COHEN
RUTHERFORD
+ KNIGHT PC
Certified Public Accountants

Audited Consolidated Financial Statements

Calvert Health System, Inc. and Subsidiaries

June 30, 2013 and 2012

Calvert Health System, Inc. and Subsidiaries

Consolidated Financial Statements
Years Ended June 30, 2013 and 2012

-Contents-

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Independent Auditor's Report

Audit Committee of the Board of Directors of
Calvert Health System, Inc.

We have audited the accompanying consolidated financial statements of Calvert Health System, Inc. and Subsidiaries (the System) which comprise the consolidated statements of financial position as of June 30, 2013 and 2012, and related consolidated statements of operations and other changes in unrestricted net assets, changes in net assets, and cash flows for the years then ended and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Calvert Health System, Inc. and Subsidiaries as of June 30, 2013 and 2012, and the consolidated results of their 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.

Emphasis of Matter

As described in *Note 1* to the consolidated financial statements, the System changed its presentation of provision for bad debts as a result of the adoption of Accounting Standards Update No. 2011-07, *Health Care Entities: Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts and Allowance for Doubtful Accounts for Certain Health Care Entities*.

Cohen, Rutherford + Knight, P.C.

October 16, 2013
Bethesda, Maryland

Calvert Health System, Inc. and Subsidiaries
Consolidated Statements of Financial Position

	June 30	
	2013	**2012**
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 22,155,994	$ 21,127,718
Short-term investments -- Note 3	46,016	106,741
Patient accounts receivable, net of allowance for uncollectible accounts of $3,673,659 in 2013 and $3,991,363 in 2012 -- Note 10	13,886,125	13,477,902
Inventories	2,279,557	2,331,589
Prepaid expenses and other assets	2,312,080	3,457,187
Assets to be sold -- Note 5	20,105,228	0
Assets limited as to use, current -- Note 3	1,003,543	2,295,170
TOTAL CURRENT ASSETS	61,788,543	42,796,307
INVESTMENTS AND OTHER ASSETS		
Investments -- Note 3	62,278,070	51,185,385
Investments in affiliated enterprises -- Note 2	3,788,824	4,550,639
Assets limited as to use -- Notes 3 and 13	6,941,896	6,695,483
Property and equipment, net -- Note 5	63,567,308	86,316,153
Insurance recoverable -- Note 8	7,064,435	3,696,401
Other assets	507,567	554,158
TOTAL ASSETS	$ 205,936,643	$ 195,794,526
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	$ 15,435,660	$ 16,299,959
Current portion of long-term debt -- Note 6	7,921,567	895,000
Advances from third party payors	3,708,463	4,712,571
TOTAL CURRENT LIABILITIES	27,065,690	21,907,530
Long-term debt, less current portion -- Note 6	49,169,178	58,279,352
Accrued pension cost -- Note 7	5,727,143	10,331,636
Professional liability -- Note 8	8,200,936	4,724,811
Other long-term liabilities	2,209,982	2,321,392
TOTAL LIABILITIES	92,372,929	97,564,721
NET ASSETS		
Unrestricted - general	108,770,513	93,978,729
Unrestricted - board designated	3,020,774	2,822,631
Unrestricted - noncontrolling interest in subsidiary	334,605	359,928
Temporarily restricted -- Note 4	628,893	410,299
Permanently restricted -- Note 4	808,929	658,218
TOTAL NET ASSETS	113,563,714	98,229,805
TOTAL LIABILITIES AND NET ASSETS	$ 205,936,643	$ 195,794,526

See the accompanying notes to the consolidated financial statements.

Calvert Health System, Inc. and Subsidiaries
Consolidated Statements of Operations and Other Changes in Unrestricted Net Assets

	Year Ended June 30	
	2013	2012
REVENUE		
Patient service revenue (net of contractual allowances and discounts) -- Note 10	$ 133,200,707	$ 126,525,095
Provision for bad debts	(1,672,964)	(1,171,589)
Net patient service revenue less provision for bad debts	131,527,743	125,353,506
Rental revenue -- Note 12	2,580,638	2,603,541
Other operating revenue	4,335,633	6,405,104
TOTAL OPERATING REVENUE	138,444,014	134,362,151
EXPENSES -- Note 11		
Salaries and wages	59,460,156	57,439,686
Employee benefits -- Note 7	12,851,757	11,892,140
Supplies	22,865,556	23,364,153
Purchased services	6,833,381	7,116,863
Professional fees	4,798,430	4,597,580
Depreciation and amortization -- Note 5	9,845,630	9,128,173
Interest -- Note 6	2,421,409	2,999,795
Other -- Note 12	15,399,014	15,208,063
TOTAL OPERATING EXPENSES	134,475,333	131,746,453
INCOME FROM OPERATIONS	3,968,681	2,615,698
NONOPERATING GAINS		
Investment income -- Note 3	3,199,581	1,625,940
Income from equity investments	439,511	447,407
Loss on extinguishment of debt	(498,204)	0
NONOPERATING GAINS, NET	3,140,888	2,073,347
EXCESS OF REVENUE OVER EXPENSES	7,109,569	4,689,045
Transfer of net assets	0	(250)
Net assets released from restrictions for capital acquisitions	219,129	59,881
Distributions to noncontrolling interest holders	(98,000)	(142,100)
Pension-related changes other than net periodic pension cost -- Note 7	4,152,279	(6,291,848)
Cumulative effect of change in accounting principle -- Note 8	0	(1,028,410)
Net unrealized gains (losses) on marketable investments -- Note 3	3,581,627	(2,048,340)
INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS	$ 14,964,604	$ (4,762,022)

See the accompanying notes to consolidated financial statements.

Calvert Health System, Inc. and Subsidiaries
Consolidated Statements of Changes in Net Assets

	Unrestricted	Noncontrolling Interest	Temporarily Restricted	Permanently Restricted	Total
NET ASSETS, JUNE 30, 2011	$ 101,500,168	$ 423,142	$ 361,041	$ 650,155	$ 102,934,506
Excess of revenue over expenses	4,610,159	78,886	0	0	4,689,045
Transfer of net assets	(250)	0	250	0	0
Contributions	0	0	640,892	0	640,892
Net assets released from restrictions for capital acquisitions	59,881	0	(59,881)	0	0
Net assets released from restrictions to fund operating programs	0	0	(532,003)	0	(532,003)
Distributions to noncontrolling interest in subsidiary	0	(142,100)	0	0	(142,100)
Investment income on restricted net assets -- Note 3	0	0	0	17,261	17,261
Pension-related changes other than net periodic pension cost -- Note 7	(6,291,848)	0	0	0	(6,291,848)
Cumulative effect of change in accounting principle -- Note 8	(1,028,410)	0	0	0	(1,028,410)
Net unrealized losses on marketable investments -- Note 3	(2,048,340)	0	0	(9,198)	(2,057,538)
Increase (decrease) in net assets	(4,698,808)	(63,214)	49,258	8,063	(4,704,701)
NET ASSETS, JUNE 30, 2012	$ 96,801,360	$ 359,928	$ 410,299	$ 658,218	$ 98,229,805
Excess of revenue over expenses	7,036,892	72,677	0	0	7,109,569
Transfer of net assets	0	0	42,100	(42,100)	0
Contributions	0	0	836,099	55,772	891,871
Net assets released from restrictions for capital acquisitions	219,129	0	(219,129)	0	0
Net assets released from restrictions to fund operating programs	0	0	(440,476)	0	(440,476)
Distributions to noncontrolling interest in subsidiary	0	(98,000)	0	0	(98,000)
Investment income on restricted net assets -- Note 3	0	0	0	16,364	16,364
Pension-related changes other than net periodic pension cost -- Note 7	4,152,279	0	0	0	4,152,279
Net unrealized gains on marketable investments -- Note 3	3,581,627	0	0	120,675	3,702,302
Increase (decrease) in net assets	14,989,927	(25,323)	218,594	150,711	15,333,909
NET ASSETS, JUNE 30, 2013	$ 111,791,287	$ 334,605	$ 628,893	$ 808,929	$ 113,563,714

See the accompanying notes to the consolidated financial statements.

Calvert Health System, Inc. and Subsidiaries
Consolidated Statements of Cash Flows

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase (decrease) in net assets	$ 15,333,909	$ (4,704,701)
Adjustments to reconcile increase (decrease) in net assets to net cash and cash equivalents provided by operating activities:		
Loss on extinguishment of debt	498,204	0
Provision for uncollectible accounts	1,670,464	1,223,320
Depreciation and amortization	9,845,630	9,128,173
Donations restricted for capital acquisition	(293,001)	(162,218)
Equity in earnings of affiliated enterprises	(439,511)	(447,407)
Investment income on restricted assets	(16,364)	(17,261)
Realized net gains on investments	(3,004,281)	(1,481,019)
Unrealized net (gains) losses on investments	(3,702,302)	2,057,538
Pension-related changes other than net periodic pension cost	(4,152,279)	6,291,848
Cumulative effect of change in accounting principle	0	1,028,410
Increase in patient accounts receivable	(2,081,187)	(1,877,860)
Decrease (increase) in inventories	52,032	(8,760)
Increase in prepaid expenses and other assets	(2,734,795)	(709,980)
Increase (decrease) in accounts payable, accrued expenses & other liabilities	1,417,646	(2,144,760)
NET CASH AND CASH EQUIVALENTS PROVIDED BY OPERATING ACTIVITIES	12,394,165	8,175,323
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investments	(12,383,203)	(2,764,911)
Sales of investments	8,038,263	3,156,942
Net decrease in assets limited as to use	1,270,578	191,065
Purchases of property and equipment	(7,164,484)	(6,439,692)
NET CASH AND CASH EQUIVALENTS USED IN INVESTING ACTIVITIES	(10,238,846)	(5,856,596)
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment of long-term debt	(28,656,159)	(850,000)
Payment of deferred financing costs	(180,575)	0
Proceeds from issuance of long-term debt	26,199,000	0
Donations received restricted for capital acquisitions	293,001	162,218
Net distributions from investees	1,201,326	39,217
Investment income on restricted assets	16,364	17,261
NET CASH AND CASH EQUIVALENTS USED IN FINANCING ACTIVITIES	(1,127,043)	(631,304)
NET INCREASE IN CASH AND CASH EQUIVALENTS	1,028,276	1,687,423
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	21,127,718	19,440,295
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 22,155,994	$ 21,127,718

See accompanying notes to the consolidated financial statements.

Calvert Health System, Inc. and Subsidiaries
Notes to the Consolidated Financial Statements

Note 1 - Organization and Summary of Significant Accounting Policies

Organization

Calvert Health System, Inc. and Subsidiaries (the System), a Maryland corporation formed on January 1, 2000, is the sole member of Calvert Memorial Hospital of Calvert County (the Hospital), Calvert Health Ventures, Inc. (CHV), Calvert Physician Associates, LLC (CPA), CMH Holding Company (Holding Co. I), and CMH II Holding Company (Holding Co. II).

The System and the Hospital are nonprofit, nonstock membership corporations formed under the laws of the State of Maryland, organized for charitable purposes and exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code (IRC).

The Hospital, located in Prince Frederick, Maryland provides inpatient, outpatient and emergency care services for the residents of Calvert County and the surrounding areas. The Hospital was incorporated in Maryland in 1917. The Hospital has two wholly owned or controlled subsidiaries: Calvert Memorial Hospital Foundation, Inc. (the Foundation) and Calvert Community Health, Inc. (CCH). The Foundation is a non-profit corporation that operates exclusively for the charitable purpose of supporting the Hospital. CCH is the Hospital's for-profit organization to establish managed care contracts. CCH is currently inactive.

CHV is a for-profit corporation that owns and manages investments in certain health care related entities, including Calvert Medical Management, LLC (CMM), an imaging center, and a physical therapy and sports rehabilitation center. CMM is a medical service organization that supports CPA's operations and the Hospital's ambulatory electronic health record project.

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

CPA is a limited liability company that employs physicians who provide health care services for the residents of Calvert County and the surrounding area.

Holding Co. I and Holding Co. II are nonprofit, nonstock membership corporations formed under the laws of the State of Maryland, organized for charitable purposes and exempt from Federal income taxes under Section 501(c)(2) of the IRC. Holding Co. I owns a medical office building in Solomon's Island, Maryland and owns an interest in a medical office building on the Hospital's campus. Holding Co. II owns a medical office building on the Hospital's campus and a medical office building in Dunkirk, Maryland and owns a 100% interest in Calvert Medical Arts Center, LLC (CMAC) which owns the Calvert Medical Arts building on the Hospital's campus.

Prior to July 1, 2012, CHV and CPA were wholly owned subsidiaries of the Hospital. Effective July

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

Organization – Continued

1, 2012 CHV and CPA became wholly owned subsidiaries of the System.

Principles of Consolidation

At June 30, 2013 and 2012, the System's consolidated financial statements include the accounts of the Hospital and its wholly owned or controlled subsidiaries, CHV, CPA, Holding Co. I and Holding Co. II. All material intercompany transactions are eliminated.

Basis of Presentation

The consolidated financial statements are prepared on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles. The System classifies net assets, revenues, expenses, gains and losses, based on the existence or absence of donor-imposed restrictions; accordingly, net assets of the System and changes therein are classified and reported as follows:

> *Unrestricted net assets* - Net assets that are not subject to donor-imposed stipulations.
>
> *Temporarily restricted net assets* - Net assets subject to donor-imposed stipulations that may or will be met either by actions of the System and/or the passage of time.
>
> *Permanently restricted net assets* - Net assets subject to donor-imposed stipulations that will be maintained permanently by the System. Generally, the donors of these assets permit the System to use all or part of the income earned on related investments for general or specific purposes.

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

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

Basis of Presentation - Continued

are released for the acquisition of property and equipment are reported as a direct increase to unrestricted net assets in the accompanying consolidated statements of changes in net assets.

Income and realized net gains/losses on investments are reported as:

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

Use of Estimates

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

Cash and Cash Equivalents

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

Short-term Investments

Short-term investments consist primarily of investments with maturities of less than one year from the date of purchase.

Inventories

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

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

Investments

Investments in fixed maturity and equity securities are recorded at fair value. Investment income, realized gains and losses and unrealized gains and losses on trading securities are reported in the consolidated statements of operations unless restricted by the donor, in which case they are reported as an addition to, or deduction from, the fund balance of the appropriate donor-restricted fund. In accordance with applicable accounting standards, unrealized gains and losses on securities classified as other than trading are reported as a direct charge to net assets in the accompanying consolidated statements of changes in net assets. The specific identification method is used to compute realized gains or losses on sales of investments.

Approximately $2,124,000 and $2,302,000 of the investments balance at June 30, 2013 and 2012, respectively, has been designated to fund an executive severance and deferred compensation plan that has been established to provide benefits to the System's executive management team.

The System periodically evaluates whether any declines in the fair value of investments are other-than-temporary. This evaluation consists of a review of several factors, including but not limited to: length of time and extent that a security has been in an unrealized loss position; the existence of an event that would impair the issuer's future earnings potential; the near term prospects for recovery of the fair value of a security; and the intent and ability of the System to hold the security until the fair value recovers. Declines in fair value below cost that are deemed to be other-than-temporary result in realized losses with the market value becoming the new cost basis for the security.

Investments are exposed to certain risks such as interest rate, credit and overall market volatility. Due to the level of risk associated with certain investment securities, changes in the value of investment securities could occur in the near term, and these changes could materially differ from the amounts reported in the accompanying consolidated financial statements.

Investments in Affiliated Enterprises

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

Assets Limited as to Use

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

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

Property and Equipment

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

During 2013, the System entered into an agreement to sell certain medical office buildings. The carrying amount of these buildings have been reported as assets to be sold in the accompanying consolidated statements of financial position. These medical office buildings were sold in August 2013 (*see Notes 5 and 12*).

Other Assets

Other assets consist of deferred financing costs, long term prepaid rent, and long term other amounts receivable. Gross deferred financing costs are amortized over the life of the related bonds and amounted to $1,066,442 and $885,867 at June 30, 2013 and 2012, respectively. Accumulated amortization of such costs amounted to $589,245 and $405,449 at June 30, 2013 and 2012, respectively.

Third Party Advances

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

Consolidated Statements of Operations

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

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

Excess of Revenue over Expenses

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

Net Patient Service Revenue and Patient Accounts Receivable

Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payers, and others for services rendered, after contractual adjustments. For uninsured patients that do not qualify for charity care, the Hospital recognizes revenue on the basis of its standard rates for services provided (or on the basis of discounted rates, if negotiated or provided by policy). On the basis of historical experience, a significant portion of the Hospital's uninsured patients will be unable or unwilling to pay for the services provided. Thus, the Hospital records a significant provision for bad debts related to uninsured patients in the period the services are provided. The Hospital has not changed its charity care or uninsured discount policies during 2013 or 2012. Patient accounts receivable include charges for amounts due from Medicare, Maryland Medical Assistance (Medicaid), Blue Cross, commercial insurers, and self-pay patients (*see Note 10*). Contractual adjustments represent the differences between amounts billed as patient service revenue and amounts allowed by third party payers, and are accrued on an estimated basis in the period in which the related services are rendered and adjusted in future periods as final settlements are determined. Contractual adjustments and provision for uncollectible self-pay amounts are included in the determination of net patient service revenue as reported in the accompanying consolidated statements of operations. Rates charged are based primarily on rates established by the State of Maryland Health Services Cost Review Commission (HSCRC); accordingly, revenue reflects actual charges to patients based on rates in effect during the period in which the services are rendered (*see Notes 9 and 10*).

The Hospital grants credit without collateral to its patients, most of whom are local residents insured under third-party payer agreements (*see Note 10*). Accounts receivable are reported at their net realizable value from third-party payers, patients, residents and others for services rendered. Allowances are provided for third-party payers based on estimated reimbursement rates. Allowances are also provided for bad debts on an estimate of uncollectible accounts. Allowance for bad debts is based upon management's assessment of historical and expected net collections. Periodically throughout the year, management assesses the adequacy of the allowance for uncollectible accounts based upon historical write-off experience by payor category. The results of this review are then used to make modifications to the allowances for bad debts and to establish an allowance for uncollectible receivables. Write-off of uncollectible accounts is determined on a case-by-case basis after a review of the circumstances surrounding individual patient accounts.

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

Charity Care

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

The cost of charity care provided by the Hospital amounted to approximately $7,447,000 in 2013 and $7,100,000 in 2012. Rates charged by the Hospital for regulated services are determined based on an assessment of direct and indirect cost calculated pursuant to the methodology established by the HSCRC (*see Note 9*), and therefore the cost of charity services noted above for the Hospital is equivalent to its established rates for those services. For any charity services rendered by the System other than the regulated services of the Hospital, the cost of charity care is calculated by applying the estimated total cost-to-charge ratio for the non-Hospital services to the total amount of charges for services provided to patients benefitting from the charity care policies of the System's non-Hospital affiliates.

The Hospital receives monthly payments from the HSCRC or submits monthly payments with respect to an Uncompensated Care Fund ("UCC") established for rate-regulated hospitals in Maryland. The UCC is intended to provide Maryland hospitals with funds to support the provision of uncompensated care at those hospitals as determined by the HSCRC. The Hospital contributed $725,296 for 2013 and $1,072,145 for 2012 to the UCC as required by the HSCRC.

Other Operating Revenue

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

Tax-Exempt Status

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

Calvert Health System, Inc. and Subsidiaries
Notes to the Consolidated Financial Statements - Continued

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

Tax-Exempt Status--Continued

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

The System had no unrecognized tax benefits or such amounts were immaterial during the periods presented. For tax periods with respect to which no unrelated business income was recognized, no tax return was required. Tax periods for which no return is filed remain open for examination indefinitely. Although information returns were filed, no tax returns were filed during 2013 and 2012.

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

Recent Changes in Accounting Standards

In July 2011, the FASB issued ASU 2011-07, *Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts, and the Allowance for Doubtful Accounts for Certain Health Care Entities*. This standard requires certain health care entities to change the presentation of their statement of operations by reclassifying the provision for bad debts associated with patient service revenue from an operating expense to a deduction from patient service revenue (net of contractual allowances and discounts). Additionally, these entities are required to provide enhanced disclosure about their policies for recognizing revenue and assessing bad debts. Management adopted this standard during fiscal year 2013.

Reclassifications

Certain prior year amounts have been reclassified to conform to the current year's presentation.

Note 2 - Investments in Affiliated Enterprises

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

	2013		2012	
	Investment	Income	Investment	Income
Calvert Medical Imaging Center	$ 893,399	$ 64,106	$ 1,079,293	$ 65,347
NRH/CPT Regional Rehab, LLC	63,561	57,657	57,230	45,737
Chesapeake-Potomac Healthcare Alliance, LLC	2,645,072	315,167	3,229,905	341,090
Chesapeake Physical Medicine, LLC	650	(369)	1,019	(3,779)
Freestate Healthcare Insurance Company, LTD	20,452	0	20,452	0
Maryland eCare, LLC	(20,937)	(5,565)	(15,372)	(6,365)
Calvert Medical Office Building Limited Partnership	186,627	8,515	178,112	5,377
	$ 3,788,824	$ 439,511	$ 4,550,639	$ 447,407

An overview of these organizations is presented in this note. Because CHV's investment in Calvert Medical Imaging Center (CMIC) represents approximately 24% of the reported investment balance in affiliates as of June 30, 2013 and 2012 and the Hospital's investment in Chesapeake-Potomac Healthcare Alliance (the Alliance) represents approximately 70% and 71% of the reported investment balance in affiliates as of June 30, 2013 and 2012, respectively, summarized financial information for CMIC and the Alliance is also presented in this note.

Calvert Medical Imaging Center

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

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

	2013	2012
Total assets	$ 4,249,932	$ 5,636,009
Total liabilities	2,463,134	3,578,434
Partners' capital	1,786,798	2,057,575
Total liabilities and partners' capital	$ 4,249,932	$ 5,636,009

	2013	2012
Total revenue	$ 5,529,158	$ 5,624,826
Net income	229,222	150,970

Note 2 - Investments in Affiliated Enterprises - Continued

NRH/CPT Regional Rehab, LLC

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

Chesapeake-Potomac Healthcare Alliance, LLC

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

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

	2013	2012
Total assets	$ 13,659,434	$ 16,332,537
Total liabilities	2,963,628	3,874,552
Members' equity	10,695,806	12,457,985
Total liabilities and members' equity	$ 13,659,434	$ 16,332,537

	2013	2012
Total revenue	$ 13,617,098	$ 13,660,213
Net income (loss)	(417,602)	1,006,313

Note 2 - Investments in Affiliated Enterprises - Continued

Chesapeake Physical Medicine, LLC

Chesapeake Physical Medicine, LLC (CPM) is a joint venture among CHV and a group of medical professionals created to provide outpatient chiropractic services to the population of Calvert County. CHV maintains a 25% interest in this joint venture. In June 2011, the partners of CPM agreed to discontinue operations. Activity for the years ended June 30, 2013 and 2012 represents the run out of the operations and accounts receivable.

Freestate Healthcare Insurance Company, LTD

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

Maryland eCare, LLC

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

Calvert Medical Office Building Limited Partnership

Holding Co. I has a 10.4% limited partnership interest in Calvert Medical Office Building Limited Partnership.

Note 3 - Investments

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

	2013	2012
Equity mutual funds	$40,250,200	$34,428,316
Fixed income mutual funds	16,263,156	11,302,075
Guaranteed investment account	609,530	625,837
Alternative investments	5,201,200	4,935,898
	62,324,086	51,292,126
Less short-term investments	46,016	106,741
Long-term investments	$62,278,070	$51,185,385

Note 3 – Investments - Continued

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

	2013	2012
Internally designated for capital acquisition and scholarships:		
Cash and cash equivalents	$ 863,727	$ 471,235
Equity mutual funds	2,829,703	2,480,799
	3,693,430	2,952,034
Held by trustee under indenture agreement:		
Cash and cash equivalents	1,024,403	2,438,927
U.S. Government issues	3,227,606	3,599,692
	$ 7,945,439	$ 8,990,653

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

	2013	2012
Debt service fund	$ 1,003,543	$ 2,295,170
Debt service reserve fund	3,248,466	3,743,449
	$ 4,252,009	$ 6,038,619

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

The System's investments include investments in limited partnerships and other alternative investments, which are made in accordance with the System's investment policies. The limited partnerships acquire, hold, invest, manage, dispose of, and otherwise deal in and with securities of all kinds and descriptions. Publicly traded securities are generally valued by reference to closing market prices on one or more national securities exchange or generally accepted pricing services selected by the fund managers of the limited partnership. Securities not valued by such pricing services will be valued upon bid quotations obtained from independent dealers in the securities. In the absence of any independent quotations, securities will be valued by the fund managers on the basis of data obtained from the best available sources. The equity in earnings or losses from these investments is recorded as a component of investment income in the consolidated statement of operations. Although the various fund managers use their best judgment at estimating the fair value of the alternative investments, there are inherent limitations in any valuation technique. Therefore, the value is not necessarily indicative of the amount that could be realized in a current transaction. Future events will also affect the estimates of fair value, and the effect of such events on the estimates of the fair value could be material.

Note 3 - Investments - Continued

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

	2013	2012
Income:		
Interest and dividend income	$ 1,012,215	$ 819,170
Realized gains	2,203,730	824,031
Total investment income	$ 3,215,945	$ 1,643,201
Unrealized gains (losses) on investments	$ 3,702,302	$ (2,057,538)

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

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

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

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

Note 3 - Investments – Continued

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

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

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

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

The guaranteed investment account is valued at contract value, (which includes contributions made, adjusted for interest earned, withdrawals, and administrative expenses) which approximates fair value.

The System's investments include investments in limited partnerships and other alternative investments, which are made in accordance with the System's investment policies. The limited partnerships acquire, hold, invest, manage, dispose of, and otherwise deal in and with securities of all kinds and descriptions. Publicly traded securities are generally valued by reference to closing market prices on one or more national securities exchange or generally accepted pricing services selected by the fund managers of the limited partnership. Securities not valued by such pricing services will be valued upon bid quotations obtained from independent dealers in the securities. Redemption of alternative investments can generally occur on a monthly or quarterly basis with notice.

There were no significant transfers between levels during 2013 and 2012.

Note 3 - Investments – Continued

The following table presents the System's fair value hierarchy for assets measured at fair value on a recurring basis as of June 30, 2013:

	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	$ 1,888,130	$ 0	$ 0	$ 1,888,130
Equity mutual funds				
Diversified emerging markets	2,664,277	0	0	2,664,277
Foreign large blend	291,790	0	0	291,790
Foreign large value	6,101,663	0	0	6,101,663
Foreign small/mid value	1,309,649	0	0	1,309,649
Healthcare	590,050	0	0	590,050
Industrials	357,600	0	0	357,600
Information tech	1,401,650	0	0	1,401,650
Consumer staples	117,000	0	0	117,000
Large growth	6,797,230	0	0	6,797,230
Large value	8,871,028	0	0	8,871,028
Large blend	635,853	0	0	635,853
Mid cap growth	7,749,965	0	0	7,749,965
Mid cap value	45,562	0	0	45,562
Mid cap blend	9,790	0	0	9,790
Small growth	7,368	0	0	7,368
Small value	1,531,524	0	0	1,531,524
Small blend	1,552,149	0	0	1,552,149
World allocation	2,184,846	0	0	2,184,846
Moderate allocation	646,750	0	0	646,750
Other	214,159	0	0	214,159
Fixed income mutual funds				
Intermediate term bond	10,531,427	0	0	10,531,427
Short-term	5,731,729	0	0	5,731,729
Alternative investments	0	4,977,186	224,014	5,201,200
U.S. Government issues				
(Maturity 1-10 years)	3,227,606	0	0	3,227,606
Guaranteed investment account	609,530	0	0	609,530
	$65,068,325	$ 4,977,186	$ 224,014	$70,269,525

Calvert Health System, Inc. and Subsidiaries
Notes to the Consolidated Financial Statements - Continued

Note 3 - Investments – Continued

The following table presents the System's fair value hierarchy for assets measured at fair value on a recurring basis as of June 30, 2012:

	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	$ 2,910,162	$ 0	$ 0	$ 2,910,162
Equity mutual funds				
Diversified emerging markets	2,484,318	0	0	2,484,318
Foreign large blend	264,140	0	0	264,140
Foreign large value	4,467,239	0	0	4,467,239
Foreign small/mid value	757,848	0	0	757,848
Healthcare	457,200	0	0	457,200
Industrials	443,200	0	0	443,200
Information tech	1,233,625	0	0	1,233,625
Large growth	9,379,691	0	0	9,379,691
Large value	4,755,183	0	0	4,755,183
Large blend	628,920	0	0	628,920
Mid cap growth	6,776,982	0	0	6,776,982
Mid cap value	92,048	0	0	92,048
Mid cap blend	6,173	0	0	6,173
Small growth	9,285	0	0	9,285
Small value	2,427,357	0	0	2,427,357
Small blend	12,182	0	0	12,182
World allocation	1,918,878	0	0	1,918,878
Moderate allocation	562,240	0	0	562,240
Other	232,607	0	0	232,607
Fixed income mutual funds				
Intermediate term bond	10,591,637	0	0	10,591,637
Short-term	710,438	0	0	710,438
Alternative investments	0	4,586,046	349,852	4,935,898
U.S. Government issues				
(Maturity 1-10 years)	3,599,692	0	0	3,599,692
Guaranteed investment account	625,837	0	0	625,837
	$55,346,881	$ 4,586,046	$ 349,852	$60,282,779

The following table presents the activity during 2013 and 2012 for the Level 3 funds:

	2013	2012
Fair value, beginning of year	$ 349,852	$ 612,511
Net realized losses	(2,809)	(963)
Disbursements	(139,272)	(222,218)
Unrealized gains (losses)	16,243	(39,478)
Fair value, end of year	$ 224,014	$ 349,852

Note 4 - Temporarily and Permanently Restricted Net Assets

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

	2013	2012
Purchase of equipment	$ 286,963	$ 220,480
Health education	156,345	74,960
Health care services	185,585	114,859
	$ 628,893	$ 410,299

Permanently restricted net assets at June 30 are restricted to:

	2013	2012
Investments to be held in perpetuity, the income from which is expendable to support health education	$ 808,929	$ 658,218

Note 5 - Property and Equipment

A summary of property and equipment at June 30 follows:

	2013	2012
Land improvements	$ 2,532,320	$ 2,532,320
Buildings	38,611,964	66,056,859
Building improvements	36,835,437	37,409,659
Fixed equipment	4,951,628	4,972,920
Movable equipment	63,156,129	56,418,042
	146,087,478	167,389,800
Less accumulated depreciation and amortization	88,228,127	87,549,181
	57,859,351	79,840,619
Land	5,658,386	5,658,386
Construction in progress	49,571	817,148
Property and equipment, net	$ 63,567,308	$ 86,316,153

The carrying value of the medical office buildings sold in August 2013 (*see Note 12*) in the amount of $20,105,228 as of June 30, 2013 is reported as assets to be sold. Interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets. No interest was capitalized for the years ended June 30, 2013 and 2012.

Depreciation expense for the years ended June 30, 2013 and 2012 amounted to $9,808,101 and $9,095,401 respectively.

Calvert Health System, Inc. and Subsidiaries
Notes to the Consolidated Financial Statements - Continued

Note 6 - Long-Term Debt

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

	2013	2012
Maryland Health and Higher Educational Facilities Authority Revenue Bonds (1998 Revenue Bonds); maturing in varying amounts from July 1, 1999 to July 1, 2028; interest due semi-annually at rates ranging from 3.9% to 5.25%; (5.0% at June 30, 2012).	$ 0	$ 20,390,000
Maryland Health and Higher Educational Facilities Authority Revenue Bonds (2004 Revenue Bonds); maturing in varying amounts from July 1, 2008 to July 1, 2039; interest due semi-annually at rates ranging from 3.5% to 5.5%; (4.50% and 4.25% at June 30, 2013 and 2012, respectively).	32,430,000	32,535,000
Maryland Health and Higher Educational Facilities Authority Revenue Bonds (2012 Revenue Bonds); maturing in varying amounts from September 1, 2012 to June 1, 2027; interest due monthly at a fixed rate of 2.6% per annum until July 24, 2022 at which time the interest rate shall be adjusted.	18,317,841	0
Maryland Bank & Trust Company term loan payable, commencing on November 21, 2008; interest due monthly at variable rates based on the LIBOR Rate (1.89% at June 30, 2012); due September 2015.	0	7,000,000
SunTrust Bank term loan payable, commencing on July 1, 2012 and amortized over twenty-five years; principal due monthly at a fixed amount and interest due monthly based on the LIBOR Rate plus 0.85% (1.04% at June 30, 2013).	6,720,000	0
	57,467,841	59,925,000
Less current portion	7,921,567	895,000
	49,546,274	59,030,000
Less amortized original issue discount	377,096	750,648
	$ 49,169,178	$ 58,279,352

Series 1998 Revenue Bonds

The 1998 Revenue Bonds were issued by the Maryland Health and Higher Educational Facilities Authority (the Authority) on June 11, 1998 for the purpose of financing and refinancing the costs of acquisition, construction, renovation and equipping of certain Hospital facilities. The Obligated Group for the 1998 Revenue Bonds was composed of the Hospital and the System. As security for the performance of its obligations under the related Loan Agreement, the Obligated Group members granted a security interest in the receipts, revenues, rental income and other moneys

Note 6 - Long-Term Debt - Continued

received by or on behalf of any Obligated Group member to the Authority. The Obligated Group was required to maintain certain deposits in the form of a debt service reserve fund with a trustee. Such deposits were included in assets limited as to use in the accompanying consolidated financial statements. The 1998 Revenue Bonds also placed limits on the incurrence of additional borrowings. The required debt service coverage ratio was 1.10. In July 2012, the 1998 Revenue Bonds were extinguished using the proceeds from the issuance of the Series 2012 Revenue Bonds, which are financed privately through a commercial bank. The remaining financing costs and original issue discount from the 1998 Revenue Bonds were written off in July 2012 and resulted in a loss on extinguishment of debt. The related debt service reserve fund was liquidated.

Series 2004 Revenue Bonds

The 2004 Revenue Bonds were issued by the Authority on July 8, 2004 for the purpose of financing the costs of acquisition, construction, renovation and equipping of certain Hospital facilities. The Obligated Group for the 2004 Revenue Bonds is composed of the Hospital and the System. As security for the performance of its obligations under the related Loan Agreement, the Obligated Group members have granted a security interest in its receipts, revenues, rental income and other amounts received by or on behalf of any Obligated Group member to the Authority. The Obligated Group is required to maintain certain deposits in the form of a debt service reserve fund with a trustee. Such deposits are included in assets limited as to use. The Series 2004 Revenue Bonds also place limits on the incurrence of additional borrowings. The required debt service coverage ratio is 1.10. Series 2004 bonds maturing on or after July 1, 2015 are subject to redemption prior to maturity beginning on July 1, 2014 at the option of the Authority upon the direction of the Hospital.

In August 2013, Series 2013 Revenue Bonds were issued for $31,185,000 to refund the 2004 Revenue Bonds. Annual payments (ranging from $2,110,000 in 2030 to $3,000,000 in 2037) to a sinking fund relating to the Series 2013 Revenue Bonds will commence in 2030 with a final balance of $3,150,000 on July 1, 2038.

Series 2012 Revenue Bonds

The 2012 Revenue Bonds were issued by the Authority on July 1, 2012 for the purpose of refunding the 1998 Revenue Bonds. The master loan agreement for the 1998 Revenue Bonds remained substantially unchanged. The Obligated Group for the 2012 Revenue Bonds is composed of the Hospital and the System. The financing was completed through SunTrust Bank and is a tax exempt issuance. Terms of the financing agreement include a fixed rate of 2.6% for ten years with an amortization schedule of sixteen years. Two changes were made to the financial covenants. The required days cash on hand is 90 days and the required debt service coverage ratio is 1.25. Management believes the Obligated Group is in compliance with all applicable covenants.

Note 6 - Long-Term Debt - Continued

Commercial Loan

In November 2008, the System obtained a loan from a commercial bank for the purpose of financing a portion of the construction of the Calvert Medical Arts Center. In July 2012, the loan was refinanced with another commercial bank for $7 million. The new loan will be amortized for 25 years. Principal and interest payments will be made monthly starting September 2012. Interest will be paid at a rate of LIBOR plus 0.85%. The interest rate is guaranteed for 3 years. The loan is guaranteed by the Hospital and the System. In August 2013, the remaining principal amount of $6,673,333 was paid in full. The source of funds for the payoff came from a portion of the proceeds received from the sale of the System's three medical office buildings (*see Note 12*).

Principal payments due under all debt instruments as of June 30, 2013 are as follows:

2014	$ 1,481,567
2015	1,520,825
2016	1,549,750
2017	1,586,675
2018	1,628,338
and thereafter	49,700,686
Total	$ 57,467,841

The total principal payments due after the refinancing of the Series 2004 Revenue Bonds will be $49,607,841. Interest paid on indebtedness by the System was $2,274,512 and $2,954,922 in 2013 and 2012, respectively.

Note 7 - Employee Pension Plans

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

Additionally, the Hospital has a qualified non-contributory defined benefit pension plan covering substantially all employees who were employed by the Hospital prior to January 1, 2008, as well as certain employees of the Hospital who meet certain age and service requirements. Effective January 1, 2008, the Hospital instituted a "soft freeze" of the defined benefit plan. The plan was amended effective January 1, 1993 from a defined benefit plan, the benefits of which were calculated primarily upon age and employee compensation near retirement, to a cash balance defined benefit plan, which calculates benefits based upon age and years of service. The Hospital makes annual contributions to the plan based on the advice of consulting actuaries. Contributions are intended to provide not only for benefits attributed to service to date but also for those expected to be earned in the future. The Hospital used a June 30 measurement date for its plan in 2013 and 2012.

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

	2013	2012
Benefit obligation at beginning of year	$ 36,558,397	$ 29,331,556
Service cost	1,183,521	983,427
Interest cost	1,770,271	1,708,150
Actuarial (gain) loss	(1,747,003)	5,092,048
Benefits paid	(920,278)	(556,784)
Benefit obligation at end of year	$ 36,844,908	$ 36,558,397

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

	2013	2012
Fair value of plan assets at beginning of year	$ 26,226,761	$ 24,684,993
Actual return on plan assets	3,258,282	166,885
Employer contributions	2,553,000	1,931,667
Actual benefits paid	(920,278)	(556,784)
Fair value of plan assets at end of year	$ 31,117,765	$ 26,226,761

Note 7 - Employee Pension Plans – Continued

In accordance with current standards, the Hospital recognized the full extent of the underfunded (a liability) status of the plan, which is measured as the difference between the fair value of the plan assets and the projected benefit obligation. As of June 30, 2013 and 2012, the plan's projected benefit obligation exceeded the fair value of the plan's assets by $5,727,143 and $10,331,636, respectively. The plan's accumulated benefit obligation was $34,808,499 and $34,588,923 as of June 30, 2013 and 2012, respectively.

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

	2013	2012
Service cost	$ 1,183,521	$ 983,427
Interest cost	1,770,271	1,708,150
Expected return on plan assets	(2,163,128)	(2,018,992)
Amortization of prior service cost	(29,633)	(29,633)
Recognized net actuarial loss	1,339,755	681,940
Net periodic benefit cost	$ 2,100,786	$ 1,324,892

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

	2013	2012
Discount rate	5.30%	4.90%
Rate of compensation increase	3.00%	3.00%

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

	2013	2012
Discount rate	5.30%	4.90%
Expected return on plan assets	7.75%	8.00%
Rate of compensation increase	3.00%	3.00%

Cumulative amounts recognized in unrestricted net assets as of June 30 consist of:

	2013	2012
Net loss	$ 10,714,475	$ 14,896,387
Prior service cost	(62,816)	(92,449)
Total	$ 10,651,659	$ 14,803,938

Note 7 - Employee Pension Plans – Continued

The investment of pension assets is guided by the pension investment policy. Pension assets are invested to ensure that the pension plan has the ability to pay all benefit and expense obligations when due, to maximize return within prudent levels of risk for pension assets and to maintain a funding cushion for unexpected developments. The target weighted-average asset allocation of pension investments is 60% equities and 40% debt securities and cash. Equity securities primarily include investments in large-cap and mid-cap companies. Fixed maturity securities primarily include corporate bonds. Mutual funds (fixed maturity and equity) are valued by observable market quotations. The guaranteed deposit account is valued at contract value, (which includes contributions made, adjusted for interest earned, participant withdrawals, and administrative expenses) which approximates fair value. There were no significant transfer between the indicated levels during 2013 and 2012.

The fair values of the Hospital's pension plan assets at June 30, 2013, by asset category are as follows:

	Level 1	Level 2	Total
Equity mutual funds			
Mid-Cap Growth	$ 1,954,444	$ 0	$ 1,954,444
Foreign Large Blend	2,708,191	0	2,708,191
Mid-Cap Value	1,979,115	0	1,979,115
Large Growth	3,996,066	0	3,996,066
Large Value	4,151,582	0	4,151,582
Large Blend	4,094,515	0	4,094,515
Fixed income mutual funds			
Intermediate-Term Bond	2,874,057	0	2,874,057
High Yield Bond	1,091,789	0	1,091,789
Inflation-Protected Bond	2,109,539	0	2,109,539
Short-Term Bond	2,957,308	0	2,957,308
Guaranteed deposit account	0	3,155,394	3,155,394
	$ 27,916,606	$ 3,155,394	$31,072,000

Note 7 - Employee Pension Plans – Continued

The fair values of the Hospital's pension plan assets at June 30, 2012, by asset category are as follows:

	Level 1	Level 2	Total
Equity mutual funds			
Mid-Cap Growth	$ 1,568,797	$ 0	$ 1,568,797
Foreign Large Blend	2,319,383	0	2,319,383
Mid-Cap Value	1,557,115	0	1,557,115
Large Growth	3,308,930	0	3,308,930
Large Value	3,457,308	0	3,457,308
Large Blend	3,455,490	0	3,455,490
Fixed income mutual funds			
Intermediate-Term Bond	2,338,216	0	2,338,216
High Yield Bond	923,461	0	923,461
Inflation-Protected Bond	1,798,936	0	1,798,936
Short-Term Bond	2,272,695	0	2,272,695
Guaranteed deposit account	0	3,227,603	3,227,603
	$ 23,000,331	$ 3,227,603	$26,227,934

The Hospital expects to contribute $1,860,000 to its pension plan for fiscal year ending June 30, 2014. The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid:

2014	$ 1,201,567
2015	1,215,825
2016	1,369,750
2017	1,406,675
2018	1,448,338
and thereafter	42,965,686
Total	$ 49,607,841

Note 8 - Malpractice Insurance

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

Effective March 1, 2005, the Hospital became a shareholder of the newly formed Freestate Healthcare Insurance Company, Ltd. (Freestate), a captive insurance company formed in the Cayman Islands. As of June 30, 2013, the Hospital maintains a 16.7% shareholder interest in Freestate. The Hospital decided to become a shareholder of Freestate when the Hospital's

Note 8 - Malpractice Insurance – Continued

insurance company decided not to continue to write insurance policies for hospitals within the State of Maryland effective March 1, 2005. The Hospital believes that becoming a shareholder of a captive insurance company provides the best long-term solution to providing insurance coverage that is cost effective and predictable. Freestate provides insurance coverage on a claims-made basis to its owners and their affiliates for professional liability claims and comprehensive general liability of $1,000,000 for each and every claim. Freestate has entered into reinsurance and excess policy agreements with independent insurance companies to limit its losses for professional liability and comprehensive general liability claims. The Hospital has $10,000,000 of additional insurance in the aggregate through such reinsurance arrangements. Retrospective premium assessments and credits are calculated based on the aggregate experience of all named insureds under the policy. Each named insured's assessment or credit is based on the percentage of their actual exposure to the actual exposure of all named insureds. In management's opinion, the assets of Freestate are sufficient to meet its obligations as of June 30, 2013. If the financial condition of Freestate were to materially deteriorate in the future, and Freestate was unable to pay its claim obligations, the responsibility to pay those claims would return to the member hospitals.

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

The Hospital is involved in litigation arising in the ordinary course of business. Claims alleging malpractice have been asserted against the Hospital and are currently in various stages of litigation. Additional claims may be asserted against the Hospital arising from services provided through June 30, 2013.

As of June 30, 2013 and 2013, the System recorded insurance recoverables and related professional claims liability of $7,064,435 and $3,696,401, respectively, in long-term assets and liabilities, respectively, in the accompanying consolidated statement of financial position. An estimated liability for incurred but not reported professional liability claims has also been recorded in the amount of approximately $1,137,000 and $1,028,000 in long-term liabilities as of June 30, 2013 and 2012, respectively. Management believes this estimate is adequate to provide for all professional liability claims that have been incurred through June 30, 2013 but not reported to its insurance carriers.

Note 9 - Maryland Health Services Cost Review Commission

Patient service revenue is recorded at rates established by the HSCRC. Effective July 1, 2010, the Hospital entered into a Total Patient Revenue (TPR) rate agreement with the HSCRC. This agreement is effective for three years. It is anticipated that the Hospital will execute another three year TPR agreement during September 2013. Under the TPR system, the Hospital is provided a fixed revenue amount (CAP) under which it must operate each year. The CAP is adjusted annually for inflation, change in the Hospital's payer mix and uncompensated care, and change in population. Approximately 95% of the total operating revenue of the Hospital falls under the TPR system.

Note 10 - Concentration of Credit and Business Risk

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

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

	2013		2012	
Medicare	$ 5,178,155	25.0 %	$ 4,744,226	23.4 %
Medicaid (including managed care)	2,142,251	10.3	2,004,276	9.9
Blue Cross	2,968,262	14.3	2,468,570	12.2
Commercial and other	1,682,348	8.1	1,680,030	8.3
HMO	3,365,304	16.3	4,264,478	21.0
Self-pay	5,382,240	26.0	5,132,764	25.2
	$ 20,718,560	100.0 %	$ 20,294,344	100.0 %
Less contractual adjustments	(3,158,776)		(2,825,079)	
	$ 17,559,784		$ 17,469,265	

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

	2013		2012	
Medicare	$ 60,287,445	35.3 %	$ 57,979,051	35.2 %
Medicaid (including managed care)	20,132,580	11.8	20,645,307	12.5
Blue Cross	32,348,153	19.0	30,218,839	18.4
Commercial and other	8,560,390	5.0	9,387,444	5.7
HMO	40,134,448	23.5	38,273,464	23.3
Self-pay	9,111,151	5.3	8,035,601	4.9
	$ 170,574,167	100.0 %	$ 164,539,706	100.0 %
Less contractual adjustments	(29,926,071)		(30,914,572)	
Less charity care	(7,447,389)		(7,100,039)	
Less provision for bad debts	(1,672,964)		(1,171,589)	
	$ 131,527,743		$ 125,353,506	

Calvert Health System, Inc. and Subsidiaries
Notes to the Consolidated Financial Statements - Continued

Note 11 - Functional Expenses

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

	2013	2012
Health care services	$110,506,535	$108,611,288
General and administrative	23,968,798	23,135,165
	$134,475,333	$131,746,453

Note 12 - Lease Obligations

The System is obligated under various operating leases for several office facilities and equipment. Total office rent and equipment lease expense was $1,743,202 and $1,706,110 for the years ended June 30, 2013 and 2012, respectively, and is reported as a component of other expenses in the accompanying consolidated statements of operations and other changes in unrestricted net assets. The future minimum lease payments expected to be made to non-affiliated parties under non-cancelable operating leases are as follows for the years ended June 30:

2014	$ 1,281,200
2015	1,023,241
2016	889,638
2017	547,016
2018	431,049
	$ 4,172,144

The System is the owner of four medical office buildings. Rental income totaling $2,580,638 and $2,603,541 has been recognized in the accompanying consolidated statements of operations and other changes in unrestricted net assets for the years ended June 30, 2013 and 2012, respectively.

Three of the four medical office buildings owned by the System were sold on August 29, 2013. As part of the sales transaction, the System will continue to lease space in the buildings from the new owners. Under the new lease agreements, lease payments for the year ended June 30, 2014 are expected to be approximately $1,370,000. For the years ended June 30, 2015, 2016, 2017 and 2018, the minimum lease payments are expected to be approximately $1,413,000 annually.

Note 13 - Pledges Receivable

During 2004, the Hospital commenced a capital campaign. Contributions from the campaign are being used to fund major equipment purchases for various construction projects. At June 30, 2013 pledges receivable of $67,867 were completely reserved. The entire pledges receivable balance is reported as a non-current asset in the accompanying consolidated statements of financial position because it is temporarily restricted for the acquisition of property, plant, and equipment.

Note 14 - Certain Risks and Uncertainties

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

The Joint Commission a non-governmental privately owned entity, provides accreditation status to hospitals and other health care organizations in the United States. Such accreditation is based upon a number of requirements such as undergoing periodic surveys conducted by Joint Commission personnel. Certain managed care payers require hospitals to have appropriate Joint Commission accreditation in order to participate in those programs. In addition, the Center for Medicare and Medicaid Services (CMS), the agency with oversight of the Medicare and Medicaid programs, provides "deemed status" for facilities having Joint Commission accreditation. By being Joint Commission accredited, facilities are "deemed" to be in compliance with the Medicare and Medicaid conditions of participation. Termination as a Medicare provider or exclusion from any or all of these programs/payers would have a materially negative impact on the future financial position, operating results and cash flows of the Hospital. In November 2011 the Hospital was surveyed by the Joint Commission and received a full three-year Joint Commission accreditation through February 2015.

The HSCRC has jurisdiction over hospital reimbursement in Maryland by an agreement with the Centers for Medicare and Medicaid Services (CMS) based on a waiver from the Medicare prospective payment system under Section 1814(b) of the Social Security Act. The continuation of this waiver is contingent upon, among other things, that the aggregate rate of increase in Medicare cost per admission in Maryland continues to be less than the national rate of increase. Although this waiver test was met as of the last published rate of increase test conducted as of September 30, 2011, there are increasing concerns that the conditions for the waiver may not be attainable in the future. On March 26, 2013, the State of Maryland Health Department submitted a proposal to CMS to revise the calculation of the waiver test. There is no assurance that the State's proposal will be accepted or, that if accepted, the proposal will not be modified. The timing of implementation of changes to the waiver, if any, and the magnitude of the impact of Maryland hospitals cannot be determined at this time. Management believes that the waiver will remain in effect at least through June 30, 2014.

Note 14 - Certain Risks and Uncertainties - Continued

The Medicare and state Medicaid reimbursement programs represent a substantial portion of the System's revenues and the System's operations are subject to a variety of other Federal, state and local regulatory requirements. Failure to maintain required regulatory approvals and licenses and/or changes in such regulatory requirements could have a significant adverse effect on the System.

Changes in Federal and state reimbursement funding mechanisms and related government budgetary constraints could have a significant adverse effect on the System. The healthcare industry is subject to numerous laws and regulation from federal, state and local governments, and the government has increased enforcement of Medicare and Medicaid anti-fraud and abuse laws, as well as physician self-referral laws (STARK law and regulation). The System's compliance with these laws and regulations is subject to periodic governmental review, which could result in enforcement actions unknown or unasserted at this time.

As a result of recently enacted and pending federal healthcare reform legislation, substantial changes are anticipated in the healthcare system. Such legislation includes numerous provisions affecting the delivery of healthcare services, the financing of healthcare costs, reimbursement to healthcare providers and the legal obligations of health insurers, providers and employers. These provisions are currently slated to take effect at specified times over the next decade. This federal healthcare reform legislation does not affect the consolidated financial statements for the year ended June 30, 2013.

Note 15 - Fair Value of Financial Instruments

The carrying amounts reported in the consolidated statements of financial position for cash and cash equivalents, investments, patient accounts receivable, assets limited as of use, accounts payable and accrued expenses, and third party advances approximate the related fair values. The composition and related fair values of assets limited as to use and investments are disclosed in Note 3. The fair value of the System's outstanding long-term obligations as of June 30, 2013 and 2012 was approximately $58,702,326 and $62,259,763, respectively.

Note 16 - Endowment

Current accounting standards provide guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA) and additional disclosures about an organization's endowment funds. The State of Maryland has adopted UPMIFA.

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

Note 16 – Endowment - Continued

The Board of Directors of the System has interpreted the Maryland State Prudent Management of Institutional Funds Act (SPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Hospital classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

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

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

From time to time, the fair value of assets associated with the endowment fund may decline below the level that the donor or SPMIFA required the System to retain as a fund of perpetual duration. There were no such deficiencies as of June 30, 2013 or 2012.

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

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

Calvert Health System, Inc. and Subsidiaries
Notes to the Consolidated Financial Statements - Continued

Note 16 – Endowment - Continued

The endowment's net asset composition as of June 30, 2013 and 2012 and the changes therein, all of which are reported as permanently restricted net assets, were as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted
Donor-restricted endowment, June 30, 2013	$ 0	$ 0	$ 808,929

Changes in Endowment Net Assets for the Fiscal Year June 30, 2013	Unrestricted	Temporarily Restricted	Permanently Restricted
Endowment net assets, beginning of year	$ 0	$ 0	$ 658,218
Investment return:			
Net appreciation (realized and unrealized)	0	0	137,039
Other changes:			
Contributions	0	0	55,772
Released from restriction	0	42,100	(42,100)
Endowment net assets, end of year	$ 0	$ 42,100	$ 808,929

	Unrestricted	Temporarily Restricted	Permanently Restricted
Donor-restricted endowment, June 30, 2012	$ 0	$ 0	$ 658,218

Changes in Endowment Net Assets for the Fiscal Year June 30, 2012	Unrestricted	Temporarily Restricted	Permanently Restricted
Endowment net assets, beginning of year	$ 0	$ 0	$ 650,155
Investment return:			
Net appreciation (realized and unrealized)	0	0	8,063
Endowment net assets, end of year	$ 0	$ 0	$ 658,218

Note 17 – Subsequent Events

Subsequent events have been evaluated by management through October 16, 2013, which is the date the financial statements were available to be issued. In August 2013, the 2004 Revenue Bonds were refinanced (*see Note 6*). In August 2013, three medical office buildings were sold (*see Note 12*).

COHEN
RUTHERFORD
+ KNIGHT PC
Certified Public Accountants

Independent Auditor's Report on the Supplementary Information

Audit Committee of the Board of Directors of
Calvert Health System, Inc.

We have audited the financial statements of Calvert Health System, Inc. and Subsidiaries (the System) as of and for the years ended June 30, 2013 and 2012, and have issued our report thereon, dated October 16, 2013, which contained an unmodified opinion on those consolidated financial statements. Our audits were performed for the purpose of forming an opinion on the consolidated financial statements as a whole. We have not performed any procedures with respect to the audited financial statements subsequent to October 16, 2013.

The accompanying supplementary information is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Cohen, Rutherford + Knight, P.C.

October 16, 2013
Bethesda, Maryland

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

Calvert Memorial Hospital of Calvert County and Subsidiary
Consolidating Statement of Financial Position
June 30, 2013

ASSETS	Calvert Memorial Hospital	Calvert Memorial Hospital Foundation	Consolidating and Eliminating Entries		Consolidated Calvert Memorial Hospital
CURRENT ASSETS					
Cash and cash equivalents	$ 15,229,579	$ 211,795	$ 0		$ 15,441,374
Short-term investments	46,016	0	0		46,016
Patient accounts receivable, net	12,534,072	0	0		12,534,072
Inventories	2,236,704	0	0		2,236,704
Prepaid expenses and other assets	1,852,831	0	0		1,852,831
Assets limited as of use, current	1,003,543	0	0		1,003,543
TOTAL CURRENT ASSETS	32,902,745	211,795	0		33,114,540
Investments	2,078,169	0	0		2,078,169
Investments in wholly owned subsidiaries	3,510,489	0	(3,510,489)	(2)	0
Investments in affiliated enterprises	2,644,587	0	0		2,644,587
Assets limited as of use	3,398,695	3,543,201	0		6,941,896
Property and equipment, net	59,040,329	0	0		59,040,329
Insurance recoverable	7,064,435	0	0		7,064,435
Other assets	493,798	0	0		493,798
TOTAL ASSETS	$ 111,133,247	$ 3,754,996	$ (3,510,489)		$ 111,377,754
LIABILITIES AND NET ASSETS					
CURRENT LIABILITIES					
Accounts payable and accrued expenses	$ 14,279,792	$ 6,472	$ 0		$ 14,286,264
Intercompany accounts	(728,793)	238,035	0		(490,758)
Current portion of long-term debt	1,201,567	0	0		1,201,567
Advances from third party payors	3,708,463	0	0		3,708,463
TOTAL CURRENT LIABILITIES	18,461,029	244,507	0		18,705,536
Long-term debt, less current portion	49,169,178	0	0		49,169,178
Accrued pension cost	5,727,143	0	0		5,727,143
Professional liability	8,200,936	0	0		8,200,936
Other long-term liabilities	2,078,169	0	0		2,078,169
TOTAL LIABILITIES	83,636,455	244,507	0		83,880,962
NET ASSETS					
General	23,038,196	202,122	(202,122)	(2)	23,038,196
Board designated	3,020,774	2,020,774	(2,020,774)	(2)	3,020,774
Temporarily restricted	628,893	478,664	(478,664)	(2)	628,893
Permanently restricted	808,929	808,929	(808,929)	(2)	808,929
TOTAL NET ASSETS	27,496,792	3,510,489	(3,510,489)		27,496,792
TOTAL LIABILITIES AND NET ASSETS	$ 111,133,247	$ 3,754,996	$ (3,510,489)		$ 111,377,754

Calvert Memorial Hospital of Calvert County and Subsidiary
Consolidating Statement of Operations
For the year ended June 30, 2013

	Calvert Memorial Hospital	Calvert Memorial Hospital Foundation	Consolidating and Eliminating Entries		Consolidated Calvert Memorial Hospital
REVENUE					
Patient service revenue (net of contractual allowances and discounts)	$ 122,435,172	$ 0	$ 0		$ 122,435,172
Provision for bad debts	(1,597,889)	0	0		(1,597,889)
Net patient service revenue less provision for bad debts	120,837,283	0	0		120,837,283
Rental revenue	70,519	0	0		70,519
Other operating revenue	4,590,110	529,700	(220,536)	(6)(7)	4,899,274
TOTAL OPERATING REVENUE	125,497,912	529,700	(220,536)		125,807,076
EXPENSES					
Salaries & wages	50,102,248	0	0		50,102,248
Employee benefits	11,565,672	0	0		11,565,672
Supplies	21,255,804	0	0		21,255,804
Purchased services	5,875,307	0	0		5,875,307
Professional fees	4,718,865	0	0		4,718,865
Depreciation and amortization	8,215,668	0	0		8,215,668
Interest	2,348,788	0	0		2,348,788
Other	14,510,166	524,921	(220,536)	(6)(7)	14,814,551
TOTAL OPERATING EXPENSES	118,592,518	524,921	(220,536)		118,896,903
INCOME FROM OPERATIONS	6,905,394	4,779	0		6,910,173
NONOPERATING GAINS					
Investment income	115,491	79,525	0		195,016
Income from equity investments	314,381	0	(4,779)	(4)	309,602
Loss on extinguishment of debt	(498,204)	0	0		(498,204)
NONOPERATING LOSSES, NET	(68,332)	79,525	(4,779)		6,414
EXCESS OF REVENUE OVER EXPENSES (EXPENSES OVER REVENUE)	6,837,062	84,304	(4,779)		6,916,587
Transfer of net assets	(6,462,591)	0	0		(6,462,591)
Net assets released from restrictions for capital acquisitions	219,129	0	0		219,129
Equity contributions	(850,000)	0	0		(850,000)
Distributions to noncontrolling interest holders	0	0	0		0
Pension-related changes other than net periodic pension cost	4,152,279	0	0		4,152,279
Net unrealized gains (losses) on investments	(16,429)	118,618	0		102,189
INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS	$ 3,879,450	$ 202,922	$ (4,779)		$ 4,077,593

Calvert Memorial Hospital of Calvert County and Subsidiary
Consolidating Statement of Cash Flows
For the year ended June 30, 2013

	Calvert Memorial Hospital	Calvert Memorial Hospital Foundation	Consolidating and Eliminating Entries		Consolidated Calvert Memorial Hospital
CASH FLOWS FROM OPERATING ACTIVITIES					
Increase (decrease) in net assets	$ 4,446,896	$ 533,009	$ (533,009)	(2)	$ 4,446,896
Adjustments to reconcile increase in net assets to net cash provided by operating activities:					
Loss on extinguishment of debt	498,204	0	0		498,204
Provision for uncollectible accounts	1,597,889	(2,500)	0		1,595,389
Depreciation and amortization	8,215,668	0	0		8,215,668
Donations restricted for capital acquisition	0	(293,001)	0		(293,001)
Equity in earnings of wholly owned subsidiaries	(4,779)	0	4,779	(4)	0
Equity in earnings of affiliated enterprises	(309,602)	0	0		(309,602)
Investment income on restricted assets	0	(16,364)	0		(16,364)
Realized net gains on investments	0	0	0		0
Unrealized net losses (gains) on investments	16,429	(239,293)	0		(222,864)
Pension-related changes other than net periodic pension cost	(4,152,279)	0	0		(4,152,279)
Increase in patient accounts receivable	(1,508,715)	0	0		(1,508,715)
Decrease in inventories	66,613	0	0		66,613
Increase in prepaid expenses and other assets	(3,434,811)	0	0		(3,434,811)
Increase in accounts payable, accrued expenses & other liabilities	2,991,955	155,297	0		3,147,252
NET CASH PROVIDED BY OPERATING ACTIVITIES	8,423,468	137,148	(528,230)		8,032,386
CASH FLOWS FROM INVESTING ACTIVITIES					
Purchases of investments	(239,528)	0	0		(239,528)
Sales of investments	620,203	0	0		620,203
Net decrease (increase) in assets limited as to use	1,730,963	(460,385)	0		1,270,578
Purchases of property and equipment	(6,575,052)	0	0		(6,575,052)
NET CASH USED IN INVESTING ACTIVITIES	(4,463,414)	(460,385)	0		(4,923,799)
CASH FLOWS FROM FINANCING ACTIVITIES					
Repayment of long-term debt	(21,376,159)	0	0		(21,376,159)
Payment on deferred financing costs	(150,057)	0	0		(150,057)
Proceeds from issuance of long-term debt	19,199,000	0	0		19,199,000
Donations received restricted for capital acquisitions	0	293,001	0		293,001
Net distributions from investees	2,778,625	0	528,230	(5)	3,306,855
Investment income on restricted assets	0	16,364	0		16,364
NET CASH PROVIDED BY FINANCING ACTIVITIES	451,409	309,365	528,230		1,289,004
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	4,411,463	(13,872)	0		4,397,591
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	10,818,116	225,667	0		11,043,783
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 15,229,579	$ 211,795	$ 0		$ 15,441,374

Calvert Health System, Inc. and Subsidiaries
Consolidating Statement of Financial Position
June 30, 2013

ASSETS	Consolidated Calvert Memorial Hospital	Calvert Physician Associates	Calvert Health Ventures	CMH Holding Company	CMH II Holding Company	Calvert Health System, Inc.	Consolidating and Eliminating Entries		Consolidated Calvert Health System, Inc.
CURRENT ASSETS									
Cash and cash equivalents	$ 15,441,374	$ 261,831	$ 1,291,190	$ 152,179	$ 1,196,556	$ 3,812,864	$ 0		$ 22,155,994
Short-term investments	46,016	0	0	0	0	0	0		46,016
Patient accounts receivable, net	12,534,072	1,149,958	202,095	0	0	0	0		13,886,125
Inventories	2,236,704	31,439	11,414	0	0	0	0		2,279,557
Prepaid expenses and other assets	1,852,831	231,682	1,681,134	17,262	182,216	0	(1,653,045)	(1)	2,312,080
Assets to be sold	0	0	0	0	20,105,228	0	0		20,105,228
Assets limited as of use, current	1,003,543	0	0	0	0	0	0		1,003,543
TOTAL CURRENT ASSETS	33,114,540	1,674,910	3,185,833	169,441	21,484,000	3,812,864	(1,653,045)		61,788,543
Investments	2,078,169	0	0	0	0	60,199,901	0		62,278,070
Investments in wholly owned subsidiaries	0	0	0	0	0	3,978,575	(3,978,575)	(2)(5)	0
Investments in affiliated enterprises	2,644,587	0	957,610	186,627	0	0	0		3,788,824
Assets limited as of use	6,941,896	0	0	0	0	0	0		6,941,896
Property and equipment, net	59,040,329	1,454,828	186,070	2,361,081	525,000	0	0		63,567,308
Insurance recoverable	7,064,435	0	0	0	0	0	0		7,064,435
Other assets	493,798	19,648	0	0	(5,879)	0	0		507,567
TOTAL ASSETS	$ 111,377,754	$ 3,149,386	$ 4,329,513	$ 2,717,149	$ 22,003,121	$ 67,991,340	$ (5,631,620)		$ 205,936,643
LIABILITIES AND NET ASSETS									
CURRENT LIABILITIES									
Accounts payable and accrued expenses	$ 14,286,264	$ 2,077,292	$ 597,669	$ 5,971	$ 102,759	$ 18,750	$ (1,653,045)	(1)	$ 15,435,660
Intercompany accounts	(490,758)	(487,254)	978,012	0	7,643,208	(7,643,208)	0		0
Current portion of long-term debt	1,201,567	0	0	0	6,720,000	0	0		7,921,567
Advances from third party payors	3,708,463	0	0	0	0	0	0		3,708,463
TOTAL CURRENT LIABILITIES	18,705,536	1,590,038	1,575,681	5,971	14,465,967	(7,624,458)	(1,653,045)		27,065,690
Long-term debt, less current portion	49,169,178	0	0	0	0	0	0		49,169,178
Accrued pension cost	5,727,143	0	0	0	0	0	0		5,727,143
Professional liability	8,200,936	0	0	0	0	0	0		8,200,936
Other long-term liabilities	2,078,169	0	0	0	131,813	0	0		2,209,982
TOTAL LIABILITIES	83,880,962	1,590,038	1,575,681	5,971	14,597,780	(7,624,458)	(1,653,045)		92,372,929
NET ASSETS									
General	23,038,196	1,559,348	2,419,227	2,711,178	7,405,341	75,615,798	(3,978,575)	(2)(5)	108,770,513
Board designated	3,020,774	0	0	0	0	0	0		3,020,774
Noncontrolling interest in subsidiary	0	0	334,605	0	0	0	0		334,605
Temporarily restricted	628,893	0	0	0	0	0	0		628,893
Permanently restricted	808,929	0	0	0	0	0	0		808,929
TOTAL NET ASSETS	27,496,792	1,559,348	2,753,832	2,711,178	7,405,341	75,615,798	(3,978,575)		113,563,714
TOTAL LIABILITIES AND NET ASSETS	$ 111,377,754	$ 3,149,386	$ 4,329,513	$ 2,717,149	$ 22,003,121	$ 67,991,340	$ (5,631,620)		$ 205,936,643

Calvert Health System, Inc. and Subsidiaries
Consolidating Statement of Operations
For the year ended June 30, 2013

	Consolidated Calvert Memorial Hospital	Calvert Physician Associates	Calvert Health Ventures	CMH Holding Company	CMH II Holding Company	Calvert Health System, Inc.	Consolidating and Eliminating Entries	Consolidated Calvert Health System, Inc.
REVENUE								
Patient service revenue (net of contractual allowances and discounts)	$ 122,435,172	$ 7,210,672	$ 3,554,863	$ 0	$ 0	$ 0	$ 0	$ 133,200,707
Provision for bad debts	(1,597,889)	(36,053)	(39,022)	0	0	0	0	(1,672,964)
Net patient service revenue less provision for bad debts	120,837,283	7,174,619	3,515,841	0	0	0	0	131,527,743
Rental revenue	70,519	0	0	594,155	3,498,531	0	(1,582,567) (3)	2,580,638
Other operating revenue	4,899,274	484,385	595,448	0	0	7,544	(1,651,018) (3)	4,335,633
TOTAL OPERATING REVENUE	125,807,076	7,659,004	4,111,289	594,155	3,498,531	7,544	(3,233,585)	138,444,014
EXPENSES								
Salaries & wages	50,102,248	6,760,721	2,349,980	0	0	0	247,207 (3)	59,460,156
Employee benefits	11,565,672	924,985	361,100	0	0	0	0	12,851,757
Supplies	21,255,804	1,508,004	101,748	0	0	0	0	22,865,556
Purchased services	5,875,307	756,035	360,466	178,053	1,057,585	104,962	(1,499,027) (3)	6,833,381
Professional fees	4,718,865	79,565	0	0	0	0	0	4,798,430
Depreciation and amortization	8,215,668	393,773	52,628	191,997	991,564	0	0	9,845,630
Interest	2,348,788	0	0	0	72,621	0	0	2,421,409
Other	14,814,551	670,282	833,740	217,981	844,200	25	(1,981,765) (3)	15,399,014
TOTAL OPERATING EXPENSES	118,896,903	11,093,365	4,059,662	588,031	2,965,970	104,987	(3,233,585)	134,475,333
INCOME (LOSS) FROM OPERATIONS	6,910,173	(3,434,361)	51,627	6,124	532,561	(97,443)	0	3,968,681
NONOPERATING GAINS								
Investment Income	195,016	0	0	0	0	3,004,565	0	3,199,581
Income (loss) from equity investments	309,602	0	121,394	8,515	0	(3,334,016)	3,334,016 (4)	439,511
Loss on extinguishment of debt	(498,204)	0	0	0	0	0	0	(498,204)
NONOPERATING GAINS AND (LOSSES), NET	6,414	0	121,394	8,515	0	(329,451)	3,334,016	3,140,888
EXCESS OF REVENUE OVER EXPENSES (EXPENSES OVER REVENUE)	6,916,587	(3,434,361)	173,021	14,639	532,561	(426,894)	3,334,016	7,109,569
Transfer of net assets	(6,462,591)	0	0	0	0	6,462,591	0	0
Net assets released from restrictions for capital acquisitions	219,129	0	0	0	0	0	0	219,129
Equity contributions	(850,000)	2,022,853	2,882,884	(92,000)	(532,000)	1,474,000	(4,905,737) (5)	0
Distributions to noncontrolling interest holders	0	0	(98,000)	0	0	0	0	(98,000)
Pension-related changes other than net periodic pension cost	4,152,279	0	0	0	0	0	0	4,152,279
Net unrealized gains on investments	102,189	0	0	0	0	3,479,438	0	3,581,627
INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS	$ 4,077,593	$ (1,411,508)	$ 2,957,905	$ (77,361)	$ 561	$ 10,989,135	$ (1,571,721)	$ 14,964,604

Calvert Health System, Inc. and Subsidiaries
Consolidating Statement of Cash Flows
For the year ended June 30, 2013

	Consolidated Calvert Memorial Hospital	Calvert Physician Associates	Calvert Health Ventures	CMH Holding Company	CMH II Holding Company	Calvert Health System, Inc.	Consolidating and Eliminating Entries		Consolidated Calvert Health System, Inc.
CASH FLOWS FROM OPERATING ACTIVITIES									
Increase (decrease) in net assets	$ 4,446,896	$ (1,411,508)	$ 2,957,905	$ (77,360)	$ 561	$ 10,989,135	$ (1,571,720)	(2)	$ 15,333,909
Adjustments to reconcile increase in net assets to net cash provided by operating activities:									
Loss on extinguishment of debt	498,204	0	0	0	0	0	0		498,204
Provision for uncollectible accounts	1,595,389	36,053	39,022	0	0	0	0		1,670,464
Depreciation and amortization	8,215,668	393,773	52,628	191,997	991,564	0	0		9,845,630
Donations restricted for capital acquisition	(293,001)	0	0	0	0	0	0		(293,001)
Equity in earnings of wholly owned subsidiaries	0	0	0	0	0	3,334,016	(3,334,016)	(4)	0
Equity in earnings of affiliated enterprises	(309,602)	0	(121,394)	(8,515)	0	0	0		(439,511)
Investment income on restricted assets	(16,364)	0	0	0	0	0	0		(16,364)
Realized net gains on investments	0	0	0	0	0	(3,004,281)	0		(3,004,281)
Unrealized net gains on investments	(222,864)	0	0	0	0	(3,479,438)	0		(3,702,302)
Pension-related changes other than net periodic pension cost	(4,152,279)	0	0	0	0	0	0		(4,152,279)
Increase in patient accounts receivable	(1,508,715)	(565,452)	(7,020)	0	0	0	0		(2,081,187)
(Increase) decrease in inventories	66,613	(18,949)	4,368	0	0	0	0		52,032
(Increase) decrease in prepaid expenses and other assets	(3,434,811)	523,950	(581,217)	(10,735)	(114,428)	0	882,446	(1)	(2,734,795)
Increase (decrease) in accounts payable, accrued expenses & other liabilities	3,147,252	1,426,452	(2,279,827)	(20,245)	(367,540)	394,000	(882,446)	(1)	1,417,646
NET CASH PROVIDED BY OPERATING ACTIVITIES	8,032,386	384,319	64,465	75,142	510,157	8,233,432	(4,905,736)		12,394,165
CASH FLOWS FROM INVESTING ACTIVITIES									
Purchases of investments	(239,528)	0	0	0	0	(12,143,675)	0		(12,383,203)
Sales of investments	620,203	0	0	0	0	7,418,060	0		8,038,263
Net decrease in assets limited as to use	1,270,578	0	0	0	0	0	0		1,270,578
Purchases of property and equipment	(6,575,052)	(385,543)	(57,104)	(89,372)	(57,413)	0	0		(7,164,484)
NET CASH USED IN INVESTING ACTIVITIES	(4,923,799)	(385,543)	(57,104)	(89,372)	(57,413)	(4,725,615)	0		(10,238,846)
CASH FLOWS FROM FINANCING ACTIVITIES									
Repayment of long-term debt	(21,376,159)	0	0	0	(7,280,000)	0	0		(28,656,159)
Payment on deferred financing costs	(150,057)	0	0	0	(30,518)	0	0		(180,575)
Proceeds from issuance of long-term debt	19,199,000	0	0	0	7,000,000	0	0		26,199,000
Donations received restricted for capital acquisitions	293,001	0	0	0	0	0	0		293,001
Net distributions from (to) investees	3,306,855	0	301,326	0	0	(7,312,591)	4,905,736	(5)	1,201,326
Investment income on restricted assets	16,364	0	0	0	0	0	0		16,364
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	1,289,004	0	301,326	0	(310,518)	(7,312,591)	4,905,736		(1,127,043)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	4,397,591	(1,224)	308,687	(14,230)	142,226	(3,804,774)	0		1,028,276
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	11,043,783	263,055	982,503	166,409	1,054,330	7,617,638	0		21,127,718
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 15,441,374	$ 261,831	$ 1,291,190	$ 152,179	$ 1,196,556	$ 3,812,864	$ 0		$ 22,155,994

Calvert Health System, Inc. and Subsidiaries
Description of Consolidating and Eliminating Entries

1. To eliminate intercompany payables/receivables.

2. To eliminate investment in subsidiaries and related net asset accounts.

3. To eliminate intercompany income/expense generated from support and building service fees, staffing contracts and operating leases.

4. To eliminate income of wholly owned subsidiaries.

5. To eliminate intercompany transfer of equity and assets.

6. To eliminate revenue/expense for Calvert Memorial Hospital Foundation, Inc. for contributions transferred to the Hospital for the acquisition of property, plant and equipment.

7. To eliminate revenue/expense for Calvert Memorial Hospital Foundation, Inc. for contributions transferred to the Hospital to fund operating programs.