

COHEN  
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Certified Public Accountants



**Audited Consolidated Financial  
Statements**

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

June 30, 2010 and 2009

**Calvert Memorial Hospital of Calvert County and Subsidiaries**  
Consolidated Financial Statements  
Years Ended June 30, 2010 and 2009

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## Report of Independent Auditors

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

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

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Calvert Memorial Hospital of Calvert County, Inc. and subsidiaries as of June 30, 2010 and 2009, and the consolidated results of its operations, changes in net assets and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

*Cohen, Rutherford + Knight, P.C.*

October 7, 2010  
Bethesda, Maryland

# Calvert Memorial Hospital of Calvert County and Subsidiaries

## Consolidated Statements of Financial Position

	June 30	
	2010	2009
<i>ASSETS</i>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 10,546,007	\$ 12,871,187
Short-term investments -- Note 3	5,820	5,045
Patient accounts receivable, net of allowance for uncollectible accounts of \$4,867,251 in 2010 and \$5,020,338 in 2009 -- Note 10	14,649,690	14,123,160
Inventories	2,387,293	2,604,724
Prepaid expenses and other assets	1,712,119	1,918,559
Assets limited as of use, current -- Note 3	2,340,540	2,335,883
<b>TOTAL CURRENT ASSETS</b>	<b>31,641,469</b>	<b>33,858,558</b>
<b>INVESTMENTS AND OTHER ASSETS</b>		
Investments -- Note 3	2,385,139	1,921,407
Investments in affiliated enterprises -- Note 2	3,619,597	3,556,961
Assets limited as to use -- Notes 3 and 13	6,446,402	6,384,392
Property and equipment, net -- Note 5	65,426,065	65,110,971
Other assets	751,571	697,331
<b>TOTAL ASSETS</b>	<b>\$ 110,270,243</b>	<b>\$ 111,529,620</b>
<i>LIABILITIES, NONCONTROLLING INTEREST AND NET ASSETS</i>		
<b>CURRENT LIABILITIES</b>		
Accounts payable and accrued expenses	\$ 11,418,718	\$ 10,277,323
Current portion of long-term debt -- Note 6	815,000	780,000
Advances from third party payers	3,739,286	2,872,675
<b>TOTAL CURRENT LIABILITIES</b>	<b>15,973,004</b>	<b>13,929,998</b>
Long-term debt, less current portion -- Note 6	52,940,445	53,713,425
Accrued pension cost -- Note 7	8,107,723	4,100,313
Other long-term liabilities	3,849,515	3,515,158
<b>TOTAL LIABILITIES</b>	<b>80,870,687</b>	<b>75,258,894</b>
<b>NONCONTROLLING INTEREST</b>	<b>371,524</b>	<b>332,497</b>
<b>NET ASSETS</b>		
Unrestricted - general	25,316,038	32,330,053
Unrestricted - board designated	2,445,747	2,322,647
Temporarily restricted -- Note 4	700,993	778,514
Permanently restricted -- Note 4	565,254	507,015
<b>TOTAL NET ASSETS</b>	<b>29,028,032</b>	<b>35,938,229</b>
<b>TOTAL LIABILITIES, NONCONTROLLING INTEREST AND NET ASSETS</b>	<b>\$ 110,270,243</b>	<b>\$ 111,529,620</b>

See the accompanying notes to the consolidated financial statements.

# Calvert Memorial Hospital of Calvert County and Subsidiaries

## Consolidated Statements of Operations and Other Changes in Unrestricted Net Assets

	Year Ended June 30	
	2010	2009
<b>REVENUE</b>		
Net patient service revenue -- Note 10	\$ 118,006,396	\$ 114,834,777
Rental revenue -- Note 12	274,671	279,279
Other operating revenue	3,611,530	3,137,249
<b>TOTAL OPERATING REVENUE</b>	<b>121,892,597</b>	<b>118,251,305</b>
<b>EXPENSES -- Note 11</b>		
Salaries and wages	50,881,579	48,981,365
Employee benefits -- Note 7	10,377,985	9,360,245
Supplies	23,219,850	22,201,066
Purchased services	5,474,016	4,657,764
Professional fees	3,568,936	3,347,748
Depreciation and amortization -- Note 5	6,962,126	6,500,562
Interest -- Note 6	2,940,264	2,976,585
Provision for uncollectible accounts	7,318,485	6,058,850
Other -- Note 12	13,880,846	12,679,994
<b>TOTAL OPERATING EXPENSES</b>	<b>124,624,087</b>	<b>116,764,179</b>
<b>(LOSS) INCOME FROM OPERATIONS</b>	<b>(2,731,490)</b>	<b>1,487,126</b>
<b>NONOPERATING GAINS</b>		
Investment income -- Note 3	409,396	379,363
Income from equity investments -- Note 2	203,132	342,503
<b>NONOPERATING GAINS, NET</b>	<b>612,528</b>	<b>721,866</b>
<b>(LOSS) INCOME BEFORE NONCONTROLLING INTEREST</b>	<b>(2,118,962)</b>	<b>2,208,992</b>
<b>NONCONTROLLING INTEREST IN NET LOSS OF SUBSIDIARIES</b>	<b>(146,827)</b>	<b>(15,009)</b>
<b>EXCESS OF (EXPENSES OVER REVENUE) REVENUE OVER EXPENSES</b>	<b>(2,265,789)</b>	<b>2,193,983</b>
Net assets released from restrictions for capital acquisitions	256,496	293,076
Equity contribution to parent	0	(3,222,949)
Pension-related changes other than net periodic pension cost -- Note 7	(4,868,555)	(2,381,659)
Net unrealized losses on marketable investments -- Note 3	(13,067)	(237,721)
<b>DECREASE IN UNRESTRICTED NET ASSETS</b>	<b>\$ (6,890,915)</b>	<b>\$ (3,355,270)</b>

See the accompanying notes to the consolidated financial statements.

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

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<b>NET ASSETS, JUNE 30, 2008</b>	\$ 38,007,970	\$ 679,232	\$ 616,984	\$ 39,304,186
Excess of revenue over expenses	2,193,983	0	0	2,193,983
Transfer of net assets	0	(5,555)	5,555	0
Contributions	0	787,370	0	787,370
Net assets released from restrictions for capital acquisitions	293,076	(293,076)	0	0
Net assets released from restrictions to fund operating programs	0	(389,457)	0	(389,457)
Equity contribution to parent	(3,222,949)	0	0	(3,222,949)
Investment income on restricted net assets -- Note 3	0	0	17,968	17,968
Pension-related changes other than net periodic pension cost -- Note 7	(2,381,659)	0	0	(2,381,659)
Net unrealized losses on marketable investments -- Note 3	(237,721)	0	(133,492)	(371,213)
<b>Increase (decrease) in net assets</b>	<u>(3,355,270)</u>	<u>99,282</u>	<u>(109,969)</u>	<u>(3,365,957)</u>
<b>NET ASSETS, JUNE 30, 2009</b>	34,652,700	778,514	507,015	35,938,229
Excess of expenses over revenue	(2,265,789)	0	0	(2,265,789)
Transfer of net assets	0	12,750	(12,750)	0
Contributions	0	865,637	0	865,637
Net assets released from restrictions for capital acquisitions	256,496	(256,496)	0	0
Net assets released from restrictions to fund operating programs	0	(699,412)	0	(699,412)
Investment income on restricted net assets -- Note 3	0	0	14,982	14,982
Pension-related changes other than net periodic pension cost -- Note 7	(4,868,555)	0	0	(4,868,555)
Net unrealized gains (losses) on marketable investments -- Note 3	(13,067)	0	56,007	42,940
<b>Increase (decrease) in net assets</b>	<u>(6,890,915)</u>	<u>(77,521)</u>	<u>58,239</u>	<u>(6,910,197)</u>
<b>NET ASSETS, JUNE 30, 2010</b>	<u>\$ 27,761,785</u>	<u>\$ 700,993</u>	<u>\$ 565,254</u>	<u>\$ 29,028,032</u>

See the accompanying notes to the consolidated financial statements.

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

	2010	2009
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Decrease in net assets	\$ (6,910,197)	\$ (3,365,957)
Adjustments to reconcile decrease in net assets to net cash and cash equivalents provided by operating activities:		
Provision for uncollectible accounts	7,318,485	6,058,850
Depreciation and amortization	6,962,126	6,500,562
Cash donations restricted for capital acquisition	(462,709)	(404,960)
Equity in earnings of affiliated enterprises	(390,602)	(342,503)
Investment income on restricted assets	(14,982)	(17,968)
Unrealized net (gains) losses on investments	(42,940)	371,213
Noncontrolling interest in net loss of subsidiaries	146,827	15,009
Pension-related changes other than net periodic pension cost	4,868,555	2,381,659
Increase in patient accounts receivable	(7,824,485)	(6,390,350)
Decrease in inventories	217,431	43,611
(Increase) decrease in prepaid expenses and other assets	(123,158)	766,568
Increase (decrease) in accounts payable, accrued expenses and other liabilities	1,523,238	(553,613)
<b>NET CASH AND CASH EQUIVALENTS PROVIDED BY OPERATING ACTIVITIES</b>	<b>5,267,589</b>	<b>5,062,121</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of investments	(389,004)	(391,952)
Sales of investments	165,284	241,090
Net (increase) decrease in assets limited as to use	(44,256)	2,158,011
Purchases of property and equipment	(7,242,650)	(4,584,917)
<b>NET CASH AND CASH EQUIVALENTS USED IN INVESTING ACTIVITIES</b>	<b>(7,510,626)</b>	<b>(2,577,768)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Repayment of long-term debt	(780,000)	(745,000)
Total cash received restricted for capital acquisitions	462,709	404,960
Distributions to noncontrolling interests	(107,800)	0
Net distributions from investees	327,966	81,868
Investment income on restricted assets	14,982	17,968
<b>NET CASH AND CASH EQUIVALENTS USED IN BY FINANCING ACTIVITIES</b>	<b>(82,143)</b>	<b>(240,204)</b>
<b>NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(2,325,180)</b>	<b>2,244,149</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<b>12,871,187</b>	<b>10,627,038</b>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<b>\$ 10,546,007</b>	<b>\$ 12,871,187</b>

See the accompanying notes to the consolidated financial statements.

# Calvert Memorial Hospital of Calvert County and Subsidiaries

## Notes to the Consolidated Financial Statements

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

#### *Organization*

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

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

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

#### *Principles of Consolidation*

At June 30, 2010 and 2009, the Hospital's consolidated financial statements include the accounts of the Hospital, CPTSFC, and its wholly owned or controlled subsidiaries, the Foundation, CHV and CPA. All material intercompany transactions are eliminated.

#### *Basis of Presentation*

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

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

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



# Calvert Memorial Hospital of Calvert County and Subsidiaries

## Notes to the Consolidated Financial Statements – Continued

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

#### *Basis of Presentation - Continued*

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

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

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

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

# Calvert Memorial Hospital of Calvert County and Subsidiaries

## Notes to the Consolidated Financial Statements – Continued

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

#### *Use of Estimates*

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

#### *Cash and Cash Equivalents*

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

#### *Investments*

Investments in debt and equity securities are recorded at market value which approximates fair value. Investment income, realized gains and losses and unrealized gains and losses on trading securities are reported in the consolidated statements of operations unless restricted by the donor and are an addition to, or deduction from, the fund balance of the appropriate donor-restricted fund. In accordance with applicable accounting standards, unrealized gains and losses on securities classified as other than trading are reported as a direct charge to net assets in the accompanying consolidated statements of changes in net assets. The specific identification method is used to compute realized gains or losses on sales of investments. Other investments, when acquired by gift or bequest, are carried at fair value at the date received and adjusted in future periods to reflect the fair market value of the assets. Approximately \$2,391,000 and \$1,926,000 of the investments balance at June 30, 2010 and 2009, respectively, has been designated to fund an executive severance and deferred compensation plan that has been established to provide benefits to the System's executive management team.

# Calvert Memorial Hospital of Calvert County and Subsidiaries

## Notes to the Consolidated Financial Statements – Continued

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

#### *Investments in Affiliated Enterprises*

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

#### *Assets Limited as to Use*

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

#### *Property and Equipment*

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

#### *Other Assets*

Other assets consist of deferred financing costs, long term prepaid rent, and long term other receivables. Gross deferred financing costs are amortized over the life of the related bonds and amounted to \$885,867 at June 30, 2010 and 2009. Accumulated amortization of such costs amounted to \$339,257 and \$305,227 at June 30, 2010 and 2009, respectively.

#### *Third Party Advances*

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

#### *Consolidated Statements of Operations*

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

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

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

#### *Excess of Revenues over Expenses*

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

#### *Net Patient Service Revenue and Patient Accounts Receivable*

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

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

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

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

#### ***Charity Care***

The Hospital provides care to patients regardless of their ability to pay. In identifying charity care, the Hospital assesses the patient's ability to pay, utilizing generally recognized poverty income levels for the community, and identifies certain cases where incurred charges are considered to be beyond the patient's ability to pay. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, such amounts are not reported as a component of net patient service revenue or patient accounts receivable (*see Note 10*). The Hospital maintains records to identify and monitor the level of charity care it provides. These records represent the amount of charges forgone under its charity care policy and amounted to approximately \$2,021,100 in 2010 and \$1,500,600 in 2009. The charity policy of the Hospital provides free care to patients up to 200% of the federal poverty level and provides free care on a sliding scale up to 300% of the federal poverty level.

#### ***Other Operating Revenue***

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

#### ***Tax-Exempt Status***

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

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

The Hospital had no unrecognized tax benefits or such amounts were immaterial during the periods presented. For tax periods with respect to which no unrelated business income was recognized, no tax return was required. Tax periods for which no return is filed remain open for examination indefinitely. Although information returns were filed, no tax returns were filed during 2010 and 2009.

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

## **Notes to the Consolidated Financial Statements – Continued**

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

#### ***Tax Exempt Status - Continued***

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

#### ***Inventories***

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

#### ***Subsequent Events***

Subsequent events have been evaluated by management through October 7, 2010, which is the date the financial statements were available to be issued.

#### ***Recent Changes in Accounting Standards***

In August 2010, the Financial Accounting Standards Board (FASB) amended the Accounting Standards Codification (ASC) for Health Care Entities to require that cost be used as the measurement basis for charity care disclosures and that cost be identified as the direct and indirect costs of providing the charity care. This amendment is effective for fiscal years beginning after December 15, 2010. Also, in August 2010, the FASB amended the ASC for Health Care Entities to clarify that a health care entity should not net insurance recoveries against a related claim liability. Additionally, the amount of the claim liability should be determined without considerations of insurance recoveries. This amendment is effective for fiscal years and interim periods within those years, beginning after December 15, 2010. Management is currently evaluating the impact on the Hospital's future financial statements of adoption of these changes in accounting.

# Calvert Memorial Hospital of Calvert County and Subsidiaries

## Notes to the Consolidated Financial Statements – Continued

### Note 2 - Investments in Affiliated Enterprises

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

	2010		2009	
	Investment	Income	Investment	Income
Calvert Medical Imaging Center	\$ 1,059,530	\$ 176,936	\$ 1,182,594	\$ 125,791
NRH/CPT Regional Rehab, LLC	63,998	29,589	67,375	28,488
Chesapeake-Potomac Healthcare Alliance, LLC	2,462,192	187,470	2,274,722	216,671
Chesapeake Physical Medicine, LLC	18,237	(3,915)	22,152	883
Freestate Healthcare Insurance Company, LTD	20,339	0	15,339	(18,109)
Maryland eCare, LLC	(4,699)	522	(5,221)	(11,221)
	<u>\$ 3,619,597</u>	<u>\$ 390,602</u>	<u>\$ 3,556,961</u>	<u>\$ 342,503</u>

An overview of these organizations is presented in this note. Because the Hospital's investment in Calvert Medical Imaging Center (CMIC) represents approximately 29% and 33% and the Hospital's investment in Chesapeake-Potomac Healthcare Alliance (the Alliance) represents approximately 66% and 64% of the reported investment balance in affiliates as of June 30, 2010 and 2009, respectively, summarized financial information for CMIC and the Alliance is also presented in this note.

#### Calvert Medical Imaging Center

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

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

	2010	2009
Total assets	<u>\$ 7,556,993</u>	<u>\$ 5,497,336</u>
Total liabilities	5,491,780	3,102,443
Partners' capital	<u>2,065,213</u>	<u>2,394,893</u>
Total liabilities and partners' capital	<u>\$ 7,556,993</u>	<u>\$ 5,497,336</u>
	<u>2010</u>	<u>2009</u>
Total revenue	\$ 6,521,874	\$ 5,541,253
Net income	346,933	192,091

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

### Note 2 - Investments in Affiliated Enterprises - Continued

#### NRH/CPT Regional Rehab, LLC

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

#### Chesapeake-Potomac Healthcare Alliance, LLC

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

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

	<u>2010</u>	<u>2009</u>
Total assets	<u>\$ 15,206,913</u>	<u>\$ 15,267,561</u>
Total liabilities	6,039,130	7,016,073
Members' equity	<u>9,167,783</u>	<u>8,251,488</u>
Total liabilities and members' equity	<u>\$ 15,206,913</u>	<u>\$ 15,267,561</u>
	<u>2010</u>	<u>2009</u>
Total revenue	\$ 12,043,126	\$ 13,747,506
Net income	916,295	1,199,918

#### Chesapeake Physical Medicine, LLC

Chesapeake Physical Medicine, LLC is a joint venture of CHV and a group of medical professionals created to provide outpatient chiropractic services to the population of Calvert County. CHV maintains a 25% interest in this joint venture.



# Calvert Memorial Hospital of Calvert County and Subsidiaries

## Notes to the Consolidated Financial Statements – Continued

### Note 2 - Investments in Affiliated Enterprises - Continued

#### Freestate Healthcare Insurance Company, LTD

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

#### Maryland eCare, LLC

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

### Note 3 - Investments

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

	<u>2010</u>	<u>2009</u>
Equity mutual funds	\$ 1,881,506	\$ 1,450,189
Fixed income mutual funds	509,453	476,263
	<u>2,390,959</u>	<u>1,926,452</u>
Less short-term investments	5,820	5,045
Long-term investments	<u>\$ 2,385,139</u>	<u>\$ 1,921,407</u>

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

	<u>2010</u>	<u>2009</u>
Internally designated for capital acquisition and scholarships:		
Cash and cash equivalents	\$ 598,924	\$ 609,667
Net pledges receivable (see Note 13)	102,079	168,847
Equity mutual funds	<u>2,010,991</u>	<u>1,829,662</u>
	<u>2,711,994</u>	<u>2,608,176</u>
Held by trustee under indenture agreement:		
Cash and cash equivalents	2,419,668	3,286,088
U.S. Government issues	<u>3,655,280</u>	<u>2,826,011</u>
	<u>\$ 8,786,942</u>	<u>\$ 8,720,275</u>

# Calvert Memorial Hospital of Calvert County and Subsidiaries

## Notes to the Consolidated Financial Statements – Continued

### Note 3 - Investments - Continued

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

	<u>2010</u>	<u>2009</u>
Debt service fund	\$ 2,340,540	\$ 2,335,883
Debt service reserve fund	3,734,408	3,776,216
	<u>\$ 6,074,948</u>	<u>\$ 6,112,099</u>

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

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

	<u>2010</u>	<u>2009</u>
Income:		
Interest and dividend income	\$ 175,339	\$ 313,512
Realized gains	61,569	83,819
Total investment income	<u>\$ 236,908</u>	<u>\$ 397,331</u>
Unrealized gains (losses) on investments	<u>\$ 42,940</u>	<u>\$ (371,213)</u>

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

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

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

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

# Calvert Memorial Hospital of Calvert County and Subsidiaries

## Notes to the Consolidated Financial Statements – Continued

### Note 3 - Investments - Continued

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

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

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

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

The following table presents the Hospital's fair value hierarchy for assets measured at fair value on a recurring basis as of June 30, 2010:

	<u>Level 1</u>
Cash and cash equivalents	\$ 3,018,592
Equity mutual funds	3,892,497
Fixed income mutual funds	509,453
U.S. Government issues	3,655,280
	<u>\$ 11,075,822</u>

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

### Note 3 - Investments - Continued

The following table presents the Hospital's fair value hierarchy for assets measured at fair value on a recurring basis as of June 30, 2009:

	<b>Level 1</b>
Cash and cash equivalents	\$ 3,895,755
Equity mutual funds	3,279,851
Fixed income mutual funds	476,263
U.S. Government issues	2,826,011
	<b>\$ 10,477,880</b>

### Note 4 - Temporarily and Permanently Restricted Net Assets

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

	<b>2010</b>	<b>2009</b>
Purchase of equipment	\$ 466,583	\$ 502,116
Health education	12,485	13,793
Health care services	221,925	262,605
	<b>\$ 700,993</b>	<b>\$ 778,514</b>

Permanently restricted net assets at June 30 are restricted to:

	<b>2010</b>	<b>2009</b>
Investments to be held in perpetuity, the income from which is expendable to support health education	\$ 565,254	\$ 507,015
	<b>\$ 565,254</b>	<b>\$ 507,015</b>

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

### Note 5 - Property and Equipment

A summary of property and equipment at June 30 follows:

	<b>2010</b>	<b>2009</b>
Land improvements	\$ 2,440,120	\$ 2,429,480
Buildings	37,375,672	37,364,977
Building improvements	30,712,849	29,892,314
Fixed equipment	4,273,615	4,017,380
Movable equipment	46,893,162	42,396,481
	121,695,418	116,100,632
Less accumulated depreciation and amortization	63,844,781	57,121,992
	57,850,637	58,978,640
Land	5,406,046	5,406,046
Construction in progress	2,169,382	726,285
Property and equipment, net	\$ 65,426,065	\$ 65,110,971

Interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets. No interest was capitalized for the years ended June 30, 2010 and 2009.

Depreciation expense for the years ended June 30, 2010 and 2009 amounted to \$6,927,556 and \$6,465,940 respectively.

# Calvert Memorial Hospital of Calvert County and Subsidiaries

## Notes to the Consolidated Financial Statements – Continued

### Note 6 - Long-Term Debt

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

	2010	2009
Maryland Health and Higher Educational Facilities Authority Revenue Bonds (1998 Revenue Bonds); maturing in varying amounts from July 1, 1999 to July 1, 2028; interest due semi-annually at rates ranging from 3.9% to 5.25%; (4.80% and 4.75% at June 30, 2010 and 2009, respectively).	\$ 21,855,000	\$ 22,540,000
Maryland Health and Higher Educational Facilities Authority Revenue Bonds (2004 Revenue Bonds); maturing in varying amounts from July 1, 2008 to July 1, 2039; interest due semi-annually at rates ranging from 3.5% to 5.5%; (4.0% at June 30, 2010 and 2009).	32,735,000	32,830,000
	54,590,000	55,370,000
Less current portion	815,000	780,000
	53,775,000	54,590,000
Less amortized original issue discount	834,555	876,575
	\$ 52,940,445	\$ 53,713,425

### Series 1998 Revenue Bonds

The 1998 Revenue Bonds were issued by the Maryland Health and Higher Educational Facilities Authority (the Authority) on June 11, 1998 for the purpose of financing and refinancing the costs of acquisition, construction, renovation and equipping of certain hospital facilities. The Obligated Group for the 1998 Revenue Bonds is composed of Calvert Memorial Hospital and Calvert Health System. As security for the performance of its obligations under the related Loan Agreement, the Obligated Group members have granted a security interest in its receipts, revenues, rental income and other moneys received by or on behalf of any Obligated Group member to the Authority. The Obligated Group is required to maintain certain deposits in the form of a debt service reserve fund with a trustee. Such deposits are included in assets limited as to use. The revenue bonds also place limits on the incurrence of additional borrowings. The required debt service coverage ratio is 1.10. Annual payments (ranging from \$870,000 in 2014 to \$1,640,000 in 2027) to a sinking fund relating to the revenue bonds will commence in 2014 with a final balance of \$1,720,000 on July 1, 2028. Series 1998 bonds maturing on or after July 1, 2009, are subject to redemption prior to maturity beginning on July 1, 2008, at the option of the Authority upon the direction of the Hospital. Management believes it is in compliance with all applicable covenants.

# Calvert Memorial Hospital of Calvert County and Subsidiaries

## Notes to the Consolidated Financial Statements – Continued

### Note 6 - Long-Term Debt - Continued

#### Series 2004 Revenue Bonds

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

Principal payments due under all debt instruments as of June 30, 2010 are as follows:

2011	\$ 815,000
2012	850,000
2013	895,000
2014	935,000
2015	985,000
and thereafter	<u>50,110,000</u>
Total	<u>\$ 54,590,000</u>

Interest paid on indebtedness by the Hospital was \$2,897,539 and \$2,932,401 in 2010 and 2009, respectively.

In November 2008, Calvert Medical Arts Center, LLC (CMAC), a wholly owned subsidiary of the System, entered into a loan agreement with a commercial bank for \$7 million for the purpose of financing a portion of the construction of CMAC. The loan is guaranteed by the System and the Hospital.

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

### Note 7 - Employee Pension Plans

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

Additionally, the Hospital has a qualified non-contributory defined benefit pension plan covering substantially all employees who were employed by the Hospital prior to January 1, 2008, as well as certain employees of the System who meet certain age and service requirements. Effective January 1, 2008, the Hospital instituted a "soft freeze" of the defined benefit plan. The plan was amended effective January 1, 1993 from a defined benefit plan, the benefits of which were calculated primarily upon age and employee compensation near retirement, to a cash balance defined benefit plan, which calculates benefits based upon age and years of service. The Hospital makes annual contributions to the plan based on the advice of consulting actuaries. Contributions are intended to provide not only for benefits attributed to service to date but also for those expected to be earned in the future. The Hospital used a June 30 measurement date for its plan in 2010 and 2009.

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

	<u>2010</u>	<u>2009</u>
Benefit obligation at beginning of year	\$ 19,979,289	\$ 20,028,035
Service cost	797,824	851,700
Interest cost	1,373,393	1,544,596
Amendments	0	(159,534)
Changes in assumptions	5,390,576	(753,513)
Actuarial loss (gain)	538,813	(912,310)
Benefits paid	(495,116)	(619,685)
Benefit obligation at end of year	<u>\$ 27,584,779</u>	<u>\$ 19,979,289</u>



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

### Note 7 - Employee Pension Plans - Continued

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

	<b>2010</b>	<b>2009</b>
Fair value of plan assets at beginning of year	\$ 15,878,976	\$ 18,806,844
Actual return on plan assets	1,758,196	(2,933,183)
Employer contributions	2,335,000	625,000
Actual benefits paid	(495,116)	(619,685)
Fair value of plan assets at end of year	\$ 19,477,056	\$ 15,878,976

In accordance with current accounting standards, the Hospital recognized the full extent of the underfunded (a liability) status of the plan, which is measured as the difference between the fair value of the Plan assets and the projected benefit obligation. As of June 30, 2010 and 2009, the plan's projected benefit obligation exceeded the fair value of the Plan's assets by \$8,107,723 and \$4,100,313, respectively. The Plan's accumulated benefit obligation was \$26,225,218 and \$18,427,227 as of June 30, 2010 and 2009, respectively.

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

	<b>2010</b>	<b>2009</b>
Service cost	\$ 797,824	\$ 851,700
Interest cost	\$ 1,373,393	1,544,596
Expected return on plan assets	(1,401,951)	(1,967,662)
Amortization of prior service cost	(29,633)	(42,674)
Recognized net actuarial loss	734,222	736,504
Net periodic benefit cost	\$ 1,473,855	\$ 1,122,464

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

	<b>2010</b>	<b>2009</b>
Discount rate	5.66%	6.75%
Rate of compensation increase	3.00%	4.00%

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

	<b>2010</b>	<b>2009</b>
Discount rate	6.75%	6.30%
Expected return on plan assets	8.50%	8.50%
Rate of compensation increase	4.00%	4.00%

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

### Note 7 - Employee Pension Plans - Continued

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

	<b>2010</b>	<b>2009</b>
Net loss	\$ 12,094,825	\$ 7,255,903
Prior service cost	(151,715)	(181,348)
Total	\$ 11,943,110	\$ 7,074,555

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

	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
Cash and cash equivalents	\$ 25,340	\$ 0	\$ 0
Equity mutual funds	11,088,979	0	0
Fixed income mutual funds	5,010,055	0	0
Guaranteed deposit account	0	0	3,352,682
	\$ 16,124,374	\$ 0	\$ 3,352,682

The following table presents the activity during 2010 for the Level 3 funds:

Balance, beginning of year	\$ 2,978,896
Interest disbursements, benefit payments	373,786
Balance, end of year	\$ 3,352,682

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

### Note 7 - Employee Pension Plans – Continued

The Hospital expects to contribute \$2 million to its pension plan for fiscal year ending June 30, 2011. The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid:

2011	\$	636,046
2012		694,830
2013		765,165
2014		860,316
2015		1,001,533
2016-2020		7,310,011
Total expected benefit payments	\$	<u>11,267,901</u>

### Note 8 - Malpractice Insurance

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

Effective March 1, 2005, the Hospital became a shareholder of the newly formed Freestate Healthcare Insurance Company, Ltd. (Freestate), a captive insurance company formed in the Cayman Islands. As of June 30, 2010, the Hospital maintains a 12.5% shareholder interest in Freestate. The Hospital decided to become a shareholder of Freestate when the Hospital's insurance company decided not to continue to write insurance policies for hospitals within the State of Maryland effective March 1, 2005. The Hospital believes that becoming a shareholder of a captive insurance company provides the best long-term solution to providing insurance coverage that is cost effective and predictable. Freestate provides insurance coverage on a claims-made basis to its owners and their affiliates for professional liability claims and comprehensive general liability of \$1,000,000 for each and every claim.

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

### **Note 8 - Malpractice Insurance - Continued**

Freestate has entered into reinsurance and excess policy agreements with independent insurance companies to limit its losses for professional liability and comprehensive general liability claims. The Hospital has \$10,000,000 of additional insurance in the aggregate through such reinsurance arrangements. Retrospective premium assessments and credits are calculated based on the aggregate experience of all named insureds under the policy. Each named insured's assessment or credit is based on the percentage of their actual exposure to the actual exposure of all named insureds. In management's opinion, the assets of Freestate are sufficient to meet its obligations as of June 30, 2010. If the financial condition of Freestate were to materially deteriorate in the future, and Freestate was unable to pay its claim obligations, the responsibility to pay those claims would return to the member hospitals.

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

The Hospital is involved in litigation arising in the ordinary course of business. Claims alleging malpractice have been asserted against the Hospital and are currently in various stages of litigation. Additional claims may be asserted against the Hospital arising from services provided through June 30, 2010. Management believes that no material loss will result from any pending or threatened litigation or from incidents incurred but not reported.

### **Note 9 - Maryland Health Services Cost Review Commission**

Patient service revenue is recorded at rates established by the HSCRC. Under the HSCRC rate system, the Hospital's inpatient charges are subject to an inpatient charge per case target (adjusted for case mix) and unit rates for outpatient centers. Annually, both the charge per case and outpatient rates are adjusted by the update formula, rate compliance and case mix. Effective July 1, 2010, the Hospital entered into a Total Patient Revenue (TPR) rate agreement with the HSCRC. Under the TPR system, the Hospital is provided a fixed revenue (CAP) amount under which it must operate each year. The CAP is adjusted annually for inflation, change in the Hospital's payer mix and uncompensated care, and change in population.

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

### Note 10 - Concentration of Credit and Business Risk

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

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

	2010		2009	
Medicare	\$ 5,303,636	22.3 %	\$ 5,123,783	22.2 %
Medicaid (including managed care)	2,887,198	12.2	2,482,820	10.8
Blue Cross	4,153,351	17.5	3,866,881	16.8
Commercial and other	2,492,378	10.5	1,969,933	8.5
HMO	4,327,599	18.2	4,904,240	21.2
Self-pay	4,574,990	19.3	4,734,210	20.5
	\$ 23,739,152	100.0 %	\$ 23,081,867	100.0 %
Less contractual adjustments	(4,222,211)		(3,938,369)	
	\$ 19,516,941		\$ 19,143,498	

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

	2010		2009	
Medicare	\$ 50,291,550	35.1 %	\$ 47,097,499	34.6 %
Medicaid (including managed care)	16,337,606	11.4	14,254,052	10.5
Blue Cross	26,953,335	18.8	23,919,735	17.6
Commercial and other	7,806,116	5.4	7,317,587	5.4
HMO	35,071,842	24.4	36,562,995	26.9
Self-pay	7,016,633	4.9	7,013,827	5.2
	\$ 143,477,082	100.0 %	\$ 136,165,695	100.0 %
Less contractual adjustments	(23,449,547)		(19,830,353)	
Less charity care	(2,021,139)		(1,500,565)	
	\$ 118,006,396		\$ 114,834,777	

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

### Note 11 - Functional Expenses

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

	2010	2009
Health care services	\$ 105,565,969	\$ 99,432,909
General and administrative	19,058,118	17,331,270
	\$ 124,624,087	\$ 116,764,179

### Note 12 - Lease Obligations

The Hospital leases various equipment and facilities. Total office rent and equipment lease expense was \$1,310,785 and \$1,007,170 for the years ended June 30, 2010 and 2009, respectively, and is reported as a component of other expenses in the accompanying consolidated statements of operations and other changes in unrestricted net assets. The future minimum lease payments expected to be made to non-affiliated parties under non-cancelable operating leases are as follows for the years ended June 30:

2011	\$ 965,285
2012	758,004
2013	678,923
2014	180,545
2015	46,790
	\$ 2,629,547

CHV is the owner of a medical office building. Rents to be received in the future from affiliated enterprises and other tenants are as follows for the years ended June 30:

2011	\$ 965,285
2012	758,004
2013	678,923
2014	180,545
2015	46,790
	\$ 2,629,547

Rental income totaling \$274,671 and \$279,279 has been recognized in the consolidated statement of operations and other changes in unrestricted net assets for the years ended June 30, 2010 and 2009, respectively.

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

### Note 13 - Pledges Receivable

During 2004, the Hospital commenced a capital campaign. Contributions from the campaign are being used to fund major equipment purchases for various construction projects. At June 30, 2010 pledges receivable was \$198,093 less an allowance for uncollectible pledges of \$92,008 and a discount of \$4,006. The discount rate used was 1.80% for the years ended June 30, 2012, 2013 and 2014.

The payment terms of the pledges receivable at June 30, 2010 are as follows:

	2011	\$	99,313
	2012		74,853
	2013		15,852
	2014		8,075
			198,093
Less allowance for uncollectible accounts			(92,008)
Less discount			(4,006)
			\$ 102,079

The entire pledges receivable balance is reported as a non-current asset in the accompanying consolidated statements of financial position because it is temporarily restricted for the acquisition of property, plant, and equipment.

### Note 14 - Certain Risks and Uncertainties

The Hospital's ability to maintain and/or increase future revenues could be adversely affected by: (1) proposed and/or future changes in the laws, rules, regulations, and policies relating to the definition, activities, and/or taxation of not-for-profit tax-exempt entities; (2) the enactment into law of all or any part of the current budget resolutions under consideration by Congress related to Medicare and Medicaid reimbursement methodology and/or further reductions in payments to hospitals and other health care providers; (3) the medical malpractice crisis which may force physicians on the medical staff to leave the practice of medicine in the State of Maryland; (4) limited supply of physicians nationally which may limit the Hospital's ability to meet the healthcare demands of the population within its primary and secondary service areas (5) the ultimate impact of the federal Patient Protection and Affordable Care Act and the Health Care Education Affordability Reconciliation Act of 2010.

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

### **Note 14 - Certain Risks and Uncertainties - Continued**

The Joint Commission, a non-governmental privately owned entity, provides accreditation status to hospitals and other health care organizations in the United States. Such accreditation is based upon a number of requirements such as undergoing periodic surveys conducted by Joint Commission personnel. Certain managed care payers require hospitals to have appropriate Joint Commission accreditation in order to participate in those programs. In addition, the Center for Medicare and Medicaid Services (CMS), the agency with oversight of the Medicare and Medicaid programs, provides “deemed status” for facilities having Joint Commission accreditation. By being Joint Commission accredited, facilities are “deemed” to be in compliance with the Medicare and Medicaid conditions of participation. Termination as a Medicare provider or exclusion from any or all of these programs/payers would have a materially negative impact on the future financial position, operating results and cash flows of the Hospital. In November 2008 the Hospital was surveyed by Joint Commission and received a full three-year Joint Commission accreditation through December 2011.

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

### **Note 15 - Fair Value of Financial Instruments**

The carrying amounts reported in the consolidated statements of financial position for cash and cash equivalents, investments, patient accounts receivable, assets limited as of use, accounts payable and accrued expenses, and third party advances approximate the related fair values. The composition and related fair values of assets limited as to use and investments are disclosed in Note 3. The fair value of the Hospital's outstanding long-term obligations as of June 30, 2010 and 2009 was approximately \$54,583,267 and \$51,967,247, respectively.

### **Note 16 - Endowment**

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



# Calvert Memorial Hospital of Calvert County and Subsidiaries

## Notes to the Consolidated Financial Statements – Continued

### Note 16 – Endowment - Continued

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

The Board of Directors of the Hospital has interpreted the Maryland State Prudent Management of Institutional Funds Act (SPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Hospital classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets (if any) is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the organization in a manner consistent with the standard of prudence prescribed by SPMIFA.

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

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

From time to time, the fair value of assets associated with the endowment fund may fall below the level that the donor or SPMIFA required the Hospital to retain as a fund of perpetual duration. There were no such deficiencies as of June 30, 2010 or 2009.

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

# Calvert Memorial Hospital of Calvert County and Subsidiaries

## Notes to the Consolidated Financial Statements – Continued

### Note 16 – Endowment - Continued

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

The endowment’s net asset composition as of June 30, 2010 and 2009 and the changes therein were as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted
Donor-restricted endowment	\$ 0	\$ 0	\$ 565,254
Changes in Endowment Net Assets for the Fiscal Year June 30, 2010			
	Unrestricted	Temporarily Restricted	Permanently Restricted
Endowment net assets, beginning of year	\$ 0	\$ 0	\$ 507,015
Investment return:			
Net depreciation (realized and unrealized)	0	0	70,989
Other changes:			
Transfer from temporarily restricted net assets	0	0	(12,750)
Endowment net assets, end of year	\$ 0	\$ 0	\$ 565,254
	Unrestricted	Temporarily Restricted	Permanently Restricted
Donor-restricted endowment	\$ 0	\$ 0	\$ 507,015
Changes in Endowment Net Assets for the Fiscal Year June 30, 2009			
	Unrestricted	Temporarily Restricted	Permanently Restricted
Endowment net assets, beginning of year	\$ 0	\$ 0	\$ 540,762
Investment return:			
Net depreciation (realized and unrealized)	0	0	(115,523)
Other changes:			
Transfer of net assets from unrestricted	0	0	76,221
Transfer from temporarily restricted net assets	0	0	5,555
Endowment net assets, end of year	\$ 0	\$ 0	\$ 507,015

## Report of Independent Auditors on Accompanying Consolidating Information

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

The 2010 audited consolidated financial statements of Calvert Memorial Hospital of Calvert County and subsidiaries and our report thereon are presented in the preceding section of this report. That audit was conducted for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The consolidating information presented hereinafter as of and for the year ended June 30, 2010 is presented for purposes of additional analysis of the basic consolidated financial statements rather than to present the financial position, results of operations and cash flows of the individual companies, and is not a required part of the basic consolidated financial statements. Accordingly, we do not express an opinion on the financial position, results of operations and cash flows of the individual companies. However, the consolidating information has been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the consolidated financial statements taken as a whole.

*Cohen, Rutherford + Knight, P.C.*

October 7, 2010  
Bethesda, Maryland

**Calvert Memorial Hospital of Calvert County and Subsidiaries**  
**Consolidating Statement of Financial Position**  
**June 30, 2010**

<i>ASSETS</i>	Calvert Memorial <u>Hospital</u>	Calvert Physician <u>Associates</u>	Calvert Memorial Hospital <u>Foundation</u>	Calvert Health <u>Ventures</u>	Consolidating and Eliminating <u>Entries</u>	Consolidated Calvert Memorial <u>Hospital</u>
<b>CURRENT ASSETS</b>						
Cash and cash equivalents	\$ 8,940,321	\$ 209,370	\$ 236,741	\$ 1,159,575	\$ 0	\$ 10,546,007
Short-term investments	5,820	0	0	0	0	5,820
Patient accounts receivable, net	13,036,369	1,185,615	0	427,706	0	14,649,690
Inventories	2,374,648	0	0	12,645	0	2,387,293
Prepaid expenses and other assets	1,513,940	260,168	0	97,938	(159,927) (1)	1,712,119
Assets limited as of use, current	2,340,540	0	0	0	0	2,340,540
<b>TOTAL CURRENT ASSETS</b>	<u>28,211,638</u>	<u>1,655,153</u>	<u>236,741</u>	<u>1,697,864</u>	<u>(159,927)</u>	<u>31,641,469</u>
Investments	2,385,139	0	0	0	0	2,385,139
Investments in wholly owned subsidiaries	6,995,044	0	0	0	(6,995,044) (2)	0
Investments in affiliated enterprises	2,477,832	0	0	1,141,765	0	3,619,597
Assets limited as of use	4,032,550	0	2,413,852	0	0	6,446,402
Property and equipment, net	62,392,353	310,390	0	2,723,322	0	65,426,065
Other assets	709,819	41,752	0	0	0	751,571
<b>TOTAL ASSETS</b>	<u>\$ 107,204,375</u>	<u>\$ 2,007,295</u>	<u>\$ 2,650,593</u>	<u>\$ 5,562,951</u>	<u>\$ (7,154,971)</u>	<u>\$ 110,270,243</u>
<i>LIABILITIES, NONCONTROLLING INTEREST AND NET ASSETS</i>						
<b>CURRENT LIABILITIES</b>						
Accounts payable and accrued expenses	\$ 8,724,374	(314,888)	\$ 11,871	\$ 3,157,288	\$ (159,927) (1)	\$ 11,418,718
Current portion of long-term debt	815,000	0	0	0	0	815,000
Advances from third party payors	3,739,286	0	0	0	0	3,739,286
<b>TOTAL CURRENT LIABILITIES</b>	<u>13,278,660</u>	<u>(314,888)</u>	<u>11,871</u>	<u>3,157,288</u>	<u>(159,927)</u>	<u>15,973,004</u>
Long-term debt, less current portion	52,940,445	0	0	0	0	52,940,445
Accrued pension cost	8,107,723	0	0	0	0	8,107,723
Other long-term liabilities	3,849,515	0	0	0	0	3,849,515
<b>TOTAL LIABILITIES</b>	<u>78,176,343</u>	<u>(314,888)</u>	<u>11,871</u>	<u>3,157,288</u>	<u>(159,927)</u>	<u>80,870,687</u>
<b>NONCONTROLLING INTEREST</b>	<u>0</u>	<u>0</u>	<u>0</u>	<u>371,524</u>	<u>0</u>	<u>371,524</u>
<b>NET ASSETS</b>						
General	25,316,038	2,322,183	224,870	2,034,139	(4,581,192) (2)	25,316,038
Board designated	2,445,747	0	1,445,747	0	(1,445,747) (2)	2,445,747
Temporarily restricted	700,993	0	402,851	0	(402,851) (2)	700,993
Permanently restricted	565,254	0	565,254	0	(565,254) (2)	565,254
<b>TOTAL NET ASSETS</b>	<u>29,028,032</u>	<u>2,322,183</u>	<u>2,638,722</u>	<u>2,034,139</u>	<u>(6,995,044)</u>	<u>29,028,032</u>
<b>TOTAL LIABILITIES, NONCONTROLLING INTEREST AND NET ASSETS</b>	<u>\$ 107,204,375</u>	<u>\$ 2,007,295</u>	<u>\$ 2,650,593</u>	<u>\$ 5,562,951</u>	<u>\$ (7,154,971)</u>	<u>\$ 110,270,243</u>

**Calvert Memorial Hospital of Calvert County and Subsidiaries**  
**Consolidating Statement of Operations**  
**For the year ended June 30, 2010**

	<b>Calvert Memorial Hospital</b>	<b>Calvert Physician Associates</b>	<b>Calvert Memorial Hospital Foundation</b>	<b>Calvert Health Ventures</b>	<b>Consolidating and Eliminating Entries</b>	<b>Consolidated Calvert Memorial Hospital</b>
<b>REVENUE</b>						
Net patient service revenue	\$ 111,129,076	\$ 2,330,859	\$ 0	\$ 4,546,461	\$ 0	\$ 118,006,396
Rental revenue	13,613	0	0	340,336	(79,278) (3)	274,671
Other operating revenue	2,895,228	32,088	521,572	798,097	(635,455) (3)(6)(7)	3,611,530
<b>TOTAL OPERATING REVENUE</b>	<b>114,037,917</b>	<b>2,362,947</b>	<b>521,572</b>	<b>5,684,894</b>	<b>(714,733)</b>	<b>121,892,597</b>
<b>EXPENSES</b>						
Salaries & wages	44,660,015	2,555,387	0	3,452,435	213,742 (3)	50,881,579
Employee benefits	9,624,853	343,027	0	410,105	0	10,377,985
Supplies	23,023,957	72,049	0	123,844	0	23,219,850
Purchased services	4,774,266	296,174	0	536,305	(132,729) (3)	5,474,016
Professional fees	3,189,623	226,810	0	152,503	0	3,568,936
Depreciation and amortization	6,658,340	42,469	0	261,317	0	6,962,126
Interest	2,940,264	0	0	0	0	2,940,264
Provision for uncollectible accounts	5,673,308	91,819	20,530	1,532,828	0	7,318,485
Other	12,420,172	439,529	503,058	1,313,833	(795,746) (3)(6)(7)	13,880,846
<b>TOTAL OPERATING EXPENSES</b>	<b>112,964,798</b>	<b>4,067,264</b>	<b>523,588</b>	<b>7,783,170</b>	<b>(714,733)</b>	<b>124,624,087</b>
<b>INCOME (LOSS) FROM OPERATIONS</b>	<b>1,073,119</b>	<b>(1,704,317)</b>	<b>(2,016)</b>	<b>(2,098,276)</b>	<b>-</b>	<b>(2,731,490)</b>
<b>NONOPERATING GAINS</b>						
Investment Income	160,356	0	61,570	0	0	221,926
Income (loss) from equity investments	(3,560,834)	0	0	202,610	3,748,826 (4)	390,602
<b>NONOPERATING GAINS AND (LOSSES), NET</b>	<b>(3,400,478)</b>	<b>0</b>	<b>61,570</b>	<b>202,610</b>	<b>3,748,826</b>	<b>612,528</b>
<b>INCOME (LOSS) BEFORE NONCONTROLLING INTEREST</b>	<b>(2,327,359)</b>	<b>(1,704,317)</b>	<b>59,554</b>	<b>(1,895,666)</b>	<b>3,748,826</b>	<b>(2,118,962)</b>
<b>NONCONTROLLING INTEREST IN NET LOSS OF</b>						
<b>SUBSIDIARIES</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>(146,827)</b>	<b>0</b>	<b>(146,827)</b>
<b>EXCESS OF REVENUE OVER EXPENSES</b>						
<b>(EXPENSES OVER REVENUE)</b>	<b>(2,327,359)</b>	<b>(1,704,317)</b>	<b>59,554</b>	<b>(2,042,493)</b>	<b>3,748,826</b>	<b>(2,265,789)</b>
Net assets released from restrictions	256,496	0	0	0	0	256,496
Equity contribution	0	2,911,000	0	0	(2,911,000) (5)	0
Pension-related changes other than net periodic pension cost	(4,868,555)	0	0	0	0	(4,868,555)
Net unrealized losses on investments	(74,598)	0	61,531	0	0	(13,067)
<b>INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS</b>	<b>\$ (7,014,016)</b>	<b>\$ 1,206,683</b>	<b>\$ 121,085</b>	<b>\$ (2,042,493)</b>	<b>\$ 837,826</b>	<b>\$ (6,890,915)</b>

**Calvert Memorial Hospital of Calvert County and Subsidiaries**  
**Consolidating Statement of Cash Flows**  
**For the year ended June 30, 2010**

	<u>Calvert Memorial Hospital</u>	<u>Calvert Physician Associates</u>	<u>Calvert Memorial Hospital Foundation</u>	<u>Calvert Health Ventures</u>	<u>Consolidating and Eliminating Entries</u>	<u>Consolidated Calvert Memorial Hospital</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>						
Increase (decrease) in net assets	\$ (6,910,197)	\$ 1,206,683	\$ 213,229	\$ (2,042,493)	\$ 622,581 (2)	\$ (6,910,197)
Adjustments to reconcile increase in net assets to net cash provided by operating activities:						
Provision for uncollectible accounts	5,673,308	91,819	20,530	1,532,828	0	7,318,485
Depreciation and amortization	6,658,340	42,469	0	261,317	0	6,962,126
Current year cash donations restricted for capital acquisition	0	0	(462,709)	0	0	(462,709)
Equity in earnings of wholly owned subsidiaries	3,533,581	0	0	0	(3,533,581) (2)(5)	(0)
Equity in earnings of affiliated enterprises	(187,992)	0	0	(202,610)	0	(390,602)
Investment income on restricted assets	0	0	(14,982)	0	0	(14,982)
Unrealized net gains on investments	74,598	0	(117,538)	0	0	(42,940)
Noncontrolling interest in net income of subsidiaries	0	0	0	146,827	0	146,827
Pension-related changes other than net periodic pension cost	4,868,555	0	0	0	0	4,868,555
Increase in patient accounts receivable	(6,629,168)	(1,277,434)	0	82,117	0	(7,824,485)
Increase in inventories	198,572	0	0	18,859	0	217,431
Decrease (increase) in prepaid expenses and other assets	904,197	(301,920)	0	516,569	(1,242,004) (1)	(123,158)
(Decrease) increase in accounts payable, accrued expenses & other liabilities	(437,965)	745,444	12,983	(39,228)	1,242,004 (1)	1,523,238
<b>NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES</b>	<u>7,745,829</u>	<u>507,061</u>	<u>(348,487)</u>	<u>274,186</u>	<u>(2,911,000)</u>	<u>5,267,589</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>						
Purchases of investments	(389,004)	0	0	0	0	(389,004)
Sales of investments	165,284	0	0	0	0	165,284
Net decrease in assets limited as to use	73,981	0	(118,237)	0	0	(44,256)
Purchases of property and equipment	(6,934,516)	(304,604)	0	(3,530)	0	(7,242,650)
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<u>(7,084,255)</u>	<u>(304,604)</u>	<u>(118,237)</u>	<u>(3,530)</u>	<u>0</u>	<u>(7,510,626)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>						
Repayment of long-term debt	(780,000)	0	0	0	0	(780,000)
Total cash received restricted for capital acquisitions	0	0	462,709	0	0	462,709
Distributions to noncontrolling interests	0	0	0	(107,800)	0	(107,800)
Net distributions from investees	(2,916,000)	0	0	332,966	2,911,000 (2)	327,966
Investment income on restricted assets	0	0	14,982	0	0	14,982
<b>NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES</b>	<u>(3,696,000)</u>	<u>0</u>	<u>477,691</u>	<u>225,166</u>	<u>2,911,000</u>	<u>(82,143)</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<u>(3,034,426)</u>	<u>202,457</u>	<u>10,967</u>	<u>495,822</u>	<u>0</u>	<u>(2,325,180)</u>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<u>11,974,747</u>	<u>6,913</u>	<u>225,774</u>	<u>663,753</u>	<u>0</u>	<u>12,871,187</u>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<u>\$ 8,940,321</u>	<u>\$ 209,370</u>	<u>\$ 236,741</u>	<u>\$ 1,159,575</u>	<u>\$ 0</u>	<u>\$ 10,546,006</u>

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

### **Description of Consolidating and Eliminating Entries**

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