ 489

The overall rate of expected return on assets assumption was based on historical returns, with adjustments made to reflect expectations of future returns. The extent to which the future expectations were recognized included the target rates of return for the future which has historically not changed.

(Dollars in thousands)

Note I - Pension and Postretirement Benefits - Continued

Recorded Liability - Continued

For measurement purposes related to postretirement benefits as of June 30, 2012 and 2011, a 5% annual rate of increase in the per capita cost of covered health care benefits was assumed. The health care trend rate assumption has a significant effect on the amounts reported. For example, changing the assumed health care cost trend rates by one percentage point will have the following effects:

	One Percentage-Point Increase	One Percentage-Point Decrease
Effect on interest cost component	$ 11	$ 16
Effect on postretirement benefit obligation	260	260

Pension Plan Assets

The Plan's asset allocations at June 30, 2012 and 2011, by asset category, are as follows:

	2012	2011
Asset Category		
Equity securities	62%	61%
Fixed maturity securities	20%	19%
Other	19%	21%
	100%	100%

The Plan assets may be invested in publicly traded equity mutual funds, including equity index funds and unit investment trusts mirroring a major market equity index, and publicly traded bond mutual funds, including bond index funds, with allowable ranges of 50% to 80% of the total asset value for equities and 20% to 50% of the total asset value for fixed maturity investments. In addition, fixed maturity investments that are not publicly traded may be used with specific approval by the Plan trustees. Investment results are evaluated against applicable major market indexes.

Note I - Pension and Postretirement Benefits – Continued

Pension Plan Assets - Continued

The custodian of the Plan's assets uses an independent pricing service, Interactive Data Pricing and Reference Data, Inc., to provide pricing services and valuation methodology. The following is a description of the valuation methodologies used for assets measured at fair value.

Common stock securities are priced at the closing price reported on the active market on which individual securities are traded.

Corporate bond securities are priced by independent pricing services using inputs such as benchmark yields, reported trades, broker/dealer quotes, and issuer spreads, and priced using non-binding broker/dealer quotes. Prices are reviewed by the custodian to ensure reasonableness, and can be challenged with the independent party and/or overridden if the custodian believes the custodian's price would be more reflective of fair value.

U.S. government securities are priced using inputs such as benchmark yields, reported trades, broker/dealer quotes, and issuer spreads, priced using non-binding broker/dealer quotes. Prices are reviewed by the custodian to ensure reasonableness, and can be challenged with the independent party and/or overridden if the custodian believes the custodian's price would be more reflective of fair value.

The valuation of asset-backed securities (including partnerships) is based on valuation by the general manager or partner of such asset determined in good faith using criteria set forth in the asset agreements.

(Dollars in thousands)

Note I - Pension and Postretirement Benefits – Continued

Pension Plan Assets - Continued

The fair values of the Plan assets as of June 30, 2012 by asset category are as follows:

Assets	Level 1	Level 2	Level 3	Total
Cash and cash equivalents				
Cash and money market funds	$ 7,696	$ 0	$ 0	$ 7,696
Fixed Maturity				
US government agency bonds/notes	3,835	0	0	3,835
US government bonds/notes	10,247	0	0	10,247
Municipal bonds	0	528	0	528
Corporate bonds	0	8,344	0	8,344
Mortgage backed securities	0	4,808	0	4,808
Other asset backed securities	0	10	0	10
Equity				
Mutual funds				
Mid cap growth	6,503	0	0	6,503
Mid cap value	7,669	0	0	7,669
Foreigh large value	13,280	0	0	13,280
Foreigh large growth	13,582	0	0	13,582
Inflation-protected bond	2,617	0	0	2,617
Alternative strategies	4,631	0	0	4,631
Common stocks				
Energy	2,865	0	0	2,865
Materials	1,424	0	0	1,424
Industrials	6,272	0	0	6,272
Consumer discretionary	4,260	0	0	4,260
Consumer staples	4,419	0	0	4,419
Healthcare	6,099	0	0	6,099
Financials	3,376	0	0	3,376
Information technology	8,093	0	0	8,093
Telecom services	2,048	0	0	2,048
Utilities	366	0	0	366
Alternatives				
Multi-strategy hedge fund of funds	0	0	19,249	19,249
Total assets fair value	$ 109,282	$ 13,690	$ 19,249	$ 142,221

(Dollars in thousands)

Note I - Pension and Postretirement Benefits – Continued

Pension Plan Assets - Continued

The fair values of the Plan assets as of June 30, 2011 by asset category are as follows:

Assets	Level 1	Level 2	Level 3	Total
Cash and cash equivalents				
Cash and money market funds	$ 7,985	$ 0	$ 0	$ 7,985
Fixed Maturity				
US government agency bonds/notes	7,889	0	0	7,889
US government bonds/notes	10,427	0	0	10,427
Municipal bonds	0	261	0	261
Corporate bonds	0	6,987	0	6,987
Foreign bonds/notes	0	238	0	238
Equity				
Mutual funds				
Large cap growth	6,135	0	0	6,135
Mid cap value	7,302	0	0	7,302
Foreign large value	12,690	0	0	12,690
Foreign large growth	12,940	0	0	12,940
Inflation-protected bond	3,242	0	0	3,242
Common stocks				
Energy	4,280	0	0	4,280
Materials	1,823	0	0	1,823
Industrials	7,115	0	0	7,115
Consumer discretionary	4,861	0	0	4,861
Consumer staples	4,503	0	0	4,503
Healthcare	6,035	0	0	6,035
Financials	2,951	0	0	2,951
Information technology	7,380	0	0	7,380
Telecom services	1,602	0	0	1,602
Utilities	436	0	0	436
Alternatives				
Multi-strategy hedge fund of funds	0	0	20,421	20,421
Total assets fair value	$ 109,596	$ 7,486	$ 20,421	$ 137,503

(Dollars in thousands)

Note I - Pension and Postretirement Benefits - Continued

Pension Plan Assets - Continued

The following table is a rollforward of the fair value amounts for financial instruments classified by the Plan within level 3 of the valuation hierarchy above:

Fair value June 30, 2010	$	15,657
Realized and unrealized gains, net		1,577
Purchases, issuances, and settlements, net		3,187
Fair value June 30, 2011	$	20,421
Sales		(807)
Purchases		16
Realized losses		(11)
Unrealized losses		(370)
Fair value June 30, 2012	$	19,249

During fiscal year 2012, the Corporation transferred $4,818 from level 1 fixed maturity securities to level 2 fixed maturity securities in accordance with the Corporation's investment committee decision to reallocate the portfolio. During fiscal year 2011, the Corporation transferred $4,246 from level 2 fixed maturity securities to level 1 fixed maturity securities in accordance with the Corporation's investment committee decision to reallocate the portfolio.

The Plan holds alternative investments that are not traded on national exchanges or over-the-counter markets. The Plan is provided information on a net asset value per share basis for these investments that have been calculated by the funds of funds' managers based on information provided by the managers of underlying funds. Included in alternative investments are two classes of hedge funds of funds with fair values of $15,385 (Grosvenor funds) and $3,864 (Silver Creek funds) as of June 30, 2012 and $15,750 (Grosvenor funds) and $4,671 (Silver Creek funds) as of June 30, 2011.

(Dollars in thousands)

Note I - Pension and Postretirement Benefits – Continued

Pension Plan Assets - Continued

The following table displays information by major alternative investment category as of June 30, 2012 and 2011:

Description	Redemption Frequency	Redemption Notice Period	Receipt of Proceeds
Hedge Funds (1)	In liquidation status	(1)	(1)
Hedge Funds	Quarterly	70 days	(2)

1. The Silver Creek funds are currently in liquidation status and closing. There are no liquidity provisions. According to the estimated liquidation schedule, payouts are semiannual.

2. The liquidity for the Grosvenor funds is quarterly with 70 days notice, and redemptions are effective as of the last day of the month. In the case of a withdrawal of all or substantially all (as determined by Grosvenor) of the balance of a Limited Partner's Capital Account, the Master Series generally will pay at least 90% of the estimated Capital Account balance withdrawn within 60 days following the effective date of the withdrawal, with the remainder to be paid as promptly as possible after the completion of the Master Series' audit for the fiscal year in which the withdrawal occurred. Generally the audit reserve is paid between 90-120 days as of the initial payment date, but the fund does reserve the right to pay out the audit reserve upon the completion of the audit for the fiscal year in which the redemption took place.

Cash Flows

The Corporation expects to contribute $17,170 to the Plan for fiscal year 2013. The Corporation expects to contribute $476 to its other postretirement benefit plans for fiscal year 2013.

(Dollars in thousands)

Note I - Pension and Postretirement Benefits - Continued

Estimated Future Benefit Payments

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

	Pension Benefits	Other Benefits
2013	$ 8,803	$ 480
2014	9,452	481
2015	10,099	479
2016	10,763	472
2017	11,410	462
2018 and thereafter	66,292	2,048

Note J - Commitments and Contingencies

Operating Leases

The Corporation leases the land and buildings used by PGHC, LRH, BHC, and GSSHNC from Prince George's County under a lease agreement. In connection with the refunded Series 1992 Bond Issue, the lease was restated and amended to provide for the use of the related facilities through June 30, 2042, for a one-time, lump-sum payment of $13,352 and future annual rental payments of $1 for the remaining term of the lease. The lump-sum payment, made on June 17, 1992, was allocated to the related buildings ($8,958) and to reduce the deferred rent liability recorded by the Corporation at the time of the restatement and amendment ($4,394). The amount allocated to the buildings is being amortized over the lesser of the useful life of the assets or the remaining lease term.

Upon termination of the lease, the Corporation is obligated to deliver to the County all of the assets attributable to the operations, as defined, including all fixed and moveable equipment. All such assets will be transferred and conveyed in "as is" condition without warrant as to condition or serviceability.

The Corporation also leases various equipment and computer services under long-term operating lease agreements. Total rental expense for operating leases approximated $2,102 and $2,168 for the years ended June 30, 2012 and 2011, respectively.

(Dollars in thousands)

Note J - Commitments and Contingencies - Continued

Operating Leases

The following is a schedule of future minimum lease payments under operating leases as of June 30, 2012 that have initial or remaining lease terms in excess of one year.

	Amount
Year ending June 30:	
2013	$ 282
2014	189
2015	132
2016 and thereafter	253

The Corporation entered into an agreement with an outside vendor to outsource the management information services function and maintenance and provision of software services through December 31, 2014. The annual payments are expected to be as follows:

	Amount
Year ending June 30:	
2013	$ 4,557
2014	2,278

Professional Liability and Litigation

The Corporation is involved in litigation arising in the ordinary course of business. Claims alleging malpractice have been asserted against the Corporation. For such claims, management has accrued a reserve for potential liability in the amount of $26,704 and $26,296 as of June 30, 2012 and 2011, respectively (see *Note G*). There is at least a reasonable possibility that some of these cases will be settled against the Corporation, resulting in varying degrees of monetary damages in excess of the recorded reserve. After consultation with legal counsel, management estimates that these matters will be resolved without material adverse effect on the Corporation's future financial position or results of operations. The Corporation incurred professional liability expenses of approximately $4,693 and $5,592 for the years ended June 30, 2012 and 2011, respectively.

Note J - Commitments and Contingencies - Continued

Other

As of June 30, 2012, letters of credit in the amounts of $2,500 (expiring September 4, 2013), $1,286 (expiring September 30, 2013), and $200 (expiring September 4, 2013) are maintained in support of various insurance arrangements and require the payment of annual commitment fees of 0.50%. As of June 30, 2012 and 2011, the Corporation pledged $3,986 and $4,012, respectively, as collateral for these letters of credit. The assets pledged are classified as short term investments in the accompanying consolidated balance sheets. The restricted cash and cash equivalents reported in the accompanying consolidated balance sheets represent cash received from donors restricted for specific purposes.

The Corporation was self-insured against workers' compensation claims up to $300 per claim with no annual aggregate limit prior to July 1, 2004. The Corporation maintains a commercial insurance policy for claims liabilities exceeding these limits. A liability of $96 and $55, as of June 30, 2012 and 2011, respectively, has been established for known claims and an estimate for claims incurred but not reported and accrued in the Corporation's accounts payable. Effective July 1, 2004, the Corporation's self-insured limit was raised to $400 per claim with no annual aggregate. Effective October 1, 2004, the Corporation's self-insurance privileges were revoked and the Corporation purchased a commercial policy to cover all prospective workers' compensation claims. This policy provides coverage for claims up to $500 per claim with no annual aggregate limit.

Note K - Maryland Health Services Cost Review Commission

Certain of the Corporation's charges to patients are subject to review and approval by the Commission. Management has filed the required forms with the Commission and believes the Corporation to be in compliance with Commission requirements.

The current rate of reimbursement for principally all inpatient services and certain other services to patients under the Medicare and Medicaid programs is based on an agreement between the Center for Medicare and Medicaid Services and the Commission. This agreement is based upon a waiver from Medicare prospective payment system reimbursement principles granted to the State of Maryland under Section 1814(b) of the Social Security Act and will continue as long as Medicare and Medicaid do not pay rates any higher than those offered to other third-party payers and the rate of increase for costs per hospital inpatient admission in Maryland is below the national average. Management expects this agreement will remain in effect at least through June 30, 2013.

Note K - Maryland Health Services Cost Review Commission - Continued

Effective April 1999, the Commission adopted, and PGHC and LRH agreed to, a rate methodology for hospital inpatient services. Under this methodology, a target average charge per case is established for PGHC and for LRH based on past actual charges, inflation, and case mix indices. The average charge per case for the applicable facility is compared with the target average charge per case for the applicable facility and, to the extent that the actual average exceeds the target, the overcharge plus applicable penalties will reduce the approved target for the subsequent rate year. To the extent that the actual average is short of the target, the undercharge will increase the approved target for the subsequent rate year. At June 30, 2012 and 2011, PGHC and LRH were in compliance, defined as within 1% overcharge or 2% undercharge, with their average charge per case targets.

The Commission's rate-setting methodology for service centers that provide both inpatient and outpatient services or only outpatient services consists of establishing an acceptable unit rate for these centers within the applicable facility. The actual average unit charge for each service center is compared to the approved rate on a monthly basis.

The rate variances, plus penalties where applicable, are applied to decrease (in the case of overcharges) or increase (in the case of undercharges) future approved rates on an annual basis.

The timing of the Commission's rate adjustments for the Corporation could result in an increase or reduction due to the variances and penalties described above in a year subsequent to the year in which such items occur. The Corporation's policy is to accrue revenue based on actual charges for services to patients in the year in which the services are performed and billed.

Note L - Related Party Transactions

The Prince George's Hospital Center Foundation, Inc., the Laurel Regional Hospital Foundation, Inc., and the Laurel Regional Hospital Auxiliary were established to solicit contributions from the general public solely for the funding of capital acquisitions and operations of the associated hospitals. The associated hospitals have recorded their interest in the net assets of the foundations as a non-current asset in the accompanying consolidated balance sheets.

The Corporation's wholly owned subsidiary, Madison Manor, Inc., holds a 25% partnership interest in BCLP and accounts for it under the equity method. The carrying value of the Corporation's investment in BCLP was $3,249 and $2,818 at June 30, 2012 and 2011, respectively.

(Dollars in thousands)

Note M – Discontinued Operations

The State of Maryland's 2009 Cost Containment Initiative had affected all Maryland chronic care facilities, resulting in a significant decrease in the chronic care census at GSSHNC. On July 19, 2010, the Board of Directors of the Corporation approved a plan to close the long term comprehensive services at GSSHNC while retaining approximately 46 chronic beds within the services provided by the Corporation. The chronic beds were transferred from the Cheverly campus to LRH. On June 30, 2011, the Corporation terminated operations of the comprehensive unit, which provided long term nursing care at the Cheverly location. The Corporation also delicensed the 61 beds from the comprehensive unit. After a period of review and evaluation of future options for use of the 61 comprehensive beds, the Corporation made a decision to sell the beds. On March 30, 2012, the Corporation entered into a sales agreement for the 61 beds at a price of $467,500 and the transaction was settled on October 10, 2012. The proceeds from the sale will be used to repurpose the GSSHNC building. Future facility usage is currently under review by management, and it is likely that the facility will be used for other purposes to complement the Corporation's long term strategic plans.

The following represents summarized financial information for the discontinued operations as of June 30, 2012 and 2011 and for the years then ended:

GSSHNC Operating Activities	**2012**	**2011**
Operating loss prior to discontinuing operations	$ 0	$ (60)
Discontinued operations		
Loss from discontinued operations	0	(3,877)
Loss from disposal	0	(68)
	$ 0	$ (3,945)
GSSHNC Assets		
Accounts receivable (net)	$ 0	$ 1,159
Property, plant and equipment (net)	82	368
Intercompany receivables/other	0	1
	$ 82	$ 1,528
GSSHNC Liabilities		
Accounts payable	$ (130)	$ (404)
Other current liabilities	0	(305)
	$ (130)	$ (709)

Other Financial Information

COHEN
RUTHERFORD
+ KNIGHT PC
Certified Public Accountants

Report of Independent Auditors

Board of Directors
Dimensions Health Corporation

We have audited, in accordance with auditing standards generally accepted within the United States, the consolidated financial statements of Dimensions Health Corporation for the year ended June 30, 2012 presented herein and have issued our opinion thereon dated October 17, 2012. Our audit was conducted for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The consolidating information presented hereinafter as of and for the year ended June 30, 2012 is presented for purposes of additional analysis of the basic consolidated financial statements rather that to present the balance sheets, statements of operations of the individual companies, and is not a required part of the basic 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the 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.

As discussed in *Note B* to the consolidated financial statements, the Corporation's reliance on government and other grant funding to support its operations, its substantial capital needs, significant unfunded pension obligations, and limited cash resources raise substantial doubt about its ability to continue as a going concern. The consolidated financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts and classification of liabilities that may result from the outcome of this uncertainty.

Cohen, Rutherford + Knight, P.C.

October 17, 2012

6903 Rockledge Drive, Suite 500, Bethesda, MD 20817 **Tel:** 301.828.1000 **Fax:** 301.530.3625

Consolidating Balance Sheets-Obligated Group
Dimensions Health Corporation and Subsidiaries
For the year ended June 30, 2012
(Dollars in thousands)

	PGHC	LRH	GSSNHC	BHC	Corporate	Total Obligated Group	Other Entities	Eliminations	Consolidated Total
Assets									
Current Assets:									
Cash and cash equivalents	$ 0	$ 0	$ 0	$ 1	$ 34,871	$ 34,872	$ 1,089	$ 0	$ 35,961
Restricted cash and cash equivalents	0	0	0	0	2,699	2,699	0	0	2,699
Patient accounts receivable, net of allowance	30,237	10,782	3,386	1,412	0	45,817	949	0	46,766
Other receivables	728	24	0	1,275	297	2,324	4,944	(3,174)	4,094
Inventories	2,536	2,294	0	233	0	5,063	0	0	5,063
Current portion of assets held in trust	0	0	0	0	4,635	4,635	0	0	4,635
Prepaid expenses and other assets	227	39	0	22	4,185	4,473	1,135	(1,126)	4,482
Total current assets	33,728	13,139	3,386	2,943	46,687	99,883	8,117	(4,300)	103,700
Due from affiliates	0	0	25,393	14,516	(51,841)	(11,932)	0	11,932	0
Assets limited as to use:									
Short term investments	0	0	0	0	3,786	3,786	200	0	3,986
Held in trust under bond and note indentures, net current portion	0	0	0	0	6,601	6,601	0	0	6,601
Investments held for self insurance	0	0	0	0	0	0	44,384	0	44,384
Total assets limited as to use	0	0	0	0	10,387	10,387	44,584	0	54,971
Property and equipment, net	30,898	15,777	356	1,776	2,578	51,385	2,899	0	54,284
Investments	377	285	0	0	5,834	6,496	3,249	(5,834)	3,911
Deferred financing costs	0	0	0	0	235	235	55	0	290
Other noncurrent assets	3,186	667	0	0	0	3,853	0	0	3,853
Total assets	$ 68,189	$ 29,868	$ 29,135	$ 19,235	$ 13,880	$ 160,307	$ 58,904	$ 1,798	$ 221,009

(Continued)

Consolidating Balance Sheets-Obligated Group - Continued
Dimensions Health Corporation and Subsidiaries
For the year ended June 30, 2012
(Dollars in thousands)

	PGHC	LRH	GSSNHC	BHC	Corporate	Total Obligated Group	Other Entities	Eliminations	Consolidated Total
Liabilities and net assets									
Current Liabilities									
Current portion of long-term debt	$ 208	$ 1,006	$ 0	$ 41	$ 3,130	$ 4,385	$ 192	$ 0	$ 4,577
Current portion of accrued benefit liabilities	0	0	0	0	17,646	17,646	0	0	17,646
Accounts payable and accrued expenses	20,762	7,828	1,119	1,203	7,203	38,115	5,255	(4,300)	39,070
Accrued compensation and related items	6,696	2,866	260	294	1,766	11,882	789	0	12,671
Advances from third-party payers	7,780	2,942	986	0	0	11,708	0	0	11,708
Total current liabilities	35,446	14,642	2,365	1,538	29,745	83,736	6,236	(4,300)	85,672
Long-term debt, net of current portion	794	986	0	78	52,556	54,414	3,004	0	57,418
Due to affiliates	(73,784)	45,585	0	0	0	(28,199)	16,267	11,932	0
Other Liabilities:									
Accrued professional liability costs	0	0	0	0	0	0	26,704	0	26,704
Accrued employee benefit liability	0	0	0	0	87,724	87,724	0	0	87,724
Total other liabilities	0	0	0	0	87,724	87,724	26,704	0	114,428
Total liabilities	(37,544)	61,213	2,365	1,616	170,025	197,675	52,211	7,632	257,518
Net assets (deficit)									
Unrestricted	102,841	(31,858)	26,770	17,619	(156,145)	(40,773)	0	859	(39,914)
Restricted	2,892	513	0	0	0	3,405	0	0	3,405
	105,733	(31,345)	26,770	17,619	(156,145)	(37,368)	0	859	(36,509)
Shareholders equity									
Capital contributions	0	0	0	0	0	0	5,834	(5,834)	0
Retained earnings	0	0	0	0	0	0	859	(859)	0
Total shareholder equity	0	0	0	0	0	0	6,693	(6,693)	0
Total liabilities and net assets	$ 68,189	$ 29,868	$ 29,135	$ 19,235	$ 13,880	$ 160,307	$ 58,904	$ 1,798	$ 221,009

Consolidating Statement of Operations-Obligated Group
Dimensions Health Corporation and Subsidiaries
For the year ended June 30, 2012
(Dollars in thousands)

	PGHC	LRH	GSSNHC	BHC	Corporate	Total Obligated Group	Other Entities	Eliminations	Consolidated Total
CONTINUING OPERATIONS									
Unrestricted revenue and other support:									
Net patient service revenue	$ 219,277	$ 88,397	$ 14,231	$ 17,593	$ 0	$ 339,498	$ 10,811	$ 0	$ 350,309
Other income	24,499	9,205	0	13	1,101	34,818	6,645	(5,565)	35,898
Total unrestricted revenue and other support	243,776	97,602	14,231	17,606	1,101	374,316	17,456	(5,565)	386,207
Operating expenses:									
Salaries and benefits	127,865	54,865	5,685	7,371	0	195,786	9,481	0	205,267
Supplies	32,844	13,337	1,373	2,194	0	49,748	104	0	49,852
Purchased services	30,095	14,730	833	3,184	0	48,842	6,565	(5,565)	49,842
Provision for bad debts	14,746	5,667	3,007	1,795	0	25,215	3,234	0	28,449
Physician fees	7,896	4,125	34	2,788	0	14,843	8,548	0	23,391
Utilities	2,713	1,577	43	306	0	4,639	40	0	4,679
Interest expense	1,854	1,287	24	173	0	3,338	176	0	3,514
Depreciation and amortization	5,573	3,159	77	338	33	9,180	163	0	9,343
Total operating expenses	223,586	98,747	11,076	18,149	33	351,591	28,311	(5,565)	374,337
Income from continuing operations before other income	20,190	(1,145)	3,155	(543)	1,068	22,725	(10,855)	0	11,870
Other income									
Investment income	17	5	1	0	0	23	2,270	0	2,293
DHA support	(12,838)	(1,918)	0	0	0	(14,756)	14,756	0	0
Total other income	(12,821)	(1,913)	1	0	0	(14,733)	17,026	0	2,293
Income from continuing operations	7,369	(3,058)	3,156	(543)	1,068	7,992	6,171	0	14,163
Excess (deficit) of unrestricted revenue and other support over expenses	7,369	(3,058)	3,156	(543)	1,068	7,992	6,171	0	14,163
Other changes in unrestricted assets:									
Net change in appreciation of marketable investments	0	0	0	0	(12)	(12)	0	0	(12)
Net assets released from restriction for capital acquisition	1,522	200	0	0	0	1,722	0	0	1,722
Change minimum pension liability	0	0	0	0	(31,888)	(31,888)	0	0	(31,888)
Increase (decrease) in unrestricted net assets	$ 8,891	$ (2,858)	$ 3,156	$ (543)	$ (30,832)	$ (22,186)	$ 6,171	$ 0	$ (16,015)