Doctors Community Hospital and Subsidiaries

Consolidated Financial Statements and Other Financial Information

Years Ended June 30, 2016 and 2015

DIXON HUGHES GOODMAN LLP

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DIXON HUGHES GOODMAN LLP

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, 2016 and 2015, 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, 2016 and 2015, 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.

Emphasis of Matter – New Accounting Pronouncement

As discussed in Note 14 to the consolidated financial statements, during the year ended June 30, 2016, the Hospital implemented new accounting guidance for accounting for debt issuance cost and reporting that requires retroactive adjustments to amounts previously reported as of and for the year ended June 30, 2015. Our opinion is not modified with respect to this matter.

DIXON HUGHES GOODMAN LLP

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
September 29, 2016

Doctors Community Hospital and Subsidiaries
Consolidated Balance Sheets

ASSETS		June 30		
		2016		2015
CURRENT ASSETS				
Cash and cash equivalents	$	39,302,838	$	32,178,431
Assets whose use is limited for debt service		1,998,377		7,033,280
Patient accounts receivable, less uncollectible accounts of $9,871,656 and $9,342,967		22,357,343		20,786,249
Other amounts receivable		3,315,836		3,742,775
Inventories		4,095,155		3,833,507
Prepaid expenses		3,003,939		3,238,192
TOTAL CURRENT ASSETS		74,073,488		70,812,434
INVESTMENTS				
Marketable securities		15,946,559		15,628,089
Joint ventures and equity investments		6,236,780		5,599,073
		22,183,339		21,227,162
ASSETS WHOSE USE IS LIMITED				
Investments held by trustee or authority, less current portion		10,972,491		11,635,652
LAND, BUILDINGS, AND EQUIPMENT		115,687,985		119,276,741
GOODWILL		3,046,972		2,948,390
OTHER ASSETS		21,578,882		24,790,507
TOTAL ASSETS	$	247,543,157	$	250,690,886

See the accompanying notes to the consolidated financial statements.

LIABILITIES	June 30 2016	2015
CURRENT LIABILITIES		
Accounts payable and accrued expenses	$ 16,586,341	$ 15,925,026
Salaries, wages, and related items	13,346,381	11,872,519
Advances from third party payers	8,716,556	7,338,584
Interest payable to bondholders	1,973,835	3,865,670
Current portion of long-term obligations	4,134,850	4,234,699
TOTAL CURRENT LIABILITIES	44,757,963	43,236,498
NONCURRENT LIABILITIES		
Deferred compensation and accrued claims	12,125,342	14,526,429
Pension obligation	7,685,080	5,395,509
Long-term obligations, net of current portion	134,932,271	137,760,728
TOTAL LIABILITIES	199,500,656	200,919,164
NET ASSETS		
Unrestricted	45,236,896	46,623,446
Noncontrolling interest	1,870,306	1,741,446
TOTAL UNRESTRICTED NET ASSETS	47,107,202	48,364,892
Temporarily restricted	935,299	1,406,830
TOTAL NET ASSETS	48,042,501	49,771,722
TOTAL LIABILITIES AND NET ASSETS	$ 247,543,157	$ 250,690,886

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

	Year Ended June 30	
	2016	**2015**
REVENUE		
Patient service revenue, net of contractual allowances and discounts	$ 225,614,450	$ 213,507,894
Provision for bad debts	(5,113,446)	(5,816,788)
Net patient service revenue less provision for bad debts	220,501,004	207,691,106
Other operating revenue	4,214,577	4,905,703
Contributions	298,129	257,676
Net assets released from restrictions used for operations	1,189,083	1,091,808
TOTAL OPERATING REVENUE	226,202,793	213,946,293
EXPENSES		
Salaries and wages	99,149,648	91,768,948
Employee benefits	16,119,335	16,024,273
Purchased services	32,364,329	33,327,158
Supplies	36,225,202	32,369,269
Other expenses	19,923,517	17,258,006
Depreciation	9,469,597	9,079,652
Amortization	144,974	149,133
Fundraising	4,702	10,649
Interest	7,482,069	7,839,825
TOTAL EXPENSES	220,883,373	207,826,913
INCOME FROM OPERATIONS	5,319,420	6,119,380
NONOPERATING GAINS (LOSSES)		
Loss on sale of property	(17,578)	(165,201)
Extinguishment of debt	(4,558,885)	0
Unrealized loss on trading securities	(53,422)	(172,894)
Gain(Loss) in joint ventures	708,268	(684,592)
EXCESS OF REVENUE OVER EXPENSES	1,397,803	5,096,693
Subsidiary distributions to noncontrolling interest-holders	(141,560)	(1,283,094)
Net assets released from restrictions for capital acquisitions	122,125	-
Pension - related changes other than net periodic pension cost	(2,636,058)	(389,744)
INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS	$ (1,257,690)	$ 3,423,855

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, 2016			Year Ended June 30, 2015		
	Total	Controlling Interests	Noncontrolling Interests	Total	Controlling Interests	Noncontrolling Interests
UNRESTRICTED NET ASSETS						
Excess of revenue over expenses (expenses over revenue)	$ 1,397,803	$ 1,127,383	$ 270,420	$ 5,096,693	$ 3,996,960	$ 1,099,733
Net assets released from restrictions for capital expenditures	122,125	122,125	0	0	0	0
Dividends paid to noncontrolling interest-holders	(141,560)	0	(141,560)	(1,283,094)	0	(1,283,094)
Pension - related changes other than net periodic pension cost	(2,636,058)	(2,636,058)	0	(389,744)	(389,744)	0
INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS AND NONCONTROLLING INTERESTS	(1,257,690)	(1,386,550)	128,860	3,423,855	3,607,216	(183,361)
TEMPORARILY RESTRICTED NET ASSETS						
Restricted contributions	839,677	839,677	0	841,649	841,649	0
Net assets released from restrictions for capital expenditures	(122,125)	(122,125)	0	0	0	0
Net assets released from restrictions for operations	(1,189,083)	(1,189,083)	0	(1,091,811)	(1,091,811)	0
INCREASE (DECREASE) IN TEMPORARILY RESTRICTED NET ASSETS	(471,531)	(471,531)	0	(250,162)	(250,162)	0
INCREASE (DECREASE) IN NET ASSETS	(1,729,221)	(1,858,081)	128,860	3,173,693	3,357,054	(183,361)
NET ASSETS, BEGINNING OF YEAR	49,771,722	48,030,276	1,741,446	46,598,029	44,673,222	1,924,807
NET ASSETS, END OF YEAR	$ 48,042,501	$ 46,172,195	$ 1,870,306	$ 49,771,722	$ 48,030,276	$ 1,741,446

See the accompanying notes to the consolidated financial statements.

Doctors Community Hospital and Subsidiaries
Consolidated Statements of Cash Flows

	Year Ended June 30	
OPERATING ACTIVITIES AND OTHER GAINS	**2016**	**2015**
Increase (Decrease) in net assets	$ (1,729,221)	$ 3,173,693
Adjustments to reconcile increase (decrease) in net assets to net cash and cash equivalents provided by operating activities		
Restricted contributions received	(839,677)	(841,649)
Depreciation	9,469,597	9,079,652
Provision for bad debts	5,113,446	5,816,788
Unrealized loss on investments	53,422	172,894
Loss on sale of property	17,578	165,201
Realized loss on sale of investments	32,871	111,275
Amortization on bond issue	144,974	149,133
Extinguishment of debt	4,558,885	0
(Increase) Decrease in joint ventures and equity investments	(708,207)	684,592
Increase (Decrease) in:		
Accounts payable and accrued expenses	661,315	981,213
Accrued salaries, wages, and related items	1,473,862	462,497
Advances from third party payers	1,377,972	(496,305)
Pension obligation	2,289,571	(169,153)
Interest payable	(1,891,835)	(177,711)
Other liabilities	(2,401,087)	1,566,575
Decrease (Increase) in:		
Net patient accounts receivable	(6,684,540)	(1,285,668)
Other receivables	426,939	651,861
Inventories	(261,648)	(275,459)
Prepaid expenses and other assets	3,445,878	(2,559,618)
NET CASH AND CASH EQUIVALENTS PROVIDED BY OPERATING ACTIVITIES AND OTHER GAINS	14,550,095	17,209,811
INVESTING ACTIVITIES		
Net sales of trading investments, including assets whose use is limited	734,416	7,336,379
Increase in goodwill	(98,582)	0
Proceeds from sale on property	84,916	87,100
Distributions from (contributions to) joint ventures	70,500	(1,981,720)
Purchase of property, plant and equipment	(5,983,335)	(12,131,110)
NET CASH AND CASH EQUIVALENTS USED IN INVESTING ACTIVITIES	(5,192,085)	(6,689,351)

(Continued)

	Year Ended June 30	
FINANCING ACTIVITIES	**2016**	**2015**
Principal payments on debt	$ (75,608,666)	$ (5,043,674)
Proceeds from new debt	73,445,000	0
Cost of debt issuance	(909,613)	0
Restricted contributions received	839,677	841,649
NET CASH AND CASH EQUIVALENTS USED IN FINANCING ACTIVITIES	(2,233,602)	(4,202,025)
NET INCREASE IN CASH AND CASH EQUIVALENTS	7,124,408	6,318,435
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	32,178,431	25,859,996
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 39,302,839	$ 32,178,431

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 163 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 Hospital Foundation, Inc. (the Foundation), Doctors Community Health Ventures, Inc. (Health Ventures), Doctors Community Sleep Center, LLC (the Sleep Center), Doctors Community Healthcare Programs (CHP), and Spine Team of Maryland, LLC (STM).

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 Doctors Community 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. Doctors Community Hospital owns 100% of its stock. Health Ventures invests in for-profit businesses consistent with the mission and strategic plan of Doctors Community Hospital. Health Ventures consolidates two LLCs: Metropolitan Medical Specialist, LLC (MMS) and Doctors Community Management Services, LLC. (MSO) and has investment in three other companies: Magnolia Gardens LLC (Magnolia Gardens), Diagnostic Imaging Center, LLC (DI), Mid-Atlantic Urology, Inc. (MAUI).

The Hospital owned a 60% interest in Doctors Community Hospital Sleep Center, LLC (the Sleep Center) through May 2015, at which time the Hospital acquired the full 100% interest in the Sleep Center, which continues as 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 of a 10-bed sleep lab located on the Hospital's campus and provides outpatient sleep studies.

Doctors Community Healthcare Programs (CHP) consists of two wholly owned/controlled entities: Doctors Community Hospital Clinics (CLINICS) 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 include a cardiology outpatient program and mobile van that travels 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.

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 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 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.

Principles of consolidation

The consolidated financial statements include the accounts of the Hospital, Health Ventures, the Foundation, DRCC, the Sleep Center, ACO, and CHP (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

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.

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:

	2016	2015
Medicare	**43%**	42%
Medicaid	**19%**	20%
Blue Cross Blue Shield	**18%**	17%
Other third-party payers	**17%**	18%
Self-pay patients	**3%**	3%
	100%	100%

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:

	2016	2015
Medicare	**29%**	27%
Medicaid	**25%**	27%
Blue Cross Blue Shield	**12%**	11%
Other third-party payers	**21%**	23%
Self-pay patients	**13%**	12%
	100%	100%

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 2016 and 2015. Amounts classified as self-pay do not include coinsurance and deductibles related to third party payers.

	2016	2015
Gross patient revenue:		
Third party payers	**$ 265,468,414**	$ 252,541,142
Self-pay	**8,210,363**	7,564,746
Total gross patient revenue	**273,678,777**	260,105,888
Deductions:		
Discounts and allowances	**(35,863,545)**	(35,645,311)
Charity care	**(12,200,782)**	(10,952,683)
Net patient service revenue	**225,614,450**	213,507,894
Less: provisions for bad debts	**(5,113,446)**	(5,816,788)
Net patient service revenue	**$ 220,501,004**	$ 207,691,106

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.

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, 2016 and 2015, 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

The consolidated statements of operations and other changes in unrestricted net assets include the excess of revenue over expenses (the "performance indicator"). Changes in unrestricted net assets, which are excluded from the excess of revenue over expenses, 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 $12,200,782 and $10,952,683 for the years ended June 30, 2016 and 2015, 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 ("HSCRC" – 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 HSCRC 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 $3,978,562 for 2016 and $5,222,691 for 2015 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 $2,275,444 for 2016 and $2,258,604 for 2015 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.

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 $306,283 and $346,355 at June 30, 2016 and 2015, respectively, and is included in other amounts receivable in the accompanying consolidated balance sheets.

Other operating revenues

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 $74,301 and $740,178 of meaningful use incentives during the years ended June 30, 2016 and 2015, respectively, and reported these amounts 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 $190,105 and $584,585 as of June 30, 2016 and 2015, respectively, and is recorded as other amounts receivable in the accompanying consolidated balance sheets.

Advertising Costs

The Hospital expenses advertising costs as they are incurred. Advertising expense was $1,384,178 and $975,695 for the fiscal years June 30, 2016 and 2015, 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:

	2016	2015
Health care services	**$ 158,743,151**	$ 149,326,739
Management and general	**61,733,447**	58,071,509
Fundraising	**406,775**	428,665
	$ 220,883,373	$ 207,826,913

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.

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 no unrelated business income was recognized, no tax return was required. Although informational returns were filed for the Hospital and the Foundation, no tax returns were filed during 2016 and 2015.

Health Ventures is subject to corporate income tax, and incurred an income tax liability of $0 for each year ended June 30, 2016 and 2015.

DRCC is a Maryland limited liability company that has not elected to be taxed as a corporation under current Treasury regulations. DRCC is owned by more than one member. As such, DRCC is subject to the partnership tax rules under Subchapter K of the Internal Revenue Code of 1986 (IRC), as amended. Under these rules DRCC is 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 reviewed the carrying value reported for goodwill in the accompanying consolidated balance sheets for impairment and believes there is no significant impairment of goodwill as of June 30, 2016 and 2015 (see *Note 12*).

Subsequent Events

Subsequent events have been evaluated by management through September 29, 2016 which is the date the consolidated financial statements were available to be issued.

The Hospital is preparing to advance refund $68,690,000 of Series 2010 Bonds with a 5.75% coupon interest rate. In the current interest rate environment, it is possible for the Hospital to advance refund these Series 2010 Bonds with proceeds from a new bond issuance for a debt service savings of $7.3 million. The advance refunding is scheduled to close in December 2016, and the anticipated extinguishment of debt loss is estimated to be $14 million.

2. Investments

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

	2016	2015
Marketable securities:		
Cash and cash equivalents		
Money market and CD funds	**$ 8,443,568**	$ 8,738,762
Equity		
Stocks and mutual funds	**7,502,991**	6,889,327
	$ 15,946,559	$ 15,628,089
Assets whose use is limited:		
Cash and cash equivalents		
Money market funds	**$ 197,585**	$ 6,070,379
Fixed maturity		
U.S. government agency bonds/notes	**12,773,283**	12,598,553
	$ 12,970,868	$ 18,668,932

Assets whose use is limited are held in the following funds:

	2016	2015
Funds held by Trustee or Authority:		
Debt service reserve fund	**$ 12,970,868**	$ 18,668,932
Less assets required for current obligations	**(1,998,377)**	(7,033,280)
	$ 10,972,491	$ 11,635,652

Investment return is summarized as follows:

	2016		
	Other Operating Revenue	**Non-Operating 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)**
	$ 201,668	**$ (53,422)**	**$ 148,246**

	2015		
	Other Operating Revenue	Non-Operating Gains (Losses)	Total
Interest and dividend income	$ 431,512	$ 0	$ 431,512
Net realized loss	(111,275)	0	(111,275)
Net unrealized loss	0	(172,894)	(172,894)
Investment fees	(28,720)	0	(28,720)
	$ 291,517	$ (172,894)	$ 118,623

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 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, 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:				
Hospital information services	544,667	0	0	554,667
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 bond	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	$ 11,237,507	$ 21,414,436	$ 0	$ 32,651,943

The total investments 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.

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, 2015:

	Level 1	Level 2	Level 3	Total Fair Value
Cash and cash equivalents:				
Money market funds	$ 0	$ 14,210,052	$ 0	$14,210,052
Fixed income:				
U.S. government agency bonds/notes	0	12,598,553	0	23,598,553
Equity securities:				
Hospital information services	599,089	0	0	599,089
Mutual funds:				
Short term bond	298,399	0	0	298,399
Intermediate government	248,578	0	0	248,578
Merger arbitrage	4,981,376	0	0	4,981,376
World bond	355,610	0	0	355,610
Floating rate bonds	434,013	0	0	434,013
High-yield bond	247,207	0	0	247,207
Intermediate-term bond	257,027	0	0	257,027
Equity large bond	525,663	0	0	525,663
Long/short equity	250,806	0	0	250,806
Moderate allocation	540,383	0	0	540,383
Mid-cap growth	486,740	0	0	486,740
Real estate	179,066	0	0	179,066
Foreign large blend	1,147,666	0	0	1,147,666
Large blend	146,773	0	0	146,773
Diversified emerging markets	278,875	0	0	278,875
Large growth	154,254	0	0	154,254
Small growth	322,149	0	0	322,149
Total assets	$ 11,453,674	$ 26,808,605	$ 0	$ 38,262,279

The total investments of $38,264,353 includes deposits in transit of $2,076 plus financial instruments of $38,262,279. The above table includes financial instruments of $3,967,332 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, 2016 and 2015.

3. Joint Ventures and Equity Investments

Health Ventures invests in corporations and other forms of business consistent with the mission and strategic plan of the Company. Health Ventures' unconsolidated investments are carried at cost or at equity depending on the percentage of ownership and control. Health Venture's investment in Magnolia Gardens L.L.C. is not consolidated with the financial statements of the Company because Health Ventures does not control the investee. 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:

Name	Percent Ownership	Accounting Method	Carrying Value 2016	2015
Magnolia Gardens LLC	51%	Equity	**$ 5,721,987**	$ 5,166,072
Metropolitan Ambulatory Urological Institute, LLC	32%	Equity	**110,264**	114,275
Diagnostic Imaging, LLC	50%	Equity	**404,529**	318,726
			$ 6,236,780	$ 5,599,073

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.

A member of the board of directors maintains a business that had transactions with the Hospital that amounted to $428,945 and $468,143 for the years ended June 30, 2016 and 2015, respectively. The Medical Director of Radiology for the Hospital is an investor in Diagnostic Imaging, LLC, which is an unconsolidated subsidiary of Health Ventures.

5. Land, Buildings, and Equipment

Land, buildings, and equipment are summarized as follows:

	Useful Life	June 30 2016	2015
Land improvements	2-40 Years	**$ 4,448,553**	$ 3,817,933
Buildings	4-40 Years	**136,915,272**	135,847,156
Leasehold improvements	4-40 Years	**2,136,878**	2,684,726
Furniture and equipment	2-20 Years	**89,912,146**	81,920,471
Equipment under capital lease obligations	2-20 Years	**5,377,761**	10,399,215
		238,790,610	234,669,501
Less accumulated depreciation		**129,775,636**	121,891,291
		109,014,974	112,778,210
Construction in progress		**534,540**	360,060
Land		**6,138,471**	6,138,471
		$115,687,985	$119,276,741

Accumulated depreciation includes accumulated amortization of capital leased equipment in the amount of $3,383,379 and $5,219,931 as of June 30, 2016 and 2015, respectively. Depreciation expense related to capital leased equipment was $973,804 and $1,058,203 for fiscal year 2016 and 2015, respectively.

6. Long-Term Debt

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

	2016	2015
Maryland Health and Higher Education Facilities Authority Revenue Bonds, Series 2007A:		
5.00% term bonds due July 1, 2020	**$ 0**	$ 19,200,000
5.00% term bonds due July 1, 2027	**0**	30,795,000
5.00% term bonds due July 1, 2029	**0**	10,915,000
Maryland Health and Higher Education Facilities Authority Revenue Bonds, Series 2016 Note 2.180% term bonds due October 1, 2024	**41,500,000**	0
Maryland Health and Higher Education Facilities Authority Revenue Bonds, Series 2016 Bond 2016A – Tax Exempt Private Placement 2007 Refunding 2.567% term bonds due July 1, 2030.	**16,795,000**	0
Series 2016A – Tax Exempt Private Placement 2010 Partial Refunding 2.567% term bonds due July 1, 2030	**15,150,000**	0
Maryland Health and Higher Education Facilities Authority Revenue Bonds, Series 2010:		
5.30% term bonds due July 1, 2025	**0**	4,720,000
5.625% term bonds due July 1, 2030	**445,000**	9,095,000
5.75% term bonds due July 1, 2038	**68,245,000**	68,245,000
Capital Orthopedics promissory note	**0**	53,912
Capital leases	**167,820**	1,198,605
	142,302,820	144,222,517
Current portion of long-term debt	**(4,134,850)**	(4,234,699)
Deferred financing costs, net of accumulated amortization	**(1,856,333)**	(1,858,085)
Original issue premium, net of accumulated amortization	**0**	1,317,602
Original issue discount, net of accumulated amortization	**(1,379,366)**	(1,686,607)
	$ 134,932,271	$ 137,760,728

The fair value of the Company's long-term debt, based on quoted market prices, was $76,883,851 for the Series 2010 Bonds at June 30, 2016. The fair value of the Company's long-term debt, based on quoted market prices was $136,021,517 for the Series 2007A Bonds and Series 2010 Bonds at June 30, 2015.

Financing costs incurred in issuing the Maryland Health and Higher Educational Facilities Authority (the Authority or 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.

Deferred financing costs and accumulated amortization, which are included in long-term debt in the accompanying consolidated balance sheets, are as follows:

	2016	2015
Deferred financing costs	**$ 2,184,564**	$ 3,008,043
Accumulated amortization	**(328,231)**	(1,149,958)
	$ 1,856,333	$ 1,858,085

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

2017	$ 4,134,850
2018	4,662,970
2019	4,690,000
2020	4,405,000
2021	4,945,000
2022 and after	119,465,000
	$ 142,302,820

Total interest paid for the years ended June 30, 2016 and 2015 was $9,329,764 and $7,828,518, respectively.

Revenue bonds

On June 28, 2016 MHHEFA issued $73,445,000 principal amount of Revenue Bond, Series 2016A and Series 2016B. 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.

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. In June 28, 2016, the Hospital partially refunded this bond 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. In June 28, 2016, the Hospital refunded this bond.

The Obligated Group for Maryland Health and Higher Educational Facilities Authority (the Authority or MHHEFA) bond issuances includes the Hospital, Foundation, Sleep Center, CHP, and Health Ventures excluding the MAUI, Magnolia Gardens, DI LLC, ACO, and STM. The Series 2010 Bonds and the Series 2016 Bonds are secured by the revenue and accounts receivables 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 2016 and 2015.

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 $167,820 and $981,508 on June 30, 2016 and 2015, respectively. Beginning in October 2009, monthly payments of principal and interest at 6.8% per annum become due. Aggregate future principal payments as of June 30, 2016 are as follows:

2017	$ 104,850
2018	62,970
	$ 167,820

In July 2012, DRCC refinanced the capital lease. The refinanced balance was $2,711,191 at an interest rate of 3.6%. Other debt includes the Hospital's obligations under various other capital leases (see *Note 8*).

In September 2013, the Hospital acquired an orthopedic practice. The payment for the practice included a down payment and 23 monthly payments. The amount paid during the year ended June 30, 2016 was $53,912 which fully paid this obligation.

7. Medical Malpractice and Workers' Compensation Insurance

From October 18, 2001 to October 31, 2004, the Hospital maintained occurrence-based professional liability insurance with a per-claim limit of $8,000,000 and aggregate annual limit of $10,000,000 with a commercial carrier. The Hospital was liable for a deductible up to $250,000 for each occurrence up to a maximum of $750,000. Prior to October 18, 2001, the Hospital's policy had no deductible. Effective November 1, 2004, due to the commercial carrier discontinuing services in Maryland and rising insurance costs, the Hospital purchased 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 that is accounted for 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, 2016 and 2015. 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, 2016. 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 $7,522,419 and $9,942,588 at June 30, 2016 and 2015, 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 $1,174,000 and $1,017,475 at June 30, 2016 and 2015, respectively. The discount rate for unpaid losses is 3.5% for years ending June 30, 2016 and 2015. 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 $753,924 and $647,283 at June 30, 2016 and 2015, respectively. These amounts are included in accounts payable and accrued expenses in the accompanying consolidated balance sheets.

8. 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.

The Hospital, COS, and DRCC have entered into capital leases for certain equipment. The cost of assets under capital leases is included in land, building, and equipment (see *Note 5*), and related capital lease obligations are 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.

Future minimum lease payments as of June 30, 2016 are as follows:

	Capital Leases	Leases Operating
2017	$ 104,850	$ 1,446,584
2018	62,970	1,239,495
2019	0	1,138,971
2020	0	1,152,701
2021	0	1,181,519
Total minimum lease payments	167,820	$ 6,159,270.
Current portion of capital leases	(104,850)	
Capital lease obligations, less current portion	$ 62,970	

Total rental expense reported in the accompanying consolidated statements of operations and other changes in unrestricted net assets for the years ended June 30, 2016 and 2015 was $3,310,658 and $4,095,228, respectively.

9. 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 $885,779 and $1,003,633 for 2016 and 2015, 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 $639,415 to the Plan during 2017 to keep the funding levels at the ERISA requirements. The measurement date of the Plan is June 30.

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,:

	2016	2015
Accumulated Benefit Obligation	$ 24,607,554	$ 22,289,348
Change in Benefit Obligation		
Benefit Obligation at beginning of year	$ 22,289,348	$ 22,243,504
Interest cost	836,850	817,815
Actuarial loss/(gain)	2,050,707	(162,145)
Benefits paid	(569,351)	(609,826)
Benefit Obligation at End Of Year	$ 24,607,554	$ 22,289,348
Change in Plan Assets		
Fair value of Plan assets at beginning of year	$ 16,893,839	$ 16,678,842
Actual return of Plan assets	9,740	103,482
Employer contributions	588,246	721,341
Benefits paid	(569,351)	(609,826)
Fair Value of Plan Assets at End of Year	16,922,474	16,893,839
Funded Status (Pension Obligation)	$ (7,685,080)	$ (5,395,509)
Components of Net Periodic Benefit Costs		
Interest cost	$ 836,850	$ 817,815
Expected return on plan assets	(1,050,025)	(1,060,335)
Recognition of loss from change in measurement date	454,934	404,964
4Net Period Pension Cost	$ 241,759	$ 162,444

The total amount recognized in unrestricted net assets in the accompanying consolidated financial statements for 2016 and 2015 is as follows:

	2016	2015
Net loss	$ 11,284,112	$ 8,648,054

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

	2016	2015
Equity funds	35%	35%
Bond funds	65%	65%
	100%	100%

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, 2016.

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

2017	$ 2,803,529
2018	1,259,497
2019	1,159,360
2020	1,277,953
2021	1,447,854
2022 – 2026	7,448,878
	$ 15,397,071

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:

	2016	**2015**
Discount rate	**3.05%**	3.95%
Expected return on Plan assets	**6.50%**	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, 2016:

	Level 1	**Level 2**	**Level 3**	**Fair Value**
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**
Inflation0protected bond	**1,690,450**	**0**	**0**	**1,690,646**
Intermediate government	**1,683,646**	**0**	**0**	**1,683,646**
Intermediate0term 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**
Mid0cap growth	**834,035**	**0**	**0**	**834,035**
Mid0cap 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**

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, 2015:

	Level 1	Level 2	Level 3	Fair Value
Mutual Funds				
Diversified emerging mkts	$ 413,205	$ 0	$ 0	$ 413,205
Foreign large blend	338,540	0	0	338,540
Foreign small/mid growth	84,262	0	0	84,262
High yield bond	1,717,487	0	0	1,717,487
Inflation0protected bond	1,679,468	0	0	1,679,468
Intermediate government	1,697,867	0	0	1,697,867
Intermediate0term bond	3,291,058	0	0	3,291,058
Large growth	1,362,594	0	0	1,362,594
Large value	1,199,821	0	0	1,199,821
Mid0cap growth	841,159	0	0	841,159
Mid0cap value	841,330	0	0	814,330
Multisector bond	2,561,421	0	0	2,561,421
Small growth	349,438	0	0	349,438
Small value	516,189	0	0	516,189
Total assets	$ 16,893,839	$ 0	$ 0	$ 16,893,839

There were no significant transfers between fair value hierarchy levels for the years ended June 30, 2016 and 2015.

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 $3,428,923 and $3,566,366 as of June 30, 2016 and 2015, respectively. During 2016 and 2015, distributions of $24,760 and $112,723 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. Approximately $9,200,000 is included in other assets at June 30, 2016 and 2015, which is the amount that could be realized by the Hospital under the insurance contracts.

10. Maryland Health Services Cost Review Commission

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

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 other specific quality indicators are met. In January 2014, the State of Maryland and CMS agreed to implement a new 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 exceeded or were less than the target, the overcharge or undercharge, plus applicable penalties reduced (in the case of overcharges) or increased (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 2017. The Hospital overcharged its revenue target in June 30, 2016 and 2015 by $1,451,807 and $311,529, 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

- The ultimate impact of 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 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.

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:

	2016	2015
Cancer center, DRCC	**$ 1,062,531**	$ 1,062,531
Orthopedic practice	**376,316**	376,316
Nursing home	**766,285**	766,285
Cancer center, MRCC	**646,975**	646,975
Physician practices	**194,865**	77,340
STM practice	**0**	18,943
	$ 3,046,972	$ 2,948,390

13. Temporarily Restricted Net Assets

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

	2016	2015
Nancy Heilman Scholarship Fund	**$ 1,479**	$ 1,479
Brian Efran Memorial Fund	**5,850**	5,850
Jane Schafer Scholarship Fund	**10,785**	10,785
Rehabilitation Services	**12,937**	12,937
Cardiac Rehab Services	**4,968**	8,544
Borden Breast Center	**20,000**	20,000
Women’s Health	**57,494**	19,693
Surgical Services	**378,513**	369,213
Diabetes Center	**36,906**	50,575
Lymphedema Center	**7,826**	7,826
Smoking Grant	**24,230**	12,230
Community Outreach	**0**	244,693
Komen Grant	**21,868**	379,202
MHA HPP Disaster Grant	**13,708**	11,777
Health fair screening	**2,891**	1,416
So. Md. Transitional Care Partnership	**0**	170,000
DHMH Biosense Grant	**4,575**	4,575
Population Health Mobile Clinic	**331,269**	76,038
	$ 935,299	$ 1,406,833

14. Change in Method of Accounting for Debt Issuance Costs

In April 2015, the Financial Accounting Standards Board issued Accounting Standards Update No. 2015-03 *Interest-Imputation of Interest (Subtopic 835-30); Simplifying the Presentation of Debt Issuance Costs* (“ASU 2015-03”). The amendments in this update require that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The recognition and measurement for debt issuance costs were not affected by the amendments in ASU 2015-03.

Prior to the issuance of ASU 2015-03, the Hospital reported debt issuance costs as a deferred asset in the consolidated balance sheets. As a result of the retrospective application of the adoption of ASU 2015-03, the debt issuance costs as of June 30, 2015 have been reclassified and presented as a direct deduction to Long-Term Obligations, Net of Current Portion in the accompanying consolidated balance sheets consistent with the presentation as of June 30, 2016.

Supplementary Information

Doctors Community Hospital and Subsidiaries
Consolidating Balance Sheet
June 30, 2016

	Hospital, CHP	Foundation	Health Ventures	Sleep Center	Eliminations	Total Obligated Group	DRCC	Magnolia Gardens MAUI, DI	STM ACO	Eliminations	Total
ASSETS											
CURRENT ASSETS											
Cash and cash equivalents	$ 37,400,191	$ 304,171	$ 457,891	$ 1,119	$ 0	$ 38,163,372	$ 1,045,658	$ 0	$ 93,808	$ 0	$ 39,302,838
Assets limited to use for debt service	1,998,377	0	0	0	0	1,998,377	0	0	0	0	1,998,377
Patient accounts receivable, net of allowance	40,420,728	0	526,755	0	0	40,947,483	775,646	0	72,368	0	41,795,497
allowance for bad debts	(9,871,656)	0	0	0	0	(9,871,656)	0	0	0	0	(9,871,656)
allowance for contractuals	(9,566,498)	0	0	0	0	(9,566,498)	0	0	0	0	(9,566,498)
Other amounts receivable	2,479,796	452,898	218,492	0	0	3,151,186	83,292	0	81,358	0	3,315,836
Inventories	4,095,155	0	0	0	0	4,095,155	0	0	0	0	4,095,155
Prepaid expenses	2,900,573	12,663	(1,465)	0	0	2,911,771	80,774	0	11,394	0	3,003,939
TOTAL CURRENT ASSETS	69,856,666	769,732	1,201,673	1,119	0	71,829,190	1,985,370	0	258,928	0	74,073,488
INVESTMENTS											
Marketable securities	15,946,559	0	0	0	0	15,946,559	0	0	0	0	15,946,559
Investment in Doctors Regional Cancer Center	2,805,459	0	0	0	(2,805,459)	0	0	0	0	0	0
Investment in Sleep Services of America, Inc.	0	0	0	0	0	0	0	0	0	0	0
Joint ventures and equity investments	0	0	0	0	0	0	0	6,236,780	0	0	6,236,780
Due to DCH	44,344,120	0	0	2,456,741	(38,914,268)	7,886,593	0	0	0	(7,886,593)	0
	63,096,138	0	0	2,456,741	(41,719,727)	23,833,152	0	6,236,780	0	(7,886,593)	22,183,339
ASSETS WHOSE USE IS LIMITED											
Funds held by Trustee or Authority, less current portion	10,972,491	0	0	0	0	10,972,491	0	0	0	0	10,972,491
Land and land improvements	10,587,024	0	0	0	0	10,587,024	0	0	0	0	10,587,024
Building and fixed equipment	129,893,423	0	0	0	0	129,893,423	0	0	0	0	129,893,423
Medical office building	8,062,095	0	0	0	0	8,062,095	0	0	0	0	8,062,095
Major movable equipment	85,568,214	0	800,370	0	0	86,368,584	9,585,451	0	431,075	0	96,385,110
Construction in progress	531,352	0	0	0	0	531,352	0	0	0	0	531,352
Accumulated depreciation	(122,379,398)	0	(634,034)	0	0	(123,013,432)	(6,548,261)	0	(209,326)	0	(129,771,019)
Land, building, and equipment	112,262,710	0	166,336	0	0	112,429,046	3,037,190	0	221,749	0	115,687,985
GOODWILL	1,633,712	0	766,285	0	0	2,399,997	646,975	0	0	0	3,046,972
OTHER ASSETS	24,063,951	0	0	0	(2,485,069)	21,578,882	0	0	0	0	21,578,882
TOTAL ASSETS	$ 281,885,668	$ 769,732	$ 2,134,294	$ 2,457,860	$ (44,204,796)	$ 243,042,758	$ 5,669,535	$ 6,236,780	$ 480,677	$ (7,886,593)	$ 247,543,157

See independent auditors' report.

Doctors Community Hospital and Subsidiaries
Consolidating Statement of Operations and Changes in Net Assets
June 30, 2016

	Hospital, CHP	Foundation	Health Ventures	Sleep Center	Eliminations	Total Obligated Group	DRCC	Magnolia Gardens MAUI, DI	STM ACO	Eliminations	Total
LIABILITIES AND NET ASSETS											
CURRENT LIABILITIES											
Accounts payable and accrued expenses	$ 14,272,892	$ 143,877	$ 1,126,727	$ 72,792	$ 0	$ 15,616,288	$ 768,850	$ 0	$ 201,203	$ 0	$ 16,586,341
Due to DCH	16,184,808	(269,294)	724,415	0	(16,639,929)	(0)	57,101	0	7,829,492	(7,886,593)	(0)
Salaries, wages, and related items	13,117,281	0	229,100	0	0	13,346,381	0	0	0	0	13,346,381
Advances from third party payers	8,716,556	0	0	0	0	8,716,556	0	0	0	0	8,716,556
Interest payable to bondholders	1,973,835	0	0	0	0	1,973,835	0	0	0	0	1,973,835
Current portion of long-term obligation	4,030,000	0	0	0	0	4,030,000	104,850	0	0	0	4,134,850
TOTAL CURRENT LIABILITIES	58,295,372	(125,417)	2,080,242	72,792	(16,639,929)	43,683,060	930,801	0	8,030,695	(7,886,593)	44,757,963
NONCURRENT LIABILITIES											
Deferred compensation and IBNRs	12,125,342	0	0	0	0	12,125,342	0	0	0		12,125,342
Pension obligation	7,685,080	0	0	0	0	7,685,080	0	0	0		7,685,080
Long-term obligations, net of current portion	134,869,301	0	22,274,339	0	(22,274,339)	134,869,301	62,970	0	0	0	134,932,271
TOTAL LIABILITIES	212,975,095	(125,417)	24,354,581	72,792	(38,914,268)	198,362,783	993,771	0	8,030,695	(7,886,593)	199,500,656
NET ASSETS AND MEMBERS' EQUITY											
Unrestricted	68,870,423	0	0	2,385,068	(29,381,121)	41,874,370	0	0	(1,631,142)	4,993,668	45,236,896
Members' equity	0	0	(22,220,287)	0	22,220,287	0	4,675,764	6,236,780	(5,918,876)	(4,993,668)	0
Temporarily restricted	40,150	895,149	0	0	0	935,299	0	0	0	0	935,299
Non Controlling Interest	0	0	0	0	1,870,306	1,870,306	0	0	0	0	1,870,306
TOTAL NET ASSETS	68,910,573	895,149	(22,220,287)	2,385,068	(5,290,528)	44,679,975	4,675,764	6,236,780	(7,550,018)	0	48,042,501
TOTAL NET ASSETS AND LIABILITIES	$ 281,885,668	$ 769,732	$ 2,134,294	$ 2,457,860	$ (44,204,796)	$ 243,042,758	$ 5,669,535	$ 6,236,780	$ 480,677	$ (7,886,593)	$ 247,543,157

See independent auditors' report.

Doctors Community Hospital and Subsidiaries
Consolidating Statement of Operations
For the Year Ended June 30, 2016

	Hospital, CHP	Foundation	Health Ventures	Sleep Center	Eliminations	Total Obligated Group	DRCC	Magnolia Gardens MAUI, DI	STM ACO	Total
UNRESTRICTED NET ASSETS										
OPERATING REVENUE										
Inpatient revenue	$ 137,455,815	$ 0	$ 0	$ 0	$ 0	$ 137,455,815	$ 0	$ 0	$ 0	$ 137,455,815
Outpatient revenue	114,178,232	0	10,768,252	3,446,224	0	128,392,708	7,658,722	0	171,532	136,222,962
Contractuals	(43,966,528)	0	(4,097,799)	0	0	(48,064,327)	0	0	0	(48,064,327)
Net patient service revenue, net of contractual allowances and discounts	207,667,519	0	6,670,453	3,446,224	0	217,784,196	7,658,722	0	171,532	225,614,450
Less provision for bad debts	(5,017,271)	0	0	0	0	(5,017,271)	(96,175)	0	0	(5,113,446)
Net patient service revenue less provision for bad debt	202,650,248	-	6,670,453	3,446,224	-	212,766,925	7,562,547	-	171,532	220,501,004
Other operating revenue	6,458,898	15,610	69,681	(418)	(2,385,069)	4,158,702	14,298	0	41,577	4,214,577
Contributions	0	298,129	0	0	0	298,129	0	0	0	298,129
Net assets released from restrictions used for operations	1,189,083	0	0	0	0	1,189,083	0	0	0	1,189,083
TOTAL OPERATING REVENUE	210,298,229	313,739	6,740,134	3,445,806	(2,385,069)	218,412,839	7,576,845	0	213,109	226,202,793
EXPENSES										
Salaries and wages	89,946,134	266,453	8,700,503	32,100	0	98,945,190	0	0	204,458	99,149,648
Employee benefits	15,355,730	82,149	635,417	6,509	0	16,079,805	0	0	39,530	16,119,335
Purchased services	24,736,846	27,569	642,202	1,235,803	0	26,642,420	5,324,394	0	397,515	32,364,329
Supplies	35,764,009	16,566	337,445	24,219	0	36,142,239	81,900	0	1,063	36,225,202
Other expenses	16,729,497	9,336	1,262,461	14,559	0	18,015,853	864,413	0	1,043,251	19,923,517
Depreciation	8,772,704	0	74,628	1,550	0	8,848,882	601,136	0	19,579	9,469,597
Amortization	144,974	0	0	0	0	144,974	0	0	0	144,974
Fundraising	0	4,702	0	0	0	4,702	0	0	0	4,702
Interest	7,459,872	0	0	0	0	7,459,872	22,197	0	0	7,482,069
TOTAL EXPENSES	198,909,766	406,775	11,652,656	1,314,740	0	212,283,937	6,894,040	0	1,705,396	220,883,373
INCOME (LOSS) FROM OPERATIONS	11,388,463	(93,036)	(4,912,522)	2,131,066	(2,385,069)	6,128,902	682,805	0	(1,492,287)	5,319,420
NONOPERATING INCOME										
Loss on sale of property	1,365	0	0	0	0	1,365	0	0	(18,943)	(17,578)
Extinquishment of debt	(4,558,885)	0	0	0	0	(4,558,885)	0	0	0	(4,558,885)
Unrealized loss on trading securities	(53,422)	0	0	0	0	(53,422)	0	0	0	(53,422)
Equity (loss) in joint ventures	405,604	0	69,681	0	(405,604)	69,681	0	638,587	0	708,268
EXCESS OF REVENUE OVER EXPENSES (EXPENSES OVER REVENUE)	7,183,125	(93,036)	(4,842,841)	2,131,066	(2,790,673)	1,587,641	682,805	638,587	(1,511,230)	1,397,803
Net asset transfer	(93,035)	93,035	0	0	0	0	0	0	0	0
Dividends paid	0	0	0	(53,892)	212,332	158,440	(300,000)	0	0	(141,560)
Contributions	67,529	772,148	0	0	0	839,677	0	0	0	839,677
Net assets released from restrictions for use in operations	(592,933)	(596,150)	0	0	0	(1,189,083)	0	0	0	(1,189,083)
Net assets released from restrictions for capital acquisitions	0	(122,125)	0	0	0	(122,125)	0	0	0	(122,125)
Net assets released from restrictions for capital acquisitions	122,125	0	0	0	0	122,125	0	0	0	122,125
Pension - related changes other than net periodic pension cost	(2,636,058)	0	0	0	0	(2,636,058)	0	0	0	(2,636,058)
Increase (decrease) in net assets	4,050,753	53,872	(4,842,841)	2,077,174	(2,578,341)	(1,239,383)	382,805	638,587	(1,511,230)	(1,729,221)
Net assets, beginning of year	64,859,820	841,277	(17,307,765)	307,894	(2,712,187)	45,989,039	4,292,959	5,528,512	(6,038,788)	49,771,722
Net assets, end of year	$ 68,910,573	$ 895,149	$ (22,150,606)	$ 2,385,068	$ (5,290,528)	$ 44,749,656	$ 4,675,764	$ 6,167,099	$ (7,550,018)	$ 48,042,501

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