

**The Union Hospital of  
Cecil County, Inc.**

Financial Statements

June 30, 2010 and 2009

# **The Union Hospital of Cecil County, Inc.**

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Table of Contents

June 30, 2010 and 2009

	<u>Page</u>
<b>Independent Auditors' Report</b>	1
<b>Financial Statements</b>	
Balance Sheet	2
Statement of Operations	3
Statement of Changes in Net Assets	4
Statement of Cash Flows	5
Notes to Financial Statements	6

## Independent Auditors' Report

Board of Directors  
The Union Hospital of Cecil County, Inc.

We have audited the accompanying balance sheet of The Union Hospital of Cecil County, Inc. (a Maryland not-for-profit corporation) (the "Hospital") as of June 30, 2010 and 2009, and the related statement of operations, changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Union Hospital of Cecil County, Inc. as of June 30, 2010 and 2009, and the 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.



Philadelphia, Pennsylvania  
September 24, 2010

# The Union Hospital of Cecil County, Inc.

Balance Sheet  
June 30, 2010 and 2009

	2010	2009		2010	2009
<b>Assets</b>					
<b>Current Assets</b>			<b>Liabilities and Net Assets</b>		
Cash and cash equivalents	\$ 3,632,787	\$ 3,376,149	<b>Current Liabilities</b>	\$ 6,097,580	\$ 6,585,640
Investments	45,357,593	40,040,252	Accounts payable and accrued expenses	4,524,652	4,127,390
Accounts receivable, patients (net of estimated allowances for doubtful accounts of \$8,452,000 in 2010 and \$5,899,000 in 2009)	16,659,476	16,523,216	Accrued salaries and benefits	1,834,657	1,380,304
Notes receivable, current portion	568,633	554,608	Third-party advances	2,216,359	1,807,238
Other receivables	213,296	568,495	Current portion of long-term debt and capital lease obligations	14,673,248	13,900,572
Inventories of supplies	1,686,189	1,838,694			
Prepaid expenses	1,314,477	1,115,404	<b>Long-term Debt and Capital Lease Obligations, Net</b>	82,676,519	74,730,208
Total current assets	69,432,451	64,016,818			
<b>Assets Held in Trust</b>	8,081,744	8,216,511	<b>Estimated Medical Malpractice Claims Liability</b>	500,000	500,000
<b>Property and Equipment, Net</b>	84,954,723	77,888,934	Total liabilities	97,849,767	89,130,780
<b>Due From Affiliates, Net</b>	4,431,144	7,070,365			
<b>Notes Receivable</b>	1,741,983	2,310,616	<b>Net Assets</b>	75,819,074	74,993,171
<b>Other Assets, Net</b>	1,285,660	1,182,322	Unrestricted	1,112,680	1,926,374
<b>Interest in Net Assets of Affiliate</b>	4,853,816	5,364,759	Temporarily restricted	76,931,754	76,919,545
Total assets	\$ 174,781,521	\$ 166,050,325	Total net assets	\$ 174,781,521	\$ 166,050,325
			Total liabilities and net assets		

See notes to financial statements

# The Union Hospital of Cecil County, Inc.

Statement of Operations  
Years Ended June 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
<b>Unrestricted Revenues, Gains, and Other Support</b>		
Net patient service revenues	\$ 127,636,339	\$ 124,173,557
Other operating revenues	1,980,982	1,634,219
Net assets released from restrictions for use in operations	<u>1,010,539</u>	<u>1,052,770</u>
Total unrestricted revenues, gains, and other support	<u>130,627,860</u>	<u>126,860,546</u>
<b>Expenses</b>		
Salaries and employee benefits	61,358,579	59,824,778
Supplies and other expenses	26,521,864	23,901,837
Purchased services	21,710,056	18,350,073
Provision for doubtful accounts	10,819,843	10,823,403
Depreciation and amortization	8,349,876	7,750,880
Interest	<u>3,949,057</u>	<u>3,841,443</u>
Total expenses	<u>132,709,275</u>	<u>124,492,414</u>
<b>Operating (Loss) Income</b>	<u>(2,081,415)</u>	<u>2,368,132</u>
<b>Nonoperating Income (Expense)</b>		
Investment income (loss)	5,264,718	(7,846,020)
Other, net	<u>15,773</u>	<u>(39,458)</u>
Total nonoperating income (expense)	<u>5,280,491</u>	<u>(7,885,478)</u>
<b>Revenues in Excess of (Less Than) Expenses</b>	3,199,076	(5,517,346)
<b>Change in Unrestricted Net Assets of The Union Hospital of Cecil County Foundation, Inc. and Subsidiary</b>	219,671	(1,137,242)
<b>Transfers to Affiliates</b>	(2,642,957)	(9,104,910)
<b>Net Assets Released From Restriction for Purchase of Property and Equipment</b>	<u>50,113</u>	<u>120,709</u>
<b>Increase (Decrease) in Unrestricted Net Assets</b>	<u>\$ 825,903</u>	<u>\$ (15,638,789)</u>

See notes to financial statements

# The Union Hospital of Cecil County, Inc.

Statement of Changes in Net Assets  
Years Ended June 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
<b>Unrestricted Net Assets</b>		
Revenues in excess of (less than) expenses	\$ 3,199,076	\$ (5,517,346)
Change in unrestricted net assets of the Union Hospital of Cecil County Foundation, Inc. and Subsidiary	219,671	(1,137,242)
Transfer to affiliates	(2,642,957)	(9,104,910)
Net assets released from restriction for purchase of property and equipment	50,113	120,709
	<u>825,903</u>	<u>(15,638,789)</u>
Increase (decrease) in unrestricted net assets		
<b>Temporarily Restricted Net Assets</b>		
Other changes in beneficial interest in net assets of The Union Hospital of Cecil County Foundation, Inc. and Subsidiary	(500)	(20,000)
Contributions, net of event expenses of \$360,000 and \$453,000 in 2010 and 2009, respectively	300,032	477,431
Change in provision for uncollectible pledges	(52,574)	(110,041)
Net assets released from restriction	(1,060,652)	(1,173,479)
	<u>(813,694)</u>	<u>(826,089)</u>
Decrease in temporarily restricted net assets		
<b>Increase (Decrease) in Net Assets</b>	12,209	(16,464,878)
<b>Net Assets, Beginning</b>	<u>76,919,545</u>	<u>93,384,423</u>
<b>Net Assets, Ending</b>	<u>\$ 76,931,754</u>	<u>\$ 76,919,545</u>

See notes to financial statements

# The Union Hospital of Cecil County, Inc.

## Statement of Cash Flows Years Ended June 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
<b>Cash Flows from Operating Activities</b>		
Increase (decrease) in net assets	\$ 12,209	\$ (16,464,878)
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities:		
Depreciation	8,349,876	7,750,880
Loss on disposal of assets	165,122	-
Provision for doubtful accounts	10,819,843	10,823,403
Amortization of bond premium and deferred financing costs	41,264	41,264
Transfers to affiliates	2,642,957	9,104,910
Net realized and unrealized gains and losses on trading securities	(4,121,224)	9,789,892
Changes in assets and liabilities:		
Accounts receivable, patient	(10,956,103)	(9,902,279)
Other receivables, inventories, and prepaid expenses	308,631	(267,945)
Due to/from affiliates	(3,736)	(8,394,319)
Other assets, net	975	(45,509)
Accounts payable and accrued expenses	(488,060)	545,992
Accrued salaries and benefits	397,262	220,282
Third-party advances	454,353	92,700
Net cash provided by operating activities	<u>7,623,369</u>	<u>3,294,393</u>
<b>Cash Flows from Investing Activities</b>		
Purchases of property and equipment	(13,888,078)	(6,123,324)
Proceeds received from sale of property and equipment	34,136	-
(Increase) decrease in investments, net	(1,196,117)	4,139,809
Decrease in assets held in trust	134,767	39,986
Change in beneficial interest in net assets of The Union Hospital of Cecil County Foundation, Inc. and Subsidiary	510,943	2,063,331
Decrease (increase) in note receivable, affiliate	<u>554,608</u>	<u>(2,865,224)</u>
Net cash flows used in investing activities	<u>(13,849,741)</u>	<u>(2,745,422)</u>
<b>Cash Flows from Financing Activities</b>		
Increase in deferred financing costs	(153,330)	-
Proceeds from debt issuance	10,093,688	1,947,474
Payment of long-term debt and capital lease obligations	<u>(3,457,348)</u>	<u>(1,683,591)</u>
Net cash provided by financing activities	<u>6,483,010</u>	<u>263,883</u>
<b>Net Increase in Cash and Cash Equivalents</b>	<u>256,638</u>	<u>812,854</u>
<b>Cash and Cash Equivalents, Beginning</b>	<u>3,376,149</u>	<u>2,563,295</u>
<b>Cash and Cash Equivalents, Ending</b>	<u>\$ 3,632,787</u>	<u>\$ 3,376,149</u>
<b>Supplemental Disclosure of Cash Flow Information</b>		
Cash paid for interest	<u>\$ 3,986,072</u>	<u>\$ 3,875,836</u>
<b>Noncash Investing and Financing Activity</b>		
Obligations incurred for purchase of property and equipment	<u>\$ 1,726,845</u>	<u>\$ -</u>

See notes to financial statements

# The Union Hospital of Cecil County, Inc.

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Notes to Financial Statements  
June 30, 2010 and 2009

## 1. Organizational Structure and Nature Of Operations

The Union Hospital of Cecil County, Inc. (the "Hospital") is a Maryland not-for-profit corporation and is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. The Hospital operates a general community hospital in Elkton, Maryland, which serves residents from Cecil County and the surrounding area.

Affinity Health Alliance, Inc. (the "Health System") is a nonstock, not-for-profit corporation and the sole corporate member of the Hospital. The Health System is also the sole corporate member or sole stockholder of other related healthcare organizations, one of which is a for-profit corporation.

The Hospital evaluated subsequent events for recognition or disclosure through September 24, 2010 the date the financial statements were issued.

## 2. Summary of Significant Accounting Policies

### Use of Estimates

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

### Income Taxes

The Hospital is a not-for-profit corporation as described in Section 501(c)(3) of the Internal Revenue Code and is exempt from federal income taxes on their exempt income under Section 501(a) of the Internal Revenue Code.

The Hospital accounts for uncertainty in income taxes by prescribing a recognition threshold of more-likely-than-not to be sustained upon examination by the appropriate taxing authority. Measurement of the tax uncertainty occurs if the recognition threshold has been met. There were no tax uncertainties that met the recognition threshold in 2010 and 2009.

The Hospital's policy is to recognize interest related to unrecognized tax benefits in interest expense and penalties in operating expenses.

The Hospital's federal Exempt Organization Business Income Tax Returns for years ended 2009, 2008, and 2007 remain subject to examination by the Internal Revenue Service.

### Cash and Cash Equivalents

Cash and cash equivalents include certain investments in highly liquid debt instruments with original maturities of three months or less at date of purchase, excluding investments and assets held in trust.



# **The Union Hospital of Cecil County, Inc.**

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Notes to Financial Statements  
June 30, 2010 and 2009

## **2. Summary of Significant Accounting Policies (Continued)**

### **Accounts Receivable, Patients**

Accounts receivable, patients are reported at net realizable value. Accounts are written off when they are determined to be uncollectible based upon management's assessment of individual accounts. The allowance for doubtful accounts is estimated based upon a periodic review of the accounts receivable aging, payor classifications and application of historical write-off percentages.

### **Other Receivables**

Other receivables are reported at net realizable value. Accounts are written off when they are determined to be uncollectible based upon management's assessment of individual accounts. No allowance for doubtful collections was recorded because management believes realization losses on other receivables will be immaterial.

### **Inventories of Supplies**

Inventories, which consist primarily of medical supplies and drugs, are recorded at the lower of cost (using the weighted average method) or market.

### **Investments and Investment Risk**

Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value. Mutual funds are valued at quoted market prices, which represent the net asset value of shares held. Cash and cash equivalents are carried at cost which approximates fair value. Managed hedge funds represent ownership in limited partnerships that invest in hedge funds and private equity capital funds. Investments in these funds representing less than 3% ownership are recorded at cost. Investments representing greater than 3% ownership are accounted for under the equity method. Investment income or loss (including realized gains and losses on investments, interest and dividends and unrealized gains and losses on trading securities) is included in the determination of revenues in excess of (less than) expenses unless the income or loss is restricted by donor or law.

The Hospital's investments are comprised of a variety of financial instruments and are managed by investment advisors. The fair values reported in the balance sheet are subject to various risks including changes in the equity markets, the interest rate environment, and general economic conditions. Due to the level of risk associated with certain investment securities and the level of uncertainties related to changes in the fair value of investment securities, it is reasonably possible that the amounts reported in the accompanying financial statements could change materially in the near term.

# The Union Hospital of Cecil County, Inc.

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Notes to Financial Statements  
June 30, 2010 and 2009

## 2. Summary of Significant Accounting Policies (Continued)

### Assets Held in Trust

Assets held in trust are comprised of assets held by a bond trustee under trust indentures in conjunction with the issuance of the Series 1992, 1998, 2002, and 2005 Revenue Bonds, which are to be held by a trustee. They include the debt service reserve fund and the construction fund.

### Property and Equipment

Property and equipment acquisitions are recorded at cost. Donated property and equipment are recorded at fair market value at the date of receipt. Depreciation is computed using the straight-line method based on estimated useful lives.

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

### Interest in Net Assets of Affiliate

Generally accepted accounting principles establish standards for transactions in which a donor makes a contribution by transferring assets to a not-for-profit recipient organization that agrees to use those assets on behalf of or transfer them to a beneficiary entity. Under certain circumstances, a beneficiary organization is required to recognize its rights to assets held by a recipient organization as an asset on the balance sheet, and changes in value of that asset as a change in net assets in the period of change. The Hospital is the beneficiary of the net assets of an unconsolidated affiliate, The Union Hospital of Cecil County Foundation, Inc. and Subsidiary, (the "Foundation"), that requires reporting under generally accepted accounting principles in the fiscal 2010 and 2009 financial statements. The interest in the net assets of the Foundation recorded as of June 30, 2010 and 2009 was \$4,853,816 and \$5,364,759, respectively.

### Temporarily Restricted Net Assets

Temporarily restricted net assets for various capital and other Hospital related expenditures are those whose use by the Hospital has been limited by donors to a specific time period or purpose. Restricted net assets of \$1,061,152 and \$1,173,479 were released from restriction during 2010 and 2009, respectively, in accordance with donor restrictions.

# The Union Hospital of Cecil County, Inc.

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Notes to Financial Statements  
June 30, 2010 and 2009

## 2. Summary of Significant Accounting Policies (Continued)

### Long-Term Debt and Amortization

Long-term debt is shown net of original bond issue premium. This premium is being amortized on a straight-line basis (which approximates the effective interest method) over the term of the Revenue Bonds. Deferred financing costs associated with the Revenue Bond issuance and a term loan are included in other assets, net and are being amortized on a straight-line basis over the terms of the respective debt. Deferred financing costs were \$1,092,384 and \$988,070 at June 30, 2010 and 2009, respectively.

### Donor-Restricted Gifts

Unconditional promises to give and indications of intentions to give are reported at fair value at the date the gift is received. The gifts are reported as either temporarily or permanently restricted support as they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the statement of operations. Donor-restricted contributions whose restrictions are met within the same year as received are reported as additions to unrestricted net assets in the accompanying financial statements.

### Estimated Malpractice Claims Liability

The provision for estimated medical malpractice claims includes estimates of the ultimate costs for both reported claims and claims incurred but not reported.

### Revenues in Excess of (Less Than) Expenses

The statement of operations includes the determination of revenues in excess of (less than) expenses. Changes in unrestricted net assets which are excluded from the determination of revenues in excess of (less than) expenses, consistent with industry practice, include permanent transfers of assets to and from subsidiaries for other than goods and services, changes in unrestricted net assets of affiliate and contributions of long-lived assets (including assets acquired using contributions which by donor restriction were to be used for the purpose of acquiring such long-lived assets).

### Net Patient Service Revenues and Allowances

Patient service revenues are recorded at established rates on the accrual basis in the period during which the service is provided. Allowances to give recognition to third-party arrangements and charity care are also accounted for on the accrual basis. Revenues received under certain reimbursement agreements are subject to audit and retroactive adjustments by third-party payors. Provision for estimated retroactive adjustments under these agreements are recorded as required. There were no such adjustments in 2010 and 2009.

# The Union Hospital of Cecil County, Inc.

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Notes to Financial Statements  
June 30, 2010 and 2009

## 2. Summary of Significant Accounting Policies (Continued)

A substantial portion of the Hospital's revenue is from patient services reimbursed by the Medicare and Medicaid programs and by Blue Cross plans. For Medicare and Medicaid patients, payments for services are based upon the Hospital's standard billing rates less a six percent discount. In addition, Blue Cross and other payors are eligible for discounts of two percent based on advances made to the Hospital or one percent of the payment of services within 30 days from the date billed. The differences between the payments (the reimbursable amount) and the standard billing rates have been recorded as contractual allowances in arriving at net patient service revenues in the accompanying statement of operations.

### Uncompensated Care

The Hospital provides care to patients who meet certain criteria under its uncompensated care programs; the services are offered and/or provided at a reduced cost based on demonstrated inability to pay or at amounts less than its established rates. Records are maintained to estimate the level of patient service revenue forgone. Uncompensated care includes charity care, amounts in excess of allowable day limits for Medicaid patients, lack of medical necessity for Medicare and other patients, and bad debt write-offs.

The amount of uncompensated care, recorded at established rates, provided during fiscal years 2010 and 2009 was approximately \$16,063,000 and \$15,999,000, respectively.

### New Accounting pronouncements

#### Accounting Standards Codification

In June 2009, the Financial Accounting Standards Board ("FASB") established the FASB Accounting Standards Codification ("Codification") as the sole source of authoritative accounting principles generally accepted in the United States of America. As a result, all references to accounting literature will conform to the appropriate reference within the Codification. The adoption of the Codification, which became effective during September 2009, did not have any impact on the Hospital's financial statements.

### Recent Accounting Pronouncements

In January 2010, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update No. 2010-07, *Not-for-Profit Entities: Mergers and Acquisitions* ("ASU 2010-07"). ASU 2010-07 was issued to update the authoritative guidance surrounding the information that a not-for-profit entity provides in its financial reports about a combination with one or more other not-for-profit entities, businesses, or nonprofit activities. ASU 2010-07 was also issued to update the authoritative guidance over the recognition and subsequent accounting for goodwill and other intangible assets. ASU 2010-07 is effective for fiscal years beginning after June 15, 2010. The Hospital has not yet completed the process of evaluating the impact, if any, of adopting ASU 2010-07 on its financial statements.

# The Union Hospital of Cecil County, Inc.

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Notes to Financial Statements  
June 30, 2010 and 2009

### 3. Regulatory Environment

The healthcare industry is subject to numerous laws and regulations of federal, state, and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government healthcare program participation requirements, reimbursement for patient services, and Medicare and Medicaid fraud and abuse. Recently, governmental activity has increased with respect to investigations and allegations concerning possible violations and fraud and abuse statutes and regulations by healthcare providers. Violations of these laws and regulations could result in expulsion from government healthcare programs, together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed. Management believes that the Hospital is in compliance with fraud and abuse as well as other applicable government laws and regulations. While no regulatory inquiries have been made, compliance with such laws and regulations can be subject to future government review and interpretation as well as regulatory actions unknown or unasserted at this time. Also, future changes in federal and state reimbursement funding mechanisms and related government budgeting constraints could have an adverse effect on the Hospital.

In 1983, Congress approved a Medicare prospective payment plan for most inpatient services as part of the Social Security Amendment Act of 1983. Hospitals in Maryland are currently exempt from these federal reimbursement regulations under a special waiver. The waiver currently in effect is subject to renewal based upon criteria defined in the federal law. Under these payment arrangements with Medicare, a retroactive adjustment could occur if certain performance standards are not attained by all hospitals on a statewide basis. The impact, if any, of any retroactive adjustment of the Medicare prospective payment system, should hospitals in Maryland become subject to such system, on future operations of the Hospital has not been determined.

The Hospital's rate structure is subject to review and approval by the Maryland Health Services Cost Review Commission ("HSCRC"). The HSCRC reimburses Maryland hospitals on an inpatient charge per case target ("Charge Per Case Target") for all inpatient services with an inflation increase for inpatient and outpatient services. In addition, the Hospital is allowed to charge for its change in case mix, adjusted for the statewide average change in case mix.

Under the Charge Per Case Target methodology, the Hospital monitors its average charge per case on a monthly basis. The Hospital's case mix target is adjusted, based on changes in the Hospital's case mix and relative to the statewide change in case mix.

In July 2008, the Maryland General Assembly expanded Medicaid eligibility to provide coverage for a portion of Maryland's uninsured. The legislation requires the HSCRC to implement a uniform assessment on hospital rates to reflect the aggregate reduction in hospital uncompensated care from the expansion in Medicaid coverage provided the assessment does not exceed the actual averted uncompensated care. During 2009 and 2010, the assessment was .13% and 1.63%, respectively, which is reflected in the Hospital's deductions from revenue in the financial statements. The Hospital has not experienced the reduction in uncompensated care to justify the assessment made in 2010 and will be working this reconciliation in 2011.

# The Union Hospital of Cecil County, Inc.

Notes to Financial Statements  
June 30, 2010 and 2009

## 4. Investments And Assets Held In Trust

Investments and assets held in trust consist of the following as of June 30:

	<u>2010</u>	<u>2009</u>
Investments:		
Cash and cash equivalents	\$ 2,759,699	\$ 3,509,079
Money market funds	-	177,535
Mutual funds:		
Small Cap	1,263,126	1,396,020
Mid Cap	1,389,171	1,612,575
Large Cap	4,742,805	3,105,879
Money Market	908,951	-
Fixed income funds	17,973,054	11,406,909
International real estate	1,727,831	953,824
International equities	3,042,914	2,998,793
Large growth	-	1,807,100
Managed hedge funds	4,687,374	7,216,000
U.S. government obligations	100,029	506,335
Corporate Bonds	600,221	-
Common stocks	6,162,418	5,350,203
	<u>\$ 45,357,593</u>	<u>\$ 40,040,252</u>
Assets held in trust:		
Cash and cash equivalents	\$ 3,000,210	\$ 2,406,542
U.S. government obligations	5,081,534	5,809,969
	<u>\$ 8,081,744</u>	<u>\$ 8,216,511</u>

Investment income and realized and unrealized gains and losses for investments, assets held in trust, and cash and cash equivalents are comprised of the following for the years ended June 30:

	<u>2010</u>	<u>2009</u>
Investment income (loss):		
Interest and dividend income, net	\$ 1,143,494	\$ 1,943,872
Realized losses, net	(1,290,892)	(618,804)
Changes in unrealized gains and losses on trading securities	5,412,116	(9,171,088)
	<u>\$ 5,264,718</u>	<u>\$ (7,846,020)</u>

## 5. Fair Value Measurements

The Hospital measured its investments, assets held in trust and beneficial interest in the net assets of the Foundation on a recurring basis in accordance with accounting principles generally accepted in the United States of America.

# The Union Hospital of Cecil County, Inc.

Notes to Financial Statements  
June 30, 2010 and 2009

Fair value is defined as the price that would be received to sell an asset or the price that would be paid to transfer a liability in an orderly transaction between market participants at the measurement date. The framework that the authoritative guidance establishes for measuring fair value includes a hierarchy used to classify the inputs used in measuring fair value. The hierarchy prioritizes the inputs used in determining valuations into three levels. The level in the fair value hierarchy within which the fair value measurement falls is determined based on the lowest level input that is significant to the fair value measurement.

The levels of the fair value hierarchy are as follows:

- Level 1 – Fair value is based on unadjusted quoted prices in active markets that are accessible to the Hospital for identical assets. These generally provide the most reliable evidence and are used to measure fair value whenever available.
- Level 2 – Fair value is based on significant inputs, other than Level 1 inputs, that are observable either directly or indirectly for substantially the full term of the asset through corroboration with observable market data. Level 2 inputs include quoted market prices in active markets for similar assets, quoted market prices in markets that are not active for identical or similar assets, and other observable inputs.
- Level 3 – Fair value would be based on significant unobservable inputs. Examples of valuation methodologies that would result in Level 3 classification include option pricing models, discounted cash flows, and other similar techniques.

These items were measured with the following inputs at June 30, 2010:

	<b>Quoted Prices in Active Markets (Level 1)</b>	<b>Other Observable Inputs (Level 2)</b>
Cash and cash equivalents	\$ 5,759,909	\$
Mutual funds:		
Small Cap	1,263,126	
Mid Cap	1,389,171	
Large Cap	4,742,805	
Money Market	908,951	
Fixed income funds	17,973,054	
International real estate	1,727,831	
International equities	3,042,917	
Common stocks	6,162,418	
U.S. government obligations		5,181,563
Corporate bonds		600,221
Beneficial interest in net assets of Foundation		4,853,816
	<u>\$ 42,970,182</u>	<u>\$ 10,635,600</u>

# The Union Hospital of Cecil County, Inc.

Notes to Financial Statements  
June 30, 2010 and 2009

## 5. Fair Value Measurements (Continued)

These items were measured with the following inputs at June 30, 2009:

	<b>Quoted Prices in Active Markets (Level 1)</b>	<b>Other Observable Inputs (Level 2)</b>
Cash and cash equivalents	\$ 5,915,621	\$
Money market funds	177,535	
Mutual funds:		
Small Cap	1,396,020	
Mid Cap	1,612,575	
Large Cap	3,105,879	
Fixed income funds	11,406,909	
International real estate	953,824	
International equities	2,998,793	
Large growth	1,807,100	
Common stocks	5,350,203	
U.S. government obligations		6,316,304
Beneficial interest in net assets of Foundation		5,364,759
	<u>\$ 34,724,459</u>	<u>\$ 11,681,063</u>

The Hospital does not hold any investments or assets held under trust that are considered Level 3 in the fair value hierarchy.

Investments also include \$4,687,374 and \$7,216,000 of alternative investments at June 30, 2010 and 2009, respectively. These are excluded from the fair value hierarchy because they are recorded at cost.



# The Union Hospital of Cecil County, Inc.

Notes to Financial Statements  
June 30, 2010 and 2009

## 5. Fair Value Measurements (Continued)

### Fair Value of Financial Instruments

The carrying amounts and estimated fair values of the Hospital's financial instruments at June 30, 2010 and 2009 are as follows:

	2010		2009	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash and cash equivalents	\$ 3,632,787	\$ 3,632,787	\$ 3,376,149	\$ 3,376,149
Investments	45,357,593	45,623,324	40,040,252	40,207,342
Assets held under trust	8,081,744	8,081,744	8,216,511	8,216,511
Interest in Net Asset of Affiliate	4,853,816	4,853,816	5,364,759	5,364,759
Third-party advances	1,834,657	1,834,657	1,380,304	1,380,304
Long-term debt	84,892,878	74,450,916	76,537,446	58,568,389

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in methodologies used at June 30, 2010.

Cash and cash equivalents approximate fair value because of the short maturity of those financial instruments.

Money market fund and mutual fund securities: Valued at the net asset value ("NAV") of shares held by the plan at year end.

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

US government obligations and corporate bonds: Based on quoted market prices, if available, or estimated using quoted market prices of similar securities.

Third-party advances approximate fair value because these amounts represent cash advances from third-party payors and because of their current maturities.

# The Union Hospital of Cecil County, Inc.

Notes to Financial Statements  
June 30, 2010 and 2009

## 5. Fair Value Measurements (Continued)

Managed Hedge Funds are valued based upon the Net Asset Value ("NAV") of the shares of the funds held by the Hospital at year end. The Hospital considers valuations provided to it by the general partners of the funds. The values assigned to the funds are based upon assessment of each underlying investment, incorporating valuations that consider the evaluation of financing and sale transactions with third parties, expected cash flows and market-based information, including comparable transactions, and performance multiples, among other factors.

Beneficial interest in net assets of Union Hospital of Cecil County Foundation, Inc. is valued using discounted cash flow methodologies.

Long-term debt fair value is calculated based on quoted market prices, if available, or estimated using quoted market prices of similar securities.

It is generally not practical to estimate the fair value of related party transactions since terms could not be duplicated in the market, and related parties can revise terms, making assumptions supporting fair values potentially unreliable. Therefore, these balances are not included in the fair value hierarchy above.

## 6. Property and Equipment and Accumulated Depreciation and Amortization

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

	<u>2010</u>	<u>2009</u>
Land and improvements	\$ 2,523,873	\$ 2,203,873
Buildings and improvements	69,866,899	63,781,003
Fixed equipment	37,690,994	37,573,874
Major movable equipment	43,810,166	37,814,893
Construction in progress	149,634	2,091,338
Total	154,041,566	143,464,981
Less accumulated depreciation and amortization	69,086,843	65,576,047
Property and equipment, net	<u>\$ 84,954,723</u>	<u>\$ 77,888,934</u>

Included above is leased equipment at a cost of \$2,743,560 and \$1,016,715 with accumulated amortization of \$733,417 and \$252,458 as of June 30, 2010 and 2009, respectively.

Net assets were released from donor restrictions during 2010 and 2009 in the amount of \$50,113 and \$120,709, respectively, for certain equipment purchased during the year by the Hospital.

During 2010 equipment was disposed resulting in a loss on disposal of assets of \$165,122. The loss is recorded in other operating revenue on the statement of operations.

# The Union Hospital of Cecil County, Inc.

Notes to Financial Statements  
June 30, 2010 and 2009

## 7. Long-Term Debt

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

	<u>2010</u>	<u>2009</u>
MHHEFA Series 2005 Revenue Bonds	\$ 33,675,000	\$ 33,675,000
Maryland Health and Higher Educational Facilities Authority ("MHHEFA") Series 2002 Revenue Bonds	21,075,000	21,555,000
Town of Elkton, Maryland Series 2000 Revenue Bonds (held by the Peoples Bank of Elkton)	3,324,100	3,561,828
MHHEFA Series 1998 Revenue Bonds	14,465,000	14,790,000
MHHEFA Series 1992 Revenue Bonds	-	455,000
NBRIS Loan	-	1,502,326
EDRB Series 2009 Revenue Bonds	10,093,687	-
Capital lease obligations (Note 8)	<u>1,836,395</u>	<u>566,843</u>
Total	84,469,182	76,105,997
Unamortized original bond issue premium	423,696	431,449
Less current portion	<u>(2,216,359)</u>	<u>(1,807,238)</u>
Long-term debt and capital lease obligations, net	<u>\$ 82,676,519</u>	<u>\$ 74,730,208</u>

During the fiscal year 2010, the Hospital entered into Economic Development Revenue Bond, Series 2009 ("EDRB Series 2009 Bonds") in the maximum principal amount of \$16,000,000 pursuant to the terms of a Loan and Financing Agreement dated as of December 1, 2009 with The Columbia Bank, Peoples Bank of Elkton Division. The EDRB Series 2009 Bonds bear interest at 3.95% and are payable in varying amounts each year through November 30, 2016. The EDRB Series 2009 Bonds are collateralized by a security interest in all receipts of the Hospital. The Loan and Financing Agreement pertaining to the EDRB Series 2009 Bonds contains covenants, with respect to the maintenance of a specific coverage ratio, debt service ratio, and certain other matters for which the Hospital is in compliance. Not all of the funds available were drawn down, therefore, the balance on the loan at June 30, 2010 was \$10,093,687.

On July 14, 2005, the Hospital completed a MHHEFA revenue bond issue in the amount of \$33,675,000, net of an original issue premium of \$631,592. The MHHEFA Series 2005 Revenue Bonds (the "2005 Revenue Bonds") bear interest at rates varying from 4.50 percent to 5.00 percent and are payable in differing amounts through July 1, 2040. The 2005 Revenue Bonds are collateralized by a security interest in all receipts of the Hospital. The Master Loan Agreement pertaining to the 2005 Revenue Bonds contains covenants with respect to the maintenance of specific debt service coverage ratios and certain other matters for which the Hospital is in compliance. The debt is shown net of unamortized bond issue premium of \$541,405 and \$559,452 as of June 30, 2010 and 2009, respectively.

# The Union Hospital of Cecil County, Inc.

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Notes to Financial Statements  
June 30, 2010 and 2009

## 7. Long-Term Debt (Continued)

In November 2002, the Hospital participated in a MHHEFA revenue bond issuance in the amount of \$24,000,000, net of an original bond issue discount of \$73,881. The MHHEFA Series 2002 Revenue Bonds (the "2002 Revenue Bonds") bear interest at rates varying from 3.0 to 5.625 percent and are payable in differing amounts each year through July 1, 2032. The 2002 Revenue Bonds are collateralized by a security interest in all receipts of the Hospital. The Master Loan Agreement pertaining to the 2002 Revenue Bonds contains covenants with respect to the maintenance of a specific coverage ratio, debt service ratio, and certain other matters for which the Hospital is in compliance. This debt is shown net of unamortized bond issue discount of \$55,206 and \$57,667 as of June 30, 2010 and 2009, respectively.

In June 2000, the Town of Elkton, Maryland issued a \$5,100,000 Revenue Bond (the "2000 Revenue Bonds") for the purpose of funding Hospital renovations and capital equipment expenditures. The 2000 Revenue Bonds were purchased by the Peoples Bank of Elkton, with the proceeds being loaned by the Town of Elkton to the Hospital, which assumed full responsibility for payments on the bonds. The 2000 Revenue Bonds bear interest at 3.95% and are payable in varying amounts each year through July 2020. The 2000 Revenue Bonds are collateralized by a security interest in all receipts of the Hospital. The Master Loan Agreement pertaining to the 2000 Revenue Bonds contains covenants, with respect to the maintenance of a specific coverage ratio, debt service ratio, and certain other matters that the Hospital is in compliance with.

In August 1998, the Hospital participated in a MHHEFA revenue bond issuance in order to refinance portions of its indebtedness and to finance Hospital renovations and capital equipment expenditures. The total amount of the issuance proceeds was \$17,675,000, net of an original bond issue discount of \$164,458. The MHHEFA Series 1998 Revenue Bonds (the "1998 Revenue Bonds") bear interest at rates varying from 4.00 to 5.10 percent and are payable in differing amounts each year through July 1, 2022. The 1998 Revenue Bonds are collateralized by a security interest in all receipts of the Hospital. The Master Loan Agreement pertaining to the 1998 Revenue Bonds contains covenants, with respect to the maintenance of a specific coverage ratio, debt service ratio, and certain other matters for which the Hospital is in compliance. This debt is shown net of the unamortized bond issue discount of \$62,503 and \$70,334 as of June 30, 2010 and 2009, respectively.

During fiscal year 1993, the Hospital participated in a MHHEFA revenue bond issuance in the amount of \$13,828,000, net of an original bond issue discount of \$317,000. The MHHEFA Series 1992 Revenue Bonds (the "1992 Revenue Bonds") bore interest at rates varying from 5.9 to 6.7 percent and were payable in differing amounts each year through July 1, 2009. The 1992 Revenue Bonds were secured by a security interest in all receipts of the Hospital. The Master Loan Agreement contains covenants, with respect to the maintenance of a specific coverage ratio, debt service ratio, and certain other matters for which the Hospital was in compliance. As part of the refinancing of the 1992 Revenue Bonds in August 1998, the Hospital funded an escrow account for the advance refunding of \$10,040,000 of 1992 bonds. The amounts remaining from the 1992 bonds were not available to be called prior to maturity. The 1992 Revenue Bonds were paid in full at June 30, 2010.

# The Union Hospital of Cecil County, Inc.

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Notes to Financial Statements  
June 30, 2010 and 2009

## 7. Long-Term Debt (Continued)

The Hospital incurred \$153,330, \$337,459, \$62,000, \$391,030, and \$575,520, respectively, of legal, financing, and administrative fees in connection with the issuance of the EDRB Series 2009 Bonds, 2005 Revenue Bonds, 2000 Revenue Bonds, 2002 Revenue Bonds, and 1998 Revenue Bonds. These costs have been included in other assets in the accompanying balance sheet.

Amortization expense related to bond premiums, discounts, and deferred financing costs totaled \$41,264 for the years ended June 30, 2010 and 2009 and has been included in interest expense in the accompanying statement of operations.

During the fiscal year 2009, the Hospital entered into a credit agreement with NBRS Financial Bank through the issuance of a promissory note. The note in the amount of \$293,324 was due to the financial institution in 36 monthly installments of \$2,913 ending June 15, 2012. The note bore interest at a fixed rate of 3.54% until July 8, 2009. Thereafter, the interest was indexed to the 6 to 8 month certificate of deposit rate plus 2.00% and was adjusted concurrently with each change in the Prime rate. The Hospital pledged a certificate of deposit with a carrying amount of \$293,324 at June 30, 2009, as collateral for the loan. The loan was paid off during the 2010 fiscal year.

During the fiscal year 2009, the Hospital entered into a credit agreement with NBRS Financial Bank through the issuance of a promissory note. The note in the amount of \$407,649 was due to the financial institution in 36 monthly installments of \$4,085 ending June 15, 2012. The note bore interest at a fixed rate of 3.73% until July 8, 2009. Thereafter, the interest was indexed to the 12 to 15 month certificate of deposit rate plus 2.00% and was adjusted concurrently with each change in the Prime rate. The Hospital pledged a certificate of deposit with a carrying amount of \$407,649 at June 30, 2009, as collateral for the loan. The loan was paid off during the 2010 fiscal year.

During the fiscal year 2009, the Hospital entered into a credit agreement with NBRS Financial Bank through the issuance of a promissory note. The note in the amount of \$348,535 was due to the financial institution in 36 monthly installments of \$3,461 ending June 15, 2012. The note bore interest at a fixed rate of 3.54% until July 8, 2009. Thereafter, the interest was indexed to the 6 to 8 month certificate of deposit rate plus 2.00% and was adjusted concurrently with each change in the Prime rate. The Hospital has pledged a certificate of deposit with a carrying amount of \$348,535 at June 30, 2009, as collateral for the loan. The loan was paid off during the 2010 fiscal year.

During the fiscal year 2009, the Hospital entered into a credit agreement with NBRS Financial Bank through the issuance of a promissory note. The note in the amount of \$452,818 was due to the financial institution in 36 monthly installments of \$4,538 ending June 15, 2012. The note bore interest at a fixed rate of 3.73% until July 8, 2009. Thereafter, the interest was indexed to the 12 to 15 month certificate of deposit rate plus 2.00% and was adjusted concurrently with each change in the Prime rate. The Hospital pledged a certificate of deposit with a carrying amount of \$452,818 at June 30, 2009, as collateral for the loan. The loan was paid off during the 2010 fiscal year.

# The Union Hospital of Cecil County, Inc.

Notes to Financial Statements  
June 30, 2010 and 2009

## 7. Long-Term Debt (Continued)

Scheduled repayments of long-term debt, exclusive of capital lease obligations discussed in Note 8, are as follows:

Year Ending June 30:	
2011	\$ 1,572,118
2012	1,756,513
2013	1,958,488
2014	2,043,949
2015	2,145,225
Thereafter	<u>73,156,494</u>
Total	<u>\$ 82,632,787</u>

## 8. Capital Lease Obligations

The Hospital has various capital lease agreements for medical equipment, which expire through 2011. Future minimum lease payments under these agreements are as follows:

Year Ending June 30	
2011	\$ 710,061
2012	661,361
2013	421,629
2014	<u>163,771</u>
Total minimum lease payments	1,956,822
Less amount representing interest	<u>(120,427)</u>
Total	1,836,395
Less current portion, principal	<u>(644,241)</u>
Long term portion, principal	<u>\$ 1,192,154</u>

# The Union Hospital of Cecil County, Inc.

Notes to Financial Statements  
June 30, 2010 and 2009

## 9. Pension Plan

Effective January 1, 1999, the Hospital set up a 403(b) defined contribution plan (the "403(b) plan") which includes a matching provision, for employees of the Health System, the Hospital and the Foundation. The Hospital has used the 403(b) plan as its primary retirement plan as of January 1, 2000. The 403(b) plan expenses may include a discretionary employer contribution for employees who work at least 1,000 hours in a calendar year and a 50% employer match contribution up to 1.5% of gross wages for those employees who choose to make voluntary contributions. Pension expense related to the 403(b) plan was approximately \$302,057 and \$1,054,077 for the years ended June 30, 2010 and 2009, respectively, and is included in salaries and employee benefits in the accompanying statement of operations.

Accrued contributions payable related to discretionary contributions for the 403 (b) plan, were approximately \$533,365 as of June 30, 2009, and are included in accounts payable and accrued expenses in the accompanying balance sheet. There were no discretionary contributions in 2010.

Prior to January 1, 2000, the Hospital offered a defined contribution retirement plan (the "Plan") that covered substantially all employees. Effective January 1, 2000, the Plan became frozen with no loss of accrued savings.

## 10. Concentration of Credit Risk

The Hospital grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of gross revenues from patients and third-party payors was as follows for the years ended June 30:

	<u>2010</u>	<u>2009</u>
Medicare	37 %	38 %
Medicaid	4	4
Blue Cross/Blue Shield	20	21
Health maintenance organizations	22	20
Self-pay patients	7	7
Other third-party payors	<u>10</u>	<u>10</u>
Total	<u>100 %</u>	<u>100 %</u>

The Hospital maintains its cash and cash equivalents with several financial institutions. Cash and cash equivalents on deposit with any one financial institution are insured up to \$250,000.

# The Union Hospital of Cecil County, Inc.

Notes to Financial Statements  
June 30, 2010 and 2009

## 11. Functional Expenses

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

	<u>2010</u>	<u>2009</u>
Healthcare services	\$ 93,138,000	\$ 83,286,000
Support services	<u>39,572,000</u>	<u>41,206,000</u>
Total	<u>\$ 132,710,000</u>	<u>\$ 124,492,000</u>

## 12. Commitments and Contingencies

The Hospital has been named as a defendant in several lawsuits arising from the performance of its normal activities. In the opinion of the Hospital's management, after consultation with legal counsel, the amount, if any, of the Hospital's ultimate liability under these lawsuits will not have a significant impact on the financial position of the Hospital.

The healthcare industry is subject to numerous laws and regulations of federal, state and local governments. Compliance with these laws and regulations is subject to future government review and interpretation as well as regulatory actions unknown or unasserted at this time. Government activity continues to increase with respect to investigations and allegations concerning possible violations by healthcare providers of fraud and abuse statutes and regulations, which could result in the imposition of significant fines and penalties as well as significant repayments for patient services previously billed. Management is not aware of any material incidents or noncompliance that have not been provided for in the accompanying consolidated financial statements; however, the possible future financial effects of this matter on the Hospital, if any, are not presently determinable.

The Hospital has entered into operating lease agreements for Hospital equipment, which expire on various dates through the year 2014. Total rental expense for the years ended June 30, 2010 and 2009 for all operating leases were approximately \$582,084 and \$543,619, respectively. Future minimum lease payments under all operating leases are as follows:

Year Ending June 30	
2011	\$ 553,768
2012	175,850
2013	12,603
2014	<u>3,924</u>
Total	<u>\$ 746,145</u>



# The Union Hospital of Cecil County, Inc.

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Notes to Financial Statements  
June 30, 2010 and 2009

## 13. Medical Malpractice Claims Coverage

For the period October 17, 2003 through December 31, 2004, the Hospital maintained its malpractice insurance coverage with the Zurich Insurance Company under a claims-made policy.

As of January 1, 2005, when existing policies expired, the Hospital elected to obtain its professional and general liability insurance from Freestate Healthcare Insurance Company, Ltd., a Cayman Islands company ("Freestate"). Freestate was incorporated as of January 1, 2005 as a chartered captive insurance company for eight nonprofit hospitals in the State of Maryland, including the Hospital. Each of the hospitals has contributed an equal amount of \$15,000 as capital to Freestate in return for a one-eighth share interest in Freestate. Freestate is governed by a Board of Directors selected by the shareholders. The policy has no stated deductible.

Freestate's primary insurance is under the terms of a claims-made insurance policy and has limits of liability of \$1 million per claim and no aggregate limit per policy year. Freestate's excess liability coverage insures against losses in excess of the above primary coverage reported during the period of policy coverage. This excess liability insurance policy has an individual occurrence limit of \$10 million and an annual aggregate limit of \$10 million. Prior acts of coverage for newly employed physicians will not be provided without prior approval of Freestate's Board of Directors. Each hospital's annual premium will be established through a retrospective rating process, with initial premiums based on actuarial estimates. Initial premiums will be charged at the 75% confidence level and retrospective premium assessments will be capped at an amount equal to the expected losses for the policy period at an 85% confidence level, in each case as determined by an independent actuary.

The Hospital's liability for the estimated future payments of its unasserted medical malpractice claims was approximately \$500,000 at June 30, 2010 and 2009.

The Hospital believes that it has adequate insurance coverages for all asserted claims and has no knowledge of unasserted claims which would exceed insurance coverages.

The Hospital would claim charitable immunity for claims exceeding coverage limits. Legal expenses associated with covered claims are also covered and included under policy limits.

# The Union Hospital of Cecil County, Inc.

Notes to Financial Statements  
June 30, 2010 and 2009

## 14. Related Party Transactions

The Union Hospital of Cecil County Health Services, Inc. ("Health Services"), a related healthcare organization, constructed a medical professional building ("MPB") on the Hospital's campus. The Hospital has loaned funds to Health Services in order to finance the original MPB construction and subsequent improvements. Interest is not charged on these balances and there are no fixed repayment terms. The amounts due from affiliated organizations ("Affiliates") as listed below, are valued at management's estimate of net realizable value, however, because of inherent uncertainties in the Affiliates' operating results, it is at least reasonably possible that the estimates used may change within the near term. The Hospital has a net receivable of \$3,304,850 and \$4,615,203 from Health Services as of June 30, 2010 and 2009, respectively, which is to be repaid via proceeds from office sales and rentals in the MPB. The Hospital transferred \$2,000,000 and \$9,104,910 of net receivables due from Health Services in 2010 and 2009, respectively, to an investment in net assets of Health Services. In addition, the Hospital transferred \$642,957 to Triangle Health Alliance during 2010 for operational purposes. Receivables (payables) from other affiliates within the Hospital as of June 30, 2010 and 2009 is shown below:

	<u>2010</u>	<u>2009</u>
Affinity Health Alliance, Inc. (Parent)	\$ (335,573)	\$ (353,505)
Health Services	3,304,850	4,615,203
Union Hospital of Cecil County Foundation, Inc.	462,749	1,358,760
Triangle Health Alliance, Inc.	642,958	1,284,074
Cecil County Breeders' Fair, Inc.	601	437
Ventures, Inc.	-	(22,200)
Open MRI	355,559	187,596
Total	<u>\$ 4,431,144</u>	<u>\$ 7,070,365</u>

The Hospital pays a management fee to the Parent for administrative, finance, and human resources services. The management fee was calculated as 2% and 3% of the Hospital's net operating revenues (including the provision for doubtful accounts) for fiscal years 2010 and 2009, respectively. Fees of \$2,931,867 and \$3,242,421 are included in purchased services in the accompanying statement of operations for the years ended June 30, 2010 and 2009, respectively.

The Hospital and Ventures entered into a loan agreement and promissory note on February 1, 2009, whereby the Hospital loaned \$2,900,000 to Ventures to purchase Open MRI and Imaging Center of Elkton, LLC. The loan bears interest at 2.5% and requires Ventures to make monthly payments to the Hospital in the amount of \$51,659. The loan will be fully repaid in May of 2014.