

# **Doctors Community Hospital and Subsidiaries**

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**Consolidated Financial Statements  
and Other Financial Information**

**Years Ended June 30, 2018 and 2017**

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## **Independent Auditors' Report**

The Board of Directors  
Doctors Community Hospital and Subsidiaries  
Lanham, Maryland

We have audited the accompanying consolidated financial statements of Doctors Community Hospital and Subsidiaries (the "Hospital"), which comprise the consolidated balance sheets as of June 30, 2018 and 2017, and the related consolidated statements of operations and other changes in unrestricted net assets, changes in net assets, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

### ***Management's Responsibility for the Consolidated Financial Statements***

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditors' Responsibility***

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### ***Opinion***

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Doctors Community Hospital and Subsidiaries as of June 30, 2018 and 2017, and the results of its operations and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

***Supplemental Information***

Our audits were conducted for the purpose of forming an opinion on the basic consolidated financial statements as a whole. The consolidating information presented in the supplemental schedules is presented for purposes of additional analysis rather than to present the financial position and results of operations of the individual organizations, and is not a required part of the basic consolidated financial statements. Such information is the responsibility of management, 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, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

*Dixon Hughes Goodman LLP*

**Gaithersburg, Maryland  
October 24, 2018**

**Doctors Community Hospital and Subsidiaries**  
**Consolidated Balance Sheets**

ASSETS	June 30	
	2018	2017
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 34,055,629	\$ 33,916,757
Patient accounts receivable, less uncollectible accounts of \$6,648,230 and \$5,235,871	32,760,116	27,786,014
Other amounts receivable	3,916,966	7,173,561
Inventories	3,887,208	3,515,938
Prepaid expenses	4,220,183	2,968,388
<b>TOTAL CURRENT ASSETS</b>	<b>78,840,102</b>	<b>75,360,658</b>
<b>INVESTMENTS</b>		
Marketable securities	17,807,685	15,707,385
Joint ventures and equity investments	5,398,099	7,175,632
	<b>23,205,784</b>	<b>22,883,017</b>
<b>LAND, BUILDINGS, AND EQUIPMENT - NET</b>	<b>107,260,317</b>	<b>110,668,732</b>
<b>GOODWILL</b>	<b>3,070,898</b>	<b>3,050,482</b>
<b>OTHER ASSETS</b>	<b>26,065,030</b>	<b>24,557,168</b>
<b>TOTAL ASSETS</b>	<b>\$ 238,442,131</b>	<b>\$ 236,520,057</b>

See the accompanying notes to the consolidated financial statements.

**Doctors Community Hospital and Subsidiaries**  
**Consolidated Balance Sheets**

<i>LIABILITIES</i>	June 30	
	2018	2017
<b>CURRENT LIABILITIES</b>		
Accounts payable and accrued expenses	\$ 16,422,456	\$ 16,255,284
Salaries, wages, and related items	16,169,005	15,120,906
Advances from third party payers	7,975,899	7,309,886
Current portion of long-term obligations	4,981,689	4,527,970
<b>TOTAL CURRENT LIABILITIES</b>	<b>45,549,049</b>	<b>43,214,046</b>
<b>NONCURRENT LIABILITIES</b>		
Deferred compensation and claims incurred but not reported	16,021,913	15,036,406
Pension obligation	4,159,558	5,765,844
Long-term obligations, net of current portion	126,888,994	131,784,212
<b>TOTAL LIABILITIES</b>	<b>192,619,514</b>	<b>195,800,508</b>
<b>NET ASSETS</b>		
Unrestricted	43,111,360	38,234,344
Noncontrolling interest	1,872,337	1,718,402
<b>TOTAL UNRESTRICTED NET ASSETS</b>	<b>44,983,697</b>	<b>39,952,746</b>
Temporarily restricted	838,920	766,803
<b>TOTAL NET ASSETS</b>	<b>45,822,617</b>	<b>40,719,549</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 238,442,131</b>	<b>\$ 236,520,057</b>

See the accompanying notes to the consolidated financial statements.

**Doctors Community Hospital and Subsidiaries  
Consolidated Statements of Operations and  
Other Changes in Unrestricted Net Assets**

	For Years Ended June 30	
	2018	2017
<b>REVENUE</b>		
Patient service revenue, net of contractual allowances and discounts	\$ 248,029,572	\$ 233,824,783
Provision for bad debts	(8,512,803)	(4,487,080)
Net patient service revenue less provision for bad debts	239,516,769	229,337,703
Other operating revenue	5,710,933	8,670,356
Contributions	162,506	352,064
Net assets released from restrictions used for operations	637,502	722,844
<b>TOTAL OPERATING REVENUE</b>	<b>246,027,710</b>	<b>239,082,967</b>
<b>EXPENSES</b>		
Salaries and wages	109,234,448	107,113,997
Employee benefits	19,179,380	16,483,134
Purchased services	39,983,434	36,208,333
Supplies	37,129,223	38,653,104
Other expenses	22,355,891	23,014,476
Depreciation	9,226,529	9,670,812
Amortization	200,921	206,637
Fundraising	58,822	133,275
Interest	4,648,600	5,664,939
<b>TOTAL EXPENSES</b>	<b>242,017,248</b>	<b>237,148,707</b>
<b>INCOME FROM OPERATIONS</b>	<b>4,010,462</b>	<b>1,934,260</b>
<b>NONOPERATING GAINS (LOSSES)</b>		
Gain on sale of property	1,500	10,924
Impairment of goodwill	0	(117,806)
Pension costs	(634,727)	(415,117)
Extinguishment of debt	0	(11,692,405)
Unrealized gain on trading securities	11,927	368,571
Gain on joint ventures	208,549	576,223
<b>EXCESS OF REVENUE OVER EXPENSES (EXPENSES OVER REVENUE)</b>	<b>3,597,711</b>	<b>(9,335,350)</b>
Subsidiary distributions to noncontrolling interest-holders	0	(382,015)
Net assets released from restrictions for capital acquisitions	0	225,067
Pension - related changes other than net periodic pension cost	1,433,239	1,701,150
<b>INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS</b>	<b>\$ 5,030,950</b>	<b>\$ (7,791,148)</b>

See the accompanying notes to the consolidated financial statements.

**Doctors Community Hospital and Subsidiaries**  
**Consolidated Statements of Changes in Net Assets**

	Year Ended June 30, 2018			Year Ended June 30, 2017		
	Total	Controlling Interests	Noncontrolling Interests	Total	Controlling Interests	Noncontrolling Interests
<b>UNRESTRICTED NET ASSETS</b>						
Excess of revenue over expenses (expenses over revenue)	\$ 3,597,711	\$ 3,443,776	\$ 153,935	\$ (9,335,350)	\$ (9,565,461)	\$ 230,111
Net assets released from restrictions for capital acquisitions	0	0	0	225,067	225,067	0
Dividends paid to noncontrolling interest-holders	0	0	0	(382,015)	0	(382,015)
Pension - related changes other than net periodic pension cost	1,433,239	1,433,239	0	1,701,150	1,701,150	0
<b>INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS AND NONCONTROLLING INTERESTS</b>	5,030,950	4,877,015	153,935	(7,791,148)	(7,639,244)	(151,904)
<b>TEMPORARILY RESTRICTED NET ASSETS</b>						
Restricted contributions	709,620	709,620	0	1,416,107	1,416,107	0
Net assets released from restrictions for operations	(637,502)	(637,502)	0	(722,844)	(722,844)	0
Net assets released from restrictions for capital acquisitions	0	-	0	(225,067)	(225,067)	0
<b>INCREASE IN TEMPORARILY RESTRICTED NET ASSETS</b>	72,118	72,118	0	468,196	468,196	0
<b>INCREASE (DECREASE) IN NET ASSETS</b>	5,103,068	4,949,133	153,935	(7,322,952)	(7,171,048)	(151,904)
<b>NET ASSETS, BEGINNING OF YEAR</b>	40,719,549	39,001,147	1,718,402	48,042,501	46,172,195	1,870,306
<b>NET ASSETS, END OF YEAR</b>	\$ 45,822,617	\$ 43,950,280	\$ 1,872,337	\$ 40,719,549	\$ 39,001,147	\$ 1,718,402

See the accompanying notes to the consolidated financial statements.



**Doctors Community Hospital and Subsidiaries**  
**Consolidated Statements of Cash Flows**

	Year Ended June 30	
	2018	2017
<b>OPERATING ACTIVITIES AND OTHER GAINS</b>		
Increase (decrease) in net assets	\$ 5,103,068	\$ (7,322,952)
Adjustments to reconcile increase (decrease) in net assets to net cash and cash equivalents provided by (used in) operating activities and other gains		
Restricted contributions received	(709,620)	(1,416,107)
Depreciation	9,226,529	9,670,812
Provision for bad debts	8,512,803	4,487,080
Unrealized gain on investments	(11,927)	(368,571)
Impairment of goodwill	0	117,806
Gain on sale of property	(1,500)	(10,924)
Realized loss on sale of investments	0	198,576
Amortization	200,921	206,637
Extinguishment of debt	0	11,692,405
Gain in joint ventures and equity investments	(208,549)	(576,223)
Increase (decrease) in:		
Accounts payable and accrued expenses	167,172	(331,059)
Accrued salaries, wages, and related items	1,048,099	1,774,525
(Advances from) refunds to third party payers	666,013	(1,406,670)
Pension obligation	(1,606,286)	(1,919,236)
Interest payable	0	(1,973,835)
Other liabilities	985,506	2,911,064
Decrease (increase) in:		
Net patient accounts receivable	(13,486,905)	(9,915,751)
Other receivables	3,256,595	(3,857,725)
Inventories	(371,270)	579,217
Prepaid expenses and other assets	(2,759,657)	(2,942,736)
<b>NET CASH AND CASH EQUIVALENTS PROVIDED BY (USED IN) OPERATING ACTIVITIES AND OTHER GAINS</b>	<b>10,010,992</b>	<b>(403,667)</b>
<b>INVESTING ACTIVITIES</b>		
Net sales of trading investments, including assets whose use is limited	(2,088,373)	1,687,632
Increase in goodwill	(20,416)	(121,316)
Proceeds from sale of property	1,500	7,750
Distributions from (contributions to) joint ventures	1,986,082	(362,626)
Purchase of property, plant and equipment	(5,662,441)	(4,648,385)
<b>NET CASH AND CASH EQUIVALENTS USED IN INVESTING ACTIVITIES</b>	<b>(5,783,648)</b>	<b>(3,436,945)</b>

See the accompanying notes to the consolidated financial statements.

**Doctors Community Hospital and Subsidiaries**  
**Consolidated Statements of Cash Flows**

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	Year Ended June 30	
	<u>2018</u>	<u>2017</u>
<b>FINANCING ACTIVITIES</b>		
Principal payments on debt	\$ (4,798,092)	\$ (65,963,245)
Proceeds from new debt	0	64,165,000
Cost of debt issuance	0	(1,163,332)
Restricted contributions received	709,620	1,416,107
<b>NET CASH AND CASH EQUIVALENTS USED IN FINANCING ACTIVITIES</b>	<u>(4,088,472)</u>	<u>(1,545,470)</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	138,872	(5,386,082)
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<u>33,916,757</u>	<u>39,302,839</u>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<u>\$ 34,055,629</u>	<u>\$ 33,916,757</u>

See the accompanying notes to the consolidated financial statements.

## **Notes to the Consolidated Financial Statements**

### **1. Organization and Summary of Significant Accounting Policies**

#### ***Organization***

Doctors Community Hospital (the Hospital) is a not-for-profit, non-stock corporation that operates an acute care general hospital facility licensed for 210 beds. The Hospital serves the health care needs of the residents of Prince George's County, the District of Columbia, and the greater Washington, D.C. metropolitan area. The Hospital has five wholly owned/controlled subsidiaries: Doctors Community Healthcare Programs (CHP), Doctors Community Hospital Foundation, Inc. (the Foundation), Doctors Community Health Ventures, Inc. (Health Ventures), Doctors Community Sleep Center, LLC (the Sleep Center), and Spine Team of Maryland, LLC (STM).

Doctors Community Healthcare Programs (CHP) consists of three wholly owned/controlled entities: Doctors Community Hospital Clinics (CLINICS), Doctors Community Practices, LLC (DCP) and Capital Orthopedics Specialists, LLC (COS). CLINICS is a limited liability company formed in Maryland for the purpose of providing outpatient medical care for the residents of Prince Georges County and surrounding areas. CLINICS includes a cardiology outpatient program and mobile van that provides services throughout the Prince George's County. COS is a limited liability company formed in Maryland for the purpose of providing surgical services for the residents of Prince Georges County and surrounding areas. DCP is a limited liability company formed in Maryland for the purpose of providing medical primary care services for the residents of Prince Georges County and surrounding areas.

The Foundation was incorporated in Maryland in 1990 as a not-for-profit, non-stock corporation established to raise and invest funds to support or benefit the operations of the Hospital. The Foundation's bylaws provide that all funds raised, except those required for the operation of the Foundation, be distributed to or be held for the benefit of the Hospital. Under the Foundation's bylaws, a majority of its directors must be directors of the Hospital, appointed by its President. The Foundation's bylaws also provide the Hospital with the authority to direct its activities, management, and policies.

Health Ventures is incorporated under the laws of Maryland as a for-profit, stock corporation. The Hospital owns 100% of its stock. Health Ventures invests in for-profit businesses consistent with the mission and strategic plan of the Hospital. Health Ventures consolidates three LLCs: Metropolitan Medical Specialist, LLC (MMS), Doctors Community Management Services, LLC (MSO), and Doctors Community Ambulatory Surgical Center, LLC (ASC). ASC has an investment of 51% in University Center for Ambulatory Surgery. Health Ventures also has investments in three other companies: Magnolia Gardens LLC (Magnolia Gardens), Diagnostic Imaging Center, LLC (DI), and Mid-Atlantic Urology, Inc. (MAUI).

The Sleep Center is a limited liability company formed in Maryland for the purpose of providing diagnostic sleep services for residents of Prince Georges County and surrounding areas. The Sleep Center operates a 10-bed sleep lab located on the Hospital's campus and provides outpatient sleep studies.

The Hospital owns a 60% interest in Doctors Regional Cancer Center, LLC (DRCC). DRCC is a limited liability company formed in June 2007 by Maryland Regional Cancer Care, LLC (MRCC) for the purpose of providing outpatient cancer treatment services to the residents of central Maryland. The Hospital owns a 100% interest in Spine Team Maryland, LLC (STM) for the purpose of providing outpatient ear, nose and throat services to the residents of Prince Georges County and surrounding areas. The Hospital owns a 61% interest in the Southern Maryland Integrated Healthcare, LLC (ACO). The ACO is a limited liability company formed in Maryland for the purpose of participating in a Medicare Shared Savings Program (MSSP) among primary care providers serving the residents of Prince Georges County and surrounding areas.

## Doctors Community Hospital and Subsidiaries Notes to Financial Statements

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### ***Principles of consolidation***

The consolidated financial statements include the accounts of the Hospital, CHP, the Foundation, Health Ventures, the Sleep Center, DRCC, ACO, and STM (collectively, the Company). All intercompany accounts and transactions have been eliminated in consolidation. The consolidated financial statements include non-controlling interest held by third parties in less than wholly owned subsidiaries.

### ***Use of estimates***

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates.

### ***Cash and cash equivalents***

Cash and cash equivalents include cash on hand, amounts on deposit in banks, and highly liquid debt instruments with an original maturity of 90 days or less when purchased, excluding amounts whose use is limited. The Company has cash holdings in commercial banks routinely exceeding the Federal Deposit Insurance Corporation maximum insurance limit of \$250,000. Cash and cash equivalents are reported at cost which approximates market value.

### ***Investments***

Marketable securities consist of investments in equity and debt securities and are carried at fair value. All such investments are classified as trading.

Unrestricted investment income, including realized gains and losses on the sale of trading securities, is reported as other operating revenue. The cost of securities sold is based on the specific-identification method. Unrealized gains and losses on trading securities are included in non-operating gains (losses) in the accompanying consolidated statements of operations and other changes in unrestricted net assets.

### ***Patient revenue and accounts receivable***

Net patient service revenue and net patient accounts receivable are reported at estimated net realizable amounts from patients, third party payers, and others for services rendered. Discounts ranging from 2.25% to 8% of Hospital charges are given to Medicare, Medicaid, and certain approved commercial health insurance providers and health maintenance organizations. In addition, these payers routinely review patient billings and deny payments for certain charges that they deem medically unnecessary or performed without appropriate pre-authorization. Discounts and denials are recorded as reductions of net patient service revenue. Accounts receivable from these third-party payers have been adjusted to reflect the difference in charges and estimated reimbursable amounts. Gross patient revenue was comprised of the following for the years ended June 30:

	<u>2018</u>	<u>2017</u>
Medicare	44%	46%
Medicaid	20%	19%
Blue Cross Blue Shield	15%	18%
Other third-party payers	18%	17%
Self-pay patients	<u>3%</u>	<u>3%</u>
	<u>100%</u>	<u>100%</u>

**Doctors Community Hospital and Subsidiaries**  
**Notes to Financial Statements**

The Company bills third party payers directly for services provided. Insurance coverage and credit information are obtained from patients upon admission when available. No collateral is obtained for patient accounts receivable. Patient accounts receivable deemed to be uncollectible by management have been written off. An allowance for doubtful accounts is recorded based on historical trends for patient accounts receivable that are anticipated to become uncollectible in future periods.

Gross patient accounts receivable were comprised of the following for the years ended June 30:

	<u>2018</u>	<u>2017</u>
Medicare	27%	31%
Medicaid	24%	24%
Blue Cross Blue Shield	9%	9%
Other third-party payers	24%	21%
Self-pay patients	<u>16%</u>	<u>15%</u>
	<u>100%</u>	<u>100%</u>

Patient service revenue, net of contractual allowances and discounts and after the provision for bad debts, is described in the table below for fiscal years 2018 and 2017. Amounts classified as self-pay do not include coinsurance and deductibles related to third party payers.

	<u>2018</u>	<u>2017</u>
Gross patient revenue:		
Third party payers	\$ 320,935,365	\$ 291,213,397
Self pay	9,925,836	9,006,600
Total gross patient revenue	<u>330,861,201</u>	<u>300,219,997</u>
Deductions:		
Discounts and allowances	(73,969,145)	(59,638,475)
Charity care	(8,862,484)	(6,756,740)
Net patient service revenue	<u>248,029,572</u>	<u>233,824,782</u>
Less: provisions for bad debt	(8,512,803)	(4,487,080)
Net patient service revenue	<u>\$ 239,516,769</u>	<u>\$ 229,337,702</u>

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. The Company believes that it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing that would have a material effect on the consolidated financial statements. Compliance with such laws and regulations can be subject to future government review and interpretation as well as significant regulatory action including fines, penalties, and exclusion from the Medicare and Medicaid programs.

***Inventories***

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

***Land, buildings, and equipment***

Land, buildings, and equipment are recorded at cost. Depreciation is recorded over the estimated useful lives of the assets using the straight-line method. Maintenance and repairs are charged to expense as incurred. The straight-line method is used to amortize the cost of equipment under capital leases over the estimated useful lives of the equipment or the term of the lease, whichever is appropriate.

## **Doctors Community Hospital and Subsidiaries**

### **Notes to Financial Statements**

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#### ***Restricted net assets***

Temporarily restricted net assets are those whose use by the Hospital and the Foundation has been limited by donors to a specific time period or purpose. As of June 30, 2018 and 2017, the Company had no permanently restricted net assets. Temporarily restricted net assets are available to fund various health care services and other community benefits provided by the Hospital. The Company's policy is to treat restricted contributions recorded and released in the same fiscal year as unrestricted contributions.

#### ***Excess of revenue over expenses (expenses over revenue)***

The consolidated statements of operations and other changes in unrestricted net assets include the excess of revenue over expenses (expenses over revenue) (the "performance indicator"). Changes in unrestricted net assets, which are excluded from the excess of revenue over expenses (expenses over revenue), consistent with industry practice, include contributions received and used for additions of long-lived assets, distributions to non-controlling interest-holders, and changes in the pension obligation other than net periodic pension cost.

#### ***Charity care***

A patient is classified as a charity recipient by reference to certain established policies of the Company. These policies define charity services as those services for which no payment is anticipated. In assessing a patient's ability to pay, the Company utilizes the generally recognized poverty income levels in the local community, but also includes certain cases where incurred charges are significant when compared to income.

Under current accounting standards, the Company is required to report the cost of providing charity care. The cost of charity care provided by the Company totaled \$8,862,484 and \$6,756,740 for the years ended June 30, 2018 and 2017, respectively. Rates charged by the Hospital for regulated services are determined based on assessment of direct and indirect cost calculated pursuant to the methodology established by the Maryland Health Services Cost Review Commission ("Commission" – see *Note 10*), and therefore the cost of charity services noted above for the Hospital are equivalent to its established rates for those services. For any charity services rendered by the Company other than from the Hospital, the cost of charity care is calculated by applying the estimated total cost-to-charge ratio for the non-Hospital services to the total amount of charges for services provided to patients benefitting from the charity care policies of the Company's non-Hospital affiliates. These charges are excluded from consolidated net patient service revenue.

The Hospital receives a payment from the Commission with respect to an Uncompensated Care Fund ("UCC") established for rate-regulated hospitals in Maryland. The UCC is intended to provide Maryland hospitals with funds to support the provision of uncompensated care at those hospitals. The Hospital received \$4,671,024 for 2018 and \$3,818,520 for 2017 in UCC payments. All hospitals contribute to the Health Care Coverage Fund (HCCF) that supports the expansion of Medicaid eligibility and the Medicaid program. The Hospital contributed \$2,520,138 for 2018 and \$2,428,092 for 2017 to the HCCF. These costs are reflected in the Hospital's contractual allowances.

#### ***Contributions and pledges***

Unconditional promises to give cash and other assets to the Hospital and the Foundation are reported at fair value at the date the promise is received. Conditional promises to give and indications of intentions to give are reported at fair value at the date the gift is received or when the conditions for receiving the donation have been satisfied. The gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. Contributions restricted by donors for additions to the Hospital's operating property are transferred from temporarily restricted net assets to unrestricted net assets when the expenditure is made. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the consolidated statements of operations and statements of changes in net assets as net assets released from restriction.

## Doctors Community Hospital and Subsidiaries Notes to Financial Statements

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The Hospital and Foundation write off any grants and pledges receivable that are considered uncollectible; accordingly, there is no allowance for doubtful accounts recorded for these grants and pledges. Grants and pledges receivable have not been discounted because management considers the effect to be immaterial. The balance of pledges receivable was \$220,008 and \$283,210 at June 30, 2018 and 2017, respectively, and is included in other amounts receivable in the accompanying consolidated balance sheets.

### ***Other operating revenue***

The Hospital met compliance requirements to receive incentive payments for upgrading and implementing certified electronic health record systems and becoming a meaningful user under the provisions of the American Recovery and Reinvestment Act of 2009. The Hospital recognized and received \$28,296 of meaningful use funds during the year ended June 30, 2018 and reported this amount as other operating revenue in the accompanying statements of operations and other changes in unrestricted net assets. No funds were recognized for the year ended June 30, 2017. The portion of the meaningful use incentive that was not yet received is \$182,556 as of June 30, 2018 and 2017, and is recorded as other amounts receivable in the accompanying consolidated balance sheets until Maryland Medicaid processes the final payments.

The ACO received notification that it will receive an incentive payment of \$3,080,256 for 2016 Financial Reconciliation and Quality Performance related to its ACO Medicare enrollees. This incentive payment was included in other operating revenues and other amounts receivable in the accompanying consolidated financial statements as of and for the year ended June 30, 2017. ACO management received the incentive from the Centers for Medicare and Medicaid Services and issued incentive payments to ACO members in January 2018. The incentive payment was first applied to the ACO operating costs and the remainder was shared with ACO providers who participated in the ACO during the performance period. The ACO received notification that it will not receive an incentive payment for the year ended June 30, 2018 since its cost savings did not meet the incentive threshold.

### ***Advertising Costs***

The Hospital expenses advertising costs as they are incurred. Advertising expense was \$1,691,853 and \$1,673,139 for the fiscal years June 30, 2018 and 2017, respectively, and is reported as other expense in the accompanying consolidated statements of operations and other changes in unrestricted net assets.

### ***Functional expenses***

The Company's consolidated operating expenses by functional classification are as follows for the years ended June 30:

	<u>2018</u>	<u>2017</u>
Health care services	\$ 173,916,433	\$ 170,342,441
Management and general	67,634,169	66,244,283
Fundraising	466,646	561,983
	<u>\$ 242,017,248</u>	<u>\$ 237,148,707</u>

### ***Fair value of financial instruments***

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

- **Cash and cash equivalents, patient accounts receivable, other amounts receivable, notes receivable, accounts payable and accrued expenses, employee compensation and related payroll taxes, and advances from third-party payers:** The carrying amount reported in the balance sheets for each of these assets and liabilities approximates their fair value.

## **Doctors Community Hospital and Subsidiaries**

### **Notes to Financial Statements**

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- **Marketable securities:** Fair values are based on quoted market prices of individual securities or investments if available, or are estimated using quoted market prices for similar securities (see *Note 2*)
- **Long-term debt:** Fair values of the Hospital's fixed-rate debt are based on current traded values.

#### ***Income taxes***

The Hospital and the Foundation are exempt from federal income tax under section 501(c)(3) of the Internal Revenue Code as public charities. Both entities are entitled to rely on this determination as long as there are no substantial changes in their character, purposes, or methods of operation. Management has concluded that there have been no such changes, and therefore the Hospital and Foundation's status as public charities exempt from federal income taxation remain in effect.

The state in which the Hospital and the Foundation operate also provides a general exemption from state income taxation for organizations that are exempt from federal income taxation. However, both entities are subject to federal and state income taxation at corporate tax rates on unrelated business income. Exemption from other state and local taxes, such as real and personal property taxes is separately determined. The Hospital and the Foundation had no unrecognized tax benefits or such amounts were immaterial during the periods presented. For tax periods with respect to which unrelated business income was recognized, a tax return was filed in order to report any unrelated business income as well as any taxes due.

Health Ventures is subject to corporate income tax, and incurred an income tax liability of \$0 for each year ended June 30, 2018 and 2017.

The DRCC and ACO are Maryland limited liability companies that have not elected to be taxed as corporations under current Treasury regulations. Both are owned by more than one member. DRCC and ACO are subject to the partnership tax rules under Subchapter K of the Internal Revenue Code of 1986 (IRC), as amended. Under these rules both are not subject to federal or state income tax, but must file annual information returns indicating their gross and taxable income to determine the tax results to their members.

The Sleep Center and CHP are Maryland limited liability companies that have not elected to be taxed as corporations under current treasury regulations. Sleep Center and CHP are wholly owned by the Hospital. As such, the Sleep Center and CHP are considered "disregarded entities" under current IRC regulations.

#### ***Goodwill***

Goodwill represents the excess of cost over the fair value of assets acquired. Management evaluates goodwill for impairment on an annual basis. Management evaluated the carrying value reported for goodwill in the accompanying consolidated balance sheets for impairment and believes the carrying value reported for goodwill on the consolidated balances sheets as of June 30, 2018 and 2017 to be approximately estimated (see *Note 12*).

#### ***Subsequent Events***

Subsequent events have been evaluated by management through October 24, 2018, which is the date the consolidated financial statements were available to be issued.

#### ***Recent Accounting Pronouncements***

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which provides a principles-based standard for recognizing revenue through a five-step process. The ASU requires an entity to recognize revenue in an amount that reflects the consideration to which the entity expects to be entitled in exchange for goods or services promised to customers. This standard is effective for the consolidated financial statements for the fiscal year ending June 30, 2019. Management is currently evaluating and has not yet determined the effects of adopting this ASU on the consolidated financial statements and disclosures.



**Doctors Community Hospital and Subsidiaries**  
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In February 2017, the FASB issued ASU 2017-02, *Leases (Topic 842)*, which requires lessees to recognize a lease liability and a right-of-use asset for most leases. The amendments in this ASU are effective for the consolidated financial statements for fiscal year ending June 30, 2020, with early adoption permitted, and should be applied through a modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. Management is currently evaluating and has not yet determined the effects of adopting this ASU on the consolidated financial statements and disclosures.

During the year ended June 30, 2018, the Hospital implemented FASB Accounting Standards Update No. 2017-07, *Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*, which clarified where defined benefit pension cost components should be presented in an employer's income statement. The standard requires service cost to be presented in the same line item as other compensation costs arising from services rendered by the pertinent employees during the period, and other components of net benefit cost are required to be presented in the income statement separately from the service cost component and outside a subtotal of income from operations.

The effect of the retroactive application of ASU 2017-07 on previously reported financial statement amounts resulted in \$415,117 of net periodic pension cost previously presented in Employee benefits operating expense and included in income from operations on the consolidated statements of operations and other changes in unrestricted net assets is now presented in pension cost and excluded from income from operations. The Hospital's defined benefit pension plan had no service cost in 2017.

**2. Investments**

The following is a summary of investment securities held by the Company as of June 30:

	<u>2018</u>	<u>2017</u>
Marketable securities:		
Cash and cash equivalents		
Money market and CD funds	\$ 4,115,593	\$ 4,736,968
Equity		
Stock and mutual funds	<u>13,692,092</u>	<u>10,970,417</u>
	<u>\$ 17,807,685</u>	<u>\$ 15,707,385</u>

Investment return is summarized as follows for the years ended June 30:

	<u>2018</u>		
	<u>Other</u>	<u>Nonoperating</u>	<u>Total</u>
	<u>Operating</u>	<u>Gains</u>	
	<u>Revenue</u>		<u>Total</u>
Interest and dividend income	\$ 387,319	\$ 0	\$ 387,319
Net realized gain	1,300	0	1,300
Net unrealized gain	0	11,927	11,927
Investment fees	<u>(32,104)</u>	<u>0</u>	<u>(32,104)</u>
	<u>\$ 356,515</u>	<u>\$ 11,927</u>	<u>\$ 368,442</u>

**Doctors Community Hospital and Subsidiaries**  
**Notes to Financial Statements**

	2017		
	Other Operating Revenue	Nonoperating Gains	Total
Interest and dividend income	\$ 351,770	\$ 0	\$ 351,770
Net realized loss	(198,576)	0	(198,576)
Net unrealized gain	0	368,571	368,571
Investment fees	(20,842)	0	(20,842)
	<u>\$ 132,352</u>	<u>\$ 368,571</u>	<u>\$ 500,923</u>

Current accounting standards define fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, and establish a three-level hierarchy for fair value measurements based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The three levels of inputs that may be used to measure fair value are as follows:

- Level 1:** Quoted prices in active markets for identical assets or liabilities.
- Level 2:** Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- Level 3:** Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

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

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

Fair values of the Company's investments in mutual funds classified at Level 1 are based on quoted market prices. Fair values for the Company's fixed maturity securities (corporate debt and federal government

**Doctors Community Hospital and Subsidiaries**  
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obligations) are based on prices provided by its investment managers and its custodian bank. Both the investment managers and the custodian bank use a variety of pricing sources to determine market valuations. Each designate specific pricing services or indexes for each sector of the market based upon the provider's experience.

The Company's federal government obligations and government backed securities portfolio is highly liquid, which allows for a high percentage of the portfolio to be priced through pricing services.

The following table presents the Company's fair value hierarchy for financial instruments measured at fair value on a recurring basis as of June 30, 2018:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total Fair Value</u>
<b>Cash and cash equivalents</b>				
Money market funds	\$ 0	\$ 4,115,593	\$ 0	\$ 4,115,593
<b>Fixed income</b>				
U.S. government agency bonds/notes	0	4,442,024	0	4,442,024
<b>Equity securities</b>				
Premier supply chain investment	601,990	0	0	601,990
<b>Mutual funds</b>				
Short-term bond	470,395	0	0	470,395
Intermediate government	616,001	0	0	616,001
Merger arbitrage	5,322,279	0	0	5,322,279
World bond	339,533	0	0	339,533
Floating rate bonds	767,457	0	0	767,457
High-yield bond	303,759	0	0	303,759
Intermediate-term bond	303,147	0	0	303,147
Equity large blend	791,469	0	0	791,469
Long/short equity	299,806	0	0	299,806
Moderate allocation	613,638	0	0	613,638
Mid-cap growth	617,394	0	0	617,394
Real estate	169,480	0	0	169,480
Foreign large blend	1,226,034	0	0	1,226,034
Large blend	159,579	0	0	159,579
Diversified emerging markets	390,715	0	0	390,715
Large growth	180,163	0	0	180,163
Small growth	390,547	0	0	390,547
<b>Total assets</b>	<u>\$ 13,563,386</u>	<u>\$ 8,557,617</u>	<u>\$ 0</u>	<u>\$ 22,121,003</u>
Plus deposits in transit				4,271
<b>Total</b>				<u>\$ 22,125,274</u>
Less investments included in other assets				4,317,589
<b>Total investments per consolidated balance sheet</b>				<u>\$ 17,807,685</u>

The total investment of \$22,125,274 includes deposits in transit of \$4,271 plus financial instruments of \$22,121,003. The above table includes financial instruments of \$4,317,589 included in other assets on the consolidated balance sheets for deferred compensation and other arrangements.

**Doctors Community Hospital and Subsidiaries**  
**Notes to Financial Statements**

The following table presents the Company's fair value hierarchy for financial instruments measured at fair value on a recurring basis as of June 30, 2017:

	Level 1	Level 2	Level 3	Total Fair Value
Cash and cash equivalents				
Money market funds	\$ 0	\$ 4,736,968	\$ 0	\$ 4,736,968
Fixed income				
U.S. government agency bonds/notes	0	1,999,524	0	1,999,524
Equity securities				
Premier supply chain investment	596,071	0	0	596,071
Mutual funds				
Short-term bond	842,889	0	0	842,889
Intermediate government	266,317	0	0	266,317
Merger arbitrage	5,282,887	0	0	5,282,887
World bond	376,022	0	0	376,022
Floating rate bonds	735,973	0	0	735,973
High-yield bond	259,189	0	0	259,189
Intermediate-term bond	308,718	0	0	308,718
Equity large blend	765,850	0	0	765,850
Long/short equity	271,585	0	0	271,585
Moderate allocation	572,225	0	0	572,225
Mid-cap growth	514,608	0	0	514,608
Real estate	162,778	0	0	162,778
Foreign large blend	1,117,511	0	0	1,117,511
Large blend	138,526	0	0	138,526
Diversified emerging markets	312,050	0	0	312,050
Large growth	145,642	0	0	145,642
Small growth	317,440	0	0	317,440
	<u>\$ 12,986,281</u>	<u>\$ 6,736,492</u>	<u>\$ 0</u>	<u>\$ 19,722,773</u>
Plus deposits in transit				2,076
Total				<u>\$ 19,724,849</u>
Less investments included in other assets				4,017,464
Total investments per consolidated balance sheet				<u>\$ 15,707,385</u>

The total investment of \$19,724,849 includes deposits in transit of \$2,076 plus financial instruments of \$19,722,773. The above table includes financial instruments of \$4,017,464 included in other assets on the consolidated balance sheets for deferred compensation and other arrangements.

There were no significant transfers between fair value hierarchy levels for the years ended June 30, 2018 and 2017.

**3. Joint Ventures and Equity Investments**

Health Ventures and ASC invest in corporations and other forms of business consistent with the mission and strategic plan of the Company. Unconsolidated investments are carried at cost or at equity depending on the percentage of ownership and control. Investment in Magnolia Gardens LLC represents a 51% and interest is not consolidated with the financial statements of the Company because Health Ventures and ASC do not control the investees. The investment income of these joint ventures and equity investments is reported in non-operating gains/losses in the accompanying consolidated statements of operations and other changes in unrestricted net assets. These investments, which are reported as noncurrent assets in the accompanying consolidated statements, are summarized as follows as of June 30:

**Doctors Community Hospital and Subsidiaries**  
**Notes to Financial Statements**

Name	2018	2017
Magnolia Gardens LLC	\$ 5,347,172	\$ 6,255,497
University Center for Ambulatory Surgery	(675,494)	168,832
Other	34,562	50,096
Diagnostic Imaging, LLC	691,859	701,207
	<u>\$ 5,398,099</u>	<u>\$ 7,175,632</u>

**4. Related Party Transactions**

The Hospital has income guarantee agreements with certain physicians. These advances are held as promissory notes and are often forgiven based on the established terms of these notes, such as maintaining an active practice in the Hospital's community.

The Hospital advanced funds to Health Ventures in its establishment of Metropolitan Medical Group, LLC (MMS). Since MMS is wholly owned by Health Ventures, the amounts loaned to MMS have been eliminated in consolidation.

The Medical Director of Radiology for the Hospital is an investor in Diagnostic Imaging, LLC, which is an unconsolidated subsidiary of Health Ventures. The Medical Director of Doctors Community Practices LLC, who is also a Foundation board member, leases property to the Hospital.

**5. Land, Buildings, and Equipment**

Land, buildings, and equipment are summarized as follows:

Name	Useful Life	June 30	
		2018	2017
Land improvements	2-40 Years	\$ 4,525,777	\$ 4,450,720
Buildings	4-40 Years	137,331,414	136,997,856
Leasehold improvements	4-40 Years	5,130,560	4,478,530
Furniture and equipment	2-20 Years	99,559,406	96,430,374
Equipment under capital lease obligations	2-20 Years	190,000	190,000
		<u>246,737,157</u>	<u>242,547,480</u>
Less accumulated depreciation		<u>(148,156,738)</u>	<u>(138,980,450)</u>
		98,580,419	103,567,030
Construction in progress		2,541,396	963,200
Land		6,138,502	6,138,502
		<u>\$ 107,260,317</u>	<u>\$ 110,668,732</u>

Accumulated depreciation includes accumulated amortization of capital leased equipment in the amount of \$207,017 and \$145,667 as of June 30, 2018 and 2017, respectively. Depreciation expense related to capital leased equipment was \$61,350 and \$38,000 for fiscal year 2018 and 2017, respectively.

**Doctors Community Hospital and Subsidiaries**  
**Notes to Financial Statements**

**6. Long-Term Debt**

Long-term indebtedness as of June 30 consisted of the following:

	<u>2018</u>	<u>2017</u>
Maryland Health and Higher Education Facilities Authority Revenue Bonds, Series 2017B Bond 2.180% term bonds due October 1, 2024	\$ 33,510,000	\$ 37,975,000
Maryland Health and Higher Education Facilities Authority Revenue Bonds, Series 2016 Bond Series 2016A - Tax-Exempt Private Placement 2007 Refunding 2.567% term bonds due July 1, 2030	16,795,000	16,795,000
Series 2016A - Tax-Exempt Private Placement 2010 Partial Refunding 2.567% term bonds due July 1, 2030	15,150,000	15,150,000
Maryland Health and Higher Education Facilities Authority Revenue Bonds, Series 2017A: 5.00% term bonds due July 1, 2031	6,720,000	6,720,000
5.00% term bonds due July 1, 2032	7,055,000	7,055,000
5.00% term bonds due July 1, 2033	7,410,000	7,410,000
5.00% term bonds due July 1, 2034	7,780,000	7,780,000
5.00% term bonds due July 1, 2038	35,200,000	35,200,000
Capital leases	118,945	62,970
	<u>\$ 129,738,945</u>	<u>\$ 134,147,970</u>
Current portion of long-term debt	(4,981,689)	(4,527,970)
Financing costs, net of accumulated amortization	(1,701,053)	(1,901,974)
Original issue premium, net of accumulated amortization	3,832,791	4,066,186
	<u>\$ 126,888,994</u>	<u>\$ 131,784,212</u>

The fair value of the Company's Series 2017A bonds, based on quoted market prices, was \$70,428,072 and \$71,304,218 for fiscal year 2018 and 2017, respectively. Remaining bonds are private placement bonds. Fair value of the private placement bonds approximate carrying value.

Financing costs incurred in issuing the MHHEFA Revenue Bonds have been capitalized by the Hospital. These costs are being amortized over the life of the related bond issue using the bonds-outstanding method, which approximates the interest method. Deferred financing costs are presented as a direct deduction of long-term debt and are amortized using the straight-line method over the term of the related financing.

**Doctors Community Hospital and Subsidiaries**  
**Notes to Financial Statements**

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The aggregate maturities of long-term debt, including sinking fund principal requirements during the next five fiscal years, are as follows:

2019	\$4,981,689
2020	4,448,457
2021	4,978,798
2022	5,070,000
2023	5,195,000
2024 and after	105,065,001
	<u>\$ 129,738,945</u>

Total interest paid for the years ended June 30, 2018 and 2017 was \$4,648,000 and \$7,609,626, respectively.

***Revenue bonds***

On February 8, 2017 MHHEFA issued \$64,165,000 principal amount of Revenue Bonds, Series 2017A. The proceeds of this issue were used to retire the remainder of the Series 2010 Bonds in order to take advantage of lower interest rates with an estimated net present value savings of \$3.7 million.

On June 28, 2016 MHHEFA issued \$73,445,000 principal amount of Revenue Bonds, Series 2016A (\$31,945,000) and Series 2016B (\$41,500,000). The proceeds of this issue were used to retire the Series 2007A Bonds and Series 2010 Bonds (partial) in order to take advantage of lower interest rates with an estimated net present value savings of \$7.3 million. In 2017, the Series 2016B taxable note was converted as planned to Series 2017B. On March 23, 2017 the Series 2016 were converted to Series 2017B bonds as planned when the 2016B bonds were issued in June 2017.

On May 15, 2010, MHHEFA issued \$82,670,000 principal amount of Revenue Bonds, Series 2010 (Series 2010 Bonds). The proceeds of this issue were used to retire the Revenue Bonds, Series 2008 and to finance the costs of renovation and equipment purchases. On June 28, 2016, the Hospital partially refunded the Series 2010 with a remaining balance of \$68,690,000.

On January 4, 2007, MHHEFA issued \$77,685,000 principal amount of Revenue Bonds, Series 2007A (Series 2007 Bonds). The proceeds of this issue were used to retire certain existing bonds, pooled loans, and to finance the costs of renovation and equipment purchases. On June 28, 2016, the Hospital refunded this bond.

The Obligated Group for MHHEFA bond issuances includes the Hospital, CHP, Foundation, Sleep Center, Doctors Community Medical Group and Doctors Integrated Healthcare Network and Health Ventures excluding the MAUI, Magnolia Gardens, DI LLC, ACO, and STM. The Series 2017A, Series 2017B, and Series 2016 Bonds are secured by the revenue and accounts receivable of the Obligated Group, and certain other property secured by a Deed of Trust. The Obligated Group is required to maintain certain compliance ratios and covenants as defined under the bond documents. In the opinion of the management, the Hospital has complied with the required covenants for 2018 and 2017.

## **Doctors Community Hospital and Subsidiaries**

### **Notes to Financial Statements**

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#### ***Other debt***

During 2008, DRCC obtained a \$4,000,000 revolving line of credit from a commercial lender to finance the acquisition of certain medical equipment. The line of credit was converted to a capital lease during 2009. Beginning in October 2009, monthly payments of principal and interest at 6.8% per annum become due. In July 2012, DRCC modified the capital equipment lease to obtain an interest rate of 3.6%. This lease ended January 2018.

During 2018, the Hospital obtained a \$155,672 capital lease for surgical equipment. Beginning in August 2017, monthly payments of principal and interest at 4.16% per annum commenced. The outstanding principal balance is \$118,945 as of June 30, 2018.

#### **7. Self-Insurance Coverages**

The Hospital has coverage on a claims-made basis from Freestate Healthcare Insurance Company, Ltd., a group captive formed by several Maryland hospitals. The Hospital owns 20% interest in the captive and accounts for it using the cost method. The cost of \$15,000 is recorded in other noncurrent assets in the accompanying consolidated balance sheets as of June 30, 2018 and 2017. Premiums are expensed as incurred and are established based on the Hospital's historical experience supplemented as necessary with industry experience. The total premium is allocated to each of the shareholders based on their experience. Retrospective premium assessments and credits are calculated based on the aggregate experience of all named insureds under the policy. Each named insured's assessment of credit is based on the percentage of their actual exposure to the actual exposure of all named insureds. In management's opinion, the assets of Freestate are sufficient to meet its obligations as of June 30, 2018. If the financial condition of Freestate were to materially deteriorate in the future, and Freestate was unable to pay its claim obligations, the responsibility to pay those claims would return to the member hospitals.

The captive is responsible for claims up to \$1,000,000 for each and every loss event. Additional coverage has been purchased for all claims in excess of \$1,000,000 to a limit of \$6,000,000 effective March 1, 2006, \$10,000,000 effective March 1, 2012, and \$15,000,000 March 1, 2018. The estimated unpaid loss liability reserved by the captive for the Hospital was \$10,679,655 and \$10,056,273 at June 30, 2018 and 2017, respectively. These amounts are included in long term liabilities and the related anticipated insurance recoveries were reported in noncurrent assets in the accompanying consolidated balance sheets. The liability for all claims incurred but not reported for the Hospital was \$1,351,000 and \$1,277,000 at June 30, 2018 and 2017, respectively. The discount rate for unpaid losses is 3.5% for years ending June 30, 2018 and 2017. The Hospital engages a consulting actuary to assist in the determination of all professional liability claims incurred but not reported.

The Company is self-insured against workers' compensation claims up to a per-claim limit of \$500,000 with an annual limitation of approximately \$1,000,000. A liability has been recorded for all known claims and an estimate for claims incurred but not reported in the amount of \$1,138,752 and \$545,734 at June 30, 2018 and 2017, respectively. These amounts are included in accounts payable and accrued expenses in the accompanying consolidated balance sheets.

The Company is self-insured against employee health medical claims up to a per-claim limit of \$200,000 and no maximum aggregate benefit. A liability has been recorded for all known claims and an estimate for claims incurred but not reported in the amount of \$590,000 and \$470,119 at June 30, 2018 and 2017, respectively. These amounts are included in accounts payable and accrued expenses in the accompanying consolidated balance sheets.



**Doctors Community Hospital and Subsidiaries**  
**Notes to Financial Statements**

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**8. Leases**

The Company has operating leases covering various medical and other equipment and facilities. Generally, the leases carry renewal provisions and require the Company to pay maintenance costs.

Future minimum lease payments as of June 30, 2018 are as follows:

	<u>Capital Leases</u>	<u>Operating Leases</u>	<u>Total</u>
2019	\$ 41,689	\$ 4,502,719	\$ 4,544,408
2020	43,457	3,684,637	3,728,094
2021	33,799	3,176,331	3,210,130
2022	0	1,125,691	1,125,691
2023	0	849,737	849,737
Total minimum lease payments	<u>118,945</u>	<u>13,339,115</u>	<u>13,458,060</u>
Current portion of capital leases	(41,689)		
Capital lease obligations, less current portion	<u>\$ 77,256</u>		

Total rental expense reported in the accompanying consolidated statements of operations and other changes in unrestricted net assets for the years ended June 30, 2018 and 2017 was \$4,590,269 and \$4,202,506, respectively.

**9. Retirement Plans**

The Company has a 403b defined contribution plan (the "contribution plan") covering substantially all its employees. The contribution plan is employee and employer contributory. The Company contributed a match of \$0.50 for every \$1.00 of elective deferrals for a plan year for eligible employees up to 4% of base compensation. Defined contribution plan expense amounted to \$1,358,026 and \$1,265,728 for 2018 and 2017, respectively.

The Company froze the defined benefit pension plan that it sponsors (the Plan) in 2011, which covered substantially all employees. The Plan curtailment was recognized in 2011. The decision to terminate the Plan has not been made by the board of directors. The benefits are based on years of service and employee compensation during years of employment. The Company's funding policy is to make sufficient contributions to the Plan to comply with the minimum funding provisions of the Employee Retirement Income Security Act of 1974 (ERISA). The Company expects to contribute \$646,116 to the Plan during 2019 to keep the funding levels at the ERISA requirements. The measurement date of the Plan is June 30.

**Doctors Community Hospital and Subsidiaries**  
**Notes to Financial Statements**

The following table provides a reconciliation of the benefit obligation, Plan assets, and funded status of the Plan in the Company's consolidated financial statements based on actuarial valuations for the years ended June 30:

	For the Year Ended	
	2018	2017
<b>Accumulated Benefit Obligation</b>	<b>\$ 22,871,105</b>	<b>\$ 23,860,808</b>
<b>Change in Benefit Obligation</b>		
Benefit Obligation at beginning of year	\$ 23,860,808	\$ 24,607,554
Interest cost	767,879	708,098
Settlement loss/(gain)	59,434	0
Actuarial loss/(gain)	(848,735)	(791,768)
Settlement payments	(884,944)	0
Benefits paid	(83,337)	(663,076)
<b>Benefit Obligation at End of Year</b>	<b>\$ 22,871,105</b>	<b>\$ 23,860,808</b>
<b>Change in Plan Assets</b>		
Fair value of plan assets at beginning of year	\$ 18,094,964	\$ 16,922,474
Actual return on plan assets	777,090	1,202,363
Employer contributions	807,774	633,203
Settlement payments	(884,944)	0
Benefits paid	(83,337)	(663,076)
<b>Fair Value of Plan Assets at End of Year</b>	<b>\$ 18,711,547</b>	<b>\$ 18,094,964</b>
<b>Funded Status (Pension Obligation)</b>	<b>\$ (4,159,558)</b>	<b>\$ (5,765,844)</b>
<b>Components of Net Periodic Benefit Costs</b>		
Interest cost	767,879	708,098
Expected return on plan assets	(1,019,667)	(954,898)
Settlement	315,334	0
Recognition of loss from change in measurement date	571,181	661,917
<b>Net Period Pension Costs</b>	<b>\$ 634,727</b>	<b>\$ 415,117</b>

The total amount recognized in unrestricted net assets in the accompanying consolidated financial statements for the years ended June 30:

	2018	2017
Net actuarial loss	\$ 8,149,723	\$ 9,582,962

During 2018, lump sum distributions exceeded the Plan's interest cost triggering a settlement event. As a result, a settlement loss of \$315,334 was recognized.

Plan assets are invested to ensure that the Plan has the ability to pay all benefit and expense obligations when due, to maximize return within prudent levels of risk for pension assets, and to maintain a funding cushion for unexpected developments. The target weighted-average asset allocation of pension investments was 35% equities and 65% fixed maturity securities and cash as of June 30, 2018.

**Doctors Community Hospital and Subsidiaries**  
**Notes to Financial Statements**

The Plan's estimated future benefit payments are as follows:

2019	\$	3,435,730
2020		1,315,453
2021		1,470,086
2022		1,531,559
2023		1,486,091
2024 - 2028		7,426,795
<b>Total</b>	<b>\$</b>	<b>16,665,714</b>

The weighted-average assumptions used to determine net periodic benefit cost and the projected benefit obligation for the years ended June 30 were as follows:

	<u>2018</u>	<u>2017</u>
Discount rate	3.90%	3.45%
Expected return on Plan assets	6.00%	6.00%

The following table presents the Company's fair value hierarchy for financial instruments measured at fair value on a recurring basis as of June 30, 2018:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total Fair Value</u>
<b>Equity Securities</b>				
<b>Mutual Funds</b>				
Diversified Emerging Mkts	\$ 446,394	\$ 0	\$ 0	\$ 446,394
Foreign Large Blend	360,471	0	0	360,471
Foreign Small/Mid Growth	96,427	0	0	96,427
High Yield Bond	1,892,665	0	0	1,892,665
Inflation-Protected Bond	1,903,459	0	0	1,903,459
Intermediate Government	1,889,478	0	0	1,889,478
Intermediate-Term Bond	3,591,148	0	0	3,591,148
Large Growth	1,532,237	0	0	1,532,237
Large Value	1,315,072	0	0	1,315,072
Mid-Cap Growth	959,130	0	0	959,130
Mid-Cap Value	934,540	0	0	934,540
Multisector Bond	2,792,597	0	0	2,792,597
Small Growth	419,080	0	0	419,080
Small Value	578,849	0	0	578,849
<b>Total assets</b>	<b>\$ 18,711,547</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 18,711,547</b>

**Doctors Community Hospital and Subsidiaries**  
**Notes to Financial Statements**

The following table presents the Company's fair value hierarchy for financial instruments measured at fair value on a recurring basis as of June 30, 2017:

	Level 1	Level 2	Level 3	Total Fair Value
Equity Securities				
Mutual Funds				
Diversified Emerging Mkts	\$ 478,064	\$ 0	\$ 0	\$ 478,064
Foreign Large Blend	385,852	0	0	385,852
Foreign Small/Mid Growth	100,404	0	0	100,404
High Yield Bond	1,826,288	0	0	1,826,288
Inflation-Protected Bond	1,786,798	0	0	1,786,798
Intermediate Government	1,804,899	0	0	1,804,899
Intermediate-Term Bond	3,388,834	0	0	3,388,834
Large Growth	1,544,004	0	0	1,544,004
Large Value	1,266,056	0	0	1,266,056
Mid-Cap Growth	940,043	0	0	940,043
Mid-Cap Value	919,643	0	0	919,643
Multisector Bond	2,726,379	0	0	2,726,379
Small Growth	377,623	0	0	377,623
Small Value	550,077	0	0	550,077
Total assets	<u>\$ 18,094,964</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 18,094,964</u>

There were no significant transfers between fair value hierarchy levels for the years ended June 30, 2018 and 2017.

The Hospital has a deferred compensation plan that permits certain executives to defer receiving a portion of their compensation. The deferred amounts are included in other assets in the accompanying consolidated balance sheets. The associated liability of an equal amount is included in other liabilities in the accompanying consolidated balance sheets. The liability recorded regarding the deferred compensation was \$3,949,258 and \$3,649,133 as of June 30, 2018 and 2017, respectively. During 2018 and 2017, distributions of \$30,870 and \$30,200 were made to participants in the deferred compensation plan, respectively.

The Hospital is the beneficiary of split dollar life insurance policies in place for certain executives. The amounts that could be realized by the Hospital under the insurance contracts are approximately \$9,000,000 and \$9,100,000 as of June 30, 2018 and 2017, respectively and are included in other assets in the consolidated balance sheets.

**10. Maryland Health Services Cost Review Commission**

Certain of the Hospital's charges are subject to review and approval by the Commission. Hospital management has filed the required forms with the Commission and believes the Hospital is in compliance with Commission requirements.

## **Doctors Community Hospital and Subsidiaries**

### **Notes to Financial Statements**

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The current rate of reimbursement for principally all hospital inpatient and outpatient services to patients under the Medicare and Medicaid programs is based on an agreement between the Centers for Medicare and Medicaid Services and the Commission. This agreement is based upon a waiver from Medicare reimbursement principles under Section 1814(b) of the Social Security Act and will continue as long as all third-party payers elect to be reimbursed under this program, the rate of increase for costs per hospital services is below the national average, and certain specific quality indicators are met. In January 2014, the State of Maryland and CMS agreed to implement a revised waiver focused on population health, and the previous waiver was terminated.

Under the Commission's reimbursement methodology, the Hospital entered into a global budget arrangement effective July 1, 2013, and a gross revenue target was established for the Hospital based on fiscal year 2013 charges adjusted for inflation and other statewide allocation adjustments. The actual revenue charged was compared to the revenue target, and to the extent that the actual charges exceed or are less than the target, the overcharge or undercharge, plus applicable penalties reduce (in the case of overcharges) or increase (in the case of undercharges) the approved target for future rate years.

Management believes that the waiver program will remain in effect at least through June 2019. The Hospital undercharged its revenue target by \$1,747,735 and \$167,321 as of June 30, 2018 and 2017, respectively. Overcharges and undercharges are recouped in succeeding years through the Commission's rate setting methodology.

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

## **11. Contingencies**

### ***Litigation***

There are several lawsuits pending in which the Hospital has been named as defendant. In the opinion of Hospital management, after consultation with legal counsel, the potential liability, in the event of adverse settlement, will not have a material impact on the Hospital's consolidated financial position.

### ***Risk factors***

The Company's ability to maintain and/or increase future revenues could be adversely affected by:

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

## Doctors Community Hospital and Subsidiaries

### Notes to Financial Statements

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- The ultimate impact of, and any changes to, the federal Patient Protection and Affordable Care Act and the Health Care Education Affordability Reconciliation Act of 2010.

The Joint Commission, a non-governmental privately owned entity, provides accreditation status to hospitals and other health care organizations in the United States. Such accreditation is based upon a number of requirements such as undergoing periodic surveys conducted by Joint Commission personnel. Certain managed care payers require hospitals to have appropriate Joint Commission accreditation in order to participate in those programs. In addition, the CMS, the agency with oversight of the Medicare and Medicaid programs, provides “deemed status” for facilities having Joint Commission accreditation. By being Joint Commission accredited, facilities are “deemed” to be in compliance with the Medicare and Medicaid conditions of participation. Termination as a Medicare provider or exclusion from any or all of these programs/payers would have a materially negative impact on the future financial position, operating results and cash flows of the Hospital. In February 2016 the Hospital was surveyed by Joint Commission and received a full three-year Joint Commission accreditation through February 2019.

The Company invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in values of investment securities will occur in the near term, and such changes could materially affect the amounts reported as investments on the consolidated balance sheets.

## 12. Goodwill

The Company uses the acquisition method of accounting to record goodwill when purchasing physician practices and other similar entities. The table below presents goodwill that has been recorded as of June 30 for the following acquisitions:

	<u>2018</u>	<u>2017</u>
Cancer center, DRCC	\$ 1,062,531	\$ 1,062,531
Orthopedic practice	376,316	376,316
Nursing home	767,285	767,285
Surgery center	20,416	0
Cancer center, MRCC	646,975	646,975
Physician Practices	197,375	197,375
	<u>\$ 3,070,898</u>	<u>\$ 3,050,482</u>

**Doctors Community Hospital and Subsidiaries**  
**Notes to Financial Statements**

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**13. Temporarily Restricted Net Assets**

Temporarily restricted net assets are available as of June 30 for the following programs and projects:

	<u>2018</u>	<u>2017</u>
Nancy Heilman Scholarship Fund	\$ 1,479	\$ 1,479
Brian Erfan Memorial Fund	5,850	5,850
Jane Schafer Scholarship Fund	10,785	10,785
Rehabilitation Services	12,937	12,937
Cardiac Rehab Services	20,088	10,926
Pulmonary Rehab Scholarship Fund	13,685	0
Borden Breast Center	20,000	20,000
Women's Health	94,304	64,578
Surgical Services	307,471	326,652
Diabetes Center	31,895	33,464
Lymphedema Center	7,826	7,826
Smoking Grant	14,755	14,755
Community Outreach	56,977	0
Behavioral Health	22,572	161,926
MHA HPP Disaster Grant	20,954	29,486
Health fair Screening	2,891	2,891
So. Md. Transitional Care Partnership	138,420	0
DHMH Biosense Grant	4,575	4,575
Population Health: Mobile Clinic	15,000	22,395
Volunteers	3,099	0
Multi-Faith Worship Center	33,357	36,278
	<u>\$ 838,920</u>	<u>\$ 766,803</u>

***Supplementary Information***



**Doctors Community Hospital and Subsidiaries**  
**Consolidating Balance Sheet**  
**June 30, 2018**

	Hospital	Healthcare Programs	Foundation	Health Ventures	Sleep Center	Eliminations	Total Obligated Group	DRCC	Magnolia Gardens MAUI, DI , UCAS	STM ACO	Eliminations	Total
ASSETS												
<b>CURRENT ASSETS</b>												
Cash and cash equivalents	\$ 28,663,061	\$ 2,264,671	\$ 252,234	\$ 994,138	\$ 0	\$ 0	\$ 32,174,104	\$ 1,838,481	\$ 0	\$ 43,044	\$ 0	\$ 34,055,629
Patient accounts receivable	37,926,518	8,077,516	0	1,373,003	0	0	47,377,037	3,299,151	0	26,388	0	50,702,576
allowance for bad debts	(5,428,681)	(400,162)	0	(192,110)	0	0	(6,020,953)	(627,277)	0	0	0	(6,648,230)
allowance for contractals	(4,074,217)	(4,663,070)	0	(616,152)	0	0	(9,353,439)	(1,940,959)	0	168	0	(11,294,230)
Patient accounts receivable, net of allowance	28,423,620	3,014,284	0	564,741	0	0	32,002,645	730,915	0	26,556	0	32,760,116
Other amounts receivable	3,127,399	48,626	390,792	(184,998)	0	0	3,381,819	454,259	0	80,888	0	3,916,966
Inventories	3,807,574	0	0	79,634	0	0	3,887,208	0	0	0	0	3,887,208
Prepaid expenses	3,543,343	268,667	18,725	275,445	0	0	4,106,180	110,776	0	3,227	0	4,220,183
<b>TOTAL CURRENT ASSETS</b>	<b>67,564,997</b>	<b>5,596,248</b>	<b>661,751</b>	<b>1,728,960</b>	<b>0</b>	<b>0</b>	<b>75,551,956</b>	<b>3,134,431</b>	<b>0</b>	<b>153,715</b>	<b>0</b>	<b>78,840,102</b>
<b>INVESTMENTS</b>												
Marketable securities	\$ 16,996,737	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 16,996,737	\$ 810,948	\$ 0	\$ 0	\$ 0	\$ 17,807,685
Investment in Doctors Regional Cancer Center	3,763,541	0	0	0	0	(3,763,541)	0	0	0	0	0	0
Joint ventures and equity investments	0	0	0	0	0	0	0	0	5,398,099	0	0	5,398,099
Due to DCH	79,185,056	0	0	0	5,667,562	(75,812,351)	9,040,267	0	0	0	(9,040,267)	0
	99,945,334	0	0	0	5,667,562	(79,575,892)	26,037,004	810,948	5,398,099	0	(9,040,267)	23,205,784
Land and Land Improvements	10,664,279	0	0	0	0	0	10,664,279	0	0	0	0	10,664,279
Building and Fixed Equipment	129,239,763	2,310,954	0	0	0	0	131,550,717	0	0	0	0	131,550,717
Medical Office Building	8,091,651	0	0	0	0	0	8,091,651	0	0	0	0	8,091,651
Major Movable Equipment	90,986,739	0	0	1,506,385	0	0	92,493,124	10,075,886	0	0	0	102,569,010
Construction in Progress	2,520,447	20,500	0	449	0	0	2,541,396	0	0	0	0	2,541,396
Accumulated Depreciation	(138,742,366)	(864,277)	0	(890,455)	0	0	(140,497,098)	(7,659,640)	0	0	0	(148,156,738)
<b>LAND, BUILDINGS, AND EQUIPMENT</b>	<b>102,760,514</b>	<b>1,467,177</b>	<b>0</b>	<b>616,380</b>	<b>0</b>	<b>0</b>	<b>104,844,071</b>	<b>2,416,246</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>107,260,317</b>
<b>GOODWILL</b>	<b>1,439,847</b>	<b>197,375</b>	<b>0</b>	<b>786,701</b>	<b>0</b>	<b>0</b>	<b>2,423,923</b>	<b>646,975</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>3,070,898</b>
<b>OTHER ASSETS</b>	<b>27,869,430</b>	<b>12,271</b>	<b>0</b>	<b>664,494</b>	<b>0</b>	<b>(2,485,068)</b>	<b>26,061,127</b>	<b>0</b>	<b>0</b>	<b>3,903</b>	<b>0</b>	<b>26,065,030</b>
<b>TOTAL ASSETS</b>	<b>\$ 299,580,122</b>	<b>\$ 7,273,071</b>	<b>\$ 661,751</b>	<b>\$ 3,796,535</b>	<b>\$ 5,667,562</b>	<b>\$ (82,060,960)</b>	<b>\$ 234,918,081</b>	<b>\$ 7,008,600</b>	<b>\$ 5,398,099</b>	<b>\$ 157,618</b>	<b>\$ (9,040,267)</b>	<b>\$ 238,442,131</b>

See independent auditors' report.

**Doctors Community Hospital and Subsidiaries**  
**Consolidating Balance Sheet**  
**June 30, 2018**

	Hospital	Healthcare Programs	Foundation	Health Ventures	Sleep Center	Eliminations	Total Obligated Group	DRCC	Magnolia Gardens MAUI, DI, UCAS	STM ACO	Eliminations	Total
<i>LIABILITIES AND NET ASSETS</i>												
<b>CURRENT LIABILITIES</b>												
Accounts payable and accrued expenses	\$ 14,888,408	\$ 374,436	\$ 1,183	\$ 83,910	\$ 60,086	\$ 0	\$ 15,408,023	\$ 736,031	\$ 0	\$ 278,402	\$ 0	\$ 16,422,456
Due to DCH	5,667,562	36,221,181	(14,404)	1,466,992	0	(43,341,331)	0	0	0	9,040,267	(9,040,267)	0
Salaries, wages, and related items	15,687,746	385,879	0	95,380	0	0	16,169,005	0	0	0	0	16,169,005
Advances from third party payers	7,975,899	0	0	0	0	0	7,975,899	0	0	0	0	7,975,899
Current portion of long-term obligations	4,981,689	0	0	0	0	0	4,981,689	0	0	0	0	4,981,689
<b>TOTAL CURRENT LIABILITIES</b>	<b>49,201,304</b>	<b>36,981,496</b>	<b>(13,221)</b>	<b>1,646,282</b>	<b>60,086</b>	<b>(43,341,331)</b>	<b>44,534,616</b>	<b>736,031</b>	<b>0</b>	<b>9,318,669</b>	<b>(9,040,267)</b>	<b>45,549,049</b>
<b>NONCURRENT LIABILITIES</b>												
Deferred compensation and and claims incurred but not reported	16,021,913	0	0	0	0	0	16,021,913	0	0	0	0	16,021,913
Pension obligation	4,159,558	0	0	0	0	0	4,159,558	0	0	0	0	4,159,558
Long-term obligations, net of current portion	126,888,994	0	0	32,471,020	0	(32,471,020)	126,888,994	0	0	0	0	126,888,994
<b>TOTAL LIABILITIES</b>	<b>196,271,769</b>	<b>36,981,496</b>	<b>(13,221)</b>	<b>34,117,302</b>	<b>60,086</b>	<b>(75,812,351)</b>	<b>191,605,081</b>	<b>736,031</b>	<b>0</b>	<b>9,318,669</b>	<b>(9,040,267)</b>	<b>192,619,514</b>
<b>NET ASSETS AND MEMBERS' EQUITY</b>												
Unrestricted	103,144,405	(29,708,425)	0	0	5,607,476	(38,441,713)	40,601,743	0	0	(2,910,476)	5,420,093	43,111,360
Members' equity	0	0	0	(30,320,767)	0	30,320,767	0	6,272,569	5,398,099	(6,250,575)	(5,420,093)	0
Temporarily restricted	163,948	0	674,972	0	0	0	838,920	0	0	0	0	838,920
Non Controlling Interest	0	0	0	0	0	1,872,337	1,872,337	0	0	0	0	1,872,337
<b>TOTAL NET ASSETS</b>	<b>103,308,353</b>	<b>(29,708,425)</b>	<b>674,972</b>	<b>(30,320,767)</b>	<b>5,607,476</b>	<b>(6,248,609)</b>	<b>43,313,000</b>	<b>6,272,569</b>	<b>5,398,099</b>	<b>(9,161,051)</b>	<b>0</b>	<b>45,822,617</b>
<b>Total Net Assets and Liabilities</b>	<b>\$ 299,580,122</b>	<b>\$ 7,273,071</b>	<b>\$ 661,751</b>	<b>\$ 3,796,535</b>	<b>\$ 5,667,562</b>	<b>\$ (82,060,960)</b>	<b>\$ 234,918,081</b>	<b>\$ 7,008,600</b>	<b>\$ 5,398,099</b>	<b>\$ 157,618</b>	<b>\$ (9,040,267)</b>	<b>\$ 238,442,131</b>

See independent auditors' report.

**Doctors Community Hospital and Subsidiaries**  
**Consolidating Statement of Operations and Changes in Net Assets**  
**June 30, 2018**

	Hospital	Healthcare Programs	Foundation	Health Ventures	Sleep Center	Eliminations	Total Obligated Group	DRCC	Magnolia Gardens MAUI, DI, UCAS	STM ACO	Total
<b>UNRESTRICTED NET ASSETS</b>											
<b>OPERATING REVENUE</b>											
Inpatient revenue	\$ 141,161,965	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 141,161,965	\$ 0	\$ 0	\$ 0	\$ 141,161,965
Outpatient revenue	104,738,899	43,745,760	0	15,824,059	2,720,374	0	167,029,092	22,683,775	0	(13,631)	189,699,236
Contractuals	(28,214,364)	(31,625,342)	0	(8,509,344)	0	0	(68,349,050)	(14,482,579)	0	0	(82,831,629)
Net patient service revenue, net of contractual allowances and discounts	\$ 217,686,500	\$ 12,120,418	\$ 0	\$ 7,314,715	\$ 2,720,374	\$ 0	\$ 239,842,007	\$ 8,201,196	\$ 0	\$ (13,631)	\$ 248,029,572
Less provision for bad debts	(7,438,666)	(1,103,596)	0	0	0	0	(8,542,262)	29,459	0	0	(8,512,803)
Net patient service revenue less provision for bad debts	210,247,834	11,016,822	-	7,314,715	2,720,374	-	231,299,745	8,230,655	-	(13,631)	239,516,769
Other operating revenue	5,658,185	36,644	15,613	491	0	0	5,710,933	0	0	0	5,710,933
Contributions	0	0	162,506	0	0	0	162,506	0	0	0	162,506
Net assets released from restrictions used for operations	330,990	306,512	0	0	0	0	637,502	0	0	0	637,502
<b>TOTAL OPERATING REVENUE</b>	<b>216,237,009</b>	<b>11,359,978</b>	<b>178,119</b>	<b>7,315,206</b>	<b>2,720,374</b>	<b>0</b>	<b>237,810,686</b>	<b>8,230,655</b>	<b>0</b>	<b>(13,631)</b>	<b>246,027,710</b>
<b>EXPENSES</b>											
Salaries and wages	87,332,294	14,718,940	316,953	6,866,261	0	0	109,234,448	0	0	0	109,234,448
Employee benefits	15,407,973	2,388,041	70,275	1,313,091	0	0	19,179,380	0	0	0	19,179,380
Purchased services	28,649,736	3,423,728	7,111	798,441	880,214	0	33,759,230	6,046,967	0	177,237	39,983,434
Supplies	35,349,202	817,209	7,420	857,022	8,508	0	37,039,361	89,280	0	582	37,129,223
Other expenses	16,001,503	2,359,718	6,065	1,531,772	149,963	0	20,049,021	996,140	0	1,310,729	22,355,890
Depreciation	8,280,915	197,620	0	34,038	0	0	8,512,573	713,956	0	0	9,226,529
Amortization	200,921	0	0	0	0	0	200,921	0	0	0	200,921
Fundraising	0	0	58,822	0	0	0	58,822	0	0	0	58,822
Interest	4,649,123	0	0	0	0	0	4,649,123	(523)	0	0	4,648,600
<b>TOTAL EXPENSES</b>	<b>195,871,667</b>	<b>23,905,256</b>	<b>466,646</b>	<b>11,400,625</b>	<b>1,038,685</b>	<b>0</b>	<b>232,682,879</b>	<b>7,845,820</b>	<b>0</b>	<b>1,488,548</b>	<b>242,017,247</b>
<b>INCOME (LOSS) FROM OPERATIONS</b>	<b>20,365,342</b>	<b>(12,545,278)</b>	<b>(288,527)</b>	<b>(4,085,419)</b>	<b>1,681,689</b>	<b>0</b>	<b>5,127,807</b>	<b>384,835</b>	<b>0</b>	<b>(1,502,179)</b>	<b>4,010,463</b>
<b>NONOPERATING GAINS (LOSSES)</b>											
Gain from sale of property	1,500	0	0	0	0	0	1,500	0	0	0	1,500
Impairment of goodwill	0	0	0	0	0	0	0	0	0	0	0
Pension costs	(634,727)	0	0	0	0	0	(634,727)	0	0	0	(634,727)
Extinguishment of debt	0	0	0	0	0	0	0	0	0	0	0
Unrealized gain/(loss) on trading securities	9,427	0	0	2,500	0	0	11,927	0	0	0	11,927
Equity in joint ventures	230,901	0	0	0	0	(230,901)	0	0	208,549	0	208,549
<b>EXCESS OF REVENUE OVER EXPENSES (EXPENSES OVER REVENUE)</b>	<b>19,972,443</b>	<b>(12,545,278)</b>	<b>(288,527)</b>	<b>(4,082,919)</b>	<b>1,681,689</b>	<b>(230,901)</b>	<b>4,506,507</b>	<b>384,835</b>	<b>208,549</b>	<b>(1,502,179)</b>	<b>3,597,712</b>
Net asset transfer	(288,527)	0	288,527	1,986,082	0	0	1,986,082	0	(1,986,082)	0	0
Dividends paid	0	0	0	0	0	0	0	0	0	0	0
Contributions	272,786	0	436,834	0	0	0	709,620	0	0	0	709,620
Net assets released from restrictions for use in operations	(142,900)	0	(494,603)	0	0	0	(637,503)	0	0	0	(637,503)
Net assets released from restrictions for capital acquisitions	0	0	0	0	0	0	0	0	0	0	0
Pension - related changes other than net periodic pension cost	1,433,239	0	0	0	0	0	1,433,239	0	0	0	1,433,239
Increase (decrease) in net assets	\$ 21,247,041	\$ (12,545,278)	\$ (57,769)	\$ (2,096,837)	\$ 1,681,689	\$ (230,901)	\$ 7,997,945	\$ 384,835	\$ (1,777,533)	\$ (1,502,179)	\$ 5,103,068
Net assets, beginning of year	\$ 82,061,312	\$ (17,163,147)	\$ 732,741	\$ (28,223,930)	\$ 3,925,787	\$ (6,017,708)	\$ 35,315,055	\$ 5,887,734	\$ 7,175,632	\$ (7,658,872)	\$ 40,719,549
Net assets, end of year	\$ 103,308,353	\$ (29,708,425)	\$ 674,972	\$ (30,320,767)	\$ 5,607,476	\$ (6,248,609)	\$ 43,313,000	\$ 6,272,569	\$ 5,398,099	\$ (9,161,051)	\$ 45,822,617

See independent auditors' report.