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Form 990  Department of the Treasury Internal Revenue Service	<h1>Return of Organization Exempt From Income Tax</h1> <p>Under section 501(c), 527, or 4947(a)(1) of the Internal Revenue Code (except black lung benefit trust or private foundation)</p> <p>▶ The organization may have to use a copy of this return to satisfy state reporting requirements</p>	OMB No 1545-0047 <div>2011</div> <p>Open to Public Inspection</p>

A For the 2011 calendar year, or tax year beginning 07-01-2011 and ending 06-30-2012			
B Check if applicable <input type="checkbox"/> Address change <input type="checkbox"/> Name change <input type="checkbox"/> Initial return <input type="checkbox"/> Terminated <input type="checkbox"/> Amended return <input type="checkbox"/> Application pending	C Name of organization Meritus Medical Center Inc		D Employer identification number 52-0607949
	Doing Business As		E Telephone number (301) 790-8872
	Number and street (or P O box if mail is not delivered to street address) 11116 Medical Campus Road	Room/suite	G Gross receipts \$ 345,302,879
	City or town, state or country, and ZIP + 4 Hagerstown, MD 21742		
	F Name and address of principal officer Joseph Ross 11116 Medical Campus Road Hagerstown, MD 21742		H(a) Is this a group return for affiliates? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No H(b) Are all affiliates included? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No If "No," attach a list (see instructions) H(c) Group exemption number ▶
I Tax-exempt status <input checked="" type="checkbox"/> 501(c)(3) <input type="checkbox"/> 501(c) () ◀ (insert no) <input type="checkbox"/> 4947(a)(1) or <input type="checkbox"/> 527			
J Website: ▶ www.meritushealth.com			
K Form of organization <input checked="" type="checkbox"/> Corporation <input type="checkbox"/> Trust <input type="checkbox"/> Association <input type="checkbox"/> Other ▶		L Year of formation 1904	M State of legal domicile MD

Part I		Summary	
Activities & Governance	1 Briefly describe the organization's mission or most significant activities Meritus Medical Center, Inc (MMC) is an acute care hospital located in Hagerstown, Maryland and serves the residents of western Maryland, southern Pennsylvania and the panhandle of West Virginia 		
	2 Check this box <input type="checkbox"/> if the organization discontinued its operations or disposed of more than 25% of its net assets		
	3 Number of voting members of the governing body (Part VI, line 1a)	3	7
	4 Number of independent voting members of the governing body (Part VI, line 1b)	4	3
	5 Total number of individuals employed in calendar year 2011 (Part V, line 2a)	5	2,616
	6 Total number of volunteers (estimate if necessary)	6	374
	7a Total unrelated business revenue from Part VIII, column (C), line 12	7a	6,546,362
	b Net unrelated business taxable income from Form 990-T, line 34	7b	
Revenue		Prior Year	Current Year
	8 Contributions and grants (Part VIII, line 1h)	450,488	2,225,038
	9 Program service revenue (Part VIII, line 2g)	276,520,687	308,047,403
	10 Investment income (Part VIII, column (A), lines 3, 4, and 7d)	7,175,560	6,634,547
	11 Other revenue (Part VIII, column (A), lines 5, 6d, 8c, 9c, 10c, and 11e)	1,133,628	6,619,923
	12 Total revenue—add lines 8 through 11 (must equal Part VIII, column (A), line 12)	285,280,363	323,526,911
Expenses	13 Grants and similar amounts paid (Part IX, column (A), lines 1–3)	119,271	104,281
	14 Benefits paid to or for members (Part IX, column (A), line 4)		0
	15 Salaries, other compensation, employee benefits (Part IX, column (A), lines 5–10)	131,824,483	153,354,879
	16a Professional fundraising fees (Part IX, column (A), line 11e)		0
	b Total fundraising expenses (Part IX, column (D), line 25) <input type="checkbox"/> 0		
	17 Other expenses (Part IX, column (A), lines 11a–11d, 11f–24e)	143,293,039	160,805,342
	18 Total expenses Add lines 13–17 (must equal Part IX, column (A), line 25)	275,236,793	314,264,502
	19 Revenue less expenses Subtract line 18 from line 12	10,043,570	9,262,409
Net Assets or Fund Balances		Beginning of Current Year	End of Year
	20 Total assets (Part X, line 16)	428,264,494	436,170,748
	21 Total liabilities (Part X, line 26)	311,188,035	306,205,976
	22 Net assets or fund balances Subtract line 21 from line 20	117,076,459	129,964,772

Part II Signature Block	
Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete. Declaration of preparer (other than officer) is based on all information of which preparer has any knowledge.	
Sign Here	<div> <div>*****</div> <div>Signature of officer</div> </div> <div> <div>2013-05-15</div> <div>Date</div> </div>
	<div> <div>Raymond A Grahe VP/Treasurer</div> <div>Type or print name and title</div> </div>
Paid Preparer's Use Only	<div> <div>Preparer's signature</div> <div>Dale Bushey</div> </div> <div> <div>Date</div> </div> <div> <div>Check if self-employed</div> <div><input type="checkbox"/></div> </div> <div> <div>Preparer's taxpayer identification number (see instructions)</div> </div>
	<div> <div>Firm's name (or yours if self-employed), address, and ZIP + 4</div> <div> <div>Meritus Medical Center</div> <div>251 East Antietam Street</div> <div>Hagerstown, MD 21740</div> </div> </div> <div> <div>EIN</div> </div>
	<div> <div>Phone no</div> <div>(301) 790-8879</div> </div>
May the IRS discuss this return with the preparer shown above? (see instructions) <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No	

Part III Statement of Program Service Accomplishments

Check if Schedule O contains a response to any question in this Part III ☐

1

Briefly describe the organization's mission

Mission

MMC exists to improve the health status of our region by providing comprehensive health services to patients and families The mission emphasizes three core activities of MMC 1 Providing patient and family centered care by bringing patient and family perspectives into the planning, delivery, and evaluation of care to improve healthcare quality and safety at MMC 2 Improving the health status of our region by responding to national healthcare reform and total patient revenue economic structures that incentivize value by expanding the focus of MMC to include improving the health staus of our region 3 Functioning as a regional health system by meeting the healthcare needs of the communities beyond MMC's traditional service area of Washington County VisionMMC will relentlessly pursue excellence in quality, service, and performance ValuesThe culture of MMC is driven by the values of teamwork, stewardship, accountability, integrity, advocacy, and innovation

2

Did the organization undertake any significant program services during the year which were not listed on the prior Form 990 or 990-EZ?

Yes

☒

No

If "Yes," describe these new services on Schedule O

3

Did the organization cease conducting, or make significant changes in how it conducts, any program services?

Yes

☒

No

If "Yes," describe these changes on Schedule O

4

Describe the organization's program service accomplishments for each of its three largest program services, as measured by expenses Section 501(c)(3) and 501(c)(4) organizations and section 4947(a)(1) trusts are required to report the amount of grants and allocations to others, the total expenses, and revenue, if any, for each program service reported

4a

(Code)

(Expenses \$ 241,098,208 including grants of \$ 104,281)

(Revenue \$ 308,120,964)

The mission, vision and values of the Meritus Medical Center (MMC) are summarized in MMC's pledge Responsiveness to need Excellence in Caring Respect for All The pledge says that MMC strives to meet the healthcare needs of the citizens of the tri-state region, is dedicated to providing quality patient care in a safe and caring environment and that MMC esteems the personal dignity of patients and staff Every day, the hospital's employees live out MMC's values by treating others as they would like to be treated MMC participates in a variety of activities that focus on the well-being of the patients, including committees and teams that evaluate the progress in the areas of quality patient care, patient safety and professional development Many staff members provide outreach to the community through educational offerings which have been identified by a survey of community health education needs MMC is a vibrant healthcare facility, where dedicated staff engages patients and their families in their care, promoting a partnership that leads to improved patient outcomes At the same time, employees work together to plan a future that focuses on the well-being of the citizens of the tri-state region As a tax exempt hospital, MMC contributes funds to help many people who might not be able to afford their healthcare These dollars are used to provide free, reduced-cost or subsidized services to many individuals in the community It's a collaborative effort involving numerous areas of the health system in activities such as health education and outreach, screenings, programs and events, as well as helping individuals obtain prescription medications, access to needed services, and even transportation to healthcare appointments MMC is governed by a local board of directors made up entirely of volunteers In addition to attending quarterly meetings to determine the direction that MMC will take, the board members, who are community and business leaders as well as physicians, serve on various committees, including quality, finance and capital, audit and business integrity, compensation, and governance The board and its committees ensure that MMC complies with state and federal requirements, while keeping the organization's mission of providing quality care front and center By working together toward this goal, the board members create policies and procedures that help deliver results Meritus Health - the largest healthcare provider in Western Maryland - is located at the crossroads of Western Maryland, southern Pennsylvania, and the Eastern Panhandle of West Virginia As the largest employer in Washington County, it has a deep understanding of the needs of the community Its programs span the continuum of healthcare, ranging from inpatient care to occupational health services to physician practices and outpatient care The system delivers patient care through two primary components, MMC and MEI Located in Hagerstown, MMC, an acute care hospital has 265 single-patient rooms, along with the most advanced technologies available Services include a special care nursery, a level III trauma program, a primary stroke center, a wound center, as well as a cardiac diagnostic laboratory Other hospital services that address outpatient needs continue to be available, such as the John R Marsh Cancer Center, Total Rehab Care, the Center for Clinical Research, and the Center for Bariatric Surgery State-of-the-art medical technologies at MMC include new technologies such as advanced 3T magnetic resonance imaging, single-photo-emission computed tomography (SPECT) scanners, and cardiac interventions Patients will benefit from the convenient location of MMC, which is adjacent to the Robinwood Professional Center, operated by MEI With this proximity, patients can take advantage of an array of both inpatient and outpatient services The medical mall houses a pharmacy, medical laboratory, an urgent care clinic, surgery centers,and diagnostic imaging services In addition, there are numerous physician practices, offering a wide variety of medical specialties MEI, an affiliate of MH, is a leading provider in ambulatory health care services in the tri-state region Its mission is to engage in ambulatory health activities that complement the goals and objectives of MH MEI vigorously recruits physicians and other healthcare providers to the region, to assure an adequate supply of physicians in many medical specialties MEI has a very successful record of joint-venture relationships with physicians that has greatly benefited the wellbeing of tri-state area residents MEI includes a number of businesses and medical practices It maintains two urgent care clinics in Hagerstown The urgent care clinics work closely with primary care physicians, caring for patients with minor illnesses or injuries Because numerous patients can be seen at these clinics, local physicians have more time to spend with regularly-scheduled patients in their offices Tri-State Health Partners (THP) is a physician hospital organization (PHO) owned by more than 200 physicians and MMC This partnership enhances the ability of its physician owners and the medical center to focus on technology and initiatives to improve quality and patient care outcomes in the community THP's mission is to be the region's most comprehensive healthcare solutions company, fostering collaboration with community practitioners and providers to create a fully-integrated medical care delivery system Clinical integration engages THP physicians in a cooperative effort to improve the quality of healthcare and the cost-effectiveness of healthcare services MHF is a private, not-for-profit, tax-exempt organization managed by a volunteer board of community leaders whose mission is to support hospital programs and services, scientific research, equipment, technology, medical training and community education The foundation is an integral part of the overall health system organization, and contributions have a direct impact on the quality of care MH is able to provide The Foundation Board of Directors works closely with the MH boards and leadership to match resources with MH needs, enabling caregivers to provide the very best care possible every single day MMC offers a variety of specialized services to meet the healthcare needs of the tri-state region The Cardiac Catheterization Lab has focused on bringing the very best in cardiac services to the community Services in cardiac screening, diagnosis, intervention, and rehabilitation are offered MMC has invested in the most up-to-date technologies to assist physicians in diagnosing and treating heart disease The board certified cardiologists and interventional cardiologists offer patients a highly specialized experience in structural heart disease and electrical heart malfunctions They are supported by a team of highly-trained nurses and technicians The Center for Clinical Research is a growing program that manages from fifteen to twenty active research studies at any given time The researchers are certified by the Association of Clinical Research Professionals Physicians serve as the principal investigators for the research studies performed by the center The Center for Joint Replacement offers a comprehensive program that includes pre- and postoperative therapy as well as the actual surgery The program has clearly demonstrated a decreased length of hospital stay and improved recovery rates The Family Birthing Center is a special place where single-room maternity care provides prnacy and family bonding The room is equipped for labor, delivery, postpartum, and newborn care The special care nursery allows babies born as early as 32 weeks gestation to be treated at MMC The Home Health Care Services cover the full spectrum of care, ranging from skilled nursing to assistance with the activities of daily living They also can help with medication management issues The John R Marsh Cancer Center offers chemotherapy, intensity modulated radiation therapy, and image guided radiation therapy The center also offers MammoSite whichdelivers partial irradiation treatment for breast cancer patients in just five days Total Rehab Care is a comprehensive service providing a full range of rehabilitation programs, including pediatric services, traumatic brain injury rehab, outpatient therapies, inpatient joint replacement, occupational rehabilitation, and support groups Skilled physicians, nurses, and therapists develop individualized treatment plans for every patient As a level III trauma service, MMC offers twenty four hour a day, seven days a week access to trauma surgeons, neurosurgeons, and orthopedic surgeons, as well as a specialized trauma team and consulting physicians The Weight Loss Clinic offers bariatric surgery which includes the most common procedures of gastric bypass and adjustable gastric banding This can be a treatment for the lifelong condition of morbid obesity T

4b

(Code)

(Expenses \$ including grants of \$)

(Revenue \$)

4c

(Code)

(Expenses \$ including grants of \$)

(Revenue \$)

4d

Other program services (Describe in Schedule O)

(Expenses \$ including grants of \$)





















(Revenue \$)

4e

Total program service expenses

\$ 241,098,208

Part IV Checklist of Required Schedules

		Yes	No	
1	Is the organization described in section 501(c)(3) or 4947(a)(1) (other than a private foundation)? If "Yes," complete Schedule A 	1	Yes	
2	Is the organization required to complete Schedule B, Schedule of Contributors (see instructions)? 	2	Yes	
3	Did the organization engage in direct or indirect political campaign activities on behalf of or in opposition to candidates for public office? If "Yes," complete Schedule C, Part I 	3		No
4	Section 501(c)(3) organizations. Did the organization engage in lobbying activities, or have a section 501(h) election in effect during the tax year? If "Yes," complete Schedule C, Part II 	4	Yes	
5	Is the organization a section 501(c)(4), 501(c)(5), or 501(c)(6) organization that receives membership dues, assessments, or similar amounts as defined in Revenue Procedure 98-19? If "Yes," complete Schedule C, Part III 	5		No
6	Did the organization maintain any donor advised funds or any similar funds or accounts for which donors have the right to provide advice on the distribution or investment of amounts in such funds or accounts? If "Yes," complete Schedule D, Part I 	6		No
7	Did the organization receive or hold a conservation easement, including easements to preserve open space, the environment, historic land areas or historic structures? If "Yes," complete Schedule D, Part II 	7		No
8	Did the organization maintain collections of works of art, historical treasures, or other similar assets? If "Yes," complete Schedule D, Part III 	8		No
9	Did the organization report an amount in Part X, line 21, serve as a custodian for amounts not listed in Part X, or provide credit counseling, debt management, credit repair, or debt negotiation services? If "Yes," complete Schedule D, Part IV 	9		No
10	Did the organization, directly or through a related organization, hold assets in temporarily restricted endowments, permanent endowments, or quasi-endowments? If "Yes," complete Schedule D, Part V 	10	Yes	
11	If the organization's answer to any of the following questions is 'Yes,' then complete Schedule D, Parts VI, VII, VIII, IX, or X as applicable			
a	Did the organization report an amount for land, buildings, and equipment in Part X, line 10? If "Yes," complete Schedule D, Part VI. 	11a	Yes	
b	Did the organization report an amount for investments—other securities in Part X, line 12 that is 5% or more of its total assets reported in Part X, line 16? If "Yes," complete Schedule D, Part VII. 	11b		No
c	Did the organization report an amount for investments—program related in Part X, line 13 that is 5% or more of its total assets reported in Part X, line 16? If "Yes," complete Schedule D, Part VIII. 	11c		No
d	Did the organization report an amount for other assets in Part X, line 15 that is 5% or more of its total assets reported in Part X, line 16? If "Yes," complete Schedule D, Part IX. 	11d	Yes	
e	Did the organization report an amount for other liabilities in Part X, line 25? If "Yes," complete Schedule D, Part X. 	11e	Yes	
f	Did the organization's separate or consolidated financial statements for the tax year include a footnote that addresses the organization's liability for uncertain tax positions under FIN 48 (ASC 740)? If "Yes," complete Schedule D, Part X. 	11f	Yes	
12a	Did the organization obtain separate, independent audited financial statements for the tax year? If "Yes," complete Schedule D, Parts XI, XII, and XIII 	12a		No
b	Was the organization included in consolidated, independent audited financial statements for the tax year? If "Yes," and if the organization answered 'No' to line 12a, then completing Schedule D, Parts XI, XII, and XIII is optional 	12b	Yes	
13	Is the organization a school described in section 170(b)(1)(A)(ii)? If "Yes," complete Schedule E	13		No
14a	Did the organization maintain an office, employees, or agents outside of the United States?	14a		No
b	Did the organization have aggregate revenues or expenses of more than \$10,000 from grantmaking, fundraising, business, investment, and program service activities outside the United States, or aggregate foreign investments valued at \$100,000 or more? If "Yes," complete Schedule F, Part I	14b		No
15	Did the organization report on Part IX, column (A), line 3, more than \$5,000 of grants or assistance to any organization or entity located outside the U S ? If "Yes," complete Schedule F, Part II and IV	15		No
16	Did the organization report on Part IX, column (A), line 3, more than \$5,000 of aggregate grants or assistance to individuals located outside the U S ? If "Yes," complete Schedule F, Part III and IV	16		No
17	Did the organization report a total of more than \$15,000, of expenses for professional fundraising services on Part IX, column (A), lines 6 and 11e? If "Yes," complete Schedule G, Part I	17		No
18	Did the organization report more than \$15,000 total of fundraising event gross income and contributions on Part VIII, lines 1c and 8a? If "Yes," complete Schedule G, Part II	18		No
19	Did the organization report more than \$15,000 of gross income from gaming activities on Part VIII, line 9a? If "Yes," complete Schedule G, Part III	19		No
20a	Did the organization operate one or more hospitals? If "Yes," complete Schedule H 	20a	Yes	
b	If "Yes" to line 20a, did the organization attach its audited financial statement to this return? Note. All Form 990 filers that operated one or more hospitals must attach audited financial statements 	20b	Yes	

Part IV

Checklist of Required Schedules (continued)

21	Did the organization report more than \$5,000 of grants and other assistance to governments and organizations in the United States on Part IX, column (A), line 1? <i>If "Yes," complete Schedule I, Parts I and II</i>	21		No
22	Did the organization report more than \$5,000 of grants and other assistance to individuals in the United States on Part IX, column (A), line 2? <i>If "Yes," complete Schedule I, Parts I and III</i>	22	Yes	
23	Did the organization answer "Yes" to Part VII, Section A, questions 3, 4, or 5, about compensation of the organization's current and former officers, directors, trustees, key employees, and highest compensated employees? <i>If "Yes," complete Schedule J</i>	23	Yes	
24a	Did the organization have a tax-exempt bond issue with an outstanding principal amount of more than \$100,000 as of the last day of the year, that was issued after December 31, 2002? <i>If "Yes," answer questions 24b-24d and complete Schedule K. If "No," go to line 25</i>	24a	Yes	
b	Did the organization invest any proceeds of tax-exempt bonds beyond a temporary period exception?	24b		No
c	Did the organization maintain an escrow account other than a refunding escrow at any time during the year to defease any tax-exempt bonds?	24c		No
d	Did the organization act as an "on behalf of" issuer for bonds outstanding at any time during the year?	24d		No
25a	Section 501(c)(3) and 501(c)(4) organizations. Did the organization engage in an excess benefit transaction with a disqualified person during the year? <i>If "Yes," complete Schedule L, Part I</i>	25a		No
b	Is the organization aware that it engaged in an excess benefit transaction with a disqualified person in a prior year, and that the transaction has not been reported on any of the organization's prior Forms 990 or 990-EZ? <i>If "Yes," complete Schedule L, Part I</i>	25b		No
26	Was a loan to or by a current or former officer, director, trustee, key employee, highly compensated employee, or disqualified person outstanding as of the end of the organization's tax year? <i>If "Yes," complete Schedule L, Part II</i>	26		No
27	Did the organization provide a grant or other assistance to an officer, director, trustee, key employee, substantial contributor, or a grant selection committee member, or to a person related to such an individual? <i>If "Yes," complete Schedule L, Part III</i>	27		No
28	Was the organization a party to a business transaction with one of the following parties? (see Schedule L, Part IV instructions for applicable filing thresholds, conditions, and exceptions)			
a	A current or former officer, director, trustee, or key employee? <i>If "Yes," complete Schedule L, Part IV</i>	28a	Yes	
b	A family member of a current or former officer, director, trustee, or key employee? <i>If "Yes," complete Schedule L, Part IV</i>	28b		No
c	An entity of which a current or former officer, director, trustee, or key employee (or a family member thereof) was an officer, director, trustee, or owner? <i>If "Yes," complete Schedule L, Part IV</i>	28c		No
29	Did the organization receive more than \$25,000 in non-cash contributions? <i>If "Yes," complete Schedule M</i>	29		No
30	Did the organization receive contributions of art, historical treasures, or other similar assets, or qualified conservation contributions? <i>If "Yes," complete Schedule M</i>	30		No
31	Did the organization liquidate, terminate, or dissolve and cease operations? <i>If "Yes," complete Schedule N, Part I</i>	31		No
32	Did the organization sell, exchange, dispose of, or transfer more than 25% of its net assets? <i>If "Yes," complete Schedule N, Part II</i>	32		No
33	Did the organization own 100% of an entity disregarded as separate from the organization under Regulations sections 301.7701-2 and 301.7701-3? <i>If "Yes," complete Schedule R, Part I</i>	33	Yes	
34	Was the organization related to any tax-exempt or taxable entity? <i>If "Yes," complete Schedule R, Parts II, III, IV, and V, line 1</i>	34	Yes	
35a	Is any related organization a controlled entity of the filing organization within the meaning of section 512(b)(13)?	35a		No
b	Did the organization receive any payment from or engage in any transaction with a controlled entity within the meaning of section 512(b)(13)? <i>If "Yes," complete Schedule R, Part V, line 2</i>	35b		No
36	Section 501(c)(3) organizations. Did the organization make any transfers to an exempt non-charitable related organization? <i>If "Yes," complete Schedule R, Part V, line 2</i>	36		No
37	Did the organization conduct more than 5% of its activities through an entity that is not a related organization and that is treated as a partnership for federal income tax purposes? <i>If "Yes," complete Schedule R, Part VI</i>	37		No
38	Did the organization complete Schedule O and provide explanations in Schedule O for Part VI, lines 11 and 19? Note. All Form 990 filers are required to complete Schedule O	38	Yes	

Part V Statements Regarding Other IRS Filings and Tax Compliance						
Check if Schedule O contains a response to any question in this Part V <input type="checkbox"/>						
		Yes	No			
1a	Enter the number reported in Box 3 of Form 1096. Enter -0- if not applicable. .	1a	221			
b	Enter the number of Forms W-2G included in line 1a. Enter -0- if not applicable.	1b	0			
c	Did the organization comply with backup withholding rules for reportable payments to vendors and reportable gaming (gambling) winnings to prize winners?	1c	Yes			
2a	Enter the number of employees reported on Form W-3, <i>Transmittal of Wage and Tax Statements</i> filed for the calendar year ending with or within the year covered by this return.	2a	2,616			
b	If at least one is reported on line 2a, did the organization file all required federal employment tax returns? Note. If the sum of lines 1a and 2a is greater than 250, you may be required to e-file (see instructions).	2b	Yes			
3a	Did the organization have unrelated business gross income of \$1,000 or more during the year?	3a	Yes			
b	If "Yes," has it filed a Form 990-T for this year? If "No," provide an explanation in Schedule O.	3b	Yes			
4a	At any time during the calendar year, did the organization have an interest in, or a signature or other authority over, a financial account in a foreign country (such as a bank account or securities account)?	4a				No
b	If "Yes," enter the name of the foreign country: _____ See instructions for filing requirements for Form TD F 90-22.1, Report of Foreign Bank and Financial Accounts.					
5a	Was the organization a party to a prohibited tax shelter transaction at any time during the tax year?	5a				No
b	Did any taxable party notify the organization that it was or is a party to a prohibited tax shelter transaction?	5b				No
c	If "Yes" to line 5a or 5b, did the organization file Form 8886-T?	5c				No
6a	Does the organization have annual gross receipts that are normally greater than \$100,000, and did the organization solicit any contributions that were not tax deductible?	6a				No
b	If "Yes," did the organization include with every solicitation an express statement that such contributions or gifts were not tax deductible?	6b				No
7	Organizations that may receive deductible contributions under section 170(c).					
a	Did the organization receive a payment in excess of \$75 made partly as a contribution and partly for goods and services provided to the payor?	7a				No
b	If "Yes," did the organization notify the donor of the value of the goods or services provided?	7b				No
c	Did the organization sell, exchange, or otherwise dispose of tangible personal property for which it was required to file Form 8282?	7c				No
d	If "Yes," indicate the number of Forms 8282 filed during the year.	7d	0			
e	Did the organization receive any funds, directly or indirectly, to pay premiums on a personal benefit contract?	7e				No
f	Did the organization, during the year, pay premiums, directly or indirectly, on a personal benefit contract?	7f				No
g	If the organization received a contribution of qualified intellectual property, did the organization file Form 8899 as required?	7g				No
h	If the organization received a contribution of cars, boats, airplanes, or other vehicles, did the organization file a Form 1098-C?	7h				No
8	Sponsoring organizations maintaining donor advised funds and section 509(a)(3) supporting organizations. Did the supporting organization, or a donor advised fund maintained by a sponsoring organization, have excess business holdings at any time during the year?	8				No
9	Sponsoring organizations maintaining donor advised funds.					
a	Did the organization make any taxable distributions under section 4966?	9a				No
b	Did the organization make a distribution to a donor, donor advisor, or related person?	9b				No
10	Section 501(c)(7) organizations. Enter					
a	Initiation fees and capital contributions included on Part VIII, line 12.	10a				
b	Gross receipts, included on Form 990, Part VIII, line 12, for public use of club facilities.	10b				
11	Section 501(c)(12) organizations. Enter					
a	Gross income from members or shareholders.	11a				
b	Gross income from other sources (Do not net amounts due or paid to other sources against amounts due or received from them).	11b				
12a	Section 4947(a)(1) non-exempt charitable trusts. Is the organization filing Form 990 in lieu of Form 1041?	12a				No
b	If "Yes," enter the amount of tax-exempt interest received or accrued during the year.	12b				
13	Section 501(c)(29) qualified nonprofit health insurance issuers.					
a	Is the organization licensed to issue qualified health plans in more than one state? Note. All 501(c)(29) organizations must list in Schedule O each state in which they are licensed to issue qualified health plans, the amount of reserves required by each state, and the amount of reserves the organization allocated to each state.	13a				No
b	Enter the aggregate amount of reserves the organization is required to maintain by the states in which the organization is licensed to issue qualified health plans.	13b				
c	Enter the aggregate amount of reserves on hand.	13c				
14a	Did the organization receive any payments for indoor tanning services during the tax year?	14a				No
b	If "Yes," has it filed a Form 720 to report these payments? If "No," provide an explanation in Schedule O.	14b				No

Part VI

Governance, Management, and Disclosure

For each "Yes" response to lines 2 through 7b below, and for a "No" response to lines 8a, 8b, or 10b below, describe the circumstances, processes, or changes in Schedule O. See instructions.
Check if Schedule O contains a response to any question in this Part VI

Section A. Governing Body and Management

		Yes	No
1a	Enter the number of voting members of the governing body at the end of the tax year		
1b	Enter the number of voting members included in line 1a, above, who are independent		
2	Did any officer, director, trustee, or key employee have a family relationship or a business relationship with any other officer, director, trustee, or key employee?		No
3	Did the organization delegate control over management duties customarily performed by or under the direct supervision of officers, directors or trustees, or key employees to a management company or other person?		No
4	Did the organization make any significant changes to its governing documents since the prior Form 990 was filed?		No
5	Did the organization become aware during the year of a significant diversion of the organization's assets?		No
6	Did the organization have members or stockholders?	Yes	
7a	Did the organization have members, stockholders, or other persons who had the power to elect or appoint one or more members of the governing body?	Yes	
7b	Are any governance decisions of the organization reserved to (or subject to approval by) members, stockholders, or persons other than the governing body?	Yes	
8	Did the organization contemporaneously document the meetings held or written actions undertaken during the year by the following		
8a	The governing body?	Yes	
8b	Each committee with authority to act on behalf of the governing body?	Yes	
9	Is there any officer, director, trustee, or key employee listed in Part VII, Section A, who cannot be reached at the organization's mailing address? If "Yes," provide the names and addresses in Schedule O		No

Section B. Policies

(This Section B requests information about policies not required by the Internal Revenue Code.)

		Yes	No
10a	Did the organization have local chapters, branches, or affiliates?		No
10b	If "Yes," did the organization have written policies and procedures governing the activities of such chapters, affiliates, and branches to ensure their operations are consistent with the organization's exempt purposes?		No
11a	Has the organization provided a complete copy of this Form 990 to all members of its governing body before filing the form?	Yes	
11b	Describe in Schedule O the process, if any, used by the organization to review the Form 990		
12a	Did the organization have a written conflict of interest policy? If "No," go to line 13	Yes	
12b	Were officers, directors or trustees, and key employees required to disclose annually interests that could give rise to conflicts?	Yes	
12c	Did the organization regularly and consistently monitor and enforce compliance with the policy? If "Yes," describe in Schedule O how this was done	Yes	
13	Did the organization have a written whistleblower policy?	Yes	
14	Did the organization have a written document retention and destruction policy?	Yes	
15	Did the process for determining compensation of the following persons include a review and approval by independent persons, comparability data, and contemporaneous substantiation of the deliberation and decision?		
15a	The organization's CEO, Executive Director, or top management official	Yes	
15b	Other officers or key employees of the organization	Yes	
	If "Yes," to line 15a or 15b, describe the process in Schedule O (see instructions)		
16a	Did the organization invest in, contribute assets to, or participate in a joint venture or similar arrangement with a taxable entity during the year?	Yes	
16b	If "Yes," did the organization follow a written policy or procedure requiring the organization to evaluate its participation in joint venture arrangements under applicable federal tax law, and take steps to safeguard the organization's exempt status with respect to such arrangements?	Yes	

Section C. Disclosure

17	List the States with which a copy of this Form 990 is required to be filed	MD
18	Section 6104 requires an organization to make its Form 1023 (or 1024 if applicable), 990, and 990-T (501(c)(3)s only) available for public inspection. Indicate how you made these available. Check all that apply. <input type="checkbox"/> Own website <input type="checkbox"/> Another's website <input checked="" type="checkbox"/> Upon request	
19	Describe in Schedule O whether (and if so, how), the organization made its governing documents, conflict of interest policy, and financial statements available to the public. See Additional Data Table.	
20	State the name, physical address, and telephone number of the person who possesses the books and records of the organization.	Raymond A Grahe 11116 Medical Campus Road Hagerstown, MD 21742 (301) 790-8872

Part VII

Compensation of Officers, Directors, Trustees, Key Employees, Highest Compensated Employees, and Independent Contractors

Check if Schedule O contains a response to any question in this Part VII

Section A. Officers, Directors, Trustees, Key Employees, and Highest Compensated Employees

1a Complete this table for all persons required to be listed Report compensation for the calendar year ending with or within the organization's tax year

- List all of the organization's **current** officers, directors, trustees (whether individuals or organizations), regardless of amount of compensation, and **current** key employees Enter -0- in columns (D), (E), and (F) if no compensation was paid
- List all of the organization's **current** key employees, if any See instructions for definition of "key employee "
- List the organization's five **current** highest compensated employees (other than an officer, director, trustee or key employee) who received reportable compensation (Box 5 of Form W-2 and/or Box 7 of Form 1099-MISC) of more than \$100,000 from the organization and any related organizations
- List all of the organization's **former** officers, key employees, or highest compensated employees who received more than \$100,000 of reportable compensation from the organization and any related organizations
- List all of the organization's **former directors or trustees** that received, in the capacity as a former director or trustee of the organization, more than \$10,000 of reportable compensation from the organization and any related organizations

List persons in the following order individual trustees or directors, institutional trustees, officers, key employees, highest compensated employees, and former such persons

Check this box if neither the organization nor any related organizations compensated any current or former officer, director, or trustee

(A) Name and Title	(B) Average hours per week (describe hours for related organizations in Schedule O)	(C) Position (do not check more than one box, unless person is both an officer and a director/trustee)						(D) Reportable compensation from the organization (W-2/1099-MISC)	(E) Reportable compensation from related organizations (W-2/1099-MISC)	(F) Estimated amount of other compensation from the organization and related organizations
		Individual trustee or director	Institutional Trustee	Officer	Key employee	Highest compensated employee	Former			
(1) Joseph Ross President & CEO	50 00	X		X				372,419	0	56,359
(2) Gregory Snook Chairman	3 00	X						0	0	0
(3) Cynthia Pellegrino Vice Chairman	3 00	X						0	0	0
(4) Barbara Miller Director	3 00	X						0	0	0
(5) William Su MD Director	20 00	X						105,171	0	0
(6) Thomas Gilbert MD Director	50 00	X						823,670	0	29,200
(7) Pamela Bradford MD Director	3 00	X						0	0	0
(8) Carolyn Simonsen VP/Secretary	50 00			X				230,735	0	22,810
(9) Raymond Grahe VP/Treasurer	50 00			X				403,324	0	29,620
(10) Carey Leverett Vice President	50 00				X			192,319	0	19,386
(11) Heather Lorenzo Vice President	50 00				X			227,370	0	28,154
(12) T Michael White Vice President	50 00				X			408,484	0	25,515
(13) Kelly Corbi Vice President	50 00				X			253,385	0	36,143
(14) Deborah Addo-Samuels Senior Vice President	50 00				X			286,518	0	16,511
(15) Jayantilal Kadiwar MD Physician	50 00					X		435,202	0	19,118
(16) Matthew Wagner MD Physician	50 00					X		298,609	0	32,260
(17) Garry Seligman MD Physician	50 00					X		215,022	0	27,532

Part VII

1b	Sub-Total	▼			
c	Total from continuation sheets to Part VII, Section A	▼			
d	Total (add lines 1b and 1c)	▼	5,199,198	379,822	426,865

2 Total number of individuals (including but not limited to those listed in Item 1) who received more than \$100,000 of reportable compensation from the organization. 152

		Yes	No
3	Did the organization list any former officer, director or trustee, key employee, or highest compensated employee on line 1a? <i>If "Yes," complete Schedule J for such individual</i>	3 Yes	
4	For any individual listed on line 1a, is the sum of reportable compensation and other compensation from the organization and related organizations greater than \$150,000? <i>If "Yes," complete Schedule J for such individual</i>	4 Yes	
5	Did any person listed on line 1a receive or accrue compensation from any unrelated organization or individual for services rendered to the organization? <i>If "Yes," complete Schedule J for such person</i>	5	No

Section B. Independent Contractors

1 Complete this table for your five highest compensated independent contractors that received more than \$100,000 of compensation from the organization. Report compensation for the calendar year ending with or within the organization's tax year.

(A) Name and business address	(B) Description of services	(C) Compensation
Parkway Neuroscience & Spine Institute 17 Western Maryland Parkway Hagerstown, MD 21740	Medical	581,863
Marc E Kross MD 12903 Lance Circle Hagerstown, MD 21742	Medical	566,050
Hospital Medicine Associates LLC P O Box 634850 Cincinnati, OH 45263	Medical	1,101,129
Hagerstown Heart PA 1733 Howell Road Hagerstown, MD 21740	Medical	549,121
Blue Ridge Anesthesia Associates 119 King Street Hagerstown, MD 21740	Medical	850,000

2 Total number of independent contractors (including but not limited to those listed above) who received more than \$100,000 of compensation from the organization ►67

Part VIII

Statement of Revenue

				(A) Total revenue	(B) Related or exempt function revenue	(C) Unrelated business revenue	(D) Revenue excluded from tax under sections 512, 513, or 514	
Contributions, gifts, grants and other similar amounts	1a	Federated campaigns . . .	1a					
	b	Membership dues	1b					
	c	Fundraising events	1c					
	d	Related organizations	1d	2,220,538				
	e	Government grants (contributions)	1e	4,500				
	f	All other contributions, gifts, grants, and similar amounts not included above	1f					
	g	Noncash contributions included in lines 1a-1f \$ _____						
	h	Total. Add lines 1a-1f			2,225,038			
Program Service Revenue			Business Code					
	2a	Rebate revenue	900099	371,825	371,825			
	b	Patient revenue	900099	303,757,161	303,757,161			
	c	Other revenue	900099	165,941	165,941			
	d	Meaningful use-EHR	900099	1,885,293	1,885,293			
	e	Cafeteria sales	900099	1,627,174	1,627,174			
	f	All other program service revenue		240,009	240,009			
	g	Total. Add lines 2a-2f			308,047,403			
Other Revenue	3	Investment income (including dividends, interest and other similar amounts)			6,188,718		6,188,718	
	4	Income from investment of tax-exempt bond proceeds . .			0			
	5	Royalties			0			
	6a	(i) Real		(ii) Personal				
		73,561						
		73,561						
	d	Net rental income or (loss)			73,561	73,561		
	7a	(i) Securities		(ii) Other				
		22,212,101		9,696				
		21,775,968						
		436,133		9,696				
	d	Net gain or (loss)			445,829		445,829	
	8a	Gross income from fundraising events (not including \$ _____ of contributions reported on line 1c) See Part IV, line 18		a				
	b	Less direct expenses		b				
	c	Net income or (loss) from fundraising events . .			0			
	9a	Gross income from gaming activities See Part IV, line 19		a				
	b	Less direct expenses		b				
	c	Net income or (loss) from gaming activities . .			0			
	10a	Gross sales of inventory, less returns and allowances		a				
b	Less cost of goods sold		b					
c	Net income or (loss) from sales of inventory . .			0				
Miscellaneous Revenue		Business Code						
11a	Robinwood Food Service	722210	603,196		603,196			
b	Lab Revenue	621500	5,602,540		5,602,540			
c	Clinical Trials	541700	340,626		340,626			
d	All other revenue							
e	Total. Add lines 11a-11d			6,546,362				
12	Total revenue. See Instructions			323,526,911	308,120,964	6,546,362	6,634,547	

Part IX

Statement of Functional Expenses

Section 501(c)(3) and 501(c)(4) organizations must complete all columns

All other organizations must complete column (A) but are not required to complete columns (B), (C), and (D)

Check if Schedule O contains a response to any question in this Part IX

Do not include amounts reported on lines 6b, 7b, 8b, 9b, and 10b of Part VIII.		(A) Total expenses	(B) Program service expenses	(C) Management and general expenses	(D) Fundraising expenses
1	Grants and other assistance to governments and organizations in the United States See Part IV, line 21	0			
2	Grants and other assistance to individuals in the United States See Part IV, line 22	104,281	104,281		
3	Grants and other assistance to governments, organizations, and individuals outside the United States See Part IV, lines 15 and 16	0			
4	Benefits paid to or for members	0			
5	Compensation of current officers, directors, trustees, and key employees	3,127,181		3,127,181	
6	Compensation not included above, to disqualified persons (as defined under section 4958(f)(1)) and persons described in section 4958(c)(3)(B)	0			
7	Other salaries and wages	115,425,612	92,340,490	23,085,122	
8	Pension plan contributions (include section 401(k) and section 403(b) employer contributions)	0			
9	Other employee benefits	26,903,824	21,523,059	5,380,765	
10	Payroll taxes	7,898,262	6,318,610	1,579,652	
11	Fees for services (non-employees)				
a	Management	47,472	37,978	9,494	
b	Legal	364,915	291,932	72,983	
c	Accounting	298,564	238,851	59,713	
d	Lobbying	11,115	8,892	2,223	
e	Professional fundraising See Part IV, line 17	0			
f	Investment management fees	122,995	122,995		
g	Other	4,516,525	3,613,220	903,305	
12	Advertising and promotion	910,791	728,633	182,158	
13	Office expenses	780,703	624,562	156,141	
14	Information technology	492,999	394,399	98,600	
15	Royalties	0			
16	Occupancy	4,486,238	3,588,990	897,248	
17	Travel	548,463	438,770	109,693	
18	Payments of travel or entertainment expenses for any federal, state, or local public officials	0			
19	Conferences, conventions, and meetings	208,055	166,444	41,611	
20	Interest	15,247,625	9,148,575	6,099,050	
21	Payments to affiliates	239,041	239,041		
22	Depreciation, depletion, and amortization	24,276,940	14,566,165	9,710,775	
23	Insurance	2,585,934	2,068,747	517,187	
24	Other expenses Itemize expenses not covered above (List miscellaneous expenses in line 24f If line 24f amount exceeds 10% of line 25, column (A) amount, list line 24f expenses on Schedule O)				
a	Physician fees	8,274,998	6,619,998	1,655,000	
b	Bad debt expense	12,373,736	9,898,989	2,474,747	
c	Drugs & pharmaceuticals	25,408,802	20,327,042	5,081,760	
d	Medical supplies	32,146,260	25,717,008	6,429,252	
e					
f	All other expenses	27,463,171	21,970,537	5,492,634	
25	Total functional expenses. Add lines 1 through 24f	314,264,502	241,098,208	73,166,294	0
26	Joint costs. Check here <input type="checkbox"/> if following SOP 98-2 (ASC 958-720) Complete this line only if the organization reported in column (B) joint costs from a combined educational campaign and fundraising solicitation				

Part X

Balance Sheet

					(A)		(B)
					Beginning of year		End of year
Assets	1	Cash—non-interest-bearing				1	0
	2	Savings and temporary cash investments			17,126,778	2	23,976,049
	3	Pledges and grants receivable, net				3	0
	4	Accounts receivable, net			37,340,076	4	45,053,198
	5	Receivables from current and former officers, directors, trustees, key employees, and highest compensated employees. Complete Part II of Schedule L				5	0
	6	Receivables from other disqualified persons (as defined under section 4958(f)(1)) and persons described in section 4958(c)(3)(B). Complete Part II of Schedule L				6	0
	7	Notes and loans receivable, net			4,546,136	7	5,811,858
	8	Inventories for sale or use			6,270,491	8	6,024,553
	9	Prepaid expenses and deferred charges			5,344,130	9	5,999,307
	10a	Land, buildings, and equipment—cost or other basis. Complete Part VI of Schedule D	10a	360,025,466			
	b	Less—accumulated depreciation	10b	100,826,679	273,326,365	10c	259,198,787
	11	Investments—publicly traded securities			33,868,350	11	38,644,109
	12	Investments—other securities. See Part IV, line 11				12	0
	13	Investments—program-related. See Part IV, line 11				13	0
	14	Intangible assets				14	0
	15	Other assets. See Part IV, line 11			50,442,168	15	51,462,887
	16	Total assets. Add lines 1 through 15 (must equal line 34)			428,264,494	16	436,170,748
Liabilities	17	Accounts payable and accrued expenses			38,853,319	17	41,067,782
	18	Grants payable				18	
	19	Deferred revenue				19	
	20	Tax-exempt bond liabilities			263,026,204	20	259,750,461
	21	Escrow or custodial account liability. Complete Part IV of Schedule D				21	
	22	Payables to current and former officers, directors, trustees, key employees, highest compensated employees, and disqualified persons. Complete Part II of Schedule L				22	
	23	Secured mortgages and notes payable to unrelated third parties			6,477,567	23	4,322,877
	24	Unsecured notes and loans payable to unrelated third parties				24	
	25	Other liabilities (including federal income tax, payables to related third parties, and other liabilities not included on lines 17-24). Complete Part X of Schedule D			2,830,945	25	1,064,856
	26	Total liabilities. Add lines 17 through 25			311,188,035	26	306,205,976
Net Assets or Fund Balances	Organizations that follow SFAS 117, check here <input checked="" type="checkbox"/> and complete lines 27 through 29, and lines 33 and 34.						
	27	Unrestricted net assets			110,748,543	27	125,248,546
	28	Temporarily restricted net assets			5,299,298	28	3,687,608
	29	Permanently restricted net assets			1,028,618	29	1,028,618
	Organizations that do not follow SFAS 117, check here <input type="checkbox"/> and complete lines 30 through 34.						
	30	Capital stock or trust principal, or current funds				30	
	31	Paid-in or capital surplus, or land, building or equipment fund				31	
	32	Retained earnings, endowment, accumulated income, or other funds				32	
	33	Total net assets or fund balances			117,076,459	33	129,964,772
	34	Total liabilities and net assets/fund balances			428,264,494	34	436,170,748

Part XI Reconciliation of Net Assets

Check if Schedule O contains a response to any question in this Part XI

1	Total revenue (must equal Part VIII, column (A), line 12)	1	323,526,911
2	Total expenses (must equal Part IX, column (A), line 25)	2	314,264,502
3	Revenue less expenses Subtract line 2 from line 1	3	9,262,409
4	Net assets or fund balances at beginning of year (must equal Part X, line 33, column (A))	4	117,076,459
5	Other changes in net assets or fund balances (explain in Schedule O)	5	3,625,904
6	Net assets or fund balances at end of year Combine lines 3, 4, and 5 (must equal Part X, line 33, column (B))	6	129,964,772

Part XII Financial Statements and Reporting

Check if Schedule O contains a response to any question in this Part XII

		Yes	No
1	Accounting method used to prepare the Form 990 <input type="checkbox"/> Cash <input checked="" type="checkbox"/> Accrual <input type="checkbox"/> Other If the organization changed its method of accounting from a prior year or checked "Other," explain in Schedule O		
2a	Were the organization's financial statements compiled or reviewed by an independent accountant?		No
b	Were the organization's financial statements audited by an independent accountant?	Yes	
c	If "Yes," to 2a or 2b, does the organization have a committee that assumes responsibility for oversight of the audit, review, or compilation of its financial statements and selection of an independent accountant? If the organization changed either its oversight process or selection process during the tax year, explain in Schedule O	Yes	
d	If "Yes" to line 2a or 2b, check a box below to indicate whether the financial statements for the year were issued on a separate basis, consolidated basis, or both <input type="checkbox"/> Separate basis <input checked="" type="checkbox"/> Consolidated basis <input type="checkbox"/> Both consolidated and separated basis		
3a	As a result of a federal award, was the organization required to undergo an audit or audits as set forth in the Single Audit Act and OMB Circular A-133?		No
b	If "Yes," did the organization undergo the required audit or audits? If the organization did not undergo the required audit or audits, explain why in Schedule O and describe any steps taken to undergo such audits		No

SCHEDULE A
(Form 990 or 990EZ)

Department of the Treasury
Internal Revenue Service

Public Charity Status and Public Support

Complete if the organization is a section 501(c)(3) organization or a section 4947(a)(1) nonexempt charitable trust.

▶ Attach to Form 990 or Form 990-EZ. ▶ See separate instructions.

OMB No 1545-0047

2011

Open to Public
Inspection

Name of the organization Mentus Medical Center Inc	Employer identification number 52-0607949
---	--

Part I Reason for Public Charity Status (All organizations must complete this part.) See instructions

The organization is not a private foundation because it is (For lines 1 through 11, check only one box)

1

☐

A church, convention of churches, or association of churches **section 170(b)(1)(A)(i).**

2

☐

A school described in **section 170(b)(1)(A)(ii).** (Attach Schedule E)

3

☒

A hospital or a cooperative hospital service organization described in **section 170(b)(1)(A)(iii).**

4

☐

A medical research organization operated in conjunction with a hospital described in **section 170(b)(1)(A)(iii).** Enter the hospital's name, city, and state

5

☐

An organization operated for the benefit of a college or university owned or operated by a governmental unit described in **section 170(b)(1)(A)(iv).** (Complete Part II)

6

☐

A federal, state, or local government or governmental unit described in **section 170(b)(1)(A)(v).**

7

☐

An organization that normally receives a substantial part of its support from a governmental unit or from the general public described in **section 170(b)(1)(A)(vi)** (Complete Part II)

8

☐

A community trust described in **section 170(b)(1)(A)(vi)** (Complete Part II)

9

☐

An organization that normally receives (1) more than 33 1/3% of its support from contributions, membership fees, and gross receipts from activities related to its exempt functions—subject to certain exceptions, and (2) no more than 33 1/3% of its support from gross investment income and unrelated business taxable income (less section 511 tax) from businesses acquired by the organization after June 30, 1975 See **section 509(a)(2).** (Complete Part III)

10

☐

An organization organized and operated exclusively to test for public safety Se**section 509(a)(4).**

11

☐

An organization organized and operated exclusively for the benefit of, to perform the functions of, or to carry out the purposes of one or more publicly supported organizations described in section 509(a)(1) or section 509(a)(2) See **section 509(a)(3).** Check the box that describes the type of supporting organization and complete lines 11e through 11h

a

☐

Type I

b

☐

Type II

c

☐

Type III - Functionally integrated

d

☐

Type III - Other

e

☐

By checking this box, I certify that the organization is not controlled directly or indirectly by one or more disqualified persons other than foundation managers and other than one or more publicly supported organizations described in section 509(a)(1) or section 509(a)(2)

f

☐

If the organization received a written determination from the IRS that it is a Type I, Type II or Type III supporting organization, check this box

g

☐

Since August 17, 2006, has the organization accepted any gift or contribution from any of the following persons?

(i)

a person who directly or indirectly controls, either alone or together with persons described in (ii) and (iii) below, the governing body of the the supported organization?

(ii)

a family member of a person described in (i) above?

(iii)

a 35% controlled entity of a person described in (i) or (ii) above?

h

☐

Provide the following information about the supported organization(s)

	Yes	No
11g(i)		
11g(ii)		
11g(iii)		

(i) Name of supported organization	(ii) EIN	(iii) Type of organization (described on lines 1- 9 above or IRC section (see instructions))	(iv) Is the organization in col (i) listed in your governing document?		(v) Did you notify the organization in col (i) of your support?		(vi) Is the organization in col (i) organized in the U S ?		(vii) Amount of support?
			Yes	No	Yes	No	Yes	No	
Total									

Part II

Support Schedule for Organizations Described in IRC 170(b)(1)(A)(iv) and 170(b)(1)(A)(vi)
(Complete only if you checked the box on line 5, 7, or 8 of Part I or if the organization failed to qualify under Part III. If the organization fails to qualify under the tests listed below, please complete Part III.)

Section A. Public Support						
Calendar year	(a) 2007	(b) 2008	(c) 2009	(d) 2010	(e) 2011	(f) Total
1 Gifts, grants, contributions, and membership fees received (Do not include any "unusual grants.")						
2 Tax revenues levied for the organization's benefit and either paid to or expended on its behalf						
3 The value of services or facilities furnished by a governmental unit to the organization without charge						
4 Total. Add lines 1 through 3						
5 The portion of total contributions by each person (other than a governmental unit or publicly supported organization) included on line 1 that exceeds 2% of the amount shown on line 11, column (f)						
6 Public Support. Subtract line 5 from line 4						

Section B. Total Support						
Calendar year	(a) 2007	(b) 2008	(c) 2009	(d) 2010	(e) 2011	(f) Total
7 Amounts from line 4						
8 Gross income from interest, dividends, payments received on securities loans, rents, royalties and income from similar sources						
9 Net income from unrelated business activities, whether or not the business is regularly carried on						
10 Other income (Explain in Part IV) Do not include gain or loss from the sale of capital assets						
11 Total support (Add lines 7 through 10)						
12 Gross receipts from related activities, etc (See instructions)					12	
13 First Five Years If the Form 990 is for the organization's first, second, third, fourth, or fifth tax year as a 501(c)(3) organization, check this box and stop here						

Section C. Computation of Public Support Percentage						
14 Public Support Percentage for 2011 (line 6 column (f) divided by line 11 column (f))	14					
15 Public Support Percentage for 2010 Schedule A, Part II, line 14	15					
16a 33 1/3% support test—2011. If the organization did not check the box on line 13, and line 14 is 33 1/3% or more, check this box and stop here. The organization qualifies as a publicly supported organization						
b 33 1/3% support test—2010. If the organization did not check the box on line 13 or 16a, and line 15 is 33 1/3% or more, check this box and stop here. The organization qualifies as a publicly supported organization						
17a 10%-facts-and-circumstances test—2011. If the organization did not check a box on line 13, 16a, or 16b and line 14 is 10% or more, and if the organization meets the "facts and circumstances" test, check this box and stop here. Explain in Part IV how the organization meets the "facts and circumstances" test The organization qualifies as a publicly supported organization						
b 10%-facts-and-circumstances test—2010. If the organization did not check a box on line 13, 16a, 16b, or 17a and line 15 is 10% or more, and if the organization meets the "facts and circumstances" test, check this box and stop here. Explain in Part IV how the organization meets the "facts and circumstances" test The organization qualifies as a publicly supported organization						
18 Private Foundation If the organization did not check a box on line 13, 16a, 16b, 17a or 17b, check this box and see instructions						

Part IIIPart III

Support Schedule for Organizations Described in IRC 509(a)(2)
(Complete only if you checked the box on line 9 of Part I or if the organization failed to qualify under Part II. If the organization fails to qualify under the tests listed below, please complete Part II.)

Section A. Public Support						
Calendar year (or fiscal year beginning in)	(a) 2007	(b) 2008	(c) 2009	(d) 2010	(e) 2011	(f) Total
1 Gifts, grants, contributions, and membership fees received (Do not include any "unusual grants.")						
2 Gross receipts from admissions, merchandise sold or services performed, or facilities furnished in any activity that is related to the organization's tax-exempt purpose						
3 Gross receipts from activities that are not an unrelated trade or business under section 513						
4 Tax revenues levied for the organization's benefit and either paid to or expended on its behalf						
5 The value of services or facilities furnished by a governmental unit to the organization without charge						
6 Total. Add lines 1 through 5						
7a Amounts included on lines 1, 2, and 3 received from disqualified persons						
b Amounts included on lines 2 and 3 received from other than disqualified persons that exceed the greater of \$5,000 or 1% of the amount on line 13 for the year						
c Add lines 7a and 7b						
8 Public Support (Subtract line 7c from line 6)						

Section B. Total Support						
Calendar year (or fiscal year beginning in)	(a) 2007	(b) 2008	(c) 2009	(d) 2010	(e) 2011	(f) Total
9 Amounts from line 6						
10a Gross income from interest, dividends, payments received on securities loans, rents, royalties and income from similar sources						
b Unrelated business taxable income (less section 511 taxes) from businesses acquired after June 30, 1975						
c Add lines 10a and 10b						
11 Net income from unrelated business activities not included in line 10b, whether or not the business is regularly carried on						
12 Other income. Do not include gain or loss from the sale of capital assets (Explain in Part IV.)						
13 Total support (Add lines 9, 10c, 11 and 12.)						
14 First Five Years If the Form 990 is for the organization's first, second, third, fourth, or fifth tax year as a 501(c)(3) organization, check this box and stop here						

Section C. Computation of Public Support Percentage		
15 Public Support Percentage for 2011 (line 8 column (f) divided by line 13 column (f))	15	
16 Public support percentage from 2010 Schedule A, Part III, line 15	16	

Section D. Computation of Investment Income Percentage		
17 Investment income percentage for 2011 (line 10c column (f) divided by line 13 column (f))	17	
18 Investment income percentage from 2010 Schedule A, Part III, line 17	18	
19a 33 1/3% support tests—2011. If the organization did not check the box on line 14, and line 15 is more than 33 1/3% and line 17 is not more than 33 1/3%, check this box and stop here. The organization qualifies as a publicly supported organization		
b 33 1/3% support tests—2010. If the organization did not check a box on line 14 or line 19a, and line 16 is more than 33 1/3% and line 18 is not more than 33 1/3%, check this box and stop here. The organization qualifies as a publicly supported organization		
20 Private Foundation If the organization did not check a box on line 14, 19a or 19b, check this box and see instructions		

Part IV **Supplemental Information.** Supplemental Information. Complete this part to provide the explanation required by Part II, line 10; Part II, line 17a or 17b; or Part III, line 12. Also complete this part for any additional information. (See instructions).

Facts And Circumstances Test

Explanation

SCHEDULE C
(Form 990 or 990-EZ)

Department of the Treasury
Internal Revenue Service

Political Campaign and Lobbying Activities

For Organizations Exempt From Income Tax Under section 501(c) and section 527

▶ Complete if the organization is described below.
▶ Attach to Form 990 or Form 990-EZ. ▶ See separate instructions.

OMB No 1545-0047

2011

Open to Public Inspection

If the organization answered “Yes,” to Form 990, Part IV, Line 3, or Form 990-EZ, Part V, line 46 (Political Campaign Activities), then

- Section 501(c)(3) organizations Complete Parts I-A and B Do not complete Part I-C
- Section 501(c) (other than section 501(c)(3)) organizations Complete Parts I-A and C below Do not complete Part I-B
- Section 527 organizations Complete Part I-A only

If the organization answered “Yes,” to Form 990, Part IV, Line 4, or Form 990-EZ, Part VI, line 47 (Lobbying Activities), then

- Section 501(c)(3) organizations that have filed Form 5768 (election under section 501(h)) Complete Part II-A Do not complete Part II-B
- Section 501(c)(3) organizations that have NOT filed Form 5768 (election under section 501(h)) Complete Part II-B Do not complete Part II-A

If the organization answered “Yes,” to Form 990, Part IV, Line 5 (Proxy Tax) or Form 990-EZ, line 35c (Proxy Tax), then

- Section 501(c)(4), (5), or (6) organizations Complete Part III

Name of the organization Meritus Medical Center Inc	Employer identification number 52-0607949
--	--

Part I-A Complete if the organization is exempt under section 501(c) or is a section 527 organization.

1	Provide a description of the organization's direct and indirect political campaign activities on behalf of or in opposition to candidates for public office in Part IV	
2	Political expenditures	▶ \$
3	Volunteer hours	

Part I-B Complete if the organization is exempt under section 501(c)(3).

1	Enter the amount of any excise tax incurred by the organization under section 4955	▶ \$
2	Enter the amount of any excise tax incurred by organization managers under section 4955	▶ \$
3	If the organization incurred a section 4955 tax, did it file Form 4720 for this year?	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
4a	Was a correction made?	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
b	If "Yes," describe in Part IV	

Part I-C Complete if the organization is exempt under section 501(c) except section 501(c)(3).

1	Enter the amount directly expended by the filing organization for section 527 exempt function activities	▶ \$
2	Enter the amount of the filing organization's funds contributed to other organizations for section 527 exempt funtion activities	▶ \$
3	Total exempt function expenditures Add lines 1 and 2 Enter here and on Form 1120-POL, line 17b	▶ \$
4	Did the filing organization file Form 1120-POL for this year?	<input type="checkbox"/> Yes <input type="checkbox"/> No
5	Enter the names, addresses and employer identification number (EIN) of all section 527 political organizations to which the filing organization made payments For each organization listed, enter the amount paid from the filing organization's funds Also enter the amount of political contributions received that were promptly and directly delivered to a separate political organization, such as a separate segregated fund or a political action committee (PAC) If additional space is needed, provide information in Part IV	

(a) Name	(b) Address	(c) EIN	(d) Amount paid from filing organization's funds If none, enter -0-	(e) Amount of political contributions received and promptly and directly delivered to a separate political organization If none, enter -0-

Part II-A

Complete if the organization is exempt under section 501(c)(3) and filed Form 5768 (election under section 501(h)).

- A
- Check
- ☐
- if the filing organization belongs to an affiliated group (and list in Part IV each affiliated group member's name, address, EIN, expenses, and share of excess lobbying expenditures)
- B
- Check
- ☐
- if the filing organization checked box A and "limited control" provisions apply

Limits on Lobbying Expenditures (The term "expenditures" means amounts paid or incurred.)		(a) Filing Organization's Totals	(b) Affiliated Group Totals												
1a	Total lobbying expenditures to influence public opinion (grass roots lobbying)														
b	Total lobbying expenditures to influence a legislative body (direct lobbying)														
c	Total lobbying expenditures (add lines 1a and 1b)														
d	Other exempt purpose expenditures														
e	Total exempt purpose expenditures (add lines 1c and 1d)														
f	Lobbying nontaxable amount Enter the amount from the following table in both columns														
<table><tr><td>If the amount on line 1e, column (a) or (b) is:</td><td>The lobbying nontaxable amount is:</td></tr><tr><td>Not over \$500,000</td><td>20% of the amount on line 1e</td></tr><tr><td>Over \$500,000 but not over \$1,000,000</td><td>\$100,000 plus 15% of the excess over \$500,000</td></tr><tr><td>Over \$1,000,000 but not over \$1,500,000</td><td>\$175,000 plus 10% of the excess over \$1,000,000</td></tr><tr><td>Over \$1,500,000 but not over \$17,000,000</td><td>\$225,000 plus 5% of the excess over \$1,500,000</td></tr><tr><td>Over \$17,000,000</td><td>\$1,000,000</td></tr></table>		If the amount on line 1e, column (a) or (b) is:	The lobbying nontaxable amount is:	Not over \$500,000	20% of the amount on line 1e	Over \$500,000 but not over \$1,000,000	\$100,000 plus 15% of the excess over \$500,000	Over \$1,000,000 but not over \$1,500,000	\$175,000 plus 10% of the excess over \$1,000,000	Over \$1,500,000 but not over \$17,000,000	\$225,000 plus 5% of the excess over \$1,500,000	Over \$17,000,000	\$1,000,000		
If the amount on line 1e, column (a) or (b) is:	The lobbying nontaxable amount is:														
Not over \$500,000	20% of the amount on line 1e														
Over \$500,000 but not over \$1,000,000	\$100,000 plus 15% of the excess over \$500,000														
Over \$1,000,000 but not over \$1,500,000	\$175,000 plus 10% of the excess over \$1,000,000														
Over \$1,500,000 but not over \$17,000,000	\$225,000 plus 5% of the excess over \$1,500,000														
Over \$17,000,000	\$1,000,000														
g	Grassroots nontaxable amount (enter 25% of line 1f)														
h	Subtract line 1g from line 1a If zero or less, enter -0-														
i	Subtract line 1f from line 1c If zero or less, enter -0-														
j	If there is an amount other than zero on either line 1h or line 1i, did the organization file Form 4720 reporting section 4911 tax for this year?		<input type="checkbox"/> Yes <input type="checkbox"/> No												

4-Year Averaging Period Under Section 501(h)
(Some organizations that made a section 501(h) election do not have to complete all of the five columns below. See the instructions for lines 2a through 2f on page 4.)

Lobbying Expenditures During 4-Year Averaging Period					
Calendar year (or fiscal year beginning in)	(a) 2008	(b) 2009	(c) 2010	(d) 2011	(e) Total
2a Lobbying non-taxable amount					
b Lobbying ceiling amount (150% of line 2a, column(e))					
c Total lobbying expenditures					
d Grassroots non-taxable amount					
e Grassroots ceiling amount (150% of line 2d, column (e))					
f Grassroots lobbying expenditures					

Part II-B Complete if the organization is exempt under section 501(c)(3) and has NOT filed Form 5768 (election under section 501(h)).

		(a)		(b)
		Yes	No	Amount
1	During the year, did the filing organization attempt to influence foreign, national, state or local legislation, including any attempt to influence public opinion on a legislative matter or referendum, through the use of			
a	Volunteers?		No	
b	Paid staff or management (include compensation in expenses reported on lines 1c through 1i)?		No	
c	Media advertisements?		No	
d	Mailings to members, legislators, or the public?		No	
e	Publications, or published or broadcast statements?		No	
f	Grants to other organizations for lobbying purposes?		No	
g	Direct contact with legislators, their staffs, government officials, or a legislative body?		No	
h	Rallies, demonstrations, seminars, conventions, speeches, lectures, or any similar means?		No	
i	Other activities? If "Yes," describe in Part IV	Yes		11,115
j	Total lines 1c through 1i			11,115
2a	Did the activities in line 1 cause the organization to be not described in section 501(c)(3)?		No	
b	If "Yes," enter the amount of any tax incurred under section 4912			
c	If "Yes," enter the amount of any tax incurred by organization managers under section 4912			
d	If the filing organization incurred a section 4912 tax, did it file Form 4720 for this year?		No	

Part III-A Complete if the organization is exempt under section 501(c)(4), section 501(c)(5), or section 501(c)(6).

			Yes	No
1	Were substantially all (90% or more) dues received nondeductible by members?	1		
2	Did the organization make only in-house lobbying expenditures of \$2,000 or less?	2		
3	Did the organization agree to carryover lobbying and political expenditures from the prior year?	3		

Part III-B Complete if the organization is exempt under section 501(c)(4), section 501(c)(5), or section 501(c)(6) if BOTH Part III-A, lines 1 and 2 are answered "No" OR if Part III-A, line 3 is answered "Yes".

1	Dues, assessments and similar amounts from members	1	
2	Section 162(e) non-deductible lobbying and political expenditures (do not include amounts of political expenses for which the section 527(f) tax was paid).		
a	Current year	2a	
b	Carryover from last year	2b	
c	Total	2c	
3	Aggregate amount reported in section 6033(e)(1)(A) notices of nondeductible section 162(e) dues	3	
4	If notices were sent and the amount on line 2c exceeds the amount on line 3, what portion of the excess does the organization agree to carryover to the reasonable estimate of nondeductible lobbying and political expenditure next year?	4	
5	Taxable amount of lobbying and political expenditures (see instructions)	5	

Part IV Supplemental Information

Complete this part to provide the descriptions required for Part I-A, line 1, Part I-B, line 4, Part I-C, line 5, and Part II-B, line 1i. Also, complete this part for any additional information.

Identifier	Return Reference	Explanation
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SCHEDULE D
(Form 990)

Supplemental Financial Statements

OMB No 1545-0047

2011

Open to Public Inspection

Department of the Treasury
Internal Revenue Service

Complete if the organization answered "Yes," to Form 990, Part IV, line 6, 7, 9, 10, 11a, 11b, 11c, 11d, 11e, 11f, 12a, or 12b
Attach to Form 990. See separate instructions.

Name of the organization
Meritus Medical Center Inc

Employer identification number
52-0607949

Part I

Organizations Maintaining Donor Advised Funds or Other Similar Funds or Accounts. Complete if the organization answered "Yes" to Form 990, Part IV, line 6.

	(a) Donor advised funds	(b) Funds and other accounts
1	Total number at end of year	
2	Aggregate contributions to (during year)	
3	Aggregate grants from (during year)	
4	Aggregate value at end of year	
5	Did the organization inform all donors and donor advisors in writing that the assets held in donor advised funds are the organization's property, subject to the organization's exclusive legal control?	
	<input type="checkbox"/> Yes <input type="checkbox"/> No	
6	Did the organization inform all grantees, donors, and donor advisors in writing that grant funds may be used only for charitable purposes and not for the benefit of the donor or donor advisor, or for any other purpose conferring impermissible private benefit	
	<input type="checkbox"/> Yes <input type="checkbox"/> No	

Part II

Conservation Easements. Complete if the organization answered "Yes" to Form 990, Part IV, line 7.

1 Purpose(s) of conservation easements held by the organization (check all that apply)

☐ Preservation of land for public use (e g , recreation or pleasure)

☐ Preservation of an historically importantly land area

☐ Protection of natural habitat

☐ Preservation of a certified historic structure

☐ Preservation of open space

2 Complete lines 2a–2d if the organization held a qualified conservation contribution in the form of a conservation easement on the last day of the tax year

	Held at the End of the Year
a	Total number of conservation easements
b	Total acreage restricted by conservation easements
c	Number of conservation easements on a certified historic structure included in (a)
d	Number of conservation easements included in (c) acquired after 8/17/06

3 Number of conservation easements modified, transferred, released, extinguished, or terminated by the organization during the taxable year ▶ _____

4 Number of states where property subject to conservation easement is located ▶ _____

5 Does the organization have a written policy regarding the periodic monitoring, inspection, handling of violations, and enforcement of the conservation easements it holds?

☐ Yes ☐ No

6 Staff and volunteer hours devoted to monitoring, inspecting and enforcing conservation easements during the year ▶ _____

7 Amount of expenses incurred in monitoring, inspecting, and enforcing conservation easements during the year ▶ \$ _____

8 Does each conservation easement reported on line 2(d) above satisfy the requirements of section 170(h)(4)(B)(i) and 170(h)(4)(B)(ii)?

☐ Yes ☐ No

9 In Part XIV, describe how the organization reports conservation easements in its revenue and expense statement, and balance sheet, and include, if applicable, the text of the footnote to the organization's financial statements that describes the organization's accounting for conservation easements

Part III

Organizations Maintaining Collections of Art, Historical Treasures, or Other Similar Assets. Complete if the organization answered "Yes" to Form 990, Part IV, line 8.

1a If the organization elected, as permitted under SFAS 116, not to report in its revenue statement and balance sheet works of art, historical treasures, or other similar assets held for public exhibition, education or research in furtherance of public service, provide, in Part XIV, the text of the footnote to its financial statements that describes these items

b If the organization elected, as permitted under SFAS 116, to report in its revenue statement and balance sheet works of art, historical treasures, or other similar assets held for public exhibition, education, or research in furtherance of public service, provide the following amounts relating to these items

(i) Revenues included in Form 990, Part VIII, line 1

▶ \$ _____

(ii) Assets included in Form 990, Part X

▶ \$ _____

2 If the organization received or held works of art, historical treasures, or other similar assets for financial gain, provide the following amounts required to be reported under SFAS 116 relating to these items

a Revenues included in Form 990, Part VIII, line 1

▶ \$ _____

b Assets included in Form 990, Part X

▶ \$ _____

Part III

Organizations Maintaining Collections of Art, Historical Treasures, or Other Similar Assets (continued)

3

Using the organization's accession and other records, check any of the following that are a significant use of its collection items (check all that apply)

a

☐ Public exhibition

b

☐ Scholarly research

c

☐ Preservation for future generations

d

☐ Loan or exchange programs

e

☐ Other

4

Provide a description of the organization's collections and explain how they further the organization's exempt purpose in Part XIV

5

During the year, did the organization solicit or receive donations of art, historical treasures or other similar assets to be sold to raise funds rather than to be maintained as part of the organization's collection?

☐ Yes

☐ No

Part IV

Escrow and Custodial Arrangements. Complete if the organization answered "Yes" to Form 990, Part IV, line 9, or reported an amount on Form 990, Part X, line 21.

1a

Is the organization an agent, trustee, custodian or other intermediary for contributions or other assets not included on Form 990, Part X?

☐ Yes

☐ No

b

If "Yes," explain the arrangement in Part XIV and complete the following table

	Amount
1c	
1d	
1e	
1f	

2a

Did the organization include an amount on Form 990, Part X, line 21?

☐ Yes

☐ No

b

If "Yes," explain the arrangement in Part XIV

Part V

Endowment Funds. Complete if the organization answered "Yes" to Form 990, Part IV, line 10.

	(a)Current Year	(b)Prior Year	(c)Two Years Back	(d)Three Years Back	(e)Four Years Back
1a	Beginning of year balance	1,046,226	1,044,234	1,056,042	
b	Contributions				
c	Investment earnings or losses	26,365	24,155	23,318	
d	Grants or scholarships				
e	Other expenditures for facilities and programs	24,272	22,163	35,126	
f	Administrative expenses				
g	End of year balance	1,048,319	1,046,226	1,044,234	

2

Provide the estimated percentage of the year end balance held as

a

Board designated or quasi-endowment ▶

b

Permanent endowment ▶ 100 000 %

c

Term endowment ▶

3a

Are there endowment funds not in the possession of the organization that are held and administered for the organization by

(i) unrelated organizations

3a(i)

Yes

No

(ii) related organizations

3a(ii)

Yes

No

b

If "Yes" to 3a(ii), are the related organizations listed as required on Schedule R?

3b

Yes

No

4

Describe in Part XIV the intended uses of the organization's endowment funds

Part VI

Land, Buildings, and Equipment. See Form 990, Part X, line 10.

Description of property	(a) Cost or other basis (investment)	(b)Cost or other basis (other)	(c) Accumulated depreciation	(d) Book value
1a Land		1,989,600		1,989,600
b Buildings		176,246,652	17,777,547	158,469,105
c Leasehold improvements		13,597,663	1,044,075	12,553,588
d Equipment		167,607,125	82,005,057	85,602,068
e Other		584,426		584,426
Total. Add lines 1a-1e (Column (d) should equal Form 990, Part X, column (B), line 10(c).) ▶				259,198,787

Schedule D (Form 990) 2011

Part XI

Reconciliation of Change in Net Assets from Form 990 to Financial Statements

1	Total revenue (Form 990, Part VIII, column (A), line 12)	1	
2	Total expenses (Form 990, Part IX, column (A), line 25)	2	
3	Excess or (deficit) for the year Subtract line 2 from line 1	3	
4	Net unrealized gains (losses) on investments	4	
5	Donated services and use of facilities	5	
6	Investment expenses	6	
7	Prior period adjustments	7	
8	Other (Describe in Part XIV)	8	
9	Total adjustments (net) Add lines 4 - 8	9	
10	Excess or (deficit) for the year per financial statements Combine lines 3 and 9	10	

Part XII

Reconciliation of Revenue per Audited Financial Statements With Revenue per Return

1	Total revenue, gains, and other support per audited financial statements	1	
2	Amounts included on line 1 but not on Form 990, Part VIII, line 12		
a	Net unrealized gains on investments	2a	
b	Donated services and use of facilities	2b	
c	Recoveries of prior year grants	2c	
d	Other (Describe in Part XIV)	2d	
e	Add lines 2a through 2d	2e	
3	Subtract line 2e from line 1	3	
4	Amounts included on Form 990, Part VIII, line 12, but not on line 1		
a	Investment expenses not included on Form 990, Part VIII, line 7b	4a	
b	Other (Describe in Part XIV)	4b	
c	Add lines 4a and 4b	4c	
5	Total Revenue Add lines 3 and 4c. (This should equal Form 990, Part I, line 12)	5	

Part XIII

Reconciliation of Expenses per Audited Financial Statements With Expenses per Return

1	Total expenses and losses per audited financial statements	1	
2	Amounts included on line 1 but not on Form 990, Part IX, line 25		
a	Donated services and use of facilities	2a	
b	Prior year adjustments	2b	
c	Other losses	2c	
d	Other (Describe in Part XIV)	2d	
e	Add lines 2a through 2d	2e	
3	Subtract line 2e from line 1	3	
4	Amounts included on Form 990, Part IX, line 25, but not on line 1:		
a	Investment expenses not included on Form 990, Part VIII, line 7b	4a	
b	Other (Describe in Part XIV)	4b	
c	Add lines 4a and 4b	4c	
5	Total expenses Add lines 3 and 4c. (This should equal Form 990, Part I, line 18)	5	

Part XIV

Supplemental Information

Complete this part to provide the descriptions required for Part II, lines 3, 5, and 9, Part III, lines 1a and 4, Part IV, lines 1b and 2b, Part V, line 4, Part X, Part XI, line 8, Part XII, lines 2d and 4b, and Part XIII, lines 2d and 4b. Also complete this part to provide any additional information.

Identifier	Return Reference	Explanation
Part X	Part X FIN48 Footnote	MMC follows the accounting guidance for uncertainties in income tax positions which requires that a tax position be recognized or derecognized based on a "more likely than not" threshold. This applies to positions taken or expected to be taken in a tax return. MMC does not believe its consolidated financial statements include any material uncertain tax positions.
Part XI, Line 8	Part XI, Line 8 Other Changes in Net Assets or Fund Balances	Acquisition of assets of LLC \$5678766. Net assets held by Meritus Healthcare Foundation \$ -1361746. Change in retirement benefit obligation \$ -88260.
Part V, Line 4	Part V, Line 4 Intended uses of the endowment fund	Charity care

SCHEDULE H
(Form 990)

Department of the Treasury
Internal Revenue Service

Hospitals

▶ **Complete if the organization answered "Yes" to Form 990, Part IV, question 20.**
▶ **Attach to Form 990. ▶ See separate instructions.**

OMB No 1545-0047

2011

Open to Public Inspection

Name of the organization
Mentus Medical Center Inc

Employer identification number
52-0607949

Part I

Charity Care and Certain Other Community Benefits at Cost

		Yes	No	
1a	Did the organization have a charity care policy? If "No," skip to question 6a	1a	Yes	
b	If "Yes," is it a written policy?	1b	Yes	
2	If the organization had multiple hospitals, indicate which of the following best describes application of the charity care policy to the various hospitals <div><input type="checkbox"/> Applied uniformly to all hospitals <input type="checkbox"/> Generally tailored to individual hospitals</div> <div><input type="checkbox"/> Applied uniformly to most hospitals</div>			
3	Answer the following based on the charity care eligibility criteria that applies to the largest number of the organization's patients during the tax year a Did the organization use Federal Poverty Guidelines (FPG) to determine eligibility for providing <i>free</i> care? If "Yes," indicate which of the following is the FPG family income limit for eligibility for free care <div><input type="checkbox"/> 100%<input checked="" type="checkbox"/> 150%<input type="checkbox"/> 200%<input type="checkbox"/> Other _____%</div> b Did the organization use FPG to determine eligibility for providing <i>discounted</i> care? If "Yes," indicate which of the following is the family income limit for eligibility for discounted care <div><input type="checkbox"/> 200%<input type="checkbox"/> 250%<input checked="" type="checkbox"/> 300%<input type="checkbox"/> 350%<input type="checkbox"/> 400%<input type="checkbox"/> Other _____%</div> c If the organization did not use FPG to determine eligibility, describe in Part VI the income based criteria for determining eligibility for free or discounted care Include in the description whether the organization uses an asset test or other threshold, regardless of income, to determine eligibility for free or discounted care	3a	Yes	
4	Did the organization's policy provide free or discounted care to the "medically indigent"?	4	Yes	
5a	Did the organization budget amounts for free or discounted care provided under its financial assistance policy during the tax year?	5a	Yes	
b	If "Yes," did the organization's charity care expenses exceed the budgeted amount?	5b		No
c	If "Yes" to line 5b, as a result of budget considerations, was the organization unable to provide free or discounted care to a patient who was eligible for free or discounted care?	5c		No
6a	Did the organization prepare a community benefit report during the tax year?	6a	Yes	
6b	If "Yes," did the organization make it available to the public?	6b	Yes	
	Complete the following table using the worksheets provided in the Schedule H instructions Do not submit these worksheets with the Schedule H			

7

Charity Care and Certain Other Community Benefits at Cost

Charity Care and Means-Tested Government Programs	(a) Number of activities or programs (optional)	(b) Persons served (optional)	(c) Total community benefit expense	(d) Direct offsetting revenue	(e) Net community benefit expense	(f) Percent of total expense
a Charity care at cost (from Worksheet 1)		3,271	10,803,681		10,803,681	3 440 %
b Medicaid (from Worksheet 3, column a)			1,104,817		1,104,817	0 350 %
c Costs of other means-tested government programs (from Worksheet 3, column b)						
d Total Charity Care and Means-Tested Government Programs		3,271	11,908,498		11,908,498	3 790 %
Other Benefits						
e Community health improvement services and community benefit operations (from Worksheet 4)		168,015	1,345,782		1,345,782	0 430 %
f Health professions education (from Worksheet 5)		5,510	249,050		249,050	0 080 %
g Subsidized health services (from Worksheet 6)		34,055	13,636,101	2,683,746	10,952,355	3 490 %
h Research (from Worksheet 7)		996	518,671	340,626	178,045	0 060 %
i Cash and in-kind contributions for community benefit (from Worksheet 8)		3,420	615,321	435,253	180,068	0 060 %
j Total Other Benefits		211,996	16,364,925	3,459,625	12,905,300	4 120 %
k Total. Add lines 7d and 7j		215,267	28,273,423	3,459,625	24,813,798	7 910 %

Part IICommunity Building Activities

Complete this table if the organization conducted any community building activities.

	(a) Number of activities or programs (optional)	(b) Persons served (optional)	(c) Total community building expense	(d) Direct offsetting revenue	(e) Net community building expense	(f) Percent of total expense
1Physical improvements and housing						
2Economic development						
3Community support		166	6,624		6,624	
4Environmental improvements						
5Leadership development and training for community members						
6Coalition building						
7Community health improvement advocacy		23	97		97	
8Workforce development						
9Other		468	6,757		6,757	
10Total		657	13,478		13,478	

Part IIIBad Debt, Medicare, & Collection Practices

Section A. Bad Debt Expense

		Yes	No
1	Did the organization report bad debt expense in accordance with Heathcare Financial Management Association Statement No. 15?	1Yes	
2	Enter the amount of the organization's bad debt expense	29,491,853	
3	Enter the estimated amount of the organization's bad debt expense attributable to patients eligible under the organization's charity care policy	31,479,250	
4	Provide in Part VI the text of the footnote to the organization's financial statements that describes bad debt expense. In addition, describe the costing methodology used in determining the amounts reported on lines 2 and 3, and rationale for including a portion of bad debt amounts as community benefit.		

Section B. Medicare

5	Enter total revenue received from Medicare (including DSH and IME)	5283,953,366	
6	Enter Medicare allowable costs of care relating to payments on line 5	6261,276,432	
7	Subtract line 6 from line 5. This is the surplus or (shortfall)	722,676,934	
8	Describe in Part VI the extent to which any shortfall reported in line 7 should be treated as community benefit. Also describe in Part VI the costing methodology or source used to determine the amount reported on line 6. Check the box that describes the method used: <input type="checkbox"/> Cost accounting system <input checked="" type="checkbox"/> Cost to charge ratio <input type="checkbox"/> Other		

Section C. Collection Practices

9a	Did the organization have a written debt collection policy during the tax year?	9aYes	
b	If "Yes," did the organization's collection policy that applied to the largest number of its patients during the tax year contain provisions on the collection practices to be followed for patients who are known to qualify for financial assistance? Describe in Part VI.	9bYes	

Part IVManagement Companies and Joint Ventures (see instructions)

(a) Name of entity	(b) Description of primary activity of entity	(c) Organization's profit % or stock ownership %	(d) Officers, directors, trustees, or key employees' profit % or stock ownership%	(e) Physicians' profit % or stock ownership %
1Tri-State Health Part Inc	PHO	50.000 %		50.000 %
2Maryland Care Inc	healthcare	25.000 %		
3				
4				
5				
6				
7				
8				
9				
10				
11				
12				
13				

Section A. Hospital Facilities

How many hospital facilities did the organization operate during the tax year? 1

Name and address

[illegible]

Part V Facility Information (continued)

Section B. Facility Policies and Practices.

(Complete a separate Section B for each of the hospital facilities listed in Part V, Section A)

Meritus Medical Center Inc

Name of Hospital Facility:_____

Line Number of Hospital Facility (from Schedule H, Part V, Section A):_____1_____

	Yes	No
Community Health Needs Assessment (Lines 1 through 7 are optional for 2011)		
1 During the tax year or any prior tax year, did the hospital facility conduct a community health needs assessment ("Needs Assessment")? If "No," skip to question 8 If "Yes," indicate what the Needs Assessment describes (check all that apply) a <input type="checkbox"/> A definition of the community served by the hospital facility b <input type="checkbox"/> Demographics of the community c <input type="checkbox"/> Existing health care facilities and resources within the community that are available to respond to the health needs of the community d <input type="checkbox"/> How data was obtained e <input type="checkbox"/> The health needs of the community f <input type="checkbox"/> Primary and chronic disease needs and other health issues of uninsured persons, low-income persons, and minority groups g <input type="checkbox"/> The process for identifying and prioritizing community health needs and services to meet those needs h <input type="checkbox"/> The process for consulting with persons representing the community's interests i <input type="checkbox"/> Information gaps that limit the hospital facility's ability to assess the community's health needs j <input type="checkbox"/> Other (describe in Part VI)	1	No
2 Indicate the tax year the hospital facility last conducted a Needs Assessment 20 ____		
3 In conducting its most recent Needs Assessment, did the hospital facility take into account input from persons who represent the community served by the hospital facility? If "Yes," describe in Part VI how the hospital facility took into account input from persons who represent the community, and identify the persons the hospital facility consulted	3	
4 Was the hospital facility's Needs Assessment conducted with one or more other hospital facilities? If "Yes," list the other hospital facilities in Part VI	4	
5 Did the hospital facility make its Needs Assessment widely available to the public? If "Yes," indicate how the Needs Assessment was made widely available (check all that apply) a <input type="checkbox"/> Hospital facility's website b <input type="checkbox"/> Available upon request from the hospital facility c <input type="checkbox"/> Other (describe in Part VI)	5	
6 If the hospital facility addressed needs identified in its most recently conducted Needs Assessment, indicate how (check all that apply) a <input type="checkbox"/> Adoption of an implementation strategy to address the health needs of the hospital facility's community b <input type="checkbox"/> Execution of the implementation strategy c <input type="checkbox"/> Development of a community-wide community benefit plan for the facility d <input type="checkbox"/> Participation in community-wide community benefit plan e <input type="checkbox"/> Inclusion of a community benefit section in operational plans f <input type="checkbox"/> Adoption of a budget for provision of services that address the needs identified in the CHNA g <input type="checkbox"/> Prioritization of health needs in the community h <input type="checkbox"/> Prioritization of services that the hospital facility will undertake to meet health needs in its community i <input type="checkbox"/> Other (describe in Part VI)		
7 Did the hospital facility address all of the needs identified in its most recently conducted Needs Assessment? If "No," explain in Part VI which needs it has not addressed together with the reasons why it has not addressed such needs	7	
Financial Assistance Policy		
Did the hospital facility have in place during the tax year a written financial assistance policy that		
8 Explains eligibility criteria for financial assistance, and whether such assistance includes free or discounted care?	8	Yes
9 Used federal poverty guidelines (FPG) to determine eligibility for providing free care? If "Yes," indicate the FPG family income limit for eligibility for free care <u>150 0000</u> % If "No," explain in Part VI the criteria the hospital facility used	9	Yes

Part V

Facility Information (continued)

		Yes	No	
10	Used FPG to determine eligibility for providing discounted care? If "Yes," indicate the FPG family income limit for eligibility for discounted care <u>300 0000</u> % If "No," explain in Part VI the criteria the hospital facility used	10	Yes	
11	Explained the basis for calculating amounts charged to patients? If "Yes," indicate the factors used in determining such amounts (check all that apply) a <input checked="" type="checkbox"/> Income level b <input checked="" type="checkbox"/> Asset level c <input type="checkbox"/> Medical indigency d <input type="checkbox"/> Insurance status e <input type="checkbox"/> Uninsured discount f <input type="checkbox"/> Medicaid/Medicare g <input type="checkbox"/> State regulation h <input type="checkbox"/> Other (describe in Part VI)	11	Yes	
12	Explained the method for applying for financial assistance?	12	Yes	
13	Included measures to publicize the policy within the community served by the hospital facility? If "Yes," indicate how the hospital facility publicized the policy (check all that apply) a <input checked="" type="checkbox"/> The policy was posted at all times on the hospital facility's web site b <input checked="" type="checkbox"/> The policy was attached to all billing invoices c <input checked="" type="checkbox"/> The policy was posted in the hospital facility's emergency rooms or waiting rooms d <input checked="" type="checkbox"/> The policy was posted in the hospital facility's admissions offices e <input checked="" type="checkbox"/> The policy was provided, in writing, to patients upon admission to the hospital facility f <input checked="" type="checkbox"/> The policy was available upon request g <input type="checkbox"/> Other (describe in Part VI)	13	Yes	

Billing and Collections

14	Did the hospital facility have in place during the tax year a separate billing and collections policy, or a written financial assistance policy (FAP) that explained actions the hospital facility may take upon non-payment?	14	Yes	
15	Check all of the following collection actions against an individual that were permitted under the hospital facility's policies during the tax year before making reasonable efforts to determine the patient's eligibility under the facility's FAP a <input checked="" type="checkbox"/> Reporting to credit agency b <input checked="" type="checkbox"/> Lawsuits c <input type="checkbox"/> Liens on residences d <input type="checkbox"/> Body attachments or arrests e <input type="checkbox"/> Other similar actions (describe in Part VI)			
16	Did the hospital facility or an authorized third party perform any of the following actions during the tax year before making reasonable efforts to determine the patient's eligibility under the facility's FAP? If "Yes," check all actions in which the hospital facility or a third party engaged a <input checked="" type="checkbox"/> Reporting to credit agency b <input checked="" type="checkbox"/> Lawsuits c <input type="checkbox"/> Liens on residences d <input type="checkbox"/> Body attachments e <input type="checkbox"/> Other similar actions (describe in Part VI)	16	Yes	
17	Indicate which efforts the hospital facility made before initiating any of the actions checked in question 16 (check all that apply) a <input checked="" type="checkbox"/> Notified patients of the financial assistance policy upon admission b <input checked="" type="checkbox"/> Notified patients of the financial assistance policy prior to discharge c <input checked="" type="checkbox"/> Notified patients of the financial assistance policy in communications with the patients regarding the patients' bills d <input checked="" type="checkbox"/> Documented its determination of whether patients were eligible for financial assistance under the hospital facility's financial assistance policy e <input type="checkbox"/> Other (describe in Part VI)			

Part V

Facility Information (continued)

Policy Relating to Emergency Medical Care

		Yes	No
18	Did the hospital facility have in place during the tax year a written policy relating to emergency medical care that requires the hospital facility to provide, without discrimination, care for emergency medical conditions to individuals regardless of their eligibility under the hospital facility's financial assistance policy? If "No," indicate why	Yes	
a	<input type="checkbox"/> The hospital facility did not provide care for any emergency medical conditions		
b	<input type="checkbox"/> The hospital facility's policy was not in writing		
c	<input type="checkbox"/> The hospital facility limited who was eligible to receive care for emergency medical conditions (describe in Part VI)		
d	<input type="checkbox"/> Other (describe in Part VI)		

Individuals Eligible for Financial Assistance

19	Indicate how the hospital facility determined, during the tax year, the maximum amounts that can be charged to FAP-eligible individuals for emergency or other medically necessary care		
a	<input type="checkbox"/> The hospital facility used its lowest negotiated commercial insurance rate when calculating the maximum amounts that can be charged		
b	<input type="checkbox"/> The hospital facility used the average of it's three lowest negotiated commercial insurance rates when calculating the maximum amounts that can be charged		
c	<input checked="" type="checkbox"/> The hospital facility used the Medicare rates when calculating the maximum amounts that can be charged		
d	<input type="checkbox"/> Other (describe in Part VI)		
20	Did the hospital facility charge any of its patients who were eligible for assistance under the hospital facility's financial assistance policy, and to whom the hospital facility provided emergency or other medically necessary services, more than the amounts generally billed to individuals who had insurance covering such care? If "Yes," explain in Part VI	20	No
21	Did the hospital facility charge any of its FAP-eligible patients an amount equal to the gross charge for services provided to that patient? If "Yes," explain in Part VI	21	No

Part V

Facility Information (continued)

Section C. Other Facilities That Are Not Licensed, Registered, or Similarly Recognized as a Hospital Facility

(list in order of size from largest to smallest)

How many non-hospital facilities did the organization operate during the tax year? _____

Name and address		Type of Facility (Describe)
1		
2		
3		
4		
5		
6		
7		
8		
9		
10		

Part VI Supplemental Information

Complete this part to provide the following information

- 1
- Required descriptions.** Provide the descriptions required for Part I, lines 3c, 6a, and 7, Part II, Part III, lines 4, 8, and 9b, and Part V, Section B, lines 1j, 3, 4, 5c, 6l, 7, 9, 10, 11h, 13g, 15e, 16e, 17e, 18d, 19d, 20, and 21
- 2
- Community health needs assessment.** Describe how the organization assesses the health care needs of the communities it serves, in addition to any community health needs assessments reported in Part V, Section B
- 3
- Patient education of eligibility for assistance.** Describe how the organization informs and educates patients and persons who may be billed for patient care about their eligibility for assistance under federal, state, or local government programs or under the organization's financial assistance policy
- 4
- Community information.** Describe the community the organization serves, taking into account the geographic area and demographic constituents it serves
- 5
- Promotion of community health.** Provide any other information important to describing how the organization's hospital facilities or other health care facilities further its exempt purpose by promoting the health of the community (e g , open medical staff, community board, use of surplus funds, etc)
- 6
- Affiliated health care system.** If the organization is part of an affiliated health care system, describe the respective roles of the organization and its affiliates in promoting the health of the communities served
- 7
- State filing of community benefit report.** If applicable, identify all states with which the organization, or a related organization, files a community benefit report

Identifier	ReturnReference	Explanation
	Part VI - Additional Information	Maryland Healthcare Regulatory SystemLines 7a & 7b Columns (c) through (f) - Maryland's regulatory system creates a unique process for hospital payment that differs from the rest of the nation The Health Services Cost Review Commission, (HSCRC) determines payment through a rate-setting process and all payors, including governmental payors, pay the same amount for the same services delivered at the same hospital Maryland's unique all-payor system includes a method for referencing Uncompensated Care in each payors' rates, which does not enable Maryland hospitals to breakout any directed offsetting revenue related to Uncompensated Care Community benefit expenses are equal to Medicaid revenues in Maryland, as such, the net effect is zero The exception to this is the impact on the hospital of its share of the Medicaid assessment In recent years, the state of Maryland has closed fiscal gaps in the state Medicaid budget by assessing hospitals through the rate-setting system

Identifier	ReturnReference	Explanation
	Part VI - States Where Community Benefit Report Filed	MD

Identifier	ReturnReference	Explanation
	Part VI - Affiliated Health Care System Roles and Promotion	Meritus Healthcare Foundation - 501(c)(3) - provides fund development, financial & other assistance to MMC MHF is operated exclusively for the charitable & educational purpose of supporting quality health care & related services of MMC Meritus Medical Center Endowment Fund - 501(c)(3) - dedicated to supporting the charitable purposes of MMC by owning, managing, investing & leasing property using the net income for programs which benefit the charitable purposes Meritus Enterprises - C corp - provider of ambulatory health care services MEI insures an adequate supply of physicians in many medical specialities are available in this region

Identifier	ReturnReference	Explanation
	Part VI - Explanation Of How Organization Furthers Its Exempt Purpose	See Schedule O for explanation under Program Service Accomplishments

Identifier	ReturnReference	Explanation
	Part VI - Community Building Activities	MMC participates in several community building activities MMC nutrition center staff are used for the coordination and support of the weekly Farmer's Market held at the medical center The Care Managment staff spend time attending the outreach social planning meeting Lastly, MMC staff spend time in coordinating and distributing materials for the annual United Way campaign

Identifier	ReturnReference	Explanation
	Part VI - Community Information	MMC is the largest healthcare provider in Western MD, located at the crossroads of western MD, southern PA, and the eastern panhandle of WV MMC is an acute care hospital with 265 single-patient rooms providing services including a soecial care nursery, a designated trauma center, a primary stroke center, a wound center, and a designated cardiac interventional center As the leading provider of health care services in the tri-state region, MMC's primary service area is Washington County, MD including primary service area zip codes 21740, 21742, 21795, 21713 and 21783 - with residents of that county making up the majority of the hospital's customers - while also serving residents of Frederick County, MD, Franklin County, PA, Fulton County, PA, Morgan County, WV, Jefferson County, WV, and Berkeley County, WV Within MMC's community service benefit area, the total population is 147,430 with 74,877 male residents and 72,553 female residents, median age is 39 7, median household income is \$52,857, percentage of households with incomes below the federal poverty guidelines is 11 2%, the percentage of uninsured people by county is 18 5%, percentage of Medicaid recipients by County is 21%, and the life expectancy by county is 78 4

Identifier	ReturnReference	Explanation
	Part VI - Patient Education of Eligibility for Assistance	Meritus Medical Center informs patients and/or their families of the hospital's financial assistance policy by providing a copy of the policy and contact information as part of the intake process. The financial assistance policy and contact information is posted in the admitting area, emergency room and other areas throughout the facility where eligible patients are likely to present. When applicable, a representative of the hospital discusses the availability of financial assistance as well as Medicaid and other governmental benefits with patients or their families. The hospital makes every effort to inform patients of this policy throughout their visit. MMC follows the Maryland Hospital Association's Standards for Financial Assistance for Maryland. MMC will provide 100 percent free hospital care for patients below 150 percent of Federal Poverty levels and who have less than \$10,000 in net assets. When a patient's income and/or net assets does not qualify them for 100 percent financial assistance, they may be eligible to qualify for financial assistance based on a sliding scale. MMC will consider the size of a patient's bill relative to their ability to pay in determining financial assistance options, which could include payment plans. MMC will grant financial assistance for services determined to be medically necessary.

Identifier	ReturnReference	Explanation
	Part VI - Needs Assessment	<p>Meritus Medical Center completed a community health needs assessment in the Spring of 2009. It was sent to major community agencies to determine what they knew and perceived to be the most important healthcare needs of Washington County residents. Twenty agencies were surveyed, including the healthcare organizations, the United Way, and the Department of Social Services. Internal healthcare providers were also surveyed, some of them included the healthcare management department, medical director of internal medicine, and the community health education and outreach department. Respondents completed a survey which asked them to identify the three most important health needs they have encountered, which ones they have designated as current fiscal year priorities, and to name any other agencies that should be included in the survey. Respondents listed the following as the most important health needs: mental health services, services for the elderly, dental services, and obesity. They identified three that are fiscal year priorities: mental health, dental services, and substance abuse. In response to the community needs assessment completed in 2009, MMC responded to the identified needs during fiscal year 2012. The first need identified was to improve access to adolescent mental health and social functioning. MMC provided clinical oversight and board membership to Potomac Case Management in order to help advocate and ensure that adequate mental health services are being provided in Washington County. Secondly, MMC increased awareness of senior services. Seniors living in the Washington County region were identified as having a lack of awareness of health issues unique to an aging population. Through community health fairs, screenings, and educational events, MMC provides the information necessary to heighten awareness of senior issues and assist seniors in identifying where help can be obtained. A third identified area was the need to decrease adult obesity. MMC provided BMI screenings and nutritional information at community educational events and health fairs to increase awareness and knowledge of elevated body mass index and potential health risks. Participants were able to identify the need to make lifestyle changes and where such assistance could be obtained. 610 persons completed obesity screening and education for fiscal year 2012. In compliance with IRC Section 501R, MMC is in the process of finalizing, applying and implementing its 2012 Community Health Needs Assessment and related report for Washington County, MD. This report includes a comprehensive review and analysis of the data regarding health issues and needs of Washington County overall. More importantly, the implementation plan developed by MMC will address how the Medical Center continues providing top quality care to all individuals in its service area. This study was conducted to identify the health needs and issues of the region and to provide useful information to health care providers, policy makers, collaborative groups, social service agencies, community groups and organizations, churches, businesses, and consumers who are interested in improving the health status of the community and region. The results enable the health system and other providers to more strategically establish priorities, develop interventions and commit resources to improve the health status of the region. Improving the health of the community is foundational to the mission of Meritus Medical Center and should be an important focus for everyone in the county, individually and collectively. In addition to the education, patient care and program interventions provided through the health system, we hope the information in this study will encourage additional activities and collaborative efforts to improve the health status of the community. The Top Priorities Identified in the study include: 1. Obesity and physical inactivity 2. Diabetes 3. Heart disease and smoking cessation 4. Cancer 5. Behavioral health 6. Teen pregnancy. The Top Initiatives for Meritus Medical Center include: * Reducing obesity and physical inactivity * Improving the management of diabetes illness with better access to care and education * Reducing heart disease and smoking * Improving access to cancer treatment and research * Improving behavioral health access to care and reducing ED visits * Reducing incidence of teen pregnancy. The Top Initiatives for the Washington County Health Improvement Coalition include: * Reducing diabetes mortality through community case management and improved access to care * Decreasing behavioral health Emergency Department visits through better care coordination and community education * Decrease heart disease and address lifestyle behaviors such as physical inactivity and smoking cessation.</p>

Identifier	ReturnReference	Explanation
	Part III, Line 9b - Provisions On Collection Practices For Qualified Patients	Meritus Medical Center is committed to providing quality health care for all patients regardless of their inability to meet the associated financial obligation and without discrimination on the grounds of race, color, national origin or creed Financial assistance can be offered during, or after services are rendered The financial assistance procedures are designed to assist individuals who qualify for less than full coverage under available federal, state and local medical assistance programs, but whom residual "self-pay" balances exceed their own ability to pay Meritus Medical Center informs patients and/or their families of the hospital's financial assistance policy by providing a copy of the policy and contact information as part of the intake process The financial assistance policy and contact information is posted in the admitting area, emergency room and other areas throughout the facility where eligible patients are likely to present When applicable, a representative of the hospital discusses the availability of financial assistance as well as Medicaid and other governmental benefits with patients or their families The hospital makes every effort to inform patients of this policy throughout their visit A financial application that has been approved for financial assistance will remain eligible for a period of six months Patients or guarantors incurring accounts after the six month period will be required to reapply, so that any changes in their financial status can be reassessed Accounts receivable accounts approved for financial assistance will be reconciled by the Finance Department at fiscal year endand reported annually to the Health Services Cost Review Commission of the State of Maryland If financial assistance is denied, a payment arrangement will be obtained on any balance due by the patient or the guarantor by a Patient Financial Services Representative

Identifier	ReturnReference	Explanation
	Part III, Line 4 - Bad Debt Expense	Meritus Medical Center (MMC) provides an allowance for doubtful accounts for estimated losses resulting from the unwillingness or inability of patients to make payments for services. The allowance is determined by analyzing specific accounts and historical data and trends. Patient accounts receivable are charged off against the allowance for doubtful accounts when management determines that recovery is unlikely and MMC ceases collection efforts. Losses have been consistent with management's expectations.

Identifier	ReturnReference	Explanation
	Part I, Line 7g - Costs Associated With Physicans Clinics	Subsidized health services for Meritus Medical Center include the following (1) Hospital owned endocrinology and diabetes program (2) The Medication Assistance Center (3) Hospital owned psychiatric practice (4) Level III trauma program (5) On-call fees for emergency specialist call (6) Hospice of Washington County allowed a voluntary contractual allowance

Identifier	ReturnReference	Explanation
	Part I, Line 7, Column F - Explanation of Bad Debt Expense	Meritus Medical Center (MMC) is committed to providing quality health care for all patients regardless of their ability to meet the associated financial obligation and without discrimination on the grounds of race, color, national origin or creed. It shall be the policy of MMC to ensure that all appropriate and reasonable efforts have been made prior to referring an account to bad debt, a collection agency or outside attorney. In addition, a satisfactory level of control is maintained over bad debts and levels of management are involved in the decision making process prior to write-off and/or assignment of bad debt.

Identifier	ReturnReference	Explanation
	Part I, Line 7 - Explanation of Costing Methodology	The direct cost was calculated by using the expense categories for salaries and wages, benefits, expendable supplies, purchased services, repairs and maintenance and depreciation The indirect cost was calculated using the approved methodology on the community benefit report

Identifier	ReturnReference	Explanation
	Part I, Line 6a - Related Organization Community Benefit Report	MMC prepares a community benefits report through the Maryland Health Services Cost Review Commission (HSCRC), and it is available via their website

Schedule I
(Form 990)

Department of the Treasury
Internal Revenue Service

Name of the organization
Meritus Medical Center Inc

Grants and Other Assistance to Organizations,
Governments and Individuals in the United States

Complete if the organization answered "Yes," to Form 990, Part IV, line 21 or 22.
▶ Attach to Form 990

OMB No 1545-0047

2011

Open to Public
Inspection

Employer identification number

52-0607949

Part I

General Information on Grants and Assistance

- 1

Does the organization maintain records to substantiate the amount of the grants or assistance, the grantees' eligibility for the grants or assistance, and the selection criteria used to award the grants or assistance?

☒ Yes

☐ No
- 2

Describe in Part IV the organization's procedures for monitoring the use of grant funds in the United States

Part II

Grants and Other Assistance to Governments and Organizations in the United States. Complete if the organization answered "Yes" to Form 990, Part IV, line 21 for any recipient that received more than \$5,000. Check this box if no one recipient received more than \$5,000. Use Part IV and Schedule I-1 (Form 990) if additional space is needed ▶ ☒

(a) Name and address of organization or government	(b) EIN	(c) IRC Code section if applicable	(d) Amount of cash grant	(e) Amount of non-cash assistance	(f) Method of valuation (book, FMV, appraisal, other)	(g) Description of non-cash assistance	(h) Purpose of grant or assistance

2

Enter total number of section 501(c)(3) and government organizations listed in the line 1 table ▶

0

3

Enter total number of other organizations listed in the line 1 table ▶

0

Part III

Grants and Other Assistance to Individuals in the United States. Complete if the organization answered "Yes" to Form 990, Part IV, line 22.
Use Schedule I-1 (Form 990) if additional space is needed.

(a)Type of grant or assistance	(b)Number of recipients	(c)Amount of cash grant	(d)Amount of non-cash assistance	(e)Method of valuation (book, FMV, appraisal, other)	(f)Description of non-cash assistance
(1) HSCRC Nursing Grant	13	104,281		N/A	N/A

Part IV

Supplemental Information. Complete this part to provide the information required in Part I, line 2, and any other additional information.

Identifier	Return Reference	Explanation
Grantmaker's Description of How Grants are Used		The HSCRC grant provides money to employees of the Hospital who are enrolled in the Hagerstown Community College nursing program. The grant program pays for all of the student's tuition, books, and fees with an agreement that upon graduation the student will work for the Hospital as a registered nurse. The grant also provides monies for registered nurses who are working on their MSN in education. Each award recipient will be required to sign a Service Card Agreement with the Meritus Medical Center. The length of payback will be one year of service (equivalent to 2,080 hours of service) for each year of the grant you receive. The program is five semesters long and most recipients will owe 4,160 hours.

Schedule J
(Form 990)

Compensation Information

OMB No 1545-0047

2011

Open to Public Inspection

For certain Officers, Directors, Trustees, Key Employees, and Highest Compensated Employees

▶ Complete if the organization answered "Yes" to Form 990, Part IV, question 23.

▶ Attach to Form 990. ▶ See separate instructions.

Name of the organization
Meritus Medical Center Inc

Employer identification number
52-0607949

Part I

Questions Regarding Compensation

		Yes	No
1a	Check the appropriate box(es) if the organization provided any of the following to or for a person listed in Form 990, Part VII, Section A, line 1a Complete Part III to provide any relevant information regarding these items		
	<div><input type="checkbox"/> First-class or charter travel</div> <div><input type="checkbox"/> Travel for companions</div> <div><input type="checkbox"/> Tax idemnification and gross-up payments</div> <div><input type="checkbox"/> Discretionary spending account</div>	<div><input type="checkbox"/> Housing allowance or residence for personal use</div> <div><input type="checkbox"/> Payments for business use of personal residence</div> <div><input type="checkbox"/> Health or social club dues or initiation fees</div> <div><input type="checkbox"/> Personal services (e g , maid, chauffeur, chef)</div>	
b	If any of the boxes in line 1a are checked, did the organization follow a written policy regarding payment or reimbursement or provision of all the expenses described above? If "No," complete Part III to explain	1b	
2	Did the organization require substantiation prior to reimbursing or allowing expenses incurred by all officers, directors, trustees, and the CEO/Executive Director, regarding the items checked in line 1a?	2	
3	Indicate which, if any, of the following the organization uses to establish the compensation of the organization's CEO/Executive Director Check all that apply		
	<div><input checked="" type="checkbox"/> Compensation committee</div> <div><input checked="" type="checkbox"/> Independent compensation consultant</div> <div><input type="checkbox"/> Form 990 of other organizations</div>	<div><input checked="" type="checkbox"/> Written employment contract</div> <div><input checked="" type="checkbox"/> Compensation survey or study</div> <div><input checked="" type="checkbox"/> Approval by the board or compensation committee</div>	
4	During the year, did any person listed in Form 990, Part VII, Section A, line 1a with respect to the filing organization or a related organization		
a	Receive a severance payment or change-of-control payment?	4a	Yes
b	Participate in, or receive payment from, a supplemental nonqualified retirement plan?	4b	Yes
c	Participate in, or receive payment from, an equity-based compensation arrangement?	4c	No
	If "Yes" to any of lines 4a-c, list the persons and provide the applicable amounts for each item in Part III		
	Only 501(c)(3) and 501(c)(4) organizations only must complete lines 5-9.		
5	For persons listed in form 990, Part VII, Section A, line 1a, did the organization pay or accrue any compensation contingent on the revenues of		
a	The organization?	5a	No
b	Any related organization?	5b	No
	If "Yes," to line 5a or 5b, describe in Part III		
6	For persons listed in form 990, Part VII, Section A, line 1a, did the organization pay or accrue any compensation contingent on the net earnings of		
a	The organization?	6a	No
b	Any related organization?	6b	No
	If "Yes," to line 6a or 6b, describe in Part III		
7	For persons listed in Form 990, Part VII, Section A, line 1a, did the organization provide any non-fixed payments not described in lines 5 and 6? If "Yes," describe in Part III	7	Yes
8	Were any amounts reported in Form 990, Part VII, paid or accrued pursuant to a contract that was subject to the initial contract exception described in Regs section 53 4958-4(a)(3)? If "Yes," describe in Part III	8	No
9	If "Yes" to line 8, did the organization also follow the rebuttable presumption procedure described in Regulations section 53 4958-6(c)?	9	No

Part II Officers, Directors, Trustees, Key Employees, and Highest Compensated Employees. Use Schedule J-1 if additional space needed.

For each individual whose compensation must be reported in Schedule J, report compensation from the organization on row (i) and from related organizations, described in the instructions on row (ii) Do not list any individuals that are not listed on Form 990, Part VII

Note. The sum of columns (B)(i)-(iii) for each listed individual must equal the total amount of Form 990, Part VII, Section A, line 1a, columns (D) and (E) for that individual

(A) Name		(B) Breakdown of W-2 and/or 1099-MISC compensation			(C) Retirement and other deferred compensation	(D) Nontaxable benefits	(E) Total of columns (B)(i)-(D)	(F) Compensation reported in prior Form 990 or Form 990-EZ
		(i) Base compensation	(ii) Bonus & incentive compensation	(iii) Other reportable compensation				
(1) Thomas Gilbert MD	(i) (ii)	464,892	316,679	42,099	7,350	21,850	852,870	
(2) T Michael White	(i) (ii)	203,684	25,000	179,800	9,949	15,566	433,999	
(3) Raymond Grahe	(i) (ii)	316,795	73,304	13,225	13,461	16,159	432,944	
(4) Michael Zampelli	(i) (ii)	226,617		153,205	18,453	20,727	419,002	
(5) Matthew Wagner MD	(i) (ii)	267,366	30,001	1,242	11,586	20,674	330,869	
(6) Kelly Corbi	(i) (ii)	202,265	50,720	400	12,818	23,325	289,528	
(7) Joseph Ross	(i) (ii)	372,419			37,476	18,883	428,778	
(8) Jayantilal Kadiwar MD	(i) (ii)	286,691	131,950	16,561	4,477	14,641	454,320	
(9) James Hamill	(i) (ii)	137,934	236,787	168,029	1,331	8,852	552,933	
(10) Heather Lorenzo	(i) (ii)	226,892		478	7,994	20,160	255,524	
(11) Garry Seligman MD	(i) (ii)	212,230		2,792	8,134	19,398	242,554	
(12) Frank Slabinski	(i) (ii)	130,909	79,170	4,473	1,397	1,297	217,246	
(13) Deborah Addo-Samuels	(i) (ii)	218,618	51,916	15,984	3,204	13,307	303,029	
(14) Carolyn Simonsen	(i) (ii)	186,792	37,677	6,266	11,507	11,303	253,545	
(15) Carey Leverett	(i) (ii)	100,978		91,341	2,973	16,413	211,705	
(16) Adriana Maldonado-Brem	(i) (ii)	188,763		905	7,653	24,547	221,868	

Part III **Supplemental Information**

Complete this part to provide the information, explanation, or descriptions required for Part I, lines 1a, 1b, 4c, 5a, 5b, 6a, 6b, 7, and 8. Also complete this part for any additional information.

Identifier	Return Reference	Explanation
Sch J, Part III, Additional Information	Part III, Additional Information	Joseph Ross is a participant in a 457F plan. \$26,466 has been deferred and is not substantially vested.
Sch J, Part I, Line 7	Part I, Line 7 Non-Fixed payments not listed above	Bonuses are determined by the review of individual and corporate goals.

Software ID: 11000144
Software Version: 2011v1.5
EIN: 52-0607949
Name: Meritus Medical Center Inc

Form 990, Schedule J, Part II - Officers, Directors, Trustees, Key Employees, and Highest Compensated Employees

(A) Name		(B) Breakdown of W-2 and/or 1099-MISC compensation			(C) Deferred compensation	(D) Nontaxable benefits	(E) Total of columns (B)(i)-(D)	(F) Compensation reported in prior Form 990 or Form 990-EZ
		(i) Base Compensation	(ii) Bonus & incentive compensation	(iii) Other compensation				
Thomas Gilbert MD	(i) (ii)	464,892	316,679	42,099	7,350	21,850	852,870	
T Michael White	(i) (ii)	203,684	25,000	179,800	9,949	15,566	433,999	
Raymond Grahe	(i) (ii)	316,795	73,304	13,225	13,461	16,159	432,944	
Michael Zampelli	(i) (ii)	226,617		153,205	18,453	20,727	419,002	
Matthew Wagner MD	(i) (ii)	267,366	30,001	1,242	11,586	20,674	330,869	
Kelly Corbi	(i) (ii)	202,265	50,720	400	12,818	23,325	289,528	
Joseph Ross	(i) (ii)	372,419			37,476	18,883	428,778	
Jayantilal Kadiwar MD	(i) (ii)	286,691	131,950	16,561	4,477	14,641	454,320	
James Hamill	(i) (ii)	137,934	236,787	168,029	1,331	8,852	552,933	
Heather Lorenzo	(i) (ii)	226,892		478	7,994	20,160	255,524	
Garry Seligman MD	(i) (ii)	212,230		2,792	8,134	19,398	242,554	
Frank Slabinski	(i) (ii)	130,909	79,170	4,473	1,397	1,297	217,246	
Deborah Addo-Samuels	(i) (ii)	218,618	51,916	15,984	3,204	13,307	303,029	
Carolyn Simonsen	(i) (ii)	186,792	37,677	6,266	11,507	11,303	253,545	
Carey Leverett	(i) (ii)	100,978		91,341	2,973	16,413	211,705	
Adriana Maldonado-Brem	(i) (ii)	188,763		905	7,653	24,547	221,868	

Schedule K
(Form 990)

Department of the Treasury
Internal Revenue Service

Name of the organization
Meritus Medical Center Inc

Supplemental Information on Tax Exempt Bonds

▶ Complete if the organization answered "Yes" to Form 990, Part IV, line 24a. Provide descriptions, explanations, and any additional information in Schedule O (Form 990).
▶ Attach to Form 990. ▶ See separate instructions.

OMB No 1545-0047

2011

Open to Public Inspection

Employer identification number
52-0607949

Part I Bond Issues											
(a) Issuer Name	(b) Issuer EIN	(c) CUSIP #	(d) Date Issued	(e) Issue Price	(f) Description of Purpose	(g) Defeased		(h) On Behalf of Issuer		(i) Pool financing	
						Yes	No	Yes	No	Yes	No
A MD Hlth & Hig Ed Fac Aut	52-0936091	574217T21	02-12-2008	264,300,000	Construction-new hospital		X		X		X

Part II Proceeds									
		A		B		C		D	
1	Amount of bonds retired								
2	Amount of bonds defeased								
3	Total proceeds of issue	262,855,181							
4	Gross proceeds in reserve funds	18,344,513							
5	Capitalized interest from proceeds								
6	Proceeds in refunding escrow								
7	Issuance costs from proceeds	3,121,975							
8	Credit enhancement from proceeds								
9	Working capital expenditures from proceeds								
10	Capital expenditures from proceeds	235,980,961							
11	Other spent proceeds	5,407,732							
12	Other unspent proceeds								
13	Year of substantial completion	2010							
		Yes	No	Yes	No	Yes	No	Yes	No
14	Were the bonds issued as part of a current refunding issue?		X						
15	Were the bonds issued as part of an advance refunding issue?		X						
16	Has the final allocation of proceeds been made?	X							
17	Does the organization maintain adequate books and records to support the final allocation of proceeds?	X							

Part III Private Business Use									
		A		B		C		D	
		Yes	No	Yes	No	Yes	No	Yes	No
1	Was the organization a partner in a partnership, or a member of an LLC, which owned property financed by tax-exempt bonds?		X						
2	Are there any lease arrangements that may result in private business use of bond-financed property?		X						

Part III

Private Business Use (Continued)

		A		B		C		D	
		Yes	No	Yes	No	Yes	No	Yes	No
3a	Are there any management or service contracts that may result in private business use?		X						
b	If 'Yes' to line 3a, does the organization routinely engage bond counsel or other outside counsel to review any management or service contracts relating to the financed property?								
c	Are there any research agreements that may result in private business use of bond-financed property?		X						
d	If 'Yes' to line 3c, does the organization routinely engage bond counsel or other outside counsel to review any research agreements relating to the financed property?								
4	Enter the percentage of financed property used in a private business use by entities other than a section 501(c)(3) organization or a state or local government	3 000 %							
5	Enter the percentage of financed property used in a private business use as a result of unrelated trade or business activity carried on by your organization, another section 501(c)(3) organization, or a state or local government								
6	Total of lines 4 and 5	3 000 %							
7	Has the organization adopted management practices and procedures to ensure the post-issuance compliance of its tax-exempt bond liabilities?	X							

Part IV

Arbitrage

		A		B		C		D	
		Yes	No	Yes	No	Yes	No	Yes	No
1	Has a Form 8038-T, Arbitrage Rebate, Yield Reduction and Penalty in Lieu of Arbitrage Rebate, been filed with respect to the bond issue?	X							
2	Is the bond issue a variable rate issue?		X						
3a	Has the organization or the governmental issuer entered into a hedge with respect to the bond issue?		X						
b	Name of provider								
c	Term of hedge								
d	Was the hedge superintegrated?								
e	Was a hedge terminated?								
4a	Were gross proceeds invested in a GIC?		X						
b	Name of provider								
c	Term of GIC								
d	Was the regulatory safe harbor for establishing the fair market value of the GIC satisfied?								
5	Were any gross proceeds invested beyond an available temporary period?		X						
6	Did the bond issue qualify for an exception to rebate?	X							

Part V

Procedures To Undertake Corrective Action

Check the box if the organization established written procedures to ensure that violations of federal tax requirements are timely identified and corrected through the voluntary closing agreement program if self-remediation is not available under applicable regulations ☒ Yes ☐ No

Part VI

Supplemental Information

Complete this part to provide additional information for responses to questions on Schedule K (see instructions)

Identifier	Return Reference	Explanation
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Schedule L
(Form 990 or 990-EZ)

Transactions with Interested Persons

OMB No 1545-0047

2011

Open to Public Inspection

Name of the organization
Meritus Medical Center Inc

Employer identification number
52-0607949

Part I

Excess Benefit Transactions (section 501(c)(3) and section 501 (c)(4) organizations only).

Complete if the organization answered "Yes" on Form 990, Part IV, line 25a or 25b, or Form 990-EZ, Part V, line 40b

1	(a) Name of disqualified person	(b) Description of transaction	(c) Corrected?	
			Yes	No

2

Enter the amount of tax imposed on the organization managers or disqualified persons during the year under section 4958

\$

3

Enter the amount of tax, if any, on line 2, above, reimbursed by the organization

\$

Part II

Loans to and/or From Interested Persons.

Complete if the organization answered "Yes" on Form 990, Part IV, line 26, or Form 990-EZ, Part V, line 38a

(a) Name of interested person and purpose	(b) Loan to or from the organization?		(c)Original principal amount	(d)Balance due	(e) In default?		(f) Approved by board or committee?		(g)Written agreement?	
	To	From			Yes	No	Yes	No	Yes	No
Total					\$					

Part III

Grants or Assistance Benefitting Interested Persons.

Complete if the organization answered "Yes" on Form 990, Part IV, line 27.

(a) Name of interested person	(b)Relationship between interested person and the organization	(c)Amount of grant or type of assistance

Part IV

Business Transactions Involving Interested Persons.
Complete if the organization answered "Yes" on Form 990, Part IV, line 28a, 28b, or 28c.

(a) Name of interested person	(b) Relationship between interested person and the organization	(c) Amount of transaction	(d) Description of transaction	(e) Sharing of organization's revenues?	
				Yes	No
(1) Greg Snook	Director	3,498	See suppl info below		No
(2) Marc Kross MD	Former director	566,050	See suppl info below		No
(3) William Su MD	Director	105,171	See suppl info below		No

Part V

Supplemental Information
Complete this part to provide additional information for responses to questions on Schedule L (see instructions)

Identifier	Return Reference	Explanation
		Marc Kross, MD has contracts with MMC to serve as Surgeon and Chief of Trauma, to provide emergency room call coverage and to provide trauma call coverage William Su, MD has a contract directly with MMC to provide emergency room and trauma call coverage Greg Snook's brother owns a storage company in which MMC leases space

SCHEDULE O

(Form 990 or 990-EZ)

Department of the Treasury
Internal Revenue Service

Supplemental Information to Form 990 or 990-EZ

Complete to provide information for responses to specific questions on
Form 990 or to provide any additional information.
▶ Attach to Form 990 or 990-EZ.

OMB No 1545-0047

2011

Open to Public
Inspection

Name of the organization Mertus Medical Center Inc	Employer identification number 52-0607949
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Identifier	Return Reference	Explanation
	Part XI, Line 2b	Mertus Medical Center is audited as part of the consolidated audit of the Mertus Health, Inc entities The medical center received consolidated audited financial statements prepared in accordance with GAAP from an independent accounting firm

Identifier	Return Reference	Explanation
	Part VII, Section A, Line 2	The salary & benefits that Dr Gilbert received are for his services as a physician & not as a director

Identifier	Return Reference	Explanation
	Part VI, Line 16b	As defined by the Meritus Medical Center bylaws which state the process for joint venture activity, a joint venture arrangement with a taxable entity would first be evaluated by the the Meritus Medical Center Board and the Meritus Health, Inc Board After presentation and approval by those two boards, the Finance & Capital Board of Meritus Health, Inc would evaluate the financial implications of the joint venture The Audit & Business Integrity Committee of the Meritus Health, Inc Board would analyze any possible interested party transactions and the limitations and prohibitions associated with the section 501(c)(3) status of the medical center The Meritus Health, Inc Board would ultimately need to approve any joint venture resolutions

Identifier	Return Reference	Explanation
	Part VI, Line 16a	<p>Meritus Medical Center holds a 25% equity interest in Maryland Care, Inc. Maryland Care, Inc. d/b/a Maryland Physicians Care is a managed care organization ("MCO") that was established to serve Maryland's Medicaid population as a result of the State's requirement for Medicaid patients to be a member of an MCO. Meritus Medical Center holds a 50% equity interest in Tri-State Health Partners ("THP"). THP is an innovative physician-hospital organization ("PHO") established to organize, assemble and facilitate the provision of cost effective health care services. The partnership consists of more than 200 local physicians and the Hospital. THP is involved in the medical management of more than 6,000 covered lives through regional self-insured businesses. In April of 2009, THP developed a clinical integration program that was approved by the Federal Trade Commission ("FTC"). THP has one of only three clinical integration programs that have been approved by the FTC to date. Within a clinical integration program, physicians agree to work together with a high degree of cooperation, collaboration and mutual interdependence that focuses on improving the quality of care they collectively provide. Physicians use electronic health record technology to coordinate treatment among the patients' healthcare providers, which can substantially reduce the cost of care.</p>

Identifier	Return Reference	Explanation
	Part I, Line 6 - Volunteers	Meritus Medical Center receives volunteers that are recruited by the Meritus Medical Center Auxiliary, Inc ("Auxiliary") The mission of the Auxiliary is to cooperate and assist in the work of the medical center by promoting the medical center's work in the community and supplementing the work of the staff of the medical center

Identifier	Return Reference	Explanation
Form 990, Part VI, Line 19	Form 990, Part VI, Line 19 Other Organization Documents Publicly Available	Governing documents, conflict of interest policy, and financial statements are available upon request. In addition, the annual audited financial statements are available on the organization's website.

Identifier	Return Reference	Explanation
Form 990, Part VI, Line 15b	Form 990, Part VI, Line 15b Compensation Review and Approval Process for Officers and Key Employees	Annually in September, the Compensation Committee of the MH Board meets and reviews the following as it relates to compensation of the CEO and other key employees. Market Data - Presented by an independent third party compensation consultant. Performance Evaluation - Provided by the CEO. Overall Financials- used for Bonus. Current Salary Along with Merit Guidelines. The independent third party compensation consultant then makes recommendations to the compensation committee and the committee deliberates, discusses, and approves the recommendation as is or makes amendments to it before approval. The report and resulting decision is then reported to the MH Board. The positions reviewed in September of 2011 were as follows: President & CEO, Senior VP-Chief Financial Officer, Senior VP-Chief Operating Officer, VP-Chief Information Officer, VP for Financial Services, VP for Support Services, VP-Chief Medical Officer, VP-Chief Compliance Officer, VP-Chief Administrative Officer, and VP-Chief Nursing Officer.

Identifier	Return Reference	Explanation
Form 990, Part VI, Line 12c	Form 990, Part VI, Line 12c Explanation of Monitoring and Enforcement of Conflicts	An annual disclosure of interest is required for all officers, directors or trustees, and key employees. These disclosures are then reviewed against the accounts payable system to determine the amount, if any, of transactions that have occurred. All disclosures and transactions are reviewed in detail by the following group of individuals: Vice President & Chief Compliance Officer, Executive Director of Internal Audit & Compliance, Chair of the MH Board, Chair of the Audit and Business Integrity Committee, President and CEO of MH, Chair of the Governance Committee and Legal Counsel. A summary of all disclosures are then provided to the full Audit and Business Integrity Committee for review. After this review, a copy of the disclosures, by Board or Committee, listing the type of involvement/transactions the entity has with the named disclosure, if any, are provided to the chair of the Board or Committee. Any director with a determined conflict is prohibited from participating in the Board's decisions and decisions with regards to that transaction.

Identifier	Return Reference	Explanation
Form 990, Part VI, Line 11	Form 990, Part VI, Line 11 Form 990 Review Process	The Form 990 was prepared by the Finance department and reviewed by an independent accounting firm. A copy of the Form 990 was provided to the Audit and Business Integrity Committee of the Board. Acting under the authority of the Board, the Committee reviewed the Form 990 prior to the submission of the Form 990 to the Internal Revenue Service. In addition, the Form 990 will be provided to all Boards before it is filed with the Internal Revenue Service.

Identifier	Return Reference	Explanation
Form 990, Part VI, Line 7b	Form 990, Part VI, Line 7b Describe Decisions of Governing Body Approval by Members or Shareholders	<p>Along with the election of governing members to the board, the MH Board (Parent) also needs to review and approve the following before becoming effective and before the action is implemented</p> <ol style="list-style-type: none"> 1 Any merger, consolidation or dissolution of the corporation 2 Annual Business Plan 3 Annual Budget 4 Contractual obligations that meet any one of the following criteria <ol style="list-style-type: none"> a Outside the scope of the Corporation's annual business plan b Require approval by external health and/or financial regulatory agency c Having the potential of adversely impacting the operation of any subsidiary of the Member 5 Any joint venture between the corporation and another person or entity that meets with any one of the following criteria <ol style="list-style-type: none"> a Extends beyond the scope of the annual business plan of the Corporation b Requires external approval by external health and/or financial regulatory agency c Has the potential of adversely impacting the operation of any subsidiary of the Member 6 Sales or transfers of all or substantially all of the assets of the Corporation or sales or transfers of assets that meet with any one of the following criteria <ol style="list-style-type: none"> a Fall outside the scope of the Corporation's annual business plan b Require approval by external health and/or financial regulatory agency c Has the potential of adversely impacting the operations of any subsidiary of the Member 7 Formulation of a subsidiary 8 Adoption and amendment of the mission and vision statements

Identifier	Return Reference	Explanation
Form 990, Part VI, Line 7a	Form 990, Part VI, Line 7a How Members or Shareholders Elect Governing Body	MMC nominates candidates for their board and presents the nominees to the MH Board (Parent) through the board designated Governance Committee Final election occurs through the MH Board The MH Board also approves the budget

Identifier	Return Reference	Explanation
Form 990, Part VI, Line 6	Form 990, Part VI, Line 6 Explanation of Classes of Members or Shareholder	The sole member of the Corporation, MMC, is MH. MH has the right to elect the members of the governing body and approve significant decisions of the governing body.

SCHEDULE R
(Form 990)

Department of the Treasury
Internal Revenue Service

Related Organizations and Unrelated Partnerships

▶ Complete if the organization answered "Yes" to Form 990, Part IV, line 33, 34, 35, 36, or 37.
▶ Attach to Form 990. ▶ See separate instructions.

OMB No 1545-0047

2011

Open to Public Inspection

Name of the organization
Mentus Medical Center Inc

Employer identification number
52-0607949

Part I

Identification of Disregarded Entities (Complete if the organization answered "Yes" on Form 990, Part IV, line 33.)

(a) Name, address, and EIN of disregarded entity	(b) Primary activity	(c) Legal domicile (state or foreign country)	(d) Total income	(e) End-of-year assets	(f) Direct controlling entity
(1) Medical Practices of Antietam LLC 11116 Medical Campus Road Hagerstown, MD 21742 52-2315129	Health services	MD	3,529,849	4,713,227	MEI
(2) Health Work LLC 11116 Medical Campus Road Hagerstown, MD 21742 34-2014438	Health serves	MD			MMC
(3) Mentus Medical Lab LLC 11116 Medical Campus Road Hagerstown, MD 21742 80-0728035	Health serves	MD			MMC
(4) Mentus Urgent Care LLC 11116 Medical Campus Road Hagerstown, MD 21742 71-1050982	Health services	MD			MMC
(5) Mentus Holdings LLC 11116 Medical Campus Road Hagerstown, MD 21742 45-2382196	Health services	MD	3,248,930	9,387,092	MMC

Part II

Identification of Related Tax-Exempt Organizations (Complete if the organization answered "Yes" on Form 990, Part IV, line 34 because it had one or more related tax-exempt organizations during the tax year.)

(a) Name, address, and EIN of related organization	(b) Primary activity	(c) Legal domicile (state or foreign country)	(d) Exempt Code section	(e) Public charity status (if section 501(c)(3))	(f) Direct controlling entity	(g) Section 512(b)(13) controlled organization	
						Yes	No
(1) Mentus Medical Cent Endow Devel Co Inc 11116 Medical Campus Road Hagerstown, MD 21742 52-1788122	Develops rental properties	MD	501(c)(3)	11-III FI	MH		No
(2) Mentus Healthcare Foundation Inc 11116 Medical Campus Road Hagerstown, MD 21742 01-0639265	Fundraising	MD	501(c)(3)	11c	MH		No
(3) Mentus Health Inc 11116 Medical Campus Road Hagerstown, MD 21742 52-1656378	Parent corporation	MD	501(c)(3)	11-III FI	NA		No
(4) Mentus Medical Center Endowment Fund 11116 Medical Campus Road Hagerstown, MD 21742 23-7411960	Develops rental properties	MD	501(c)(3)	11-III FI	MH		No

Part III

Identification of Related Organizations Taxable as a Partnership (Complete if the organization answered "Yes" on Form 990, Part IV, line 34 because it had one or more related organizations treated as a partnership during the tax year.)

(a) Name, address, and EIN of related organization	(b) Primary activity	(c) Legal domicile (state or foreign country)	(d) Direct controlling entity	(e) Predominant income (related, unrelated, excluded from tax under sections 512- 514)	(f) Share of total income	(g) Share of end-of- year assets	(h) Disproportionate allocations?		(i) Code V—UBI amount in box 20 of Schedule K-1 (Form 1065)	(j) General or managing partner?		(k) Percentage ownership
							Yes	No		Yes	No	
(1) Robinwood Surgery Center LLC 11116 Medical Campus Road Hagerstown, MD 21742 52-1770185	Health services	MD	N/A					No			No	

Part IV

Identification of Related Organizations Taxable as a Corporation or Trust (Complete if the organization answered "Yes" on Form 990, Part IV, line 34 because it had one or more related organizations treated as a corporation or trust during the tax year.)

(a) Name, address, and EIN of related organization	(b) Primary activity	(c) Legal domicile (state or foreign country)	(d) Direct controlling entity	(e) Type of entity (C corp, S corp, or trust)	(f) Share of total income	(g) Share of end-of-year assets	(h) Percentage ownership
(1) Mentus Insurance Company Ltd PO Box 1109GT Grand Cayman CJ 98-0162257	Captive insurance	CJ	N/A				
(2) Mentus Enterprises Inc 11116 Medical Campus Road Hagerstown, MD 21742 52-1393624	Health serv	MD	MMC	C corp	-4,107,866	34,786,019	100 000 %

Part V

Transactions With Related Organizations (Complete if the organization answered "Yes" on Form 990, Part IV, line 34, 35, 35A, or 36.)

Note. Complete line 1 if any entity is listed in Parts II, III or IV

1

During the tax year, did the organization engage in any of the following transactions with one or more related organizations listed in Parts II-IV?

a

Receipt of (i) interest (ii) annuities (iii) royalties (iv) rent from a controlled entity

b

Gift, grant, or capital contribution to related organization(s)

c

Gift, grant, or capital contribution from related organization(s)

d

Loans or loan guarantees to or for related organization(s)

e

Loans or loan guarantees by related organization(s)

f

Sale of assets to related organization(s)

g

Purchase of assets from related organization(s)

h

Exchange of assets with related organization(s)

i

Lease of facilities, equipment, or other assets to related organization(s)

j

Lease of facilities, equipment, or other assets from related organization(s)

k

Performance of services or membership or fundraising solicitations for related organization(s)

l

Performance of services or membership or fundraising solicitations by related organization(s)

m

Sharing of facilities, equipment, mailing lists, or other assets with related organization(s)

n

Sharing of paid employees with related organization(s)

o

Reimbursement paid to related organization(s) for expenses

p

Reimbursement paid by related organization(s) for expenses

q

Other transfer of cash or property to related organization(s)

r

Other transfer of cash or property from related organization(s)

Yes

No

1a

1b

1c

1d

1e

1f

1g

1h

1i

1j

1k

1l

1m

1n

1o

1p

1q

1r

No

No

Yes

No

No

No

No

No

No

No

No

Yes

Yes

Yes

No

No

No

2

If the answer to any of the above is "Yes," see the instructions for information on who must complete this line, including covered relationships and transaction thresholds

(a) Name of other organization	(b) Transaction type(a-r)	(c) Amount involved	(d) Method of determining amount involved
(1) Mentus Healthcare Foundation Inc	c	2,220,538	Cash
(2)			
(3)			
(4)			
(5)			
(6)			

Schedule R (Form 990) 2011

Provide the following information for each entity taxed as a partnership through which the organization conducted more than five percent of its activities (measured by total assets or gross revenue) that was not a related organization. See instructions regarding exclusion for certain investment partnerships.

[illegible]

Part VII

Supplemental Information

Complete this part to provide additional information for responses to questions on Schedule R (see instructions)

Identifier	Return Reference	Explanation	
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Consolidated Financial Statements, Supplementary
Information, and Report of Independent Certified
Public Accountants

Meritus Health, Inc.

June 30, 2012 and 2011

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Report of Independent Certified Public Accountants

To the Board of Directors
Meritus Health, Inc

We have audited the accompanying consolidated balance sheets of Meritus Health, Inc. ("Meritus") at June 30, 2012 and 2011, and the related consolidated statements of operations and changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of Meritus' management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of Meritus Healthcare Foundation (the "Foundation"), which statements reflect total assets of approximately three percent of total consolidated assets at June 30, 2011 and total revenues of approximately one percent of the related consolidated total revenues for the year then ended of Meritus. Those statements were audited by other auditors, whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Foundation, is based on the report of the other auditors.

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

In our opinion and the report of other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Meritus Health, Inc. as of June 30, 2012 and 2011, and the results of its operations and changes in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 2 to the accompanying consolidated financial statements, in 2012 Meritus adopted the provisions of the amendments to the presentation and disclosure of patient service revenue, provision for bad debts, and the allowance for doubtful accounts for certain health care entities, which resulted in a change to the presentation of the provision for bad debts on the consolidated statements of operations and changes in net assets and additional disclosures.

A handwritten signature in black ink that reads "Grant Thornton LLP".

Baltimore, Maryland
September 26, 2012

CONSOLIDATED FINANCIAL STATEMENTS

Meritus Health, Inc.
CONSOLIDATED BALANCE SHEETS

June 30,

ASSETS	<u>2012</u>	<u>2011</u>
CURRENT ASSETS		
Cash and cash equivalents	\$ 27,253,943	\$ 18,380,698
Restricted cash	2,746,240	2,614,437
Short-term investments	3,422,557	4,399,794
Current portion of assets whose use is limited	11,649,864	10,232,054
Accounts receivable, net	51,109,894	45,878,319
Supplies	9,417,836	10,252,192
Prepaid and other current assets	<u>5,956,777</u>	<u>5,914,333</u>
Total current assets	111,557,111	97,671,827
 EQUITY INVESTMENTS IN AFFILIATES	 24,172,098	 22,752,291
 ASSETS WHOSE USE IS LIMITED		
Board designated funds	79,257,670	75,555,190
Supplemental retirement benefit investments	3,910,091	3,539,997
Temporarily and permanently restricted donor funds	<u>1,164,123</u>	<u>1,165,136</u>
	84,331,884	80,260,323
Assets held by trustee under bond indenture agreement	18,470,251	18,465,329
Funds designated for insurance purposes	<u>8,801,838</u>	<u>7,647,952</u>
	111,603,973	106,373,604
 PROPERTY, PLANT AND EQUIPMENT, net	 286,424,041	 303,540,192
PLEDGES RECEIVABLE, net	3,070,167	3,893,162
DEFERRED FINANCING COSTS, net	2,663,577	2,805,574
OTHER ASSETS	<u>3,056,314</u>	<u>2,327,002</u>
Total assets	<u>\$542,547,281</u>	<u>\$539,363,652</u>

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

LIABILITIES AND NET ASSETS	2012	2011
CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 14,125,014	\$ 13,203,320
Retainage payable	183,885	1,153,823
Accrued salaries, wages and withholdings	4,959,925	4,151,982
Accrued compensation benefit	16,751,028	18,157,921
Advances from third-party payors	7,620,630	6,684,832
Accrued interest payable	7,764,019	7,795,244
Current portion of long-term debt	<u>7,650,229</u>	<u>9,140,210</u>
Total current liabilities	59,054,730	60,287,332
 LONG-TERM DEBT, net of current portion	 261,446,958	 266,146,562
 ACCRUED RETIREMENT BENEFITS	 4,210,694	 3,900,084
 OTHER LONG-TERM LIABILITIES	 <u>6,885,711</u>	 <u>5,590,232</u>
Total liabilities	331,598,093	335,924,210
 NET ASSETS		
Unrestricted		
Meritus	198,081,263	190,332,321
Non-controlling interest	<u>2,609,591</u>	<u>1,440,713</u>
Total unrestricted net assets	200,690,854	191,773,034
Temporarily restricted	9,229,716	10,637,790
Permanently restricted	<u>1,028,618</u>	<u>1,028,618</u>
Total net assets	<u>210,949,188</u>	<u>203,439,442</u>
Total liabilities and net assets	<u>\$542,547,281</u>	<u>\$539,363,652</u>

Meritus Health, Inc.

CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS

Years ended June 30.

	<u>2012</u>	<u>2011</u>
Unrestricted revenue, gains and other support		
Net patient service revenue	\$371,188,105	\$354,856,000
Provision for bad debts	<u>13,620,670</u>	<u>14,550,932</u>
Net patient service revenue less provision for bad debts	357,567,435	340,305,068
Other revenue	13,763,772	11,500,617
Equity earnings in affiliates	7,368,120	7,094,777
Net assets released from restriction used for operations	<u>1,541,749</u>	<u>847,815</u>
	380,241,076	359,748,277
Expenses		
Salaries and wages	146,629,910	141,555,417
Professional fees	8,274,998	9,620,750
Supplies and other	174,742,013	166,725,851
Interest	15,336,562	9,212,306
Depreciation and amortization	<u>26,048,473</u>	<u>22,153,445</u>
	<u>371,031,956</u>	<u>349,267,769</u>
Operating income before other items	9,209,120	10,480,508
Other items		
Demolition and transition costs	(620,907)	(3,751,868)
Early retirement costs	-	(569,942)
Pension settlement costs	<u>(689,896)</u>	<u>-</u>
	<u>(1,310,803)</u>	<u>(4,321,810)</u>
Operating income	7,898,317	6,158,698
Non-operating gains (losses), net		
Investment returns, net	4,959,053	12,762,559
Other, net	123,240	874,080
Income tax expense	<u>(4,644,531)</u>	<u>(174,635)</u>
Excess of revenue over expenses	8,336,079	19,620,702
Excess of revenue over expenses attributable to non-controlling interest	<u>(1,448,877)</u>	<u>(296,365)</u>
Excess of revenue over expenses attributable to Meritus	6,887,202	19,324,337

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

	<u>2012</u>	<u>2011</u>
Other changes in unrestricted net assets		
Change in retirement benefit obligation	(88,260)	714,279
Change in non-controlling interests	1,168,878	(223,635)
Net assets released from restriction for property, plant, and equipment	950,000	-
Other	<u>-</u>	<u>85,309</u>
Increase in unrestricted net assets	8,917,820	19,900,290
Temporarily restricted net assets		
Contributions	1,083,675	2,667,532
Net realized and unrealized gains and losses on investments	-	47,798
Net assets released from restriction for property, plant, and equipment	(950,000)	-
Net assets released from restrictions for operations	<u>(1,541,749)</u>	<u>(847,815)</u>
(Decrease) increase in temporarily restricted net assets	<u>(1,408,074)</u>	<u>1,867,515</u>
INCREASE IN NET ASSETS	7,509,746	21,767,805
Net assets		
Beginning of year	<u>203,439,442</u>	<u>181,671,637</u>
End of year	<u>\$210,949,188</u>	<u>\$203,439,442</u>

Meritus Health, Inc.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended June 30.

	<u>2012</u>	<u>2011</u>
Cash flows from operating activities		
Increase in net assets	\$ 7,509,746	\$ 21,767,805
Adjustments to reconcile increase in net assets to net cash provided by operating activities		
Depreciation and amortization	26,048,473	22,153,445
Provision for bad debts	13,620,670	14,550,932
Change in retirement benefit obligation	88,260	(714,279)
Change in non-controlling interest	(1,168,878)	223,635
Net realized and unrealized gains on investments	677,614	(10,583,839)
(Gain) loss on disposal of assets	(243,046)	197,187
Equity earnings in affiliates	(7,368,120)	(7,094,777)
Accretion of asset retirement obligation	-	165,960
Changes in assets and liabilities		
Accounts receivable	(18,852,245)	(19,044,006)
Supplies, prepaid, and other current assets	791,912	(776,865)
Other assets	93,683	(1,269,476)
Accounts payable, accrued expenses and long-term liabilities	3,386,051	840,914
Accrued salaries, wages and withholdings	807,943	(4,768,997)
Accrued compensation benefit	(1,495,153)	(752,427)
Advances from third-party payors	935,798	20,957
Interest payable	(31,225)	290,488
Accrued retirement benefits	<u>310,610</u>	<u>(1,069,798)</u>
Net cash provided by operating activities	25,112,093	14,136,859
Cash flows from investing activities		
Purchase of property, plant and equipment	(11,001,297)	(66,021,503)
Proceeds from the disposal of assets	3,500,860	5
Purchase of restricted cash, short-term investments, and assets whose use is limited	(98,756,705)	(314,611,853)
Sale of restricted cash, short-term investments, and assets whose use is limited	92,276,346	362,613,394
Equity distributions from affiliates, net	<u>5,948,313</u>	<u>3,775,241</u>
Net cash used in investing activities	(8,032,483)	(14,244,716)

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

	<u>2012</u>	<u>2011</u>
Cash flows from financing activities		
Proceeds from long-term debt	3,230,104	1,300,000
Payments on long-term debt	<u>(11,436,469)</u>	<u>(5,837,128)</u>
Net cash used in financing activities	<u>(8,206,365)</u>	<u>(4,537,128)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	8,873,245	(4,644,985)
Cash and cash equivalents		
Beginning of year	<u>18,380,698</u>	<u>23,025,683</u>
End of year	<u>\$ 27,253,943</u>	<u>\$ 18,380,698</u>
<u>Supplemental disclosure of cash flow information</u>		
Cash paid for income taxes	\$ 3,384,830	\$ 1,041,108
Cash paid for interest, net of amounts capitalized	15,336,562	8,631,330
<u>Supplemental disclosure of non-cash investing and financing activities</u>		
Assets acquired under capital leases	\$ 2,016,780	\$ 165,768
Decrease in accrual for the purchase of property, plant and equipment	(969,938)	(13,012,508)

Meritus Health, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2012 and 2011

1 DESCRIPTION OF ORGANIZATION

Organization

Meritus Health, Inc. ("Parent"), is the parent corporation of the Meritus Medical Center, Inc. ("Hospital"), the Meritus Medical Center Endowment Fund, Inc. ("Fund"), the Meritus Healthcare Foundation, Inc. ("Foundation"), and the Meritus Insurance Company, Ltd. ("MIC"). The Hospital is the parent corporation of Meritus Holdings, LLC ("Holdings"), which owns Meritus Enterprises ("MEI"). These entities are collectively referred to as "Meritus".

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

Holdings is a tax-exempt entity that operates a laboratory, urgent care centers, and other health services. The Hospital is the sole member of Holdings.

MEI is a for-profit corporation that operates retail pharmacies, physician practices, and other health services. In addition, MEI holds a 60% interest in Robinwood Surgery Center which provides ambulatory surgery services and a 50% interest in Diagnostic Imaging Services which provides outpatient imaging services.

The Fund is a not-for-profit corporation which manages gifts, donations or bequests given for the benefit of Meritus. The Parent is the sole corporate member of the Fund. The Fund also acquires real estate properties for rental to medical provider entities and development opportunities. The Fund is the sole member of Meritus Medical Center Endowment Development Company, Inc. ("Development Company"), a not-for-profit corporation, which was formed to develop and lease real estate properties for rental to medical provider entities.

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

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

Meritus Health, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2012 and 2011

1 DESCRIPTION OF ORGANIZATION - Continued

Organization - continued

MIC is a Cayman Island captive insurance company, wholly-owned by the Parent that provides primary limits of insurance to Meritus for professional liability, employed physicians professional liability, comprehensive general liability, deductible, and stop loss coverage for health insurance

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Parent, the Hospital, Holdings, MEI, the Fund, the Foundation, and MIC. MEI owns a 60% interest in Robinwood Surgery Center, LLC, at June 30, 2012 and 2011, which is included in the consolidated financial statements with the related non-controlling interest reported as a component of net assets. All material inter-company balances and transactions have been eliminated in consolidation.

Use of Estimates

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

Fair Value Measurements

Meritus measures fair value as the price that would be received to sell an asset or paid to transfer a liability (the exit price) in an orderly transaction between market participants at the measurement date. The accounting guidance outlines a valuation framework and creates a fair value hierarchy in order to increase the consistency and comparability of fair value measurements and the related disclosures. The fair value hierarchy is broken down into three levels based on the source of inputs as follows:

Level I - Quoted prices are available in active markets for identical assets or liabilities as of the report date. A quoted price for an identical asset or liability in an active market provides the most reliable fair value measurement because it is directly observable to the market.

Meritus Health, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2012 and 2011

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Fair Value Measurements - continued

Level II - Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable as of the report date. The nature of these securities include investments for which quoted prices are available but traded less frequently and investments that are fair valued using other securities, the parameters of which can be directly observed.

Level III - Securities that have little to no pricing observability as of the report date. These securities are measured using management's best estimate of fair value, where the inputs into the determination of fair value are not observable and require significant management judgment or estimation.

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

Patient Accounts Receivable/ Allowance for Doubtful Accounts

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

Cash and Cash Equivalents

Cash and cash equivalents consist of short-term, highly liquid investments that are readily convertible to cash and have original maturities of three months or less. Cash and cash equivalents are carried at cost which approximates fair value. Meritus entered into overnight investment repurchase transactions of \$15,746,000 and \$13,968,000 as of June 30, 2012 and 2011, respectively.

Assets Whose Use is Limited

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

Meritus Health, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2012 and 2011

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Investments and Investment Income

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

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

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

Supplies

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

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

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

	<u>2012</u>	<u>2011</u>
Hospital		
Surgical and medical supplies	\$4,521,316	\$ 5,253,327
Other supplies	<u>986,857</u>	<u>1,017,163</u>
	5,508,173	6,270,490
Holdings and MEI		
Durable medical equipment	531,204	751,414
Surgical and medical supplies	387,216	378,258
Pharmacy and home care infusion	2,474,863	2,354,710
Medical laboratory	<u>516,380</u>	<u>497,320</u>
	<u>3,909,663</u>	<u>3,981,702</u>
	<u>\$9,417,836</u>	<u>\$10,252,192</u>

Meritus Health, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2012 and 2011

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Property, Plant and Equipment

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

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

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

Meritus continually evaluates whether events and circumstances have occurred that indicate the remaining estimated useful life of long-lived assets is appropriate, or whether the remaining balance may not be recoverable. When factors indicate that long-lived assets should be evaluated for possible impairment, Meritus uses an estimate of the related undiscounted operating income over the remaining life of the long-lived asset in measuring whether the long-lived asset is recoverable. The impairment loss on these assets is measured as the excess of the carrying amount of the asset over its fair value. Fair value is based upon market prices, where available, or discounted cash flows. Management believes that no revision to the remaining useful lives or write-down of long-lived assets is required at June 30, 2012.

Deferred Financing Costs

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

Advertising Costs

Advertising costs for the years ended June 30, 2012 and 2011 were \$1,649,730 and \$718,165, respectively.

Meritus Health, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2012 and 2011

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Compensated Absences

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

Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are those whose use by Meritus have been limited by donors to a specific time period or purpose. When donor restrictions expire, that is, when a time restriction ends or a purpose restriction is accomplished, temporarily restricted net assets are reclassified into unrestricted net assets and reported as net assets released from restrictions.

Donor-restricted contributions whose restrictions are met within the same year as received are reported as unrestricted contributions if for operating purposes and as other changes in unrestricted net assets if for capital purposes in the consolidated statements of operations and changes in net assets. Permanently restricted net assets have been restricted by donors to be maintained by Meritus in perpetuity.

Excess of Revenue over Expenses

The consolidated statements of operations include the excess of revenue over expenses. Changes in unrestricted net assets that are excluded from the excess of revenues over expenses, consistent with industry practice, include net assets released from restrictions for property, plant and equipment, the change in retirement benefit obligation, change in non-controlling interest and other items.

Net Patient Service Revenue

For services provided at the Hospital campus, all payors are required to pay the Maryland Health Services Cost Review Commission ("HSCRC") approved rates. The major third-party payors, as recognized by the HSCRC, are allowed discounts of up to 6% on approved rates. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered.

The Hospital's charges are subject to review and approval by the HSCRC. The Hospital management has filed the required forms with the HSCRC and believes the Hospital to be in compliance with HSCRC requirements. The total rate of reimbursement for services to patients under the Medicare and Medicaid programs is based on an arrangement between the Centers for Medicare and Medicaid Service and the HSCRC. Management believes that this program will remain in effect at least through June 30, 2013. Effective July 1, 2010, the Hospital entered into an agreement with the HSCRC under a rate regulation concept called Total Patient Revenue ("TPR") for a three year period ending June 30, 2013. TPR is a revenue constraint methodology which provides for inflation, bad debt, payor differential and adjustments for population growth, but excludes case mix and volume changes. For the years ended June 30, 2012 and 2011, the regulated revenue cap was \$294,592,054 and \$275,699,700 respectively. For the year ending June 30, 2013, the regulated revenue cap is approximately \$299,000,000. Management is working with the HSCRC on an agreement for the years beyond fiscal year 2013.

Meritus Health, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2012 and 2011

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Net Patient Service Revenue - continued

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

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

Net revenues from the Medicare and Medicaid programs collectively constitute approximately 48% of Meritus' net patient service revenue for the years ended June 30, 2012 and 2011. Laws and regulations governing the HSCRC, Medicare and Medicaid programs are complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. Meritus believes that it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing. While no such regulatory inquiries have been made, compliance with such laws and regulations can be subject to future government review and interpretation as well as significant regulatory action.

Accounts receivable are reduced by an allowance for doubtful accounts. Meritus' allowance for doubtful accounts totaled \$3,934,805 and \$3,676,453 at June 30, 2012 and 2011, respectively. In evaluating the collectibility of accounts receivable, Meritus analyzes its past history and identifies trends for each of its major payor sources of revenue to estimate the appropriate allowance for doubtful accounts and provision for bad debts. Management reviews data about these major payor sources of revenue in evaluating the sufficiency of the allowance for doubtful accounts. For receivables associated with services provided to patients who have third-party coverage, Meritus analyzes contractually due amounts and provides an allowance for doubtful accounts and a provision for bad debts, if necessary (for example, for expected uncollectible deductibles and copayments on accounts for which the third-party payor has not yet paid, or for payors who are known to be having financial difficulties that make the realization of amounts due unlikely). For receivables associated with self-pay patients, Meritus records a significant provision for bad debts on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The difference between the billed rates and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for doubtful accounts. Meritus has not experienced significant changes in write-off trends and has not changed its charity care policy for the year ended June 30, 2012.

Patient service revenue for the year ended June 30, 2012, net of contractual allowances and discounts (but before the provision for bad debts), recognized in the period from these major payor sources based on primary insurance designation, is as follows:

Meritus Health, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2012 and 2011

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Net Patient Service Revenue - continued

	<u>Third-Party Payers</u>	<u>Self-Pay</u>	<u>Total All Payers</u>
Patient service revenue, net of contractual allowances and discounts	<u>\$330,527,178</u>	<u>\$27,040,257</u>	<u>\$357,567,435</u>

Deductibles and copayments under third-party payment programs within the third-party payer amount above are the patients' responsibility and Meritus considers these amounts in its determination of the provision for bad debts based on collection experience

Charity Care

Meritus provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Meritus does not pursue collection on amounts deemed to qualify as charity. Meritus also estimates that the direct and indirect cost of services and supplies furnished to patients eligible for charity care using a ratio of cost to gross charges based on internal data is \$15,421,891 and \$10,738,028 for the years ended June 30, 2012 and 2011, respectively.

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

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

Other Revenue

Other revenue is comprised of investment income on assets whose use is limited under bond indenture agreement, rental income, gains and losses on disposal of assets, incentive payments related to the implementation and meaningful use of certified electronic health records and other miscellaneous items.

Meritus Health, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2012 and 2011

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Other Revenue - continued

The American Recovery and Reinvestment Act of 2009 provides for Medicare and Medicaid incentive payments for eligible hospitals and professionals that implement and achieve meaningful use of certified electronic health record (EHR) technology. For Medicare and Medicaid EHR incentive payments Meritus utilizes a grant accounting model to recognize these revenues. Under this accounting policy, EHR incentive payments were recognized as revenues when attestation that the EHR meaningful use criteria for the required period of time was demonstrated. Accordingly, Meritus recognized \$1,885,293 of EHR revenues for the year ended June 30, 2012. These amounts are included in other revenue in the consolidated statements of operations and changes in net assets. Meritus' attestation of compliance with the meaningful use criteria is subject to audit by the federal government or its designee. Additionally, Medicare EHR incentive payments received are subject to retrospective adjustment upon final settlement of the applicable cost report from which payments were calculated.

Income Taxes

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

Holdings is considered a disregarded entity for tax purposes and is reported through the Hospital.

MEI accounts for income taxes through the current recognition of deferred tax liabilities and assets for the expected future tax consequences of temporary differences between tax bases and financial reporting bases of other assets and liabilities.

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

Meritus follows the accounting guidance for uncertainties in income tax positions which requires that a tax position be recognized or derecognized based on a "more likely than not" threshold. This applies to positions taken or expected to be taken in a tax return. Meritus does not believe its consolidated financial statements include any material uncertain tax positions.

Concentration of Credit Risk

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

Meritus Health, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2012 and 2011

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

Concentration of Credit Risk - continued

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

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

	<u>2012</u>	<u>2011</u>
Health maintenance organizations	2%	3%
Medical assistance HMO	12	14
Medicare	32	32
Commercial insurance and other	22	22
Blue Cross/ Blue Shield	17	18
Self-pay	<u>15</u>	<u>11</u>
	<u>100%</u>	<u>100%</u>

457(b) Deferred Compensation Plan

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

Recently Adopted Accounting Pronouncements

In August 2010, the FASB issued guidance to reduce the diversity in practice regarding the measurement basis used in the identification and disclosure of charity care by healthcare entities. The amendments in this guidance require that cost be used as the measurement for charity care disclosure purposes and that cost be identified as the direct and indirect cost of providing the care. The guidance also requires entities to disclose their method used to identify or determine such costs. This authoritative guidance is effective for financial statements issued for fiscal years beginning after December 15, 2010 and should be applied retrospectively to all prior fiscal years presented. Meritus has adopted the provisions of this guidance for the year's ended June 30, 2012 and 2011. The new guidance did not impact the results of operations or financial position, however, changes to the charity care disclosures were required (see note 2, Charity Care).

Meritus Health, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2012 and 2011

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Recently Adopted Accounting Pronouncements - continued

In July 2011, the FASB issued authoritative guidance to provide amendments to the presentation of the statement of operations for certain healthcare entities and enhanced disclosure about net patient service revenue and the related allowance for doubtful accounts. These amendments require certain healthcare entities to present their provision for bad debts associated with patient service revenue as a deduction from patient service revenue (net of contractual allowances and discounts). These amendments also require disclosure of patient service revenue (net of contractual allowances and discounts) as well as qualitative and quantitative information about changes in the allowance for doubtful accounts. Additionally, healthcare entities are required to provide enhanced disclosure about their policies for recognizing revenue and assessing bad debts.

The guidance is effective for fiscal years and interim periods within those fiscal years beginning after December 15, 2011, with early adoption permitted. The amendments to the presentation of the provision for bad debts related to patient service revenue in the statement of operations should be applied retrospectively to all prior periods presented. The disclosures required by the amendments in this update should be provided for the period of adoption and subsequent reporting periods. Meritus early adopted the provisions of this guidance as of and for the year ended June 30, 2012, and retrospectively applied the presentation requirements to all periods presented. The change in presentation and additional disclosures, as required, are reflected in the consolidated statement of operations and changes in net assets and in Note 2 - Net Patient Service Revenue.

Reclassifications

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

Subsequent Events

Meritus evaluated subsequent events through September 26, 2012, the date these consolidated financial statements were available to be issued. All material matters are disclosed in the footnotes to the consolidated financial statements.

Meritus Health, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2012 and 2011

3 INVESTMENTS AND INVESTMENT INCOME

Investments at June 30 consisted of the following

	<u>2012</u>	<u>2011</u>
Short-term investments		
U S government securities	\$ <u>3,422,557</u>	\$ <u>4,399,794</u>
Assets whose use is limited		
Cash and cash equivalents	\$ 6,553,559	\$ 190,552
Fixed income	31,618,734	29,891,730
Common stock	45,922,290	47,521,106
Mutual funds	<u>237,301</u>	<u>2,656,935</u>
	<u>\$84,331,884</u>	<u>\$80,260,323</u>
Assets held by trustee for debt service and construction		
U S government securities	\$ <u>29,170,115</u>	\$ <u>27,776,762</u>
Funds designated for insurance purposes		
Fixed income	\$ <u>9,751,838</u>	\$ <u>8,568,573</u>

Meritus had restricted cash of \$2,746,240 and \$2,614,437 as of June 30, 2012 and 2011, respectively, for unemployment insurance collateral and workers' compensation collateral in compliance with the self-insurance requirement under the regulations of the State of Maryland Employment Security Administration and Workers' Compensation Administration

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

	<u>2012</u>	<u>2011</u>
Investment returns, net		
Interest and dividends, net of investment fees of \$234,905 and \$206,240 in 2012 and 2011, respectively	\$ 5,636,667	\$ 2,226,518
Net realized gains on investments	988,290	4,217,673
Change in unrealized gains and losses on investments	<u>(1,665,904)</u>	<u>6,318,368</u>
	<u>\$4,959,053</u>	<u>\$12,762,559</u>

Meritus Health, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2012 and 2011

4 FAIR VALUE MEASUREMENTS

The following table presents Meritus' assets measured at fair value on a recurring basis using the market approach, as of June 30

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
2012				
Cash and cash equivalents	\$ 27,253,943	\$ -	\$ -	\$ 27,253,943
Restricted cash	2,746,240	-	-	2,746,240
Short-term investments	3,422,557	-	-	3,422,557
Assets whose use is limited	<u>116,746,346</u>	<u>6,507,491</u>	<u>-</u>	<u>123,253,837</u>
Total assets	<u>\$150,169,086</u>	<u>\$6,507,491</u>	<u>\$ -</u>	<u>\$156,676,577</u>
2011				
Cash and cash equivalents	\$ 18,380,698	\$ -	\$ -	\$ 18,380,698
Restricted cash	2,614,437	-	-	2,614,437
Short-term investments	4,399,794	-	-	4,399,794
Assets whose use is limited	<u>109,976,297</u>	<u>6,629,361</u>	<u>-</u>	<u>116,605,658</u>
Total assets	<u>\$135,371,226</u>	<u>\$6,629,361</u>	<u>\$ -</u>	<u>\$142,000,587</u>

Meritus does not have any Level 3 financial instruments as of June 30, 2012 and 2011

Pledges receivable are non-recurring fair value measurements. Any multi-year pledge received in fiscal year 2012 and 2011 is recorded at the present value of future cash flows with a discount rate adjusted for any market conditions to arrive at fair value. These are classified as Level 2 within the fair value hierarchy.

5 ACCOUNTS RECEIVABLE

Accounts receivable at June 30 consist of the following

	<u>2012</u>	<u>2011</u>
Patient accounts	\$57,524,421	\$52,034,966
Less Contractual allowance	(8,101,830)	(5,857,365)
Less Allowance for doubtful accounts	<u>(3,934,805)</u>	<u>(3,676,453)</u>
	45,487,786	42,501,148
Other receivables	<u>5,622,108</u>	<u>3,377,171</u>
	<u>\$51,109,894</u>	<u>\$45,878,319</u>

Meritus Health, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2012 and 2011

5 ACCOUNTS RECEIVABLE - Continued

Pledges receivable at June 30 consist of the following

	<u>2012</u>	<u>2011</u>
Capital campaign	\$5,455,065	\$6,915,922
Other	<u>942,737</u>	<u>298,879</u>
Total unconditional promises to give	<u>\$6,397,802</u>	<u>\$7,214,801</u>
Receivable in less than one year	\$2,511,620	\$2,328,567
Receivable in one to five years	3,099,601	4,197,227
Receivable in more than five years	<u>786,581</u>	<u>689,007</u>
Total unconditional promises to give	6,397,802	7,214,801
Less discounts to net present value	(619,575)	(718,414)
Less allowance for uncollectible promises	<u>(623,998)</u>	<u>(630,017)</u>
Net unconditional promises to give	<u>\$5,154,229</u>	<u>\$5,866,370</u>
Pledges receivable, current portion included in other receivables	\$2,084,062	\$1,973,208
Pledges receivable, net of current portion	<u>3,070,167</u>	<u>3,893,162</u>
	<u>\$5,154,229</u>	<u>\$5,866,370</u>

6 PROPERTY, PLANT AND EQUIPMENT

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

	<u>2012</u>	<u>2011</u>
Land	\$ 25,484,072	\$ 24,845,055
Buildings and improvements used in operations	179,590,443	177,838,850
Buildings used in rental operations	22,695,770	22,083,494
Equipment	<u>184,246,286</u>	<u>180,542,923</u>
	412,016,571	405,310,322
Less accumulated depreciation and amortization	<u>(125,793,519)</u>	<u>(103,081,471)</u>
	286,223,052	302,228,851
Construction in progress	<u>200,989</u>	<u>1,311,341</u>
Property, plant and equipment, net	<u>\$ 286,424,041</u>	<u>\$ 303,540,192</u>

Meritus Health, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2012 and 2011

6 PROPERTY, PLANT AND EQUIPMENT - Continued

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

	<u>2012</u>	<u>2011</u>
Equipment	\$12,941,606	\$14,670,518
Less accumulated amortization	<u>(7,782,072)</u>	<u>(2,651,757)</u>
	<u>\$ 5,159,534</u>	<u>\$12,018,761</u>

Total depreciation and amortization expense for the years ended June 30, 2012 and 2011 was \$25,906,476 and \$22,021,810, respectively

Meritus had a conditional asset retirement obligation ("CARO") of \$1,608,950 at June 30, 2011, (included in accounts payable and accrued expenses.), that related to the removal and disposal of asbestos and two underground fuel storage tanks. Total accretion for the years ended June 30, 2012 and 2011 was \$0 and \$165,960, respectively.

Demolition payments for the years ended June 30, 2012 and 2011 were \$2,229,857 and \$1,505,089, which included payments for the CARO of \$1,608,950 and \$550,510, respectively.

Transition costs for the year ended June 30, 2011 were \$2,797,289 resulting from opening the new facility.

7 EQUITY INVESTMENTS IN AFFILIATES

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

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

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

MEI has a 50% interest in Diagnostic Imaging, which provides radiology imaging services, and has a 33.33% interest in Western Maryland Supply, LLC, which provides durable medical equipment for rental or purchase. For the year ended June 30, 2011, the Endoscopy Center at Robinwood, LLC ("Endoscopy Center"), an ambulatory center for gastroenterology procedures, and Endoscopy Real Estate are 50% owned by Robinwood Surgery Center, LLC ("RSC"). During the year ended June 30, 2012, RSC sold its 50% share in Endoscopy Center for \$3,300,000 resulting in a gain of \$3,008,500. GI Real Estate provides rental property to a group of healthcare practitioners and is 50% owned by MEI.

Meritus Health, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2012 and 2011

7 EQUITY INVESTMENTS IN AFFILIATES - Continued

Summary financial information as of June 30, 2012 and 2011 and for the years then ended appears below for the significant equity investments

	Hospital Maryland Care, Inc		Hospital Tri-State Health Partners	
	2012	2011	2012	2011
Assets	\$194,501,638	\$150,200,000	\$3,387,984	\$2,903,609
Liabilities	<u>127,042,207</u>	<u>86,300,000</u>	<u>292,440</u>	<u>52,852</u>
Equity	<u>\$ 67,459,431</u>	<u>\$ 63,900,000</u>	<u>\$3,095,544</u>	<u>\$2,850,757</u>
Net income	<u>\$ 16,444,597</u>	<u>\$ 18,033,088</u>	<u>\$ 189,346</u>	<u>\$ 194,869</u>

	MEI Diagnostic Imaging Services, LLC		General Surgery Real Estate, LLC	
	2012	2011	2012	2011
Assets	\$ 10,484,787	\$ 11,505,376	\$ 595,541	\$ -
Liabilities	<u>3,358,394</u>	<u>3,920,254</u>	<u>506,859</u>	<u>-</u>
Equity	<u>\$ 7,126,393</u>	<u>\$ 7,585,122</u>	<u>\$ 88,682</u>	<u>\$ -</u>
Net income	<u>\$ 3,441,271</u>	<u>\$ 2,697,098</u>	<u>\$ 10,593</u>	<u>\$ -</u>

	MEI Endoscopy Center at Robinwood, LLC		MEI Endoscopy Real Estate	
	2012	2011	2012	2011
Assets	\$ -	\$ 591,356	\$1,072,385	\$1,261,915
Liabilities	<u>-</u>	<u>28,924</u>	<u>1,170,134</u>	<u>1,231,860</u>
Equity (deficiency)	<u>\$ -</u>	<u>\$ 562,432</u>	<u>\$ (97,749)</u>	<u>\$ 30,055</u>
Net income	<u>\$ -</u>	<u>\$ 1,915,919</u>	<u>\$ 97,195</u>	<u>\$ 92,609</u>

Meritus Health, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2012 and 2011

7 EQUITY INVESTMENTS IN AFFILIATES - Continued

	MEI GI Real Estate		MEI - Western Maryland Medical Supply, LLC	
	2012	2011	2012	2011
Assets	\$ 574,483	\$ 580,726	\$ 948,719	\$1,312,866
Liabilities	<u>367,700</u>	<u>408,977</u>	<u>770,346</u>	<u>420,869</u>
Equity	<u>\$ 206,783</u>	<u>\$ 171,749</u>	<u>\$ 178,373</u>	<u>\$ 891,997</u>
Net income (loss)	<u>\$ 35,034</u>	<u>\$ 30,365</u>	<u>\$ (713,624)</u>	<u>\$ (44,056)</u>

8 LONG-TERM DEBT

Long-term debt at June 30 consists of the following

	2012	2011
MHHEFA Revenue Bonds		
Series 2008 4.00% - 6.00% serial bonds, net of original issue discounts of \$1,214,539 and \$1,273,796, respectively	\$259,750,461	\$263,026,204
2001 Taxable Note B to Bank of America	1,530,354	2,522,762
City of Hagerstown note	159,295	177,475
2011 Bank of America Note - 2.13% interest rate	1,013,333	-
Mortgages and equipment loans with banks, with interest rates ranging from 2.3% to 7.75%	2,646,433	3,260,239
Capital lease obligations, with interest rates ranging from 2.9% to 5.0%	<u>3,997,311</u>	<u>6,300,092</u>
	269,097,187	275,286,772
Less current portion of long-term debt	<u>(7,650,229)</u>	<u>(9,140,210)</u>
	<u>\$261,446,958</u>	<u>\$266,146,562</u>

Meritus uses current market prices in determining the fair value of its Revenue Bonds. The carrying value of other long-term debt approximates fair value. The fair value of total long-term debt, excluding capital lease obligations, was approximately \$288,853,000 and \$269,175,000 at June 30, 2012 and 2011, respectively.

In February 2008, Meritus issued Maryland Health and Higher Educational Facilities Authority ("MHHEFA") Revenue Bonds Washington County Hospital Issue Series 2008 for the construction of a replacement hospital, funding of the debt service reserve and capitalized interest funds, and to refinance various previously outstanding debt. The Series 2008 Bonds are due in annual principal installments through January 2043. Interest is due semi-annually in January and July.

Meritus Health, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2012 and 2011

8 LONG-TERM DEBT - Continued

The long-term debt related to the Series 2008 Bonds is reflected in the consolidated financial statements net of the unamortized original issue bond discounts. The original issue bond discounts are being amortized over the life of the debt and are included in amortization expense in the consolidated statements of operations and changes in net assets.

All bonds are collateralized by a first lien and claims on all receipts of Meritus, except restricted donations and contributions. In connection with the Series 2008 Bonds, MHHEFA has a security interest in existing facilities of Meritus. All bonds require the Obligated Group, which consists of Meritus, the Hospital, and the Fund, to maintain certain financial ratios and stipulated insurance coverage as defined. Meritus was in compliance with these covenants at June 30, 2012 and 2011.

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

The 2001 Taxable Note B to Bank of America was issued for the construction of the Robinwood Medical Center III. The taxable portion of the debt requires monthly principal payments of \$82,701 through February 1, 2014. The interest is calculated and payable monthly based upon the outstanding principal balance at the time. The variable interest rates were 1.35% and 1.31%, as of June 30, 2012 and 2011, respectively. The bonds may be repaid, at the option of Meritus, in part or in full at any time with 30 days notice. The bonds are collateralized by a mortgage of the real property of both the Fund and the Hospital.

Meritus Health, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2012 and 2011

8 LONG-TERM DEBT - Continued

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

	<u>Long-Term Debt</u>	<u>Capital Lease Obligations</u>
2013	\$ 5,749,337	\$2,095,799
2014	5,165,662	1,175,807
2015	4,526,348	677,080
2016	4,188,790	252,423
2017	4,236,173	-
Thereafter	<u>242,448,105</u>	<u>-</u>
	<u>\$266,314,415</u>	4,201,109
Less amount representing interest		<u>(203,798)</u>
		<u>\$3,997,311</u>

The Hospital maintains a line of credit with a financial institution which is renewed annually in the amount of \$1,000,000, bearing interest on the drawn portion at the bank's prime interest rate. The line was not in use at June 30, 2012 and 2011.

MEI maintains a line of credit with a financial institution which is renewed annually in the amount of \$500,000, bearing interest on the drawn portion at the bank's prime interest rate plus 2%. The line was not in use at June 30, 2012 and 2011.

Capitalized Interest

A summary of interest cost and investment income on borrowed funds held by the trustee under the Series 2008 Revenue Bonds for the year ended June 30, 2011 is as follows:

Interest cost	
Expense	\$ 8,500,000
Capitalized	<u>6,825,828</u>
	<u>\$15,325,828</u>
Interest income	
Other income	\$ 126,358
Capitalized	<u>618,172</u>
	<u>\$ 744,530</u>

Meritus Health, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2012 and 2011

9 INCOME TAXES

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

	<u>2012</u>	<u>2011</u>
Current		
Federal	\$3,379,649	\$ 174,845
State	<u>843,138</u>	<u>139,130</u>
	4,222,787	313,975
Deferred		
Federal	363,301	(120,031)
State	<u>58,443</u>	<u>(19,309)</u>
	<u>421,744</u>	<u>(139,340)</u>
	<u>\$4,644,531</u>	<u>\$ 174,635</u>

Effective July 1, 2011, MEI completed a structural realignment to include the formation of Holdings. The realignment included the conversion of taxable subsidiaries of MEI resulting in a net federal and state conversion tax of \$4,000,000.

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

	<u>2012</u>	<u>2011</u>
Deferred tax asset		
Accrued vacation	\$ 847,399	\$ 1,280,507
Deferred compensation	1,074,769	843,062
Allowance for bad debts	497,885	578,305
Other	<u>292,844</u>	<u>316,561</u>
	2,712,897	3,018,435
Deferred tax liabilities		
Fixed assets and intangible assets	(1,123,726)	(967,973)
Deferred compensation	-	(4,082)
Captive insurance premiums	(6,346)	(27,174)
Partnership basis	<u>(20,986)</u>	<u>(35,623)</u>
	<u>(1,151,058)</u>	<u>(1,034,852)</u>
	<u>\$ 1,561,839</u>	<u>\$ 1,983,583</u>

Meritus Health, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2012 and 2011

10 POST RETIREMENT BENEFIT PLANS

Defined Contribution Plans

Effective July 1, 2011, Meritus assumed sponsorship of the Antietam Health Services, Inc. Savings Plan from MEI. Meritus amended and restated the plan as of that date renaming it the Meritus Health 401(k) Savings Plan. The plan is available to all Meritus employees. Meritus matches employee contributions for an amount up to 6% of each employee's base salary, subject to limitations.

The Hospital had a 403(b) defined contribution plan available to all Hospital employees. Effective July 1, 2011, the plan was frozen to future contributions. In fiscal year 2011, employees received up to 50% matching contributions, up to 6% of employee's salary based upon meeting years of service requirements, subject to the annual IRS limitations.

In 2011, MEI had an employee savings plan under Section 401(k) of the Internal Revenue Code available to all MEI employees. MEI matches employee contributions for an amount up to 6% of each employee's base salary, subject to limitations, depending upon the length of service with MEI. MEI's contributions vest after the first three years of service. During plan year 2011, MEI Savings Plan failed to satisfy one of the operational requirements of maintaining a qualified retirement plan. To resolve this issue, MEI adopted a resolution for the Hospital to provide a profit sharing allocation under the plan to 575 selected employees.

Amounts charged to expense for the years ended June 30, 2012 and 2011 were \$5,046,653 and \$4,934,489, respectively.

The Hospital maintains an employee funded supplemental non-qualified retirement plan for certain employees. The plan requires the benefits be paid upon termination, retirement or death. The related liability is \$1,064,855 and \$883,062 at June 30, 2012 and 2011, respectively. Management has designated investments for the intended purpose of funding the liability when payable. Amounts charged to expense for the years ended June 30, 2012 and 2011 were \$23,080 and \$0, respectively.

Defined Benefit Plan

Meritus maintains a cash balance pension plan ("Plan"), which was terminated for all participants, effective June 30, 2011. Meritus is in the termination process which ends with the distribution of plan assets to participants and is expected to be complete by December 2012. Disclosure assumptions reflect the termination and pending settlement of the benefit obligations. The Plan covered substantially all current Hospital employees and maintains the balance for MEI employees previously employed by the Hospital. Benefits under the plan are generally based on the participant's age, years of service and compensation levels. Annual contributions are made to the plan in accordance with the Employee Retirement Income Security Act of 1974 ("ERISA") regulations. Employees were fully vested after three years of service.

Meritus Health, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2012 and 2011

10 POST RETIREMENT BENEFIT PLANS - Continued

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

	<u>2012</u>	<u>2011</u>
Change in benefit obligation		
Benefit obligation at beginning of year	\$44,527,620	\$45,842,769
Interest cost	324,829	2,374,753
Actuarial loss	1,091,759	2,601,926
Benefits paid	<u>(2,840,652)</u>	<u>(6,291,828)</u>
Benefit obligation at end of year	<u>\$43,103,556</u>	<u>\$44,527,620</u>
Change in plan assets		
Fair value of plan assets at beginning of year	\$42,579,753	\$40,663,757
Actual return on plan assets	54,999	5,907,824
Contributions	-	2,300,000
Benefits paid	<u>(2,840,652)</u>	<u>(6,291,828)</u>
Fair value of plan assets at end of year	<u>\$39,794,100</u>	<u>\$42,579,753</u>
Net amount recognized		
Accrued compensation benefits	<u>\$ (3,309,456)</u>	<u>\$ (1,947,867)</u>
Amounts recognized in unrestricted net assets consist of		
Net actuarial loss	\$11,128,092	\$11,018,940
Prior service cost	<u>162,958</u>	<u>183,877</u>
Net amount recognized in unrestricted net assets	<u>\$11,291,050</u>	<u>\$11,202,817</u>

The accumulated benefit obligation is \$43,103,556 and \$44,527,620 at June 30, 2012 and 2011, respectively

Amounts in unrestricted net assets expected to be recognized as components of net periodic benefit cost for the year ending June 30, 2012 are prior service costs of \$162,958 and actuarial losses of \$6,674

	<u>2012</u>	<u>2011</u>
Net periodic benefit cost (income)		
Interest cost	\$ 324,829	\$ 2,374,753
Expected return on plan assets	(324,942)	(3,168,040)
Prior service cost	20,919	48,176
Actuarial loss	<u>562,654</u>	<u>528,245</u>
	583,460	(216,866)
Settlement loss	<u>689,896</u>	<u>-</u>
	1,273,356	(216,866)
Change in amounts recognized in unrestricted net assets	<u>(88,260)</u>	<u>714,279</u>
	<u>\$1,185,096</u>	<u>\$ 497,413</u>

Meritus Health, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2012 and 2011

10 POST RETIREMENT BENEFIT PLANS - Continued

Assumptions

	<u>2012</u>	<u>2011</u>
Weighted-average assumptions used to determine benefit obligations as of June 30		
Discount rate	3.430%	3.408%
Rate of compensation increase	N / A	N / A
Measurement date	June 30	June 30
Weighted-average assumptions used to determine net periodic benefit cost for the years ended June 30		
Discount rate	3.408%	5.650%
Expected return on plan assets	0.800%	8.000%
Rate of compensation increase	N / A	N / A

Basis for Expected Long-Term Rate of Return

The expected long-term rate of return reflects the expected return for each major asset class and the weighting of each asset class.

Plan Assets

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

	<u>2012</u>	<u>2011</u>
Asset category		
Cash and cash equivalent	<u>100%</u>	<u>100%</u>

Description of Investment Policies and Strategies

As a result of the plan termination, during fiscal year 2011, Meritus modified its strategy to protect fund assets from market fluctuations. As such, the plan assets were invested in cash and cash equivalents.

Meritus Health, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2012 and 2011

10 POST RETIREMENT BENEFIT PLANS - Continued

Fair Value of Plan Assets

The following fair value hierarch table presents information about each major category of the Plan's financial assets measured at fair value on a recurring basis using the market approach as of June 30

	<u>Total</u>	<u>(Level 1)</u>
2012		
Assets		
Cash and cash equivalents	<u>\$39,794,100</u>	<u>\$39,794,100</u>
2011		
Assets		
Cash and cash equivalents	<u>\$44,852,449</u>	<u>\$44,852,449</u>

There are no plan assets that are Level 2 or 3 at June 30, 2012 and 2011

Contributions

Contributions to the plan for the year ending June 30, 2013 are expected to be approximately \$3,300,000

Estimated Future Benefit Payments

Benefit payments are expected to be paid from the Plan in year ending June 30, 2013 of approximately \$43,100,000

11 INSURANCE COVERAGE

The Parent has a wholly-owned insurance captive, MIC, to provide primary limits of insurance of \$1 million per occurrence/\$3 million aggregate for professional and general liability. The professional liability coverage is provided on a claims-made basis. In addition, MIC purchased reinsurance from an A rated re-insurer in the amount of \$15 million to cover any potential liabilities above the \$1 million/\$3 million primary limits, which were covered by MIC. The self-insured liabilities determined by an actuary for professional and general are discounted at 4%, and are included in other long-term liabilities in the consolidated balance sheets.

Meritus Health, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2012 and 2011

II INSURANCE COVERAGE - Continued

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

	<u>2012</u>	<u>2011</u>
Reserves for losses and loss adjustment expenses at beginning of year	\$ 5,476,000	\$ 4,911,145
Less: reinsurance recoverable on unpaid claims	<u>(1,145,437)</u>	<u>(586,725)</u>
Net reserves for losses and loss adjustment expenses at beginning of year	4,330,563	4,324,420
Incurred related to		
Current fiscal year	1,398,660	1,586,107
Prior fiscal years - change in estimates	<u>(293,817)</u>	<u>108,493</u>
Total losses and loss adjustment expenses incurred, net of reinsurance recoverable	1,104,843	1,694,600
Paid related to		
Current fiscal year	(156,599)	(267,688)
Prior fiscal years	<u>(773,415)</u>	<u>(1,420,769)</u>
Total losses and loss adjustment expenses paid, net of reinsurance recovery	(930,014)	(1,688,457)
Net provision for losses and loss adjustment expenses at end of year	4,505,392	4,330,563
Add: reinsurance recoverable on unpaid claims	<u>1,229,261</u>	<u>1,145,437</u>
Reserves for losses and loss adjustment expenses at end of year	<u>\$ 5,734,653</u>	<u>\$ 5,476,000</u>

12 COMMITMENTS AND CONTINGENCIES

Operating Lease Obligations

Meritus leases equipment under non-cancelable lease arrangements. In addition, Meritus leases office space in several locations under operating leases. Some of the leases provide for renewal options. Rent expense under all operating leases was \$5,445,697 and \$6,264,981 for the years ended June 30, 2012 and 2011, respectively.

Meritus Health, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2012 and 2011

12 COMMITMENTS AND CONTINGENCIES - Continued

Operating Lease Obligations - continued

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

2013	\$5,220,645
2014	4,010,710
2015	2,477,926
2016	1,784,819
2017	735,484

Rental Properties

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

2013	\$ 100,692
2014	77,590
2015	50,184
2016	7,652

Litigation

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

13 TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS

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

	<u>2012</u>	<u>2011</u>
Temporarily restricted for financial support of patients and hospital programs	\$4,331,637	\$ 3,937,604
Capital campaign	<u>4,898,079</u>	<u>6,700,186</u>
	<u>\$9,229,716</u>	<u>\$10,637,790</u>
Permanently restricted investments are to be held in perpetuity, the income of which is expendable to support charity care and healthcare education	<u>\$1,028,618</u>	<u>\$ 1,028,618</u>

Meritus Health, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2012 and 2011

14 FUNCTIONAL EXPENSES

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

	<u>2012</u>	<u>2011</u>
Healthcare services	\$348,987,854	\$328,586,488
Fundraising	837,706	225,581
Administration	<u>21,206,396</u>	<u>20,455,700</u>
Total expenses	<u>\$371,031,956</u>	<u>\$349,267,769</u>

SUPPLEMENTARY INFORMATION



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

To the Board of Directors
Meritus Health, Inc

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying consolidating balance sheet as of June 30, 2012, and consolidating statement of operations and changes in net assets for the year then ended, is presented for purposes of additional analysis, 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 consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures. These additional procedures included comparing and reconciling the information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America established by the American Institute of Certified Public Accountants. In our opinion, the consolidating information is fairly stated in all material respects, in relation to the consolidated financial statements as a whole.

A handwritten signature in black ink that reads "Grant Thornton LLP".

Baltimore, Maryland
September 26, 2012

Meritus Health, Inc.
CONSOLIDATING BALANCE SHEET

June 30, 2012

ASSETS	Meritus Medical Center, Inc	Meritus Medical Center, Endowment Fund, Inc	Meritus Health, Inc	Meritus Health Obligated Group Consolidating Adjustments	Meritus Health Obligated Group	Meritus Holdings, LLC Consolidated	Meritus Insurance Company, Ltd	Meritus Healthcare Foundation	Eliminations	Consolidated Meritus Health, Inc
CURRENT ASSETS										
Cash and cash equivalents	\$ 15,583,391	\$ 493,391	\$ 268,993	\$ (26,006)	\$ 16,319,769	\$ 9,634,556	\$ 913,014	\$ 360,598	\$ 26,006	\$ 27,253,943
Restricted cash	2,746,240	-	-	-	2,746,240	-	-	-	-	2,746,240
Short-term investments	3,422,557	-	-	-	3,422,557	-	-	-	-	3,422,557
Current portion of assets whose use is limited	10,699,864	-	-	-	10,699,864	-	950,000	-	-	11,649,864
Accounts receivable, net	41,707,810	(148)	5,129,582	(1,059,089)	45,778,155	8,258,676	118,583	2,084,062	(5,129,582)	51,109,894
Supplies	5,508,173	-	-	-	5,508,173	3,909,663	-	-	-	9,417,836
Prepaid expenses and other current assets	3,154,258	145,910	-	(474)	3,299,694	2,411,800	243,016	1,792	475	5,956,777
Due from related parties, net	<u>2,856,696</u>	<u>(430,402)</u>	<u>(460,924)</u>	<u>-</u>	<u>1,965,370</u>	<u>(15,635)</u>	<u>-</u>	<u>(248,730)</u>	<u>(1,701,005)</u>	<u>-</u>
Total current assets	85,678,989	208,751	4,937,651	(1,085,569)	89,739,822	24,199,060	2,224,613	2,197,722	(6,804,106)	111,557,111
EQUITY INVESTMENTS IN AFFILIATES	18,446,608	-	3,371,053	21,102,234	42,919,895	3,644,885	-	-	(22,392,682)	24,172,098
ASSETS WHOSE USE IS LIMITED										
Board designated funds	36,415,131	33,385,883	2,389,608	-	72,190,622	-	-	7,067,048	-	79,257,670
Supplemental retirement benefit investments	1,064,855	-	-	-	1,064,855	2,845,236	-	-	-	3,910,091
Temporarily and permanently restricted donor funds	<u>1,164,123</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,164,123</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,164,123</u>
	38,644,109	33,385,883	2,389,608	-	74,419,600	2,845,236	-	7,067,048	-	84,331,884
Assets held by trustee under bond indenture agreement	18,470,251	-	-	-	18,470,251	-	-	-	-	18,470,251
Funds designated for insurance purposes	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>8,801,838</u>	<u>-</u>	<u>-</u>	<u>8,801,838</u>
	57,114,360	33,385,883	2,389,608	-	92,889,851	2,845,236	8,801,838	7,067,048	-	111,603,973
PROPERTY, PLANT AND EQUIPMENT, net	256,218,082	19,547,381	-	(2,287,717)	273,477,746	10,624,994	-	33,584	2,287,717	286,424,041
PLEDGES RECEIVABLE, net	-	-	-	-	-	-	-	3,070,167	-	3,070,167
DEFERRED FINANCING COSTS, net	2,644,089	19,488	-	-	2,663,577	-	-	-	-	2,663,577
DUE FROM RELATED PARTIES	<u>6,681,526</u>	<u>503,454</u>	<u>-</u>	<u>(2,835,362)</u>	<u>4,349,618</u>	<u>1,323,599</u>	<u>1,229,261</u>	<u>-</u>	<u>(3,846,164)</u>	<u>3,056,314</u>
Total assets	<u>\$426,783,654</u>	<u>\$53,664,957</u>	<u>\$10,698,312</u>	<u>\$14,893,586</u>	<u>\$506,040,509</u>	<u>\$42,637,774</u>	<u>\$12,255,712</u>	<u>\$12,368,521</u>	<u>\$30,755,235</u>	<u>\$542,547,281</u>

Meritus Health, Inc.

CONSOLIDATING BALANCE SHEET - CONTINUED

June 30, 2012

LIABILITIES AND NET ASSETS	Meritus Medical Center, Inc	Meritus Medical Center, Endowment Fund, Inc	Meritus Health, Inc	Meritus Health Obligated Group Consolidating Adjustments	Meritus Health Obligated Group	Meritus Holdings, LLC Consolidated	Meritus Insurance Company, Ltd	Meritus Healthcare Foundation	Eliminations	Consolidated Meritus Health, Inc
CURRENT LIABILITIES										
Accounts payable and accrued expenses	\$ 8,824,674	\$ 88,309	\$ -	\$ -	\$ 8,912,983	\$ 4,063,841	\$ 1,120,416	\$ 27,774	\$ -	\$ 14,125,014
Retainage payable	183,885	-	-	-	183,885	-	-	-	-	183,885
Accrued salaries, wages and withholdings	3,856,313	-	-	-	3,856,313	1,103,612	-	-	-	4,959,925
Accrued compensation benefits	12,691,308	-	-	-	12,691,308	4,046,650	-	13,070	-	16,751,028
Advances from third-party payors	7,495,097	-	-	-	7,495,097	125,533	-	-	-	7,620,630
Accrued interest payable	7,764,019	-	-	-	7,764,019	-	-	-	-	7,764,019
Current portion of long-term debt	5,314,638	2,091,815	-	(1,099,408)	6,307,045	1,302,864	-	-	40,320	7,650,229
Due to related organizations	-	-	-	-	-	703,519	-	-	(703,519)	-
Total current liabilities	46,129,934	2,180,124	-	(1,099,408)	47,210,650	11,346,019	1,120,416	40,844	(663,199)	59,054,730
LONG-TERM DEBT, net of current portion	258,549,948	3,756,350	-	(3,218,402)	259,087,896	1,976,023	-	-	383,039	261,446,958
ACCRUED RETIREMENT BENEFITS	1,064,854	-	-	-	1,064,854	3,145,840	-	-	-	4,210,694
OTHER LONG-TERM LIABILITIES	-	-	-	-	-	1,151,058	10,864,235	-	(5,129,582)	6,885,711
Total liabilities	305,744,736	5,936,474	-	(4,317,810)	307,363,400	17,618,940	11,984,651	40,844	(5,409,742)	331,598,093
STOCKHOLDERS' EQUITY										
Common stock	-	-	-	-	-	700,000	120,000	-	(820,000)	-
Paid-in capital	-	-	-	-	-	1,150,080	-	-	(1,150,080)	-
Retained earnings	-	-	-	-	-	20,559,163	151,061	-	(20,710,224)	-
Total stockholders' equity	-	-	-	-	-	22,409,243	271,061	-	(22,680,304)	-
NET ASSETS										
Unrestricted										
Meritus	116,322,692	47,728,483	10,698,312	19,211,396	193,960,883	-	-	2,909,464	1,210,916	198,081,263
Non-controlling interest	-	-	-	-	-	2,609,591	-	-	-	2,609,591
Total unrestricted net assets	116,322,692	47,728,483	10,698,312	19,211,396	193,960,883	2,609,591	-	2,909,464	1,210,916	200,690,854
Temporarily restricted	3,687,608	-	-	-	3,687,608	-	-	9,418,213	(3,876,105)	9,229,716
Permanently restricted	1,028,618	-	-	-	1,028,618	-	-	-	-	1,028,618
Total net assets	121,038,918	47,728,483	10,698,312	19,211,396	198,677,109	2,609,591	-	12,327,677	(2,665,189)	210,949,188
Total liabilities and net assets	\$426,783,654	\$53,664,957	\$10,698,312	\$14,893,586	\$506,040,509	\$42,637,774	\$12,255,712	\$12,368,521	\$ (30,755,235)	\$542,547,281

Meritus Health, Inc.

CONSOLIDATING STATEMENT OF OPERATIONS AND CHANGES IN NET ASSETS

Year end June 30, 2012

	Mentus Medical Center, Inc	Mentus Medical Center, Endowment Fund, Inc	Mentus Health, Inc	Mentus Health Group Obligated Consolidating Adjustments	Mentus Health Obligated Group	Mentus Holdings, LLC Consolidated	Mentus Insurance Company, Ltd	Mentus Healthcare Foundation	Eliminations	Consolidated Meritus Health, Inc
Unrestricted revenue, gains and other support										
Net patient service revenue	\$288,490,595	\$ -	\$ -	\$ -	\$288,490,595	\$ 97,597,332	\$ -	\$ -	\$(14,899,822)	\$371,188,105
Provision for bad debts	<u>12,327,082</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>12,327,082</u>	<u>1,293,588</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>13,620,670</u>
Net patient service revenue less provisions for bad debts	276,163,513	-	-	-	276,163,513	96,303,744	-	-	(14,899,822)	357,567,435
Other revenue	5,623,681	4,101,923	1,482,075	(1,885,824)	9,321,855	2,837,413	2,618,217	641,892	(1,655,605)	13,763,772
Equity earnings in affiliates	4,889,858	-	-	317,686	5,207,544	2,478,262	-	-	(317,686)	7,368,120
Net assets released from restriction used for operations	<u>1,320,116</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,320,116</u>	<u>-</u>	<u>-</u>	<u>2,491,749</u>	<u>(2,270,116)</u>	<u>1,541,749</u>
	287,997,168	4,101,923	1,482,075	(1,568,138)	292,013,028	101,619,419	2,618,217	3,133,641	(19,143,229)	380,241,076
Expenses										
Salaries and wages	107,009,127	-	-	-	107,009,127	39,288,423	-	332,360	-	146,629,910
Professional fees	8,274,998	-	-	-	8,274,998	-	-	-	-	8,274,998
Supplies and other	128,408,568	1,888,838	207,518	(1,920,393)	128,584,531	58,598,202	3,109,598	507,170	(16,057,488)	174,742,013
Interest	15,242,236	166,519	-	(34,373)	15,374,382	141,180	-	-	(179,000)	15,336,562
Depreciation and amortization	<u>23,707,634</u>	<u>827,312</u>	<u>-</u>	<u>-</u>	<u>24,534,946</u>	<u>1,504,190</u>	<u>-</u>	<u>9,337</u>	<u>-</u>	<u>26,048,473</u>
	282,642,563	2,882,669	207,518	(1,954,766)	283,777,984	99,531,995	3,109,598	848,867	(16,236,488)	371,031,956
Operating income (loss) before other items	5,354,605	1,219,254	1,274,557	386,628	8,235,044	2,087,424	(491,381)	2,284,774	(2,906,741)	9,209,120
Other items										
Demolition costs	(620,907)	-	-	-	(620,907)	-	-	-	-	(620,907)
Pension settlement costs	<u>(689,896)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(689,896)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(689,896)</u>
	(1,310,803)	-	-	-	(1,310,803)	-	-	-	-	(1,310,803)
Operating income (loss)	4,043,802	1,219,254	1,274,557	386,628	6,924,241	2,087,424	(491,381)	2,284,774	(2,906,741)	7,898,317
Non-operating gains (losses), net										
Investment returns, net	907,647	392,743	31,694	-	1,332,084	3,147,047	491,381	(11,460)	1	4,959,053
Other, net	<u>(239,041)</u>	<u>(150,000)</u>	<u>638,250</u>	<u>-</u>	<u>249,209</u>	<u>-</u>	<u>-</u>	<u>(2,646,081)</u>	<u>2,520,112</u>	<u>123,240</u>
Income tax expense	-	-	-	-	-	<u>(4,644,531)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(4,644,531)</u>
Excess of revenue over expenses	4,712,408	1,461,997	1,944,501	386,628	8,505,534	589,940	-	(372,767)	(386,628)	8,336,079
Excess of revenue attributable to non-controlling interest	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,448,877)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,448,877)</u>
Excess of revenue over expenses attributable to Mentus	4,712,408	1,461,997	1,944,501	386,628	8,505,534	(858,937)	-	(372,767)	(386,628)	6,887,202

Meritus Health, Inc.

CONSOLIDATING STATEMENT OF OPERATIONS AND CHANGES IN NET ASSETS - CONTINUED

Year end June 30, 2012

	Mentus Medical Center, Inc	Mentus Medical Center, Endowment Fund, Inc	Mentus Health, Inc	Mentus Health Obligated Group Consolidating Adjustments	Mentus Health Obligated Group	Mentus Holdings, LLC Consolidated	Mentus Insurance Company, Ltd	Mentus Healthcare Foundation	Eliminations	Consolidated Meritus Health, Inc
Other changes in unrestricted net assets										
Change in retirement benefit obligation	(88,260)	-	-	-	(88,260)	-	-	-	-	(88,260)
Change in non-controlling interest	-	-	-	-	-	1,168,878	-	-	-	1,168,878
Net assets released from restriction for property, plant and equipment	<u>950,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>950,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>950,000</u>
Increase (decrease) in unrestricted net assets	5,574,148	1,461,997	1,944,501	386,628	9,367,274	309,941	-	(372,767)	(386,628)	8,917,820
Temporarily restricted net assets										
Contributions	1,070,173	-	-	-	1,070,173	-	-	1,333,618	(1,320,116)	1,083,675
Net assets held by the foundation	(1,361,746)	-	-	-	(1,361,746)	-	-	-	1,361,746	-
Net assets released from restriction for property, plant and equipment	(950,000)	-	-	-	(950,000)	-	-	-	-	(950,000)
Contribution to building fund	950,000	-	-	-	950,000	-	-	(950,000)	-	-
Net assets released from restrictions for operations	<u>(1,320,116)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,320,116)</u>	<u>-</u>	<u>-</u>	<u>(1,541,749)</u>	<u>1,320,116</u>	<u>(1,541,749)</u>
Decrease in temporarily restricted net assets	<u>(1,611,689)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,611,689)</u>	<u>-</u>	<u>-</u>	<u>(1,158,131)</u>	<u>1,361,746</u>	<u>(1,408,074)</u>
INCREASE (DECREASE) IN NET ASSETS	3,962,459	1,461,997	1,944,501	386,628	7,755,585	309,941	-	(1,530,898)	975,118	7,509,746
Net assets										
Beginning of year	<u>117,076,459</u>	<u>46,266,486</u>	<u>8,753,811</u>	<u>18,824,768</u>	<u>190,921,524</u>	<u>24,708,893</u>	<u>271,061</u>	<u>13,858,575</u>	<u>(26,320,611)</u>	<u>203,439,442</u>
End of year	<u>\$121,038,918</u>	<u>\$47,728,483</u>	<u>\$10,698,312</u>	<u>\$19,211,396</u>	<u>\$198,677,109</u>	<u>\$25,018,834</u>	<u>\$ 271,061</u>	<u>\$12,327,677</u>	<u>\$(25,345,493)</u>	<u>\$210,949,188</u>



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