



**CARROLL COUNTY HEALTH SERVICES CORPORATION  
AND SUBSIDIARIES**

Consolidated Financial Statements and Supplemental Schedules

June 30, 2013 and 2012

(With Independent Auditors' Report Thereon)

**CARROLL COUNTY HEALTH SERVICES CORPORATION  
AND SUBSIDIARIES**

**Table of Contents**

	<b>Page(s)</b>
Independent Auditors' Report	1
Consolidated Balance Sheets	3
Consolidated Statements of Operations	4
Consolidated Statements of Changes in Net Assets	5
Consolidated Statements of Cash Flows	6
Notes to Consolidated Financial Statements	7 – 39
Schedule 1 – Consolidating Balance Sheet Information	40 – 41
Schedule 2 – Consolidating Balance Sheet Information – Obligated Group Format	42
Schedule 3 – Consolidating Statement of Operations Information	43 – 44
Schedule 4 – Consolidating Statement of Operations Information – Obligated Group Format	45



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

## Independent Auditors' Report

The Board of Directors  
Carroll County Health Services Corporation and Subsidiaries:

We have audited the accompanying consolidated financial statements of Carroll County Health Services Corporation and Subsidiaries (the Health System), which comprise the consolidated balance sheets as of June 30, 2013 and 2012, and the related consolidated statements of operations, 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 U.S. generally accepted accounting principles; 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.

### Auditors' 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 auditors' 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 auditors consider 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.

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 Carroll County Health Services Corporation and Subsidiaries as of June 30, 2013 and 2012, and the results of their operations and their cash flows for the years then ended, in accordance with U.S. generally accepted accounting principles.



### **Emphasis of Matter**

As discussed in notes 1(n) and 1(t) to the consolidated financial statements, in 2013, the Health System adopted new accounting guidance, Accounting Standards Update No. 2011-07, *Health Care Entities (Topic 954), Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts, and the Allowance for Doubtful Accounts for Certain Health Care Entities*. Our opinion is not modified with respect to this matter.

### **Other Matter**

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplementary information included in Schedules 1 through 4 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.

**KPMG LLP**

October 25, 2013

**CARROLL COUNTY HEALTH SERVICES CORPORATION  
AND SUBSIDIARIES**

Consolidated Balance Sheets

June 30, 2013 and 2012

(In thousands)

<b>Assets</b>	<b>2013</b>	<b>2012</b>
<b>Current assets:</b>		
Cash and cash equivalents	\$ 41,176	35,515
Short-term investments	14,615	14,501
Current portion of assets limited as to use	13,848	12,232
Patient receivables, net of allowance for uncollectible of \$8,249 in 2013 and \$7,437 in 2012	27,481	24,745
Other receivables	2,970	3,262
Inventory	3,937	3,980
Prepaid expenses	6,709	3,359
Total current assets	110,736	97,594
Property and equipment, net	161,406	150,188
Long-term investments	59,965	54,293
Long-term investments – other	21,749	16,846
Investments in joint ventures	4,007	4,129
Assets limited as to use, less current portion	24,244	29,629
Other assets	14,897	17,961
Total assets	\$ 397,004	370,640
<b>Liabilities and Net Assets</b>		
<b>Current liabilities:</b>		
Current portion of long-term debt	\$ 3,760	3,568
Current obligation under capital lease	406	774
Accounts payable and accrued expenses	36,674	25,334
Accrued payroll and related taxes	10,719	8,915
Deferred revenue	94	168
Advances from third-party payors	6,716	8,491
Total current liabilities	58,369	47,250
Long-term debt, less current portion	137,813	137,174
Long-term obligation under capital lease, less current portion	337	343
Other liabilities	27,469	35,114
Accrued pension and postretirement benefits	9,592	19,849
Total liabilities	233,580	239,730
<b>Net assets:</b>		
<b>Unrestricted:</b>		
Unrestricted net assets	147,079	114,019
Noncontrolling interest in consolidated subsidiaries	4,747	5,248
Total unrestricted net assets	151,826	119,267
<b>Restricted:</b>		
Temporarily restricted	10,425	10,528
Permanently restricted	1,173	1,115
Total restricted net assets	11,598	11,643
Total net assets	163,424	130,910
Total liabilities and net assets	\$ 397,004	370,640

See accompanying notes to consolidated financial statements.

**CARROLL COUNTY HEALTH SERVICES CORPORATION  
AND SUBSIDIARIES**

Consolidated Statements of Operations

Years ended June 30, 2013 and 2012

(In thousands)

	<u>2013</u>	<u>2012</u>
Unrestricted revenues, gains, and other support:		
Patient service revenue (net of contractals)	\$ 267,724	259,790
Less Provision for bad debts	7,406	10,355
Net patient service revenue	<u>260,318</u>	<u>249,435</u>
Other operating revenues	25,205	21,541
Net assets released from restrictions used for operations	17	21
Total unrestricted revenues, gains, and other support	<u>285,540</u>	<u>270,997</u>
Expenses:		
Salaries and wages	120,810	111,427
Employee benefits	24,260	22,175
Departmental supplies and expenses	46,904	47,376
Professional fees	18,724	18,598
Purchased services	39,960	37,428
Depreciation and amortization	17,995	17,420
Interest	6,183	8,746
Total expenses	<u>274,836</u>	<u>263,170</u>
Operating income	10,704	7,827
Other income (expense):		
Investment income	6,262	20
Unrestricted gifts	1,343	1,855
Change in fair value of interest rate hedge, including settlement payments	4,959	(11,792)
Other, net	(855)	(2,152)
Excess (deficit) of revenues over expenses	<u>\$ 22,413</u>	<u>(4,242)</u>

See accompanying notes to consolidated financial statements.

**CARROLL COUNTY HEALTH SERVICES CORPORATION  
AND SUBSIDIARIES**

Consolidated Statements of Changes in Net Assets

Years ended June 30, 2013 and 2012

(In thousands)

	<b>Unrestricted net assets</b>	<b>Temporarily restricted net assets</b>	<b>Permanently restricted net assets</b>	<b>Total net assets</b>
Balance at June 30, 2011	\$ 138,448	4,232	1,113	143,793
Deficit of revenues over expenses	(4,242)	—	—	(4,242)
Restricted gifts, bequests, and contributions	—	6,843	2	6,845
Change in unrealized gains/losses other than trading securities	—	7	—	7
Net assets released from restrictions used for capital expenditures	533	(533)	—	—
Net assets released from restrictions used for operations	—	(21)	—	(21)
Distributions to noncontrolling owners	(1,475)	—	—	(1,475)
Contributions from noncontrolling owners	914	—	—	914
Change in funded status of pension plan and postretirement	(14,911)	—	—	(14,911)
Changes in net assets	<u>(19,181)</u>	<u>6,296</u>	<u>2</u>	<u>(12,883)</u>
Balance at June 30, 2012	<u>119,267</u>	<u>10,528</u>	<u>1,115</u>	<u>130,910</u>
Excess of revenues over expenses	22,413	—	—	22,413
Restricted gifts, bequests, and contributions	—	3,176	58	3,234
Change in unrealized gains/losses other than trading securities	—	165	—	165
Net assets released from restrictions used for capital expenditures	3,427	(3,427)	—	—
Net assets released from restrictions used for operations	—	(17)	—	(17)
Distributions to noncontrolling owners	(1,670)	—	—	(1,670)
Contributions from noncontrolling owners	46	—	—	46
Change in funded status of pension plan and postretirement	8,343	—	—	8,343
Changes in net assets	<u>32,559</u>	<u>(103)</u>	<u>58</u>	<u>32,514</u>
Balance at June 30, 2013	\$ <u>151,826</u>	<u>10,425</u>	<u>1,173</u>	<u>163,424</u>

See accompanying notes to consolidated financial statements.

**CARROLL COUNTY HEALTH SERVICES CORPORATION  
AND SUBSIDIARIES**

Consolidated Statements of Cash Flows

Years ended June 30, 2013 and 2012

(In thousands)

	2013	2012
Cash flows from operating activities:		
Change in net assets	\$ 32,514	(12,883)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	17,995	17,420
Provision for bad debts	7,406	10,355
Change in funded status of pension plan and postretirement	(8,343)	14,911
Equity in losses (earnings) of joint ventures and alternative investments	(390)	568
(Gain) loss on disposition of property and equipment	(10)	198
Distributions to noncontrolling interest holder	1,670	1,475
Contributions from non controlling interest holder	(46)	(914)
Restricted gifts, bequests, and contributions	(3,234)	(6,845)
Change in net unrealized gains on investments	(2,981)	(186)
Loss on early extinguishment of debt	—	908
Realized (gains) losses on sales of investments	(475)	1,894
Change in unrealized and realized losses (gains) on derivative instruments	(4,959)	11,792
Changes in assets and liabilities:		
Patient and other receivables	(9,850)	(13,789)
Inventory	43	(570)
Prepaid expenses	(3,350)	(612)
Other assets	2,432	(3,043)
Accounts payable, accrued expenses, accrued payroll and related taxes, and other liabilities	6,580	(737)
Deferred revenue	(74)	(46)
Advances from third-party payors	(1,775)	1,767
Net cash provided by operating activities	33,153	21,663
Cash flows from investing activities:		
Purchases of property and equipment, net	(25,510)	(12,912)
Proceeds from sale of property and equipment	175	21
Investment in joint ventures	333	(87)
Net purchases of investments	(7,355)	974
Net purchases of assets limited as to use, net	3,935	(13,134)
Distributions from joint ventures	135	700
Payment on derivative instrument	(1,272)	(676)
Cash paid for acquisitions	—	(2,300)
Net cash used in investing activities	(29,559)	(27,414)
Cash flows from financing activities:		
Proceeds from issuance of long-term debt	2,435	88,829
Payments on long-term debt	(1,604)	(85,634)
Payments on capital lease obligation	(374)	(645)
Distributions to noncontrolling interest holder	(1,670)	(1,475)
Contributions from noncontrolling interest holder	46	914
Proceeds from restricted gifts, bequests, and contributions	3,234	6,845
Net cash provided by financing activities	2,067	8,834
Net decrease in cash and cash equivalents	5,661	3,083
Cash and cash equivalents, beginning of year	35,515	32,432
Cash and cash equivalents, end of year	\$ 41,176	35,515
Supplemental cash flow information:		
Interest paid	\$ 5,046	8,746
Medical office building	282	23
Additions to property and equipment for capital leases and other obligations	3,704	363

See accompanying notes to consolidated financial statements.



**CARROLL COUNTY HEALTH SERVICES CORPORATION  
AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

June 30, 2013 and 2012

(In thousands)

**(1) Summary of Significant Accounting Policies**

**(a) Organization**

*Carroll County Health Services Corporation* (CCHS) is a private, not-for-profit, nonstock Maryland membership corporation. The accompanying consolidated financial statements include the accounts of the CCHS and its wholly or partially owned subsidiaries, as described below (collectively referred to as the Health System).

*Carroll Hospital Center, Inc.* (the Hospital) is a not-for-profit entity engaged in providing comprehensive healthcare services through an integrated network in Carroll County, Maryland. The Hospital is a wholly owned subsidiary of CCHS. Wholly and partially owned subsidiaries of the Hospital include the following:

- *Carroll Hospital Center Foundation, Inc.* (the Foundation) is a wholly owned subsidiary, which is a charitable organization formed with the intent of fund-raising for the Hospital and Carroll Hospice, Inc.
- *Carroll Hospice, Inc.* (CH) is a wholly owned subsidiary, which provides healthcare services to terminally ill patients.
- *Cen-Mar Assurance Co.* (the Captive or Cen-Mar) is a wholly owned subsidiary managed by Marsh Management Services (Cayman) Ltd. The Captive is an offshore, medical malpractice insurance company domiciled in the Cayman Islands.
- *Carroll County Radiology, LLC* (CCR) is a 60% partially owned, consolidated joint venture that provides outpatient diagnostic imaging services.

*Carroll County Med-Services, Inc.* (CCMS) is a wholly owned subsidiary of CCHS that is involved in real estate holdings, physician recruitment, and support service activities, and maintains ownership interests in various joint ventures as described in note 7. Wholly owned subsidiaries of CCMS include: Carroll Health Group, LLC, which is a multi-specialty physician practice, Carroll County CMO, LLC, which is a contract management organization for physician's on CHC's medical staff that obtain fee-for-service contracts with payors and Carroll PHO LLC, which is a collaboration among physicians and CHC that focuses on care coordination and health information sharing and solutions. Carroll Care Pharmacies, LLC is a 60% owned joint venture that owns and operates retail pharmacies. Carroll Occupational Health, LLC is a 75% owned joint venture that provides occupational health and wellness services.

**(b) Basis of Presentation**

The consolidated financial statements are prepared on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles (GAAP). All majority-owned and direct member entities are consolidated. All entities where the Health System exercises significant influence but for which it does not have control are accounted for under the equity method. All other entities are

**CARROLL COUNTY HEALTH SERVICES CORPORATION  
AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

June 30, 2013 and 2012

(In thousands)

accounted for under the cost method. All significant intercompany accounts and transactions have been eliminated.

**(c) *Use of Estimates***

The preparation of consolidated financial statements in conformity with GAAP 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 reporting period. Actual results could differ from those estimates.

**(d) *Excess (Deficit) of Revenues over Expenses***

The consolidated statements of operations and changes in net assets include a performance indicator, excess (deficit) of revenues over expenses. Changes in unrestricted net assets that are excluded from excess (deficit) of revenue over expenses, include contributions of long-lived assets (including assets acquired using contributions that by donor restriction were to be used for the purpose of acquiring such assets), certain changes in accounting principle, contribution from and distributions to noncontrolling owners and defined benefit obligations in excess of recognized pension cost, among others.

**(e) *Cash and Cash Equivalents***

All highly liquid investments with a maturity date of three months or less when purchased are considered to be cash equivalents.

**(f) *Inventory***

Inventory, which primarily consists of medical supplies and pharmaceuticals, is stated at the lower of cost or market, with cost being determined primarily under the average cost or first-in, first-out methods.

**(g) *Assets Limited as to Use***

Assets limited as to use primarily include assets held by trustees under bond indenture agreements, self-insurance trust arrangements, collateral related to derivative instruments and lines of credit, physician loan program, pledges receivable, assets restricted by donor, and assets designated by the board of directors for future capital improvements and other purposes over which it retains control and may, at its discretion, use for other purposes.

**(h) *Property and Equipment***

Property and equipment acquisitions are recorded at cost and are depreciated over the estimated useful lives of the assets. Estimated useful lives range from 3 to 50 years. Amortization of assets held under capital leases are computed using the shorter of the lease term or the estimated useful life of the leased asset and is included in depreciation and amortization expense.

**CARROLL COUNTY HEALTH SERVICES CORPORATION  
AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

June 30, 2013 and 2012

(In thousands)

The Health System periodically evaluates the realizability of property and equipment based upon projected undiscounted cash flows and operating income for each business. There were no impairments of long lived assets during the years ended June 30, 2013 and 2012.

Depreciation is computed on a straight-line basis. Major classes and estimated useful lives of property and equipment are as follows:

Leasehold improvements	Lease term
Building and improvements	5 – 50 years
Equipment	3 – 10 years

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

**(i) Long-Term Investments and Long-Term Investment – Other**

The Health System's investment portfolio is considered trading and is classified as current or noncurrent assets based on management's intention as to use. All equity securities are reported at fair value principally based on quoted market prices on the consolidated balance sheets.

The Health System has investments in alternative investments, primarily hedge funds of funds totaling \$21,749 and \$16,846 at June 30, 2013 and 2012, respectively. These funds utilize various types of debt and equity securities and derivative instruments in their investment strategies. Alternative investments are recorded under the equity method and the change in equity interest is included in nonoperating gains (losses) on the consolidated statement of operations and changes in net assets.

Investment income (interest and dividends) including realized gains and losses on investment sales are reported as nonoperating gains or losses in the excess (deficit) of revenues over expenses in the accompanying consolidated statements of operations and changes in net assets unless the income or loss is restricted by the donor or law. Realized gains and losses are determined based on the specific security's original purchase price and recorded in nonoperating gains (losses). Unrealized gains and losses are included in nonoperating gains (losses) within the excess (deficit) of revenue over expenses.

**CARROLL COUNTY HEALTH SERVICES CORPORATION  
AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

June 30, 2013 and 2012

(In thousands)

**(j) *Investments in Joint Ventures and Partnerships***

In addition to investments in CCR, Carroll Care Pharmacies, LLC, Carroll Occupational Health, LLC described in note 1(a), CCMS and the Hospital have investments in unconsolidated affiliates for which their ownership interests range from less than 1% to 50%, as noted in 1(a). These investments are accounted for under the cost or equity method of accounting, as appropriate and are included in Investments in joint ventures in the consolidated balance sheet. The Health System utilizes the equity method of accounting for its investments in entities over which it exercises significant influence. The Health System's equity income or loss is recognized in investment income.

**(k) *Derivative Instruments***

The Health System accounts for derivatives and hedging activities in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 815, *Derivatives and Hedging*, which requires that all derivative instruments be recorded on the balance sheet at their respective fair values. In addition, for those derivative instruments that meet the criteria of an effective fair value hedge, it requires the hedged item to be recorded at fair value.

The Health System utilizes derivative financial instruments to manage its interest rate risks associated with tax-exempt debt. The Health System does not hold or issue derivative financial instruments for trading purposes. The Health System's current derivative instruments do not qualify for hedge accounting; therefore, the changes in fair value and settlement payments made or received have been recognized in nonoperating gains (losses) on the consolidated statements of operations and changes in net assets as mark-to-market adjustments including the credit valuation adjustment.

**(l) *Bond Issuance and Financing Costs***

Costs related to issuance of debt instruments are deferred and amortized using the effective-interest method over the life of the instrument. Accumulated amortization was \$245 and \$171 as of June 30, 2013 and 2012, respectively.

**(m) *Net Patient Service Revenue***

Patient service revenue of the Hospital is recorded at rates established by the State of Maryland Health Services Cost Review Commission (HSCRC) and, accordingly, reflects actual charges to patients based on rates in effect during the period in which the services are rendered.

Effective July 1, 2010, the Hospital and the HSCRC agreed to a three year contract for the Hospital to implement the Total Patient Revenue (TPR) methodology. The TPR agreement establishes a prospective, fixed revenue base, the "TPR cap," for the upcoming year. This includes both inpatient and outpatient regulated services. Under TPR, the Hospital's revenue for all HSCRC regulated services is predetermined for the upcoming year, regardless of changes in volume, service mix intensity, or mix of inpatient or outpatient services that occurred during the year. The TPR agreement allows the Hospital to adjust unit rates, within certain limits, to achieve the overall revenue base for the System at year end. Any overcharge or undercharge versus the TPR cap is prospectively added to

**CARROLL COUNTY HEALTH SERVICES CORPORATION  
AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

June 30, 2013 and 2012

(In thousands)

the subsequent year's TPR cap. Although the TPR cap does not adjust for changes in volume or service mix, the TPR cap is adjusted annually for inflation, and for changes in payor mix and uncompensated care. Beginning in year three of the three year contract, the Hospital will receive an annual adjustment to its cap for the change in population in the Hospital's service area. TPR is designed to encourage hospitals to operate efficiently by reducing utilization and managing patients in the appropriate care delivery setting.

Net patient service revenue for CH, CCMS and CCR is recorded at established rates net of contractual adjustments. Contractual adjustments result from the terms of certain reimbursement contracts.

**(n) Provision for Bad Debts**

Patient accounts receivable are reduced by provision for bad debts. In evaluating the collectability of accounts receivable, the Health System analyzes historical collections and write-offs and identifies trends for each of its major payor sources of revenue to estimate the appropriate provision for bad debts and provision for uncollectible accounts. Management regularly reviews its estimate and evaluates the sufficiency of the allowance for bad debts. The Health System analyzes contractual amounts due from patients who have third-party coverage and provides an allowance for doubtful accounts and a provision for bad debts. For patient accounts receivable associated with self-pay patients, which includes those patients without insurance coverage exists for a portion of the bill, the Health System records a significant provision for bad debts for patients that are unable or unwilling to pay for the portion of the bill representing their financial responsibility. Account balances are charged off against the allowance for bad debts after all means of collection has been exhausted.

The following table set forth the components of the change in the allowance for uncollectible accounts for the years ended June 30:

	<b>2013</b>	<b>2012</b>
Beginning balance as of July 1	\$ 7,437	6,629
Provision for bad debts	7,406	10,355
Less write offs	(6,594)	(9,547)
Ending balance as of June 30	\$ 8,249	7,437

**(o) Other Operating Revenue**

Other operating revenue mostly comprises pharmaceutical sales from Carroll Care Pharmacies, LLC. Other operating revenue activities also include various community education and outreach programs, rental income, professional fee revenue, and cafeteria, vending sales and federal stimulus proceeds associated with meaningful use of CHC's information system.

**CARROLL COUNTY HEALTH SERVICES CORPORATION  
AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

June 30, 2013 and 2012

(In thousands)

**(p) Self-Insurance**

The Health System maintains self-insurance programs for workers' compensation and employee health benefits. The Health System is also self-insured for general and professional liability under a claims-made policy through its wholly owned subsidiary, Cen-Mar Assurance Company. Expenses related to these programs include estimates for incurred but not reported claims as of June 30, 2013 and 2012. The estimates are based on actuarial analysis of historical trends, claims asserted and reported incidents and are undiscounted.

**(q) Temporarily and Permanently Restricted Net Assets**

Temporarily restricted net assets are those whose use by the Health System or individual operating units has been limited by donors to a specific time period or purpose. Permanently restricted net assets have been restricted by donors to be maintained by the Health System or individual operating units in perpetuity.

**(r) Donor-Restricted Gifts**

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

**(s) Income Taxes**

The Health System and its subsidiaries, except for CCMS, CCR, and Cen-Mar, have been recognized by the Internal Revenue Service (IRS) as tax-exempt under Section 501(c)(3) of the Internal Revenue Code and are exempt from income taxes on related income. CCMS is organized as a for-profit entity and, therefore, is subject to federal and state income taxes, which are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

**CARROLL COUNTY HEALTH SERVICES CORPORATION  
AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

June 30, 2013 and 2012

(In thousands)

**(t) Reclassifications**

Certain prior year amounts in note (16) Functional Expenses have been reclassified to reflect the effects of the Accounting Pronouncement discussed in note (u). The result reduced the 2012 Healthcare Services Expenses by the provision for bad debts of \$10,355.

**(u) New Accounting Pronouncements**

In July 2011, the FASB issued Accounting Standards Update (ASU) No. 2011-07, *Health Care Entities (Topic 954), Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts, and the Allowance for Doubtful Accounts for Certain Health Care Entities*. The guidance is intended to provide financial statement users with greater transparency about a healthcare entity's net patient service revenue and related allowance for doubtful accounts. The guidance provides information to assist financial statement users in assessing an entity's sources of patient service revenue and related changes in its allowance for bad debts. The guidance require certain healthcare 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, those healthcare entities are required to provide enhanced disclosures about their policies for recognizing revenue and assessing bad debts. The guidance also requires disclosures of patient service revenue (net of contractual allowances and discounts), as well as qualitative information about changes in the allowance for doubtful accounts. As permitted, the Health System adopted the guidance of ASU 2011-07 on July 1, 2012. As such the Health System reclassified the provision for bad debts of \$7,406 and \$10,355 for the years ended 2013 and 2012, respectively, from operating expenses to a reduction of revenues in the statement of operations. In addition, the required disclosures related to the Health System's sources of patient service revenue and changes in the allowance for bad debts can be found at notes 1(n).

**CARROLL COUNTY HEALTH SERVICES CORPORATION  
AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

June 30, 2013 and 2012

(In thousands)

**(2) Assets Limited as to Use**

Assets limited as to use, stated at fair value, as of June 30, 2013 and 2012, include the following:

	<b>2013</b>	<b>2012</b>
Donor-restricted:		
Pledges receivable, less allowance of \$1,053 in 2013 and \$1,164 in 2012	\$ 8,368	9,162
Donor-restricted investments:		
Cash and cash equivalents	1,822	1,257
Government and corporate bonds	148	147
Mutual funds invested in equity securities	1,039	853
Investments in limited partnerships	308	241
	3,317	2,498
Cen-Mar Reserves held:		
Cash and cash equivalents	940	6,561
Government and corporate bonds	5,949	326
Mutual funds	594	—
	7,483	6,887
Funds held by trustee:		
Money market funds	1,060	1,008
Government and corporate bonds	6,048	3,574
	7,108	4,582
Collateral held for derivative instruments and lines of credit and other:		
Cash and cash equivalents	6,309	11,860
Government and corporate bonds	2,356	3,465
Mutual funds invested in equity securities	3,151	1,762
Investments in limited partnerships	—	1,645
	11,816	18,732
Total assets limited as to use	38,092	41,861
Less current portion	13,848	12,232
Total assets limited as to use, less current portion	\$ 24,244	29,629



**CARROLL COUNTY HEALTH SERVICES CORPORATION  
AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

June 30, 2013 and 2012

(In thousands)

The net present value of donor-restricted pledges receivable at June 30, 2013 totaled \$9,421, discounted at 6%, and net of an allowance for uncollectible pledges of \$1,053. The payment terms of the net present value of the pledges receivable at June 30, 2013 are as follows for the years ending June 30:

2014	\$	2,486
2015		2,166
2016		2,184
2017		1,786
2018 and thereafter		799
		9,421
Less allowance for uncollectible pledges		(1,053)
	\$	8,368

Funds held by the trustee as of June 30, 2013 and 2012 are as follows:

	<b>2013</b>	<b>2012</b>
Debt service reserve fund	\$ 3,218	3,229
Principal and interest fund	3,890	1,353
	\$ 7,108	4,582

The debt service reserve fund has been established to provide for future deficiencies, if any, in various bond repayment terms established by the 2006 Maryland Health and Higher Educational Facilities Authority Loan Agreements. The principal and interest fund comprises monthly installment payments paid by the Health System to the trustee in accordance with the loan agreement. The trustee releases these funds to respective bondholders on January 1 and July 1 of each year.

**CARROLL COUNTY HEALTH SERVICES CORPORATION  
AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

June 30, 2013 and 2012

(In thousands)

**(3) Property and Equipment, Net**

Property and equipment, net as of June 30, 2013 and 2012 are as follows:

	<u>2013</u>	<u>2012</u>
Land	\$ 4,622	4,622
Land improvements	24,484	24,438
Building and building improvements	135,881	131,080
Computer software and hardware	46,110	39,456
Equipment	97,089	93,022
Leasehold improvements	6,564	6,233
	<u>314,750</u>	<u>298,851</u>
Less accumulated depreciation and amortization	<u>(166,998)</u>	<u>(152,151)</u>
	147,752	146,700
Construction in progress	<u>13,654</u>	<u>3,488</u>
	<u>\$ 161,406</u>	<u>150,188</u>

Depreciation expense for the years ended June 30, 2013 and 2012 was \$17,363 and \$16,811, respectively. Construction in progress represents costs incurred on the Health System's expansion projects and other facility renovations not completed as of June 30, 2013.

During September 2008, the Hospital entered into a 50-year ground lease on the campus of the Hospital to a nonaffiliated developer. Under the terms of the ground lease, the developer constructed a Medical Office Building (MOB), which the developer owned and operated during the construction period. Construction was completed in December 2009 and ownership of the MOB was transferred to Carroll MOB Associates, LLC. The Hospital determined that due to certain structural elements installed by the Hospital during construction, the Hospital is required to be treated, for accounting purposes, as the "owner" of the MOB, in accordance with FASB ASC Subtopic 840-40, *Leases-Sale-Leaseback Transactions* (Emerging Issues Task Force (EITF) Issue No. 97-10, *The Effect of Lessee Involvement in Asset construction*). The MOB has a total of 77,000 sq. ft., of which the Health System leases 58,800 sq ft., broken down as follows: Hospital (26,000 sq ft), CCR (18,400 sq ft), and CCMS (15,400 sq ft).

**CARROLL COUNTY HEALTH SERVICES CORPORATION  
AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

June 30, 2013 and 2012

(In thousands)

The following table shows the future minimum lease payments for the Health System related to the MOB:

	<b>Future minimum lease payments</b>
Year ending June 30:	
2014	\$ 1,700
2015	1,728
2016	1,758
2017	1,788
2018	1,820
Thereafter	2,838
Total minimum lease payments	\$ 11,632

The cost of the asset was \$16,530 and \$16,248 for the years ended June 30, 2013 and 2012, respectively, and is included in building and building improvements with the offsetting obligation in other long-term liabilities. Total accumulated depreciation on the MOB is \$2,386 and \$1,722 as of June 30, 2013 and 2012, respectively.

**(4) Short-Term and Long-Term Investments**

Investments, at fair value, as of June 30, 2013 and 2012 are as follows:

	<b>2013</b>	<b>2012</b>
Money market account and certificate of deposits	\$ 1,532	2,607
Government and corporate bonds	42,611	39,945
Mutual funds invested in equity securities	30,437	26,242
	\$ 74,580	68,794

Investments are classified as of June 30, 2013 and 2012 as follows:

	<b>2013</b>	<b>2012</b>
Short-term investments	\$ 14,615	14,501
Long-term investments	59,965	54,293
	\$ 74,580	68,794

**CARROLL COUNTY HEALTH SERVICES CORPORATION  
AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

June 30, 2013 and 2012

(In thousands)

The Health System's consolidated total return on short-term and long-term investments, cash and cash equivalents, assets limited to use, long-term investments – other, and investments in joint ventures and partnerships were as follows for the years ended June 30, 2013 and 2012:

	<b>2013</b>	<b>2012</b>
Investment income:		
Interest and dividend income	\$ 2,064	1,729
Realized gains (losses) on securities	475	(1,894)
Unrealized gains on securities	2,815	179
Investments in joint ventures and partnerships:		
Equity method earnings	346	76
Cost method dividend income	518	544
Equity in gains on long-term investments – other:		
Equity method earnings (losses)	44	(614)
Total investment income	6,262	20
Other changes in net assets:		
Net change in unrealized gains on other-than-trading securities in restricted net assets	165	7
Total other changes in net assets	165	7
Total investment return	\$ 6,427	27

**(5) Fair Value of Financial Instruments**

The fair value of a financial instrument is the amount 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. Those fair value measurements maximize the use of observable inputs. However, in situations where there is little, if any, market activity for the asset or liability at the measurement date, the fair value measurement reflects the Health System's own judgments about the assumptions that market participants would use in pricing the asset or liability. Those judgments are developed by the Health System based on the best information available in the circumstances.

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

*Cash and cash equivalents, accounts receivable, due from affiliates, other assets, line of credit, accounts payable, advances from third-party payors, due to affiliates, accrued expenses, and other long-term liabilities:* The carrying amounts, at face value or cost plus accrued interest, approximate fair value.

*Board-designated and other investments:* Equity and debt securities classified as trading are measured using quoted market prices at the reporting date multiplied by the quantity held.

**CARROLL COUNTY HEALTH SERVICES CORPORATION  
AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

June 30, 2013 and 2012

(In thousands)

The Health System follows ASC Topic 820 for fair value measurements of financial assets and financial liabilities and for the fair value measurements of nonfinancial items that are recognized or disclosed at fair value in the consolidated financial statements on a recurring basis. ASC Topic 820 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Health System has the ability to access at the measurement date.
- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 inputs are unobservable inputs for the asset or liability, including nonexchange-traded funds, which are typically valued utilizing the net asset valuations provided by the underlying private investment companies.

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

The following table presents assets that are measured at fair value on a recurring basis as of June 30, 2013:

	<b>Quoted prices in active markets for identical assets (Level 1)</b>	<b>Significant other observable inputs (Level 2)</b>	<b>Significant unobservable inputs (Level 3)</b>	<b>Total</b>
<b>Assets:</b>				
Cash	\$ 7,249	—	—	7,249
Money market funds	4,414	—	—	4,414
Mutual funds and equity securities	35,221	—	—	35,221
Government and corporate bonds	51,429	5,682	—	57,111
Total assets	<u>\$ 98,313</u>	<u>5,682</u>	<u>—</u>	<u>103,995</u>
<b>Liabilities:</b>				
Derivative instrument	\$ —	8,471	—	8,471

**CARROLL COUNTY HEALTH SERVICES CORPORATION  
AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

June 30, 2013 and 2012

(In thousands)

The following table presents assets that are measured at fair value on a recurring basis as of June 30, 2012:

	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Assets:				
Cash	\$ 19,679	—	—	19,679
Money market funds	3,615	—	—	3,615
Mutual funds and equity securities	28,856	—	—	28,856
Government and corporate bonds	47,131	326	—	47,457
Total assets	<u>\$ 99,281</u>	<u>326</u>	<u>—</u>	<u>99,607</u>
Liabilities:				
Derivative instrument	\$ —	14,702	—	14,702

There were no significant transfers between Levels 1, 2 and 3 during the years ended June 30, 2013 and 2012. The Health System holds \$308 and \$1,886 in Alternative Investments at June 30, 2013 and 2012, respectively, which are restricted as to use.

**(6) Long-Term Investments – Other**

Total long-term investments – other consists of limited partnership investments, which amount to \$21,749 and \$16,846 as of June 30, 2013 and 2012, respectively, as follows:

	2013	2012
Pine Grove	\$ 3,804	3,493
Archstone Offshore Fund	2,983	2,624
Seamark Fund	2,547	2,598
Lanx Offshore Partners	2,516	1,149
Titan Masters International Fund	2,426	1,077
Endowment Fund	908	1,002
Chesapeake Investments	850	891
Silver Creek Low Vol.	799	946
Greenspring Fund	669	1,055
Partners Group Private	578	234
Blue Mountain CAIS CA	539	—

**CARROLL COUNTY HEALTH SERVICES CORPORATION  
AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

June 30, 2013 and 2012

(In thousands)

	<u>2013</u>	<u>2012</u>
CAIS Millenium International	\$ 539	—
WMS Income Opportunity Fund	529	570
Virtus Real Estate Capital	505	—
Winton Futures	462	—
Guggenheim Offshore Access	424	—
CAIS Balestra Global	237	—
Touchstone Opportunity Fund	146	196
Silver Creek Early Advantage	137	322
Collins Capital	128	199
Oaktree Cap Management	23	125
OZ OFII Access	—	365
Total	<u>\$ 21,749</u>	<u>16,846</u>

The Health System's limited partnership investments are reported under the equity method, based on the fair value of the underlying investments of the partnership. In the case of certain less marketable underlying investments, principally real estate, natural resources, and private equity investments, value is established based on either external events, which substantiate a change in fair value, or a reasonable methodology that exists to capture and quantify changes in value. In some instances, those changes in value may require the use of significant estimates. Accordingly, such values may differ materially from the values that would have been used had an active market for the investments existed. The Silver Creek Low Volatility and Silver Creek Early Advantage funds are being liquidated. Management anticipates the liquidation process to be completed within the next 2 to 4 years.

**(7) Investments in Joint Ventures**

Investments in joint ventures and partnerships, accounted for under the equity or cost method, consist of the following at June 30, 2013 and 2012:

<u>Joint venture</u>	<u>Business purpose</u>	<u>2013</u>		<u>2012</u>	
		<u>Percentage ownership</u>	<u>Balance</u>	<u>Percentage ownership</u>	<u>Balance</u>
Carroll County Dialysis Facilities, LP	Dialysis services	33%	\$ 856	33%	\$ 678
Carroll County Sleep Disorder Services, LLC	Sleep disorder services	33	42	33	23
Carroll Digestive Disease Center, LLC	Diagnostic services	10	18	10	18
Advanced PET Imaging of Maryland, LP	Diagnostic services	5	5	5	8
Mt. Airy Surgery Center	Diagnostic services	50	—	50	4

**CARROLL COUNTY HEALTH SERVICES CORPORATION  
AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

June 30, 2013 and 2012

(In thousands)

<u>Joint venture</u>	<u>Business purpose</u>	<u>2013</u>		<u>2012</u>	
		<u>Percentage ownership</u>	<u>Balance</u>	<u>Percentage ownership</u>	<u>Balance</u>
Colonial Regional Alliance	Purchasing partnership	13	\$ 64	13	\$ 64
Mt. Airy Plaza, LLC	Real estate activities	50	1,401	50	1,289
Carroll MOB Associates, LLC	Medical Office Building	36	1,103	36	1,414
Premier Purchasing Partners, LP	Purchasing partnership	0.12	256	0.12	246
Mt. Airy Health Services, LLC	Diagnostic services	50	262	50	385
Total			<u>\$ 4,007</u>		<u>\$ 4,129</u>

For those joint ventures and partnerships accounted for using the equity method, CCMS and the Hospital recorded equity in earnings of joint ventures and partnerships. For those joint ventures and partnerships accounted for using the cost method, CCMS and the Hospital recorded dividend income. Such amounts are included in investment income in the consolidated statements of operations (note 4).

**(8) Other Assets**

Other assets as of June 30, 2013 and 2012 are as follows:

	<u>2013</u>	<u>2012</u>
Notes receivable, net	\$ 20	6
Financing costs, net	1,962	2,007
Goodwill	4,345	4,519
Other intangible assets, net	1,508	1,994
Deferred compensation assets	193	4,039
Reinsurance recoverable	6,249	4,913
Other	620	483
	<u>\$ 14,897</u>	<u>17,961</u>

Goodwill represents the excess of purchase price over the fair value of net assets acquired. The Health System adopted the provisions of ASC Topic 350 *Intangibles – Goodwill and Other* (ASC 350). Goodwill acquired in a purchase business combination that is determined to have an indefinite useful life is not amortized, but instead is tested for impairment at least annually in accordance with the provisions of ASC 350.

The Health System first assesses qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test as described in Topic 350. The Health System has identified the reporting units as the Cancer Center, CCR and CCMS. The more-likely than-not threshold is defined as having a likelihood of more than 50%. The Company determined that it was not more-likely than-not that the fair value of its reporting units was less than its carrying amounts.



**CARROLL COUNTY HEALTH SERVICES CORPORATION  
AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

June 30, 2013 and 2012

(In thousands)

Accordingly, the Health System concluded that goodwill was not impaired as of June 30, 2013 and 2012 without having to perform the two-step impairment test.

**(9) Long-Term Debt**

Long-term debt as of June 30, 2013 and 2012 is as follows (the indebted entity is noted parenthetically):

	<b>2013</b>	<b>2012</b>
Bond payable:		
Maryland Health and Higher Educational Facilities Authority:		
Revenue Bonds, Carroll Hospital Center Issue, Series 2006; interest rates ranging from 4.5% to 5.0%; due in June 2041	\$ 35,000	35,000
Maryland Health and Higher Educational Facilities Authority:		
Revenue Bonds, Carroll Hospital Center Issue, Series 2010; interest rates based on 68% of the 30-day LIBOR plus 1.1%, (1.24% and 1.34% at June 30, 2013 and 2012, respectively); due in July 2020	13,982	14,339
Maryland Health and Higher Educational Facilities Authority:		
Revenue Bonds, Carroll Hospital Center Issue, Series 2012A; interest rates ranging from 2% to 5%; due in July 2037	59,780	59,780
Maryland Health and Higher Educational Facilities Authority:		
Revenue Bonds, Carroll Hospital Center Issue, Series 2012 B&C; interest rates based on 78% of the 30-day LIBOR plus 1.05%, (1.20% and 1.26% at June 30, 2013 and 2012 respectively); due in May 2022	25,564	24,133
Mortgage Payable Line of Credit; interest rates based on 30-day LIBOR plus 1.7% (1.89% and 1.94% at June 30, 2013 and 2012, respectively) due in February 2015	1,831	1,831

**CARROLL COUNTY HEALTH SERVICES CORPORATION  
AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

June 30, 2013 and 2012

(In thousands)

	2013	2012
Bank loan payable; interest at 5.125%; due in June 2014 (CCMS); secured by Carroll Care Pharmacies, LLC pharmacy inventory and equipment	\$ 400	626
Other	280	150
	136,837	135,859
Plus unamortized net premium	4,736	4,883
	141,573	140,742
Less current maturities	3,760	3,568
	\$ 137,813	137,174

The MHHEFA 2006, 2010 and 2012 Revenue Bonds are collateralized by a deed of trust on certain facilities and property and a pledge of certain receipts.

Aggregate maturities of long-term debt as of June 30, 2013 are as follows during the years ending June 30:

2014	\$ 3,760
2015	5,250
2016	3,411
2017	3,501
2018	3,506
Thereafter	117,409
	\$ 136,837

In November 2006, MHHEFA issued Carroll Hospital Center Issue Series 2006 Bonds on behalf of the Health System, resulting in proceeds of \$35,000. The Series 2006 Bonds were issued as \$3,165 of term bonds maturing in 2026, \$7,420 of terms bonds maturing in 2036 and \$24,415 of term bonds maturing in 2040.

In June 2010, the Health System entered into a \$15,000 MHHEFA Direct Purchase financing transaction with Branch Banking and Trust Company (the Series 2010 Bonds). The Series 2010 Bonds mature monthly from July 1, 2010 through July 1, 2020. As of June 30, 2013 and 2012, the total outstanding principle balance was \$13,982 and \$14,339, respectively. The Series 2010 Bonds are subject to refinancing at the option of the bank in 2020 and later.

In May 2012, MHHEFA issued Carroll Hospital Center Series 2012A Bonds on behalf of the Health System, resulting in proceeds of \$59,780. The Series 2012A Bonds were issued as \$26,995 of serial bonds maturing in 2013 through 2027, \$7,505 of terms bonds maturing in 2030 and \$25,280 of term bonds

**CARROLL COUNTY HEALTH SERVICES CORPORATION  
AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

June 30, 2013 and 2012

(In thousands)

maturing in 2037. The proceeds were utilized to repay the MHEEFA 2002 Series Bonds which had a remaining principal balance of \$85,315.

In May 2012, the Health System entered into a \$30,010 MHEEFA Direct Purchase financing transaction with Branch Banking and Trust Company (the Series 2012B and C Bonds). As of June 30, 2013 the Health System has drawn \$26,568 of the available debt. The Series 2012B and C Bonds mature monthly from August 1, 2012 through July 1, 2042. The primary use of the proceeds was to repay the Series 2002 debt and to fund certain capital projects. The Series 2012B and C Bonds are subject to refinancing at the option of the bank in 2022 and later.

The fair value of outstanding tax-exempt bonds is estimated to be \$137,605 and \$140,714 as of June 30, 2013 and 2012, respectively. The fair value of other long-term debt, mortgage payable, and bank loans payable approximates its carrying value.

Under the Series 2006, 2010 and 2012 Bonds, the Health System is required to comply with certain financial and nonfinancial covenants such as a coverage ratio, days cash on hand, debt to capitalization ratio, payments of interest and principal on specified due dates, limitations on merger, consolidation, transfer, or acquisition of assets, and limitations on the disposition of assets.

On February 23, 2007, the Health System entered into a floating-to-fixed (90.1% of three-month LIBOR to 4.6%) interest rate swap agreement (Swap) with Merrill Lynch Capital Services, Inc. to hedge a future debt issuance. During fiscal year 2011, the Health System paid down the swap liability by \$2,760, which decreased the notional amount from \$50,000 to \$30,000. The Health System has recorded the change in fair value from the swap agreement in the amount of \$6,231 and \$(11,116) and settlement payments of \$(1,272) and \$(676) as a component of other income (expense) in the consolidated statements of operations for the years ended June 30, 2013 and 2012, respectively. The fair value of the interest rate swap was approximately \$(8,471) and \$(14,702) at June 30, 2013 and 2012, respectively, and is included in other liabilities. The Health system is subject to a collateral posting requirement with the swap counterparty. Collateral posting requirements are based on the net liability position of the total interest rate swap agreement outstanding with the counterparty. The amount of such posted collateral was \$8,664 and \$15,324 at June 30, 2013 and 2012, respectively.

**CARROLL COUNTY HEALTH SERVICES CORPORATION  
AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

June 30, 2013 and 2012

(In thousands)

**(10) Other Liabilities**

Other liabilities as of June 30, 2013 and 2012 are as follows:

	<b>2013</b>	<b>2012</b>
Medical office building	\$ 14,144	14,525
Interest rate swap	8,471	14,702
Deferred revenue	450	750
Deferred compensation liability	193	4,039
Equipment commitments	3,236	—
Other	975	1,098
	<b>\$ 27,469</b>	<b>35,114</b>

**(11) Income Tax**

At June 30, 2013, the Health System has approximately \$35,355 of net operating loss carryforwards, primarily at CCMS, that will expire through 2033. The net operating loss carryforwards created a net deferred tax asset of approximately \$15,497 and \$12,858 as of June 30, 2013 and 2012, respectively. Management has determined that it is more likely than not that the Health System will not be able to utilize the deferred tax assets; therefore, a full valuation allowance has been recorded against the deferred tax asset as of June 30, 2013 and 2012.

**(12) Retirement Plans**

The Health System sponsors a Defined Benefit Cash Balance Plan (the Plan) covering substantially all of the employees of the Hospital, CCMS, and the Foundation. The Health System's funding policy is to make contributions to the Plan based on actuarially determined amounts necessary to provide assets sufficient to meet benefits to be paid to plan participants and to meet the minimum funding requirements of the Employee Retirement Income Security Act of 1974 and IRS regulations, plus such amounts as the Health System may determine to be appropriate from time to time. Under the cash balance plan structure, the benefits under the Plan are determined based on employee tenure rather than age. The Health System elected to freeze benefit accruals and participation in its defined benefit pension plan on December 31, 2006.

**CARROLL COUNTY HEALTH SERVICES CORPORATION  
AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

June 30, 2013 and 2012

(In thousands)

The following tables set forth the changes in the projected benefit obligation, the changes in the Plan's assets, the Plan's funded status, the amounts recognized in the Health System's consolidated financial statements, and the Plan's net periodic pension cost as of June 30, 2013 and 2012:

	<u>2013</u>	<u>2012</u>
Change in projected benefit obligation:		
Projected benefit obligation at beginning of period	\$ 63,996	49,641
Interest cost	2,675	2,891
Actuarial (gain) loss	(4,967)	13,200
Benefits paid	(1,935)	(1,736)
Projected benefit obligation at end of period	<u>59,769</u>	<u>63,996</u>
Change in plan assets:		
Fair value of plan assets at beginning of period	44,393	43,603
Actual return on plan assets	4,622	(114)
Employer contribution	3,600	2,640
Benefits paid	(1,935)	(1,736)
Fair value of plan assets at end of period	<u>50,680</u>	<u>44,393</u>
Funded status	<u>\$ (9,089)</u>	<u>(19,603)</u>

The accumulated benefit obligation for the Plan was \$59,769 and \$63,996 at June 30, 2013 and 2012, respectively.

Net periodic pension expense for the years ended June 30, 2013 and 2012 was as follows:

	<u>2013</u>	<u>2012</u>
Components of net periodic pension expense:		
Interest cost	\$ 2,675	2,891
Expected return on plan assets	(3,160)	(3,080)
Amortization of actuarial loss	2,095	869
Net periodic pension expense	<u>\$ 1,610</u>	<u>680</u>

Assumptions used by the Health System to determine the benefit obligation as of June 30, 2013 and 2012 (the measurement date) are as follows:

	<u>2013</u>	<u>2012</u>
Discount rate	4.75%	4.25%

**CARROLL COUNTY HEALTH SERVICES CORPORATION  
AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

June 30, 2013 and 2012

(In thousands)

Assumptions used by the Hospital in the determination of net periodic pension expense for the years ended June 30, 2013 and 2012 are as follows:

	<b>2013</b>	<b>2012</b>
Discount rate	4.25%	5.75%
Expected long-term rate of return on plan assets	7.00	7.00

Deferred pension costs, which have not yet been recognized in periodic pension expense but are accrued in unrestricted net assets are \$19,913 and \$28,437 at June 30, 2013 and 2012, respectively. Deferred pension costs represent unrecognized actuarial losses or unexpected changes in the projected benefit obligation and plan assets over time primarily due to changes in assumed discount rates and investment experience. The amount of deferred pension costs expected to be recognized as a component of net periodic pension costs during the year ending June 30, 2014 is \$1,610.

The Health System's weighted average asset allocations for the plan assets as of June 30, 2013 and 2012 are as follows:

	<b>2013</b>	<b>2012</b>
Mutual funds and equity securities	50.2%	46.3%
Government and corporate bonds	20.6	23.4
Alternative investments	20.5	21.5
Cash and cash equivalents	8.7	8.8
	100.0%	100.0%

Pension plan assets are invested in accordance with the Health System's investment policy statement objectives in an attempt to maximize return with reasonable and prudent levels of risk. This structure includes various assets classes, investment management styles, asset allocation, and acceptable ranges that, in total, are expected to produce a sufficient level of overall diversification and total investment return over the long term. The Health System periodically reviews performance to test progress toward attainment of longer term targets, to compare results with appropriate indices and peer groups, and to assess overall investment risk levels.

**CARROLL COUNTY HEALTH SERVICES CORPORATION  
AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

June 30, 2013 and 2012

(In thousands)

The following table presents the Plan's assets measured at fair value at June 30, 2013:

	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Assets:				
Cash and cash equivalents	\$ 4,420	—	—	4,420
Mutual funds and equity securities	25,402	—	—	25,402
Government and corporate bonds	10,465	—	—	10,465
Alternative investments	—	—	10,393	10,393
Total assets	<u>\$ 40,287</u>	<u>—</u>	<u>10,393</u>	<u>50,680</u>

The following table presents the Plan's assets measured at fair value at June 30, 2012:

	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Assets:				
Cash and cash equivalents	\$ 3,912	—	—	3,912
Mutual funds and equity securities	20,538	—	—	20,538
Government and corporate bonds	10,377	—	—	10,377
Alternative investments	—	—	9,566	9,566
Total assets	<u>\$ 34,827</u>	<u>—</u>	<u>9,566</u>	<u>44,393</u>

During fiscal year 2013, Level 3 investments within the pension plan assets increased by \$827. This increase was the result of purchases of \$500, redemptions of \$441 and gain on earnings in investments of \$768. There were no significant transfers between Levels 1, 2 and 3 during the years ended June 30, 2013 and 2012.

The Health System follows ASU No. 2009-12, and applied its provisions to its pension plan asset portfolio. The guidance amends ASC Topic 820 and permits, as a practical expedient, fair value of investments

**CARROLL COUNTY HEALTH SERVICES CORPORATION  
AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

June 30, 2013 and 2012

(In thousands)

within its scope to be estimated using NAV or its equivalent. The alternative investments classified within Level 3 of the fair value hierarchy have been recorded using NAV.

The Health System's pension plan invests in alternative investments which are primarily hedge fund of funds and real estate funds.

For the alternative investments, the frequency which redemption requests can be made are either quarterly or annually. The notice required by the Hospital in order to make a redemption is within a range of 65 to 100 days. The audit reserve requirements are 10% for each fund. There are generally no gate provisions with the exception of one fund which has a gate of 25% of net asset value (NAV).

The Health System expects to contribute \$3,600 to the Plan in 2014.

The following benefit payments, which reflect future services, as appropriate, are expected to be paid from the Plan's assets during the years ending June 30:

2014	\$	2,259
2015		2,364
2016		2,478
2017		2,583
2018		2,732
Years 2019 – 2022		16,454
	\$	28,870

The current defined contribution (403(b)) program was redesigned and serves as the primary retirement program beginning as of January 1, 2007. The Health System has accrued a liability of \$725 and \$675 as of June 30, 2013 and 2012, respectively, for benefits earned under this plan. The Health System expensed total employee contributions of \$2,175 and \$1,991 for the years ended June 30, 2013 and 2012, respectively.

**(13) Postretirement Plan Other than Pension**

The Health System sponsors a postretirement plan other than pension for employees. The Health System employees retired from active employment at 65 years of age or older or at 55 years of age after earning at least 10 years of vesting service are eligible for health and prescription drug benefits under the Hospital's self-insured health plan. Effective January 1, 2009, individuals are no longer permitted to participate in this Plan once they are Medicare eligible. Plan participants contribute premiums to the Plan in amounts determined by the Health System for Pre-Medicare and post-Medicare age retirees. During 2013, the Health System amended the plan to include higher deductibles, which resulted in the liability decrease.



**CARROLL COUNTY HEALTH SERVICES CORPORATION  
AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

June 30, 2013 and 2012

(In thousands)

The following tables set forth the changes in the projected benefit obligation, the changes in the Plan's assets, the Plan's funded status, the amounts recognized in the Health System's consolidated financial statements, and the Plan's postretirement benefit expense at June 30, 2013 and 2012:

	<b>2013</b>	<b>2012</b>
<b>Change in projected benefit obligation:</b>		
Projected benefit obligation at beginning of year	\$ 246	836
Service cost	44	16
Interest cost	20	11
Plan amendment	—	—
Actuarial gain	179	(623)
Employer contribution	14	6
Projected benefit obligation at end of year	\$ 503	246
<b>Change in plan assets:</b>		
Employer contribution	\$ (1)	6
Plan participant distribution, net	15	(7)
Benefits paid, net	(14)	1
Fair value of plan assets at end of year	\$ —	—
	<b>2013</b>	<b>2012</b>
<b>Reconciliation of funded status to net amounts recognized in the consolidated financial statements:</b>		
Funded status	\$ (503)	(246)
Accrued benefit cost	\$ 503	246
<b>Components of postretirement benefit expense:</b>		
Service cost	\$ 44	16
Interest cost	20	11
Amortization of prior service cost	63	68
Recognized actuarial gain	(50)	(77)
Postretirement benefit expense	\$ 77	18

The accumulated benefit obligation for the Plan was \$503 and \$246 at June 30, 2013 and 2012, respectively.

**CARROLL COUNTY HEALTH SERVICES CORPORATION  
AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

June 30, 2013 and 2012

(In thousands)

Assumptions used by the Health System in the determination of the postretirement benefit obligation and benefit expense for the years ended June 30, 2013 and 2012 (the measurement date) are as follows:

	<b>2013</b>	<b>2012</b>
Weighted average rate used to determine benefit expense for the years ended June 30	4.25%	5.75%
Weighted average rate used to determine benefit obligations at June 30	4.75	4.25
Next year trend rate	7.00	8.00
Ultimate trend rate	3.40	3.40
Ultimate trend rate year	2099	2099

The Health System expects to contribute \$8 to the postretirement benefit plan in 2012 – 2013.

The following are the projected benefit payments, which reflect expected future service as appropriate, used in determining the benefit obligation:

2014	\$	8
2015		10
2016		20
2017		23
2018		29
Years 2019 – 2020		213
	\$	303

**CARROLL COUNTY HEALTH SERVICES CORPORATION  
AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

June 30, 2013 and 2012

(In thousands)

**(14) Noncontrolling Interests**

Effective June 30, 2011, the Health System adopted new accounting guidance (applied retroactively to June 30, 2009) that requires a not-for-profit reporting entity to account for and present noncontrolling interests in a consolidated subsidiary as separate component of the appropriate class of consolidated net assets (equity). The reconciliation of noncontrolling interest reported in unrestricted net assets is as follows:

	<b>Total</b>	<b>CHC unrestricted net assets</b>	<b>Noncontrolling interest</b>
Unrestricted net assets – June 30, 2011	\$ 138,448	134,132	4,316
Excess of revenues over expenses	(4,242)	(5,735)	1,493
Net assets released from restrictions used for capital expenditures	533	533	—
Change in funded status of pension plan and postretirement	(14,911)	(14,911)	—
Contributions from noncontrolling owners	914	—	914
Distributions to noncontrolling owners	(1,475)	—	(1,475)
Change in unrestricted net assets	<u>(19,181)</u>	<u>(20,113)</u>	<u>932</u>
Unrestricted net assets – June 30, 2012	<u>119,267</u>	<u>114,019</u>	<u>5,248</u>
Excess of revenues over expenses	22,413	21,290	1,123
Net assets released from restrictions used for capital expenditures	3,427	3,427	—
Change in funded status of pension plan and postretirement	8,343	8,343	—
Contributions from noncontrolling owners	46	—	46
Distributions to noncontrolling owners	(1,670)	—	(1,670)
Change in unrestricted net assets	<u>32,559</u>	<u>33,060</u>	<u>(501)</u>
Unrestricted net assets – June 30, 2013	<u><u>\$ 151,826</u></u>	<u><u>147,079</u></u>	<u><u>4,747</u></u>

**CARROLL COUNTY HEALTH SERVICES CORPORATION  
AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

June 30, 2013 and 2012

(In thousands)

**(15) Temporarily and Permanently Restricted Net Assets**

Temporarily restricted net assets are restricted as of June 30, 2013 and 2012 for the following:

	<u>2013</u>	<u>2012</u>
Hospice program	\$ 728	466
Cardiac services	166	142
Cancer programs	663	496
Capital campaign	8,188	8,892
Other	680	532
	<u>\$ 10,425</u>	<u>10,528</u>

Permanently restricted net assets are to be held in perpetuity, the income from which is expendable for the treatment of heart disease, oncology, cardiology, support of emergency room services, scholarships, and general building maintenance. Permanently restricted net assets, stated at fair value, totaled \$1,173 and \$1,115 at June 30, 2013 and 2012, respectively.

**(16) Functional Expenses**

The Health System provides general healthcare services to residents within its geographic location. Expenses related to providing these services, based on management estimates of expense allocations as of June 30, 2013 and 2012, are as follows:

	<u>2013</u>	<u>2012</u>
Healthcare services	\$ 238,352	223,825
General and administrative	36,484	39,345
	<u>\$ 274,836</u>	<u>263,170</u>

**(17) Concentrations of Credit Risk**

The Health System provides healthcare services through its inpatient and outpatient care facilities located primarily in Carroll County. The Health 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, Blue Cross, Workers' Compensation, health maintenance organizations (HMOs), and commercial insurance policies).

**CARROLL COUNTY HEALTH SERVICES CORPORATION  
AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

June 30, 2013 and 2012

(In thousands)

The mix of receivables for the Health System at June 30, 2013 and 2012 is as follows:

	<u>2013</u>	<u>2012</u>
Medicare	30%	28%
Medicaid	9	11
Blue Cross	16	13
Commercial, HMOs, and other	31	31
Self-pay	14	17
	<u>100%</u>	<u>100%</u>

The mix of net patient service revenue for the Health System for the years ended June 30, 2013 and 2012 is as follows:

	<u>2013</u>	<u>2012</u>
Medicare	40%	40%
Medicaid	9	9
Blue Cross	14	14
Commercial, HMOs, and other	31	31
Self-pay	6	6
	<u>100%</u>	<u>100%</u>

**(18) Health Services Cost Review Commission**

The Hospital charges are subject to review and approval by the HSCRC. Management has made the required filings with the HSCRC and believes the Hospital is in compliance with HSCRC requirements.

During 1997, the HSCRC established an uncompensated care fund whereby the majority of hospitals are required to contribute a portion of revenues to this fund to help provide for the cost associated with charity care for all Maryland hospitals. The Hospital contributed \$5,358 and \$4,429 to this fund for the years ended June 30, 2013 and 2012, respectively. This contribution is recorded within net patient service revenue.

**(19) Certain Significant Risks, Uncertainties, and Commitments**

**(a) Regulation and Reimbursement**

The Health System provides general acute healthcare services in the State of Maryland. The Health System and other healthcare providers are subject to certain inherent risks, including the following:

- Dependence on revenues derived from reimbursement by the Federal Medicare and state Medicaid programs

**CARROLL COUNTY HEALTH SERVICES CORPORATION  
AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

June 30, 2013 and 2012

(In thousands)

- Regulation of hospital rates by the HSCRC
- Government regulation, government budgetary constraints, and proposed legislative and regulatory changes
- Lawsuits alleging malpractice or other claims

Such inherent risks require the use of certain management estimates in the preparation of the System's consolidated financial statements and it is reasonably possible that a change in such estimates may occur.

The Medicare and state Medicaid reimbursement programs represent a substantial portion of the Health System's revenues and the Health 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 Health System.

Changes in federal and state reimbursement funding mechanisms and related government budgetary constraints could have a significant adverse effect on the Health System.

The healthcare industry is subject to numerous laws and regulations from federal, state, and local governments. The Health System's compliance with these laws and regulations can be subject to periodic governmental review and interpretation, which can result in regulatory action unknown or unasserted at this time. Management is aware of certain asserted and unasserted legal claims and regulatory matters arising in the ordinary course of business, none of which, in the opinion of management, is expected to result in losses in excess of insurance limits or have a materially adverse effect on the Health System's consolidated financial position.

The federal government and many states have aggressively increased enforcement under Medicare and Medicaid antifraud and abuse laws and physician self-referral laws (STARK law and regulation). Recent federal initiatives have prompted a national review of federally funded healthcare programs. The Health System has implemented a compliance program to monitor conformance with applicable laws and regulations, but the possibility of future government review and interpretation exists.

**(b) Malpractice Insurance**

The Health System is involved in litigation arising in the normal course of business. Claims alleging malpractice have been asserted and are currently in various states of litigation. Additional claims may be asserted arising from services provided to patients through June 30, 2013. On June 25, 2007, the Hospital established Cen-Mar Assurance Co. (the Captive) – an offshore, medical malpractice insurance company domiciled in the Cayman Islands. The Captive is a wholly owned subsidiary of the Hospital managed by Marsh Management Services (Cayman) Ltd. Malpractice insurance coverage through the Captive is effective July 1, 2007.

**CARROLL COUNTY HEALTH SERVICES CORPORATION  
AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

June 30, 2013 and 2012

(In thousands)

The Captive was incorporated as an exempted company under the Companies Law of the Cayman Islands on June 20, 2007 and holds an Unrestricted Class 'B' Insurer's License under Section 4(2) of the Cayman Islands Insurance Law. The Captive is a wholly owned subsidiary of the Hospital.

The Captive insures the Hospital, its subsidiaries, and employed physicians on a claims-made basis for medical professional liability and general liability. Effective July 1, 2007, the Captive issued a claims-made professional and general liability policy with a retroactive date of July 1, 2007 for general liability and a retroactive date of October 1, 1984 for medical professional liability. The limits of liability provided are \$1,000 per incident and a total annual aggregate of \$3,000, covering claims to the extent they are reported to the Captive and are within the scope of coverage afforded under the policy terms and conditions. The Captive also issued a claims-made excess policy, which is fully reinsured with unrelated reinsurance parties. The Hospital has accrued a liability within accounts payable and accrued expenses of approximately \$3,277 and \$2,222 at June 30, 2013 and 2012, respectively, for known claims and incurred but not reported claims.

**(c) Health Insurance**

The Health System is self-insured for employee health claims. Under the self-insurance plan, the Health System has accrued a liability of \$1,600 and \$1,398 at June 30, 2013 and 2012, respectively, for known claims and incurred but not reported claims.

The Health System maintains a stop-loss policy on health insurance claims. The Health System is insured for individual claims exceeding \$350.

**(d) Workers' Compensation**

In 2003, the Health System became self-insured for workers' compensation claims. Under the Plan, the Health System has accrued a liability of \$1,215 and \$836 for known claims and incurred but not reported claims as of June 30, 2013 and 2012, respectively.

The Health System maintains a stop-loss policy on workers' compensation claims. The Health System is insured for individual claims exceeding \$500. The Health System maintains a letter of credit with a commercial bank in the amount of \$1,500 to secure payments on the outstanding workers' compensation claims as required by the State of Maryland Workers' Compensation Commission. There were no amounts outstanding on this letter of credit as of June 30, 2013 and 2012.

**(e) Leases**

The Health System leases facilities under several operating leases, the last of which expires in 2019. The Health System has various options to renew the leases. Rent expense on all operating leases was \$3,278 and \$3,399 for the years ended June 30, 2013 and 2012, respectively.

**CARROLL COUNTY HEALTH SERVICES CORPORATION  
AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

June 30, 2013 and 2012

(In thousands)

Future minimum payments under operating leases and capital leases (with initial or remaining lease terms in excess of one year) as of June 30, 2013 are as follows:

	<b>Operating leases</b>	<b>Capital leases</b>
Year ending June 30:		
2014	\$ 2,036	440
2015	1,683	260
2016	1,643	92
2017	1,315	—
2018	898	—
Thereafter	1,582	—
Total minimum lease payments	\$ 9,157	792
Less amount representing interest		49
Total minimum lease payments		\$ 743

As of June 30, 2013, scheduled annual principal portion of obligations under capital leases is as follows:

Year ending June 30:	
2014	\$ 406
2015	246
2016	91
Thereafter	—
	\$ 743

**(f) *Litigation***

The Health System is subject to numerous laws and regulations from federal, state, and local governments. The Health System's compliance with these laws and regulations can be subject to periodic governmental review and interpretation, which can result in regulatory action unknown or unasserted at this time. Management is aware of certain asserted and unasserted legal claims and regulatory matters arising in the ordinary course of business. After consultation with legal counsel, it is management's opinion that the ultimate resolution of these claims will not have a material adverse effect on the Health System's consolidated balance sheets or changes in net assets.



**CARROLL COUNTY HEALTH SERVICES CORPORATION  
AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

June 30, 2013 and 2012

(In thousands)

**(20) Charity Care**

The Health System provides care to patients who meet certain criteria under its charity care policy. The Health System charges at its established rates but waives all or a portion of reimbursement. Because the Health System does not pursue collection of amounts determined to qualify as charity care, such amounts are not reported as gross patient service revenue. The Health System maintains records to identify and monitor the level of charity care it provides. The Health System provided \$4,510 and \$2,331 of charity care at cost during the years ended June 30, 2013 and 2012, respectively, based on the cost to charge ratio.

**(21) Subsequent Events**

The Health System has evaluated subsequent events from the consolidated balance sheet date through October 25, 2013, the date at which the consolidated financial statements were issued, and determined there were no other items to disclose.

**CARROLL COUNTY HEALTH SERVICES CORPORATION  
AND SUBSIDIARIES**

Consolidating Balance Sheet Information

June 30, 2013

(In thousands)

Assets	Carroll County Health Services Corporation	Carroll Hospital Center Inc. & Subsidiaries	Carroll County Med-Services, Inc. & Subsidiaries	Eliminations	Consolidated
<b>Current assets:</b>					
Cash and cash equivalents	\$ 220	37,276	3,680	—	41,176
Short-term investments	—	14,615	—	—	14,615
Current portion of assets limited as to use	—	13,848	—	—	13,848
Patient receivables, net	—	23,706	3,775	—	27,481
Other receivables	—	2,904	66	—	2,970
Due from affiliates	—	150	52	(202)	—
Inventory	—	2,939	998	—	3,937
Prepaid expenses	—	6,342	367	—	6,709
<b>Total current assets</b>	<b>220</b>	<b>101,780</b>	<b>8,938</b>	<b>(202)</b>	<b>110,736</b>
Property and equipment, net	2,069	152,222	7,885	(770)	161,406
Long-term investments	1,074	58,891	—	—	59,965
Long-term investments – other	2,132	19,617	—	—	21,749
Investment in subsidiaries	151,864	—	—	(151,864)	—
Investment in joint ventures	—	1,685	2,322	—	4,007
Assets limited as to use, less current portion	3,151	21,093	—	—	24,244
Other assets	—	13,962	935	—	14,897
<b>Total assets</b>	<b>\$ 160,510</b>	<b>369,250</b>	<b>20,080</b>	<b>(152,836)</b>	<b>397,004</b>
<b>Liabilities and Net Assets</b>					
Current portion of long-term debt	\$ —	3,253	507	—	3,760
Current obligations under capital lease	—	321	85	—	406
Accounts payable and accrued expenses	—	35,120	1,554	—	36,674
Accrued payroll and related taxes	—	8,852	1,867	—	10,719
Deferred revenue	—	94	—	—	94
Advances from third-party payors	—	6,716	—	—	6,716
Due to affiliates	—	—	202	(202)	—
<b>Total current liabilities</b>	<b>—</b>	<b>54,356</b>	<b>4,215</b>	<b>(202)</b>	<b>58,369</b>
Long-term debt, less current portion	1,831	135,809	173	—	137,813
Long-term obligations under capital lease, less current portion	—	264	73	—	337
Other liabilities	2	28,033	204	(770)	27,469
Accrued pension and postretirement benefits	—	9,592	—	—	9,592
<b>Total liabilities</b>	<b>1,833</b>	<b>228,054</b>	<b>4,665</b>	<b>(972)</b>	<b>233,580</b>
<b>Net assets:</b>					
Unrestricted:					
Unrestricted net assets	147,079	125,365	14,901	(140,266)	147,079
Noncontrolling interest in consolidated subsidiaries	—	4,233	514	—	4,747
<b>Total unrestricted net assets</b>	<b>147,079</b>	<b>129,598</b>	<b>15,415</b>	<b>(140,266)</b>	<b>151,826</b>
Restricted:					
Temporarily restricted	10,425	10,425	—	(10,425)	10,425
Permanently restricted	1,173	1,173	—	(1,173)	1,173
<b>Total restricted net assets</b>	<b>11,598</b>	<b>11,598</b>	<b>—</b>	<b>(11,598)</b>	<b>11,598</b>
<b>Total net assets</b>	<b>158,677</b>	<b>141,196</b>	<b>15,415</b>	<b>(151,864)</b>	<b>163,424</b>
<b>Total liabilities and net assets</b>	<b>\$ 160,510</b>	<b>369,250</b>	<b>20,080</b>	<b>(152,836)</b>	<b>397,004</b>

See accompanying independent auditors' report.

**CARROLL COUNTY HEALTH SERVICES CORPORATION  
AND SUBSIDIARIES**

Consolidating Balance Sheet Information

June 30, 2013

(In thousands)

Assets	Carroll Hospital Center Inc. & Subsidiaries						Consolidated
	Carroll Hospital Center Inc. & Subsidiaries	Carroll Hospice, Inc.	Carroll Hospital Center Foundation, Inc.	Carroll County Radiology, L.L.C.	Cen-Mar Assurance Co.	Eliminations	
<b>Current assets:</b>							
Cash and cash equivalents	\$ 34,532	2,720	5	19	—	—	37,276
Short-term investments	14,615	—	—	—	—	—	14,615
Current portion of assets limited as to use	3,890	—	2,474	—	7,484	—	13,848
Patient receivables, net	20,471	654	—	2,581	—	—	23,706
Other receivables	2,198	—	—	706	—	—	2,904
Due from affiliates	11,508	—	69	—	—	(11,427)	150
Inventory	2,928	—	—	11	—	—	2,939
Prepaid expenses	6,324	8	3	1	6	—	6,342
<b>Total current assets</b>	<b>96,466</b>	<b>3,382</b>	<b>2,551</b>	<b>3,318</b>	<b>7,490</b>	<b>(11,427)</b>	<b>101,780</b>
Property and equipment, net	142,335	4,599	—	6,904	—	(1,616)	152,222
Beneficial interest in net assets of Foundation	21,906	—	—	—	—	(21,906)	—
Long-term investments	49,999	—	8,892	—	—	—	58,891
Long-term investments – other	17,559	—	2,058	—	—	—	19,617
Investment in subsidiaries	16,878	—	—	—	—	(16,878)	—
Investment in joint ventures	1,685	—	—	—	—	—	1,685
Assets limited as to use, less current portion	11,883	548	8,662	—	—	—	21,093
Other assets	5,562	2	37	2,112	6,249	—	13,962
<b>Total assets</b>	<b>\$ 364,273</b>	<b>8,531</b>	<b>22,200</b>	<b>12,334</b>	<b>13,739</b>	<b>(51,827)</b>	<b>369,250</b>
<b>Liabilities and Net Assets</b>							
<b>Current portion of long-term debt</b>	<b>\$ 3,253</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>3,253</b>
Current obligations under capital lease	321	—	—	—	—	—	321
Accounts payable and accrued expenses	24,561	231	248	502	11,259	(1,681)	35,120
Accrued payroll and related taxes	8,464	—	—	388	—	—	8,852
Deferred revenue	94	—	—	—	—	—	94
Advances from third-party payors	6,716	—	—	—	—	—	6,716
Due to affiliates	—	250	46	—	—	(296)	—
<b>Total current liabilities</b>	<b>43,409</b>	<b>481</b>	<b>294</b>	<b>890</b>	<b>11,259</b>	<b>(1,977)</b>	<b>54,356</b>
Long-term debt, less current portion	135,809	—	—	—	—	—	135,809
Long-term obligations under capital lease, less current portion	264	—	—	—	—	—	264
Other liabilities	38,236	—	—	862	—	(11,065)	28,033
Accrued pension and postretirement benefits	9,592	—	—	—	—	—	9,592
<b>Total liabilities</b>	<b>227,310</b>	<b>481</b>	<b>294</b>	<b>1,752</b>	<b>11,259</b>	<b>(13,042)</b>	<b>228,054</b>
<b>Net assets:</b>							
<b>Unrestricted:</b>							
Unrestricted net assets	125,365	7,502	10,856	6,349	2,480	(27,187)	125,365
Noncontrolling interest in consolidated subsidiaries	—	—	—	4,233	—	—	4,233
<b>Total unrestricted net assets</b>	<b>125,365</b>	<b>7,502</b>	<b>10,856</b>	<b>10,582</b>	<b>2,480</b>	<b>(27,187)</b>	<b>129,598</b>
<b>Restricted:</b>							
Temporarily restricted	10,425	548	9,877	—	—	(10,425)	10,425
Permanently restricted	1,173	—	1,173	—	—	(1,173)	1,173
<b>Total restricted net assets</b>	<b>11,598</b>	<b>548</b>	<b>11,050</b>	<b>—</b>	<b>—</b>	<b>(11,598)</b>	<b>11,598</b>
<b>Total net assets</b>	<b>136,963</b>	<b>8,050</b>	<b>21,906</b>	<b>10,582</b>	<b>2,480</b>	<b>(38,785)</b>	<b>141,196</b>
<b>Total liabilities and net assets</b>	<b>\$ 364,273</b>	<b>8,531</b>	<b>22,200</b>	<b>12,334</b>	<b>13,739</b>	<b>(51,827)</b>	<b>369,250</b>

See accompanying independent auditors' report.

**CARROLL COUNTY HEALTH SERVICES CORPORATION  
AND SUBSIDIARIES**

Consolidating Balance Sheet Information – Obligated Group Format

June 30, 2013  
(In thousands)

Assets	Carrroll County Health Services Corporation	Carrroll Hospital Center, Inc. & Subsidiaries	Carrroll County Med-Services, Inc. & Subsidiaries	Carrroll Hospices, Inc.	Carrroll Hospital Center Foundation, Inc.	Eliminations	Obligated Group	Non-Obligated Group	Eliminations	Total
<b>Current assets:</b>										
Cash and cash equivalents	220	34,532	3,345	2,720	5	—	40,822	354	—	41,176
Short-term investments	—	14,615	—	—	—	—	14,615	—	—	14,615
Current portion of assets limited as to use	—	3,890	—	—	2,474	—	6,364	7,484	—	13,848
Patient receivables, net	—	20,471	2,491	654	—	—	23,616	3,865	—	27,481
Other receivables	—	2,198	28	—	—	—	2,226	744	—	2,970
Due from affiliates	—	11,508	177	—	69	(624)	11,130	1,009	(11,130)	—
Inventory	—	2,928	—	—	—	—	2,928	1,009	—	3,937
Prepaid expenses	—	6,324	347	8	3	—	6,682	27	—	6,709
<b>Total current assets</b>	<b>220</b>	<b>96,466</b>	<b>6,388</b>	<b>3,382</b>	<b>2,551</b>	<b>(624)</b>	<b>108,383</b>	<b>13,483</b>	<b>(11,130)</b>	<b>110,736</b>
Property and equipment, net	2,069	142,335	7,421	4,599	—	(1,758)	154,666	7,367	(627)	161,406
Beneficial interest in net assets of Foundation	—	21,906	—	—	—	(21,906)	—	—	—	—
Long-term investments	1,074	49,999	—	—	8,892	—	59,965	—	—	59,965
Investment in subsidiaries – other	2,132	17,559	—	—	2,058	—	21,749	—	—	21,749
Investment in joint ventures	151,864	16,878	—	—	—	(156,411)	12,331	—	(12,331)	—
Assets limited as to use, less current portion	3,151	11,883	—	548	8,662	—	1,685	2,322	—	4,007
Other assets	—	5,562	725	2	37	—	24,244	8,571	—	24,244
<b>Total assets</b>	<b>\$ 160,510</b>	<b>\$ 364,273</b>	<b>\$ 14,534</b>	<b>\$ 8,531</b>	<b>\$ 22,200</b>	<b>\$ (180,699)</b>	<b>\$ 389,349</b>	<b>\$ 31,743</b>	<b>\$ (24,088)</b>	<b>\$ 397,004</b>
<b>Liabilities and Net Assets</b>										
<b>Current portion of long-term debt</b>										
Current obligations under capital lease	—	3,253	—	—	—	—	3,253	507	—	3,760
Accounts payable and accrued expenses	—	321	85	—	—	—	406	—	—	406
Accrued payroll and related taxes	—	24,561	763	231	248	—	25,803	12,551	(1,680)	36,674
Deferred revenue	—	8,464	1,714	—	—	—	10,178	341	—	10,719
Advances from third-party payors	—	94	—	—	—	—	94	—	—	94
Due to affiliates	—	6,716	357	250	46	(653)	6,716	30	(30)	6,716
<b>Total current liabilities</b>		<b>43,409</b>	<b>2,919</b>	<b>481</b>	<b>294</b>	<b>(653)</b>	<b>46,450</b>	<b>13,629</b>	<b>(1,710)</b>	<b>58,369</b>
Long-term debt, less current portion	1,831	135,809	—	—	—	—	137,640	173	—	137,813
Long-term obligations under capital lease, less current portion	—	264	73	—	—	—	337	—	—	337
Other liabilities	2	38,236	205	—	—	(1,760)	36,683	862	(10,076)	27,469
Accrued pension and postretirement benefits	—	9,592	—	—	—	—	9,592	—	—	9,592
<b>Total liabilities</b>	<b>1,833</b>	<b>227,310</b>	<b>3,197</b>	<b>481</b>	<b>294</b>	<b>(2,413)</b>	<b>230,702</b>	<b>14,664</b>	<b>(11,786)</b>	<b>233,590</b>
<b>Net assets</b>										
Unrestricted:										
Unrestricted net assets	147,079	125,365	11,337	7,502	10,856	(155,090)	147,049	12,332	(12,302)	147,079
Noncontrolling interest in consolidated subsidiaries	—	—	—	—	—	—	—	4,747	—	4,747
<b>Total unrestricted net assets</b>	<b>147,079</b>	<b>125,365</b>	<b>11,337</b>	<b>7,502</b>	<b>10,856</b>	<b>(155,090)</b>	<b>147,049</b>	<b>17,079</b>	<b>(12,302)</b>	<b>151,826</b>
Restricted:										
Temporarily restricted	10,425	10,425	—	548	9,877	(20,850)	10,425	—	—	10,425
Permanently restricted	1,173	1,173	—	—	1,173	(2,346)	1,173	—	—	1,173
<b>Total restricted net assets</b>	<b>11,598</b>	<b>11,598</b>	<b>—</b>	<b>548</b>	<b>11,050</b>	<b>(23,196)</b>	<b>11,598</b>	<b>—</b>	<b>—</b>	<b>11,598</b>
<b>Total net assets</b>	<b>158,677</b>	<b>136,963</b>	<b>11,337</b>	<b>8,050</b>	<b>21,906</b>	<b>(178,286)</b>	<b>158,647</b>	<b>17,079</b>	<b>(12,302)</b>	<b>163,424</b>
<b>Total liabilities and net assets</b>	<b>\$ 160,510</b>	<b>\$ 364,273</b>	<b>\$ 14,534</b>	<b>\$ 8,531</b>	<b>\$ 22,200</b>	<b>\$ (180,699)</b>	<b>\$ 389,349</b>	<b>\$ 31,743</b>	<b>\$ (24,088)</b>	<b>\$ 397,004</b>

See accompanying independent auditors' report.

**CARROLL COUNTY HEALTH SERVICES CORPORATION  
AND SUBSIDIARIES**

Consolidating Statement of Operations Information  
Year ended June 30, 2013

(In thousands)

	Carrroll County Health Services Corporation	Carrroll Hospital Center Inc. & Subsidiaries	Carrroll County Med-Services, Inc. & Subsidiaries	Eliminations	Consolidated
Unrestricted revenues, gains, and other support:					
Patient service revenue (net of contractuals)	\$ —	248,118	19,606	—	267,724
Less provision for bad debts	—	6,784	622	—	7,406
Net patient service revenue	—	241,334	18,984	—	260,318
Other operating revenue	114	8,284	17,362	(555)	25,205
Net assets released from restrictions used for operations	—	17	—	—	17
Total unrestricted revenues, gains, and other support	114	249,635	36,346	(555)	285,540
Expenses:					
Salaries and wages	—	98,533	22,277	—	120,810
Employee benefits	—	21,346	2,914	—	24,260
Departmental supplies and expenses	—	35,091	11,813	—	46,904
Professional fees	—	18,498	226	—	18,724
Purchased services	48	33,487	7,726	(1,301)	39,960
Depreciation and amortization	—	16,820	919	256	17,995
Interest	36	5,611	46	490	6,183
Total expenses	84	229,386	45,921	(555)	274,836
Operating income (loss)	30	20,249	(9,575)	—	10,704
Other income (expense):					
Investment income (loss)	611	5,104	547	—	6,262
Unrestricted gifts	—	1,343	—	—	1,343
Interest Rate Hedge, including settlement payments	—	4,959	—	—	4,959
Other	—	(982)	127	—	(855)
Excess (deficit) of revenues over (under) expenses	\$ 641	30,673	(8,901)	—	22,413

See accompanying independent auditors' report.

**CARROLL COUNTY HEALTH SERVICES CORPORATION  
AND SUBSIDIARIES**

Consolidating Statement of Operations Information  
Year ended June 30, 2013  
(In thousands)

	Carroll Hospital Center Inc. & Subsidiaries						
	Carroll Hospital Center Inc. & Subsidiaries	Carroll Hospice, Inc.	Carroll Hospital Center Foundation, Inc.	Carroll County Radiology, LLC.	Cen-Mar Assurance Co.	Eliminations	Consolidated
Unrestricted revenues, gains, and other support:							
Patient service revenue (net of contractuals)	\$ 221,621	5,291	—	21,947	—	(741)	248,118
Less provision for bad debts	5,686	—	—	1,098	—	—	6,784
Net patient service revenue	215,935	5,291	—	20,849	—	(741)	241,334
Other operating revenue	8,283	1	—	—	2,923	(2,923)	8,284
Net assets released from restrictions used for operations	—	7	10	—	—	—	17
Total unrestricted revenues, gains, and other support	224,218	5,299	10	20,849	2,923	(3,664)	249,635
Expenses:							
Salaries and wages	90,815	2,903	—	4,815	—	—	98,533
Employee benefits	20,258	337	—	751	—	—	21,346
Departmental supplies and expenses	33,650	322	—	1,119	—	—	35,091
Professional fees	12,097	198	—	6,203	—	—	18,498
Purchased services	31,326	710	—	4,061	2,243	(4,853)	33,487
Depreciation and amortization	14,851	175	—	1,386	—	408	16,820
Interest	4,819	—	—	11	—	781	5,611
Total expenses	207,816	4,645	—	18,346	2,243	(3,664)	229,386
Operating income (loss)	16,402	654	10	2,503	680	—	20,249
Other income (expense):							
Investment income (loss)	4,166	(1)	977	—	(38)	—	5,104
Unrestricted gifts	—	642	701	—	—	—	1,343
Interest Rate Hedge, including settlement payments	4,959	—	—	—	—	—	4,959
Other	(435)	(287)	(295)	35	—	—	(982)
Excess (deficit) of revenues over (under) expenses	\$ 25,092	1,008	1,393	2,538	642	—	30,673

See accompanying independent auditors' report.

**CARROLL COUNTY HEALTH SERVICES CORPORATION  
AND SUBSIDIARIES**

Consolidating Statement of Operations Information - Obligated Group Format

Year ended June 30, 2013  
(in thousands)

	Carroll County Health Services Corporation	Carroll Hospital Center Inc. & Subsidiaries	Carroll County Med-Services, Inc. & Subsidiaries	Carroll Hospice, Inc.	Carroll Hospital Center Foundation, Inc.	Eliminations	Obligated Group	Non-Obligated Group	Eliminations	Total
Unrestricted revenues, gains, and other support:										
Patient service revenue (net of contractuals)	—	221,621	19,652	5,291	—	—	246,564	21,901	(741)	267,724
Less provision for bad debts	—	5,686	622	—	—	—	6,308	1,098	—	7,406
Net patient service revenue	—	215,935	19,030	5,291	—	—	240,256	20,803	(741)	260,318
Other operating revenue	114	8,283	1,634	1	—	(556)	9,476	18,652	(2,923)	25,205
Net assets released from restrictions used for operations	—	—	—	7	10	—	17	—	—	17
Total unrestricted revenues, gains, and other support	114	224,218	20,664	5,299	10	(556)	249,749	39,455	(3,664)	285,540
Expenses										
Salaries and wages	—	90,815	19,188	2,903	—	—	112,906	7,904	—	120,810
Employee benefits	—	20,258	2,601	337	—	—	23,196	1,064	—	24,260
Departmental supplies and expenses	—	33,650	1,177	332	—	—	35,149	11,755	—	46,904
Professional fees	—	12,097	167	198	—	—	12,462	6,262	—	18,724
Purchased services	48	31,326	6,739	710	—	(1,921)	36,902	7,291	(4,233)	39,960
Depreciation and amortization	—	14,851	715	175	—	468	16,209	1,591	195	17,995
Interest	36	4,819	17	—	—	897	5,769	40	374	6,183
Total expenses	84	207,816	30,604	4,645	—	(556)	242,593	35,907	(3,664)	274,836
Operating income (loss)	30	16,402	(9,940)	654	10	—	7,156	3,548	—	10,704
Other income (expense)										
Investment income (loss)	611	4,166	—	(1)	977	—	5,753	509	—	6,262
Unrestricted gifts	—	—	—	642	701	—	1,343	—	—	1,343
Interest Rate Hedge, including settlement payments	—	4,959	—	—	—	—	4,959	—	—	4,959
Other	—	(435)	135	(287)	(295)	—	(882)	27	—	(855)
Excess (deficit) of revenues over (under) expenses	641	25,092	(9,805)	1,008	1,393	—	18,329	4,084	—	22,413

See accompanying independent auditors' report.