

Doctors Community Hospital and Subsidiaries

**Consolidated Financial Statements
and Other Financial Information**

Years Ended June 30, 2017 and 2016



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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, 2017 and 2016, 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 the auditors' 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, 2017 and 2016, 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

**Tysons, Virginia
October 12, 2017**

Doctors Community Hospital and Subsidiaries
Consolidated Balance Sheets

ASSETS	June 30	
	2017	2016
CURRENT ASSETS		
Cash and cash equivalents	\$ 33,916,757	\$ 39,302,839
Assets whose use is limited for debt service	0	1,998,377
Patient accounts receivable, less uncollectible accounts of \$5,235,871 and \$9,871,656	27,786,014	22,357,343
Other amounts receivable	7,173,561	3,315,836
Inventories	3,515,938	4,095,155
Prepaid expenses	2,968,388	3,003,938
TOTAL CURRENT ASSETS	75,360,658	74,073,488
INVESTMENTS		
Marketable securities	15,707,385	15,946,559
Joint ventures and equity investments	7,175,632	6,236,780
	22,883,017	22,183,339
ASSETS WHOSE USE IS LIMITED		
Investments held by trustee or authority, less current portion	0	10,972,491
LAND, BUILDINGS, AND EQUIPMENT - NET	110,668,732	115,687,985
GOODWILL	3,050,482	3,046,972
OTHER ASSETS	24,557,168	21,578,882
TOTAL ASSETS	\$ 236,520,057	\$ 247,543,157

See the accompanying notes to the consolidated financial statements.

Doctors Community Hospital and Subsidiaries
Consolidated Balance Sheets

<i>LIABILITIES</i>	June 30	
	2017	2016
CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 16,255,284	\$ 16,586,341
Salaries, wages, and related items	15,120,906	13,346,381
Advances from third party payers	7,309,886	8,716,556
Interest payable to bondholders	0	1,973,835
Current portion of long-term obligations	4,527,970	4,134,850
TOTAL CURRENT LIABILITIES	43,214,046	44,757,963
NONCURRENT LIABILITIES		
Deferred compensation and and claims incurred but not reported	15,036,406	12,125,342
Pension obligation	5,765,844	7,685,080
Long-term obligations, net of current portion	131,784,212	134,932,271
TOTAL LIABILITIES	195,800,508	199,500,656
NET ASSETS		
Unrestricted	38,234,344	45,236,896
Noncontrolling interest	1,718,402	1,870,306
TOTAL UNRESTRICTED NET ASSETS	39,952,746	47,107,202
Temporarily restricted	766,803	935,299
TOTAL NET ASSETS	40,719,549	48,042,501
TOTAL LIABILITIES AND NET ASSETS	\$ 236,520,057	\$ 247,543,157

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	
	2017	2016
REVENUE		
Patient service revenue, net of contractual allowances and discounts	\$ 233,824,783	\$ 225,614,450
Provision for bad debts	(4,487,080)	(5,113,446)
Net patient service revenue less provision for bad debts	229,337,703	220,501,004
Other operating revenue	8,670,356	4,214,577
Contributions	352,064	298,129
Net assets released from restrictions used for operations	722,844	1,189,083
TOTAL OPERATING REVENUE	239,082,967	226,202,793
EXPENSES		
Salaries and wages	107,113,997	99,149,648
Employee benefits	16,898,251	16,119,335
Purchased services	36,208,333	32,364,329
Supplies	38,653,104	36,225,202
Other expenses	23,014,476	19,923,517
Depreciation	9,670,812	9,469,597
Amortization	206,637	144,974
Fundraising	133,275	4,702
Interest	5,664,939	7,482,069
TOTAL EXPENSES	237,563,824	220,883,373
INCOME FROM OPERATIONS	1,519,143	5,319,420
NONOPERATING GAINS (LOSSES)		
Gain(loss) on sale of property	10,924	(17,578)
Impairment of goodwill	(117,806)	0
Extinguishment of debt	(11,692,405)	(4,558,885)
Unrealized gain(loss) on trading securities	368,571	(53,422)
Gain on joint ventures	576,223	708,268
EXCESS OF REVENUE OVER EXPENSES (EXPENSES OVER REVENUE)	(9,335,350)	1,397,803
Subsidiary distributions to noncontrolling interest-holders	(382,015)	(141,560)
Net assets released from restrictions for capital acquisitions	225,067	122,125
Pension - related changes other than net periodic pension cost	1,701,150	(2,636,058)
DECREASE IN UNRESTRICTED NET ASSETS	\$ (7,791,148)	\$ (1,257,690)

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, 2017			Year Ended June 30, 2016		
	Total	Controlling Interests	Noncontrolling Interests	Total	Controlling Interests	Noncontrolling Interests
UNRESTRICTED NET ASSETS						
Excess of revenue over expenses (expenses over revenue)	\$ (9,335,350)	\$ (9,565,461)	\$ 230,111	\$ 1,397,803	\$ 1,127,383	\$ 270,420
Net assets released from restrictions for capital acquisitions	225,067	225,067	0	122,125	122,125	0
Dividends paid to noncontrolling interest-holders	(382,015)	0	(382,015)	(141,560)	0	(141,560)
Pension - related changes other than net periodic pension cost	1,701,150	1,701,150	0	(2,636,058)	(2,636,058)	0
INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS AND NONCONTROLLING INTERESTS	(7,791,148)	(7,639,244)	(151,904)	(1,257,690)	(1,386,550)	128,860
TEMPORARILY RESTRICTED NET ASSETS						
Restricted contributions	1,416,107	1,416,107	0	839,677	839,677	0
Net assets released from restrictions for operations	(722,844)	(722,844)	0	(1,189,083)	(1,189,083)	0
Net assets released from restrictions for capital acquisitions	(225,067)	(225,067)	0	(122,125)	(122,125)	0
INCREASE (DECREASE) IN TEMPORARILY RESTRICTED NET ASSETS	468,196	468,196	0	(471,531)	(471,531)	0
INCREASE (DECREASE) IN NET ASSETS	(7,322,952)	(7,171,048)	(151,904)	(1,729,221)	(1,858,081)	128,860
NET ASSETS, BEGINNING OF YEAR	48,042,501	46,172,195	1,870,306	49,771,722	48,030,276	1,741,446
NET ASSETS, END OF YEAR	\$ 40,719,549	\$ 39,001,147	\$ 1,718,402	\$ 48,042,501	\$ 46,172,195	\$ 1,870,306

See the accompanying notes to the consolidated financial statements.

Doctors Community Hospital and Subsidiaries
Consolidated Statements of Cash Flows

	Year Ended June 30	
	2017	2016
OPERATING ACTIVITIES AND OTHER GAINS		
Decrease in net assets	\$ (7,322,952)	\$ (1,729,221)
Adjustments to reconcile decrease in net assets to net cash and cash equivalents provided by (used in) operating activities and other gains		
Restricted contributions received	(1,416,107)	(839,677)
Depreciation	9,670,812	9,469,597
Provision for bad debts	4,487,080	5,113,446
Unrealized (gain) loss on investments	(368,571)	53,422
Impairment of goodwill	117,806	0
(Gain) loss on sale of property	(10,924)	17,578
Realized loss on sale of investments	198,576	32,871
Amortization on bond issue cost	206,637	144,974
Extinguishment of debt	11,692,405	4,558,885
Gain in joint ventures and equity investments	(576,223)	(708,207)
Increase (decrease) in:		
Accounts payable and accrued expenses	(331,059)	661,315
Accrued salaries, wages, and related items	1,774,525	1,473,862
Advances from third party payers	(1,406,670)	1,377,972
Pension obligation	(1,919,236)	2,289,571
Interest payable	(1,973,835)	(1,891,835)
Other liabilities	2,911,064	(2,401,087)
Decrease (increase) in:		
Net patient accounts receivable	(9,915,751)	(6,684,540)
Other receivables	(3,857,725)	426,939
Inventories	579,217	(261,648)
Prepaid expenses and other assets	(2,942,736)	3,445,878
NET CASH AND CASH EQUIVALENTS PROVIDED BY (USED IN) OPERATING ACTIVITIES AND OTHER GAINS	(403,667)	14,550,095
INVESTING ACTIVITIES		
Net sales of trading investments, including assets whose use is limited	1,687,632	734,416
Increase in goodwill	(121,316)	(98,582)
Proceeds from sale on property	7,750	84,916
Distributions from (contributions to) joint ventures	(362,626)	70,500
Purchase of property, plant and equipment	(4,648,385)	(5,983,335)
NET CASH AND CASH EQUIVALENTS USED IN INVESTING ACTIVITIES	(3,436,945)	(5,192,085)
<i>(Continued)</i>		

See the accompanying notes to the consolidated financial statements.

Doctors Community Hospital and Subsidiaries
Consolidated Statements of Cash Flows

	Year Ended June 30	
	<u>2017</u>	<u>2016</u>
FINANCING ACTIVITIES		
Principal payments on debt	\$ (65,963,245)	\$ (75,608,666)
Proceeds from new debt	64,165,000	73,445,000
Cost of debt issuance	(1,163,332)	(909,613)
Restricted contributions received	1,416,107	839,677
NET CASH AND CASH EQUIVALENTS USED IN FINANCING ACTIVITIES	<u>(1,545,470)</u>	<u>(2,233,602)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(5,386,082)	7,124,408
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>39,302,839</u>	<u>32,178,431</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 33,916,757</u>	<u>\$ 39,302,839</u>

See the accompanying notes to the consolidated financial statements.

Notes to the Consolidated Financial Statements

1. Organization and Summary of Significant Accounting Principles

Organization

Doctors Community Hospital (the Hospital) is a not-for-profit, non-stock corporation that operates an acute care general hospital facility licensed for 190 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 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 providing 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

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 a 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, including assets whose use is limited, consists of investments in equity and debt securities and are carried at fair value. All such investments are classified as trading. Assets whose use is limited that are required to meet current liabilities of the Hospital have been classified as current assets. In 2017, the Maryland Health and Higher Educational Facility ("MHHEFA") Series 2007A and 2010 bonds were refinanced and the debt service reserve accounts were used as a source of funds pursuant to those refinancing activities.

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>2017</u>	<u>2016</u>
Medicare	46%	43%
Medicaid	16%	19%
Blue Cross Blue Shield	18%	18%
Other third-party payers	17%	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>2017</u>	<u>2016</u>
Medicare	31%	29%
Medicaid	24%	25%
Blue Cross Blue Shield	9%	12%
Other third-party payers	21%	21%
Self-pay patients	<u>15%</u>	<u>13%</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 2017 and 2016. Amounts classified as self-pay do not include coinsurance and deductibles related to third party payers.

	<u>2017</u>	<u>2016</u>
Gross patient revenue:		
Third party payers	\$ 275,895,493	\$ 265,468,414
Self pay	8,532,850	8,210,363
Total gross patient revenue	<u>284,428,343</u>	<u>273,678,777</u>
Deductions:		
Discounts and allowances	(43,846,820)	(35,863,545)
Charity care	(6,756,740)	(12,200,782)
Net patient service revenue	<u>233,824,783</u>	<u>225,614,450</u>
Less: provisions for bad debt	(4,487,080)	(5,113,446)
Net patient service revenue	<u>\$ 229,337,703</u>	<u>\$ 220,501,004</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

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, 2017 and 2016, 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 Hospital. These policies define charity services as those services for which no payment is anticipated. In assessing a patient's ability to pay, the Hospital 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 \$6,756,740 and \$12,200,782 for the years ended June 30, 2017 and 2016, 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 \$3,818,520 for 2017 and \$3,978,562 for 2016 in UCC payments. All hospitals contribute to the Health Care Coverage Fund (HCCF) that supports the expansion of Medicaid eligibility and support the Medicaid program. The Hospital contributed \$2,428,092 for 2017 and \$2,275,444 for 2016 to the HCCF.

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

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 \$283,210 and \$306,283 at June 30, 2017 and 2016, 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. No revenue was recognized for 2017. The Hospital recognized \$74,301 of meaningful use adjustments/incentives during the year ended June 30, 2016 and reported this amount as other operating revenue in the accompanying statements of operations and other changes in unrestricted net assets. The portion of the meaningful use incentive that was not yet received is \$182,556 and \$190,105 as of June 30, 2017 and 2016, respectively, and is recorded as other amounts receivable in the accompanying consolidated balance sheets.

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. ACO management anticipates that the Centers for Medicare and Medicaid Services will issue payments in October 2017. The incentive payment will first be applied to the ACO operating costs and the remainder will be shared with providers who participated in the ACO during the performance period. This incentive payment is included in other operating revenues and other amounts receivable in the accompanying consolidated financial statements.

Advertising Costs

The Hospital expenses advertising costs as they are incurred. Advertising expense was \$1,673,139 and \$1,384,178 for the fiscal years June 30, 2017 and 2016, 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>2017</u>	<u>2016</u>
Health care services	\$ 170,641,326	\$ 158,743,151
Management and general	66,360,515	61,733,447
Fundraising	561,983	406,775
	<u>\$ 237,563,824</u>	<u>\$ 220,883,373</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.
- **Marketable securities and assets limited as to use:** 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

Doctors Community Hospital and Subsidiaries

Notes to Financial Statements

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, 2017 and 2016.

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 its gross and taxable income to determine the tax results to its 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, 2017 and 2016 to be approximately estimated (see *Note 12*).

Subsequent Events

Subsequent events have been evaluated by management through October 12, 2017, 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.

In February 2016, the FASB issued ASU 2016-02, *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

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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.

2. Investments

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

	<u>2017</u>	<u>2016</u>
Marketable securities:		
Cash and cash equivalents		
Money market and CD funds	\$ 4,736,968	\$ 8,443,568
Equity		
Stock and mutual funds	10,970,417	7,502,991
	<u>\$ 15,707,385</u>	<u>\$ 15,946,559</u>
Assets whose use is limited:		
Cash and cash equivalents		
Money market funds	\$ 0	\$ 197,585
Fixed maturity		
U.S. government agency bonds/notes	0	12,773,283
	<u>\$ 0</u>	<u>\$ 12,970,868</u>

Assets whose use is limited are held in the following funds as of June 30:

	<u>2017</u>	<u>2016</u>
Funds held by Trustee or Authority:		
Debt service reserve fund	\$ 0	\$ 12,970,868
Less assets required for current obligations	0	(1,998,377)
	<u>\$ 0</u>	<u>\$ 10,972,491</u>

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

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	2017		
	Other Operating Revenue	Nonoperating Gains (Losses)	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>

	2016		
	Other Operating Revenue	Nonoperating Gains (Losses)	Total
Interest and dividend income	\$ 262,450	\$ 0	\$ 262,450
Net realized loss	(32,871)	0	(32,871)
Net unrealized loss	0	(53,422)	(53,422)
Investment fees	(27,911)	0	(27,911)
	<u>\$ 201,668</u>	<u>\$ (53,422)</u>	<u>\$ 148,246</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

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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 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, 2017.

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total Fair Value</u>
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
Total assets	<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.

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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, 2016:

	Level 1	Level 2	Level 3	Total Fair Value
Cash and cash equivalents				
Money market funds	\$ 0	\$ 8,641,153	\$ 0	\$ 8,641,153
Fixed income				
U.S. government agency bonds/notes	0	12,773,283	0	12,773,283
Equity securities				
Premier supply chain investment	544,667	0	0	544,667
Mutual funds				
Short-term bond	269,260	0	0	269,260
Intermediate Government	225,802	0	0	225,802
Merger arbitrage	5,105,170	0	0	5,105,170
World bond	381,701	0	0	381,701
Floating rate bonds	438,631	0	0	438,631
High-yield bond	256,467	0	0	256,467
Intermediate-term bond	280,551	0	0	280,551
Equity large blend	496,482	0	0	496,482
Long/short equity	251,484	0	0	251,484
Moderate allocation	510,146	0	0	510,146
Mid-cap growth	448,108	0	0	448,108
Real estate	228,250	0	0	228,250
Foreign large blend	992,245	0	0	992,245
Large blend	136,096	0	0	136,096
Diversified emerging markets	263,931	0	0	263,931
Large growth	138,226	0	0	138,226
Small growth	270,290	0	0	270,290
Total assets	<u>\$ 11,237,507</u>	<u>\$ 21,414,436</u>	<u>\$ 0</u>	<u>\$ 32,651,943</u>
Plus deposits in transit				2,076
Total				<u>\$ 32,654,019</u>
Less investments included in other assets				3,736,592
Less investments included in assets limited as to use				12,970,868
Total investments per consolidated balance sheet				<u>\$ 15,946,559</u>

The total investment of \$32,654,019 includes deposits in transit of \$2,076 plus financial instruments of \$32,651,943. The above table includes financial instruments of \$3,736,592 included in other assets on the consolidated balance sheets for deferred compensation and other arrangements and \$12,970,868 included in assets limited as to use.

There were no significant transfers between fair value hierarchy levels for the years ended June 30, 2017 and 2016.

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2. 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 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:

<u>Name</u>	<u>Carrying Value</u>	
	<u>2017</u>	<u>2016</u>
Magnolia Gardens LLC	\$6,255,497	\$ 5,721,987
University Center Ambulatory Surgery	168,832	0
Metropolitan Ambulatory Urological Institute, LLC	50,096	110,264
Diagnostic Imaging, LLC	<u>701,207</u>	<u>404,529</u>
	<u>\$7,175,632</u>	<u>\$ 6,236,780</u>

3. 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.

A member of the board of directors maintains a business that had transactions with the Hospital that amounted to \$0 and \$428,945 for the years ended June 30, 2017 and 2016, respectively. The Medical Director of Radiology for the Hospital is an investor in Diagnostic Imaging, LLC, which is an unconsolidated subsidiary of Health Ventures.

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4. Land, Buildings, and Equipment

Land, buildings, and equipment are summarized as follows:

Name	Useful Life	June 30	
		2017	2016
Land improvements	2-40 Years	\$ 4,450,720	\$ 4,448,553
Buildings	4-40 Years	136,997,856	136,915,272
Leasehold improvements	4-40 Years	4,478,530	2,136,878
Furniture and equipment	2-20 Years	96,430,374	89,912,146
Equipment under capital lease obligations	2-20 Years	190,000	5,377,761
		242,547,480	238,790,610
Less accumulated depreciation		(138,980,450)	(129,775,636)
		103,567,030	109,014,974
Construction in progress		963,200	534,540
Land		6,138,502	6,138,471
		\$ 110,668,732	\$ 115,687,985

Accumulated depreciation includes accumulated amortization of capital leased equipment in the amount of \$155,667 and \$3,383,379 as of June 30, 2017 and 2016, respectively. Depreciation expense related to capital leased equipment was \$38,000 and \$973,804 for fiscal year 2017 and 2016, respectively.

DRCC's capital leases totaling \$5,187,761 for an Electa linear accelerator and the CT equipment ended June 30, 2016. The option to purchase for a \$1 was exercised and the accounting recognition related to this equipment was transferred from equipment under capital lease obligations to furniture and equipment in fiscal year 2017.

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5. Long-Term Debt

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

	<u>2017</u>	<u>2016</u>
Maryland Health and Higher Education Facilities Authority Revenue Bonds, Series 2016 Bond 2.180% term bonds due October 1, 2024	\$ 0	\$ 41,500,000
Maryland Health and Higher Education Facilities Authority Revenue Bonds, Series 2017B Bond 2.180% term bonds due October 1, 2024	37,975,000	0
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 2010: 5.625% term bonds due July 1, 2030	0	445,000
5.75% term bonds due July 1, 2038	0	68,245,000
Maryland Health and Higher Education Facilities Authority Revenue Bonds, Series 2017A: 5.00% term bonds due July 1, 2031	6,720,000	0
5.00% term bonds due July 1, 2032	7,055,000	0
5.00% term bonds due July 1, 2033	7,410,000	0
5.00% term bonds due July 1, 2034	7,780,000	0
5.00% term bonds due July 1, 2038	35,200,000	0
Capital leases	62,970	167,820
	\$ 134,147,970	\$ 142,302,820
Current portion of long-term debt	(4,527,970)	(4,134,850)
Original issue costs, net of accumulated amortization	(1,901,974)	(1,856,333)
Original issue premium, net of accumulated amortization	4,066,186	0
Original issue discount, net of accumulated amortization	0	(1,379,366)
	\$ 131,784,212	\$ 134,932,271

The fair value of the Company's long-term debt, based on quoted market prices, was \$76,883,851 for the Series 2010 Bonds for June 30, 2016. The fair value of the Company's Series 2017A bonds, based on quoted market prices, was \$71,304,218 at June 30, 2017. 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.

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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:

2018	\$4,527,970
2019	4,940,000
2020	4,405,000
2021	4,945,000
2022	5,070,000
2023 and after	110,260,000
	<u>\$ 134,147,970</u>

Total interest paid for the years ended June 30, 2017 and 2016 was \$7,609,626 and \$9,329,764, 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 2016.

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 2017 and 2016.

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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. The outstanding principal balance was \$62,970 and \$167,820 on June 30, 2017 and 2016, respectively. 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%.

6. Medical Malpractice and Workers' Compensation Insurance

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, 2017 and 2016. 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, 2017. 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, and \$10,000,000 effective March 1, 2012. The estimated unpaid loss liability reserved by the captive for the Hospital was \$10,056,273 and \$7,522,419 at June 30, 2017 and 2016, 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 \$1,277,000 and \$1,174,000 at June 30, 2017 and 2016, respectively. The discount rate for unpaid losses is 3.5% for years ending June 30, 2017 and 2016. The Hospital engages a consulting actuary to assist in the determination of all professional liability claims incurred but not reported.

The Hospital 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 \$545,734 and \$753,924 at June 30, 2017 and 2016, respectively. These amounts are included in accounts payable and accrued expenses in the accompanying consolidated balance sheets.

7. Leases

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

DRCC has entered into a capital lease for certain equipment. The cost of assets under this capital lease is included in land, building, and equipment (see *Note 5*), and related capital lease obligation is included in long-term debt (see *Note 6*) in the accompanying consolidated balance sheets. Depreciation expense on these assets is included with depreciation expense in the consolidated statements of operations and other changes in unrestricted net assets.

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Future minimum lease payments as of June 30, 2017 are as follows:

	<u>Capital Leases</u>	<u>Operating Leases</u>	<u>Total</u>
2018	\$ 62,970	\$ 4,136,086	\$ 4,199,056
2019	0	3,230,869	3,230,869
2020	0	2,401,066	2,401,066
2021	0	2,009,157	2,009,157
2022	0	341,210	341,210
Total minimum lease payments	<u>62,970</u>	<u>12,118,388</u>	<u>12,181,358</u>
Current portion of capital leases	(62,970)		
Capital lease obligations, less current portion	<u>\$ 0</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, 2017 and 2016 was \$4,202,506 and \$3,310,658, respectively.

8. Retirement Plans

The Hospital has a 403b defined contribution plan (the "contribution plan") covering substantially all its employees. The contribution plan is employee and employer contributory. The Hospital 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 approximately \$1,265,728 and \$885,779 for 2017 and 2016, respectively.

The Hospital 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 Hospital'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 Hospital expects to contribute \$807,774 to the Plan during 2018 to keep the funding levels at the ERISA requirements. The measurement date of the Plan is June 30.

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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	
	2017	2016
Accumulated Benefit Obligation	\$ 23,860,808	\$ 24,607,554
Change in Benefit Obligation		
Benefit Obligation at beginning of year	\$ 24,607,554	\$ 22,289,348
Interest cost	708,098	836,850
Actuarial loss/(gain)	(791,768)	2,050,707
Benefits paid	(663,076)	(569,351)
Benefit Obligation at End of Year	\$ 23,860,808	\$ 24,607,554
Change in Plan Assets		
Fair value of plan assets at beginning of year	\$ 16,922,474	\$ 16,893,839
Actual return on plan assets	1,202,363	9,740
Employer contributions	633,203	588,246
Benefits paid	(663,076)	(569,351)
Fair Value of Plan Assets at End of Year	\$ 18,094,964	\$ 16,922,474
Funded Status (Pension Obligation)	\$ (5,765,844)	\$ (7,685,080)
Components of Net Periodic Benefit Costs		
Interest cost	708,098	836,850
Expected return on plan assets	(954,898)	(1,050,025)
Recognition of loss from change in measurement date	661,917	454,934
Net Period Pension Costs	\$ 415,117	\$ 241,759

The total amount recognized in unrestricted net assets in the accompanying consolidated financial statements for 2017 and 2016 is as follows:

	2017	2016
Net actuarial loss	\$ 9,582,962	\$ 11,284,112

The Plan's assets are invested primarily in cash and cash equivalents and mutual funds as follows as of June 30:

	2017	2016
Equity securities	36%	35%
Fixed maturity	64%	65%
	100%	100%

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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 36% equities and 64% fixed maturity securities and cash as of June 30, 2017.

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

2018	\$	3,234,306
2019		1,238,121
2020		1,267,870
2021		1,457,915
2022		1,580,507
2023 - 2027		7,396,568
Total	\$	16,175,287

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>2017</u>	<u>2016</u>
Discount rate	3.45%	3.05%
Expected return on Plan assets	6.00%	6.50%

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:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total Fair Value</u>
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	\$ 18,094,964	\$ 0	\$ 0	\$ 18,094,964

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, 2016:

	Level 1	Level 2	Level 3	Total Fair Value
Equity Securities				
Mutual Funds				
Diversified Emerging Mkts	\$ 430,111	\$ 0	\$ 0	\$ 430,111
Foreign Large Blend	338,774	0	0	338,774
Foreign Small/Mid Growth	84,381	0	0	84,381
High Yield Bond	1,750,749	0	0	1,750,749
Inflation-Protected Bond	1,690,450	0	0	1,690,450
Intermediate Government	1,683,646	0	0	1,683,646
Intermediate-Term Bond	3,245,804	0	0	3,245,804
Large Growth	1,334,578	0	0	1,334,578
Large Value	1,221,831	0	0	1,221,831
Mid-Cap Growth	834,035	0	0	834,035
Mid-Cap Value	868,186	0	0	868,186
Multisector Bond	2,567,892	0	0	2,567,892
Small Growth	342,657	0	0	342,657
Small Value	529,380	0	0	529,380
Total assets	\$ 16,922,474	\$ 0	\$ 0	\$ 16,922,474

There were no significant transfers between fair value hierarchy levels for the years ended June 30, 2017 and 2016.

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 \$3,649,133 and \$3,428,923 as of June 30, 2017 and 2016, respectively. During 2017 and 2016, distributions of \$30,200 and \$24,760 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 \$9,100,000 as of June 30, 2017 and 2016, and are included in other assets in the consolidated balance sheets.

9. 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

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 new 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 a waiver program will remain in effect at least through June 2018. The Hospital undercharged its revenue target by \$167,321 in 2017 and overcharged by \$1,451,807 in 2016. 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.

10. 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
- 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.

Doctors Community Hospital and Subsidiaries
Notes to Financial Statements

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 Center for Medicare and Medicaid Services (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.

11. 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>2017</u>	<u>2016</u>
Cancer center, DRCC	\$ 1,062,531	\$ 1,062,531
Orthopedic practice	376,316	376,316
Nursing home	767,285	766,285
Cancer center, MRCC	646,975	646,975
Physician Practices	197,375	194,865
	<u>\$ 3,050,482</u>	<u>\$ 3,046,972</u>

12. Temporarily Restricted Net Assets

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

	<u>2017</u>	<u>2016</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	10,926	4,968
Borden Breast Center	20,000	20,000
Women's Health	64,578	57,494
Surgical Services	326,652	378,513
Diabetes Center	33,464	35,689
Lymphedema Center	7,826	7,826
Smoking Grant	14,755	24,230
Komen Grant	0	21,868
Behavioral Health	161,926	0
MHA HPP Disaster Grant	29,486	13,706
Health fair Screening	2,891	2,891
DHMH Biosense Grant	4,575	4,575
Population Health: Mobile Clinic	22,395	332,488
Multi-Faith Worship Center	36,278	0
	<u>766,803</u>	<u>935,299</u>

Supplementary Information

Doctors Community Hospital and Subsidiaries
Consolidating Balance Sheet
June 30, 2017

	Hospital	Healthcare Programs	Foundation	Health Ventures	Sleep Center	Eliminations	Total Obligated Group	DRCC	Magnolia Gardens MAUI, DI, UCAS	STM ACO	Eliminations	Total
ASSETS												
CURRENT ASSETS												
Cash and cash equivalents	\$ 29,428,950	\$ 1,853,988	\$ 518,890	\$ 240,639	\$ 1,119	\$ 0	\$ 32,043,586	\$ 1,813,640	\$ 0	\$ 59,531	\$ 0	\$ 33,916,757
Patient accounts receivable	33,235,242	6,825,903	0	392,606	0	0	40,453,751	517,380	0	41,453	0	41,012,584
allowance for bad debts	(5,235,871)	0	0	0	0	0	(5,235,871)	0	0	0	0	(5,235,871)
allowance for contractals	(5,510,856)	(2,479,843)	0	0	0	0	(7,990,699)	0	0	0	0	(7,990,699)
Patient accounts receivable, net of allowance	22,488,515	4,346,060	0	392,606	0	0	27,227,181	517,380	0	41,453	0	27,786,014
Other amounts receivable	2,316,505	0	461,169	624,013	0	0	3,401,687	610,730	0	3,161,144	0	7,173,561
Inventories	3,515,938	0	0	0	0	0	3,515,938	0	0	0	0	3,515,938
Prepaid expenses	2,880,820	0	12,054	(17,084)	0	0	2,875,790	85,222	0	7,376	0	2,968,388
TOTAL CURRENT ASSETS	60,630,728	6,200,048	992,113	1,240,174	1,119	0	69,064,182	3,026,972	0	3,269,504	0	75,360,658
INVESTMENTS												
Marketable securities	\$ 15,707,385	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 15,707,385	\$ 0	\$ 0	\$ 0	\$ 0	\$ 15,707,385
Investment in Doctors Regional Cancer Center	3,532,640	0	0	0	0	(3,532,640)	0	0	0	0	0	0
Joint ventures and equity investments	0	0	0	0	0	0	0	0	7,175,632	0	0	7,175,632
Due to DCH	62,861,397	0	0	0	3,925,787	(57,250,348)	9,536,836	0	0	0	(9,536,836)	0
	82,101,422	0	0	0	3,925,787	(60,782,988)	25,244,221	0	7,175,632	0	(9,536,836)	22,883,017
Land and Land Improvements	10,589,222	0	0	0	0	0	10,589,222	0	0	0	0	10,589,222
Building and Fixed Equipment	128,906,206	1,789,129	0	0	0	0	130,695,335	0	0	0	0	130,695,335
Medical Office Building	8,091,651	0	0	0	0	0	8,091,651	0	0	0	0	8,091,651
Major Movable Equipment	88,885,890	0	0	809,506	0	0	89,695,396	9,614,378	0	0	0	99,309,774
Construction in Progress	348,118	20,500	0	0	0	0	368,618	594,582	0	0	0	963,200
Accumulated Depreciation	(130,527,131)	(667,650)	0	(670,911)	0	0	(131,865,692)	(7,114,758)	0	0	0	(138,980,450)
LAND, BUILDINGS, AND EQUIPMENT	106,293,956	1,141,979	0	138,595	0	0	107,574,530	3,094,202	0	0	0	110,668,732
GOODWILL	1,439,847	197,375	0	766,285	0	0	2,403,507	646,975	0	0	0	3,050,482
OTHER ASSETS	27,041,565	670	0	0	0	(2,485,067)	24,557,168	0	0	0	0	24,557,168
TOTAL ASSETS	\$ 277,507,518	\$ 7,540,072	\$ 992,113	\$ 2,145,054	\$ 3,926,906	\$ (63,268,055)	\$ 228,843,608	\$ 6,768,149	\$ 7,175,632	\$ 3,269,504	\$ (9,536,836)	\$ 236,520,057

See independent auditors' report.

Doctors Community Hospital and Subsidiaries
Consolidating Balance Sheet
June 30, 2017

	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>												
CURRENT LIABILITIES												
Accounts payable and accrued expenses	\$ 12,642,065	\$ 310,500	\$ 8,007	\$ 1,084,608	\$ 1,119	\$ 0	\$ 14,046,299	\$ 668,971	\$ 0	\$ 1,540,014	\$ 0	\$ 16,255,284
Due to DCH	3,925,787	23,933,209	251,365	1,003,099	0	(29,113,460)	0	148,474	0	9,388,362	(9,536,836)	0
Salaries, wages, and related items	14,517,006	459,510	0	144,390	0	0	15,120,906	0	0	0	0	15,120,906
Advances from third party payers	7,309,886	0	0	0	0	0	7,309,886	0	0	0	0	7,309,886
Interest payable to bondholders	0	0	0	0	0	0	0	0	0	0	0	0
Current portion of long-term obligations	4,465,000	0	0	0	0	0	4,465,000	62,970	0	0	0	4,527,970
TOTAL CURRENT LIABILITIES	42,859,744	24,703,219	259,372	2,232,097	1,119	(29,113,460)	40,942,091	880,415	0	10,928,376	(9,536,836)	43,214,046
NONCURRENT LIABILITIES												
Deferred compensation and and claims incurred but not reported	15,036,406	0	0	0	0	0	15,036,406	0	0	0	0	15,036,406
Pension obligation	5,765,844	0	0	0	0	0	5,765,844	0	0	0	0	5,765,844
Long-term obligations, net of current portion	131,784,212	0	0	28,136,887	0	(28,136,887)	131,784,212	0	0	0	0	131,784,212
TOTAL LIABILITIES	195,446,206	24,703,219	259,372	30,368,984	1,119	(57,250,347)	193,528,553	880,415	0	10,928,376	(9,536,836)	195,800,508
NET ASSETS AND MEMBERS' EQUITY												
Unrestricted	82,027,250	(17,163,147)	0	0	3,925,787	(35,960,039)	32,829,851	0	0	(1,426,785)	6,831,278	38,234,344
Members' equity	0	0	0	(28,223,930)	0	28,223,929	(1)	5,887,734	7,175,632	(6,232,087)	(6,831,278)	0
Temporarily restricted	34,062	0	732,741	0	0	0	766,803	0	0	0	0	766,803
Non Controlling Interest	0	0	0	0	0	1,718,402	1,718,402	0	0	0	0	1,718,402
TOTAL NET ASSETS	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)	0	40,719,549
Total Net Assets and Liabilities	\$ 277,507,518	\$ 7,540,072	\$ 992,113	\$ 2,145,054	\$ 3,926,906	\$ (63,268,055)	\$ 228,843,608	\$ 6,768,149	\$ 7,175,632	\$ 3,269,504	\$ (9,536,836)	\$ 236,520,057

See independent auditors' report.

Doctors Community Hospital and Subsidiaries
Consolidating Statement of Operations and Changes in Net Assets
For the Year Ended June 30, 2017

	Hospital	Healthcare Programs	Foundation	Health Ventures	Sleep Center	Eliminations	Total Obligated Group	DRCC	Magnolia Gardens MAUI, DI, UCAS	STM ACO	Total
UNRESTRICTED NET ASSETS											
OPERATING REVENUE											
Inpatient revenue	\$ 138,722,511	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 138,722,511	\$ 0	\$ 0	\$ 0	\$ 138,722,511
Outpatient revenue	92,127,469	31,058,222	0	11,442,662	2,564,020	0	137,192,373	8,520,857	0	(7,399)	145,705,831
Contractuals	(26,969,315)	(19,816,124)	0	(3,818,120)	0	0	(50,603,559)	0	0	0	(50,603,559)
Net patient service revenue, net of contractual allowances and discounts	\$ 203,880,665	\$ 11,242,098	\$ 0	\$ 7,624,542	\$ 2,564,020	\$ 0	\$ 225,311,325	\$ 8,520,857	\$ 0	\$ (7,399)	\$ 233,824,783
Less provision for bad debts	(4,165,990)	(1,103)	0	0	0	0	(4,167,093)	(320,021)	0	34	(4,487,080)
Net patient service revenue less provision for bad debts	199,714,675	11,240,995	-	7,624,542	2,564,020	-	221,144,232	8,200,836	-	(7,365)	229,337,703
Other operating revenue	5,505,438	27,736	9,377	44,328	0	0	5,586,879	0	0	3,083,477	8,670,356
Contributions	0	0	352,064	0	0	0	352,064	0	0	0	352,064
Net assets released from restrictions used for operations	278,022	444,822	0	0	0	0	722,844	0	0	0	722,844
TOTAL OPERATING REVENUE	205,498,135	11,713,553	361,441	7,668,870	2,564,020	0	227,806,019	8,200,836	0	3,076,112	239,082,967
EXPENSES											
Salaries and wages	86,343,705	10,456,627	290,992	9,991,060	0	0	107,082,384	0	0	31,613	107,113,997
Employee benefits	14,099,821	1,582,223	63,965	1,146,253	0	0	16,892,262	0	0	5,989	16,898,251
Purchased services	25,148,298	3,229,749	24,710	694,644	1,002,335	0	30,099,736	5,922,848	0	185,749	36,208,333
Supplies	37,526,247	609,484	12,248	356,562	12,294	0	38,516,835	136,450	0	(181)	38,653,104
Other expenses	16,250,067	2,066,597	36,793	966,681	8,672	0	19,328,810	942,018	0	2,743,648	23,014,476
Depreciation	8,618,788	177,186	0	36,877	0	0	8,832,851	619,812	0	218,149	9,670,812
Amortization	206,637	0	0	0	0	0	206,637	0	0	0	206,637
Fundraising	0	0	133,275	0	0	0	133,275	0	0	0	133,275
Interest	5,660,509	0	0	0	0	0	5,660,509	4,430	0	0	5,664,939
TOTAL EXPENSES	193,854,072	18,121,866	561,983	13,192,077	1,023,301	0	226,753,299	7,625,558	0	3,184,967	237,563,824
INCOME (LOSS) FROM OPERATIONS	11,644,063	(6,408,313)	(200,542)	(5,523,207)	1,540,719	0	1,052,720	575,278	0	(108,855)	1,519,143
NONOPERATING GAINS (LOSSES)											
Gain from sale of property	10,924	0	0	0	0	0	10,924	0	0	0	10,924
Impairment of goodwill	0	0	0	(117,806)	0	0	(117,806)	0	0	0	(117,806)
Extinguishment of debt	(11,692,405)	0	0	0	0	0	(11,692,405)	0	0	0	(11,692,405)
Unrealized gain on trading securities	368,571	0	0	0	0	0	368,571	0	0	0	368,571
Equity in joint ventures	345,166	0	0	44,329	0	(345,165)	44,330	0	531,893	0	576,223
EXCESS OF REVENUE OVER EXPENSES (EXPENSES OVER REVENUE)	676,319	(6,408,313)	(200,542)	(5,596,684)	1,540,719	(345,165)	(10,333,666)	575,278	531,893	(108,855)	(9,335,350)
Net asset transfer	(200,542)	0	200,542	(476,640)	0	0	(476,640)	0	476,640	0	0
Dividends paid	0	0	0	0	0	(382,015)	(382,015)	0	0	0	(382,015)
Contributions	244,207	0	535,208	0	0	0	779,415	636,692	0	0	1,416,107
Net assets released from restrictions for use in operations	(250,295)	0	(472,549)	0	0	0	(722,844)	0	0	0	(722,844)
Net assets released from restrictions for capital acquisitions	225,067	0	(225,067)	0	0	0	0	0	0	0	0
Pension - related changes other than net periodic pension cost	1,701,150	0	0	0	0	0	1,701,150	0	0	0	1,701,150
Increase (decrease) in net assets	2,395,906	(6,408,313)	(162,408)	(6,073,324)	1,540,719	(727,180)	(9,434,600)	1,211,970	1,008,533	(108,855)	(7,322,952)
Net assets, beginning of year	79,665,406	(10,754,834)	895,149	(22,150,606)	2,385,068	(5,290,528)	44,749,655	4,675,764	6,167,099	(7,550,017)	48,042,501
Net assets, end 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
Change in net assets before extinguishment of debt	\$ 14,088,311	\$ (6,408,313)	\$ (162,408)	\$ (6,073,324)	\$ 1,540,719	\$ (727,180)	\$ 2,257,805	\$ 1,211,970	\$ 1,008,533	\$ (108,855)	\$ 4,369,453

See independent auditors' report.