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Certified Public Accountants



**Dimensions Health  
Corporation and Subsidiaries**

**Audited Consolidated Financial  
Statements**

**June 30, 2009**

Consolidated Financial Statements  
**Dimensions Health Corporation and Subsidiaries**  
June 30, 2009

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## Report of Independent Auditors

Board of Directors  
Dimensions Health Corporation and Subsidiaries

We have audited the accompanying consolidated balance sheets of Dimensions Health Corporation and subsidiaries (the Corporation) as of June 30, 2009 and 2008, and the related consolidated statements of operations, changes in net assets (deficit) and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated 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 Corporation's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Dimensions Health Corporation as of June 30, 2009 and 2008, and the results of its operations, changes in net assets (deficit) and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.



As discussed in *Note B* to the consolidated financial statements, the Corporation's reliance on government and other grant funding to support its operations, its substantial capital needs, significant unfunded pension obligations, and limited cash resources raise substantial doubt about its ability to continue as a going concern. The consolidated financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts and classification of liabilities that may result from the outcome of this uncertainty.

*Cohen, Rutherford + Knight, P.C.*

October 23, 2009

Consolidated Balance Sheets  
**Dimensions Health Corporation and Subsidiaries**  
(Dollars in thousands)

	June 30	
	<u>2009</u>	<u>2008</u>
<i>ASSETS</i>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 18,299	\$ 17,565
Restricted cash and cash equivalents-- <i>Note J</i>	6,109	7,143
Patient accounts receivable, net of allowance for uncollectible accounts (\$37,899 and \$39,944 in 2009 and 2008, respectively)	52,862	51,142
Other receivables	4,492	7,188
Inventories	4,689	4,804
Current portion of assets limited to use-- <i>Note C</i>	4,827	4,746
Prepaid expenses and other assets	3,687	3,861
<b>TOTAL CURRENT ASSETS</b>	<u>94,965</u>	<u>96,449</u>
Assets limited as to use-- <i>Note C</i>		
Held in trust under bond and note indentures-- <i>Note E</i>	6,555	6,434
Investments held for self insurance-- <i>Note G</i>	29,959	30,748
Total assets limited as to use	<u>36,514</u>	<u>37,182</u>
Property and equipment, net-- <i>Note D</i>	61,833	61,977
Investments-- <i>Note L</i>	3,157	3,398
Deferred compensation fund-- <i>Note H</i>	1,253	1,482
Deferred financing costs	405	453
Other noncurrent assets	3,243	3,534
<b>TOTAL ASSETS</b>	<u>\$ 201,370</u>	<u>\$ 204,475</u>

(Continued)

Consolidated Balance Sheets - Continued  
**Dimensions Health Corporation and Subsidiaries**  
(Dollars in thousands)

	June 30	
	<u>2009</u>	<u>2008</u>
<i>LIABILITIES AND NET ASSETS (DEFICIT)</i>		
<b>CURRENT LIABILITIES</b>		
Current portion of long-term debt-- <i>Note E</i>	\$ 4,172	\$ 4,047
Current portion of accrued employee benefit liabilities-- <i>Note I</i>	9,202	21,100
Accounts payable and accrued expenses-- <i>Note J</i>	31,625	30,571
Accrued compensation and related items-- <i>Note H</i>	15,864	14,704
Advances from third-party payers	10,444	10,214
<b>TOTAL CURRENT LIABILITIES</b>	<u>71,307</u>	<u>80,636</u>
<b>NONCURRENT LIABILITIES</b>		
Long-term debt, net of current portion-- <i>Note E</i>	66,489	69,010
Other liabilities:		
Accrued professional liabilities-- <i>Notes G and J</i>	25,619	24,559
Accrued employee benefit liabilities-- <i>Note I</i>	72,472	24,538
Total other liabilities	<u>98,091</u>	<u>49,097</u>
<b>TOTAL LIABILITIES</b>	235,887	198,743
<b>NET ASSETS (DEFICIT)</b>		
Unrestricted	(38,026)	(138)
Temporarily restricted	3,509	5,870
<b>TOTAL NET ASSETS (DEFICIT)</b>	<u>(34,517)</u>	<u>5,732</u>
<b>TOTAL LIABILITIES AND NET ASSETS (DEFICIT)</b>	<u>\$ 201,370</u>	<u>\$ 204,475</u>

See notes to the consolidated financial statements.

Consolidated Statements of Operations  
**Dimensions Health Corporation and Subsidiaries**  
(Dollars in thousands)

	<b>Year Ended June 30</b>	
	<b>2009</b>	<b>2008</b>
<b>UNRESTRICTED REVENUE AND OTHER SUPPORT</b>		
Net patient service revenue-- <i>Note K</i>	\$ 358,216	\$ 346,585
Other operating income-- <i>Note B</i>	31,604	20,517
<b>TOTAL UNRESTRICTED REVENUE AND OTHER SUPPORT</b>	<b>389,820</b>	<b>367,102</b>
 <b>OPERATING EXPENSES--<i>Note F</i></b>		
Salaries and benefits-- <i>Note I</i>	193,603	182,498
Supplies	51,839	46,956
Purchased services-- <i>Note J</i>	51,447	48,495
Provision for bad debts	53,969	56,493
Physician fees	20,948	20,081
Utilities	6,398	5,806
Interest expense	4,192	4,329
Depreciation and amortization	8,552	7,779
<b>TOTAL OPERATING EXPENSES</b>	<b>390,948</b>	<b>372,437</b>
<b>LOSS FROM OPERATIONS--<i>Note B</i></b>	<b>(1,128)</b>	<b>(5,335)</b>
 <b>OTHER INCOME</b>		
Investment income-- <i>Note C</i>	575	1,574
Reclassification of unrealized loss on trading investments-- <i>Note C</i>	0	(445)
<b>TOTAL OTHER INCOME</b>	<b>575</b>	<b>1,129</b>
 <b>EXCESS OF EXPENSES OVER UNRESTRICTED REVENUE AND OTHER SUPPORT</b>	 <b>\$ (553)</b>	 <b>\$ (4,206)</b>

See notes to the consolidated financial statements.

Consolidated Statements of Changes in Net Assets (Deficit)  
**Dimensions Health Corporation and Subsidiaries**  
(Dollars in thousands)

	<b>Year Ended June 30</b>	
	<b>2009</b>	<b>2008</b>
<b>Changes in unrestricted net assets (deficit):</b>		
Excess of expenses over unrestricted revenue and other support	\$ (553)	\$ (4,206)
Net change in appreciation of other-than-trading investments-- <i>Note C</i>	(21)	14
Reclassification of unrealized loss on trading investments-- <i>Note C</i>	0	445
Net assets released from restriction for capital acquisition	3,238	1,739
Change in employee benefit obligation-- <i>Note I</i>	(40,552)	10,016
<b>INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS (DEFICIT)</b>	<b>(37,888)</b>	<b>8,008</b>
<b>Changes in temporarily restricted net assets:</b>		
Contributions	1,519	5,520
Change in beneficial interest in net assets of foundations -- <i>Note L</i>	(228)	317
Net assets released from restriction for operations	(414)	(1,098)
Net assets released from restriction for capital acquisition	(3,238)	(1,739)
<b>INCREASE (DECREASE) IN TEMPORARILY RESTRICTED NET ASSETS</b>	<b>(2,361)</b>	<b>3,000</b>
<b>CHANGE IN NET ASSETS (DEFICIT)</b>	<b>(40,249)</b>	<b>11,008</b>
<b>NET ASSETS (DEFICIT), BEGINNING OF YEAR</b>	<b>5,732</b>	<b>(5,276)</b>
<b>NET ASSETS (DEFICIT), END OF YEAR</b>	<b>\$ (34,517)</b>	<b>\$ 5,732</b>

See notes to the consolidated financial statements.

Consolidated Statements of Cash Flows  
**Dimensions Health Corporation and Subsidiaries**  
(Dollars in thousands)

	<b>Year Ended June 30</b>	
	<b>2009</b>	<b>2008</b>
<b>OPERATING ACTIVITIES</b>		
Change in net assets (deficit)	\$ (40,249)	\$ 11,008
Adjustments to reconcile change in net assets (deficit) to net cash and cash equivalents provided by operating activities:		
Provision for bad debts	53,969	56,493
State capital acquisition grant	(610)	(4,795)
Restricted contribution	(1,090)	(2,464)
Depreciation and amortization	8,552	7,779
Net unrealized loss (gain) on marketable investments	(154)	898
Increase (decrease) in employee benefit obligation	40,552	(10,016)
Changes in operating assets and liabilities:		
Decrease (increase) in assets		
Accounts receivable, net	(55,689)	(59,593)
Inventories	115	(800)
Prepaid expenses and other assets	2,870	(1,458)
Investments-trading	(608)	1,486
Other noncurrent assets	520	(347)
Increase (decrease) in liabilities		
Accounts payable and accrued expenses	1,054	3,793
Accrued annual leave	1,160	931
Accrued employee benefit liabilities	(4,516)	5,412
Accrued professional liabilities	1,060	161
<b>NET CASH AND CASH EQUIVALENTS  PROVIDED BY OPERATING ACTIVITIES</b>	<b>\$ 6,936</b>	<b>\$ 8,488</b>

*(Continued)*

Consolidated Statements of Cash Flows - Continued  
**Dimensions Health Corporation and Subsidiaries**  
(Dollars in thousands)

	<b>Year Ended June 30</b>	
	<b>2009</b>	<b>2008</b>
	<u>          </u>	<u>          </u>
<b>INVESTING ACTIVITIES</b>		
Net purchase of property and equipment	\$ (6,352)	\$ (7,120)
Net sale (purchase) of investments-other than trading	1,590	(1,841)
	<u>          </u>	<u>          </u>
<b>NET CASH AND CASH EQUIVALENTS USED IN INVESTING ACTIVITIES</b>	(4,762)	(8,961)
<b>FINANCING ACTIVITIES</b>		
Payments of long-term debt and capital lease obligations	(3,794)	(2,848)
Net change in advances from third-party payers	230	(8)
Restricted contribution	1,090	2,464
	<u>          </u>	<u>          </u>
<b>NET CASH AND CASH EQUIVALENTS USED IN FINANCING ACTIVITIES</b>	(2,474)	(392)
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	(300)	(865)
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<u>24,708</u>	<u>25,573</u>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<u>\$ 24,408</u>	<u>\$ 24,708</u>
<b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:</b>		
Interest paid	<u>\$ 4,259</u>	<u>\$ 4,394</u>
<b>SUPPLEMENTAL DISCLOSURES OF NONCASH TRANSACTIONS:</b>		
Equipment acquired under capital lease	<u>\$ 1,398</u>	<u>\$ 1,330</u>

See notes to the consolidated financial statements

Notes to the Consolidated Financial Statements  
**Dimensions Health Corporation and Subsidiaries**  
(Dollars in thousands)

**Note A - Organization and Summary of Significant Accounting Policies**

*Organization*

Dimensions Health Corporation (the Corporation) is a not-for-profit, non-stock corporation, incorporated in Maryland for charitable and scientific purposes. The Corporation is operating under the name Dimensions Healthcare System. The principal mission of the Corporation is the provision of health care through various delivery sites and the provision of services supporting health care. The Corporation's principal facilities, subsidiaries, and affiliates are as follows:

*Acute and Ambulatory Care Facilities:*

- Prince George's Hospital Center (PGHC)
- Laurel Regional Hospital (LRH)
- Bowie Health Center (BHC)

*Long-term Care Facilities:*

- Gladys Spellman Specialty Hospital and Nursing Center (GSSHNC)
- Madison Manor, Inc. (MM), a wholly owned subsidiary, which holds a 25% interest in the Larkin Chase Nursing and Restorative Center

*Health Care Supporting Subsidiaries and Affiliates:*

- Dimensions Healthcare Associates, Inc. (DHA), a wholly owned, not-for-profit corporation established to provide physician services to the Corporation's acute and ambulatory care facilities.
- Affiliated Enterprises, Inc. (AEI), a wholly owned, for-profit corporation, which owns and operates Mullikin Medical Center, a medical office building, on the Bowie campus.

Notes to the Consolidated Financial Statements- Continued  
**Dimensions Health Corporation and Subsidiaries**  
(Dollars in thousands)

**Note A - Organization and Summary of Significant Accounting Policies - Continued**

*Organization- Continued*

*Health Care Supporting Subsidiaries and Affiliates: (Continued)*

- Dimensions Assurance, Ltd. (DAL), a wholly owned, for-profit captive insurance company located in the Cayman Islands.

*Use of Estimates*

The preparation of 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 amount of revenue and expenses. Actual amounts could differ from those estimates.

*Principles of Consolidation*

The consolidated financial statements include the accounts of the Corporation and its subsidiaries. Investments in affiliates for which the Corporation has the ability to significantly influence operations, but does not control, are accounted for under the equity method. Significant intercompany accounts and transactions have been eliminated in consolidation.

*Risk Factors*

The Corporation's ability to maintain and/or increase future revenues could be adversely affected by: (1) the growth of managed care organizations promoting alternative methods for health care delivery and payment of services such as discounted fee for service networks and capitated fee arrangements (the rate setting process in the State of Maryland prohibits hospitals from entering into discounted fee arrangements, however managed care contracts may provide for exclusive service arrangements); (2) proposed and/or future changes in the laws, rules, regulations, and policies relating to the definition, activities, and/or taxation of not-for-profit tax-exempt entities; (3) the enactment into law of all or any part of the current budget resolutions under consideration by Congress related to Medicare and Medicaid reimbursement methodology and/or further reductions in payments to hospitals and other health care providers; (4) the future of Maryland's Certificate of Need (CON) program, where future deregulation could result in the entrance of new competitors, or future additional regulation may eliminate the Corporation's ability to expand new services.

Notes to the Consolidated Financial Statements- Continued  
**Dimensions Health Corporation and Subsidiaries**  
(Dollars in thousands)

**Note A - Organization and Summary of Significant Accounting Policies - Continued**

*Risk Factors - Continued*

The Joint Commission (JC), a non-governmental privately owned entity, provides accreditation status to hospitals and other health care organizations in the United States. Such accreditation is based upon the healthcare organization demonstrating compliance with approximately three hundred standards designed to ensure quality and patient safety. JC conducts unannounced triennial and for cause surveys. Certain managed care payers require hospitals to have appropriate JC accreditation in order to participate in those programs. In addition, the Center for Medicare and Medicaid Services (CMS), the agency with oversight of the Medicare and Medicaid programs, provides “deemed status” for facilities having JC accreditation. By being accredited, facilities are “deemed” to be in compliance with the Medicare and Medicaid conditions of participation. Termination as a Medicare provider or exclusion from any or all of these programs/payers would have a materially negative impact on the future financial position, operating results and cash flows of the Corporation. The health care facilities of the Corporation have maintained JC accreditation for 2009 and 2008.

The Washington Adventist Hospital (WAH) has filed a CON application with the Maryland Health Care Commission (MHCC) to relocate the hospital to White Oak, Maryland. The proposed location of the new hospital is within the primary service area of Laurel Regional Hospital (LRH). The Corporation has filed a brief with the MHCC opposing this relocation due to the negative impact it would have on LRH. Management expects that its opposition to the proposed CON to relocate WAH will be joined by Holy Cross Hospital, Montgomery General Hospital and the City of Takoma Park.

*Cash and Cash Equivalents*

Cash and cash equivalents include cash and certain investments in highly liquid debt instruments and certificates of deposit, both with maturities of three months or less when purchased. The Corporation routinely invests its surplus operating funds in overnight repurchase agreements. These funds generally invest in highly liquid U.S. government and agency obligations. Restricted cash represents amounts held by commercial banks under custody agreements as collateral for outstanding letters of credit. Cash holdings in commercial banks routinely exceed the aggregate maximum insured by the Federal Deposit Insurance Corporation (FDIC). The FDIC temporarily increased the maximum guarantee to \$250 until December 31, 2013.

Notes to the Consolidated Financial Statements- Continued  
**Dimensions Health Corporation and Subsidiaries**  
(Dollars in thousands)

**Note A - Organization and Summary of Significant Accounting Policies - Continued**

*Marketable Investments and Investment Income*

Marketable investments are carried at fair value as of the balance sheet date based on quoted market prices. Investments included in assets limited as to use are restricted under debt and bank agreements and self-insurance arrangements, and are not available for the general operations of the Corporation. Assets limited as to use, which will be utilized to meet related current liabilities, have been classified in the consolidated balance sheets as current assets. The cost of securities sold is based on the specific-identification method. Investment income for all investments is included in nonoperating income.

Prior to July 1, 2007, management classified the Corporation's investment portfolio as an other-than-trading portfolio. Accordingly, unrealized gains and losses were recorded as changes in unrestricted net deficit, which is excluded from the excess of revenues and gains over expenses and losses within the consolidated statements of changes in net assets (deficit). On July 1, 2007, management changed its classification of the Corporation's investment portfolio restricted for self-insurance arrangements to a trading portfolio. Accordingly, realized and unrealized gains and losses on these investments are included in nonoperating gains (losses) in the accompanying consolidated statements of changes in net assets (deficit). Management did not reclassify the investments restricted under debt and bank agreements to a trading portfolio because these investments consist primarily of money market funds.

The Corporation's investments are subject to credit, market and interest rate risks that cannot be predicted at this time. However, management has attempted to mitigate these risks by maintaining a diversified portfolio.

During September 2008, certain large U.S. financial institutions failed, primarily as a result of holdings in troubled subprime loans or assets collateralized with such distressed loans. These institutional failures, and the negative economic conditions that contributed to these failures, generated substantial volatility in global financial markets and substantial uncertainty regarding access to capital and the continued viability of many other financial institutions. Despite the recent legislative initiatives to ameliorate these conditions, global credit markets remain ineffective, and the global economy has been in a deep and prolonged recession. These conditions create uncertainty regarding the Corporation's future ability to access capital and the cost of such capital, as well as the potential for additional future erosion in the fair values of investments held directly by the Corporation or indirectly by its sponsored employee benefit plan trust. The resulting impact on the future financial position, results of operations and cash flows of the Corporation could be material.

Notes to the Consolidated Financial Statements- Continued

**Dimensions Health Corporation and Subsidiaries**

(Dollars in thousands)

**Note A - Organization and Summary of Significant Accounting Policies - Continued**

*Accounts Receivable and Contractual Allowances*

The Corporation provides services to patients in Prince George's County and surrounding jurisdictions, the majority of whom are covered by third-party health insurance programs. The Corporation bills the insurers/programs directly for the services provided. Insurance and credit information is obtained from patients at time of service or upon admission when available. No collateral is obtained for patient accounts receivable.

The Corporation's policy is to write off all patient accounts that have been identified as uncollectible. An allowance for doubtful accounts is recorded for accounts not yet written off that are anticipated to become uncollectible in future periods.

Discounts ranging from 2% to 6% of hospital charges are given to Medicare, Medicaid and certain approved commercial health insurance and health maintenance organizations (HMOs). Also, these payers routinely review patient billings and deny payment for certain procedures that they deem medically unnecessary or performed without appropriate pre-authorization. Discounts and denials are recorded as reductions of net patient revenue. Accounts receivable from these third-party payers have been adjusted to reflect the difference between charges and the estimated reimbursable amounts.

At June 30, 2009 and 2008, gross patient accounts receivable, by payer class, consisted of the following:

	<u>2009</u>	<u>2008</u>
Medicare	18.0%	21.0%
Medicaid	21.6%	18.6%
Medicaid pending	12.6%	8.9%
Commercial	19.0%	17.4%
Self pay and others	28.8%	34.1%
	<u>100.0%</u>	<u>100.0%</u>

*Inventories*

Inventories, consisting principally of drugs and supplies, are carried at the lower of cost or market, using the average-cost method.

Notes to the Consolidated Financial Statements- Continued

**Dimensions Health Corporation and Subsidiaries**

(Dollars in thousands)

**Note A - Organization and Summary of Significant Accounting Policies - Continued**

*Property and Equipment*

Property and equipment is carried at cost or, if donated, at fair market value at the date of the gift. Depreciation is provided over the estimated useful life of each class of depreciable asset, ranging from two to thirty years. Amortization of assets under capital lease obligations is computed using the straight-line method over the estimated useful life of the equipment and is included in depreciation and amortization in the financial statements. Maintenance and repairs are charged to expense as incurred.

*Deferred Financing Costs*

Financing costs incurred in issuing the Prince George's County, Maryland Project & Refunding Revenue Bonds (Dimensions Health Corporation Issue), Series 1994 and the Series 1996, have been capitalized and are being amortized over the life of the issues using the bonds-outstanding method.

The following table summarizes deferred financing costs:

	<b>June 30</b>	
	<b>2009</b>	<b>2008</b>
Series 1994 revenue bonds	\$ 891	\$ 891
Flex term notes	216	216
Other	239	245
	<u>1,346</u>	<u>1,352</u>
Less: accumulated amortization	941	899
	<u>\$ 405</u>	<u>\$ 453</u>

*Impairment of Long-Lived Assets*

The Corporation evaluates its long-lived assets and certain identifiable intangible assets for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of any asset to future net undiscounted cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the future discounted cash flows compared to the carrying amount of the asset.

Notes to the Consolidated Financial Statements- Continued  
**Dimensions Health Corporation and Subsidiaries**  
(Dollars in thousands)

**Note A - Organization and Summary of Significant Accounting Policies - Continued**

*Temporarily Restricted Net Assets*

Resources restricted by donors for specific purposes are reported as temporarily restricted net assets until expended, at which time they are reported as net assets released from restriction. In accordance with accounting principles generally accepted in the United States of America, assets that are restricted for capital acquisitions (or that will not be available to the Corporation within the next operating cycle) are classified as noncurrent assets in the accompanying consolidated balance sheets. Assets that are temporarily restricted for supporting Corporation programs are classified as current assets if they are currently available for use by the Corporation. Temporarily restricted net assets are available for the following purposes at June 30:

	<u>2009</u>	<u>2008</u>
Capital purchases (state funded)	\$ 429	\$ 3,056
Healthcare	2,276	2,182
Health education	804	632
	<u>\$ 3,509</u>	<u>\$ 5,870</u>

Notes to the Consolidated Financial Statements- Continued  
**Dimensions Health Corporation and Subsidiaries**  
(Dollars in thousands)

**Note A - Organization and Summary of Significant Accounting Policies - Continued**

*Net Patient Service Revenue*

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

	<u>2009</u>	<u>2008</u>
Medicare	27.0%	28.0%
Medicaid	27.3%	28.1%
Commercial	33.4%	31.6%
Other	12.3%	12.3%
	<u>100.0%</u>	<u>100.0%</u>

Revenue from the State of Maryland Medicaid program is primarily derived from independent managed care organizations that have contracted with the State of Maryland to cover eligible beneficiaries.

The following table sets forth the detail of net patient service revenue:

	<u>2009</u>	<u>2008</u>
Gross patient service revenue	\$ 410,648	\$ 394,536
Revenue deductions:		
Charity care	1,371	1,740
Contractual allowances	51,061	46,211
Net patient service revenue	<u>\$ 358,216</u>	<u>\$ 346,585</u>

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. The Corporation 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 that would have a material effect on the financial statements. 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, including fines, penalties, and exclusion from the Medicare and Medicaid programs.

Notes to the Consolidated Financial Statements- Continued  
**Dimensions Health Corporation and Subsidiaries**  
(Dollars in thousands)

**Note A - Organization and Summary of Significant Accounting Policies - Continued**

*Other Income*

Other income is primarily composed of private and government restricted and non-restricted donation and grant income. Restricted donations and grants are held as restricted assets and recorded as revenue once the restrictions are satisfied. Other income is also composed of miscellaneous hospital revenue such as rental income, parking garage and vending machine income.

*Charity Care*

The Corporation provides care to patients who meet certain criteria under federal poverty and Hill-Burton guidelines, which determine its charity care policy. The Corporation does not pursue collection of amounts determined to qualify as charity care and, consequently, these amounts are not reported as net patient service revenue.

*Estimated Professional Liability Costs*

The provision for estimated professional liability claims includes estimates of the ultimate costs for both reported claims and claims incurred but not reported. The Corporation utilizes outside actuarial services in determining the aggregate professional liability reserve. The accrued professional liabilities amounts included in the June 30, 2009 and 2008 consolidated balance sheets have not been discounted (see *Note G*).

*Excess of Unrestricted Revenue and Other Support over Expenses*

The consolidated statements of operations report excess of unrestricted revenue and other support over expenses. Changes in unrestricted net assets (deficit) that are excluded from this performance indicator, consistent with industry practice, include unrealized gains and losses on investments other than trading securities, permanent transfers of assets to and from affiliates for other than goods and services, contributions of (and assets released from donor restrictions related to) long-lived assets, and the recognition of (and subsequent adjustment to) certain changes in the employee post-retirement benefit liability reported by the Corporation.

Notes to the Consolidated Financial Statements- Continued  
**Dimensions Health Corporation and Subsidiaries**  
(Dollars in thousands)

**Note A - Organization and Summary of Significant Accounting Policies - Continued**

*Income Tax*

The Corporation is exempt from federal income tax under section 501(c)(3) of the Internal Revenue Code as a public charity. Federal tax law requires that the Corporation be operated in a manner consistent with its initial exemption application in order to maintain its exempt status. Management has analyzed the operations of the Corporation and concluded that it remains in compliance with the requirements for exemption. The state in which the Corporation operates also recognizes this exemption for state income tax purposes.

Organizations otherwise exempt from federal and state income taxation are nonetheless subject to taxation at corporate tax rates at both the federal and state levels on their unrelated business income. Exemption from other state taxes, such as real and personal property tax, is separately determined. For the years 2008 and 2007, management has determined that it did not have any tax liability.

Although exempt from federal and state income taxes, the Corporation is required to file an annual federal information return on Form 990. In addition, to the extent that the Corporation has gross income from business activities unrelated to its exempt purpose in excess of \$1,000 for any tax year, it must also file a Form 990-T tax return. Generally, federal and state taxing authorities must propose any taxable adjustments within three (3) years from the due date of the 990-T or the actual filing date, whichever is later, unless unrelated business gross income is under reported by 25% or more, in which case the relevant time period is six (6) years. No statute of limitations applies for years for which no 990-T has been filed. The Corporation is not currently under audit by any taxing authority and has not been notified of any impending audit.

In June 2006, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 48 (FIN 48), *Accounting for Uncertainty in Income Taxes*, which provides additional guidance and clarifies the accounting for uncertainty of income tax positions. FIN 48 defines the threshold for recognizing tax return positions in the financial statements as “more likely than not” that the position is sustainable, based on its technical merits. FIN 48 also provides guidance on the measurement, classification and disclosure of tax return positions in the financial statements. During the year ended June 30, 2009, the Corporation adopted FIN 48, and management believes there is no impact on the Corporation’s consolidated financial statements.

*Fair Value of Financial Instruments*

The carrying amount reported in the consolidated balance sheets for cash and cash equivalents, accounts receivable, accounts payable, accrued expenses, advances from third-party payers, and accrued annual leave approximates their fair value. The fair values of assets limited as to use and investments are based on quoted market prices of the individual securities or investments. The fair value of the Corporation's fixed-rate debt is based on current traded values. The fair value of the variable-rate debt approximates the carrying value. The fair values of investments are discussed in *Note C*.

Notes to the Consolidated Financial Statements- Continued  
**Dimensions Health Corporation and Subsidiaries**  
(Dollars in thousands)

**Note A - Organization and Summary of Significant Accounting Policies - Continued**

*Reclassification*

Certain amounts in the accompanying consolidated financial statements have been reclassified for comparative purposes.

**Note B - Management's Plans as to Continuing as a Going Concern**

At June 30, 2009, the Corporation had substantial capital needs, significant unfunded pension obligations and limited cash resources. The Corporation continues to be reliant upon government and other grant funding to finance continuing operations. These circumstances raise substantial doubt about the ability of the Corporation to continue as a going concern absent governmental support.

The following one-time operating grants were recorded in other income in the accompanying consolidated statements of operations and changes in net assets as of June 30, 2009 and 2008:

	<u>2009</u>	<u>2008</u>
Prince George's County Government	\$ 11,263	\$ 8,579
State of Maryland	13,794	5,697
Magruder Memorial Hospital Trust	<u>1,500</u>	<u>1,250</u>
	<u>\$ 26,557</u>	<u>\$ 15,526</u>

Should the government and private grant funding, most of which was reported as income in the financial records of PGHC, not have been received by the Corporation, the consolidated income from operations of the Corporation for the years ended June 30, 2009 and 2008 would have resulted in deficits of \$27,114 and \$22,600, respectively. The Corporation's cash flow continues to be stressed due primarily to the need to fund pre-existing obligations such as the Corporation's pension and other postretirement employee benefits (over \$8,467 and \$1,500 contributed during the years ended June 30, 2009 and 2008, respectively) and scheduled payments on long term debt principal and interest (approximately \$8,000 and \$7,000 for 2009 and 2008, respectively), as well as funding for new property and equipment (over \$6,000 and \$7,000 for the years ended June 30, 2009 and 2008, respectively). Consolidated days unrestricted cash available to fund operations (i.e., excluding cash needed for retirement of debt, and provide new or replacement capital equipment) was approximately seventeen days as of June 30, 2009 and eighteen days as of June 30, 2008.

## Notes to the Consolidated Financial Statements- Continued

### **Dimensions Health Corporation and Subsidiaries**

(Dollars in thousands)

#### **Note B - Management's Plans as to Continuing as a Going Concern - Continued**

Management and the Board of Directors determined that as a result of these issues, additional financial resources were necessary to ensure the Corporation's continued financial stability. Management's plans to address this situation are described below.

1. During the State's 2007 Legislative Session, a bill, House Bill (HB) 510 was introduced to provide a stable source of funding and a long-term solution for the hospital system, which did not pass. Upon failure of the bill in April 2007, a further commitment was made by the County to fund the Corporation with operating grants through the end of fiscal year 2008. The Corporation submitted a plan for cash infusion of \$33 million covering the period April 2007 through June 2008. From May 2007 through the end of FY 2008, \$17 million in County support was received.
2. On July 12, 2007, the Corporation applied to the IRS for a modification of the 2004 funding waiver conditions related to the Pension Plan (see *Notes M and N*). Specifically, the Corporation requested the removal of two conditions, which would allow the Corporation to defer required contributions into the Pension Plan until September 15, 2008 for plan year 2007 contributions. A submission of this request, according to the IRS, warrants no current payment that would result in any penalties by the IRS to the Corporation. This deferment of payments afforded the Corporation with the opportunity to manage its operations with approximately \$13 million additional cash through the specified period.
3. New leadership of the Board of Directors was installed in September 2007, which has improved the relationship between the Corporation and the County Government. On October 19, 2007, County Executive Jack Johnson visited PGHC to publicly endorse the leadership of the Corporation under the new Chair of the Board of Directors, William Williams. He stated his belief that the long-term solution Mr. Williams described for the Corporation is in line with his expectations and is "very doable". Mr. Johnson noted that it would be important to get a single, consensus bill through the state legislature that will provide a stable source of funding for the Corporation. He further stated that he is aware that money is necessary now and that the County would be releasing funds that were already committed to the Corporation. During November 2007, the County released \$3 million to the Corporation for operations.

Notes to the Consolidated Financial Statements- Continued

**Dimensions Health Corporation and Subsidiaries**

(Dollars in thousands)

**Note B - Management's Plans as to Continuing as a Going Concern - Continued**

4. Management has developed a Stabilization Plan “*Implementing the Strategic Vision*” under the leadership of the new Chair of the Board of Directors. The plan encompasses seven key areas: (1) physician development; (2) system growth; (3) pension plan restructuring; (4) work force development; (5) reputation and image; (6) operational improvement; and (7) financial performance and re-capitalization. This plan has been shared with some key individuals on the Board of Directors and with the County and State. Management feels very strongly that this plan is another option available to the State and County in making the Corporation viable.
5. Management has been working with the County in providing information for due diligence on a potential merger partner for the Corporation, which is part of the continued efforts for an acquisition by, or merger with, an academic medical facility or other appropriate organization.
6. The State pledged \$14 million in bond funding for the benefit of the Corporation’s capital needs. The appropriation of these funds was approved by the General Assembly in 2004, 2005, and 2006. The availability of these funds is subject to the successful grant application by the County and subsequent review by the Maryland Board of Public Works in order to provide the funding to the Corporation. As of September 2009, the Board of Public Works has approved all of these funds.
7. The Corporation has obtained approval from Siemens Medical System to lease a 64 slice CT scan, cardiac cath lab and nuclear medicine equipment, which was installed in fiscal year 2008 and early fiscal year 2009 at LRH. In addition, the obstetrics department at LRH has been renovated with operating funds and support from its foundation and auxillary. A new infusion center has also been established in previously vacant space.
8. During the 2008 session of the General Assembly, the County and the State agreed to a joint financial support package of \$24 million for FY 2009 and \$24 million for FY 2010 to keep the healthcare system operational. In addition, the General Assembly passed HB 1039 / SB 1007 that established the Prince George’s Hospital Authority. The mission of the Prince George’s Hospital Authority is to find a new owner / owners for the facilities leased by the County to Dimensions. . Management has recently learned that the County plans to curtail its financial support in FY 2010 from \$12 million to \$9 million due to its own budget constraints. Consequently, management is pursuing internal expense reductions and working with various County and State officials on how best to manage this reduction in County support during the remainder of FY 2010.

Notes to the Consolidated Financial Statements- Continued

**Dimensions Health Corporation and Subsidiaries**

(Dollars in thousands)

**Note B - Management's Plans as to Continuing as a Going Concern - Continued**

9. As part of the Authority process, the County and the State have agreed to a joint financial support package of \$30 million per year for the period FY 2011 through FY 2015 or a total of \$150 million in operating support for a new owner. In addition, the State has committed \$24 million in additional capital funding support.
10. Consultants to the Prince George's Hospital Authority have sent a "teaser letter" and proposed confidentiality agreement to 82 major hospitals and healthcare systems. Interested parties that sign the confidentiality agreement will receive a more detailed Confidential Information Memorandum. Binding proposals were received in September 2009. Dimensions submitted a binding proposal on behalf of "Newco" a new 501(c)(3) corporation that would be formed should the proposal be accepted.

Based upon these expressions of interest the Hospital Authority will submit a report and recommendations to the County and the State prior to the start of the General Assembly session in January 2010.

11. The Corporation identified certain non-strategic properties, a parcel of land and a medical office building (MOB), both located in Bowie, Maryland, to be sold. The parcel of land was sold on June 30, 2006, resulting in net proceeds of \$1.4 million. Subsequently, another property, a parcel of land in Greenbelt was sold during fiscal year 2007 with net proceeds of \$1.2 million. The Corporation is no longer actively in the process of selling the MOB. In addition, during fiscal year 2007, the Corporation made a decision to sell its free standing surgery center also located in Bowie. The Corporation is no longer actively in the process of selling the freestanding surgery center.
12. The State has submitted a \$156 million federal grant request to establish and support a disaster preparedness partnership between Prince George's Hospital Center, Malcolm Grow Medical Center at Andrews Air Force Base, and the University of Maryland Medical System (UMMS). The purpose of grant is to "enhance national, regional, and local preparedness and capacity to respond to large-scale medical emergencies resulting from biological, chemical or nuclear attacks, pandemics or other mass casualty events in the National Capital Region." Of the total \$156 million requested, \$4 million is for "the planning and implementation of the emergency preparedness partnership" and \$152 million is for the "recapitalization of infrastructure, equipment, and health information technology required to ensure and enhance PGHC's continued viability as a hospital surge capacity and training center." The proposed grant is currently under consideration by the U.S. Congress.

Notes to the Consolidated Financial Statements- Continued

**Dimensions Health Corporation and Subsidiaries**

(Dollars in thousands)

**Note B - Management's Plans as to Continuing as a Going Concern - Continued**

The successful completion of these actions are contingent upon the continued support and cooperation of the County, the State, and Federal governments, as well as the Corporation. Management believes, but can provide no assurances, that all requirements will be satisfied and that the additional funding will be secured. Management further believes that this additional funding, combined with cash flow from operations, will provide resources sufficient to meet the obligations of the Corporation and therefore continue as a going concern. If the Corporation's operating results are less favorable than expected, then the future liquidity, financial position and operating results of the Corporation would likely be materially impacted. The consolidated financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts and classification of liabilities that may result from the outcome of this uncertainty.

Notes to the Consolidated Financial Statements- Continued  
**Dimensions Health Corporation and Subsidiaries**  
(Dollars in thousands)

**Note C - Investments**

Marketable investments are included in the consolidated balance sheets as assets limited as to use at June 30, 2009 and 2008, respectively.

The fair values of marketable investments at June 30 are as follows:

	<b>2009</b>	<b>2008</b>
Money market funds	\$ 9,825	\$ 13,162
Government and agency	18,546	14,824
Corporate bonds	6,730	7,257
Common stock	5,549	5,319
Asset-backed securities	691	1,366
Total marketable investments	<u>41,341</u>	<u>41,928</u>
Less amount needed for current debt service	<u>4,827</u>	<u>4,746</u>
Long-term investments	<u><u>\$ 36,514</u></u>	<u><u>\$ 37,182</u></u>

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

	<b>2009</b>	<b>2008</b>
Interest, dividends and realized gains	\$ 401	\$ 2,495
Unrealized gains (losses) on trading portfolio	174	(921)
Unrealized gains (losses) on other-than-trading portfolio	(21)	14
	<u>\$ 554</u>	<u>\$ 1,588</u>

The effect of the change in classification of investments to a trading portfolio resulted in \$445 of cumulative net unrealized loss formerly reported in unrestricted net assets being reclassified to other income (loss) at July 1, 2007.

Notes to the Consolidated Financial Statements- Continued  
**Dimensions Health Corporation and Subsidiaries**  
(Dollars in thousands)

**Note C – Investments - Continued**

Effective July 1, 2008, the Corporation adopted the provisions of Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* (SFAS 157), which defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date and establishes a framework for measuring fair value. SFAS 157 establishes a three-level hierarchy for fair value measurements based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. SFAS 157 expands disclosures about instruments measured at fair value. SFAS 157 applies to other accounting pronouncements that require or permit fair value measurements and, accordingly, SFAS 157 does not require any new fair value measurements. Adopting SFAS 157 did not have a material impact on the Corporation's financial position and results of operations. SFAS 157 describes three levels of inputs that may be used to measure fair value:

Level 1: Quoted prices in active markets for identical assets or liabilities. Level 1 assets and liabilities include debt and equity securities that are traded in an active exchange market, as well as U.S. Treasury securities.

Level 2: Observable input other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. Level 2 assets and liabilities include debt securities with quoted market prices that are traded less frequently than exchange-traded instruments. This category generally includes certain U.S. government and agency mortgage-backed debt securities, corporate-debt securities, and alternative investments.

Level 3: Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets(s) or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation. This category generally includes certain private debt and equity instruments and alternative investments.

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

Notes to the Consolidated Financial Statements- Continued

**Dimensions Health Corporation and Subsidiaries**

(Dollars in thousands)

**Note C – Investments - Continued**

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

Fair values of government and agency securities, corporate bonds, common stock and asset-backed securities have been determined by the Corporation from observable market quotations, when available. Money market funds comprise short-term fixed income securities. Because of the nature of these assets, carrying amounts approximate fair values, which have been determined from public quotations, when available.

The following table presents the Corporation’s fair value hierarchy for financial instruments measured at fair value on a recurring basis as of June 30, 2009.

<u>Assets</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Total</u>
Money market funds	\$ 0	\$ 9,825	\$ 9,825
Government and agency	14,527	4,019	18,546
Corporate bonds	0	6,730	6,730
Common stock	5,549	0	5,549
Asset-backed securities	0	691	691
<b>Total assets fair value</b>	<u>\$ 20,076</u>	<u>\$ 21,265</u>	<u>\$ 41,341</u>

In February 2007, the FASB issued FASB Statement No 159, *The Fair Value Option for Financial Assets and Financial Liabilities, including an amendment of FASB Statement No. 115* (SFAS 159), which, among other things, provides an option to elect fair value as an alternative measurement for selected financial assets and liabilities not previously recorded at fair value. The Corporation did not elect fair value accounting for any assets or liabilities that are not currently required to be measured at fair value.

Notes to the Consolidated Financial Statements- Continued  
**Dimensions Health Corporation and Subsidiaries**  
(Dollars in thousands)

**Note D - Property and Equipment**

A summary of property and equipment at June 30, 2009 and 2008 is as follows:

	<u>2009</u>	<u>2008</u>
Land	\$ 743	\$ 743
Land improvements	532	532
Buildings and improvements	66,703	64,857
Leasehold improvements	35,821	35,311
Equipment	121,855	115,006
Equipment under capital lease obligation	2,728	1,330
	<u>228,382</u>	<u>217,779</u>
Construction in progress	1,628	4,011
	<u>230,010</u>	<u>221,790</u>
Less: accumulated depreciation and amortization	168,177	159,813
	<u><u>\$ 61,833</u></u>	<u><u>\$ 61,977</u></u>

Accumulated amortization for equipment under capital leases was \$540 and \$133 at June 30, 2009 and 2008, respectively. The Corporation recognized amortization expense for assets under capital lease obligations of approximately \$407 and \$133 for the periods ended June 30, 2009 and 2008, respectively. These amounts are included in depreciation and amortization expense within the consolidated statements of operations and changes in net deficit.

Notes to the Consolidated Financial Statements- Continued  
**Dimensions Health Corporation and Subsidiaries**  
(Dollars in thousands)

**Note E - Long-Term Debt**

Long-term debt and capital lease obligations at June 30, 2009 and 2008 are summarized as follows:

	<u>2009</u>	<u>2008</u>
Series 1994 Bonds:		
4.50%-5.35%-Serial bonds payable in periodic installments through 2009	\$ 0	\$ 2,540
5.38%-Term bonds due in 2014 with periodic sinking fund payments	18,370	18,370
5.30%-Term bonds due in 2024 with periodic sinking fund payments	46,710	46,710
Magruder Trust Mortgage - liability held for sale, three-year adjustable rate (8.25% and 8.25% at June 30, 2009 and 2008, respectively), repayable in periodic installments through 2025	3,703	3,805
Pooled Loan Program-Series D, Maryland Health and Higher Educational Facilities Authority (MHHEFA) variable rate (0.30% and 1.48% at June 30, 2009 and 2008, respectively), repayable in periodic installments through 2016	846	1,680
Capital lease obligations, payable in monthly installments collateralized by leased equipment	2,202	1,202
	<u>71,831</u>	<u>74,307</u>
Less: original issue discount of 1994 Bonds	1,170	1,250
	<u>70,661</u>	<u>73,057</u>
Less: current portion of long-term debt, capital lease obligations and liabilities held for sale	4,172	4,047
Non-current portion	<u>\$ 66,489</u>	<u>\$ 69,010</u>

Notes to the Consolidated Financial Statements- Continued  
**Dimensions Health Corporation and Subsidiaries**  
(Dollars in thousands)

**Note E - Long-Term Debt - Continued**

Scheduled principal repayments on long-term debt and capital leases are as follows:

Year ending:	<u>Long-Term Debt</u>
2010	\$ 4,172
2011	3,483
2012	3,676
2013	3,737
2014	3,555
2015 and thereafter	<u>53,206</u>
	<u>\$ 71,831</u>

The 1994 Bonds and the MHHEFA note are secured under the Corporation's Master Trust Indenture by the revenues and receipts and certain assets of the Corporation, including those leased from Prince George's County.

The Master Trust Indenture and the MHHEFA note require the satisfaction of certain restrictive covenants. A default under any of these covenants cross-defaults the remaining agreements.

The Master Trust Indenture specifically limits additional borrowing. Further, the Corporation is required to satisfy a debt-service coverage ratio of 1.10 to 1.00 (subject to certain exceptions), measured at the end of each fiscal year, as long as the long-term debt is outstanding. Debt-service coverage is defined as the ratio of the excess of revenues over expenses before interest expense and depreciation to the maximum annual debt service. The debt-service coverage is only measured on the Corporation's obligated group, which is comprised of the following operating divisions: PGHC, LRH, GSSHNC, BHC and Corporate. The results of the obligated group may differ from the results of the entire Corporation. Management believes it is in compliance with all applicable covenants. Management believes, but can provide no assurance, that it will be in compliance at the next annual measurement date of June 30, 2010. The maximum annual debt service is currently estimated to be \$8,179 for the year ending June 30, 2009.

Notes to the Consolidated Financial Statements- Continued  
**Dimensions Health Corporation and Subsidiaries**  
(Dollars in thousands)

**Note E - Long-Term Debt - Continued**

Management believes, but can provide no assurance that its operating plan for the year ending June 30, 2010, will result in sufficient excess of unrestricted revenues and other support over expenses and cash flow to allow compliance with the relevant covenants. Based on these conclusions, management continues to classify the Series 1994 Bonds as long-term debt in the accompanying financial statements.

The Corporation maintains a letter of credit in the amount of \$1,350 that supports the outstanding borrowings under the MHHEFA Pooled Loan program, which expires on December 1, 2009. This letter of credit requires the payment of an annual fee of 4.0% of the letter of credit amount outstanding. In addition, the letter of credit also has a new provision which required extra principal payments of \$70 per month, which will expedite paying off the balance. In October 2009, the Corporation paid in full its outstanding balance under the MHHEFA Pooled Loan program.

Interest costs on long-term debt and notes payable incurred and paid for the years ended June 30, 2009 and 2008, net of interest income, were \$3,860 and \$3,862, respectively.

The assets held in trust under the Series 1994 Bonds as of June 30, 2009 and 2008 are as follows:

	<b>June 30</b>	
	<b>2009</b>	<b>2008</b>
Debt-service reserve fund	\$ 6,955	\$ 6,765
Debt-service fund	4,427	4,415
	<u>\$ 11,382</u>	<u>\$ 11,180</u>

The fair value of the Corporation's Series 1994 Bond indentures, based on the quoted market prices at June 30, 2009 and 2008, was \$40,609 and \$54,141, respectively. The fair value of all other outstanding debt approximates its carrying value.

## Notes to the Consolidated Financial Statements- Continued

### **Dimensions Health Corporation and Subsidiaries**

(Dollars in thousands)

#### **Note F - Functional Expenses**

The Corporation considers health care services and management and general to be its primary functional categories for purposes of expense classification. The Corporation's operating expenses by functional classification for the years ended June 30, 2009 and 2008 are as follows:

	<u>2009</u>	<u>2008</u>
Health care services	\$ 357,700	\$ 340,764
Management and general	33,248	31,673
	<u>\$ 390,948</u>	<u>\$ 372,437</u>

#### **Note G - Insurance Programs**

Dimensions Health Corporation maintains a wholly owned captive insurance company, located in the Cayman Islands, to administer certain professional and general liability exposures incurred by the Corporation, its employees and voluntary staff. Prior to January 1, 1998, the Corporation was self-insured for professional and general liability claims up to a limit of \$2,000 per occurrence and \$6,000 in the annual aggregate. Effective January 1, 1998, the Corporation's captive assumed this liability exposure, retroactive to the date of the Corporation's inception, with the same limits of liability. As of June 30, 2009, the limits are \$5,000 with no aggregate per occurrence for professional liability and \$3,000 per occurrence for general liability. This insurance is provided to all employees including certain of the corporation's employed physicians.

The Corporation provides claims-management services to the captive insurance company. Losses from claims, both asserted and unasserted such as potentially compensable events identified under the Corporation's incident reporting system are accrued based on actuarial estimates that incorporate the Corporation's past experience, as well as other considerations. These include the nature of each claim or incident and various relevant trend factors. An additional amount is accrued for potential incurred but not reported claims. The estimates for these losses are reported as accrued professional liabilities on the consolidated balance sheets.

Notes to the Consolidated Financial Statements- Continued  
**Dimensions Health Corporation and Subsidiaries**  
(Dollars in thousands)

**Note G - Insurance Programs - Continued**

Dimensions Healthcare Associates (DHA) employed physicians are insured for professional liability under commercial insurance policies with coverage limits of \$1,000 and \$3,000 in the annual aggregates.

The captive insurance company assets are included in assets limited as to use in the balance sheet. The combined fund activity is as follows:

	<b>June 30</b>	
	<b>2009</b>	<b>2008</b>
Balance at beginning of year	\$ 30,748	\$ 30,165
Deposits	4,914	4,171
Investment income (loss)	(162)	352
Claims and expenses paid	(5,541)	(3,940)
Balance at end of year	<u>\$ 29,959</u>	<u>\$ 30,748</u>

In calendar years 2009 and 2008, the captive insurance company provided umbrella excess liability coverage to the Corporation for general and professional liability exposures, with coverage limits totaling \$15,000. This coverage is 100% reinsured through other commercial insurance companies. In management's opinion, the assets of the captive insurance company are sufficient to meet its obligations as of June 30, 2009. If the financial condition of the captive insurance company were to materially deteriorate in the future, and if it was unable to pay its claim obligations, the responsibility to pay those claims would revert to the Corporation.

As of June 30 2009 and 2008, the Corporation had receivables (payables) from the captive insurance company of \$2 and \$(1,222), respectively. As of September 30, 2009, all premium payments are current.

**Note H - Employee Annuities**

The Corporation maintains certain employee annuity contributions invested with an insurance company. The Corporation does not bear the risk of loss for these investments. The amount of the employee annuity investment was \$1,253 and \$1,482 at June 30, 2009 and 2008, respectively.

Notes to the Consolidated Financial Statements- Continued  
**Dimensions Health Corporation and Subsidiaries**  
(Dollars in thousands)

**Note I - Pension and Postretirement Benefits**

The Corporation has a noncontributory defined benefit pension plan (the Pension Plan) covering substantially all employees. For employees not covered under collective-bargaining agreements and employees who are represented by the 1199 SEIU Health Care Workers East - Health Care Workers union (formerly District 1199E-DC, SEIU union and formerly Local No. 63 union), the Pension Plan operates as a cash balance plan. The annual contribution by the Corporation is allocated to individual employee accounts based on years of service and the individual's retirement account. For employees represented by the 1199 SEIU Health Care Workers East – Registered Nurses Chapter union (formerly Professional Staff Nurses Association union), benefits are based on years of service and average, final compensation.

The Corporation's funding policy is to contribute such actuarially determined amounts as necessary to provide assets sufficient to meet the benefits to be paid to the Plan members and to meet the funding requirements of the Employees Retirement Income Security Act (ERISA). In 2005, the Corporation received a minimum contribution funding waiver from the Internal Revenue Service for the 2004 plan year. In 2008, the Corporation requested a modification to the 2004 waiver agreement with the IRS and subsequently requested a minimum contribution funding waiver for the 2007 plan year. The minimum contribution waiver and requests are described more fully in Note M.

The Corporation also sponsors two defined postretirement benefit plans that cover both salaried and non-salaried employees. One plan provides health care (medical, dental and vision) benefits and the other provides life insurance benefits. The postretirement health care plan is provided to employees who have retired and certain other employees who were eligible to retire prior to July 1, 1995. The plan is contributory for those who retired prior to July 1, 1995, with retiree contributions adjusted annually. Employees who retired on July 1, 1995 and later are eligible to participate in the plan by paying 100% of the premiums without Corporate contributions. The Corporation's policy has been to fund this plan on an as needed basis.

The second defined postretirement plan is a life insurance plan covering both salaried and non-salaried employees. The plan was non-contributory for all eligible retirees prior to July 1, 2001. For employees represented by the 1199 SEIU Health Care Workers East – Registered Nurses Chapter union, the plan was no longer offered to new retirees as of July 1, 1999. Effective July 1, 2001, the plan was modified to become contributory for the non-union employees and employees represented by the 1199 SEIU Health Care Workers East - Health Care Workers union who retired prior to July 1, 2001 and for the employees represented by the 1199 SEIU Health Care Workers East – Registered Nurses Chapter union who retired prior to July 1, 1999. The Corporation's policy has been to fund its share of these benefits as they are incurred.

Notes to the Consolidated Financial Statements- Continued  
**Dimensions Health Corporation and Subsidiaries**  
(Dollars in thousands)

**Note I - Pension and Postretirement Benefits - Continued**

On December 31, 2007 the Corporation elected to freeze the Pension Plan. No further benefit accruals will be made to the Pension Plan. The Pension Plan freeze substantially reduces annual funding obligations beginning with plan year 2008. On January 1, 2008 a defined contribution plan, the Dimensions Health Corporation Retirement Savings Plan, was implemented as a replacement plan.

The new plan is a 403(b) program that succeeds the former non-contributory tax deferred savings program offered to employees through multiple third party administrators. Employees actually working 1,000 hours or more per year are eligible. The new plan provides a 2% employer contribution on gross wages and eligible employees who contribute to the program receive matching contributions from the Corporation equal to 50% of their contribution, up to 2% of their gross pay. Employees who are budgeted to work 40 hours per pay period receive their contribution and match on a biweekly basis. Employees, who are budgeted less than 40 hours per pay period but who actually work 1,000 or more hours in the plan year, receive their contribution and match in one payment early in the following year. The new plan has a three year “cliff” vesting schedule.

In accordance with the collective bargaining agreement with 1199 SEIU Health Care Workers East – Registered Nurses Chapter, represented employees with 15 years of service will receive a matching \$25 for each pay period in which they defer \$25 or more. This matching contribution is paid quarterly.

As the new plan provides a substantial decrease in retirement benefits for older employees, “grandfathering” provisions were put in place. Non-represented employees, who are 55 years or older as of January 1, 2008 and who have at least one year of vesting service, receive an additional 3% contribution from the Corporation. Employees represented by 1199 SEIU Health Care Workers East – Registered Nurses Chapter and who are 55 years or older as of January 1, 2008 and who have 15 years of vesting service receive an additional 6.5% contribution from the Corporation. To be eligible for the supplemental grandfathering contributions, employees must continue to work in positions budgeted for at least 40 hours per pay period.

On April 8, 2008 the Corporation filed a “de minimis” determination ruling request, exempting Dimensions Healthcare from Section 412(f) of the IRS Code and 304(b) of ERISA on April 8, 2008, due to the establishment of the new defined contribution 403(b) plan. As of the date of this report, the Corporation has not received disposition on the request.

Notes to the Consolidated Financial Statements- Continued  
**Dimensions Health Corporation and Subsidiaries**  
(Dollars in thousands)

**Note I - Pension and Postretirement Benefits - Continued**

During 2007, the Corporation adopted Statement of Financial Accounting Standard No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans* (SFAS 158), which requires all non-publicly traded organizations, such as the Corporation, to recognize the overfunded or underfunded status of each of its defined benefit plans as an asset or liability in their balance sheets. Also, SFAS 158 requires employers to measure the funded status of a plan as of the date of its fiscal year end. Prior to the adoption of SFAS 158, the measurement date used by the Corporation was March 31.

The Corporation has recorded a pension liability in the consolidated balance sheets in the amount of \$76,700 and \$40,523, representing the amount of projected benefit obligation exceeding the fair value of the Pension Plan's assets as of June 30, 2009 and 2008, respectively. The accumulated benefit obligation was \$174,044 and \$158,594 as of June 30, 2009 and 2008, respectively.

Notes to the Consolidated Financial Statements- Continued  
**Dimensions Health Corporation and Subsidiaries**  
(Dollars in thousands)

**Note I - Pension and Postretirement Benefits - Continued**

The Corporation has also recorded a post retirement benefit liability in the consolidated balance sheet in the amount of \$4,974 and \$5,115 as of June 30, 2009 and 2008, respectively, representing the underfunded status of the other post retirement benefit plans.

	<b>Pension Benefits</b>		<b>Postretirement Benefits</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
<b>Change in benefit obligation</b>				
Benefit obligation at beginning of year	\$ 158,594	\$ 167,849	\$ 5,115	\$ 5,296
Service cost	0	2,333	0	0
Interest cost	10,488	10,053	331	319
Plan amendments	0	1,320	0	0
Plan participants contribution	0	0	207	195
Actuarial (gain) loss	2,448	(17,757)	(86)	(97)
Benefits paid	(5,486)	(5,204)	(593)	(598)
Adjustment due to change in Plan correction	8,000	0	0	0
Benefit obligation at end of year	<u>\$ 174,044</u>	<u>\$ 158,594</u>	<u>\$ 4,974</u>	<u>\$ 5,115</u>
<b>Change in plan assets</b>				
Fair value of plan assets at beginning of year	\$ 118,071	\$ 122,903	\$ 0	\$ 0
Actual return on plan assets	(23,707)	(1,129)	0	0
Employer contribution	8,466	1,500	387	403
Plan participants contributions	0	0	207	195
Benefits paid	(5,486)	(5,203)	(594)	(598)
Fair value of plan assets at end of year	<u>\$ 97,344</u>	<u>\$ 118,071</u>	<u>\$ 0</u>	<u>\$ 0</u>
<b>Funded status/accrued pension cost</b>	<u>\$ (76,700)</u>	<u>\$ (40,523)</u>	<u>\$ (4,974)</u>	<u>\$ (5,115)</u>

Notes to the Consolidated Financial Statements- Continued  
**Dimensions Health Corporation and Subsidiaries**  
(Dollars in thousands)

**Note I - Pension and Postretirement Benefits - Continued**

The unrecognized obligation for the postretirement benefits represents the remaining unamortized transition obligation.

Significant assumptions used in the accounting for the benefit plans on the measurement dates are as follows. For measurement purposes, certain rate assumptions are adjusted based upon periodic changes in market indicators.

	<b>Pension Benefits</b>		<b>Postretirement Benefits</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
<b>Weighted-average assumptions</b>				
Discount rate	6.50%	6.75%	6.50%	6.75%
Expected return on plan assets	7.5%	7.5%	N/A	N/A
Rate of compensation increase	N/A	N/A	N/A	N/A
Health care trend rate (initial)	N/A	N/A	9.0%	9.0%
<b>Components of net periodic benefit cost</b>				
Service cost	\$ 0	\$ 2,333	\$ 0	\$ 0
Interest cost	10,488	10,053	331	319
Expected return on plan assets	(9,419)	(9,173)	0	0
Amortization of prior service cost	195	45	(135)	(135)
Amortization of net actuarial loss (gain)	2,650	3,693	53	62
Amortization of transition obligation	0	0	252	252
Net periodic benefit cost	<u>\$ 3,914</u>	<u>\$ 6,951</u>	<u>\$ 501</u>	<u>\$ 498</u>

The overall rate of expected return on assets assumption was based on historical returns, with adjustments made to reflect expectations of future returns. The extent to which the future expectations were recognized included the target rates of return for the future which has historically not changed.

Notes to the Consolidated Financial Statements- Continued

**Dimensions Health Corporation and Subsidiaries**

(Dollars in thousands)

**Note I - Pension and Postretirement Benefits - Continued**

For measurement purposes related to postretirement benefits as of June 30, 2009 and 2008, a 5.00% annual rate of increase in the per capita cost of covered health care benefits was assumed. The health care trend rate assumption has a significant effect on the amounts reported. For example, changing the assumed health care cost trend rates by one percentage point will have the following effects:

	<u>One Percentage- Point Increase</u>	<u>One Percentage- Point Decrease</u>
Effect on interest cost component	\$ 20	\$ 21
Effect on postretirement benefit obligation	270	302

*Pension Plan Assets*

The Pension Plan's weighted-average asset allocations at June 30, 2009 and 2008, by asset category, are as follows:

<b>Asset Category</b>	<u>2009</u>	<u>2008</u>
Equity securities	50%	58%
Debt securities	29%	23%
Other	21%	19%
	<u>100%</u>	<u>100%</u>

The Pension Plan assets may be invested in publicly traded equity mutual funds, including equity index funds and unit investment trusts mirroring a major market equity index, and publicly traded bond mutual funds, including bond index funds, with allowable ranges of 50% to 80% of the total asset value for equities and 20% to 50% of the total asset value for fixed income investments. In addition, fixed income investments that are not publicly traded may be used with specific approval by the Plan trustees. Investment results are evaluated against applicable major market indexes.

*Cash Flows*

The Corporation expects to contribute \$8,770 to the Pension Plan for the fiscal year 2010 pending IRS response to the request for waiver of minimum funding to the Pension Plan (see *Note M*). If the waiver is denied, the Corporation will be expected to contribute \$25,770, plus potential excise taxes to the Pension Plan in fiscal year 2010. The Corporation expects to contribute \$432 to its other postretirement benefit plans for fiscal year 2010.

Notes to the Consolidated Financial Statements- Continued  
**Dimensions Health Corporation and Subsidiaries**  
(Dollars in thousands)

**Note I - Pension and Postretirement Benefits - Continued**

*Estimated Future Benefit Payments*

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid:

	<u>Pension Benefits</u>	<u>Other Benefits</u>
2009	\$ 6,822	\$ 432
2010	7,261	448
2011	7,787	460
2012	8,437	470
2013 and thereafter	63,573	2,814

**Note J - Commitments and Contingencies**

*Operating Leases*

The Corporation leases the land and buildings used by PGHC, LRH, BHC, and GSSHNC from Prince George's County under a lease agreement. In connection with the Series 1992 Bond Issue, the lease was restated and amended to provide for the use of the related facilities through June 30, 2042, for a one-time, lump-sum payment of \$13,352 and future annual rental payments of \$1 for the remaining term of the lease. The lump-sum payment, made on June 17, 1992, was allocated to the related buildings (\$8,958) and to reduce the deferred rent liability recorded by the Corporation at the time of the restatement and amendment (\$4,394). The amount allocated to the buildings is being amortized over the lesser of the useful life of the assets or the remaining lease term.

Upon termination of the lease, the Corporation is obligated to deliver to the County all of the assets attributable to the operations, as defined, including all fixed and moveable equipment. All such assets will be transferred and conveyed in "as is" condition without warrant as to condition or serviceability.

Notes to the Consolidated Financial Statements- Continued  
**Dimensions Health Corporation and Subsidiaries**  
(Dollars in thousands)

**Note J - Commitments and Contingencies - Continued**

*Operating Leases - Continued*

The Corporation also leases various equipment and computer services under long-term operating lease agreements. Total rental expense for operating leases approximated \$3,263 and \$3,469 for the years ended June 30, 2009 and 2008, respectively.

The following is a schedule of future minimum lease payments under operating leases as of June 30, 2009 that have initial or remaining lease terms in excess of one year.

	<u>Amount</u>
Year ending June 30:	
2010	\$ 265,028
2011	96,163
2012	96,163
2013	48,082
2014 and thereafter	0

The Corporation entered into an agreement with an outside vendor to outsource the management information services (MIS) function and maintenance and provision of software services through December 31, 2007 and was extended through December 31, 2010. The annual payments are expected to be as follows:

	<u>Amount</u>
Year ending June 30:	
2010	\$ 4,436
2011	2,251

*Professional Liability and Litigation*

The Corporation is involved in litigation arising in the ordinary course of business. Claims alleging malpractice have been asserted against the Corporation. For such claims, management has accrued a reserve for potential liability in the amount of \$25,619 and \$24,559 as of June 30, 2009 and 2008, respectively. (see *Note G*). There is at least a reasonable possibility that some of these cases will be settled against the Corporation, resulting in varying degrees of monetary damages in excess of the recorded reserve. After consultation with legal counsel, management estimates that these matters will be resolved without material adverse effect on the Corporation's future financial position or results of operations. The Corporation incurred professional liability expenses of approximately \$7,596 and \$5,926 for the years ended June 30, 2009 and 2008, respectively.

Notes to the Consolidated Financial Statements- Continued  
**Dimensions Health Corporation and Subsidiaries**  
(Dollars in thousands)

**Note J - Commitments and Contingencies - Continued**

*Other*

Letters of credit in the amounts of \$2,500 (expiring September 4, 2010), \$1,284 (expiring September 30, 2010), and \$500 (expiring September 4, 2010) are maintained in support of various insurance arrangements and require the payment of annual commitment fees ranging from 0.50% to 0.75%. The Corporation has pledged \$4,284 as collateral for these letters of credit. The cash pledged is classified within restricted cash and cash equivalents in the consolidated balance sheets. The remaining restricted cash and cash equivalents represent cash received from donors restricted for specific purposes.

The Corporation was self-insured against workers' compensation claims up to \$300 per claim with no annual aggregate limit prior to July 1, 2004. The Corporation maintains a commercial insurance policy for claims liabilities exceeding these limits. A liability of \$121 and \$218, as of June 30, 2009 and 2008, respectively, has been established for known claims and an estimate for claims incurred but not reported. Effective July 1, 2004, the Corporation's self-insured limit was raised to \$400 per claim with no annual aggregate. Effective October 1, 2004, the Corporation's self-insurance privileges were revoked and the Corporation purchased a commercial policy to cover all prospective workers' compensation claims. This policy provides coverage for claims up to \$500 per claim with no annual aggregate limit.

**Note K - Maryland Health Services Cost Review Commission**

Certain of the Corporation's charges to patients are subject to review and approval by the Maryland Health Services Cost Review Commission (the Commission). Management has filed the required forms with the Commission and believes the Corporation to be in compliance with Commission requirements.

The current rate of reimbursement for principally all inpatient services and certain other services to patients under the Medicare and Medicaid programs is based on an agreement between the Center for Medicare and Medicaid Services and the Commission. This agreement is based upon a waiver from Medicare prospective payment system reimbursement principles granted to the State of Maryland under Section 1814(b) of the Social Security Act and will continue as long as Medicare and Medicaid do not pay rates any higher than those offered to other third-party payers and the rate of increase for costs per hospital inpatient admission in Maryland is below the national average. Management expects this agreement will remain in effect at least through June 30, 2010.

Notes to the Consolidated Financial Statements- Continued  
**Dimensions Health Corporation and Subsidiaries**  
(Dollars in thousands)

**Note K - Maryland Health Services Cost Review Commission - Continued**

Effective April 1999, the Commission adopted, and PGHC and LRH agreed to, a rate methodology for hospital inpatient services. Under this methodology, a target average charge per case is established for PGHC and for LRH based on past actual charges, inflation, and case mix indices. The average charge per case for the applicable facility is compared with the target average charge per case for the applicable facility and, to the extent that the actual average exceeds the target, the overcharge plus applicable penalties will reduce the approved target for the subsequent rate year. To the extent that the actual average is short of the target, the undercharge will increase the approved target for the subsequent rate year. At June 30, 2009 and 2008, PGHC and LRH were in compliance, defined as within 1% overcharge or 2% undercharge, with their average charge per case targets.

The Commission's rate-setting methodology for service centers that provide both inpatient and outpatient services or only outpatient services consists of establishing an acceptable unit rate for these centers within the applicable facility. The actual average unit charge for each service center is compared to the approved rate on a monthly basis.

The rate variances, plus penalties where applicable, are applied to decrease (in the case of overcharges) or increase (in the case of undercharges) future approved rates on an annual basis.

The timing of the Commission's rate adjustments for the Corporation could result in an increase or reduction due to the variances and penalties described above in a year subsequent to the year in which such items occur. The Corporation's policy is to accrue revenue based on actual charges for services to patients in the year in which the services are performed and billed.

**Note L - Related Party Transactions**

The Prince George's Hospital Center Foundation, Inc., the Laurel Regional Hospital Foundation, Inc., and the Laurel Regional Hospital Auxiliary were established to solicit contributions from the general public solely for the funding of capital acquisitions and operations of the associated hospitals. The associated hospitals have recorded their interest in the net assets of the foundations as a non-current asset in the consolidated balance sheets.

The Corporation's wholly owned subsidiary, Madison Manor, Inc. holds a 25% partnership interest in BCLP and accounts for it under the equity method. The carrying value of the Corporation's investment in BCLP was \$1,910 and \$1,923 at June 30, 2009 and 2008, respectively.

Notes to the Consolidated Financial Statements- Continued  
**Dimensions Health Corporation and Subsidiaries**  
(Dollars in thousands)

**Note M – Additional Information Related to the Pension**

The Corporation was required to make a deposit to the pension plan (the Plan) of approximately \$11,585 by September 15, 2005. The Corporation applied to the Internal Revenue Service (IRS) for a funding waiver on March 15, 2005 and this waiver was approved by an Internal Revenue Service ruling dated September 15, 2005. This waiver was granted subject to the following conditions:

1. Collateral acceptable to the Pension Benefit Guarantee Corporation (PBGC) be provided to the Plan for the full amount of the waiver by the later of (a) 120 days from the date of the ruling letter or (b) the earlier of (i) the date the PBGC notifies the IRS in writing that this condition has not been met or (ii) 360 days from the date of the ruling letter;
2. The Corporation provide to the PBGC a copy of any ruling requests it makes under Section 412 (f) (1) of the Internal Revenue Code;
3. The Corporation makes all required quarterly contributions to the Plan in a timely manner while the Plan is subject to a waiver of the minimum funding standard; and
4. The Corporation makes contributions to the Plan in amounts sufficient to meet the minimum funding requirements for the Plan for the plan years ending December 31, 2005, through 2009, by September 15, 2006 through 2010, respectively (without applying for a waiver of the minimum funding standard).

As a result of this waiver no contributions receivable from the Corporation was recorded in plan year 2004 financial statements.

The Corporation was required to satisfy collateral requirements by the PBGC for the 2004 funding waiver by September 8, 2006 in the amount of \$11.6 million. The Corporation and the PBGC reached agreement on all outstanding conditions.

The Corporation satisfied all 2004 waiver conditions relevant to plan year 2006. See below with respect to plan year 2007.

Notes to the Consolidated Financial Statements- Continued  
**Dimensions Health Corporation and Subsidiaries**  
(Dollars in thousands)

**Note M – Additional Information Related to the Pension - Continued**

*Modification of Minimum Contribution Waiver for 2004 Plan Year*

On July 12, 2007, the Corporation applied to the IRS for a modification of the 2004 funding waiver conditions. Specifically, the Corporation requested the removal of Condition 3 in its entirety and removal of the parenthetical phrase “(without applying for a waiver of the minimum funding standard)” from condition 4 (above) for description of all waiver conditions). These modifications allow the Corporation to manage its cash flow requirements for operations and permit the Corporation to delay required contributions into the Plan until September 15, 2008 for plan year 2007 contributions. As of the date of this report, the Corporation has not received disposition on the request. Consequently, and with full knowledge of the IRS, the Corporation discontinued all funding requirements for plan year 2007. Until the IRS adjudicates the request, it has agreed not to impose sanctions or fines on the Corporation for violation of the original 2004 waiver conditions.

Subsequent to the IRS modification request application, the PBGC perfected its lien against the Corporation’s accounts receivable.

*Minimum Contribution Funding Waiver Request for 2007 Plan Year*

On March 14, 2009, the Corporation applied for approval from the Internal Revenue Service to waive the minimum required contribution for the plan year ended December 31, 2007. No formal response has been received from the IRS on this request. The Corporation contributed \$1,897,506 for plan year 2007 and \$4,500,000 for plan year 2008 during 2008. Actuarially determined minimum required contributions were \$7,009,121 and \$14,394,645 for the plan year 2008 and 2007 respectively.

Notes to the Consolidated Financial Statements- Continued  
**Dimensions Health Corporation and Subsidiaries**  
(Dollars in thousands)

**Note M – Additional Information Related to the Pension - Continued**

*2009 Pension Benefit Recalculations*

On June 11, 2008, the Corporation received a favorable determination letter from the IRS approving the tax-qualified status of the Pension Plan. This ruling is required following the establishment of the cash balance component of the plan. The cash balance plan covers all eligible non-represented employees and employees represented by the 1199 SEIU Health Care Workers East - Health Care Workers union. The original request was filed on November 15, 1996. The IRS required a plan amendment that imposes a minimum interest rate of 5% to participants' cash balance accounts retroactively; this will require the plan to recalculate some past benefit amounts which were calculated at a lower minimum interest rate. The Board of Directors approved the plan amendment on August 13, 2008 and the Corporation is implementing a project to recalculate the benefits for affected plan participants.

Included in this plan to recalculate plan benefits, the Corporation also is undertaking a voluntary correction of the benefit calculations of prior excluded employees that should have been eligible to receive benefits as a result of the 1996 Plan amendment requiring non-benefited employees who worked 1,000 hours or more in the year to be eligible for the Plan.

As the Pension Plan is now frozen, the Corporation is taking advantage of this major project to provide participants with expanded benefit statements. This will allow the participants to review the data used to calculate their pension benefits and to bring any questions and concerns to the Corporation. This project will ensure the accuracy of the pension plan's database and will result in lower actuarial fees and administrative expenses going forward. The project is anticipated to be completed in January, 2010 and the estimated increase to plan liabilities for these corrections is \$8 million.

## **Other Financial Information**

## Report of Independent Auditors

Board of Directors  
Dimensions Health Corporation

We have audited, in accordance with auditing standards generally accepted within the United States, the consolidated financial statements of Dimensions Health Corporation for the year ended June 30, 2009 presented herein and have issued our opinion thereon dated October 23, 2009. Our audit was conducted for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The consolidating information presented hereinafter as of and for the year ended June 30, 2009 is presented for purposes of additional analysis of the basic consolidated financial statements rather than to present the financial position, results of operations and cash flows of the individual companies, and is not a required part of the basic consolidated financial statements. Accordingly, we do not express an opinion on the financial position, results of operations and cash flows of the individual companies. However, the consolidating information has been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the consolidated financial statements taken as a whole.

As discussed in *Note B* to the consolidated financial statements, the Corporation's reliance on government and other grant funding to support its operations, its substantial capital needs, significant unfunded pension obligations, and limited cash resources raise substantial doubt about its ability to continue as a going concern. The consolidated financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts and classification of liabilities that may result from the outcome of this uncertainty.

*Cohen, Rutherford + Knight, P.C.*

October 23, 2009

Consolidating Balance Sheets-Obligated Group  
Dimensions Health Corporation and Subsidiaries  
For the year ended June 30, 2009  
(Dollars in thousands)

	<u>PGHC</u>	<u>LRH</u>	<u>GSSNHC</u>	<u>BHC</u>	<u>Corporate</u>	<u>Total Obligated Group</u>	<u>Other Entities</u>	<u>Consolidating Entries</u>	<u>Consolidated Total</u>
<b>Assets</b>									
Current Assets:									
Cash and cash equivalents	\$ 0	\$ 0	\$ 1	\$ 0	\$ 16,755	\$ 16,756	\$ 1,543	\$ 0	\$ 18,299
Restricted cash and cash equivalents	0	0	0	0	5,609	5,609	500	0	6,109
Patient accounts receivable, net of allowance	32,692	10,500	7,441	1,401	0	52,034	828	0	52,862
Other receivables	1,090	(52)	0	762	1,617	3,417	4,704	(3,629)	4,492
Inventories	2,398	1,932	64	295	0	4,689	0	0	4,689
Current portion of assets held in trust	0	0	0	0	4,827	4,827	0	0	4,827
Prepaid expenses and other assets	2	216	0	0	3,393	3,611	1,357	(1,281)	3,687
Total current assets	<u>36,182</u>	<u>12,596</u>	<u>7,506</u>	<u>2,458</u>	<u>32,201</u>	<u>90,943</u>	<u>8,932</u>	<u>(4,910)</u>	<u>94,965</u>
Due from affiliates	0	0	29,502	14,809	28,365	72,676	0	(72,676)	0
Assets limited as to use:									
Held in trust under bond and note indentures, net current portion	0	0	0	0	6,555	6,555	0	0	6,555
Investments held for self insurance	0	0	0	0	0	0	29,959	0	29,959
Total assets limited as to use	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>6,555</u>	<u>6,555</u>	<u>29,959</u>	<u>0</u>	<u>36,514</u>
Property and equipment, net	37,207	16,399	858	2,003	1,861	58,328	3,505	0	61,833
Investments	929	318	0	0	5,834	7,081	1,910	(5,834)	3,157
Deferred compensation fund	173	0	0	0	1,080	1,253	0	0	1,253
Deferred financing costs, net	0	0	0	0	338	338	67	0	405
Other noncurrent assets	2,558	635	24	26	0	3,243	0	0	3,243
Total assets	<u>\$ 77,049</u>	<u>\$ 29,948</u>	<u>\$ 37,890</u>	<u>\$ 19,296</u>	<u>\$ 76,234</u>	<u>\$ 240,417</u>	<u>\$ 44,373</u>	<u>\$ (83,420)</u>	<u>\$ 201,370</u>

(Continued)

Consolidating Balance Sheets-Obligated Group - Continued  
Dimensions Health Corporation and Subsidiaries  
For the year ended June 30, 2009  
(Dollars in thousands)

	<u>PGHC</u>	<u>LRH</u>	<u>GSSNHC</u>	<u>BHC</u>	<u>Corporate</u>	<u>Total Obligated Group</u>	<u>Other Entities</u>	<u>Consolidating Entries</u>	<u>Consolidated Total</u>
<b>Liabilities and net assets</b>									
Current Liabilities									
Current portion of long-term debt	\$ 0	\$ 515	\$ 0	\$ 0	\$ 3,520	\$ 4,035	\$ 137	\$ 0	\$ 4,172
Current portion of accrued benefit liabilities	0	0	0	0	9,202	9,202	0	0	9,202
Accounts payable and accrued expenses	15,290	6,792	1,760	217	6,158	30,217	6,318	(4,910)	31,625
Accrued compensation and related items	5,274	2,009	544	215	7,086	15,128	736	0	15,864
Advances from third-party payers	6,611	2,996	837	0	0	10,444	0	0	10,444
Total current liabilities	27,175	12,312	3,141	432	25,966	69,026	7,191	(4,910)	71,307
Long-term debt, net of current portion	0	1,687	0	0	61,235	62,922	3,567	0	66,489
Due to affiliates	10,407	45,934	0	0	0	56,341	16,335	(72,676)	0
Other Liabilities:									
Accrued professional liability costs	0	0	0	0	0	0	25,619	0	25,619
Accrued employee benefit liability	0	0	0	0	72,472	72,472	0	0	72,472
Total other liabilities	0	0	0	0	72,472	72,472	25,619	0	98,091
Total liabilities	37,582	59,933	3,141	432	159,673	260,761	52,712	(77,586)	235,887
Net assets (deficit)									
Unrestricted	36,861	(30,888)	34,749	18,864	(83,439)	(23,853)	0	(14,173)	(38,026)
Temporarily restricted	2,606	903	0	0	0	3,509	0	0	3,509
Total net assets	39,467	(29,985)	34,749	18,864	(83,439)	(20,344)	0	(14,173)	(34,517)
Shareholders equity									
Capital contributions	0	0	0	0	0	0	5,834	(5,834)	0
Retained earnings	0	0	0	0	0	0	(14,173)	14,173	0
Total shareholder equity	0	0	0	0	0	0	(8,339)	8,339	0
Total liabilities and net assets	<u>\$ 77,049</u>	<u>\$ 29,948</u>	<u>\$ 37,890</u>	<u>\$ 19,296</u>	<u>\$ 76,234</u>	<u>\$ 240,417</u>	<u>\$ 44,373</u>	<u>\$ (83,420)</u>	<u>\$ 201,370</u>

Consolidating Statement of Operations-Obligated Group  
Dimensions Health Corporation and Subsidiaries  
For the year ended June 30, 2009  
(Dollars in thousands)

	<u>PGHC</u>	<u>LRH</u>	<u>GSSNHC</u>	<u>BHC</u>	<u>Corporate</u>	<u>Total Obligated Group</u>	<u>Other Entities</u>	<u>Consolidating Entries</u>	<u>Consolidated Total</u>
Unrestricted revenue and other support:									
Net patient service revenue	\$ 221,043	\$ 86,752	\$ 24,425	\$ 15,674	\$ 0	\$ 347,894	\$ 10,322	\$ 0	\$ 358,216
Other income	28,636	751	476	10	510	30,383	6,722	(5,501)	31,604
Total unrestricted revenue and other support	<u>249,679</u>	<u>87,503</u>	<u>24,901</u>	<u>15,684</u>	<u>510</u>	<u>378,277</u>	<u>17,044</u>	<u>(5,501)</u>	<u>389,820</u>
Operating expenses:									
Salaries and benefits	117,847	50,501	12,539	5,761	0	186,648	6,955	0	193,603
Supplies	32,036	12,993	4,866	1,859	0	51,754	85	0	51,839
Purchased services	28,047	13,336	2,237	2,798	0	46,418	10,530	(5,501)	51,447
Provision for bad debts	34,993	10,229	3,021	1,999	0	50,242	3,727	0	53,969
Physician fees	6,416	3,973	237	1,886	0	12,512	8,436	0	20,948
Utilities	3,508	2,208	383	249	0	6,348	50	0	6,398
Interest expense	2,023	1,365	120	189	0	3,697	495	0	4,192
Depreciation and amortization	4,934	2,690	274	349	3	8,250	302	0	8,552
Total operating expenses	<u>229,804</u>	<u>97,295</u>	<u>23,677</u>	<u>15,090</u>	<u>3</u>	<u>365,869</u>	<u>30,580</u>	<u>(5,501)</u>	<u>390,948</u>
Income from operations	19,875	(9,792)	1,224	594	507	12,408	(13,536)	0	(1,128)
Other income									
Investment income	112	63	14	9	0	198	377	0	575
Forgiveness of due to (from)	(10,342)	(1,962)	0	(8)	0	(12,312)	12,312	0	0
Total other income	<u>(10,230)</u>	<u>(1,899)</u>	<u>14</u>	<u>1</u>	<u>0</u>	<u>(12,114)</u>	<u>12,689</u>	<u>0</u>	<u>575</u>
Excess (deficit) of unrestricted revenue and other support over expenses	9,645	(11,691)	1,238	595	507	294	(847)	0	(553)
Other Changes in unrestricted assets:									
Net change in appreciation of other-than-trading investments	0	0	0	0	(21)	(21)	0	0	(21)
Net assets released from restrictions used for purchase of fixed assets	3,238	0	0	0	0	3,238	0	0	3,238
Change minimum pension liability	0	0	0	0	(40,552)	(40,552)	0	0	(40,552)
Increase (decrease) in unrestricted net assets	<u>\$ 12,883</u>	<u>\$ (11,691)</u>	<u>\$ 1,238</u>	<u>\$ 595</u>	<u>\$ (40,066)</u>	<u>\$ (37,041)</u>	<u>\$ (847)</u>	<u>\$ 0</u>	<u>\$ (37,888)</u>