COHEN
RUTHERFORD
+ KNIGHT PC
Certified Public Accountants

Audited Consolidated Financial Statements and Other Financial Information

Doctors Community Hospital and Subsidiaries

June 30, 2010 and 2009

Audited Consolidated Financial Statements

Doctors Community Hospital and Subsidiaries
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– Contents –

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Report of Independent Auditors

Board of Directors
Doctors Community Hospital and Subsidiaries
Lanham, Maryland

We have audited the accompanying consolidated balance sheets of Doctors Community Hospital and Subsidiaries, (the Hospital) as of June 30, 2010 and 2009, and the related consolidated statements of operations and other changes in unrestricted net assets, 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. We were not engaged to perform an audit of the Hospital's internal control over financial reporting. Our audits included 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, and 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 consolidated financial position of Doctors Community Hospital and Subsidiaries as of June 30, 2010 and 2009, and the results of their operations, the changes in their 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 19, 2010

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

Consolidated Balance Sheets

Doctors Community Hospital and Subsidiaries

	June 30 2010	June 30 2009
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 14,521,680	$ 18,306,343
Assets whose use is limited - current portion of trustee-held funds -- *Note B*	4,682,633	4,135,618
Patient accounts receivable, less uncollectible accounts of $7,329,639 and $8,628,391 for 2010 and 2009, respectively	20,757,705	16,764,777
Other amounts receivable	2,175,209	1,263,606
Inventories	2,772,283	2,596,904
Prepaid expenses	1,265,039	1,350,863
TOTAL CURRENT ASSETS	46,174,549	44,418,111
NOTES RECEIVABLE	1,662,786	155,667
INVESTMENTS		
Marketable securities -- *Note B*	26,739,456	25,766,121
Joint ventures and equity investments -- *Note C*	2,182,857	2,204,251
	28,922,313	27,970,372
ASSETS WHOSE USE IS LIMITED -- *Note B*		
Investments held by Trustee or Authority, less current portion	32,790,163	39,352,410
LAND, BUILDINGS, AND EQUIPMENT -- *Note E*	138,555,389	116,721,641
DEFERRED FINANCING COSTS	3,542,287	2,161,368
GOODWILL -- *Note L*	2,475,791	2,475,791
OTHER ASSETS	14,083,757	13,043,898
TOTAL ASSETS	$ 268,207,035	$ 246,299,258

See the accompanying notes to the consolidated financial statements.

Consolidated Balance Sheets – Continued

Doctors Community Hospital and Subsidiaries

	June 30 2010	June 30 2009
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	$ 18,239,569	$ 21,032,952
Salaries, wages, and related items	10,211,101	9,051,043
Advances from third party payers	5,998,161	4,934,168
Interest rate swap -- *Note F*	24,135,956	0
Interest payable to bondholders	4,294,765	1,829,100
Current portion of long-term obligations -- *Note F*	3,300,844	3,187,731
TOTAL CURRENT LIABILITIES	66,180,396	40,034,994
NONCURRENT LIABILITIES		
Other noncurrent liabilities	3,602,329	2,922,352
Interest rate swap -- *Note F*	0	18,497,509
Pension obligation -- *Note I*	7,166,902	7,319,139
Long-term obligations, less current portion -- *Note F*	157,276,508	139,135,280
TOTAL LIABILITIES	234,226,135	207,909,274
NONCONTROLLING INTEREST	2,021,777	2,321,454
NET ASSETS		
Unrestricted	31,835,431	36,041,112
Temporarily restricted -- *Note M*	123,692	27,418
TOTAL NET ASSETS	31,959,123	36,068,530
COMMITMENTS AND CONTINGENCIES -- *Notes K*		
	$ 268,207,035	$ 246,299,258

See the accompanying notes to the consolidated financial statements.

Consolidated Statements of Operations and Other Changes in Unrestricted Net Assets

Doctors Community Hospital and Subsidiaries

	Year Ended June 30	
	2010	**2009**
REVENUE		
Net patient service revenue	$ 191,744,078	$ 180,294,557
Other operating revenue -- *Note B*	6,156,272	6,667,807
Pledges and contributions	207,351	85,512
Net assets released from restrictions used for operations	335,301	2,821,951
TOTAL REVENUE	198,443,002	189,869,827
EXPENSES		
Salaries and wages	75,956,168	70,697,700
Employee benefits	15,012,104	13,463,924
Purchased services	29,144,131	28,469,514
Supplies	32,926,696	30,889,362
Other expenses	9,792,131	10,753,161
Provision for bad debts	16,070,689	18,296,936
Depreciation -- *Note E*	9,260,387	5,877,761
Amortization	138,278	136,960
Fundraising	293,467	332,768
Interest -- *Note F*	6,390,913	4,088,292
TOTAL OPERATING EXPENSES	194,984,964	183,006,378
INCOME FROM OPERATIONS	3,458,038	6,863,449
NONOPERATING GAINS (LOSSES)		
Impairment loss -- *Note B*	0	(9,732,165)
Unrealized gain on trading securities -- *Note B*	542,496	3,007,233
Change in the fair value of the interest rate swap -- *Note F*	(5,638,447)	(10,854,931)
EXCESS OF EXPENSES OVER REVENUE BEFORE NONCONTROLLING INTEREST	(1,637,913)	(10,716,414)
Noncontrolling interest	(1,872,492)	(1,645,728)
EXCESS OF EXPENSES OVER REVENUE	(3,510,405)	(12,362,142)
Net assets released from restrictions for capital acquisitions	255,883	2,031,419
Pension - related changes other than net periodic pension cost -- *Note I*	(951,159)	(2,774,768)
DECREASE IN UNRESTRICTED NET ASSETS	$ (4,205,681)	$ (13,105,491)

See the accompanying notes to the consolidated financial statements.

Consolidated Statements of Changes in Net Assets

Doctors Community Hospital and Subsidiaries

	Year Ended June 30	
	2010	**2009**
UNRESTRICTED NET ASSETS		
Excess of expenses over revenue	$ (3,510,405)	$ (12,362,142)
Net assets released from restrictions for capital expenditures	255,883	2,031,419
Pension - related changes other than net periodic pension cost -- *Note I*	(951,159)	(2,774,768)
DECREASE IN UNRESTRICTED NET ASSETS	(4,205,681)	(13,105,491)
TEMPORARILY RESTRICTED NET ASSETS		
Restricted contributions	687,458	2,455,425
Net assets released from restrictions for operations	(335,301)	(2,821,951)
Net assets released from restrictions for capital expenditures	(255,883)	(2,031,419)
INCREASE (DECREASE) IN TEMPORARILY RESTRICTED NET ASSETS	96,274	(2,397,945)
DECREASE IN NET ASSETS	(4,109,407)	(15,503,436)
NET ASSETS, BEGINNING OF YEAR	36,068,530	51,571,966
NET ASSETS, END OF YEAR	$ 31,959,123	$ 36,068,530

See the accompanying notes to the consolidated financial statements.

Consolidated Statements of Cash Flows – Continued
Doctors Community Hospital and Subsidiaries

	Year Ended June 30 2010	2009
OPERATING ACTIVITIES AND OTHER GAINS		
Decrease in net assets	$ (4,109,407)	$ (15,503,436)
Adjustment to reconcile decrease in net assets to net cash and cash equivalents provided by operating activities:		
Restricted contributions received	(687,458)	(2,455,425)
Depreciation and amortization	9,260,387	5,877,761
Provision for bad debts	16,070,689	18,296,936
Unrealized gain on investments	(542,496)	(3,007,233)
Loss on disposal of equipment	59,905	27,917
Decrease in joint ventures and equity investments	21,394	253,664
Realized loss (gain) on sale of investments	(8,188)	10,547,431
Amortization of bond discount	(138,278)	(136,763)
Noncontrolling interest	1,872,492	2,314,291
Change in fair value of interest rate swap	5,638,447	10,854,932
Increase (decrease) in:		
Accounts payable and accrued expenses, exclusive of accrual for equipment cost	(2,793,383)	6,833,523
Accrued salaries, wages and related items	1,160,058	785,846
Advances from third party payers	962,613	(496,751)
Pension obligation	(152,237)	3,241,629
Interest payable	2,465,665	(42,600)
Other liabilities	679,977	(2,413,316)
Decrease (increase) in:		
Net patient accounts receivable	(20,063,617)	(12,706,198)
Other reveivables	(2,418,722)	(764,516)
Inventories	(175,379)	706,500
Prepaid expenses and other assets	(954,035)	1,871,911
NET CASH AND CASH EQUIVALENTS PROVIDED BY OPERATING ACTIVITIES AND OTHER GAINS	6,148,427	24,086,103
INVESTING ACTIVITIES		
Net sales of trading investments, including assets whose use is limited	5,592,581	32,530,288
Purchase of property, plant and equipment	(31,154,040)	(48,454,312)
NET CASH AND CASH EQUIVALENTS USED IN INVESTING ACTIVITIES	(25,561,459)	(15,924,024)

(Continued)

Consolidated Statements of Cash Flows – Continued

Doctors Community Hospital and Subsidiaries

	Year Ended June 30	
	2010	**2009**
FINANCING ACTIVITIES		
Principal payments on debt	$ (3,245,495)	$ (3,052,763)
Proceeds from issue of debt	80,798,114	4,000,000
Bond retirement	(59,160,000)	0
Advances from third-party payers	101,380	104,427
Deferred financing costs	(1,380,919)	0
Distributions to the noncontrolling interest holders	(2,172,170)	(1,431,040)
Restricted contributions received	687,458	2,455,425
NET CASH AND CASH EQUIVALENTS PROVIDED BY FINANCING ACTIVITIES	15,628,368	2,076,049
NET INCREASE (DECREASE) IN CASH AND CASH AND CASH EQUIVALENTS	(3,784,663)	10,238,128
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	18,306,343	8,068,215
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 14,521,680	$ 18,306,343

See the accompanying notes to the consolidated financial statements.

Notes to the Consolidated Financial Statements
Doctors Community Hospital and Subsidiaries

Note A – Organization and Summary of Significant Accounting Principles

Organization

Doctors Community Hospital (the Hospital) is a not-for-profit, non-stock corporation that operates an acute care general hospital facility licensed for 190 beds. The Hospital serves the health care needs of the residents of Prince George's County, the District of Columbia, and the greater Washington, D.C. metropolitan area. The Hospital has two wholly owned/controlled subsidiaries: Doctors Community Health Ventures, Inc. (Health Ventures) and Doctors Community Hospital Foundation, Inc. (the Foundation).

Health Ventures is a for-profit corporation that invests in corporations and other businesses consistent with the Hospital's mission and strategic plan.

The Foundation is a not-for-profit, non-stock corporation established to raise and invest funds to support or benefit the operations of the Hospital. The Foundation's bylaws provide that all funds raised, except those required for the operation of the Foundation, be distributed to or be held for the benefit of the Hospital. The Foundation's bylaws also provide the Hospital with the authority to direct its activities, management, and policies.

The Hospital owns a 60% interest in Doctors Regional Cancer Center, LLC (DRCC) and Doctors Community Hospital Sleep Center, LLC (the Sleep Center), and a 100% interest in Spine Team Maryland (STM). DRCC is a limited liability company formed in Maryland for the purpose of providing outpatient cancer treatment services to the residents of central Maryland. The Sleep Center is a limited liability company formed in Maryland for the purpose of providing diagnostic sleep services for residents of Prince Georges County and surrounding areas. STM is a limited liability company formed in Maryland for the purpose of providing medical and surgical services for the residents of Prince Georges County and surrounding areas.

Principles of Consolidation

The consolidated financial statements include the accounts of the Hospital, Health Ventures, the Foundation, DRCC, the Sleep Center, and STM (collectively, the Company). All intercompany accounts and transactions have been eliminated in consolidation.

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates.

Note A – Organization and Summary of Significant Accounting Principles – Continued

Cash and Cash Equivalents

Cash and cash equivalents include overnight repurchase agreements and other investments with a maturity date of three months or less when purchased. The Company has cash holdings in commercial banks routinely exceeding the Federal Deposit Insurance Corporation maximum insurance limit of $250,000. Cash and cash equivalents are reported at cost which approximates market value.

Investments

Marketable securities, including assets whose use is limited, are carried at fair value. All such investments are classified as trading. Assets whose use is limited that are required to meet current liabilities of the Hospital have been classified as current assets.

Unrestricted investment income, including realized gains and losses on the sale of trading securities is reported as other operating revenue. The cost of securities sold is based on the specific-identification method. Unrealized gains and losses on trading securities are included in nonoperating gains (losses) in the accompanying consolidated statements of operations and other changes in unrestricted net assets.

Patient Revenue and Accounts Receivable

Net patient service revenue and net patient accounts receivable are reported at estimated net realizable amounts from patients, third party payers, and others for services rendered. Discounts ranging from 2.25% to 6% of Hospital charges are given to Medicare, Medicaid, and certain approved commercial health insurance and health maintenance organizations. In addition, these payers routinely review patient billings and deny payments for certain charges that they deem medically unnecessary or performed without appropriate pre-authorization. Discounts and denials are recorded as reductions of net patient service revenue. Accounts receivable from these third-party payers have been adjusted to reflect the difference between charges and the estimated reimbursable amounts.

Note A – Organization and Summary of Significant Accounting Principles – Continued

Patient Revenue and Accounts Receivable - Continued

Gross patient revenue was comprised of the following for the years ended June 30:

	2010	2009
Medicare	40%	38%
Medicaid	12%	5%
Blue Cross Blue Shield	20%	20%
Other third-party payers	22%	32%
Self-pay patients	6%	5%
	100%	100%

The Company bills third party payers directly for services provided. Insurance coverage and credit information are obtained from patients upon admission when available. No collateral is obtained for patient accounts receivable. Patient accounts receivable deemed to be uncollectible, by management, have been written off. An allowance for doubtful accounts is recorded based on historical trends for patient accounts receivable that are anticipated to become uncollectible in future periods.

Gross patient accounts receivable were comprised of the following for the years ended June 30:

	2010	2009
Medicare	29%	14%
Medicaid	14%	3%
Blue Cross Blue Shield	18%	15%
Other third-party payers	20%	26%
Self-pay patients	19%	42%
	100%	100%

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. The Company 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 consolidated financial statements. 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.

Note A – Organization and Summary of Significant Accounting Principles – Continued

Inventories

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

Land, Buildings, and Equipment

Land, buildings, and equipment are recorded at cost. Depreciation is recorded over the estimated useful lives of the assets using the straight-line method. Maintenance and repairs are charged to expense as incurred. The straight-line method is used to amortize the cost of equipment under capital leases over the estimated useful life of the equipment or the term of the lease, whichever is appropriate.

Restricted Net Assets

Temporarily restricted net assets are those whose use by the Hospital has been limited by donors to a specific time period or purpose. As of June 30, 2010 and 2009, the Hospital had no permanently restricted net assets. Temporarily restricted net assets are available to fund various health care services and other community benefits provided by the Hospital.

Excess of Expenses over Revenue

The consolidated statements of operations include the excess of expenses over revenue (the "performance indicator"). Changes in unrestricted net assets, which are excluded from the excess of expenses over revenue, consistent with industry practice, include contributions received and used for additions of long-lived assets, and changes in the pension obligation other than net periodic pension cost.

Charity Care

A patient is classified as a charity patient by reference to certain established policies of the Hospital. These policies define charity services as those services for which no payment is anticipated. In assessing a patient's ability to pay, the Hospital utilizes the generally recognized poverty income levels in the local community, but also includes certain cases where incurred charges are significant when compared to income. Charity care provided in 2010 and 2009, measured at established rates, was $923,563 and $799,475 respectively. These charges are excluded from net patient service revenue. Cost of providing this care is included in operating expenses.

Note A – Organization and Summary of Significant Accounting Principles – Continued

Contributions and Pledges

Unconditional promises to give cash and other assets to the Foundation are reported at fair value at the date the promise is received. Conditional promises to give and indications of intentions to give are reported at fair value at the date the gift is received or when the conditions for receiving the donation have been satisfied. The gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. Contributions restricted by donors for additions to the Hospital's operating property are transferred from temporarily restricted net assets to unrestricted net assets when the expenditure is made. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the consolidated statements of changes in net assets as net assets released from restriction.

The Hospital and Foundation write off any grants and pledges receivable that are considered uncollectible; accordingly, there is no allowance for doubtful accounts recorded for these receivables. Grants and pledges receivable have not been discounted because management considers the effect to be immaterial. The balance of pledges receivable was $162,459 and $166,882 at June 30, 2010 and 2009, respectively, and is included in other amounts receivable in the accompanying consolidated balance sheets.

Advertising Costs

The Hospital expenses advertising costs as they are incurred. Advertising expense was approximately $954,569 and $614,824 for the fiscal years June 30, 2010 and 2009, respectively, and is reported as other expense in the accompanying consolidated statements of operations and other changes in unrestricted net assets.

Functional Expenses

The Company's operating expenses by functional classification are as follows:

	Year Ended June 30	
	2010	**2009**
Health care services	$ 139,933,762	$ 139,506,644
Management and general	54,587,118	42,998,715
Fundraising	464,084	501,019
	$ 194,984,964	$ 183,006,378

Note A – Organization and Summary of Significant Accounting Principles – Continued

Deferred Financing Costs

Financing costs incurred in issuing the Maryland Health and Higher Educational Facilities Authority (the Authority or MHHEFA) Revenue Bonds have been capitalized by the Hospital. These costs are being amortized over the life of the related bond issue using the bonds-outstanding method, which approximates the interest method. Deferred financing costs and accumulated amortization, which are included in other assets in the accompanying consolidated balance sheets, are as follows:

	June 30	
	2010	**2009**
Deferred financing costs	$ 3,984,004	$ 2,464,807
Accumulated amortization	(441,717)	(303,439)
	$ 3,542,287	$ 2,161,368

The estimated aggregate amortization expense anticipated for the next five years is as follows:

2011	$ 184,372
2012	181,193
2013	177,897
2014	174,462
2015	170,896
	$ 888,820

Fair Value of Financial Instruments

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

- **Cash and cash equivalents, patient accounts receivable, other receivables, notes receivable, accounts payable and accrued expenses, employee compensation and related payroll taxes, and advances from third-party payers***:* The carrying amount reported in the balance sheets for each of these assets and liabilities approximates their fair value.

- **Marketable securities and assets limited as to use***:* Fair values are based on quoted market prices of individual securities or investments if available, or are estimated using quoted market prices for similar securities.

Note A – Organization and Summary of Significant Accounting Principles – Continued

Fair Value of Financial Instruments – Continued

- **Long-term debt***:* Fair values of the Hospital's fixed-rate debt are based on current traded values. The fair value of variable rate debt approximates carrying value. The fair values are disclosed in *Note F*.

- **Interest rate swap:** The fair value of the Hospital's interest rate swap is based on the proprietary model of a third party valuation specialist (see *Note F*).

Income Taxes

The Hospital and the Foundation are exempt from federal income tax under section 501(c)(3) of the Internal Revenue Code as public charities. Both entities are 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 and Foundation's status as public charities exempt from federal income taxation remain in effect.

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

The Hospital and the Foundation 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 informational returns were filed, no tax returns were filed during 2010 and 2009.

Health Ventures is subject to corporate income tax and incurred an income tax liability of $350,000 and $115,923 for the years ended June 30, 2010 and 2009, respectively.

DRCC is a Maryland limited liability company that has not elected to be taxed as a corporation under current Treasury regulations. DRCC is owned by more than one member. As such, DRCC is

Note A – Organization and Summary of Significant Accounting Principles – Continued

Income Taxes – Continued

subject to the partnership tax rules under Subchapter K of the Internal Revenue Code of 1986, as amended. Under these rules DRCC itself is not subject to federal or state income tax, but must file annual information returns indicating its gross and taxable income to determine the tax results to its members.

The Sleep Center is a Maryland limited liability company that has not elected to be taxed as a corporation under Treasury Regulations. The Sleep Center is owned by more than one member. As such, the Sleep Center is subject to the partnership tax rules under Subchapter K of the Internal Revenue Code of 1986, as amended. Under these rules the Sleep Center is not a taxable entity, but must file annual information returns indicating its gross and taxable income to determine the tax results to its members.

The Spine Team Maryland is a Maryland limited liability company that has not elected to be taxed as a corporation under Treasury Regulation. The Spine Team Maryland is wholly owned by the Hospital. As such, the Spine Team Maryland is a "disregarded entity" under current IRS regulations.

Goodwill

Goodwill represents the excess of cost over the fair value of assets acquired. Management evaluates goodwill for impairment on an annual basis. Management reviewed the balance for impairment and believes there is none as of June 30, 2010.

Reclassifications

Certain amounts have been reclassified in the 2010 consolidated financial statements to be comparable with the 2009 consolidated financial statements.

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 Company's future financial statements of adoption of these changes in accounting.

Note A – Organization and Summary of Significant Accounting Principles – Continued

Subsequent Events

Subsequent events have been evaluated by management through October 19, 2010, which is the date the financial statements were available to be issued.

Note B – Investments

The following is a summary of investment securities:

	June 30	
	2010	**2009**
Marketable securities:		
Corporate debt securities	$ 3,061,161	$ 2,779,449
Mutual funds	23,678,295	22,986,672
	$ 26,739,456	$ 25,766,121
Assets whose use is limited:		
Mutual funds	$ 1,200,476	$ 10,961,939
Government obligations	36,272,320	32,526,089
	$ 37,472,796	$ 43,488,028

Assets whose use is limited are held in the following funds:

	2010	**2009**
Funds held by Trustee or Authority:		
Debt service reserve fund	$ 37,472,796	$ 43,488,028
Less assets required for current obligations	(4,682,633)	(4,135,618)
	$ 32,790,163	$ 39,352,410

Note B – Investments – Continued

Investment return is summarized as follows:

	Other Operating Revenue	Non Operating Gains (Losses)	Total
2010			
Interest and dividend income	$ 775,525	$ 0	$ 775,525
Net realized loss	8,188	0	8,188
Net unrealized gains	0	542,496	542,496
Investment fees	(81,282)	0	(81,282)
	$ 702,431	$ 542,496	$ 1,244,927
2009			
Interest and dividend income	$ 1,738,534	$ 0	$ 1,738,534
Net realized gain	(815,266)	0	(815,266)
Impairment loss	0	(9,732,165)	(9,732,165)
Net unrealized losses	0	3,007,233	3,007,233
Investment fees	(131,475)	0	(131,475)
	$ 791,793	$ (6,724,932)	$ (5,933,139)

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 as follows:

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

Note B – Investments – Continued

The following discussion describes the valuation methodologies used for the Company's financial assets and liabilities 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 Company's business, its value, or financial position based on the fair value information of financial assets and liabilities 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 or liability. 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 or liability. 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 the Company's investments in mutual funds classified at Level 1 are based on quoted market prices. The fair values of mutual funds classified at Level 2 are based on the Company's pro-rata share of the each fund's net asset value.

Fair values for the Company's fixed income securities (corporate debt and federal government obligations) are based on prices provided by its investment managers and its custodian bank. Both the investment managers and the custodian bank use a variety of pricing sources to determine market valuations. Each designate specific pricing services or indexes for each sector of the market based upon the provider's experience. The Company's federal government obligations and government backed securities portfolio is highly liquid, which allows for a high percentage of the portfolio to be priced through pricing services.

The fair value of the Company's interest rate swap (level 3) is based on the proprietary model of a third party valuation specialist. The fair value takes into consideration the prevailing interest rate environment and the specific terms and conditions of the swap, and considers the credit risk of the Company and the counterparty. The method used to determine the fair value calculates the estimated future payments required by the swap and discounts these payments using an appropriate discount rate. The value represents the estimated exit price that the Company would pay to terminate the agreement.

Note B – Investments – Continued

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

	Level 1	Level 2	Level 3	Total Fair Value
Cash	$ 0	$ 0	$ 0	$ 0
Mutual funds	1,785,848	29,559,079	0	31,344,927
Fixed income	0	37,013,091	0	37,013,091
Total	$ 1,785,848	$ 66,572,170	$ 0	$ 68,358,018
Interest rate swap	0	0	24,135,957	24,135,957
Total	$ 0	$ 0	$ 24,135,957	$ 24,135,957

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

	Level 1	Level 2	Level 3	Total Fair Value
Cash	$ 637	$ 0	$ 0	$ 637
Mutual funds	2,577,112	34,132,756	0	36,709,868
Fixed income	0	36,190,452	0	36,190,452
Total	$ 2,577,749	$ 70,323,208	$ 0	$ 72,900,957
Interest rate swap	0	0	18,497,509	18,497,509
Total	$ 0	$ 0	$ 18,497,509	$ 18,497,509

The following table summarizes the activity for fair value measurements using significant unobservable inputs (Level 3):

	Level 3	
	2010	**2009**
Fair value, beginning	$ 18,497,509	$ 7,642,577
Net unrealized losses	5,638,448	10,854,932
Fair value, ending	$ 24,135,957	$ 18,497,509

Note C – Joint Ventures and Equity Investments

Health Ventures invests in corporations and other forms of business consistent with the mission and strategic plan of the Company. Health Ventures' unconsolidated investments are carried at cost or at equity depending on the percentage of ownership and control. Health Venture's investment in Magnolia Gardens L.L.C. is not consolidated with the financial statements of the Company because the Health Ventures does not control the investee. The investment income of these joint ventures and equity investments is reported in other operating revenue in the accompanying consolidated statement of operations and other changes in unrestricted net assets. These investments are summarized as follows:

Name	Percent Ownership	Accounting Method	June 30 2010	June 30 2009
Magnolia Gardens LLC	51.0%	Equity	$ 1,834,835	$ 1,853,061
Neighborcare Home Medical Equipment of Maryland LLC	5.0%	Cost	250,000	250,000
Metropolitan Ambulatory Urological Institute, LLC	31.7%	Equity	114,260	101,190
Diagnostic Imaging, LLC	50.0%	Equity	(16,238)	0
			$ 2,182,857	$ 2,204,251

Note D – Related Party Transactions

The Hospital has income guarantee agreements with certain physicians. These advances are held as promissory notes and are often forgiven based on the established terms of these notes, such as maintaining an active practice in the Hospital's community.

The Hospital advanced funds to Health Ventures in its establishment of Metropolitan Medical Group, LLC and Diagnostic Imaging, LLC. Health Ventures periodically repays the Hospital. The outstanding balance of the advance was $3,328,089 at June 30, 2010. The Medical Director of Radiology for the Hospital is a partner of Diagnostic Imaging, LLC.

A member of the board of directors maintains a business that has transactions with the Hospital that amounted to approximately $650,363 in fiscal year 2010 and $578,060 in fiscal year 2009.

During 2010, the Foundation transferred $4,537 of restricted net assets to the Hospital, which was then released from restriction by the Hospital for use in operations.

Note E – Land, Buildings, and Equipment

Land, buildings, and equipment are summarized as follows:

		June 30	
Name	**Useful Life**	**2010**	**2009**
Land improvements	10-40 Years	$ 3,685,435	$ 5,708,937
Buildings	4-40 Years	135,014,745	58,583,041
Furniture and equipment	2-20 Years	68,987,230	58,310,508
Equipment under capital lease obligations	2-20 Years	6,042,072	2,270,493
		213,729,482	124,872,979
Less accumulated depreciation		83,448,166	74,504,046
		130,281,316	50,368,933
Construction in progress		1,992,786	60,214,206
Land		6,281,287	6,138,502
		$ 138,555,389	$ 116,721,641

The Company capitalized interest of $3,991,443 in 2010 and $2,602,639 in 2009 related to construction activities, and total capitalized interest reported as a component of land, buildings and equipment, net of accumulated depreciation, was $6,506,594 as of June 30, 2010 and $2,629,794 as of June 30, 2009. Capitalized interest related to construction activities includes the relevant portions of applicable interest payments to creditors on bonds and other debt obligations, net payments/receipts to counterparties on interest rate swap arrangements, letter of credit fees, and income received on trustee-held funds.

Accumulated depreciation includes accumulated amortization of capital leased equipment in the amount of $1,118,566 and $884,922 as of June 30, 2010 and 2009, respectively. Depreciation expense of capital leased equipment was $268,405 and $240,018 for fiscal year 2010 and 2009, respectively.

Note F – Long-Term Debt

Long-term indebtedness consisted of the following:

	June 30 2010	June 30 2009
Maryland Health and Higher Education Facilities Authority Revenue Bonds, Series 2007A:		
4.00% term bonds due July 1, 2013	$ 9,750,000	$ 11,955,000
5.00% term bonds due July 1, 2020	21,890,000	21,890,000
5.00% term bonds due July 1, 2027	30,795,000	30,795,000
5.00% term bonds due July 1, 2029	10,915,000	10,915,000
Maryland Health and Higher Education Facilities Authority Revenue Bonds, Series 2008, variable rate	0	59,160,000
Maryland Health and Higher Education Facilities Authority Revenue Bonds, Series 2010:		
5.30% term bonds due July 1, 2025	5,330,000	0
5.625% term bonds due July 1, 2030	9,095,000	0
5.75% term bonds due July 1, 2038	68,245,000	0
Loan originally totaling $810,000, bearing interest of 6.82%, principal and interest is payable in monthly installments of $9,331.20. The loan matures on July 15, 2008	0	8,652
Capital leases	505,215	1,176,592
Notes payable	3,702,031	4,000,000
	160,227,246	139,900,244
Current portion of long-term debt	(3,300,844)	(3,187,731)
Original issue premium, net of accumulated amortization	2,221,992	2,422,767
Original issue discount, net of accumulated amortization	(1,871,886)	0
	$ 157,276,508	$139,135,280

The fair value of the Company's long-term debt, based on quoted market prices, was $144,210,999 and $124,790,343 at June 30, 2010 and 2009, respectively.

Note F – Long-Term Debt – Continued

The aggregate maturities of long-term debt, including sinking fund principal requirements during the next five fiscal years are as follows:

2011	$ 3,879,270
2012	3,679,346
2013	3,823,423
2014	4,288,327
2015	4,414,107
2016 and after	143,695,572
	$163,780,045

Total interest paid for the years ended June 30, 2010 and 2009 was $4,084,370 and $3,954,598, respectively.

Revenue Bonds

On May 15, 2010, the Hospital issued $82,670,000 principal amount of Revenue Bonds, Series 2010 (Series 2010 Bonds). The proceeds of this issue were used to retire the Revenue Bonds, Series 2008 and to finance the costs of renovation and equipment purchases.

On January 4, 2007, the Hospital issued $77,685,000 principal amount of Revenue Bonds, Series 2007A (Series 2007 Bonds). The proceeds of this issue were used to retire certain existing bonds, pooled loans, and to finance the costs of renovation and equipment purchases. The retirement of existing bonds resulted in a loss of approximately $2 million during 2007.

On May 21, 2008, the Hospital issued $59,160,000 principal amount of Revenue Bonds, Series 2008 (Series 2008 Bonds). The proceeds of this issue were used to finance the costs of the construction of the tower addition to the Hospital and renovation of other Hospital facilities. Interest was determined by a remarking agent on a weekly basis not to exceed 12% based on prevailing market conditions. Weekly interest rates during 2009 ranged from 0.32% to 7.35%. The Series 2008 Bonds were fully repaid from the proceeds of the Series 2010 Bonds.

The Hospital is required to maintain certain debt ratios as defined by the Agreement. In the opinion of the management, the Hospital has complied with the required covenants for 2010 and 2009.

Other Debt

During 1999, the Hospital purchased land for $1,020,000 in exchange for a note payable due in monthly installments of $9,331, including interest at the rate of 6.8% through July 2008, with a balloon payment of $200,000 in August 2008. The land was used to build an employee parking lot that opened in the fall of 1999.

Note F – Long-Term Debt – Continued

Other Debt – continued

During 2008, DRCC obtained a $4,000,000 revolving line of credit from a commercial lender to finance the acquisition of certain medical equipment. The line of credit was converted to a term note during 2009. The outstanding principal balance was $4,446,419 and $4,000,000 on June 30, 2010 and 2009, respectively. Beginning in October 2009, monthly payments of principal and interest at 6.8% per annum become due. DRCC financed $873,759 and $3,413,542 of equipment acquisitions during 2010 and 2009, respectively. As of June 30, 2009, the remaining $349,788 of equipment financing under the terms of the note was in transit to DRCC. The outstanding principal balance is collateralized against the corresponding medical equipment purchased. Aggregate future principal payments as of June 30, 2009 are as follows:

2010	$	517,702
2011		553,879
2012		592,585
2013		633,995
2014		678,298
Thereafter		725,572
	$	3,702,031

Other debt includes the Hospital's obligations under capital lease (see *Note H*).

Derivative Instrument

Generally accepted accounting principles require that all derivative instruments be recognized in the financial statements at their fair value. The Hospital entered into an interest rate swap agreement that is considered a financial instrument. The interest rate swap contract is not designated as an effective cash flow hedge under current accounting principles. Consequently, changes in the fair value of the interest rate swap agreement are recognized in the consolidated statement of operations as a component of excess of revenue over expenses (expenses over revenue).

Note F – Long-Term Debt – Continued

Derivative Instruments – Continued

The Hospital's interest rate swap has a notional amount of $75,000,000 subject to scheduled amortization, an effective date of January 1, 2009, and a termination date of July 1, 2040. It provides for the Hospital to pay a fixed rate of approximately 4.6% and receive a variable rate based on 79% of one month London Interbank Offered Rate. Subject to the terms of the agreement, either party has the option to terminate the agreement prior to the termination date provided that no event of default or termination has occurred. Specifically, the interest rate swap provider has the optional right to terminate this transaction (provided that no event of default or termination event has occurred) on May 1, 2011 and annually thereafter until scheduled termination. Should the interest rate swap provider elect to optionally terminate this transaction, a termination amount in respect of such termination would be due from one counterparty to this transaction to the other counterparty. In the event that under these circumstances a termination payment becomes due from the Hospital to the interest rate swap provider, such amount could potentially have a material impact on future financial position, results of operations and liquidity of the Hospital.

The Hospital is exposed to credit loss in the event of nonperformance by the interest rate swap provider to the remaining interest rate swap agreement. However, the Hospital does not anticipate nonperformance by the counterparty. The fair value of the remaining interest rate swap agreement is a liability of $24,135,957 and $18,497,509 on June 30, 2010 and 2009, respectively. Settlements of the interest rate swap are semi-annual. The June 30, 2010 net settlement payment of $1,657,596 is accrued in accounts payable and accrued expenses in the accompanying consolidated balance sheets. Net settlement payments are reported as a component of interest cost with the exception of instruments used to support the plan of finance for the new clinical tower. These related settlements are capitalized as part of the project during the construction period

In August 2010, the Hospital entered into an amendment to the interest rate swap agreement whereby the Hospital paid the counterparty $2,522,000 to reduce the notional amount of the interest rate swap by ten percent (to $67,500,000). The $2,522,000 payment will be reported as a realized loss in the 2011 consolidated statements of operations and other changes in unrestricted net assets.

Letter of Credit

In conjunction with the issuance of the 2008 Series Bonds, management entered into a letter of credit reimbursement agreement with a commercial lender that expired in May 2010. Letter of credit fees were paid quarterly, and were reported as a component of interest cost with the exception of instruments used to support the plan of finance for the new clinical tower. These related fees were capitalized as part of the project during the construction period.

Note G – Medical Malpractice and Workers' Compensation Insurance

From October 18, 2001 to October 31, 2004, the Hospital maintained occurrence-based professional liability insurance with a per-claim limit of $8,000,000 and aggregate annual limit of $10,000,000 with a commercial carrier. The Hospital was liable for a deductible up to $250,000 for each occurrence up to a maximum of $750,000. Prior to October 18, 2001, the Hospital's policy had no deductible. Effective November 1, 2004, due to the commercial carrier discontinuing services in Maryland and rising insurance costs, the Hospital purchased coverage on a claims-made basis from Freestate Healthcare Insurance Company, Ltd., a group captive formed by several Maryland hospitals. The hospital owns a ⅛ interest in the captive that is accounted for using the cost method. The cost of $15,000 is recorded in other assets for 2010 and 2009. Premiums are expensed as incurred and are established based on the Hospital's historical experience supplemented as necessary with industry experience. The total premium is allocated to each of the shareholder's based on their experience. Retrospective premium assessments and credits are calculated based on the aggregate experience of all named insureds under the policy. Each named insured's assessment of 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.

The captive is responsible for claims up to $1,000,000 for each and every loss event. Excess coverage has been purchased for all claims in excess of $1,000,000 to a limit of $6,000,000 effective March 1, 2006. The liability for all known claims and an estimate for claims incurred but not reported was $1,145,208 and $1,361,490 at June 30, 2010 and 2009, respectively. These amounts are included in accounts payable and accrued expenses in the accompanying consolidated balance sheet.

The Hospital is self-insured against workers' compensation claims up to a per-accident limit of $400,000 and an annual limit of $1,121,720. A liability has been recorded for all known claims and an estimate for claims incurred but not reported in the amount of $679,114 and $477,147 at June 30, 2010 and 2009, respectively. These amounts are included in accounts payable and accrued expenses in the accompanying consolidated balance sheet.

Note H – Leases

The Hospital has operating leases covering various medical and other equipment and facilities. Generally, the leases carry renewal provisions and require the Hospital to pay maintenance costs.

The Hospital and DRCC have entered into capital leases for certain equipment. The cost of assets under the capital leases is included in land, buildings, and equipment (see *Note E*), and the related capital lease obligations are included in long-term debt (see *Note F*) in the accompanying consolidated balance sheets. Depreciation expense on these assets is included with depreciation and amortization in the consolidated statements of operations and other changes in unrestricted net assets.

Note H – Leases – Continued

Future minimum lease payments as of June 30, 2010 are as follows:

	Capital Leases	Operating Leases
2011	$ 483,142	$ 604,133
2012	22,073	502,937
2013	0	173,279
2014	0	58,137
2015	0	0
2016 and thereafter	0	0
Total minimum lease payments	505,215	1,338,486
Current portion of long-term debt	(483,142)	
Capital lease obligations, less current portion	$ 22,073	

Total rental expense for the years ended June 30, 2010 and 2009 was $2,120,190 and $2,054,388, respectively.

Note I – Retirement Plans

The Hospital has a defined benefit pension plan (the Plan) covering substantially all employees. The benefits are based on years of service and the employee's compensation during years of employment. The Hospital's funding policy is to make sufficient contributions to the Plan to comply with the minimum funding provisions of the Employee Retirement Income Security Act of 1974 (ERISA). The Hospital expects to contribute $1,000,000 to the Plan during 2010. The measurement date of the Plan is June 30.

Note I – Retirement Plans – Continued

The following table provides a reconciliation of the benefit obligation, Plan assets, and funded status of the Plan in the Company's consolidated financial statements based on actuarial valuations:

	2010	2009
Accumulated Benefit Obligation	$ 16,816,115	$ 14,164,302
Change in Benefit Obligation		
Benefit obligation at beginning of year	$ 14,761,171	$ 12,832,903
Service cost	1,197,246	1,365,540
Interest cost	876,049	916,861
Actuarial (gain) loss	592,967	193,287
Benefits paid	(305,282)	(547,420)
Benefit Obligation at End of Year	17,122,151	14,761,171
Change in Plan Assets		
Fair value of plan assets at beginning of year	$ 7,442,032	$ 8,755,393
Actual return on plan assets	(257,242)	(2,077,989)
Employer contributions	3,075,741	1,312,048
Benefits paid	(305,282)	(547,420)
Fair Value of Plan Assets at End of Year	9,955,249	7,442,032
Funded Status (Pension Obligation)	$ (7,166,902)	$ (7,319,139)
Components of Net Periodic Benefit Cost		
Service cost	$ 1,197,246	$ 1,365,540
Interest cost	876,049	916,861
Expected return on plan assets	(598,055)	(851,076)
Amortization of prior service cost	12,049	15,061
Recognigiton of loss from change in measurement date	485,036	332,106
Net Periodic Pension Cost	$ 1,972,325	$ 1,778,492

Note I – Retirement Plans – Continued

The total amount recognized in unrestricted net assets for 2010 and 2009 is as follows:

	2010	2009
Net loss	$ 7,658,328	$ 6,695,100
Prior service cost	100,366	112,415
	$ 7,758,694	$ 6,807,515

The total amount of prior service cost and net gain (loss) expected to be recognized in net periodic benefit cost during 2011 is $570,894.

The Plan's assets are invested primarily in cash and cash equivalents and mutual funds as follows as of June 30:

	2010	2009
Cash and cash equivalents	53%	0%
Mutual funds	47%	100%
	100%	100%

Plan assets are invested to ensure that the 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 70% equities and 30% debt securities and cash as of June 30, 2010. The target weighted-average asset allocation of pension investments for future periods will be 50% equities and 50% debt securities.

The Plan's estimated future benefit payments are as follows:

2011	$ 317,328
2012	570,346
2013	1,208,955
2014	759,426
2015	859,621
2016-2020	8,720,266
Total	$ 13,222,685

Note I – Retirement Plans – Continued

The weighted-average assumptions used to determine net periodic benefit cost and the projected benefit obligation for the years ended June 30 were as follows:

	2010	2009
Discount rate	5.25%	6.00%
Expected return on Plan assets	7.50%	8.00%
Rate of compenstion increase	2.00%	5.00%

The Company's management considers the balance of plan assets of $9,955,249 as of June 30, 2010 to be based on level 1 fair value measures. Plan assets as of June 30, 2010 consists of cash and cash equivalents and mutual funds.

The Hospital has a deferred compensation plan that permits certain executives to defer receiving a portion of their compensation. The deferred amounts are included in other assets in the accompanying balance sheets. The associated liability of an equal amount is included in other liabilities. The liability recorded regarding the deferred compensation was $2,922,352 and $2,922,352 as of June 30, 2010 and 2009, respectively. During 2010 and 2009, distributions of $77,677 and $1,149,508 were made to participants in the plan, respectively.

The Hospital is the beneficiary of life insurance policies in place for certain executives. Approximately $9,200,000 is included in other assets at June 30, 2010 and 2009, which is the amount that could be realized by the Hospital under the insurance contracts.

Note J – Maryland Health Services Cost Review Commission

Certain of the Hospital's charges are subject to review and approval by the Maryland Health Services Cost Review Commission (the Commission). Hospital management has filed the required forms with the Commission and believes the Hospital is 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 Centers for Medicare and Medicaid Services and the Commission. This agreement is based upon a waiver from Medicare reimbursement principles under Section 1814(b) of the Social Security Act and will continue as long as all third-party payers elect to be reimbursed under this program and the rate of increase for costs per hospital inpatient admission is below the national average. Management believes that this program will remain in effect at least through June 2011.

Note J – Maryland Health Services Cost Review Commission – Continued

The Commission and the Hospital entered into an agreement that is based on a rate methodology for those Hospital service centers that provide only inpatient services. Under this methodology, a target average charge per case is established for the Hospital, based on past actual charges and case mix indices. The actual average charge per case is compared with the target average charge-per-case and to the extent that the actual average exceeds the target, the overcharge plus applicable penalties will reduce the approved target for future years. At June 30, 2010, the Hospital was in compliance with its average charge per case target.

The Commission's rate-setting methodology for Hospital service centers that provide both inpatient and outpatient services or only outpatient services consists of establishing an acceptable unit rate for defined inpatient and outpatient service centers within the Hospital. The actual average unit charge for each service center is compared to the approved rate monthly. Overcharges and undercharges due to either patient volume or price 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 Commission changed the charge-per-case reimbursement methodology for all Maryland hospitals effective July 1, 2005. The Commission chose a severity-adjusted method of grouping hospital discharges to measure differences in patient acuity and to align payments appropriately to that acuity. This policy decision reflects the Commission's desire to continuously improve the rate-setting system and to remain a leader in the development of policies that ensure cost containment, access to care, equity in payment, and financial stability of the hospital industry.

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

Note K – Commitments and Contingencies

Litigation

There are several lawsuits pending in which the Hospital has been named as defendant. In the opinion of Hospital management, after consultation with legal counsel, the potential liability, in the event of adverse settlement, will not have a material impact on the Hospital's consolidated financial position.

Note K – Commitments and Contingencies – Continued

Risk Factors

The Hospital's ability to maintain and/or increase future revenues could be adversely affected by:

- 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);

- 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;

- 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;

- the future of Maryland's Certificate of Need 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; and

- the ultimate impact of the federal Patient Protection and Affordable Care Act and the Health Care Education Affordability Reconciliation Act of 2010.

The Joint Commission, a non-governmental privately owned entity, provides accreditation status to hospitals and other health care organizations in the United States. Such accreditation is based upon a number of requirements such as undergoing periodic surveys conducted by Joint Commission personnel. Certain managed care payers require hospitals to have appropriate Joint Commission accreditation in order to participate in those programs. In addition, the Center for Medicare and Medicaid Services (CMS), the agency with oversight of the Medicare and Medicaid programs, provides "deemed status" for facilities having Joint Commission accreditation. By being Joint Commission accredited, facilities are "deemed" to be in compliance with the Medicare and Medicaid conditions of participation. Termination as a Medicare provider or exclusion from any or all of these programs/payers would have a materially negative impact on the future financial position, operating results and cash flows of the Hospital. In April 2010 the Hospital was surveyed by Joint Commission and received a full three-year Joint Commission accreditation through July 2013.

Note K – Commitments and Contingencies – Continued

During September 2008, certain large U.S. financial institutions failed, primarily as a result of holdings in troubled subprime loans or assets collateralized with such distressed loans. These institutional failures, and the negative economic conditions that contributed to these failures, generated substantial volatility in global financial markets and substantial uncertainty regarding access to capital and the continued viability of many other financial institutions. Despite the federal legislative initiatives to ameliorate these conditions, global credit markets remain volatile and the health of the global economy continues to be uncertain. These conditions create uncertainty regarding the future valuation of the 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. In response to these circumstances, the Hospital completely disinvested its equity security holdings during October 2008, resulting in an impairment loss in excess of $10 million.

The Company invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in values of investment securities will occur in the near term, and such changes could materially affect the amounts reported as investments on the consolidated balance sheets.

Note L – Goodwill

During June 2007, the Hospital purchased a 60% interest in DRCC. Goodwill in the amount of $1,062,531 resulted from the transaction and has been included in the accompanying consolidated balance sheets as of June 30, 2010 and 2009.

Upon inception of DRCC in 2007, and as part of its initial capital contribution, Maryland Regional Cancer Care, LLC, the founding member of DRCC, transferred a portion of its goodwill to DRCC. The amount of goodwill transferred to DRCC was $646,975 and has been included in the accompanying consolidated balance sheets at June 30, 2010 and 2009.

Health Ventures has a 51% ownership interest in Magnolia Gardens, LLC. Goodwill in the amount of $766,285 resulted from the purchase of ownership and has been included in the accompanying consolidated balance sheets as of June 30, 2010 and 2009.

Note M – Temporarily Restricted Net Assets

Temporarily restricted net assets are available for the years ended June 30 for the following programs and projects:

	2010	2009
Nancy Heilman Scholarship Fund	$ 1,479	$ 1,479
Brian Erfan Memorial Fund	5,850	5,850
Jane Schafer Scholarship Fund	10,785	9,956
Cardiac Rehab Scholarship	12,648	10,133
UASI 2008 grant	92,930	0
	$ 123,692	$ 27,418

COHEN
RUTHERFORD
+ KNIGHT PC
Certified Public Accountants

Report of Independent Auditors on
Other Financial Information

Board of Directors
Doctors Community Hospital and Subsidiaries
Lanham, Maryland

The 2010 and 2009 audited consolidated financial statements of Doctors Community Hospital and Subsidiaries and our report thereon are presented in the preceding section of this report. Those audits were conducted for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The supplementary 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, and is not a required part of the basic consolidated financial statements. Accordingly, we do not express an opinion on the supplementary consolidating information. However, such 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 19, 2010

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

Consolidating Balance Sheet Information

Doctors Community Hospital and Subsidiaries

June 30, 2010

	Doctors Community Hospital	Doctors Community Hospital Foundation, Inc.	Doctors Community Health Ventures, Inc	Doctors Regional Cancer Center, LLC	Doctors Community Hospital Sleep Center, LLC	Spine Team Maryland, LLC	Eliminations	Consolidated
ASSETS								
CURRENT ASSETS								
Cash and cash equivalents	$ 13,256,192	$ 166,633	$ 90,308	$ 577,007	$ 422,985	$ 8,555	$ 0	$ 14,521,680
Assets limited to use for debt service	4,682,633	0	0	0	0	0	0	4,682,633
Patient accounts receivable, net of allowance	19,676,887	0	374,416	630,318	76,447	42,322	(42,685)	20,757,705
Other amounts receivable	1,899,084	209,807	0	118,747	140,170	0	(192,599)	2,175,209
Inventories	2,684,066	0	6,173	0	82,044	0	0	2,772,283
Prepaid expenses	1,148,039	4,866	0	111,867	0	267	0	1,265,039
TOTAL CURRENT ASSETS	43,346,901	381,306	470,897	1,437,939	721,646	51,144	(235,284)	46,174,549
NOTES RECEIVABLE	0	0	1,662,786	0	0	0	0	1,662,786
INVESTMENTS								
Marketable securities	26,575,967	163,489	0	0	0	0	0	26,739,456
Investment in Doctors Regional Cancer Center	2,132,900	0	0	0	0	0	(2,132,900)	0
Investment in Sleep Services of America, Inc.	899,765	0	0	0	0	0	(899,765)	0
Joint ventures and equity investments	0	0	2,182,857	0	0	0	0	2,182,857
Due to DCH	4,541,744	0	0	0	638,922	0	(5,180,666)	0
	34,150,376	163,489	2,182,857	0	638,922	0	(8,213,331)	28,922,313
ASSETS WHOSE USE IS LIMITED								
Funds held by Trustee or Authority, less current portion	32,790,163	0	0	0	0	0	0	32,790,163
LAND, BUILDINGS, AND EQUIPMENT	130,794,434	0	615,294	6,540,798	500,827	104,036	0	138,555,389
DEFERRED FINANCING COSTS	3,542,287	0	0	0	0	0	0	3,542,287
GOODWILL	1,062,531	0	766,285	646,975	0	0	0	2,475,791
OTHER ASSETS	14,173,757	0	10,000	0	0	0	(100,000)	14,083,757
TOTAL ASSETS	$ 259,860,449	$ 544,795	$ 5,708,119	$ 8,625,712	$ 1,861,395	$ 155,180	$ (8,548,615)	$ 268,207,035

See the accompanying report of independent auditors on other financial information.

Consolidating Balance Sheet Information

Doctors Community Hospital and Subsidiaries

June 30, 2010

LIABILITIES AND NET ASSETS	Doctors Community Hospital	Doctors Community Hospital Foundation, Inc.	Doctors Community Health Ventures, Inc	Doctors Regional Cancer Center, LLC	Doctors Community Hospital Sleep Center, LLC	Spine Team Maryland, LLC	Eliminations	Consolidated
CURRENT LIABILITIES								
Accounts payable and accrued expenses	$ 17,812,823	$ 610	$ 172,025	$ 502,723	$ 320,856	$ 69,274	$ (638,742)	$ 18,239,569
Due to DCH	0	513,423	192,599	109,070	40,931	265,886	(1,121,909)	0
Salaries, wages, and related items	10,069,042	0	142,059	0	0	0	0	10,211,101
Advances from third party payers	5,998,161	0	0	0	0	0	0	5,998,161
Interest rate swap	24,135,956	0	0	0	0		0	24,135,956
Interest payable to bondholders	4,294,765	0	0	0	0	0	0	4,294,765
Current portion of long-term obligation	2,372,985	0	0	927,859	0	0	0	3,300,844
TOTAL CURRENT LIABILITIES	64,683,732	514,033	506,683	1,539,652	361,787	335,160	(1,760,651)	66,180,396
NONCURRENT LIABILITIES								
Other noncurrent liabilities	3,602,329	0	0	327,209	0	0	(327,209)	3,602,329
Pension obligation, net of current portion	7,166,902	0	0	0	0	0	0	7,166,902
Long-term obligations, net of current portion	154,072,491	0	3,328,090	3,204,017	0	0	(3,328,090)	157,276,508
TOTAL LIABILITIES	229,525,454	514,033	3,834,773	5,070,878	361,787	335,160	(5,415,950)	234,226,135
NONCONTROLLING INTEREST	0	0	0	0	0	0	2,021,777	2,021,777
NET ASSETS AND MEMBERS' EQUITY								
Unrestricted	30,242,065	0	0	0	0	0	1,593,366	31,835,431
Members' equity	0	0	1,873,346	3,554,834	1,499,608	(179,980)	(6,747,808)	0
Temporarily restricted	92,930	30,762	0	0	0	0	0	123,692
TOTAL NET ASSETS	30,334,995	30,762	1,873,346	3,554,834	1,499,608	(179,980)	(5,154,442)	31,959,123
	$ 259,860,449	$ 544,795	$ 5,708,119	$ 8,625,712	$ 1,861,395	$ 155,180	$ (8,548,615)	$ 268,207,035

See the accompanying report of independent auditors on other financial information.

Consolidating Statement of Operations Information
Doctors Community Hospital and Subsidiaries
For the Year Ended June 30, 2010

	Doctors Community Hospital	Doctors Community Hospital Foundation, Inc.	Doctors Community Health Ventures, Inc	Doctors Regional Cancer Center, LLC	Doctors Community Hospital Sleep Center, LLC	Spine Team Maryland, LLC	Eliminations	Consolidated
UNRESTRICTED NET ASSETS								
OPERATING REVENUE								
Net patient service revenue	$ 176,393,377	$ 0	$ 1,783,439	$ 5,862,331	$ 7,662,609	$ 42,322	$ 0	$ 191,744,078
Other operating revenue	7,313,282	915	357,865	0	0	0	(1,515,790)	6,156,272
Pledges and contributions	0	207,351	0	0	0	0	0	207,351
Investment income from subsidiary	2,808,738	0	0	0	0	0	(2,808,738)	0
Net assets released from restrictions used for operations	335,301	0	0	0	0	0	0	335,301
TOTAL OPERATING REVENUE	186,850,698	208,266	2,141,304	5,862,331	7,662,609	42,322	(4,324,528)	198,443,002
EXPENSES								
Salaries and wages	74,964,383	108,924	0	0	827,577	55,284	0	75,956,168
Employee benefits	14,846,627	0	0	0	165,477	0	0	15,012,104
Purchased services	24,162,943	34,067	212,742	4,192,623	484,610	57,146	0	29,144,131
Supplies	32,403,330	2,281	0	127,764	376,888	16,433	0	32,926,696
Other expenses	7,079,862	23,345	3,026,009	688,509	398,124	92,072	(1,515,790)	9,792,131
Provision for bad debts	15,951,504	2,000	0	117,185	0	0	0	16,070,689
Depreciation	8,014,955	0	95,429	997,104	151,532	1,367	0	9,260,387
Amortization	138,278	0	0	0	0	0	0	138,278
Fundraising	0	293,467	0	0	0	0	0	293,467
Interest	6,074,596	0	0	316,317	0	0	0	6,390,913
TOTAL EXPENSES	183,636,478	464,084	3,334,180	6,439,502	2,404,208	222,302	(1,515,790)	194,984,964
NONOPERATING INCOME								
Unrealized gain on trading securities	542,496	0	0	0	0	0	0	542,496
Change in fair value of interest rate swap	(5,638,447)	0	0	0	0	0	0	(5,638,447)
EXCESS OF REVENUE OVER EXPENSE BEFORE NONCONTROLLING INTEREST	(1,881,731)	(255,818)	(1,192,876)	(577,171)	5,258,401	(179,980)	(2,808,738)	(1,637,913)
Noncontrolling interest	0	0	0	0	0	0	(1,872,492)	(1,872,492)
EXCESS OF REVENUE OVER EXPENSE (EXPENSES OVER REVENUE)	(1,881,731)	(255,818)	(1,192,876)	(577,171)	5,258,401	(179,980)	(4,681,230)	(3,510,405)
Net asset transfer	99,285	(99,285)	0	0	0	0	0	0
Dividends paid	0	0	0	0	(5,430,424)	0	5,430,424	0
Contributions	328,946	358,512	0	0	0	0	0	687,458
Net assets released from restrictions for use in operations	(335,301)	0	0	0	0	0	0	(335,301)
Pension - related changes other than net periodic pension cost	(951,159)	0	0	0	0	0	0	(951,159)
Increase (decrease) in net assets	(2,739,960)	3,409	(1,192,876)	(577,171)	(172,023)	(179,980)	749,194	(4,109,407)
Net assets, beginning of year	33,074,955	27,353	3,066,222	4,132,005	1,671,631	0	(5,903,636)	36,068,530
Net assets, end of year	$ 30,334,995	$ 30,762	$ 1,873,346	$ 3,554,834	$ 1,499,608	$ (179,980)	$ (5,154,442)	$ 31,959,123

See the accompanying report of independent auditors on other financial information.