



Consolidated Financial Statements and  
Report of Independent Certified Public Accountants

**The Washington County Health System, Inc.  
and Subsidiaries**

June 30, 2009 and 2008

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# Grant Thornton

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## Report of Independent Certified Public Accountants

To the Board of Directors  
The Washington County Health System, Inc.

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We have audited the accompanying consolidated balance sheet of The Washington County Health System, Inc. and its subsidiaries (the “System”) at June 30, 2009, and the related consolidated statements of operations and changes in net assets, and cash flows for the year then ended. These financial statements are the responsibility of the System’s management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of Antietam Healthcare Foundation (the “Foundation”), which statements reflect total assets of approximately two percent of total consolidated assets at June 30, 2009 and total revenues of approximately one percent of the related consolidated total revenues for the year then ended of the System. Those statements were audited by other auditors, whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Foundation, is based on the report of the other auditors. The consolidated financial statements of the System for the year ended June 30, 2008 were audited by other auditors whose report dated September 16, 2008 expressed an unqualified opinion on those statements.

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

In our opinion and the report of other auditors, the 2009 consolidated financial statements referred to above present fairly, in all material respects, the financial position of The Washington County Health System, Inc. and its subsidiaries as of June 30, 2009, and the results of its operations and changes in its net assets and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 2 and Note 4 to these consolidated financial statements, the System has adopted Statement of Financial Accounting Standards No. 157, *Fair Value Measurement* and No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* as of July 1, 2008.

Baltimore, Maryland  
September 25, 2009

## **CONSOLIDATED FINANCIAL STATEMENTS**

**The Washington County Health System, Inc.  
and Subsidiaries**

**CONSOLIDATED BALANCE SHEETS**

June 30,

<b>ASSETS</b>	<u>2009</u>	<u>2008</u>
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 19,781,549	\$ 16,459,623
Restricted cash	2,572,167	2,512,013
Short-term investments	4,587,393	2,518,210
Current portion of assets whose use is limited	17,152,451	6,219,495
Accounts receivable, net	45,647,620	43,129,363
Supplies	8,756,508	7,906,236
Prepaid and other current assets	<u>5,608,361</u>	<u>4,420,586</u>
Total current assets	104,106,049	83,165,526
<b>EQUITY INVESTMENTS IN AFFILIATES</b>	13,920,632	12,290,912
<b>ASSETS WHOSE USE IS LIMITED</b>		
Board designated funds	50,718,154	61,211,062
Supplemental retirement benefit investments	1,915,613	1,992,511
Temporarily and permanently restricted donor funds	<u>813,569</u>	<u>1,132,628</u>
	53,447,336	64,336,201
Assets held by trustee for debt service and construction	164,014,907	239,512,977
Funds designated for insurance purposes	<u>7,347,639</u>	<u>6,436,165</u>
	224,809,882	310,285,343
<b>PROPERTY, PLANT AND EQUIPMENT, NET</b>	172,834,984	97,379,329
<b>PREPAID RETIREMENT BENEFITS</b>	-	1,451,762
<b>PLEDGES RECEIVABLE, NET</b>	3,796,976	2,141,659
<b>DEFERRED FINANCING COSTS, NET</b>	3,183,681	3,188,586
<b>OTHER ASSETS</b>	<u>3,450,947</u>	<u>2,697,461</u>
Total assets	<u>\$526,103,151</u>	<u>\$512,600,578</u>

*The accompanying notes are an integral part of these financial statements.*

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<b>LIABILITIES AND NET ASSETS</b>	<u>2009</u>	<u>2008</u>
<b>CURRENT LIABILITIES</b>		
Accounts payable and accrued expenses	\$ 27,077,904	\$ 15,084,143
Accrued salaries, wages and withholdings	7,840,016	7,734,481
Accrued compensation benefit	14,313,900	13,012,438
Advances from third-party payors	6,073,679	5,835,783
Current portion of long-term debt	<u>5,532,503</u>	<u>4,925,086</u>
Total current liabilities	60,838,002	46,591,931
<b>LONG-TERM DEBT, NET OF CURRENT PORTION</b>	275,799,960	277,560,577
<b>ACCRUED RETIREMENT BENEFITS</b>	11,333,898	1,992,511
<b>ASSET RETIREMENT OBLIGATION</b>	1,893,825	1,794,150
<b>OTHER LONG-TERM LIABILITIES</b>	<u>11,879,599</u>	<u>6,428,103</u>
Total liabilities	361,745,284	334,367,272
<b>NET ASSETS</b>		
Unrestricted	153,538,350	171,526,752
Temporarily restricted	9,790,899	5,677,936
Permanently restricted	<u>1,028,618</u>	<u>1,028,618</u>
Total net assets	<u>164,357,867</u>	<u>178,233,306</u>
Total liabilities and net assets	<u>\$526,103,151</u>	<u>\$512,600,578</u>

**The Washington County Health System, Inc.  
and Subsidiaries**

**CONSOLIDATED STATEMENTS OF OPERATIONS  
AND CHANGES IN NET ASSETS**

Years ended June 30,

	2009	2008
<b>Unrestricted revenue, gains and other support</b>		
Net patient service revenue	\$291,062,842	\$277,080,198
Sales	28,909,335	28,362,673
Rental income, net of expense	1,835,489	1,739,952
Gain on disposal of assets	148,650	1,087,758
Other revenue	5,436,831	3,943,957
Equity earnings in affiliates	4,153,193	4,280,474
Net assets released from restriction used for operations	<u>981,214</u>	<u>1,634,236</u>
	332,527,554	318,129,248
<b>Expenses</b>		
Salaries and wages	134,329,206	125,999,622
Professional fees	10,427,459	11,263,976
Cost of goods sold	19,537,132	19,183,744
Supplies and other	130,981,438	120,456,436
Interest	1,085,425	1,281,058
Depreciation and amortization	15,486,584	12,531,283
Provision for bad debts	<u>13,383,940</u>	<u>12,989,719</u>
	<u>325,231,184</u>	<u>303,705,838</u>
Operating income	7,296,370	14,423,410
<b>Non-operating (losses) gains, net</b>		
Investment returns, net	(9,650,067)	(2,439,885)
Other, net	(117,307)	73,905
Minority interest	(378,314)	(482,759)
Income tax expense	<u>(1,238,204)</u>	<u>(1,692,812)</u>
(Deficiency in) excess of revenue over expenses	(4,087,522)	9,881,859

*The accompanying notes are an integral part of these financial statements.*

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	<u>2009</u>	<u>2008</u>
<b>Other changes in unrestricted net assets:</b>		
Change in unrealized gains and losses on investments	-	(1,890,349)
Transfer from (to) temporarily restricted net assets	119,741	(9,669)
Change in pension benefit obligation	(12,230,178)	(5,824,199)
Reversal of accumulated net unrealized gains or losses on investment from the adoption of SFAS No. 159	(3,266,334)	-
Other	<u>1,475,891</u>	<u>(99,674)</u>
(Decrease) increase in unrestricted net assets	(17,988,402)	2,057,968
<b>Temporarily restricted net assets</b>		
Contributions	5,181,362	3,246,099
Net realized and unrealized gains and losses on investments	32,556	52,433
Transfer (to) from unrestricted net assets	(119,741)	9,669
Net assets released from restrictions	<u>(981,214)</u>	<u>(1,634,236)</u>
Increase in temporarily restricted net assets	<u>4,112,963</u>	<u>1,673,965</u>
(DECREASE) INCREASE IN NET ASSETS	(13,875,439)	3,731,933
<b>Net assets</b>		
Beginning of year	<u>178,233,306</u>	<u>174,501,373</u>
End of year	<u>\$164,357,867</u>	<u>\$178,233,306</u>

**The Washington County Health System, Inc.  
and Subsidiaries**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

Years ended June 30,

	2009	2008
<b>Cash flows from operating activities</b>		
(Decrease) increase in net assets	\$ (13,875,439)	\$ 3,731,933
Adjustments to reconcile (decrease) increase in net assets to net cash provided by operating activities:		
Depreciation and amortization	15,486,584	12,531,283
Provision for bad debts	13,383,940	12,989,719
Net realized and unrealized losses on investments	14,214,201	5,924,770
Gain on disposal of assets	(148,650)	(1,087,758)
Equity earnings in affiliates	(4,153,193)	(4,280,474)
Asset retirement obligation	99,675	99,675
Changes in assets and liabilities		
Accounts receivable	(15,902,198)	(14,409,344)
Supplies, prepaid, and other current assets	(2,038,058)	592,329
Other assets	(2,403,898)	4,993
Accounts payable and accrued expenses	2,346,067	2,816,881
Accrued salaries, wages and withholdings	105,535	(2,176,717)
Accrued compensation benefit	1,301,462	4,359,166
Advances from third-party payors	237,896	751,694
Other long-term liabilities	731,304	821,577
Retirement benefits	10,793,149	4,505,324
Net cash provided by operating activities	20,178,377	27,175,051
<b>Cash flows from investing activities</b>		
Purchase of property, plant and equipment	(77,437,050)	(32,048,129)
Proceeds from the disposal of assets	1,088,795	2,638,433
Purchase of restricted cash, short-term investments, and assets whose use is limited	(893,383,395)	(748,705,569)
Sale of restricted cash, short-term investments, and assets whose use is limited	951,582,362	497,307,504
Equity investments to affiliates	2,523,473	1,815,953
Net cash used in investing activities	(15,625,815)	(278,991,808)

*The accompanying notes are an integral part of these financial statements.*

	<u>2009</u>	<u>2008</u>
<b>Cash flows from financing activities</b>		
Proceeds of long-term debt	400,000	267,766,275
Payments of long-term debt	(1,630,636)	(9,691,614)
Deferred financing costs	<u>-</u>	<u>(3,145,417)</u>
Net cash (used in) provided by financing activities	<u>(1,230,636)</u>	<u>254,929,244</u>
 NET INCREASE IN CASH AND CASH EQUIVALENTS	 3,321,926	 3,112,487
 <b>Cash and cash equivalents</b>		
Beginning of year	<u>16,459,623</u>	<u>13,347,136</u>
End of year	<u>\$ 19,781,549</u>	<u>\$ 16,459,623</u>
 <b><u>Supplemental disclosure of cash flow information:</u></b>		
Cash paid for income taxes	\$ 2,314,889	\$ 2,554,055
Cash paid for interest, net of amounts capitalized	1,085,425	1,281,058
 <b><u>Supplemental disclosure of non-cash investing and financing activities:</u></b>		
Assets acquired under capital leases	\$ 3,495,383	\$ 4,211,093
Increase in accrual for the purchase of property, plant and equipment	14,367,897	-

# The Washington County Health System, Inc. and Subsidiaries

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2009 and 2008

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### 1. DESCRIPTION OF ORGANIZATION

#### Organization

The Washington County Health System, Inc. ("Parent"), is the parent corporation of the Washington County Hospital Association ("Hospital"), Antietam Health Services, Inc. ("Antietam"), the Washington County Hospital Endowment Fund, Inc. ("Fund"), the Antietam Healthcare Foundation, Inc. ("Foundation"), and the Antietam Insurance Company, Ltd. ("AIC"). These entities are collectively referred to as the "System".

The Hospital is a not-for-profit acute care hospital located in Hagerstown, Maryland and serves the residents of western Maryland, southern Pennsylvania, and the panhandle of West Virginia. The Parent is the sole corporate member of the Hospital. The Hospital currently offers acute general hospital inpatient services including adult medical/surgical care, obstetrics and newborn care, including a family birthing center, cardiac catheterizations, comprehensive inpatient rehabilitation, radiology and diagnostic services, inpatient and outpatient mental health services, a regional Level III Trauma Center, an intensive care unit, a progressive care unit, a coronary care unit, and a pediatric unit. The Hospital is in the process of constructing a replacement hospital, which is expected to open in December 2010.

Antietam is a for-profit corporation located in Hagerstown, Maryland and serves the residents of western Maryland, southern Pennsylvania, and the panhandle of West Virginia. Antietam is wholly owned by the Parent. Antietam provides ambulatory surgery, laboratory, pharmacy, and other health services.

The Fund is a not-for-profit corporation which manages gifts, donations or bequests given for the benefit of the System. The Parent is the sole corporate member of the Fund. The Fund also acquires and develops real estate properties for rental to medical provider entities. The Fund has a wholly-owned subsidiary, The Washington County Endowment Development Company, Inc. ("Development Company") a not-for-profit corporation, which was formed to develop and lease real estate properties for rental to medical provider entities.

The Fund's By Laws and Articles of Incorporation provide that the Fund is to be operated exclusively for the support and benefit of the Hospital and the Parent or activities or programs which benefit the Hospital or the Parent. Distributions are made to the Hospital or the Parent in amounts and in periods determined by the Fund's Board of Directors ("Board"), who may also restrict the use of funds. In the event the Fund is dissolved, all remaining assets would be returned to the Hospital or the Parent.

The Foundation, a not-for-profit corporation whose purpose is to raise philanthropic support for the capital and endowment campaigns of the Hospital and the Fund. The Foundation also raises money for the Hospital's medical programs, healthcare objectives, scientific research, educational programs, and related community activities. Resources for the Foundation's activities are primarily provided by donors.

AIC is a Cayman Island captive insurance company, wholly owned by the Parent that provides primary limits of insurance to the System for professional liability, employed physicians professional liability, and comprehensive general liability risks.

# The Washington County Health System, Inc. and Subsidiaries

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2009 and 2008

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### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### **Basis of Presentation**

The accompanying consolidated financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. The statements are prepared in accordance with the American Institute of Certified Public Accountants' Audit and Accounting Guide, *Health Care Organizations*.

#### **Principles of Consolidation**

The accompanying consolidated financial statements include the accounts of the Parent, the Hospital, Antietam, the Fund, the Foundation, and AIC. Antietam owns a 60% and 68% interest in Robinwood Surgery Center, LLC, at June 30, 2009 and 2008, respectively which is included in the consolidated financial statements with the related minority interest reported as a component of other long-term liabilities. All material inter-company balances and transactions have been eliminated in consolidation.

#### **Use of Estimates**

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates. The most significant management estimates and assumptions related to the determination of allowance for doubtful accounts and contractual allowances for patient accounts receivable, tax accruals, useful lives of property, plant and equipment, actuarial estimates for the postretirement benefit plan, self insured reserves, including professional and general liabilities and the reported fair values of certain assets and liabilities.

#### **Fair Value Measurements**

Effective July 1, 2008, the System adopted Statement of Financial Accounting Standards ("SFAS") No. 157, *Fair Value Measurements*. The adoption of SFAS No. 157 had no effect on the amounts included in the consolidated financial statements. However, enhanced disclosures have been made. SFAS No. 157 measures fair value and enhances disclosure requirements for fair value measurements. SFAS No. 157 maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the observable inputs be used when available.

# The Washington County Health System, Inc. and Subsidiaries

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2009 and 2008

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### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

#### Fair Value Measurements - continued

Observable inputs are inputs that market participants would use in pricing the asset or liability based on market data obtained from independent sources. Unobservable inputs reflect assumptions that market participants would use in pricing the asset or liability based on the best information available in the circumstances. The hierarchy is broken down into three levels based on the transparency of inputs as follows:

- Level I - Quoted prices are available in active markets for identical assets or liabilities as of the report date. A quoted price for an identical asset or liability in an active market provides the most reliable fair value measurement because it is directly observable to the market.
- Level II - Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable as of the report date. The nature of these securities include investments for which quoted prices are available but traded less frequently and investments that are fair valued using other securities, the parameters of which can be directly observed.
- Level III - Securities that have little to no pricing observability as of the report date. These securities are measured using management's best estimate of fair value, where the inputs into the determination of fair value are not observable and require significant management judgment or estimation.

Financial instruments consist of cash equivalents, patient accounts receivable, investments, excluding those accounted for by the equity method, accounts payable and accrued expenses and long-term debt. The carrying amounts reported in the consolidated balance sheets for cash equivalents, patient accounts receivable, and accounts payable and accrued expenses approximate fair value. Management's estimates of other financial instruments are described elsewhere in the notes to the consolidated financial statements.

In February 2007, the Financial Accounting Standards Board ("FASB") issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities*. SFAS No. 159 permits companies to choose to measure certain financial instruments and other items at fair value that are not currently required to be measured at fair value. SFAS No. 159 became effective for the System on July 1, 2008. The System chose to elect the fair value option for its investments, excluding those accounted for by the equity method existing at July 1, 2008. Accordingly, the adoption of SFAS No. 159 did not require \$3,266,334 of accumulated unrealized gains and losses previously unrecognized in the performance indicator ((deficiency in) excess of revenue over expenses) to be reclassified into the performance indicator, as a component of investment returns, net and on a go-forward basis record all unrealized gains and losses in the performance indicator, as a component of investment returns, net. This adoption had no effect on the amounts recorded in the consolidated balance sheet or on the decrease in net assets as these investments were previously recorded at fair value.

# The Washington County Health System, Inc. and Subsidiaries

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2009 and 2008

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### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

#### Allowance for Doubtful Accounts

The System provides an allowance for doubtful accounts for estimated losses resulting from the unwillingness or inability of patients to make payments for services. The allowance is determined by analyzing specific accounts and historical data and trends. Patient accounts receivable are charged off against the allowance for doubtful accounts when management determines that recovery is unlikely and the System ceases collection efforts. Losses have been consistent with management's expectations.

#### Cash and Cash Equivalents

Cash and cash equivalents consist of short-term, highly liquid investments that are readily convertible to cash and have original maturities of three months or less. Cash and cash equivalents are carried at cost which approximates fair value. The System entered into overnight investment repurchase transactions of \$9,379,874 and \$6,699,617 as of June 30, 2009 and 2008 respectively.

#### Assets Whose Use is Limited

Assets whose use is limited include assets set aside by the Board of Directors for specific purposes that can be changed, for supplemental retirement benefit investments, to fulfill donor purposes, assets held by trustees under debt indenture agreements, and funds designated for insurance purposes. Amounts required to meet current liabilities are shown as current assets in the consolidated balance sheets.

#### Investments and Investment Income

Investments in equity securities (i.e., investments that have readily determinable fair values and are not accounted for by the equity method) and all investments in debt securities are reported at fair value on the consolidated balance sheets.

Investment income, which includes interest and dividends, on proceeds of borrowings that are held by a trustee, to the extent not capitalized are reported as other revenue. Other investment income, which includes interest, dividends and realized gains and losses on assets limited as to use by Board of Directors and funds designated for insurance purposes are recorded as non-operating gains (losses), net.

Prior to the System's adoption of SFAS No. 159 unrealized gains and losses on investments resulting from their measurement at fair value to the extent the losses were deemed temporary were excluded from excess of revenue over expenses. A reduction in carry amount associated with the decline in fair value of the an investment below its cost that was determined to be other-than temporary was charged to non-operating gains losses, net, and a new cost basis for that investment was established.

# The Washington County Health System, Inc. and Subsidiaries

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2009 and 2008

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### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

#### Investments and Investment Income - Continued

The System's investments are managed by investment managers. Investment securities, in general, are exposed to various risks, such as interest rate, credit and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term and that such change could materially affect the amounts reported in the consolidated financial statements.

#### Supplies

Supplies for the Hospital are carried at the lower of cost or market on a weighted average basis.

Supplies for Antietam are valued at the lower of cost or market, with the cost being recorded on the first-in, first-out method.

Major classes of supplies as of June 30, are as follows:

	<u>2009</u>	<u>2008</u>
Durable medical equipment	\$ 502,349	\$ 498,984
Surgical and medical supplies	4,437,521	4,094,521
Other supplies	906,938	775,240
Pharmacy and home care infusion	2,409,310	2,054,796
Medical laboratory	<u>500,390</u>	<u>482,695</u>
	<u>\$8,756,508</u>	<u>\$7,906,236</u>

# The Washington County Health System, Inc. and Subsidiaries

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2009 and 2008

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### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

#### Property, Plant and Equipment

Property, plant and equipment acquisitions are recorded at cost. Those assets acquired by gift are carried at amounts established as fair market value at the time of acquisition. Depreciation is provided over the estimated useful life of each class of depreciable assets and is computed using the straight-line method. Equipment under capital lease is amortized by the straight-line method over the shorter of the lease term or the estimated useful life of the equipment. Such amortization is included in depreciation and amortization in the consolidated financial statements. Interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets. Durable medical equipment held for resale is included in supplies. The remainder of durable medical equipment is rented to patients and is included in property, plant and equipment. Assets are retired or disposed of at book value and related gains or losses are recorded for assets sold. Useful lives range as follows:

Land improvements	5 - 25 years
Buildings	10 - 40 years
Equipment	5 - 20 years

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

The System continually evaluates whether events and circumstances have occurred that indicate the remaining estimated useful life of long-lived assets is appropriate, or whether the remaining balance may not be recoverable. When factors indicate that long-lived assets should be evaluated for possible impairment, the System uses an estimate of the related undiscounted operating income over the remaining life of the long-lived asset in measuring whether the long-lived asset is recoverable. The impairment loss on these assets is measured as the excess of the carrying amount of the asset over its fair value. Fair value is based upon market prices where available, or discounted cash flows. Management believes that no revision to the remaining useful lives or write-down of long-lived assets is required at June 30, 2009.

#### Deferred Financing Costs

Financing costs incurred in issuing debt have been capitalized and are being amortized over the life of the debt using the interest method.

# The Washington County Health System, Inc. and Subsidiaries

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2009 and 2008

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### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

#### Advertising Costs

Advertising costs for the years ended June 30, 2009 and 2008 were \$1,024,398 and \$725,057, respectively.

#### Compensated Absences

The System records a liability for amounts due to employees for future absences which are attributable to services performed in the current and prior periods. This liability is included in accrued salaries, wages and withholdings on the consolidated balance sheets.

#### Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are those whose use by the System 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 System in perpetuity.

#### (Deficiency in) Excess of Revenue over Expenses

The consolidated statements of operations include the (deficiency in) excess of revenue over expenses. Changes in unrestricted net assets that are excluded from the (deficiency in) excess of revenues over expenses, consistent with industry practice, include unrealized gains and losses on assets limited as to use and investments considered other than trading securities, to the extent losses are deemed temporary, prior to the adoption of SFAS No. 159, the change in benefit obligations and other items.

#### Net Patient Service Revenue

For services provided at the Hospital campus, all payors are required to pay the Maryland Health Services Cost Review Commission ("HSCRC") approved rates. The major third-party payors, as recognized by the HSCRC, are allowed discounts of up to 6% on approved rates. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered. Contractual adjustments to patient service revenue were \$74,067,152 and \$71,464,161 for the years ended June 30, 2009 and 2008, respectively.

# The Washington County Health System, Inc. and Subsidiaries

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2009 and 2008

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### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

#### Net Patient Service Revenue - continued

The Hospital's charges are subject to review and approval by the HSCRC. The Hospital management has filed the required forms with the HSCRC and believes the Hospital to be in compliance with HSCRC requirements. The total rate of reimbursement for services to patients under the Medicare and Medicaid programs is based on an arrangement between the Centers for Medicare and Medicaid Service and the HSCRC. Management believes that this program will remain in effect at least through June 30, 2010. The HSCRC methodology is a base period charge per admission that will be adjusted annually to reflect cost inflation plus an incentive factor during years when the net revenue per adjusted admission nationally is greater than cost inflation. For fiscal year 2009 and 2008, this methodology established a charge per admission cap of \$8,463 and \$8,221 for the Hospital, which is subject to adjustment for changes in hospital specific and state-wide case mix.

Services not located on the Hospital campus are not regulated by the HSCRC. Medicare and Medicaid pay the revenues associated with these services based upon established fee schedules. Commercial payors pay at negotiated rates for these services.

Net patient service revenue is reported as estimated net realizable amounts from patients, third-party payors, and others for services rendered and include estimated retroactive revenue adjustments due to future audits, reviews, and investigations. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered, and such amounts are adjusted in future periods as adjustments become known or as years are no longer subject to such audits, reviews, and investigations.

Net revenues from the Medicare and Medicaid, programs, collectively constitute approximately 48% of the System's net patient service revenue for the year ended June 30, 2009. Laws and regulations governing the HSCRC, Medicare and Medicaid programs are complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. The System believes that it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing. While no such regulatory inquiries have been made compliance with such laws and regulations can be subject to future government review and interpretation as well as significant regulatory action.

#### Charity Care

The System provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. The System does not pursue collection on amounts deemed to qualify as charity. The System estimates that \$11,551,000 and \$10,660,000 of charity care, based on established rates, was provided for the years ended June 30, 2009 and 2008, respectively.

# The Washington County Health System, Inc. and Subsidiaries

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2009 and 2008

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### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

#### Charity Care - continued

The System's patient acceptance policy is based upon its mission statement and its charitable purposes. This policy results in the System's assumption of higher-than-normal credit risk from its patients. To the extent that the System realizes additional losses resulting from such higher credit risks and clients are not identified or do not meet the System's defined charity care policy, such additional losses are included in the provision for bad debt.

The System also sponsors certain other charitable programs, which provide substantial benefit to the broader community. Such programs include services to needy and elderly populations that require special support, as well as health and education for the general community welfare. In addition, all other uncollectable amounts resulting from the patients' inability to pay, are recorded as a reduction to net patient service, consistent with the System's policy.

#### Income Taxes

The Internal Revenue Service has ruled that the Parent, the Hospital, the Fund, and the Foundation qualify under Section 501(c)(3) of the Internal Revenue Code and are, therefore, not subject to tax under present income tax regulations.

Antietam accounts for income taxes using the SFAS No. 109, *Accounting for Income Taxes* ("SFAS No. 109"). SFAS No. 109 requires the current recognition of deferred tax liabilities and assets for the expected future tax consequences of temporary differences between tax bases and financial reporting bases of other assets and liabilities.

At present, no income, profit or capital gain taxes are levied in the Cayman Islands and accordingly, no provision for taxation has been made for AIC. In the event that such taxes are levied, AIC has been granted an exemption until September 9, 2023 for any such taxes that might be introduced. AIC intends to conduct its affairs so as not to be liable for taxes in any other jurisdiction.

#### Concentration of Credit Risk

The System invests its excess cash, investments, and assets in financial institutions which are federally insured under the Federal Deposit Insurance Act ("FDIA"). Deposits in certain accounts exceed federally insured deposit limits. The System has experienced no losses on its deposits.

The System grants credit without collateral to the patients' it serves who primarily live in the tri-state area. The majority of these patients have either insurance through Blue Cross, another insurance company or a health maintenance organization or qualify for the Maryland Medical Assistance or the Centers for Medicare and Medicaid Services ("CMS") programs.

**The Washington County Health System, Inc.  
and Subsidiaries**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**

June 30, 2009 and 2008

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

**Concentration of Credit Risk - continued**

At June 30, the System's patient accounts receivable were made up of the following:

	<u>2009</u>	<u>2008</u>
Health maintenance organizations	6%	9%
Medical assistance HMO	10	11
Medicare	28	29
Commercial insurance and other	25	23
BC/BS	21	16
Self-pay	<u>10</u>	<u>12</u>
	<u>100%</u>	<u>100%</u>

**457(b) Deferred Compensation Plan**

The Hospital is party to a 457(b) deferred compensation plan intended to provide retirement benefits to certain eligible employees. Assets are deposited with the plan managers pursuant to this agreement such that the value of the assets determined by the fair value approximately equals the related accrued deferred compensation liability. The funds are placed into a range of investment strategies from conservative to aggressive. The liability associated with this plan is included in accrued compensation benefit on the consolidated balance sheets.

**Pending Accounting Pronouncements**

In December 2008, the FASB issued Staff Position ("FSP FAS") No. 132R-1, *Employers' Disclosures about Pensions and Other Postretirement Benefits*. FSP FAS 132R-1 requires disclosures to provide users of financial statements an understanding of investment allocation decisions, major categories of plan assets, inputs and valuation techniques used to measure fair value of plan assets, effect of fair value measurements using significant unobservable inputs on changes in plan assets and significant concentrations of risk within plan assets. The standard is effective for financial statements issued for fiscal years ending after December 15, 2009. The System plans to adopt this new guidance at June 30, 2010 and is evaluating the impact.

**Reclassifications**

Certain prior year amounts in the accompanying consolidated financial statements have been reclassified to conform to current year presentation. These reclassifications had no impact on total assets, liabilities, net assets or (deficiency in) excess of revenue over expenses and change in net assets previously reported.

**The Washington County Health System, Inc.  
and Subsidiaries**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**

June 30, 2009 and 2008

**3. INVESTMENTS AND INVESTMENT INCOME**

Investments at June 30 consisted of the following:

	<u>2009</u>		<u>2008</u>	
	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>
<b>Short-Term Investments</b>				
U.S. government securities	\$ <u>4,587,393</u>	\$ <u>4,587,393</u>	\$ <u>2,518,210</u>	\$ <u>2,518,210</u>
<b>Assets whose use is limited</b>				
Cash and cash equivalents	\$ 1,944,282	\$ 1,942,267	\$ 1,064,326	\$ 1,050,129
Debt securities	18,171,529	13,754,094	26,457,333	25,155,082
Equity securities	25,880,678	21,048,108	31,274,153	32,076,163
Mutual Funds	<u>20,226,492</u>	<u>16,702,867</u>	<u>6,111,090</u>	<u>6,054,827</u>
	<u>\$ 66,222,981</u>	<u>\$ 53,447,336</u>	<u>\$ 64,906,902</u>	<u>\$ 64,336,201</u>
<b>Assets held by trustee for debt service and construction</b>				
U.S. government securities	\$ <u>181,066,671</u>	\$ <u>181,167,358</u>	\$ <u>245,958,519</u>	\$ <u>245,732,472</u>
<b>Funds designated for insurance purposes</b>				
Debt securities	\$ <u>7,276,363</u>	\$ <u>7,347,639</u>	\$ <u>6,368,200</u>	\$ <u>6,436,165</u>

The System had restricted cash of \$2,572,167 and \$2,512,013 as of June 30, 2009 and 2008, respectively, for unemployment insurance collateral and workers' compensation collateral in compliance with the self-insurance requirement under the regulations of the State of Maryland Employment Security Administration and Workers' Compensation Administration.

Investment returns on investments included in the consolidated statements of operations and changes in net asset are comprised of the following for the years ended June 30, 2009 and 2008:

	<u>2009</u>	<u>2008</u>
Investment returns:		
Interest and dividends, net of investment fees of \$161,140 and \$149,179 in 2009 and 2008, respectively	\$ 1,297,800	\$ 1,594,536
Net realized (losses) gains on investments	(3,422,490)	1,801,534
Impairment loss on investments	-	(5,835,955)
Change in unrealized losses on investments	(10,791,711)	-
Recognition of accumulated net unrealized gains and losses in investment from the adoption of SFAS No. 159	<u>3,266,334</u>	<u>-</u>
	<u>\$ (9,650,067)</u>	<u>\$ (2,439,885)</u>

**The Washington County Health System, Inc.  
and Subsidiaries**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**

June 30, 2009 and 2008

**4. FAIR VALUE MEASUREMENTS**

The following table presents the System's assets measured at fair value on a recurring basis, aggregated by level in the fair value hierarchy within which those measurements fall, as of June 30, 2009:

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Cash and cash equivalents	\$ 19,781,549	\$ 19,781,549	\$ -	\$ -
Restricted cash	2,572,167	2,572,167	-	-
Short-term investments	4,587,393	4,587,393	-	-
Assets whose use is limited	<u>241,962,333</u>	<u>220,452,930</u>	<u>21,509,403</u>	<u>-</u>
Total assets	<u>\$268,903,442</u>	<u>\$247,394,039</u>	<u>\$21,509,403</u>	<u>\$ -</u>

The System does not have any Level 3 financial instruments as of June 30, 2009.

Pledges receivable are non-recurring fair value measurements. Any multi-year pledge received in fiscal year 2009 are recorded at the present value of future cash flows with a discount rate adjusted for any market conditions to arrive at fair value.

**5. ACCOUNTS RECEIVABLE**

Accounts receivable at June 30 consists of the following:

	<u>2009</u>	<u>2008</u>
Patient accounts	\$52,639,813	\$50,441,057
Less: Contractual allowance	(6,280,941)	(5,672,823)
Less: Allowance for doubtful accounts	<u>(3,995,971)</u>	<u>(3,843,012)</u>
	42,362,901	40,925,222
Other receivables	<u>3,284,719</u>	<u>2,204,141</u>
	<u>\$45,647,620</u>	<u>\$43,129,363</u>

**The Washington County Health System, Inc.  
and Subsidiaries**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**

June 30, 2009 and 2008

**5. ACCOUNTS RECEIVABLE - Continued**

Pledges receivable at June 30 consist of the following:

	<u>2009</u>	<u>2008</u>
Capital campaign	\$6,217,294	\$4,027,394
Other	<u>197,563</u>	<u>205,074</u>
Total unconditional promises to give	6,414,857	4,232,468
Receivable in less than one year	1,461,453	853,979
Receivable in one to five years	4,939,118	3,378,489
Receivable in more than five years	<u>14,286</u>	<u>-</u>
Total unconditional promises to give	6,414,857	4,232,468
Less discounts to net present value	(693,825)	(744,461)
Less allowance for uncollectible promises	<u>(538,535)</u>	<u>(533,035)</u>
Net unconditional promises to give	<u>\$5,182,497</u>	<u>\$2,954,972</u>
Pledges receivable, current portion included in other receivables	1,385,521	813,313
Pledges receivable, net of current portion	<u>3,796,976</u>	<u>2,141,659</u>
	<u>\$5,182,497</u>	<u>\$2,954,972</u>

**The Washington County Health System, Inc.  
and Subsidiaries**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**

June 30, 2009 and 2008

**6. PROPERTY, PLANT AND EQUIPMENT**

Property, plant and equipment at June 30 is comprised of the following:

	2009	2008
Land	\$ 10,381,732	\$ 10,381,732
Buildings, and improvements used in operations	50,315,775	51,539,829
Buildings used in rental operations	22,008,836	21,943,544
Equipment	<u>134,643,269</u>	<u>130,354,885</u>
	217,349,612	214,219,990
Less accumulated depreciation and amortization	<u>(151,362,702)</u>	<u>(143,114,216)</u>
	65,986,910	71,105,774
Construction in progress	92,983,047	21,384,989
Capitalized interest, net	<u>13,865,027</u>	<u>4,888,566</u>
Property, plant and equipment, net	<u>\$172,834,984</u>	<u>\$ 97,379,329</u>

The following equipment is held under capital leases, included in the equipment category of property, plant and equipment:

	2009	2008
Equipment	\$18,701,588	\$15,650,670
Less accumulated amortization	<u>(6,765,843)</u>	<u>(4,108,122)</u>
	<u>\$11,935,745</u>	<u>\$11,542,548</u>

Total depreciation and amortization expense for the years ended June 30, 2009 and 2008 was \$15,486,584 and \$12,531,283, respectively.

The System, through the Hospital is in the construction phase of a replacement hospital, which is expected to open in December 2010. The total project cost is estimated to be \$293,836,000, of which \$153,300,000 has not been incurred as of June 30, 2009.

The System has a conditional asset retirement obligation (CARO) of \$1,893,825 and \$1,794,150 at June 30, 2009 and 2008, respectively, that relates to the removal and disposal of asbestos and 2 underground fuel storage tanks. The current assessment is that the CARO would be triggered within the next 3 years annually there is an accretion of \$99,675 made in the consolidated statements of operations and changes in net assets.

# The Washington County Health System, Inc. and Subsidiaries

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2009 and 2008

### 7. EQUITY INVESTMENTS IN AFFILIATES

The following investments, recorded under the equity method of accounting, are included in the consolidated balance sheets:

The Hospital holds a 25% equity interest in Maryland Care, Inc. Maryland Care, Inc. is a managed care organization (“MCO”) that was established to serve Maryland's Medicaid population as a result of the State's requirement for Medicaid patients to be a member of an MCO.

The Hospital holds a 50% equity interest in Tri-State Health Partners. Tri-State Health Partners is a physician hospital organization (“PHO”) established to organize, assemble and facilitate the provision of cost effective health care services.

Antietam has a 50% interest in Diagnostic Imaging, which provides radiology imaging services, has a 50% interest in Western Maryland Supply, LLC, which provides durable medical equipment for rental or purchase, and has a 33.33% share in Mid-Maryland Medical Transport (“MMMT”), which provides non-emergency medical transports between healthcare facilities as well as to and from patient homes and assisted living facilities. MMMT ceased operations and was sold to a third party in July 2009. Endoscopy Center at Robinwood, LLC, an ambulatory center for gastroenterology procedures, and Endoscopy Real Estate are 50% owned by Robinwood Surgery Center, LLC. GI Real Estate provides rental property to a group of health care practitioners.

Summary financial information as of June 30, 2009 and 2008 and for the years then ended appears below for the significant equity investments:

	<u>Hospital</u>		<u>Hospital</u>	
	<u>Maryland Care, Inc.</u>		<u>Tri-State Health Partners</u>	
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
Assets	\$123,192,856	\$112,022,388	\$2,497,021	\$2,357,146
Liabilities	<u>84,198,775</u>	<u>76,770,612</u>	<u>203,868</u>	<u>166,786</u>
Equity	<u>\$ 38,994,081</u>	<u>\$ 35,251,776</u>	<u>\$2,293,153</u>	<u>\$2,190,360</u>
Net income	<u>\$ 3,281,451</u>	<u>\$ 6,389,774</u>	<u>\$ 71,790</u>	<u>\$ 73,948</u>

**The Washington County Health System, Inc.  
and Subsidiaries**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**

June 30, 2009 and 2008

**7. EQUITY INVESTMENTS IN AFFILIATES - Continued**

	<u>Antietam Diagnostic Imaging Services, LLC</u>		<u>Antietam MMT</u>	
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
Assets	\$11,559,759	\$10,287,707	\$ 945,897	\$1,191,124
Liabilities	<u>4,469,150</u>	<u>4,808,049</u>	<u>441,779</u>	<u>408,827</u>
Equity	<u>\$ 7,090,609</u>	<u>\$ 5,479,658</u>	<u>\$ 504,118</u>	<u>\$ 782,297</u>
Net income (loss)	<u>\$ 3,510,951</u>	<u>\$ 2,048,675</u>	<u>\$ (278,180)</u>	<u>\$ (426,932)</u>
	<u>Antietam Endoscopy Center at Robinwood, LLC</u>		<u>Antietam Endoscopy Real Estate</u>	
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
Assets	\$ 925,970	\$ 941,629	\$1,166,143	\$1,204,883
Liabilities	<u>169,152</u>	<u>146,686</u>	<u>777,674</u>	<u>849,520</u>
Equity	<u>\$ 756,818</u>	<u>\$ 794,943</u>	<u>\$ 388,469</u>	<u>\$ 355,363</u>
Net income	<u>\$ 1,975,875</u>	<u>\$ 1,655,184</u>	<u>\$ 93,106</u>	<u>\$ 80,003</u>
	<u>Antietam GI Real Estate</u>		<u>Western Maryland Medical Supply, LLC</u>	
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
Assets	\$ 627,244	\$ 651,020	\$1,159,443	\$ 853,499
Liabilities	<u>501,495</u>	<u>543,314</u>	<u>247,735</u>	<u>127,450</u>
Equity	<u>\$ 125,749</u>	<u>\$ 107,706</u>	<u>\$ 911,708</u>	<u>\$ 726,049</u>
Net income (loss)	<u>\$ 22,042</u>	<u>\$ 18,727</u>	<u>\$ (15,743)</u>	<u>\$ 171,776</u>

# The Washington County Health System, Inc. and Subsidiaries

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2009 and 2008

### 8. LONG-TERM DEBT

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

	2009	2008
MHHEFA Revenue Bonds		
Series 2008 4.00% - 6.00% serial bonds	\$264,300,000	\$264,300,000
2001 Taxable Note B to Bank of America	4,592,784	5,499,983
7.75% mortgage loan	544,320	584,640
City of Hagerstown note	212,764	229,887
Mortgages and equipment loans with a bank with interest rates ranging from 2.3% to 7.5%	2,534,683	2,800,679
Capital lease obligations, with interest rates ranging from 2.9% to 5.0%	10,592,730	10,515,292
Unamortized bond discounts	<u>(1,444,818)</u>	<u>(1,444,818)</u>
	281,332,463	282,485,663
Less current portion of long-term debt	<u>(5,532,503)</u>	<u>(4,925,086)</u>
	<u>\$275,799,960</u>	<u>\$277,560,577</u>

The System uses current market prices in determining the fair value of its Revenue Bonds. The carrying value of other long-term debt approximates fair value. The fair value of total long-term debt, excluding capital lease obligations was approximately \$207,748,000 and \$269,800,000 at June 30, 2009 and 2008, respectively.

In February 2008, the System issued Maryland Health and Higher Educational Facilities Authority (“MHHEFA”) Revenue Bonds Washington County Hospital Issue Series 2008 for the construction of a replacement hospital, funding of the debt service reserve and capitalized interest funds, and to refinance various previously outstanding debt. The Series 2008 Bonds are due in annual installments beginning in 2011 and will mature in 2043.

All bonds are collateralized by a first lien and claims on all receipts of the System, except restricted donations and contributions. In connection with the Series 2008 Bonds, MHHEFA has a Security interest in existing facilities of the System. All bonds require the Obligated Group, which consists of the System, the Hospital, and the Fund, to maintain certain financial ratios and stipulated insurance coverage as defined. The System was in compliance with these covenants at June 30, 2009 and 2008.

The Fund has entered into guaranty agreements with MHHEFA for the Series 2008 Bonds. Under the terms of these agreements, the Fund guarantees the payment of the principal and interest on the Series 2008 Bonds and the payment of any and all Reserve Fund Loans. In accordance with the provisions of this guaranty agreement, only the unrestricted donations, bequests, and other assets held or owned by the Fund would be available for payment. The terms of the guaranty agreements restrict the Fund's ability to transfer, lease, sell or otherwise dispose of certain assets or to create additional indebtedness, liens, or encumbrances on non-restricted assets.

# The Washington County Health System, Inc. and Subsidiaries

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2009 and 2008

### 8. LONG-TERM DEBT - Continued

The 2001 Taxable Note B to Bank of America was issued for the construction of the Robinwood Medical Center III. The taxable portion of the debt requires monthly principal payments of \$82,701 through February 1, 2014. The interest is calculated and payable monthly based upon the outstanding principal balance at the time. The variable interest rates were 1.31% and 3.48%, as of June 30, 2009 and 2008, respectively. The bonds may be repaid, at the option of the System, in part or in full at any time with 30 days notice. The bonds are collateralized by a mortgage of the real property of both the Fund and the Hospital.

The 7.75% mortgage loan was issued in September 2002 to acquire land adjacent to the Robinwood Medical Center. Principal on the outstanding balance is paid semi-annually and interest is paid monthly. The loan is collateralized by a mortgage on the property and is due in the year 2022.

Scheduled principal repayments on long-term debt including payments on capital lease obligations (exhibited separately) are as follows for the next five years as of June 30:

	Long-Term Debt	Capital Lease Obligations
2010	\$ 1,720,629	\$ 4,226,232
2011	1,732,048	3,119,570
2012	4,836,062	2,548,276
2013	4,718,381	983,001
2014	3,933,503	496,000
Thereafter	<u>255,243,929</u>	<u>83,320</u>
	<u>\$272,184,552</u>	11,456,399
Less amount representing interest		<u>(863,670)</u>
		<u>\$10,592,729</u>

The Hospital maintains a line of credit with a financial institution which is renewed annually in the amount of \$1.0 million, bearing interest on the drawn portion at the bank's prime interest rate. The line was not in use at June 30, 2009 and 2008.

**The Washington County Health System, Inc.  
and Subsidiaries**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**

June 30, 2009 and 2008

**8. LONG-TERM DEBT - Continued**

Antietam maintains a line of credit with a financial institution which is renewed annually in the amount of \$500,000, bearing interest on the drawn portion at the bank's prime interest rate plus 2%. The line was not in use at June 30, 2009 and 2008.

**Capitalized Interest**

A summary of interest cost and investment income on borrowed funds held by the trustee under the Series 2008 Revenue Bonds for the years ended June 30, is as follows:

	2009	2008
<b>Interest cost:</b>		
Capitalized	<u>\$15,067,352</u>	<u>\$5,737,500</u>
<b>Investment income:</b>		
Capitalized	<u>\$ 6,090,891</u>	<u>\$ 848,934</u>

**9. INCOME TAXES**

Antietam and its subsidiaries file a consolidated federal return and separate state returns. The income tax expense for the years ended June 30, consists of:

	2009	2008
<b>Current:</b>		
Federal	\$1,120,174	\$1,709,503
State	<u>332,525</u>	<u>377,130</u>
	1,452,699	2,086,633
<b>Deferred:</b>	<u>(214,495)</u>	<u>(393,821)</u>
	<u>\$1,238,204</u>	<u>\$1,692,812</u>

# The Washington County Health System, Inc. and Subsidiaries

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2009 and 2008

### 9. INCOME TAXES - Continued

The significant components of the deferred tax assets, which are included in other assets and liabilities, which are included in other liabilities at June 30 are as follows:

	2009	2008
<b>Deferred tax asset</b>		
Accrued vacation	\$1,212,844	\$ 931,469
Deferred compensation	780,736	202,250
Captive insurance premiums	222,617	287,720
Allowance for bad debts	124,959	-
Partnership basis	-	314,463
Other	<u>355,842</u>	<u>6,938</u>
	2,696,998	1,742,840
<b>Deferred tax liabilities</b>		
Fixed assets and intangible assets	(611,073)	(461,771)
Partnership basis	<u>(14,515)</u>	<u>-</u>
	<u>(625,588)</u>	<u>(461,771)</u>
	<u>\$2,071,410</u>	<u>\$1,281,069</u>

### 10. POST RETIREMENT BENEFIT PLANS

The Hospital has a 403(b) defined contribution plan available to all employees. Employees can receive up to 50% matching contributions, up to 6% of employee's salary based upon meeting years of service requirements, subject to the annual IRS limitations. Contributions made to the plan by the Hospital on behalf of employees were \$2,123,071 and \$1,839,931 in 2009 and 2008, respectively.

Antietam has an employee savings plan under Section 401(k) of the Internal Revenue Code available to all employees. Antietam matches employee contributions for an amount up to 6% of each employee's base salary, subject to limitations, depending upon the length of service with Antietam. Antietam's contributions vest after the first three years of service. Amounts charged to expense were \$1,740,843 and \$1,589,780 in 2009 and 2008, respectively. Antietam also makes discretionary contributions to eligible employees of 1.0% of total compensation in 2009 and 1.0% in 2008 which also vest after the first three years of service. In 2009 and 2008, this amount was \$309,599 and \$246,473, respectively.

Antietam maintains an employee funded supplemental non-qualified retirement plan for certain employees. The plan requires the benefits be paid upon termination, retirement or death. The related liability is \$1,989,428 and \$1,992,511 at June 30, 2009 and 2008, respectively. Management has designated investments for the intended purpose of funding the liability when payable.

**The Washington County Health System, Inc.  
and Subsidiaries**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**

June 30, 2009 and 2008

**10. POST RETIREMENT BENEFIT PLANS - Continued**

The System maintains a cash balance pension plan ("Plan") covering substantially all current Hospital employees and maintains the balance for Antietam employees previously employed by the Hospital. Benefits under the plan are generally based on the participant's age, years of service and compensation levels. Annual contributions are made to the plan in accordance with the Employee Retirement Income Security Act of 1974 ("ERISA") regulations. Employees are fully vested after five years of service.

Effective March 31, 2009, the accrued benefits for the Plan were frozen for all participants in accordance with FASB No. 88 *Employers' Accounting for Settlements & Curtailments of Defined Benefit Pension Plans and for Termination Benefits*, the System was not required to recognize a curtailment loss.

The change in benefit obligation, plan assets, and funded status of the pension are shown below:

	<u>2009</u>	<u>2008</u>
<b>Change in benefit obligation:</b>		
Benefit obligation at beginning of year	\$40,632,559	\$40,676,478
Curtailment gain	(738,684)	-
Amendment	246,634	-
Service cost	1,525,103	1,249,863
Interest cost	2,645,874	2,420,606
Actuarial loss (gain)	1,652,908	(914,277)
Benefits paid	<u>(2,314,530)</u>	<u>(2,800,111)</u>
Benefit obligation at end of year	<u>\$43,649,864</u>	<u>\$40,632,559</u>
<b>Change in plan assets:</b>		
Fair value of plan assets at beginning of year	\$ 42,084,321	\$46,587,380
Actual return on plan assets	(7,964,382)	(3,302,948)
Contributions	2,500,000	1,600,000
Benefits paid	<u>(2,314,530)</u>	<u>(2,800,111)</u>
Fair value of plan assets at end of year	<u>\$ 34,305,409</u>	<u>\$42,084,321</u>
<b>Amounts recognized in the consolidated balance sheet consist of:</b>		
(Accrued) prepaid retirement benefits	<u>\$ (9,344,455)</u>	<u>\$ 1,451,762</u>
Net amount recognized	<u>\$ (9,344,455)</u>	<u>\$ 1,451,762</u>

**The Washington County Health System, Inc.  
and Subsidiaries**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**

June 30, 2009 and 2008

**10. POST RETIREMENT BENEFIT PLANS - Continued**

	2009	2008
<b>Amounts recognized in unrestricted net assets consist of:</b>		
Net actuarial loss	\$ 13,901,212	\$ 1,687,853
Prior service cost	461,856	445,025
Net amount recognized in unrestricted net assets	\$ 14,363,068	\$ 2,132,878
<b>Change in amounts recognized in unrestricted net assets</b>	<b>\$(12,230,178)</b>	<b>\$(5,824,199)</b>

The accumulated benefit obligation is \$43,649,864 and \$40,632,559 at June 30, 2009 and 2008, respectively.

Amounts in unrestricted net assets expected to be recognized as components of net periodic benefit cost for the year ending June 30, 2010 are prior service costs of \$229,803 and actual losses of \$824,555.

	2009	2008
<b>Net periodic benefit cost:</b>		
Service cost	\$ 1,525,103	\$ 1,249,863
Interest cost	2,645,874	2,420,606
Expected return on plan assets	(3,334,741)	(3,644,424)
Prior service cost	229,803	208,884
	<b>\$ 1,066,039</b>	<b>\$ 234,929</b>

**Assumptions**

	2009	2008
<b>Weighted-average assumptions used to determine benefit obligations as of June 30:</b>		
Discount rate	6.25%	6.58%
Rate of compensation increase	4.00%	4.00%
Measurement date	June 30	June 30
<b>Weighted-average assumptions used to determine net periodic benefit cost for the years ended June 30:</b>		
Discount rate	6.58%	6.25%
Expected return on plan assets	8.00%	8.00%
Rate of compensation increase	4.00%	4.00%

**The Washington County Health System, Inc.  
and Subsidiaries**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**

June 30, 2009 and 2008

**10. POST RETIREMENT BENEFIT PLANS - Continued**

**Basis for Expected Long-Term Rate of Return**

	<u>Target Allocation</u>	<u>Expected Return</u>	<u>Weighted Return</u>
<b>Asset class:</b>			
Equities	60%	9.5%	5.7%
Fixed income	40%	5.5%	<u>2.2%</u>
Total Expected Return			<u>7.9%</u>

**Plan Assets**

The Plan's weighted-average asset allocations at June 30, by asset category are as follows:

	<u>2009</u>	<u>2008</u>
<b>Asset category:</b>		
Equity securities	52%	57%
Debt securities	47%	41%
Cash and cash equivalent	<u>1%</u>	<u>2%</u>
	<u>100%</u>	<u>100%</u>

**Description of Investment Policies and Strategies**

<u>Asset Class</u>	<u>Range</u>	<u>Target</u>	<u>Benchmark</u>
Equities:	45 - 65%	60%	
Large Company	30 - 50%	40%	S&P 500 and Russell 1000 Value
Mid/Small Company	5 - 15%	11%	Russell 2000
International	5 - 15%	9%	MSCI EAFE
Fixed Income	25 - 55%	40%	Lehman Aggregate Bond
Cash	0 - 15%	0%	Salomon 3-Mo T-Bill

**The Washington County Health System, Inc.  
and Subsidiaries**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**

June 30, 2009 and 2008

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**10. POST RETIREMENT BENEFIT PLANS - Continued**

**The Investment Manager May Not**

1. Hold more than 20% of the Investment Account's equity portion in securities of issuers deemed to be in the same industry group (as defined by Standard and Poor's Corporation).
2. Hold any one single equity security whose allocation represents more than 10% of the total Investment Account's market value or more than 10% of the equity portion of the Investment Account's market value.
3. When fully vested, hold less than 15 different equity securities.
4. Purchase private placements or letter stock.
5. Hold any non-U.S. dollar equity or fixed income securities.
6. Sell any securities short or trade on margin.
7. Hold any real estate.
8. Hold or purchase any tobacco company securities after 1/1/97 unless held in co-mingled funds, including the following:
  - a. Philip Morris
  - b. R.J. Reynolds Holdings
  - c. American Brands
  - d. B.A.T. Industries
  - e. Culbro Corporation
  - f. Imasco Ltd.
  - g. UST Inc.
  - h. Universal Corp.

**Contributions**

Expected contributions to the plan for the year ending June 30, 2010 are \$2,700,000.

# The Washington County Health System, Inc. and Subsidiaries

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2009 and 2008

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### 10. POST RETIREMENT BENEFIT PLANS - Continued

#### Estimated Future Benefit Payments

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid from the Plan in years ending June 30:

2010	\$ 2,660,932
2011	2,483,351
2012	3,188,030
2013	4,159,294
2014	3,194,300
2015 - 2018	<u>23,494,519</u>
	<u>\$39,180,426</u>

### 11. INSURANCE COVERAGE

The Parent established a wholly owned insurance captive, AIC to provide 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, AIC purchased reinsurance from an A rated re-insurer in the amount of \$10 million to cover any potential liabilities above the \$1 million/\$3 million primary limits, which were covered by AIC. The self-insured liabilities for professional and general are discounted at 4% as determined by an actuary were \$3,369,039 and \$2,723,498 as of June 30, 2009 and 2008, respectively and are included in other liabilities in the consolidated balance sheets.

Consistent with most companies with similar insurance operations, the liability for losses is ultimately based on management's reasonable expectations of future events. It is reasonably possible that the expectations associated with these amounts could change in the near term (i.e., within one year) and that the effect of such changes could be material to the consolidated financial statements.

**The Washington County Health System, Inc.  
and Subsidiaries**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**

June 30, 2009 and 2008

**11. INSURANCE COVERAGE - Continued**

	2009	2008
Reserves for losses and loss adjustment expenses at beginning of year	\$2,723,498	\$2,605,495
Less: reinsurance recoverable on unpaid claims	<u>(401,593)</u>	<u>(382,150)</u>
Net reserves for losses and loss adjustment expenses at beginning of year	2,321,905	2,223,345
Incurred related to:		
Current fiscal year	1,017,517	709,045
Prior fiscal years	<u>251,698</u>	<u>(256,914)</u>
Total losses and loss adjustment expenses incurred, net of reinsurance recoverable	1,269,215	452,131
Paid related to:		
Current fiscal year	(2,016)	(4,897)
Prior fiscal years	<u>(671,164)</u>	<u>(348,674)</u>
Total losses and loss adjustment expenses paid	(673,180)	(353,571)
Net reserves for losses and loss adjustment expenses at end of year	2,917,940	2,321,905
Add: reinsurance recoverable on unpaid claims	<u>451,099</u>	<u>401,593</u>
Reserves for losses and loss adjustment expenses at end of year	<u>\$3,369,039</u>	<u>\$2,723,498</u>

**12. COMMITMENTS AND CONTINGENCIES**

**Operating Lease Obligations**

The System leases equipment under non-cancelable lease arrangements. In addition, the System leases office space in several locations under operating leases. Some of the leases provide for renewal options. Rent expense under all operating leases was \$3,661,539 and \$2,836,149 for the years ended June 30, 2009 and 2008, respectively.

**The Washington County Health System, Inc.  
and Subsidiaries**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**

**June 30, 2009 and 2008**

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**12. COMMITMENTS AND CONTINGENCIES - Continued**

Future minimum lease payments under these non-cancelable operating leases as of June 30 are as follows:

2010	\$ 4,546,839
2011	3,529,715
2012	3,106,698
2013	2,615,952
2014	<u>1,761,272</u>
Total minimum payments	<u>\$15,560,476</u>

**Rental Properties**

The Fund's real estate is used for rental operations. The leases have five-year terms plus renewal options and include provisions for increased operating costs and taxes. The minimum future rental amounts from unrelated entities, based on non-cancelable leases, exclusive of any future renewal options, as of June 30 are as follows:

2010	\$249,734
2011	210,871
2012	89,698
2013	43,757
2014	<u>43,757</u>
Total	<u>\$637,817</u>

**Litigation**

The System is involved in litigation and regulatory investigations arising in the course of business. After consultation with legal counsel, management estimates that these matters will be resolved without a material adverse effect on the System's financial position or results of operations.

**The Washington County Health System, Inc.  
and Subsidiaries**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**

June 30, 2009 and 2008

**13. TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS**

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

	2009	2008
Temporarily restricted for financial support of patients and hospital programs	\$5,033,747	\$1,766,431
Capital campaign	<u>4,757,152</u>	<u>3,911,505</u>
	<u>\$9,790,899</u>	<u>\$5,677,936</u>
Permanently restricted investments are to be held in perpetuity, the income of which is expendable to support charity care and health care education	<u>\$1,028,618</u>	<u>\$1,028,618</u>

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose of indigent care in the amounts of \$47,604 and \$80,752 in 2009 and 2008, respectively.

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose of health care education in the amounts of \$477,646 and \$415,558 in 2009 and 2008, respectively.

**14. FUNCTIONAL EXPENSES**

The System provides general health care services to residents within its geographic location. Expenses related to providing these services are as follows:

	2009	2008
Health care services	\$309,012,050	\$288,376,159
Fundraising	421,694	448,093
Administration	<u>15,797,440</u>	<u>14,881,586</u>
Total expenses	<u>\$325,231,184</u>	<u>\$303,705,838</u>

**SUPPLEMENTARY INFORMATION**



# Grant Thornton

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## **Report of Independent Certified Public Accountants Supplementary Information**

To the Board of Directors  
Washington County Health System, Inc.

Our audit of the consolidated financial statements of The Washington County Health System, Inc. and its subsidiaries for the year ended June 30, 2009 was conducted for the purpose of forming an opinion on the consolidated financial statements. The following consolidating balance sheet and consolidating statement of operations and changes in net assets are presented for the purposes of additional analysis and is not a required part of the consolidated financial statements. Such information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and, in our opinion, are fairly stated in all material respects in relation to the consolidated financial statements taken as a whole.

Baltimore, Maryland  
September 25, 2009

# The Washington County Health System, Inc. and Subsidiaries

## CONSOLIDATING BALANCE SHEET

June 30, 2009

ASSETS	The Washington County Hospital Association, Inc.	The Washington County Hospital Endowment Fund, Inc.	The Washington County Health System, Inc.	Washington County Health Systems Obligated Group Adjustments	Washington County Health Systems Obligated Group	Antietam Health Services, Inc. and Subsidiaries	Antietam Insurance Company, Ltd.	Antietam Healthcare Foundation	Eliminations	The Washington County Health System, Inc. and Subsidiaries
<b>CURRENT ASSETS</b>										
Cash and cash equivalents	\$ 10,582,410	\$ 969,765	\$ 183,020	\$ (32,393)	\$ 11,702,802	\$ 6,862,150	\$1,061,370	\$ 122,834	\$ 32,393	\$ 19,781,549
Restricted cash	2,572,167	-	-	-	2,572,167	-	-	-	-	2,572,167
Short-term investments	4,587,393	-	-	-	4,587,393	-	-	-	-	4,587,393
Current portion of assets whose use is limited	17,152,451	-	-	-	17,152,451	-	-	-	-	17,152,451
Accounts receivable, net	34,949,704	-	-	-	34,949,704	9,241,247	71,148	1,385,521	-	45,647,620
Due from related parties, net	541,923	2,387	4,972,963	-	5,517,273	527,060	-	-	(6,044,333)	-
Supplies	5,035,585	-	-	-	5,035,585	3,720,923	-	-	-	8,756,508
Prepaid expenses and other current assets	<u>2,956,808</u>	<u>297,994</u>	<u>-</u>	<u>-</u>	<u>3,254,802</u>	<u>2,216,163</u>	<u>111,749</u>	<u>25,647</u>	<u>-</u>	<u>5,608,361</u>
Total current assets	78,378,441	1,270,146	5,155,983	(32,393)	84,772,177	22,567,543	1,244,267	1,534,002	(6,011,940)	104,106,049
<b>EQUITY INVESTMENTS IN AFFILIATES</b>	9,391,269	-	3,367,444	18,803,644	31,562,357	4,572,969	-	-	(22,214,694)	13,920,632
<b>ASSETS WHOSE USE IS LIMITED</b>										
Board designated funds and marketable securities	18,355,006	24,003,958	1,691,122	-	44,050,086	-	-	6,668,068	-	50,718,154
Supplemental retirement benefit investments	-	-	-	-	-	1,915,613	-	-	-	1,915,613
Temporarily and permanently restricted donor funds	<u>813,569</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>813,569</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>813,569</u>
Assets held by trustee for debt service fund construction	19,168,575	24,003,958	1,691,122	-	44,863,655	1,915,613	-	6,668,068	-	53,447,336
Funds designated for insurance purposes	164,014,907	-	-	-	164,014,907	-	-	-	-	164,014,907
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>7,347,639</u>	<u>-</u>	<u>-</u>	<u>7,347,639</u>
	183,183,482	24,003,958	1,691,122	-	208,878,562	1,915,613	7,347,639	6,668,068	-	224,809,882
<b>PROPERTY, PLANT AND EQUIPMENT, net</b>	142,663,560	20,669,045	-	(2,347,717)	160,984,888	9,473,864	-	28,515	2,347,717	172,834,984
<b>PLEDGES RECEIVABLE, net</b>	-	-	-	-	-	-	-	3,796,976	-	3,796,976
<b>DEFERRED FINANCING COSTS</b>	3,144,717	38,964	-	-	3,183,681	-	-	-	-	3,183,681
<b>OTHER ASSETS</b>	2,073,579	(1)	-	-	2,073,578	926,270	451,099	-	-	3,450,947
<b>DUE FROM RELATED PARTIES</b>	<u>10,335,769</u>	<u>-</u>	<u>-</u>	<u>(5,407,732)</u>	<u>4,928,037</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(4,928,037)</u>	<u>-</u>
Total assets	<u>\$429,170,817</u>	<u>\$45,982,112</u>	<u>\$10,214,549</u>	<u>\$11,015,802</u>	<u>\$496,383,280</u>	<u>\$39,456,259</u>	<u>\$9,043,005</u>	<u>\$12,027,561</u>	<u>\$(30,806,954)</u>	<u>\$526,103,151</u>

# The Washington County Health System, Inc. and Subsidiaries

## CONSOLIDATING BALANCE SHEET - CONTINUED

June 30, 2009

LIABILITIES AND NET ASSETS	The Washington County Hospital Association, Inc.	The Washington County Hospital Endowment Fund, Inc.	The Washington County Health System, Inc.	Washington County Health Systems Obligated Group Consolidating Adjustments	Washington County Health Systems Obligated Group	Antietam Health Services, Inc. and Subsidiaries	Antietam Insurance Company, Ltd.	Antietam Healthcare Foundation	Eliminations	The Washington County Health System, Inc. and Subsidiaries
<b>CURRENT LIABILITIES</b>										
Accounts payable and accrued expenses	\$ 22,461,498	\$ 149,888	\$ 4,989	\$ (48,885)	\$ 22,567,490	\$ 3,373,872	\$ 606,737	\$ 480,917	\$ 48,888	\$ 27,077,904
Due to related parties, net	-	-	68	-	68	687	4,972,963	64,245	(5,037,963)	-
Accrued salaries, wages and withholdings	5,608,234	-	-	-	5,608,234	2,231,782	-	-	-	7,840,016
Accrued compensation benefit	10,049,815	-	-	-	10,049,815	4,228,297	-	35,788	-	14,313,900
Advances from third-party payors	6,073,679	-	-	-	6,073,679	-	-	-	-	6,073,679
Current portion of long-term debt	<u>3,829,342</u>	<u>1,032,727</u>	<u>-</u>	<u>(40,320)</u>	<u>4,821,749</u>	<u>858,585</u>	<u>-</u>	<u>-</u>	<u>(147,831)</u>	<u>5,532,503</u>
Total current liabilities	48,022,568	1,182,615	5,057	(89,205)	49,121,035	10,693,223	5,579,700	580,950	(5,136,906)	60,838,002
<b>LONG-TERM DEBT</b>	269,831,333	9,512,110	-	(5,911,732)	273,431,711	2,365,469	-	-	2,780	275,799,960
<b>ACCRUED RETIREMENT BENEFITS</b>	9,344,470	-	-	-	9,344,470	1,989,428	-	-	-	11,333,898
<b>ASSET RETIREMENT OBLIGATION</b>	1,893,825	-	-	-	1,893,825	-	-	-	-	1,893,825
<b>MINORITY INTEREST</b>	-	-	-	-	-	1,823,532	-	-	(1,823,532)	-
<b>OTHER LONG-TERM LIABILITIES</b>	<u>4,720,202</u>	<u>2</u>	<u>-</u>	<u>-</u>	<u>4,720,204</u>	<u>2,143,621</u>	<u>3,192,242</u>	<u>-</u>	<u>1,823,532</u>	<u>11,879,599</u>
Total liabilities	333,812,398	10,694,727	5,057	(6,000,937)	338,511,245	19,015,273	8,771,942	580,950	(5,134,126)	361,745,284
<b>STOCKHOLDERS' EQUITY</b>										
Common stock	-	-	-	-	-	700,000	120,000	-	(820,000)	-
Paid-in capital	-	-	-	-	-	1,150,080	-	-	(1,150,080)	-
Retained earnings	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>18,590,906</u>	<u>151,063</u>	<u>-</u>	<u>(18,741,969)</u>	<u>-</u>
Total stockholders' equity	-	-	-	-	-	20,440,986	271,063	-	(20,712,049)	-
<b>NET ASSETS</b>										
Unrestricted	89,313,831	35,287,385	10,209,492	17,016,739	151,827,447	-	-	1,743,645	(32,742)	153,538,350
Temporarily restricted	5,015,970	-	-	-	5,015,970	-	-	9,702,966	(4,928,037)	9,790,899
Permanently restricted	<u>1,028,618</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,028,618</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,028,618</u>
Total net assets	<u>95,358,419</u>	<u>35,287,385</u>	<u>10,209,492</u>	<u>17,016,739</u>	<u>157,872,035</u>	<u>-</u>	<u>-</u>	<u>11,446,611</u>	<u>(4,960,779)</u>	<u>164,357,867</u>
Total liabilities and net assets	<u>\$429,170,817</u>	<u>\$45,982,112</u>	<u>\$10,214,549</u>	<u>\$11,015,802</u>	<u>\$496,383,280</u>	<u>\$39,456,259</u>	<u>\$9,043,005</u>	<u>\$12,027,561</u>	<u>\$(30,806,954)</u>	<u>\$526,103,151</u>

# The Washington County Health System, Inc. and Subsidiaries

## CONSOLIDATED STATEMENT OF OPERATIONS AND CHANGES IN NET ASSETS

June 30, 2009

	The Washington County Hospital Association, Inc.	The Washington County Hospital Endowment Fund, Inc.	The Washington County Health System, Inc.	Washington County Health Systems Obligated Group Consolidating Adjustments	Washington County Health Systems Obligated Group	Antietam Health Services, Inc. and Subsidiaries	Antietam Insurance Company, Ltd.	Antietam Healthcare Foundation	Eliminations	The Washington County Health System, Inc. and Subsidiaries
<b>Unrestricted revenue, gains and other support</b>										
Net patient service revenue	\$243,097,039	\$ -	\$ -	\$ -	\$243,097,039	\$57,694,063	\$ -	\$ -	\$ (9,728,260)	\$291,062,842
Sales	-	-	-	-	-	33,200,439	-	-	(4,291,104)	28,909,335
Rental income, net of expense	-	1,835,489	-	(5,565)	1,829,924	-	-	-	5,565	1,835,489
Gain on disposal of assets	158,827	-	-	-	158,827	(10,177)	-	-	-	148,650
Other revenue	2,560,700	-	663,213	-	3,223,913	3,385,265	1,589,979	2,478,980	(5,241,306)	5,436,831
Equity earnings in affiliates	967,758	-	476,911	1,634,202	3,078,871	2,708,524	-	-	(1,634,202)	4,153,193
Net assets released from restriction used for operations	526,271	-	-	-	526,271	-	-	959,538	(504,595)	981,214
	<u>247,310,595</u>	<u>1,835,489</u>	<u>1,140,124</u>	<u>1,628,637</u>	<u>251,914,845</u>	<u>96,978,114</u>	<u>1,589,979</u>	<u>3,438,518</u>	<u>(21,393,902)</u>	<u>332,527,554</u>
<b>Expenses</b>										
Salaries and wages	99,707,210	-	-	-	99,707,210	34,225,655	-	396,342	-	134,329,206
Professional fees	9,284,943	-	-	-	9,284,943	1,142,516	-	-	-	10,427,459
Cost of goods sold	-	-	-	-	-	23,270,392	-	-	(3,733,260)	19,537,132
Supplies and other	108,484,653	565,849	-	(70,535)	108,979,967	32,162,591	2,180,985	1,164,310	(13,506,415)	130,981,438
Interest	683,606	256,149	-	(43,747)	896,008	145,670	-	-	43,747	1,085,425
Depreciation and amortization	13,144,993	917,479	-	-	14,062,472	1,423,416	-	696	-	15,486,584
Bad debt expense	12,231,433	-	-	-	12,231,433	1,152,507	-	-	-	13,383,940
	<u>243,536,838</u>	<u>1,739,477</u>	<u>-</u>	<u>(114,282)</u>	<u>245,162,033</u>	<u>93,522,747</u>	<u>2,180,985</u>	<u>1,561,348</u>	<u>(17,195,928)</u>	<u>325,231,184</u>
Operating income (loss)	3,773,757	96,012	1,140,124	1,742,919	6,752,812	3,455,367	(591,006)	1,877,170	(4,197,974)	7,296,370
<b>Non-operating gains (losses)</b>										
Investment returns, net	(4,076,125)	(5,050,733)	(355,915)	(84)	(9,482,857)	(131,503)	508,957	(544,748)	84	(9,650,067)
Other, net	(511,408)	-	(62,432)	-	(573,840)	71,214	-	(477,646)	862,965	(117,307)
Minority interest	-	-	-	-	-	(378,314)	-	-	-	(378,314)
Provision for income taxes	-	-	-	-	-	(1,238,204)	-	-	-	(1,238,204)
(Deficiency in) excess of revenue over expenses	(813,776)	(4,954,721)	721,777	1,742,835	(3,303,885)	1,778,560	(82,049)	854,776	(3,334,925)	(4,087,522)
<b>Other change in unrestricted net assets</b>										
Transfer from (to) temporarily restricted net assets	-	110,064	-	-	110,064	-	-	-	9,677	119,741
Change in pension benefit obligation	(12,230,178)	-	-	-	(12,230,178)	-	-	-	-	(12,230,178)
Reversal of accumulated net unrealized gains or losses on investment from the adoption of SFAS No. 159	(1,039,758)	(2,128,307)	(20,300)	-	(3,188,365)	-	97,694	(175,663)	-	(3,266,334)
Other	-	(1,592,095)	4,309,750	-	2,717,655	(1,375,716)	-	-	133,952	1,475,891
(Decrease) increase in unrestricted net assets	(14,083,712)	(8,565,059)	5,011,227	1,742,835	(15,894,709)	402,844	15,645	679,113	(3,191,296)	(17,988,402)
<b>Temporarily restricted net assets</b>										
Contributions	477,645	-	-	-	477,645	-	-	5,208,312	(504,595)	5,181,362
Net realized and unrealized gains and (losses) on investments	32,556	-	-	-	32,556	-	-	-	-	32,556
Net assets held by AHF, Inc.	334,577	-	-	-	334,577	-	-	-	(334,577)	-
Transfer from (to) unrestricted net assets	-	(110,064)	-	-	(110,064)	-	-	-	(9,677)	(119,741)
Other	-	-	-	-	-	-	-	-	-	-
Net assets released from restrictions	(526,271)	-	-	-	(526,271)	-	-	(959,538)	504,595	(981,214)
Increase (decrease) in temporarily restricted net assets	<u>318,507</u>	<u>(110,064)</u>	<u>-</u>	<u>-</u>	<u>208,443</u>	<u>-</u>	<u>-</u>	<u>4,248,774</u>	<u>(344,254)</u>	<u>4,112,963</u>
(Decrease) increase in net assets	(13,765,205)	(8,675,123)	5,011,227	1,742,835	(15,686,266)	402,844	15,645	4,927,887	(3,535,550)	(13,875,439)
<b>Net assets</b>										
Beginning of year	109,123,624	43,962,508	5,198,265	15,273,904	173,558,301	20,038,141	255,417	6,518,724	(22,137,277)	178,233,306
End of year	<u>\$ 95,358,419</u>	<u>\$35,287,385</u>	<u>\$10,209,492</u>	<u>\$17,016,739</u>	<u>\$157,872,035</u>	<u>\$20,440,985</u>	<u>\$ 271,062</u>	<u>\$11,446,611</u>	<u>\$(25,672,827)</u>	<u>\$164,357,867</u>



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