

CONTINUING DISCLOSURE REPORT

**Washington County Health Systems Obligated Group
For the 12 Month Period Ended June 30, 2010**

Name, Address and Telephone Number of Obligated Person:

Washington County Health Systems Obligated Group
c/o Washington County Health System, Inc.
251 East Antietam Street
Hagerstown, MD 21740
301-790-8102
Contact person: Raymond A. Grahe, Vice President for Finance

Bonds to Which Report Relates:

\$264,300,000
Maryland Health and Higher Education Facility Authorities
Series 2008

| <u>MATURITY</u> | <u>CUSIP NO.</u> |
|------------------------|-------------------------|
| 2012 | 574217Q81 |
| 2013 | 574217Q99 |
| 2014 | 574217R31 |
| 2014 | 574217R23 |
| 2015 | 574217R49 |
| 2016 | 574217R64 |
| 2016 | 574217R56 |
| 2017 | 574217R72 |
| 2018 | 574217R80 |
| 2018 | 574217R98 |
| 2019 | 574217S22 |
| 2020 | 574217S30 |
| 2021 | 574217S48 |
| 2022 | 574217S55 |
| 2023 | 574217S63 |
| 2028 | 574217S71 |
| 2033 | 574217S89 |
| 2038 | 574217S97 |
| 2043 | 574217T21 |

Period to Which Report Relates:

Twelve Months Ended June 30, 2010

This Continuing Disclosure Report (this “Report”) is provided on behalf of the Washington County Health Systems Obligated Group (the “Obligated Group”) by Washington County Health Systems, Inc. (“WCHS), as Obligated Group Agent. The Obligated Group consists of WCHS and the organizations listed on **Exhibit A-1** attached hereto. The Obligated Group does not include all of the organizations controlled by WCHS. WCHS organizations excluded from the Obligated Group are listed on **Exhibit A-2**. The organizations that are directly or indirectly controlled by WCHS (including those within the Obligated Group) are referred to as “Controlled Organizations” and WCHS and all of its Controlled Organizations are referred to collectively as the “Consolidated Group.” *Organizations that are not members of the Obligated Group have no obligation with respect to the Bonds or under the Master Indenture and none of the assets or revenues of such organizations are available to make payments of principal or interest on the Bonds or the Notes.*

This Report is being filed with approved Nationally Recognized Municipal Securities Information Repositories (“Repositories”) pursuant to Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission (the “Rule”), and is pursuant to the Continuing Disclosure Agreement pertaining to certain Bonds which were issued concurrently with the formation of the Obligated Group.

THIS REPORT IS INTENDED SOLELY TO PROVIDE CERTAIN LIMITED FINANCIAL AND OPERATING DATA IN ACCORDANCE WITH UNDERTAKINGS OF WCHS AND THE OBLIGATED GROUP UNDER THE RULE (THE “UNDERTAKING”) AND DOES NOT CONSTITUTE A REISSUANCE OF ANY OFFICIAL STATEMENT RELATING TO THE BONDS OR A SUPPLEMENT OR AMENDMENT TO ANY SUCH OFFICIAL STATEMENT.

THIS REPORT CONTAINS CERTAIN AUDITED FINANCIAL, OPERATING AND OTHER DATA AS OF JUNE 30, 2010 AND 2009 AND FOR THE TWELVE MONTH PERIODS ENDED JUNE 30, 2010 AND 2009. WCHS AND THE OBLIGATED GROUP HAVE UNDERTAKEN NO RESPONSIBILITY TO UPDATE THIS REPORT SINCE THAT DATE AND DISCLAIM ANY OBLIGATION TO UPDATE THIS REPORT OR TO FILE ANY REPORTS OR OTHER INFORMATION WITH THE REPOSITORIES OR ANY OTHER PERSON EXCEPT AS SPECIFICALLY REQUIRED BY THE UNDERTAKING.

This report may contain certain “forward-looking statements” which involve known and unknown risks and uncertainties inherent in the operation of healthcare facilities. All statements other than statements of historical information provided herein may be forward-looking statements. Without limiting the foregoing, the words “believes,” “estimates,” “anticipates,” “plans,” “intends,” “scheduled,” “expects” and similar expressions are intended to identify forward-looking statements. Factors that could cause actual results to differ materially from those reflected in the forward-looking statements include, but are not limited to, competition from other healthcare facilities, federal and state regulation of healthcare providers, and reimbursement policies of state and federal governments and managed care organizations. Readers are cautioned not to place undue reliance on these forward-looking statements, which

reflect management's analysis, judgment, belief or expectation only as of the date hereof. WCHS and the Obligated Group undertake no obligation to publicly revise these forward-looking statements to reflect events or circumstances that arise after the date hereof.

SUMMARY AUDITED FINANCIAL INFORMATION

Summary Audited Statement of Operations of Obligated Group

Attached hereto as **Exhibit B**, is a Summary Audited Statement of Operations of the Obligated Group for the twelve months ended June 30, 2010 and 2009 which was derived by management from audited financial statements. The audited financial statements include all adjustments, consisting of normal recurring accruals, which WCHS considers necessary for a fair presentation of the results of operations for these periods. The Summary Audited Statement of Operations should be read in conjunction with the Consolidated Financial Statements of the Consolidated Group for the twelve months ended June 30, 2010. The expectation for the Obligated Group is to return to the same level of profitability as forecast in the feasibility study and to recover its days cash on hand.

Management's Discussion of Recent Financial Performance of Obligated Group

The Obligated Group had an operating excess of \$3.6 million excluding early retirement and transition costs (representing 1.4% of total revenue) for the twelve months ended June 30, 2010 as compared to an operating excess of \$6.8 million (representing 2.7% of total revenue) for the same period in 2009. The decrease is related to flat volumes offset by an increase in both inpatient and outpatient rates and an increase in expenses for salaries and wages, employee benefits, and expendable supplies.

| Excess from Operations - Obligated Group | | |
|--|----------------------------|---------------------|
| | Fiscal Year-to-Date | |
| | June 2010 | June 2009 |
| Unrestricted revenue, gains and other support | | |
| Net patient service revenue | \$ 249,825,207 | \$ 243,097,039 |
| Rental income, net of expense | 2,056,141 | 1,829,924 |
| Gain (loss) on disposal of assets | (385,872) | 158,827 |
| Other revenue | 1,964,774 | 3,223,913 |
| Equity earnings in affiliates | 5,685,207 | 3,078,871 |
| Net assets released from restrictions for operations | 459,878 | 526,271 |
| Total | 259,605,335 | 251,914,845 |
| Expenses | | |
| Salaries and wages | 101,808,554 | 99,707,210 |
| Professional fees | 8,781,293 | 9,284,943 |
| Supplies and other expenses | 117,863,218 | 108,979,967 |
| Interest expense | 452,603 | 896,008 |
| Depreciation and amortization | 14,767,472 | 14,062,472 |
| Provision for bad debts | 12,369,458 | 12,231,433 |
| Total | 256,042,598 | 245,162,033 |
| Operating income before other items | 3,562,737 | 6,752,812 |
| Other items | | |
| Early retirement costs | (1,337,668) | - |
| Transition costs | (706,986) | - |
| Total | (2,044,654) | - |
| Operating income | \$ 1,518,083 | \$ 6,752,812 |

Net patient service revenue of the Obligated Group for the twelve months ended June 30, 2010 increased 2.8% over net patient service revenue for the same period in 2009 resulting from:

- 1) Hospital inpatient rate increase of approximately 1.5% or approximately \$2.7 million net revenue
- 2) Net outpatient revenue of \$3.7 million as a result of both rates and volumes, particularly the John R March Cancer Center and the Wound Center
- 3) The increase was offset by a 0.5% decline in inpatient admissions over the same period in 2009 which is approximately 8% less than the Financial Feasibility Study
- 4) Decline in volume as a result of severe weather that occurred between December 2009 and February 2010
- 5) New HSCRC assessments which are in excess of \$3.0 million for the period of which only 50% is built into rates (total is approximately \$7 million annually)

Case mix period to period has increased approximately 2.8%, however the increase that can be recovered in rates is capped at 0.5% by the HSCRC rate setting system.

Total revenue of the Obligated Group for the period ended June 30, 2010 was \$259.6 million, representing an increase of 3.1% above the same period in 2009. This was related to:

- 1) The increase in hospital net patient service revenue was the result of a 0.1% increase in outpatient visits
- 2) Intensity of outpatient visits as well as volume in the cancer center and wound center
- 3) An increase in rates received from the HSCRC which were 1.27% plus 0.5% for case mix (note: the Financial Feasibility Study projected a 3.83% rate increase)
- 4) Equity earnings in affiliates of approximately \$3.7 million resulting from the positive performance by Maryland Physician's Care ("MPC") (note: MPC has experienced an \$11.2 million pre-tax profit for the year ended December 31, 2009)
- 5) The loss on disposal of assets of approximately \$0.4 million resulting from the Hospital replacement of its older beds in order to improve patient care and safety in anticipation of the move to the replacement facility. The new beds have reduced the number of falls and reduced decubitus ulcers.

Expenses for the period were \$256.0 million, representing an increase of 4.4% above the same period in 2009.

Salaries and wages for the period increased 2.1% as compared to the same period in 2009 primarily due to:

- 1) Merit increase that was effective December 2009 which includes a lower rate to match the rates received from the HSCRC as noted previously
- 2) Increased cost of approximately \$500,000 as a result of the severe weather that occurred from December 2009 through February 2010.
- 3) We continue to have no nursing agency expense with some expense in the cancer center as we recruit a physicist for radiation therapy (0.3% of salaries and wages).

Professional fees for the period decreased 5.4% over the same period in 2009 due to:

- 1) Transferring Women's Health (an OB/GYN practice) and the Urgent Care Centers to Antietam Health Services, Inc. (a consolidated group member)
- 2) The replacement of the emergency department physicians group with a group that does not require a subsidy
- 3) Discontinued services at the cardiac diagnostic center
- 4) Increase in fees as a result of the imaging services provided at Professional Court Imaging

Supplies and Other expenses for the twelve month period increased by 8.2% over the same period in 2009 as a result of:

- 1) Employee benefits related to the increase in health insurance costs related to abnormal, high cost claims (Note: 3 claims total \$1.5 million)
- 2) Increase in retirement plan contributions which is the result of a successful program to increase both participation and level of participation in the 403b matching program
- 3) Medical supplies resulting from:
 - a. Increase in average length of stay
 - b. Prosthesis/implants resulting from an increase in bariatric and vascular surgeries
 - c. Pharmaceuticals which are related to cancer drugs and an increase in outpatient infusion volume
- 4) Blood clotting products for a limited number of patients
- 5) Leases related to new patient beds
- 6) 3T MRI at Professional Court Imaging and related lease

- 7) Equipment maintenance contracts related to new cardiac cath lab and radiology equipment
- 8) Decrease in expense was the result of the transition of the wound center from a contract management arrangement to one where program management is performed internally

Depreciation and amortization increased over the same period in 2009 as the Hospital continues to accelerate the write-off of equipment that will not move to the replacement facility as well as the addition of new equipment for the Cath Lab and Professional Court Imaging.

The Obligated Group remains short of the projections as provided in the Financial Feasibility Study that was part of the Official Statement dated February 6, 2008. Several key factors have contributed to this shortfall which includes:

- 1) Inpatient volumes are approximately 8% below that in the forecast attributed to the continued economic conditions that began mid-2008
- 2) Average length of stay has increased as a result of the impact of the H1N1 virus and severe weather conditions
- 3) Rates received from the HSCRC are approximately 2% per year less than those projected in the feasibility
- 4) Economy has not recovered to the same level that was forecast as the investment markets are 30% below the level that existed at the time the feasibility was developed

The Health System intends to achieve the same level of profitability as provided in the feasibility study. As such, the Health System has returned to the basics with a focus on strengthening market position (which has improved from 80.7% in CY2008 to 82.7% CY2009 within the Washington County geographic area), improving processes, and reducing costs. Initiatives to achieve these objectives which total approximately \$17.0 million include:

- 1) Reduction in length of stay through various programs
- 2) Revenue cycle efficiencies
- 3) Supply and pharmaceutical cost reductions obtained through a formal bid process
 - a. involving \$44 million of annual spend
 - b. expected to return approximately \$700,000 in savings
 - c. other negotiated savings of approximately \$1.0 million
- 4) Rate negotiations with third party payers as well as the HSCRC
- 5) Continued management to performance targets
- 6) Early retirement incentive offer to 184 Health System employees
 - a. 96 (79 FTEs) accepted the offer
 - b. 51 (42 FTEs) to be replaced at a lower rate
 - c. 45 (38 FTEs) not replaced
 - d. expected to generate annual savings of approximately \$2.7 million
- 7) Reduction in force and reduction in hours of 175 (100 FTEs) employees that is expected to generate savings of approximately \$5.4 million
- 8) Consolidation of corporate functions, i.e. human resources and finance as well as other administrative functions which represents approximately 20 FTEs
- 9) Hiring freeze except for mission critical positions
- 10) Benefit reductions for newly hired staff which results in savings of approximately \$500,000
- 11) Elimination of benefits for part time staff (<.4 FTE) generating approximately \$350,000
- 12) Forgiveness of the professional liability malpractice premiums \$1.0 million

- 13) Redesign of the case management process which is expected to generate savings of approximately \$400,000

In addition, the Obligated Group expects to receive approximately \$0.6 million in supply cost savings and / or rebates through its participation in Colonial Regional Alliance which is an 8 member group purchasing organization that anticipates \$5.0 million in savings for its member organizations.

The Health System is implementing several clinical enhancements in order to improve its clinical outcomes. These include:

- 1) Continuation of the pPCI and npPCI program
- 2) Nursing for outcomes which provides a nurse without assignment as well as improves the nurse to patient ratio
- 3) Expanded PICC services
- 4) eCare which provides telemedicine monitoring services for critical care patients
- 5) Continuation of the telemedicine program for the stroke patients
- 6) Implementation of an observation unit to enhance care and patient flow
- 7) Programs and processes that lower the S3 score
- 8) Heightened focus on patient satisfaction
- 9) Reduction / elimination of hospital readmissions
- 10) Processes and programs to reduce hospital acquired conditions
- 11) Patient advocacy at all locations and levels of care

In April 2009, the Health System's affiliate, Tri-State Health Partners was deemed to be clinically integrated by the Federal Trade Commission which is Phase I of the process. This initiative is only the third such program to receive approval in the nation. It is based upon proven clinical improvements which will enable the entire Health System and its medical staff to improve care provided in the community in addition to enhancing relationships with payers. We are currently in Phase II of the process which includes:

- 1) New physician participation agreement and rebuilding of the network. We achieved 95% success in re-contracting physicians (approximately 215 physicians)
- 2) Integrated fee schedule
- 3) Value based purchasing program

As a result of this initiative, we were able to secure a contract, in conjunction with CareFirst, with the Washington County Government employees.

Non-operating gains for the twelve month period ended June 30, 2010 were \$7.5 million compared to losses of \$10.1 million for the same period in 2009.

| Non-Operating Gains (Losses), net - Obligated Group | | |
|--|----------------------------|------------------------|
| | Fiscal Year-to-Date | |
| | June 2010 | June 2009 |
| Investment income | \$ 1,369,791 | \$ 726,872 |
| Realized gains (losses) | (2,967,346) | (3,003,846) |
| Unrealized gains (losses) | 9,570,529 | (10,394,248) |
| SFAS 159 | - | 3,188,365 |
| Other, net | (506,267) | (573,840) |
| Total | \$ 7,466,707 | \$ (10,056,697) |

Unrestricted net assets increased \$14.4 million for the twelve month period ended June 30, 2010 compared to a decrease of \$15.9 million for the same period in 2009. The change from year to year is primarily due to the turnaround of the investment and capital market conditions that impacted both general investment holdings and pension investment holdings. The decrease in the pension funds that the Hospital has experienced in the prior fiscal year has shown some recovery. The pension fund is approximately 101.2% funded as compared to the previous actuarially valued liability and 89.8% funded with respect to the account balance liability. The Hospital intends to continue its contributions to the plan of \$675,000 per quarter. Management continues to monitor and evaluate several alternatives to fully fund the pension plan and expects to be fully funded within the requirements established by ERISA.

| Change in Unrestricted Net Assets - Obligated Group | | |
|--|----------------------------|------------------------|
| | Fiscal Year-to-Date | |
| | June 2010 | June 2009 |
| (Deficiency) excess of revenue over expenses | \$ 8,984,790 | \$ (3,303,885) |
| Transfer (to) from temporarily restricted net assets | 2,946,776 | 110,064 |
| Change in pension benefit obligation | 2,445,987 | (12,230,178) |
| Reversal of accumulated net unrealized gains or losses on investment from the adoption of SFAS 159 | - | (3,188,365) |
| Other | - | 2,717,655 |
| Increase (decrease) in unrestricted net assets | \$ 14,377,553 | \$ (15,894,709) |

Liquidity for the Obligated Group improved as unrestricted day's cash on hand increased from 95.3 days as of June 30, 2009 to 110.4 days as of June 30, 2010. This excludes approximately 5.3 days of restricted cash held as collateral for self insured purposes. Days in accounts receivable are 45 days which represents a decrease of 5 days over the same period in 2009. The decline in the market as compared to that projected in the Financial Feasibility Study represents a variance of approximately 30 days.

Debt service coverage for the Obligated Group decreased to 3.7 as of June 30, 2010 from 4.9 as of June 30, 2009.

Debt to capitalization for the Obligated Group decreased to 61.3% at June 30, 2010 from 63.4% at June 30, 2009.

Management's Discussion of Recent Audited Financial Performance of Consolidated Group

The Consolidated Group includes several organizations that are not members of the Obligated Group (such organizations that are members of the Consolidated Group but not members of the Obligated Group are referred to as "Non-Obligated Group Members"). The Non-Obligated Group Members have no obligation with respect to the Bonds or under the Master Indenture and none of the assets or revenues of the Non-Obligated Group Members are pledged to support debt service on the Bonds or the Notes.

Net patient service revenue of the Consolidated Group for the twelve month period ended June 30, 2010 increased 3.5% over net patient service revenue for the same period in 2009. Total revenue of the Consolidated Group for the period ended June 30, 2010 was \$345.0 million, representing an increase of 3.7% above the same period in 2009. Expenses for the period were \$340.1 million, representing an increase of 4.6% above the same period in 2009. The Consolidated Group had an operating excess excluding early retirement incentive costs and transition costs of \$4.9 million (representing 1.4% of total revenue) for the twelve months ended June 30, 2010 as compared to an operating excess of \$7.3 million (representing 2.2% of total revenue) for the same period in 2009.

| Excess from Operations - Consolidated | | |
|--|---------------------|---------------------|
| | Fiscal Year-to-Date | |
| | June 2010 | June 2009 |
| Operating revenue | \$ 344,992,258 | \$ 332,527,554 |
| Operating expense | 340,130,890 | 325,231,184 |
| Operating income before other items | \$ 4,861,368 | \$ 7,296,370 |

Non-operating gains for the twelve month period ended June 30, 2010 were \$8.7 million compared to a loss of \$9.8 million for the same period in 2009.

| Non-Operating Gains (Losses), net - Consolidated | | |
|--|---------------------|-----------------------|
| | Fiscal Year-to-Date | |
| | June 2010 | June 2009 |
| Investment income | \$ 2,420,211 | \$ 1,297,800 |
| Realized gains (losses) | (3,171,432) | (3,422,490) |
| Unrealized gains (losses) | 10,991,522 | (10,791,711) |
| SFAS 159 | - | 3,266,334 |
| Other, net | (1,545,929) | (117,307) |
| Total | \$ 8,694,372 | \$ (9,767,374) |

Included within the Consolidated Group, is a wholly owned insurance captive that provides primary limits of insurance of \$1 million per occurrence/\$3 million aggregate for professional

and general liability. The professional liability coverage is provided on a claims-made basis. In addition, the insurance captive purchased reinsurance from an “A” rated re-insurer, as rated by AM Best, in the amount of \$10 million to cover any potential liabilities above the \$1 million/\$3 million primary limits, which were covered by the insurance captive. The reserves, including retrospective premium credits, were \$8.1 million and \$8.1 million as of June 30, 2010 and 2009, respectively.

Attached hereto as **Exhibit C**, is a comparison of the audited financial performance of the Consolidated Group to the Obligated Group for the twelve months ended June 30, 2010 and 2009 which was derived by management from the audited financial statements.

HISTORICAL UTILIZATION OF SERVICES

The table attached hereto as **Exhibit D** summarizes the audited utilization of services at the Obligated Group’s acute care hospital (Washington County Hospital Association) for the twelve month periods ended June 30, 2010 and 2009. Washington County Hospital experienced a 0.5% decrease in the number of admissions and a 0.1% increase in outpatient encounters for the period ended June 30, 2010 versus the same period in 2009.

THIRD PARTY PAYERS

The table attached hereto as **Exhibit E** summarizes the audited third party payer percentage of net patient service revenue of the Obligated Group’s acute hospital (Washington County Hospital Association) for the twelve month periods ended June 30, 2010 and 2009.

ADDITIONAL INFORMATION

Attached hereto as **Exhibit F**, is the Consolidated Group audited balance sheets as of June 30, 2010 and June 30, 2009.

Attached hereto as **Exhibit G**, is the Consolidated Group audited statement of operations for the twelve month periods ended June 30, 2010 and June 30, 2009.

Attached hereto as **Exhibit H**, is the Consolidated Group audited changes in net assets for the twelve month periods ended June 30, 2010 and June 30, 2009.

Attached hereto as **Exhibit I**, is the Project Summary as of June 30, 2010.

Date: _____

WASHINGTON COUNTY HEALTH SYSTEMS, INC.

By: _____
James P. Hamill, President and CEO

By: _____
Raymond A. Grahe, Vice President for Finance

Members of the Obligated Group

The Obligated Group consists of WCHS and the following organizations, each of which is directly or indirectly controlled by WCHS:

- Washington County Hospital Association (“WCHA”)
- Washington County Hospital Endowment Fund, Inc. (“WCHEF”)
- Washington County Health System, Inc. (“WCHSI”)

Members Excluded From the Obligated Group

WCHS organizations excluded from the Obligated Group consists of the following organizations, each of which is directly or indirectly controlled by WCHS:

- Washington County Hospital Endowment Development Company, Inc.
- Antietam Health Services, Inc.
- Antietam Healthcare Foundation, Inc.
- Antietam Insurance Company, LTD

Washington County Health Systems Obligated Group
SUMMARY AUDITED STATEMENT OF OPERATIONS
For the Twelve Month Period Ended June 30, 2010 and 2009

| | Fiscal Year-to-Date | |
|--|---------------------|-----------------------|
| | June 2010 | June 2009 |
| Unrestricted revenue, gains and other support | | |
| Net patient service revenue | \$ 249,825,207 | \$ 243,097,039 |
| Rental income, net of expense | 2,056,141 | 1,829,924 |
| Gain (loss) on disposal of assets | (385,872) | 158,827 |
| Other revenue | 1,964,774 | 3,223,913 |
| Equity earnings in affiliates | 5,685,207 | 3,078,871 |
| Net assets released from restrictions for operations | 459,878 | 526,271 |
| Total | 259,605,335 | 251,914,845 |
| Expenses | | |
| Salaries and wages | 101,808,554 | 99,707,210 |
| Professional fees | 8,781,293 | 9,284,943 |
| Supplies and other expenses | 117,863,218 | 108,979,967 |
| Interest expense | 452,603 | 896,008 |
| Depreciation and amortization | 14,767,472 | 14,062,472 |
| Provision for bad debts | 12,369,458 | 12,231,433 |
| Total | 256,042,598 | 245,162,033 |
| Operating income before other items | 3,562,737 | 6,752,812 |
| Other items | | |
| Early retirement costs | (1,337,668) | - |
| Transition costs | (706,986) | - |
| Total | (2,044,654) | - |
| Operating income | 1,518,083 | 6,752,812 |
| Non-operating gains (losses), net | | |
| Investment returns, net | 7,972,974 | (9,482,857) |
| Other, net | (506,267) | (573,840) |
| Total | 7,466,707 | (10,056,697) |
| Excess of (deficiency in) revenue over expenses | \$ 8,984,790 | \$ (3,303,885) |

Washington County Health Systems, Inc.
SUMMARY AUDITED FINANCIAL INFORMATION
As of and For the Twelve Month Periods Ended June 30, 2010 and 2009

| | Consolidated Group | | Obligated Group | |
|---|-----------------------|-------------|-----------------------|--------------|
| | Year-to-date June 30, | | Year-to-date June 30, | |
| | 2010 | 2009 | 2010 | 2009 |
| Income Statement | | | | |
| Net patient service revenue | 301,173,125 | 291,062,842 | 249,825,207 | 243,097,039 |
| Total revenue | 344,992,258 | 332,527,554 | 259,605,335 | 251,914,845 |
| Total expense | 340,130,890 | 325,231,184 | 256,042,598 | 245,162,033 |
| Operating income before other items | 4,861,368 | 7,296,370 | 3,562,737 | 6,752,812 |
| Non-operating gains (losses) | 8,694,372 | (9,767,374) | 7,466,707 | (10,056,697) |
| Excess of (deficiency in) revenue over expenses | 9,901,568 | (4,087,522) | 8,984,790 | (3,303,885) |
| Interest expense | 621,399 | 1,085,425 | 452,603 | 896,008 |
| Depreciation and amortization | 16,366,229 | 15,486,584 | 14,767,472 | 14,062,472 |
| Income tax expense | 1,194,992 | 1,238,204 | - | - |
| Debt Services | | | | |
| Excess available for debt service (EBITDA) | 8.1% | 4.1% | 9.3% | 4.6% |
| Balance Sheet | | | | |
| Unrestricted cash and investments | 87,929,085 | 75,087,096 | 72,973,974 | 60,340,281 |
| Total assets | 540,167,904 | 526,103,151 | 508,381,677 | 496,383,280 |
| Current portion of long-term debt | 6,067,114 | 5,532,503 | 5,214,450 | 4,821,749 |
| Long-term debt | 273,591,018 | 275,799,960 | 271,426,566 | 273,431,711 |
| Unrestricted net assets | 171,872,744 | 155,361,882 | 166,204,997 | 151,827,447 |
| Profitability | | | | |
| Operating margin | 1.4% | 2.2% | 1.4% | 2.7% |
| Excess margin | 2.8% | -1.3% | 3.4% | -1.4% |
| Excess margin (excluding unrealized gains/losses) | -0.3% | 1.0% | -0.2% | 1.6% |
| Liquidity | | | | |
| Days cash on hand | 99.1 | 88.5 | 110.4 | 95.3 |
| Leverage | | | | |
| Debt service coverage | 3.34 | 4.74 | 3.69 | 4.89 |
| Debt to capitalization | 60.1% | 62.4% | 61.3% | 63.4% |

| Bond Covenants | | |
|---|-----------------|----------|
| | Obligated Group | Required |
| Debt service coverage | 3.69 | 1.15 |
| Days cash on hand during construction | 110.4 | 45.0 |
| Days cash on hand (including restricted cash) | 115.7 | 45.0 |
| Days cash on hand after construction | n/a | 70.0 |

Washington County Health Systems Obligated Group
AUDITED HOSPITAL UTILIZATION STATISTICS
For the Twelve Month Period Ended June 30, 2010 and 2009

| | Fiscal Year-to-Date | |
|---|----------------------------|------------------|
| | June 2010 | June 2009 |
| Washington County Hospital Association | | |
| Licensed Beds | 288 | 286 |
| Patient Days | 76,696 | 78,057 |
| Admissions | 18,116 | 18,208 |
| Length of Stay | 4.2 | 4.3 |
| Average Daily Census | 210.1 | 213.3 |
| Outpatient Visits ⁽¹⁾ | 203,752 | 203,501 |
| FTE Paid | 1,820 | 1,785 |
| Admissions Summary | | |
| MSGA | 9,260 | 9,353 |
| Pediatric | 415 | 505 |
| Obstetric | 1,960 | 2,075 |
| Intensive Care | 3,105 | 2,778 |
| Psychiatric | 988 | 1,027 |
| Rehabilitation | 438 | 460 |
| Total Acute | 16,166 | 16,198 |
| Newborns | 1,950 | 2,010 |
| Total Acute + Newborns | 18,116 | 18,208 |
| Emergency Department Visits | | |
| Emergency Room | 68,668 | 67,744 |
| Rapid Diagnostic Center | 1,646 | 1,733 |
| Total Emergency Department Visits | 70,314 | 69,477 |
| Surgeries | | |
| Inpatient | 4,021 | 4,135 |
| Outpatient | 4,253 | 4,311 |
| Total Surgeries | 8,274 | 8,446 |

⁽¹⁾Excludes Urgent Care visits for Jun. 2008 - Sept. 2008

**Washington County Health Systems Obligated Group
AUDITED THIRD PARTY PAYER INFORMATION
For the Twelve Month Period Ended June 30, 2010 and 2009**

| | Fiscal Year-to-Date | |
|---|---------------------|----------------|
| | June 2010 | June 2009 |
| Washington County Hospital Association (As a % of Gross Revenue) | | |
| Medicare | 46.79% | 46.39% |
| Medicaid | 10.64% | 9.72% |
| Blue Cross | 13.51% | 11.70% |
| Commercial | 15.45% | 14.39% |
| Managed Care | 5.08% | 8.09% |
| Self Pay | 6.11% | 6.99% |
| Other | 2.42% | 2.72% |
| Total | 100.00% | 100.00% |

Washington County Health Systems, Inc.
AUDITED CONSOLIDATED BALANCE SHEET
As of June 30, 2010 and 2009

| | Fiscal Year-to-Date | |
|--|-----------------------|-----------------------|
| | June 2010 | June 2009 |
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 23,025,683 | \$ 19,781,549 |
| Restricted cash | 2,601,651 | 2,572,167 |
| Short-term investments | 4,731,657 | 4,587,393 |
| Current portion of assets whose use is limited | 21,671,087 | 17,152,451 |
| Accounts receivable, net | 41,385,245 | 45,647,620 |
| Supplies | 9,640,469 | 8,756,508 |
| Prepaid and other current assets | 5,749,191 | 5,608,361 |
| Total current assets | 108,804,983 | 104,106,049 |
| Equity investments in affiliates | 17,903,755 | 13,920,632 |
| Assets whose use is limited | | |
| Board designated funds | 60,171,745 | 50,718,154 |
| Supplemental retirement benefit investments | 2,289,132 | 1,915,613 |
| Temporarily and permanently restricted donor funds | 924,031 | 813,569 |
| | 63,384,908 | 53,447,336 |
| Assets held by trustee for debt service and construction | 59,402,684 | 164,014,907 |
| Funds designated for insurance purposes | 8,565,266 | 7,347,639 |
| Total assets whose use is limited | 131,352,858 | 224,809,882 |
| Property, plant, and equipment, net | 272,716,066 | 172,834,984 |
| Pledges receivable, net | 3,484,189 | 3,796,976 |
| Deferred financing costs, net | 2,937,209 | 3,183,681 |
| Other assets | 2,968,844 | 3,450,947 |
| Total other assets | 282,106,308 | 183,266,588 |
| Total assets | 540,167,904 | 526,103,151 |
| Liabilities and Net Assets | | |
| Current liabilities: | | |
| Accounts payable and accrued expenses | 13,441,802 | 9,925,453 |
| Construction and retainage payable | 14,166,331 | 9,647,695 |
| Accrued salaries, wages, and withholdings | 8,920,979 | 7,840,016 |
| Accrued compensation benefit | 15,014,599 | 14,313,900 |
| Advances from third-party payors | 6,663,875 | 6,073,679 |
| Accrued interest payable | 7,504,756 | 7,504,756 |
| Current portion of long-term debt | 6,067,114 | 5,532,503 |
| Total current liabilities | 71,779,456 | 60,838,002 |
| Long-term debt, net of current portion | 273,591,018 | 275,799,960 |
| Accrued retirement benefits | 7,632,028 | 11,333,898 |
| Asset retirement obligation | 1,993,500 | 1,893,825 |
| Other long-term liabilities | 3,500,265 | 10,056,067 |
| Total liabilities | 358,496,267 | 359,921,752 |
| Net assets | | |
| Unrestricted | | |
| Unrestricted - System | 170,208,396 | 153,538,350 |
| Non-controlling interest | 1,664,348 | 1,823,532 |
| Total unrestricted net assets | 171,872,744 | 155,361,882 |
| Temporarily restricted | 8,770,275 | 9,790,899 |
| Permanently restricted | 1,028,618 | 1,028,618 |
| Total net assets | 181,671,637 | 166,181,399 |
| Total liabilities and net assets | \$ 540,167,904 | \$ 526,103,151 |

Washington County Health Systems, Inc.
AUDITED CONSOLIDATED STATEMENT OF OPERATIONS
For the Twelve Month Period Ended June 30, 2010 and 2009

| | Fiscal Year-to-Date | |
|--|---------------------|-----------------------|
| | June 2010 | June 2009 |
| Unrestricted revenue, gains and other support | | |
| Net patient service revenue | \$ 301,173,125 | \$ 291,062,842 |
| Sales | 28,884,376 | 28,909,335 |
| Rental income, net of expense | 2,056,141 | 1,835,489 |
| Gain (loss) on disposal of assets | (384,413) | 148,650 |
| Other revenue | 4,795,330 | 5,436,831 |
| Equity earnings in affiliates | 7,231,427 | 4,153,193 |
| Net assets released from restrictions for operations | 1,236,272 | 981,214 |
| Total | 344,992,258 | 332,527,554 |
| Expenses | | |
| Salaries and wages | 138,625,975 | 134,329,206 |
| Professional fees | 9,781,100 | 10,427,459 |
| Cost of goods sold | 19,558,504 | 19,537,132 |
| Supplies and other expenses | 141,454,848 | 130,981,438 |
| Interest expense | 621,399 | 1,085,425 |
| Depreciation and amortization | 16,366,229 | 15,486,584 |
| Provision for bad debts | 13,722,835 | 13,383,940 |
| Total | 340,130,890 | 325,231,184 |
| Operating income before other items | 4,861,368 | 7,296,370 |
| Other items | | |
| Early retirement incentive costs | (1,451,379) | - |
| Transition costs | (706,986) | - |
| Total | (2,158,365) | - |
| Operating income | 2,703,003 | 7,296,370 |
| Non-operating gains (losses), net | | |
| Investment returns, net | 10,240,301 | (9,650,067) |
| Other, net | (1,545,929) | (117,307) |
| Income tax expense | (1,194,992) | (1,238,204) |
| Total | 7,499,380 | (11,005,578) |
| Excess of (deficiency in) revenue over expenses | 10,202,383 | (3,709,208) |
| Excess of revenue attributable to non-controlling interest | (300,815) | (378,314) |
| Excess of (deficiency in) revenue over expenses, System | \$ 9,901,568 | \$ (4,087,522) |

Washington County Health Systems, Inc.
AUDITED CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS
For the Twelve Month Period Ended June 30, 2010 and 2009

| | Fiscal Year-to-Date | |
|--|----------------------------|-----------------------|
| | June 2010 | June 2009 |
| Unrestricted net assets | | |
| (Deficiency) excess of revenue over expenses | \$ 9,901,568 | \$ (4,087,522) |
| Transfer (to) from temporarily restricted net assets | 2,946,776 | 119,741 |
| Change in pension benefit obligation | 2,445,987 | (12,230,178) |
| Change in non-controlling interest | (159,184) | 365,390 |
| Reversal of accumulated net unrealized gains or losses on investment from the adoption of SFAS 159 | - | (3,266,334) |
| Other | 1,375,715 | 1,475,891 |
| Increase (decrease) in unrestricted net assets | 16,510,862 | (17,623,012) |
| Temporarily Restricted Net Assets | | |
| Contributions | 3,142,588 | 5,181,362 |
| Net realized and unrealized gains (losses) on investments | 19,836 | 32,556 |
| Transfer (to) from unrestricted net assets | (2,946,776) | (119,741) |
| Net assets released from restrictions | (1,236,272) | (981,214) |
| (Decrease) increase in temporarily restricted net assets | (1,020,624) | 4,112,963 |
| Increase (decrease) in net assets | 15,490,238 | (13,510,049) |
| Net assets | | |
| Beginning of year | 166,181,399 | 179,691,448 |
| End of year | \$ 181,671,637 | \$ 166,181,399 |

Project Summary

The month of June brought a project record-low of only 37 new RFI's for the month. This is a positive indicator that work progress is heading in the right direction. With now only 24 weeks remaining until move-in, focus placed on total completion of departments, starting of systems, cleaning, and putting the balance of the materials in place in lieu of coordination and "discovery" of new issues.

The punchlist has been issued in all departments on levels 3-5 and will be moving into the second floor areas next period. The remaining drywall installation includes sections of the stair towers and only miscellaneous sections and floors one and two. Drywall installation is substantially complete. Flooring installation has moved into several departments on floors 1-2. Epoxy flooring was also completed on the entire project in the Kitchen area, Central Sterile, and in scheduled areas within the Emergency Department. Flooring installation began in a majority of the elevators in order to allow the Elevator Contractor to make their final adjustments. Corian wall panel installation continued through June and the only remaining areas are one OB operating room and Cystoscopy. With boom installation occurring in the OR's over the period, the stage will be set in July for Styrker arrival, OR ceiling trim-out and completion, and possibly flooring in the OR's. The "re-start" of life safety work on 5 West also began after the "stop work" order was released and the official notice given by the Health Care Commission.

During the period we successfully started the last of the return fans for AHU-3. With the completion of insulation in the boiler and chiller room, pipe insulation painting has started and will continue into next period. The elevator cores have gone through the last of above ceiling punch-out reviews and trim-out will be complete early next period. LDRP trim-out is now complete and final punch-out will take place during the month of July. The medical gas columns, booms and lights have been installed throughout the 12 operating rooms. Special Procedures Lab rough-in is complete. Wall and ceiling close-in inspections will continue over the next month. Trim-out has started in the Pharmacy as the Lionville casework installation is nearing completion. The mechanical, electrical and plumbing trades have made significant progress in the Emergency Department. Above ceiling close-in inspection is expected in mid July and will continue with trim-out during July. The Admitting area continues with above ceiling rough-in with 90% of the drywall now installed. The Kitchen Contractor (Great Lakes) has delivered a large portion of the kitchen equipment during the month of June. The Mechanical Contractor has completed testing of the hot water heating lines to all VAV's. They have successfully tested and balanced all the supply air on Air Handling Units 1, 2, and the return air on Air Handler 1 as well as start-up of the domestic hot water system. The autopsy table and morgue cooler were delivered and will be tied into the building systems over the next month.

Manpower topped out at 302 this period on June 2, 2010.

Schedule Analysis

The CPM schedule update occurred on June 30, 2010. This continues to support a November 15, 2010 "Occupancy" milestone and a December 11, 2010 patient move. The commissioning process remains a key component to success. The detailed schedule for this process continues to evolve, and work is progressing on a daily basis.

Project Summary

Punchlist

We must push hard on this process to drive departments to 100% completion and eventual “acceptance.” Gilbane is planning to implement mandatory overtime on punchlist work starting in July, and is looking ahead with the design team to make sure all groups are on the same page as to requirements needed in the coming months to ensure we meet our milestones.

Start of Owner Vendor oversight

A decision was made this period to bring Gilbane’s new superintendent on aboard to oversee the multitude of Owner vendors about to “invade” the project. The group will quickly need to assist in developing his work plan so that vendor orientations, material inspections, change review, and an array of other tasks are all effectively performed in order to ultimately ensure proper and efficient vendor installations take place.

As of June 30, 2010, construction and other project related costs are \$236.4 million. Funding for these costs consist of \$219.3 million from bond proceeds and \$17.1 million from equity contributions. To date, management believes that funding is on target with original projections.

| Project Costs | | | |
|----------------------------------|----------------------|-----------------------|-----------------------|
| | WCHSI Equity | Bond Proceeds | Total |
| GMP | \$ 4,318,487 | \$ 132,562,705 | \$ 136,881,192 |
| Architect/Engineering/Consulting | 6,600,530 | 3,432,481 | 10,033,011 |
| Connection and Sewer Fees | - | 12,063,006 | 12,063,006 |
| Equipment and Furnishings | - | 6,025,834 | 6,025,834 |
| Other costs | 5,708,820 | 1,565,942 | 7,274,762 |
| Capitalized Interest Fund | - | 37,217,911 | 37,217,911 |
| Debt Service Reserve Fund | - | 18,318,255 | 18,318,255 |
| Cost of Issuance | 400,391 | 2,744,326 | 3,144,717 |
| Repayment of debt | 65,001 | 5,407,732 | 5,472,733 |
| Total | \$ 17,093,229 | \$ 219,338,192 | \$ 236,431,421 |

Project Summary



Dry river landscape at the dining area courtyard



Lab progress as of June 11, 2010

Project Summary



Play room



Kitchen area epoxy flooring installation

Project Summary



Progress in the MDF room



Flooring installation in LDRP

Project Summary



Owner Pharmacy equipment installation



Kitchen equipment installation

Project Summary



E-Care installation in ICU (4 West)



Main lobby ceiling progress

Project Summary



Aerials – 6/22/2010



Aerials – 6/22/2010