CIVISTA HEALTH INC. AND SUBSIDIARIES

Consolidated Financial Statements and
Supplemental Information

June 30, 2011 and 2010

(With Independent Auditors' Report Thereon)

CIVISTA HEALTH INC. AND SUBSIDIARIES

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

Independent Auditors' Report

The Board of Directors
Civista Health Inc. and Subsidiaries:

We have audited the accompanying consolidated balance sheets of Civista Health Inc. and subsidiaries (the Company) as of June 30, 2011 and 2010, and the related consolidated statements of operations, changes in net assets, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Civista Health Inc. and subsidiaries as of June 30, 2011 and 2010 and the results of their operations, the changes in their net assets and their cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Our audits were made for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The consolidating information included in schedules 1 through 4 is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position, results of operations and changes in unrestricted net assets of the individual companies. The consolidating information has been subjected to the auditing procedures applied in the audits of the 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.

KPMG LLP

October 11, 2011

CIVISTA HEALTH INC. AND SUBSIDIARIES

Consolidated Balance Sheets

June 30, 2011 and 2010

Assets		**2011**	**2010**
Current assets:			
Cash and cash equivalents	$	33,904,922	29,478,207
Patient accounts receivable, net of allowance for uncollectible accounts of $5,133,643 and $4,250,505 in 2011 and 2010, respectively (note 2)		9,931,379	11,265,003
Assets limited as to use (notes 4, 5, and 15)		2,309,007	3,502,632
Other receivables		449,495	1,866,308
Inventories		1,533,556	1,588,468
Prepaid expenses		934,927	1,042,636
Total current assets		49,063,286	48,743,254
Investments (notes 3 and 15)		1,519,275	156,551
Assets limited as to use, net of current portion (notes 4, 5, and 15)		4,663,047	5,081,856
Property and equipment, net (notes 6 and 9)		72,827,753	71,386,779
Investments in joint ventures (note 7)		3,035,364	2,910,139
Deferred financing costs (note 1(l))		2,150,670	2,307,627
Other assets		1,060,881	735,416
Total assets	$	134,320,276	131,321,622
Liabilities and Net Assets			
Current liabilities:			
Current portion of long-term debt (note 9)	$	1,877,165	1,701,692
Note payable (note 8)		9,500,000	9,500,000
Accounts payable		10,201,608	10,478,556
Accrued interest payable		1,336,007	1,344,632
Accrued expenses and other current liabilities (note 14)		6,837,298	6,793,476
Advances from third-party payors (note 11)		3,409,780	2,240,611
Total current liabilities		33,161,858	32,058,967
Long-term debt, net of current portion (note 9)		72,598,591	73,153,190
Accrued pension costs (note 12)		4,197,886	8,003,140
Total liabilities		109,958,335	113,215,297
Commitments and contingencies (notes 6, 8, 9, 10, 13, and 14)			
Net assets:			
Unrestricted net assets		23,873,317	14,473,795
Temporarily restricted net assets (notes 4 and 5)		488,624	3,632,530
Total net assets		24,361,941	18,106,325
Total liabilities and net assets	$	134,320,276	131,321,622

See accompanying notes to consolidated financial statements.

CIVISTA HEALTH INC. AND SUBSIDIARIES

Consolidated Statements of Operations

Years ended June 30, 2011 and 2010

	2011	2010
Revenues:		
Net patient service revenue (notes 2, 9, and 10)	$ 105,352,513	104,359,863
Other revenue (note 13)	1,953,534	1,847,306
Nonmonetary contribution from Charles County (notes 1(f) and 13)	1,306,536	1,268,484
Total revenues	108,612,583	107,475,653
Expenses (note 16):		
Salaries and wages	43,071,132	43,410,232
Employee benefits (notes 12 and 14)	8,222,263	7,734,173
Purchased services	5,903,949	5,845,215
Professional fees	2,852,883	2,175,265
Supplies and drugs	17,206,279	16,259,046
Depreciation and amortization (note 6)	4,763,477	5,403,650
Administrative expenses	8,273,308	10,073,737
Provision for uncollectible accounts	7,249,745	5,379,006
Interest (notes 8 and 9)	3,510,045	3,517,647
Utilities and maintenance	4,063,027	4,960,612
Facilities use charge (notes 1(f) and 13)	1,306,536	1,268,484
Total expenses	106,422,644	106,027,067
Income from operations	2,189,939	1,448,586
Nonoperating income (loss):		
Equity in earnings of joint ventures (note 7)	385,231	355,806
Unrestricted gifts	1,200,000	—
Investment income (notes 3 and 4)	154,699	128,056
Other nonoperating expense	(67,842)	(11,111)
Nonoperating income	1,672,088	472,751
Excess of revenues over expenses	3,862,027	1,921,337
Other changes in unrestricted net assets:		
Change in funded status of defined benefit plan (note 12)	3,682,607	(2,825,671)
Net assets released from restriction used for purchase of property and equipment	1,854,888	238,783
Contributions of property and equipment	—	31,033
Increase (decrease) in unrestricted net assets	$ 9,399,522	(634,518)

See accompanying notes to consolidated financial statements.

CIVISTA HEALTH INC. AND SUBSIDIARIES

Consolidated Statements of Changes in Net Assets

Years ended June 30, 2011 and 2010

		Unrestricted net assets	Temporarily restricted net assets	Total
Balance at June 30, 2009	$	15,108,313	3,319,919	18,428,232
Excess of revenues over expenses		1,921,337	—	1,921,337
Change in funded status of defined benefit plan		(2,825,671)	—	(2,825,671)
Net assets released from restriction used for purchases of property and equipment		238,783	(238,783)	—
Contributions of property and equipment		31,033	551,394	582,427
(Decrease) increase in net assets		(634,518)	312,611	(321,907)
Balance at June 30, 2010		14,473,795	3,632,530	18,106,325
Excess of revenues over expenses		3,862,027	—	3,862,027
Change in funded status of defined benefit plan		3,682,607	—	3,682,607
Net assets released from restriction used in operations		—	(89,018)	(89,018)
Beneficial interest in trust received		—	(1,200,000)	(1,200,000)
Net assets released from restriction used for purchases of property and equipment		1,854,888	(1,854,888)	—
Increase (decrease) increase in net assets		9,399,522	(3,143,906)	6,255,616
Balance at June 30, 2011	$	23,873,317	488,624	24,361,941

See accompanying notes to consolidated financial statements.

CIVISTA HEALTH INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

Years ended June 30, 2011 and 2010

	2011	2010
Cash flows from operating activities:		
Increase (decrease) in net assets	$ 6,255,616	(321,907)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	4,763,477	5,403,650
Amortization of net bond premium and deferred financing costs	133,863	133,863
Provision for uncollectible accounts	7,249,745	5,379,006
Change in funded status of defined benefit plan	(3,682,607)	2,825,671
Contributions restricted by donors for specific purposes	—	(582,427)
Net realized and unrealized (gains) losses on investments	(17,642)	29,726
Equity in earnings of joint ventures	(385,231)	(355,806)
Changes in operating assets and liabilities:		
Patient accounts receivable	(5,916,121)	(7,019,421)
Other receivables	1,661,839	(889,195)
Inventories	54,912	(54,576)
Prepaid expenses	107,709	313,111
Other assets	(325,465)	(336,758)
Accounts payable, accrued expenses, and other current liabilities	(241,751)	510,482
Advances from third parties	1,169,169	615,397
Accrued pension costs	(122,647)	(114,141)
Net cash provided by operating activities	10,704,866	5,536,675
Cash flows from investing activities:		
Purchases of property and equipment	(6,204,451)	(1,230,695)
Proceeds from assets limited as to use and investments, net	267,352	1,368,425
Distributions from joint ventures	14,980	447,216
Net cash (used in) provided by investing activities	(5,922,119)	584,946
Cash flows from financing activities:		
Proceeds from note payable	19,000,000	19,000,000
Repayments on note payable	(19,000,000)	(19,000,000)
Proceeds from long-term debt	1,400,000	—
Principal payments on long-term debt	(1,756,032)	(1,644,492)
Proceeds from contributions restricted by donors	—	582,427
Net cash used in financing activities	(356,032)	(1,062,065)
Increase in cash and cash equivalents	4,426,715	5,059,556
Cash and cash equivalents, beginning of year	29,478,207	24,418,651
Cash and cash equivalents, end of year	$ 33,904,922	29,478,207
Supplemental disclosures of cash flow information:		
Cash payments for interest	$ 3,376,182	3,424,255
Income taxes paid	39,556	11,548

See accompanying notes to consolidated financial statements.

(1) Organization and Summary of Significant Accounting Policies

(a) Organization

Civista Health Inc. (CHI) and subsidiaries, Civista Medical Center, Inc. (CMC), Civista Care Partners, Inc. (CCP), and Civista Health Foundation, Inc. (CHF) (referred to collectively as the Company), is dedicated to leadership in health care for Charles County, Maryland (the County) and Southern Maryland. The Company comprises a not-for-profit hospital and other community health care resources and is committed to deliver the highest quality care to those served. The Company provides inpatient, outpatient and emergency care services for residents of Charles County and Southern Maryland. This commitment distinguishes the Company in its service area as dedicated to excellence in service, the dignity and empowerment of the individual, and care and compassion for all, including those without financial resources. The community that is Civista Health Inc., its patients, medical staff, auxillians, volunteers, and administration, are bonded together by this shared vision of excellence.

(b) Principles of Consolidation

The consolidated financial statements include Civista Health Inc. and subsidiaries, Civista Medical Center, Inc., Civista Care Partners, Inc., and Civista Health Foundation, Inc. All significant intercompany accounts and transactions have been eliminated in consolidation.

Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 810, *Consolidation* (ASC 810), addresses how a business enterprise should evaluate whether it has a controlling financial interest in an entity through means other than voting rights and accordingly should consolidate the entity. The Company has applied ASC 810 to its variable interest entities (VIEs) and determined that the Company is not the primary beneficiary of any VIEs and these entities are accounted for under other accounting principles.

(c) Cash and Cash Equivalents

For purposes of the consolidated financial statements, the Company considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents. The carrying amount of these assets approximates their fair value.

(d) Investments and Assets Whose Use is Limited

The Company classifies its debt and equity securities as trading securities. All debt and equity securities, including mutual funds, are reported at fair value principally based on quoted market prices on the consolidated balance sheets. Certain other investments are recorded under the cost or equity method as appropriate.

Assets limited as to use primarily include funds held by third party trustees, which are required under a related promissory note to be used for future repayment of outstanding debt. Donor restricted investments are also included within assets whose use is limited.

Investment income (interest and dividends), including realized gains and losses on investment sales, are recorded on the accrual basis and is reported as investment income in the excess of revenues over expenses in the accompanying consolidated statements of operations, unless the income or loss is restricted by the donor or law. Investment income, including realized and unrealized gains and losses, from assets that are restricted by the donor are recorded as a component of changes in temporarily or permanently restricted net assets, in accordance with donor-imposed restrictions.

(e) Inventories

Inventories are stated at the lower of cost (determined by the first-in/first-out method) or market.

(f) Property and Equipment

Property and equipment is recorded at cost. Property and equipment donated for Company operations are recorded at fair value at the date of receipt. Depreciation is recorded over the assets' estimated useful lives on a straight-line method.

When land, building improvements, and equipment are retired or otherwise disposed of, the property and accumulated depreciation accounts are removed and any gain or loss is recognized in operating income when incurred.

As of June 30, 2011, the Company was a party to a lease agreement with Charles County government expiring in 2045 pursuant to which the facilities and real estate owned by the County and occupied by the Company were leased by the Company at a nominal rental fee. These facilities and real estate are not included in the Company's financial statements.

A facilities use charge is included in operating expenses to properly recognize the benefit received by the Company for use of the County owned property and equipment. This expense is based on an estimate of the fair rental value of the County owned assets. A corresponding benefit has also been recognized in the consolidated statements of operations as contributed services from the County.

In July 2011, the Company acquired the land and leasehold reversion rights from Charles County government (see footnote 1(r)).

(g) Investments in Joint Ventures

Investments in joint ventures where the Company exercises significant influence are accounted for using the equity method of accounting; otherwise the cost method is employed. The Company's equity income or loss is recognized in nonoperating gains (losses).

(h) Estimated Malpractice Costs

The provision for estimated malpractice claims includes estimates of the ultimate costs for both reported claims and claims incurred but not reported. The actual results may differ from the amounts recorded. These liabilities are recorded on an undiscounted basis.

(i) Statements of Operations and Excess of Revenues over Expenses

For purposes of display, transactions deemed by management to be ongoing, major, or central to the provision of health care services are reported as revenues and expenses. Peripheral or incidental transactions are reported as nonoperating gains and losses.

The consolidated statement of operations includes a performance indicator (excess of revenues over expenses). Changes in unrestricted net assets, which are excluded from the performance indicator consistent with industry practice, include nonperiodic changes in the funded status of defined benefit plan (further described in note 12), any permanent transfers of assets to and from affiliates for other than goods or services, 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 assets, if any.

(j) Bond Premium

Premium received in connection with the issuance of long-term debt is amortized using the effective interest method over the term of the related obligations. Accumulated amortization of the bond premium amounted to $147,168 and $124,074 as of June 30, 2011 and 2010, respectively. Total premium received on the Series 2005 debt offering was $748,115, and net of accumulated amortization is $600,947 and $624,041 at June 30, 2011 and 2010, respectively.

(k) Net Patient Revenue

Net patient revenue is reported as services are rendered at the estimated net realizable amounts from patients and third-party payors based on rates in effect when the related services are provided. Rates for patient services in Maryland hospitals are subject to investigation, review, and approval by the Health Services Cost Review Commission (HSCRC), an independent commission created by a State of Maryland legislative act. All third-party payors are required to pay the HSCRC approved rates. The major government third-party payors (Medicare and Medicaid), as recognized by the HSCRC, are generally allowed discounts of 6% on approved rates, while other third-party payors, upon meeting specific requirements, are allowed discounts up to 4% on approved rates.

As discussed in note 10, the Company has a charge per case (CPC) agreement with the HSCRC. The CPC agreement establishes a prospectively approved average charge per inpatient case based upon an estimated case mix index. The agreement allows the Company to adjust approved unit rates, within certain limits, to achieve the average charge per case target. The HSCRC allows for certain corridors related to the approved rates such that variances within those corridors do not adversely impact the Company. In 2011, the HSCRC implemented a charge per visit (CPV) methodology for hospital based outpatient services, which is similar in nature to the CPC inpatient methodology discussed above. The CPV methodology establishes prospectively approved average charges per outpatient visit for a significant portion of outpatient services provided. The remaining outpatient services are charged using the established HSCRC unit rates. The Company's policy is to defer revenue above the approved amounts and beyond the approved corridors. In no event, to the extent an undercharge occurs, does the Company accrue additional revenue. No amounts were deferred at June 30, 2011 and 2010.

(l) Deferred Financing Costs

Costs incurred in connection with the issuance of long-term debt are amortized using the effective-interest method over the term of the related obligations. Accumulated amortization of long-term debt issuance costs amounted to $933,755 and $776,798 as of June 30, 2011 and 2010, respectively. Deferred financing costs net of accumulated amortization are $2,150,670 and $2,307,627 as of June 30, 2011 and 2010, respectively.

(m) Temporarily Restricted Net Assets

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

(n) Donor-Restricted Gifts

Unconditional promises to give cash and other assets to the Company are reported at fair value at the date the pledge is received. Conditional promises to give and indications of intentions to give are reported at fair value at the date the promise becomes unconditional or when the gift is received. The gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or the purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the accompanying consolidated statements of operations as net assets released from restrictions.

(o) Use of Estimates

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

(p) Charity Care

The Company provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. The Company's criteria for charity care consider the family income in relation to the federal poverty guidelines. Because the Company does not expect collection of amounts resulting from charity care services, they do not impact net revenue or accounts receivable. Estimated revenues foregone for charity care services provided in 2011 and 2010 were $1,762,608 and $1,841,767, respectively, based upon established rates.

(q) Income Taxes

CMC, CHF, and CHI were recognized as public charities generally exempt from federal income taxation under 501(c)(3) of the Internal Revenue Code pursuant to determination letters issued by the IRS in 1980, 1986, and 2001, respectively. Civista Care Partners, Inc. (CCP) is a for-profit entity subject to federal and state income taxes, which are recorded under FASB ASC Topic 740, *Accounting for Income Taxes* (ASC 740). Accordingly, income taxes are accounted for under the asset and liability method. Under this method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and credit carry forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

Deferred income taxes reflect the net effect of the temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and amounts used for income tax purposes. The Company recognized a net deferred tax asset of $123,509 at June 30, 2011 and 2010, respectively. Current income tax expense (benefit) was $0 and $(166,370) for the years ended June 30, 2011 and 2010, respectively. Deferred income tax expense (benefit) was $0 and $(311,340) for the years ended June 30, 2011 and 2010, respectively.

(r) Subsequent Events Review

Effective July 1, 2011, the Company entered into an affiliation agreement with University of Maryland Medical System, Inc. (UMMS), whereby UMMS became the sole corporate member of the Company. The residents of the region served by the Company will benefit from accelerated deployment of clinical programs and technologies and improved access to physicians. In accordance with the agreement, UMMS transferred to the Company approximately $4,000,000 to fund the purchase of the land subject to the existing ground lease on July 8, 2011, as well as transferred $2,500,000 and committed an additional $10,000,000 in future investments for operating and capital initiatives over the next five years.

Effective July 28, 2011, the Company purchased from the Charles County government the land, and the lease reversion rights associated with the leased buildings and certain fixed equipment, upon which the Medical Center operates for $4,280,000.

Management evaluated all events and transactions that occurred after June 30, 2011 and through October 11, 2011. Other than as described below, the Company did not have any material recognizable subsequent events during the period.

(s) New Accounting Pronouncements

In August 2010, the FASB issued Accounting Standards Update (ASU) No. 2010-23, *Health Care Entities (ASC Topic 954): Measuring Charity Care for Disclosure*. ASU 2010-23 is intended to reduce the diversity in practice regarding the measurement basis used in the disclosure of charity care. ASU 2010-23 requires that cost be used as the measurement basis for charity care disclosure purposes and that cost be identified as the direct and indirect cost of providing the charity care, and requires disclosure of the method used to identify or determine such costs. This ASU is effective for the Company on July 1, 2011. The adoption of ASU 2010-23 is not expected to have a material effect on the financial position and results of operations of the Company, but will change the Company's basis for disclosure.

In August 2010, the FASB issued ASU No. 2010-24, *Health Care Entities (ASC Topic 954): Presentation of Insurance Claims and Related Insurance Recoveries*. The amendments in the ASU clarify that a health care entity may not net insurance recoveries against related claim liabilities. In addition, the amount of the claim liability must be determined without consideration of insurance recoveries. This ASU is effective for the Company on July 1, 2011. The Company is still evaluating whether the adoption of ASU 2010-24 will have a material effect on the financial position of the Company, but is not expected to affect the results of operations of the Company.

In July 2011, the FASB issued ASU No. 2011-07, *Health Care Entities (ASC Topic 954): Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts, and the Allowance for Doubtful Accounts for Certain Health Care Entities*, which requires certain health care entities to change the presentation of their statement of operations to reclassify the provision for bad debts associated with patient service revenue from an operating expense to a deduction from patient service revenue. Those entities also are required to provide enhanced disclosure about their policies for recognizing revenue and assessing bad debts. The ASU requires disclosures about patient service revenue by major payor source, and qualitative and quantitative information about changes in the allowance for doubtful accounts. This ASU is effective for the Company on July 1, 2012.

Effective July 1, 2010, the Company adopted ASU 2009-17, *Consolidations (ASC Topic 810) – Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities*. This standard, which amended the VIE Subsections of ASC Subtopic 810-10, revised the test for determining the primary beneficiary of a VIE from a primarily quantitative risks and rewards calculation (which was based on the VIE's expected losses and expected residual returns) to a primarily qualitative analysis which is based on identifying the party or related-party group (if any) with (i) the power to direct the activities that most significantly impact the VIE's economic performance and (ii) the obligation to absorb losses of, or the right to receive benefits from, the VIE that could potentially be significant to the VIE. ASU 2009-17 also added a requirement to reconsider whether an entity is a VIE if the holders of the equity investment at risk as a group lose the power to direct the activities that most significantly impact the VIE's economic performance, and further requires a company to reassess on an ongoing basis whether it is deemed to be the primary beneficiary of a VIE. The adoption of ASU 2009-17 did not have a material effect on the financial position and results of operations of the Company.

As of July 1, 2010, the Company adopted the applicable provisions of ASU 2010-06, *Fair Value Measurements and Disclosure (ASC Topic 820) – Improving Disclosures about Fair Value Measurements*, which required new disclosures with respect to transfers into and out of Level 1 and Level 2 fair value measurements and the reasons for such transfers. The standard also required disclosure of activity in Level 3 fair value measurements on a gross basis rather than on a net basis. ASU 2010-06 also clarified certain existing disclosures concerning fair value measurements. The provisions of this standard were effective for years beginning after December 15, 2009 except for the disclosures regarding the roll forward of activity in Level 3 fair value measurements, which are effective for years beginning after December 15, 2010. The adoption of the applicable provisions of ASU 2010-06 did not have a material effect on the Company's financial position and results of operations.

(2) Concentrations of Credit Risk

The Company provides services to patients living principally in the Charles County, Maryland area. The majority of these patients have insurance through either a federal Medicare or state Medicaid program, commercial insurance organizations, or other insurance carriers.

The Company’s net patient service revenue, by payor classification, consisted of the following percentages for the years ended June 30:

	2011	2010
Medicare	39%	40%
Commercial	8	10
Medical assistance	12	12
Health maintenance organizations	11	10
Blue Cross	21	20
Self-pay and other	9	8
	100%	100%

The Company’s patient accounts receivable, by payor classification, consisted of the following percentages as of June 30:

	2011	2010
Medicare	24%	28%
Commercial	21	19
Medical assistance	10	11
Health maintenance organizations	4	5
Blue Cross	11	13
Self-pay and other (none more than 10%)	30	24
	100%	100%

(3) Investments

Investments consist of the following as of June 30:

	2011	2010
Equity securities	$ 1,467,373	—
Equity of private entity at cost	—	75,000
Equity mutual funds	—	41,220
Investment in limited partnership	51,902	40,331
	$ 1,519,275	156,551

The investment in limited partnership represents a multi-strategy fund designed to invest in various types of equity securities and is accounted for using the equity method of accounting. The Company sold its interest in the private entity in fiscal year 2011 and recognized a gain of $203,686, which is recognized in investment income in the consolidated financial statements.

(4) Assets Limited as to Use and Investment Income

Assets limited as to use consist of funds held by trustees and donor-restricted funds, all of which are unrestricted for use other than time restriction, that are invested in cash and cash equivalents, money market funds, and federal government-backed securities. Amounts required to meet current liabilities of the Company have been reclassified to current assets in the consolidated balance sheets as of June 30, 2011 and 2010. Assets limited as to use consist of the following as of June 30:

		2011	2010
Funds held by Trustees for capital improvements and debt service:			
Debt service reserve fund	$	4,524,721	4,514,151
Principal fund		590,256	575,229
Interest fund		1,378,325	1,424,105
Other		—	98,344
		6,493,302	6,611,829
Donor-restricted funds:			
Pledges receivable (note 5)		95,752	389,659
Beneficial interest in a trust		383,000	1,583,000
		478,752	1,972,659
Total assets limited as to use		6,972,054	8,584,488
Less current portion		2,309,007	3,502,632
	$	4,663,047	5,081,856

During 2009, Civista became the beneficiary of a certain trust. A majority of the assets of the trust were received in fiscal year 2011 and the remaining amount is expected to be received in fiscal year 2012.

Investment income comprises the following for the years ended June 30:

		2011	2010
Interest and dividend income	$	137,057	157,782
Net realized and unrealized gains (losses) on investments		17,642	(29,726)
	$	154,699	128,056

(Continued)

(5) Pledges Receivable

Pledges receivable included in assets limited as to use consist of the following as of June 30:

		2011	2010
Pledges receivable, net of unamortized discount of $7,374 and $23,398, respectively	$	378,037	774,816
Less allowance for uncollectible pledges		282,285	385,157
	$	95,752	389,659

Pledges receivable, categorized by year of expected collection, consist of the following:

2012	$	337,911
2013		47,500
	$	385,411

Pledges receivable are discounted at an average rate of 5% to reflect the time value of money.

(6) Property and Equipment and Lease Commitments

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

	Depreciable life		2011	2010
Land and land improvements	15 – 20 years	$	2,584,718	1,217,380
Building and building improvements	5 – 39 years		82,621,214	82,146,081
Fixed equipment	7 – 20 years		3,469,404	7,890,420
Major movable equipment	3 – 15 years		25,396,459	34,531,121
Construction in progress			272,843	294,805
			114,344,638	126,079,807
Less accumulated depreciation			41,516,885	54,693,028
		$	72,827,753	71,386,779

Depreciation expense for the years ended June 30, 2011 and 2010 was $4,555,661 and $5,195,682, respectively. Amortization expense for the years ended June 30, 2011 and 2010 was $207,816 and $207,968, respectively.

The Company leases office space and equipment under operating lease arrangements expiring through 2026.

The future minimum lease payments of operating leases under noncancelable lease terms, in excess of one year, are as follows:

Year ending June 30:		
2012	$	1,077,712
2013		555,807
2014		514,293
2015		204,702
2016		210,844
Thereafter		2,538,240
	$	5,101,598

Rent expense for operating leases was $1,935,996 and $2,619,427 for the years ended June 30, 2011 and 2010, respectively.

(7) Investments in Joint Ventures

The Company has investments in joint ventures, accounted for using the cost or equity method, aggregating $3,035,364 and $2,910,139 as of June 30, 2011 and 2010, respectively, in the following:

Joint venture	Type of organization	Business purpose	Percent ownership 2011	Percent ownership 2010
Chesapeake-Potomac Healthcare Alliance (CPHA)	Not-for-profit	Healthcare related services	33.0%	33.0%
Ambulatory Surgery Center, Inc. (ASC)	For-profit	Ambulatory surgical services	50.0	50.0
NRH/CPT/St. Mary's/Civista Regional Rehab, LLC (Rehab)	For-profit	Medical, rehabilitative, and therapy services	15.0	15.0
Freestate Healthcare Insurance Company, LTD (Malpractice Captive)	For-profit	Malpractice insurance	16.7	16.7
Maryland eCare, LLC (eCare)	Not-for-profit	Remote monitoring technology	14.1	14.1
Premier, Inc. (Premier)	For-profit	Purchasing cooperative	—	0.6

The Company's investment balance and equity in earnings (proportionate share of losses) of the joint ventures as of and for the years ended June 30 are as follows:

	Investment balance		Equity in earnings (losses)	
	2011	**2010**	**2011**	**2010**
CPHA	$ 2,867,151	2,403,544	463,607	(32,725)
ASC	135,781	446,618	(310,836)	329,399
Rehab	6,991	20,895	6,021	3,762
Malpractice captive	15,441	15,441	—	—
Premier	—	13,641	226,439	55,370
eCare	10,000	10,000	—	—
Total	$ 3,035,364	2,910,139	385,231	355,806

Summary combined financial information (unaudited) for these joint ventures as of and for the years ended June 30 is as follows:

	2011	**2010**
Current assets	$ 39,449,272	39,730,614
Noncurrent assets	11,958,632	12,013,336
Total assets	$ 51,407,904	51,743,950
Current liabilities	$ 35,900,998	36,364,171
Noncurrent liabilities	3,967,331	5,107,495
Net assets	11,539,575	10,272,284
Total liabilities and net assets	$ 51,407,904	51,743,950
Total operating revenue	$ 19,925,767	21,927,255
Total operating expense	19,300,973	21,021,753
Total operating income	$ 624,794	905,502

(8) Note Payable

The Company maintains a line of credit that provides for up to $9,500,000 borrowing with an interest rate equal to the higher of 5% or the Wall Street Journal Prime Rate plus 0.25%, to be paid monthly on amounts borrowed. The line is secured on a parity basis by the same pledge of receipts and deed of trust securing the Series 2005 Bonds. Pursuant to the financial covenants regarding short-term debt in the Master Loan Agreement, the principal amount of all outstanding advances from the line of credit must be fully repaid for at least 15 days during any 12-month period. On December 22, 2010, Civista borrowed $9,500,000 under the line and repaid the amount borrowed in full on January 10, 2011 and did not access the line of credit until June 27, 2011, when $9,500,000 was borrowed, which was repaid in full on July 5, 2011. The line of credit was renewed through July 31, 2012.

The outstanding balance under the applicable line of credit facilities was $9,500,000 as of June 30, 2011 and 2010, respectively. The corresponding interest rate was 5% at June 30, 2011 and 2010, respectively.

(9) Long-Term Debt

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

	2011	2010
Maryland Health and Higher Educational Facilities Authority (MHHEFA) Revenue Bonds (Series 2005), interest payable semi-annually at rates of interest ranging from 3% to 5%, principal payable annually through July 2037	$ 57,330,000	57,905,000
2004 loan payable to Charles County Government, principal and interest payable monthly at a rate of 3.05% through March 2021	10,508,436	11,420,214
Promissory note payable to Grandbridge Real Estate Capital, principal and interest payable monthly beginning January 2005 at a rate of 5.70% through December 2014 secured by mortgage on the building	4,688,404	4,905,627
Promissory note payable to Patricia Anthony Sanchez, principal and interest payable monthly beginning September 2010 at a rate of 6.50% through August 2025	966,241	—
Promissory note payable to Bearcub, principal and interest payable monthly beginning April 2011 at a rate of 3.75% through March 2016	381,728	—
	73,874,809	74,230,841
Series 2005 bond premium $748,115, net of accumulated amortization	600,947	624,041
	74,475,756	74,854,882
Less current portion	1,877,165	1,701,692
Long-term debt, less current portion	$ 72,598,591	73,153,190

The Series 2005 Bonds are comprised of the following components as of June 30, 2011:

Type	Amount	Due dates
Serial	$ 6,955,000	Annually from 2011 – 2020
Term	7,900,000	July 1, 2024
Term	10,425,000	July 1, 2028
Term	32,050,000	July 1, 2037
	$ 57,330,000	

The Term Bonds are subject to annual sinking fund requirements through July 2037.

The Series 2005 Bond proceeds were loaned to CMC pursuant to a Master Loan Agreement (MLA) with MHHEFA to fund the costs of a construction and renovation project at the Medical Center, which was completed in 2007, pay the issuance costs related to the Series 2005 Bonds, pay interest during the construction period, and fund a trustee-held debt service reserve fund. The payment of principal and interest on the Series 2005 Bonds is insured by Radian Asset Assurance Inc. (Radian).

CMC is the sole member of the Obligated Group as defined in the MLA. As security for repayment of its obligations under the MLA, CMC granted to MHHEFA a security interest in substantially all of its receipts. In addition, the Series 2005 Bonds are secured by a deed of trust in certain assets of the Medical Center, including land, leasehold interest, and tangible personal property.

The MLA requires the Obligated Group to adhere to certain covenants, including limitations on mergers, disposition of assets, additional indebtedness, and certain financial covenants. The financial covenants include a rate covenant which requires CMC to achieve a debt service coverage ratio of 1.25 times, as of the last day of each fiscal year, and a Liquidity Covenant, which requires CMC to maintain 65 days cash on hand, measured as of December 31 and June 30 in each fiscal year.

In 2004, CMC borrowed $15,000,000 from the County Commissioners of Charles County. The loan is secured by a deed of trust on certain real property of the Medical Center. Repayment of this loan is subordinate to repayment of debt under the MLA and the note payable described in note 8.

The scheduled annual maturities of long-term debt for the next five years and thereafter are as follows as of June 30, 2011:

2012	$ 1,877,165
2013	1,946,298
2014	2,016,753
2015	5,772,891
2016	1,857,266
Thereafter	60,404,436
	$ 73,874,809

(10) Maryland Health Services Cost Review Commission (HSCRC)

The Company is subject to the HSCRC charge per case methodology (CPC) for inpatient services. This CPC agreement establishes a prospectively approved average charge per inpatient case (inpatient cases are defined as hospital admissions plus births) and an estimated case mix index. The approved CPC targets are adjusted during the rate year for actual changes in case mix. The CPC agreement allows the hospital to adjust approved unit rates, within certain limits, to achieve the average charge per case target for each rate year ending June 30. Changes in the CPC targets are made prospectively commencing on July 1 of each year based on the case mix index experienced in the preceding 12-month period ended June 30, as well as inflation and other factors.

Due to the nature of the CPC methodology, significant estimates are required to manage revenue amounts in compliance with the approved targets. The HSCRC allows for certain corridors related to the approved rates such that variances within these corridors do not adversely impact the hospital. To the extent these corridors are not attained, hospitals may be subject to monetary penalties, as well as reductions of future rate increases or forfeiture of rates not charged, in the case of an undercharge.

(11) Advances from Third-Party Payors

Advances from third-party payors represent funds advanced from CareFirst Blue Cross Blue Shield, the State of Maryland and others in order for them to qualify for discounts on billed charges, and are subject to periodic adjustment.

		2011	2010
CareFirst Blue Cross Blue Shield	$	1,848,800	1,209,200
State of Maryland/Medicaid		438,776	438,570
Aetna		470,145	306,684
United Healthcare/MAMSI		652,059	286,157
	$	3,409,780	2,240,611

(12) Pension Plan

The Company has a defined benefit cash balance pension plan covering employees that have worked at least 1,000 hours per year during three or more plan years. Plan benefits are accumulated based upon a combination of years of service and percent of annual compensation. The Company makes annual contributions to the plan based upon amounts required to be funded under provisions of the Employee Retirement Income Security Act of 1974 (ERISA). Contributions are intended to provide not only for benefits attributed to service to date but also for those expected to be earned in the future. Pension assets are invested primarily in short-term and intermediate-term, fixed income, and stock market index funds.

The Company uses a June 30 measurement date for its plan.

The following table sets forth the changes in the benefit obligation as of and for the year ended June 30:

		2011	2010
Benefit obligation at beginning of year	$	23,325,386	18,409,673
Service cost		647,561	546,023
Interest cost		1,188,104	1,160,525
Actuarial (gain) loss		(1,229,593)	3,779,676
Benefits paid		(672,963)	(570,511)
Benefit obligation at the end of the year	$	23,258,495	23,325,386

The following table sets forth the changes in the plan assets as of and for the year ended June 30:

		2011	2010
Fair value of plan assets at beginning of the year	$	15,322,246	13,118,063
Actual gain on plan assets		3,195,652	1,668,612
Employer contribution		1,215,674	1,106,082
Benefits paid		(672,963)	(570,511)
Fair value of plan assets at end of the year	$	19,060,609	15,322,246
Funded status and accrued benefit cost	$	(4,197,886)	(8,003,140)
Accumulated benefit obligation at measurement date	$	22,060,768	21,992,473

The amounts recognized in unrestricted net assets consist of the following as of June 30:

		2011	2010
Net actuarial loss	$	4,621,997	8,316,263
Prior service credit		(93,265)	(104,924)
Net amount recognized	$	4,528,732	8,211,339

The components of the net periodic benefit cost recognized in operating expenses consist of the following for the years ended June 30:

		2011	2010
Service cost	$	647,561	546,023
Interest cost		1,188,104	1,160,525
Expected return on plan assets		(1,176,448)	(1,074,324)
Amortization of prior service credit		(11,658)	(11,658)
Recognized net actuarial loss		445,469	371,376
Net periodic benefit cost	$	1,093,028	991,942

The weighted average assumptions used in the accounting for the benefit obligation are as follows as of June 30:

	2011	2010
Discount rates	5.60%	5.50%
Rate of compensation increase	3.00	3.25

(Continued)

The weighted average assumptions used in the accounting for the net periodic benefit cost for the years ended June 30 are as follows:

	2011	2010
Discount rate	5.50%	6.40%
Expected long-term return on plan assets	7.50	8.00
Rate of compensation increase	3.25	3.25

The overall rate of expected return on assets assumption was based on historical returns, with adjustments made to reflect expectations of future events.

The asset allocation for the Company's pension benefits and post-retirement benefits as of the June 30, 2011 and 2010 measurement date are as follows:

	2011	2010
Cash equivalents	$ 106,801	108,370
Equity mutual funds	11,504,177	8,637,853
Fixed income mutual funds	7,449,631	6,576,023
	$ 19,060,609	15,322,246

Actual asset allocations approximated the targets as of June 30, 2011 and 2010.

The Company expects to contribute $1,387,868 to the plan in 2012.

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid from plan assets for the years ended June 30:

2012	$ 730,757
2013	750,543
2014	798,997
2015	848,047
2016	880,942
Thereafter	5,724,225
	$ 9,733,511

The Company expects to recognize $104,737 of net periodic benefit cost during fiscal 2012 for amounts in unrestricted net assets as of June 30, 2011.

The expected benefits to be paid are based on the same assumptions used to measure the Company's benefit obligation as of June 30, 2011.

(13) Related-Party Transactions

At June 30, 2011, the County owned a portion of the land, buildings and certain fixed equipment upon which the Medical Center operates. The Company purchased such assets in July 2011 (see note 1(r)).

Under the associated lease of the above assets, the Company and the County were party to an agreement concerning the rights, duties, and responsibilities of each party with respect to the operation and management of CMC. The agreement's maturity date was initially 2045, but the Company terminated the lease in July 2011 (see note 1(r) on purchase of assets).

In November 2004, CCP through its subsidiary, Cambridge, purchased the property within which the Ambulatory Surgery Center is located. Rental income charged to the Ambulatory Surgery Center approximates $386,112 per year and is included in other revenue in the related consolidated statement of operations. The lease agreement between Cambridge and the Ambulatory Surgery Center expired on November 2010 and is currently maintained on a month-to-month basis at the same rent amount.

(14) Commitments and Contingent Liabilities

(a) Medical Malpractice Insurance Coverage

Effective March 2005, the Company formed an insurance captive, Freestate Healthcare Insurance Company, Ltd. (the Captive), with eight other member hospitals (currently six hospitals participate in the Captive) (note 7). The insurance policy with the Captive covers the Company on a claims-made basis for general and professional liability claims against the Company with limits ranging from $2 million to $11 million. Prior to March 2005, the Company carried commercial claims-made liability insurance coverage. The Company has accrued $1,500,112 and $1,244,304 for claims incurred but not reported as of June 30, 2011 and 2010, respectively. These liabilities are recorded on an undiscounted basis and are included in accrued expenses and other current liabilities.

(b) Workers Compensation Insurance

On July 1, 1993, the Company entered into a trust and indemnity agreement (the Trust) with certain member hospitals of the Maryland Hospital Association (MHA). The Trust was established to enable group member hospitals to collectively insure their workers compensation and employers' liability insurance claims and administrative costs. All of the Company's payments to the trust have been treated as a period expense.

(c) Litigation

The Company is subject to certain legal proceedings and claims arising in the ordinary course of business. After consultation with legal counsel, it is management's opinion that the ultimate resolution of these claims will not have a material adverse effect on the Company's financial position.

(d) Employee Health Insurance

The Company is self-insured against employee medical claims. Plan expenses include claims incurred and provisions for unreported claims. The Company has accrued approximately $1,434,998 and $1,063,226 in accrued expenses and other current liabilities as of June 30, 2011 and 2010,

(Continued)

respectively, to provide for costs of unpaid employee medical claims and claims incurred but not reported as of that date. The program maintains a commercial insurance policy providing stop loss protection on an individual and annual aggregate basis.

(15) Fair Value Measurements

The carrying amounts reported in the consolidated balance sheets approximate the related fair values for cash and cash equivalents, accounts receivable, assets limited as to use, investments, accounts payable, accrued expenses, and advances from third-party payors.

Long-term debt: The fair value of the long-term debt, based on quoted market prices for the same or similar issues, as of June 30, 2011 was approximately $46,135,612 for the Series 2005 Bonds. For the remaining long-term debt, the carrying amounts reported in the consolidated balance sheet approximate the related fair values.

The Company adopted ASC Topic 820, *Fair Value Measurements and Disclosures* (ASC 820), on July 1, 2008 for fair value measurements of financial assets and financial liabilities and for fair value measurements of nonfinancial items that are recognized or disclosed at fair value in the financial statements on a recurring basis. The Company did not elect to use the fair value option for any of its financial or nonfinancial liabilities or nonfinancial assets. ASC Topic 820 establishes a fair value hierarchy that prioritizes the inputs to the valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

> Level 1 – Inputs are unadjusted quoted prices in active markets for identical assets or liabilities that the Company has the ability to access at the measurement date.
>
> Level 2 – Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly.
>
> Level 3 – Inputs are unobservable inputs for the asset or liability.

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

The following table presents assets that are measured at fair value on a recurring basis, including items that are required to be measured at fair value at June 30, 2011 and 2010:

	Fair value measurements at June 30, 2011			
	Quoted prices in active markets for identical assets (Level 1)	**Significant observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**	**Total**
Cash and cash equivalents:				
Money market	$ 2,041,711	—	—	2,041,711
Equity securities	1,280,920	—	—	1,280,920
Fixed income securities:				
U.S. treasuries	129,949	—	—	129,949
U.S. government agency backed	4,508,095	—	—	4,508,095
Beneficial interest in a trust	—	383,000	—	383,000
Total	$ 7,960,675	383,000	—	8,343,675

	Fair value measurements at June 30, 2010			
	Quoted prices in active markets for identical assets (Level 1)	**Significant observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**	**Total**
Cash and cash equivalents:				
Cash	$ 98,344	—	—	98,344
Money market	647,523	—	—	647,523
Fixed income securities:				
U.S. treasuries	1,354,000	—	—	1,354,000
U.S. government agency backed	4,511,962	—	—	4,511,962
Equity mutual funds	41,220	—	—	41,220
Beneficial interest in a trust	—	1,583,000	—	1,583,000
Total	$ 6,653,049	1,583,000	—	8,236,049

During the year ended June 30, 2011, there was a significant transfer of $1,200,000 from Level 2 to Level 1 due to the receipt of funds from a trust in which the Company has a beneficial interest; and such funds were used to purchase Level 1 equity securities. In addition, there were no significant transfers between Levels 1, 2, and 3 during the year ended June 30, 2010.

The following table presents the Company's pension benefits and post-retirement benefits at fair value at June 30, 2011 and 2010:

	Fair value measurement at June 30, 2011		
	Quoted prices in active markets for identical assets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Asset category:			
Cash equivalents	$ 106,801	—	—
Equity mutual funds	11,504,177	—	—
Fixed income mutual funds	7,449,631	—	—
Total	$ 19,060,609	—	—

	Fair value measurements at June 30, 2010		
	Quoted prices in active markets for identical assets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Asset category:			
Cash equivalents	$ 108,370	—	—
Equity mutual funds	8,637,853	—	—
Fixed income mutual funds	6,576,023	—	—
Total	$ 15,322,246	—	—

(16) Functional Expenses

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

	2011	2010
Program services	$ 79,297,470	77,112,110
Management and general	27,125,174	28,914,957
	$ 106,422,644	106,027,067

SUPPLEMENTAL SCHEDULES

Schedule 1

CIVISTA HEALTH INC. AND SUBSIDIARIES

Consolidating Balance Sheet Information

June 30, 2011

Assets		**Civista Health, Inc.**	**Civista Medical Center, Inc.**	**Civista Care Partners, Inc. and Subsidiary**	**Civista Health Foundation, Inc.**	**Eliminations**	**Total**
Current assets:							
Cash and cash equivalents	$	—	33,434,372	435,678	34,872	—	33,904,922
Patient accounts receivable, net		—	9,697,092	234,287	—	—	9,931,379
Assets limited as to use		—	1,926,007	—	383,000	—	2,309,007
Due from affiliates		80,306	3,756,050	4,818,288	247,418	(8,902,062)	—
Other receivables		245,026	36,936	167,533	—	—	449,495
Inventories		—	1,533,556	—	—	—	1,533,556
Prepaid expenses		—	895,718	38,081	1,128	—	934,927
Total current assets		325,332	51,279,731	5,693,867	666,418	(8,902,062)	49,063,286
Investments		—	—	—	1,519,275	—	1,519,275
Beneficial interest in net assets of CHF		—	3,952,676	—	—	(3,952,676)	—
Assets limited as to use, net of current portion		—	4,567,295	—	95,752	—	4,663,047
Property and equipment, net		2,082,248	63,118,976	5,910,151	1,716,378	—	72,827,753
Investments in joint ventures		—	2,892,592	142,772	—	—	3,035,364
Deferred financing costs		—	2,150,670	—	—	—	2,150,670
Other assets		287,094	226,273	547,514	—	—	1,060,881
Total assets	$	2,694,674	128,188,213	12,294,304	3,997,823	(12,854,738)	134,320,276
Liabilities and Net Assets							
Current liabilities:							
Current portion of long-term debt	$	117,816	1,529,965	229,384	—	—	1,877,165
Note payable		—	9,500,000	—	—	—	9,500,000
Due to affiliates		1,250,709	432,122	7,219,231	—	(8,902,062)	—
Accounts payable		5,496	9,832,870	318,095	45,147	—	10,201,608
Accrued interest payable		—	1,336,007	—	—	—	1,336,007
Accrued expenses and other current liabilities		—	6,755,400	81,898	—	—	6,837,298
Advances from third-party payors		—	3,409,780	—	—	—	3,409,780
Total current liabilities		1,374,021	32,796,144	7,848,608	45,147	(8,902,062)	33,161,858
Long-term debt, net of current portion		1,230,155	66,909,418	4,459,018	—	—	72,598,591
Accrued pension costs		—	4,197,886	—	—	—	4,197,886
Total liabilities		2,604,176	103,903,448	12,307,626	45,147	(8,902,062)	109,958,335
Net assets:							
Unrestricted net assets		90,498	23,796,141	(13,322)	3,464,052	(3,464,052)	23,873,317
Temporarily restricted net assets		—	488,624	—	488,624	(488,624)	488,624
Total net assets		90,498	24,284,765	(13,322)	3,952,676	(3,952,676)	24,361,941
	$	2,694,674	128,188,213	12,294,304	3,997,823	(12,854,738)	134,320,276

See accompanying independent auditors' report.

Schedule 2

CIVISTA HEALTH INC. AND SUBSIDIARIES

Consolidating Statement of Operations and Changes in Unrestricted Net Assets Information

Year ended June 30, 2011

	Civista Health, Inc.	Civista Medical Center, Inc.	Civista Care Partners, Inc. and Subsidiary	Civista Health Foundation, Inc.	Eliminations	Total
Revenues:						
Net patient service revenue	$ —	103,083,915	2,268,598	—	—	105,352,513
Other revenue	24,536	634,516	1,028,879	489,302	(223,699)	1,953,534
Nonmonetary contribution from Charles County	—	1,306,536	—	—	—	1,306,536
Total revenues	24,536	105,024,967	3,297,477	489,302	(223,699)	108,612,583
Expenses:						
Salaries and wages	—	41,138,065	1,754,878	178,189	—	43,071,132
Employee benefits	—	7,951,952	240,789	29,522	—	8,222,263
Purchased services	29,746	5,491,628	364,128	18,447	—	5,903,949
Professional fees	—	3,052,046	—	—	(199,163)	2,852,883
Supplies and drugs	—	17,088,729	116,373	1,177	—	17,206,279
Depreciation and amortization	28,785	4,454,143	264,053	16,496	—	4,763,477
Administrative expenses	13,789	7,356,468	581,685	345,902	(24,536)	8,273,308
Provision for uncollectible accounts	—	7,208,495	41,250	—	—	7,249,745
Interest	57,045	3,175,167	277,833	—	—	3,510,045
Utilities and maintenance	8,359	3,867,719	173,648	13,301	—	4,063,027
Facilities use charge	—	1,306,536	—	—	—	1,306,536
Total expenses	137,724	102,090,948	3,814,637	603,034	(223,699)	106,422,644
(Loss) income from operations	(113,188)	2,934,019	(517,160)	(113,732)	—	2,189,939
Nonoperating income (loss):						
Equity in earnings (loss) of joint ventures	203,686	486,361	(304,816)	—	—	385,231
Change in beneficial interest in foundation	—	1,101,442	—	—	(1,101,442)	—
Unrestricted gifts	—	—	—	1,200,000	—	1,200,000
Investment income	—	139,525	—	15,174	—	154,699
Other nonoperating expenses	—	(67,842)	—	—	—	(67,842)
Nonoperating income (loss)	203,686	1,659,486	(304,816)	1,215,174	(1,101,442)	1,672,088
Excess (deficiency) of revenues over expenses	90,498	4,593,505	(821,976)	1,101,442	(1,101,442)	3,862,027
Change in funded status of defined benefit plan	—	3,682,607	—	—	—	3,682,607
Net assets released from restriction used for purchases of property and equipment	—	1,854,888	—	1,585,736	(1,585,736)	1,854,888
Increase (decrease) in unrestricted net assets	$ 90,498	10,131,000	(821,976)	2,687,178	(2,687,178)	9,399,522

See accompanying independent auditors' report.

Schedule 3

CIVISTA HEALTH INC. AND SUBSIDIARIES

Consolidating Balance Sheet Information

June 30, 2010

Assets	Civista Medical Center, Inc.	Civista Care Partners, Inc. and Subsidiary	Civista Health Foundation, Inc.	Eliminations	Total
Current assets:					
Cash and cash equivalents	$ 29,116,659	305,293	56,255	—	29,478,207
Patient accounts receivable, net	10,886,077	378,926	—	—	11,265,003
Assets limited as to use	1,919,632	—	1,583,000	—	3,502,632
Due from affiliates	1,908,660	—	570,715	(2,479,375)	—
Other receivables	35,480	180,828	1,650,000	—	1,866,308
Inventories	1,588,468	—	—	—	1,588,468
Prepaid expenses	854,589	185,247	2,800	—	1,042,636
Total current assets	46,309,565	1,050,294	3,862,770	(2,479,375)	48,743,254
Investments	75,000	—	81,551	—	156,551
Beneficial interest in net assets of CHF	4,409,405	—	—	(4,409,405)	—
Assets limited as to use, net of current portion	4,593,853	—	488,003	—	5,081,856
Property and equipment, net	65,421,049	5,963,184	2,546	—	71,386,779
Investments in joint ventures	2,442,626	467,513	—	—	2,910,139
Deferred financing costs	2,307,627	—	—	—	2,307,627
Other assets	133,719	601,697	—	—	735,416
Total assets	$ 125,692,844	8,082,688	4,434,870	(6,888,780)	131,321,622
Liabilities and Net Assets					
Current liabilities:					
Current portion of long-term debt	$ 1,484,469	217,223	—	—	1,701,692
Note payable	9,500,000	—	—	—	9,500,000
Due to affiliates	570,715	1,908,660	—	(2,479,375)	—
Accounts payable	10,155,811	297,280	25,465	—	10,478,556
Accrued interest payable	1,344,632	—	—	—	1,344,632
Accrued expenses and other current liabilities	6,631,009	162,467	—	—	6,793,476
Advances from third-party payors	2,240,611	—	—	—	2,240,611
Total current liabilities	31,927,247	2,585,630	25,465	(2,479,375)	32,058,967
Long-term debt, net of current portion	68,464,786	4,688,404	—	—	73,153,190
Accrued pension costs	8,003,140	—	—	—	8,003,140
Total liabilities	108,395,173	7,274,034	25,465	(2,479,375)	113,215,297
Net assets:					
Unrestricted net assets	13,665,141	808,654	776,875	(776,875)	14,473,795
Temporarily restricted net assets	3,632,530	—	3,632,530	(3,632,530)	3,632,530
Total net assets	17,297,671	808,654	4,409,405	(4,409,405)	18,106,325
	$ 125,692,844	8,082,688	4,434,870	(6,888,780)	131,321,622

See accompanying independent auditors’ report.

Schedule 4

CIVISTA HEALTH INC. AND SUBSIDIARIES

Consolidating Statement of Operations and Changes in Unrestricted Net Assets Information

Year ended June 30, 2010

	Civista Medical Center, Inc.	Civista Care Partners, Inc. and Subsidiary	Civista Health Foundation, Inc.	Eliminations	Total
Net patient service revenue	$ 101,981,695	2,378,168	—	—	104,359,863
Other revenue	521,166	904,434	421,706	—	1,847,306
Nonmonetary contribution from Charles County	1,268,484	—	—	—	1,268,484
Total revenues	103,771,345	3,282,602	421,706	—	107,475,653
Expenses:					
Salaries and wages	41,352,164	1,885,830	172,238	—	43,410,232
Employee benefits	7,457,620	264,131	12,422	—	7,734,173
Purchased services	5,587,306	239,485	18,424	—	5,845,215
Professional fees	2,175,265	—	—	—	2,175,265
Supplies and drugs	16,151,457	105,186	2,403	—	16,259,046
Depreciation and amortization	5,149,234	253,668	748	—	5,403,650
Administrative expenses	9,546,325	322,074	205,338	—	10,073,737
Provision for uncollectible accounts	5,315,173	63,833	—	—	5,379,006
Interest	3,227,565	290,082	—	—	3,517,647
Utilities and maintenance	4,858,451	100,049	2,112	—	4,960,612
Facilities use charge	1,268,484	—	—	—	1,268,484
Total expenses	102,089,044	3,524,338	413,685	—	106,027,067
Income (loss) from operations	1,682,301	(241,736)	8,021	—	1,448,586
Nonoperating income (loss):					
Equity in earnings of joint ventures	22,645	333,161	—	—	355,806
Change in beneficial interest in foundation	36,002	—	—	(36,002)	—
Investment income (loss)	131,108	—	(3,052)	—	128,056
Other nonoperating expenses	(11,111)	—	—	—	(11,111)
Nonoperating income (loss)	178,644	333,161	(3,052)	(36,002)	472,751
Excess of revenues over expenses	1,860,945	91,425	4,969	(36,002)	1,921,337
Change in funded status of defined benefit plan	(2,825,671)	—	—	—	(2,825,671)
Net assets released from restriction used for purchases of property and equipment	238,783	—	—	—	238,783
Contributions of property and equipment	—	—	31,033	—	31,033
(Decrease) increase in unrestricted net assets	$ (725,943)	91,425	36,002	(36,002)	(634,518)

See accompanying independent auditors’ report.