

Doctors Community Hospital and Subsidiaries

**Consolidated Financial Statements
and Other Financial Information**

Years Ended June 30, 2019 and 2018



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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 "Company"), which comprise the consolidated balance sheets as of June 30, 2019 and 2018, and the related consolidated statements of operations and other changes in net assets without donor restrictions, changes in net assets, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Doctors Community Hospital and Subsidiaries as of June 30, 2019 and 2018, 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.



Change in Accounting Principles

As discussed in Notes 1 and 2 to the consolidated financial statements, the Company adopted Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, and FASB ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, respectively, in 2019. Our opinion is not modified with respect to these matters.

Supplemental Information

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

Dixon Hughes Goodman LLP

**Gaithersburg, Maryland
October 15, 2019**

Doctors Community Hospital and Subsidiaries
Consolidated Balance Sheets

	June 30	
	<u>2019</u>	<u>2018</u>
<i>ASSETS</i>		
CURRENT ASSETS		
Cash and cash equivalents	\$ 34,168,164	\$ 34,055,629
Patient accounts receivable	38,839,947	32,760,116
Other amounts receivable	5,619,857	3,916,966
Inventories	4,243,356	3,887,208
Prepaid expenses	<u>3,981,044</u>	<u>4,220,183</u>
TOTAL CURRENT ASSETS	86,852,368	78,840,102
INVESTMENTS		
Marketable securities	18,257,784	17,807,685
Joint ventures and equity investments	<u>5,019,926</u>	<u>5,398,099</u>
	23,277,710	23,205,784
LAND, BUILDINGS, AND EQUIPMENT - NET	102,350,923	107,260,317
GOODWILL	3,070,898	3,070,898
OTHER ASSETS	<u>26,092,855</u>	<u>26,065,030</u>
TOTAL ASSETS	<u>\$ 241,644,754</u>	<u>\$ 238,442,131</u>

See the accompanying notes to the consolidated financial statements.

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

(Continued)

	<u>2019</u>	<u>2018</u> (As Adjusted)
<i>LIABILITIES</i>		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 15,828,485	\$ 16,422,456
Salaries, wages, and related items	16,046,116	16,169,005
Advances from third-party payers	7,765,308	7,975,899
Current portion of long-term obligations	4,448,457	4,981,689
TOTAL CURRENT LIABILITIES	44,088,366	45,549,049
NONCURRENT LIABILITIES		
Deferred compensation and claims incurred but not reported	16,005,694	16,021,913
Pension obligation	5,001,393	4,159,558
Long-term obligations, net of current portions	<u>122,394,065</u>	<u>126,888,994</u>
TOTAL LIABILITIES	187,489,518	192,619,514
NET ASSETS		
Without donor restrictions	51,403,040	43,111,360
Noncontrolling interest	<u>2,265,386</u>	<u>1,872,337</u>
TOTAL NET ASSETS WITHOUT DONOR RESTRICTIONS AND NONCONTROLLING INTEREST	53,668,426	44,983,697
With donor restrictions	<u>486,810</u>	838,920
TOTAL NET ASSETS	<u>54,155,236</u>	<u>45,822,617</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 241,644,754</u>	<u>\$ 238,442,131</u>

See the accompanying notes to the consolidated financial statements.

**Doctors Community Hospital and Subsidiaries
Consolidated Statements of Operations and
Other Changes in Net Assets Without Donor Restrictions**

	Year Ended June 30	
	2019	2018
		(As Adjusted)
REVENUE		
Net patient service revenue	\$ 243,357,081	\$ 239,516,769
Other operating revenue	5,587,586	5,710,933
Contributions	195,528	162,506
Net assets released from restrictions used for operations	993,563	637,502
TOTAL OPERATING REVENUE	250,133,758	246,027,710
EXPENSES		
Salaries and wages	106,447,619	109,234,448
Employee benefits	16,934,250	19,179,380
Purchased services	40,549,850	39,983,434
Supplies	36,744,307	37,129,223
Other expenses	26,050,823	22,355,890
Depreciation	8,979,516	9,226,529
Amortization	186,921	200,921
Fundraising	80,994	58,822
Interest	4,768,253	4,648,600
TOTAL EXPENSES	240,742,533	242,017,247
INCOME FROM OPERATIONS	9,391,225	4,010,463
NONOPERATING GAINS (LOSSES)		
Gain (loss) on sale of property	(11,247)	1,500
Pension costs	(1,533,516)	(634,727)
Unrealized gain on trading securities	145,630	11,927
Gain on joint ventures	311,435	208,549
EXCESS OF REVENUE OVER EXPENSES	8,303,527	3,597,712
Net assets released from restrictions for capital acquisitions	338,639	0
Pension - related changes other than net periodic pension cost	42,565	1,433,239
INCREASE IN NET ASSETS WITHOUT DONOR RESTRICTIONS	\$ 8,684,731	\$ 5,030,951

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, 2019			Year Ended June 30, 2018 (As Adjusted)		
	Total	Controlling Interests	Noncontrolling Interests	Total	Controlling Interests	Noncontrolling Interests
NET ASSETS WITHOUT DONOR RESTRICTIONS						
Excess of revenue over expenses	\$ 8,303,527	\$ 7,910,478	\$ 393,049	\$ 3,597,711	\$ 3,443,776	\$ 153,935
Net assets released from restrictions for capital acquisitions	338,639	338,639	0	0	0	0
Pension - related changed other than net periodic pension cost	42,565	42,565	0	1,433,239	1,433,239	0
INCREASE IN NET ASSETS WITHOUT DONOR RESTRICTIONS AND NONCONTROLLING INTERESTS	8,684,731	8,291,682	393,049	5,030,950	4,877,015	153,935
NET ASSETS WITH DONOR RESTRICTIONS						
Restricted contributions	980,090	980,090	0	709,620	709,620	0
Net assets released from restrictions for operations □	(993,563)	(993,563)	0	(637,502)	(637,502)	0
Net assets released from restrictions for capital acquisitions □	(338,639)	(338,639)	0	0	0	0
INCREASE (DECREASE) IN NET ASSETS WITH DONOR RESTRICTIONS	(352,112)	(352,112)	0	72,118	72,118	0
INCREASE IN NET ASSETS	8,332,619	7,939,570	393,049	5,103,068	4,949,133	153,935
NET ASSETS, BEGINNING OF YEAR	45,822,617	43,950,280	1,872,337	40,719,549	39,001,147	1,718,402
NET ASSETS, END OF YEAR	\$ 54,155,236	\$ 51,889,850	\$ 2,265,386	\$ 45,822,617	\$ 43,950,280	\$ 1,872,337

See the accompanying notes to the consolidated financial statements.

Doctors Community Hospital and Subsidiaries
Consolidated Statements of Cash Flows

	Year Ended June 30	
	<u>2019</u>	<u>2018</u>
		(As Adjusted)
OPERATING ACTIVITIES AND OTHER GAINS		
Increase in net assets	\$ 8,332,619	\$ 5,103,068
Adjustments to reconcile increase in net assets to net cash and cash equivalents provided by operating activities and other gains		
Restricted contributions received	(980,090)	(709,620)
Depreciation	8,979,516	9,226,529
Unrealized gain on investments	(145,630)	(11,927)
Loss (gain) on sale of property	11,247	(1,500)
Amortization on bond issue cost	186,921	200,921
Gain in joint ventures and equity investments	(311,435)	(208,549)
(Increase) decrease in:		
Accounts payable and accrued expenses	(593,971)	167,172
Accrued salaries, wages and related items	(122,887)	1,048,099
(Advances from) refunds to third party payers	(210,591)	666,013
Pension obligation	841,835	(1,606,286)
Other liabilities	(16,219)	985,506
Decrease (increase) in:		
Net patient accounts receivable	(6,079,831)	(4,974,102)
Other amounts receivable	(1,702,891)	3,256,595
Inventories	(356,148)	(371,270)
Prepaid expenses and other assets	211,314	(2,759,657)
	<u>8,043,759</u>	<u>10,010,992</u>
NET CASH AND CASH EQUIVALENTS PROVIDED BY OPERATING ACTIVITIES AND OTHER GAINS		
	8,043,759	10,010,992
INVESTING ACTIVITIES		
Net sales of trading investments	(304,469)	(2,088,373)
Increase in goodwill	-	(20,416)
Proceeds from sale on property	70,000	1,500
Distributions from joint ventures	689,605	1,986,082
Purchase of property, plant and equipment	(4,338,290)	(5,662,441)
	<u>(3,883,154)</u>	<u>(5,783,648)</u>
NET CASH AND CASH EQUIVALENTS USED IN INVESTING ACTIVITIES		
	(3,883,154)	(5,783,648)

See the accompanying notes to the consolidated financial statements.

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

(Continued)

	Year Ended June 30	
	<u>2019</u>	<u>2018</u>
FINANCING ACTIVITIES		
Principal payments on debt	\$ (5,028,160)	\$ (4,798,092)
Restricted contributions received	<u>980,090</u>	<u>709,620</u>
NET CASH AND CASH EQUIVALENTS USED IN FINANCING ACTIVITIES	<u>(4,048,070)</u>	<u>(4,088,472)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	112,535	138,872
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>34,055,629</u>	<u>33,916,757</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 34,168,164</u>	<u>\$ 34,055,629</u>

See the accompanying notes to the consolidated financial statements.

Doctors Community Hospital and Subsidiaries Notes to Consolidated Financial Statements

1. Organization and Summary of Significant Accounting Policies

Organization

Doctors Community Hospital (the Hospital) is a not-for-profit, non-stock corporation that operates an acute care general hospital facility licensed for 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 four wholly owned/controlled subsidiaries: Doctors Community Healthcare Programs (CHP), Doctors Community Hospital Foundation, Inc. (the Foundation), Doctors Community Health Ventures, Inc. (Health Ventures), and Doctors Community Sleep Center, LLC (the Sleep Center).

Doctors Community Healthcare Programs (CHP) consists of three wholly owned/controlled entities: Doctors Community Hospital Clinics (CLINICS), Doctors Community Practices, LLC (DCP), Capital Orthopedics Specialists, LLC (COS) and Care Transitional Organization (CTO). 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 transitional outpatient program and mobile van that provides services throughout the Prince George's County. 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. 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. CTO is a limited liability company formed in Maryland for the purpose of participating in certain Centers for Medicare and Medicaid (CMS) programs for primary care providers serving 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 two other companies: Magnolia Gardens LLC (Magnolia Gardens) and Diagnostic Imaging Center, LLC (DI).

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 100% of Spine Team Maryland (STM), for the purpose of providing medical primary care services for the residents of Prince Georges County and surrounding areas. STM ceased operations in fiscal year 2016. The Hospital owns a 61% interest in the Southern Maryland Integrated Healthcare, LLC (ACO). The ACO, which notified CMS that it ended participating in the program effective December 31, 2018, was a limited liability company formed in Maryland for the purpose of participating in a Medicare Shared Savings Program (MSSP) among primary care providers serving the residents of Prince Georges County and surrounding areas.

Doctors Community Hospital and Subsidiaries

Notes to Consolidated Financial Statements

Principles of consolidation

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

Use of estimates

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

Cash and cash equivalents

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

Investments

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

Unrestricted investment income, including realized gains and losses on the sale of trading securities, is reported as other operating revenue. The cost of securities sold is based on the specific-identification method. Unrealized gains and losses on trading securities are included in non-operating gains (losses) in the accompanying consolidated statements of operations and other changes in net assets without donor restrictions.

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.

Net assets with donor restrictions

Net assets with donor restrictions are those whose use by the Hospital and the Foundation have been limited by donors to a specific time period or purpose. Net assets with donor restrictions 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 contributions without donor restrictions.

Doctors Community Hospital and Subsidiaries

Notes to Consolidated Financial Statements

Excess of revenue over expenses (expenses over revenue)

The consolidated statements of operations and other changes in net assets without donor restrictions include the excess of revenue over expenses (expenses over revenue) (the “performance indicator”). Changes in net assets without donor restrictions, 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.

Net patient service revenue

Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payers and others for services rendered. The Hospital charges are based on rates established by the State of Maryland Health Services Cost Review Commission (the Commission); accordingly, revenue reflects actual charges to patients based on rates in effect during the period in which the services are rendered (see Note 11). CHP and the Sleep Center are paid for services based on either negotiated contracts with commercial payers, fee schedules with Medicare and Medicaid or standardized pricing for self-pay patients.

Explicit price concessions represent the difference between amounts billed as patient service revenue and amounts allowed by third-party payers, and are accrued in the period in which the related services are rendered. Prior to July 1, 2018, these explicit price concessions were reported as contractual discounts within patient service revenue.

Based on historical experience, a significant portion of the Hospital’s uninsured patients will be unable or unwilling to pay for services provided. Thus, the Hospital estimates an implicit price concession related to uninsured patients in the period the services are provided based upon management’s assessment of historical and expected net collections. This estimate considers business and general economic conditions, trends in healthcare coverage and other collection indicators. Throughout the year, management assesses the adequacy of these implicit price concessions based upon its review of patient accounts receivable and collections to date. Other factors, such as account aging and payment cycles, are considered when estimating implicit price concessions. Prior to July 1, 2018, the Hospital used similar information to estimate a provision for bad debts. The Hospital follows established guidelines for placing its self-pay patient accounts with an outside collection agency. After collection efforts are exhausted, the uncollected balances are returned to the Hospital for final write-off.

Charity care

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

Under current accounting standards, the Company is required to report the cost of providing charity care. The cost of charity care provided by the Company totaled \$8,425,301 and \$8,862,484 for the years ended June 30, 2019 and 2018, 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 Commission (see Note 1), 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.

Doctors Community Hospital and Subsidiaries

Notes to Consolidated Financial Statements

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 \$2,299,712 for 2019 and \$4,671,024 for 2018 in UCC payments. All hospitals contribute to the Health Care Coverage Fund (HCCF) that supports the expansion of Medicaid eligibility and the Medicaid program. The Hospital contributed \$2,695,536 for 2019 and \$2,520,138 for 2018 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 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 net assets with donor restrictions to net assets without donor restrictions when the expenditure is made. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified as net assets without donor restrictions 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 \$201,332 and \$220,008 at June 30, 2019 and 2018, respectively, and is included in other amounts receivable in the accompanying consolidated balance sheets.

Other operating revenue

The Hospital met compliance requirements to receive incentive payments for upgrading and implementing certified electronic health record systems and becoming a meaningful user under the provisions of the American Recovery and Reinvestment Act of 2009. The Hospital recognized and received a net \$17,605 and \$28,395 of meaningful use funds during the fiscal years June 30, 2019 and 2018, respectively, and reported the amounts as other operating revenue in the accompanying statements of operations and other changes in unrestricted net assets.

The ACO received notification that it will receive an incentive payment of \$1,800,049 for 2018 financial reconciliation and quality performance related to its ACO Medicare enrollees. ACO management anticipates that the CMS will issue payments in October 2019. 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 \$1,850,449 and \$1,691,853 for the fiscal years June 30, 2019 and 2018, respectively, and is reported as other expense in the accompanying consolidated statements of operations and other changes in net assets without donor restrictions.

Doctors Community Hospital and Subsidiaries
Notes to Consolidated Financial Statements

Functional expenses

The Company's consolidated operating expenses by functional classification for the years ended June 30, 2019 and 2018 are as follows:

	2019			
	Health care services	General and administrative	Fundraising	Total
Salaries and benefits	\$ 88,521,765	\$ 34,425,131	\$ 434,973	\$ 123,381,869
Other operating expenses	47,936,619	18,642,019	103,029	66,681,667
Medical supplies	26,450,257	10,286,211	7,839	36,744,307
Depreciation and amortization	6,599,835	2,566,602	0	9,166,437
Interest	3,433,142	1,335,111	0	4,768,253
Total Operating Expenses	\$ 172,941,618	\$ 67,255,074	\$ 545,841	\$ 240,742,533

	2018			
	Health care services	General and administrative	Fundraising	Total
Salaries and benefits	\$ 92,179,152	\$ 35,847,448	\$ 387,228	\$ 128,413,828
Other operating expenses	44,874,827	17,451,321	71,998	62,398,146
Medical supplies	26,727,698	10,394,105	7,420	37,129,223
Depreciation and amortization	6,787,764	2,639,686	0	9,427,450
Interest	3,346,992	1,301,608	0	4,648,600
Total Operating Expenses	\$ 173,916,433	\$ 67,634,168	\$ 466,646	\$ 242,017,247

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, 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:** 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 status of the Hospital and Foundation as public charities exempt from federal income taxation remain in effect.

Doctors Community Hospital and Subsidiaries Notes to Consolidated Financial Statements

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.

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 neither is subject to federal or state income tax, but must file annual information returns indicating their gross and taxable income to determine the tax results to their members.

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

Goodwill

Goodwill represents the excess of cost over the fair value of assets acquired. Management evaluates goodwill for impairment on an annual basis. Management evaluated the carrying value reported for goodwill in the accompanying consolidated balance sheets for impairment and believes the carrying value reported for goodwill on the consolidated balances sheets as of June 30, 2019 and 2018 to be appropriately estimated (see Note 13).

Subsequent Events

Subsequent events have been evaluated by management through October 15, 2019, which is the date the consolidated financial statements were available to be issued.

Recent Accounting Pronouncements

Effective December 31, 2018, the Company adopted Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities (Topic 958)*. This ASU changes certain financial statement requirements for not-for-profit entities in an effort to make the information more meaningful to users and reduce reporting complexity. The Company adopted the ASU and has adjusted the presentation in these consolidated financial statements accordingly. The ASU has been applied retrospectively to all periods presented, except for the disclosure around liquidity and availability of resources. The Company has elected to apply the practical expedient available in this ASU with respect to disclosure for liquidity and availability of resources with respect to the year ended June 30, 2018.

In February 2018, the FASB issued ASU 2018-02, *Leases (Topic 842)*, which requires lessees to recognize a lease liability and a right-of-use asset for most leases. The amendments in this ASU are effective for the consolidated financial statements for fiscal year ending June 30, 2020, with early adoption permitted, and should be applied through a modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. Management is currently evaluating and has not yet determined the effects of adopting this ASU on the consolidated financial statements and disclosures.

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

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The effect of the retroactive application of ASU 2018-07 on previously reported financial statement amounts resulted in \$415,117 of net periodic pension cost previously included in income from operations on the consolidated statements of operations and other changes in net assets without donor restrictions to be reclassified as a component of nonoperating gains (losses). The frozen defined benefit pension plan sponsored by the Hospital experienced no service cost in either 2019 or 2018.

2. Patient revenue and accounts receivable

During fiscal year 2019, the Company adopted FASB ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, and ASU 2015-14, *Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date*, using the full retrospective method (ASC 606). The information in the prior year comparative period has been restated. The overall impact of adoption was not material to the accompanying consolidated financial statements, with the primary changes related to presentation of certain information, as described below, and expanded disclosures related to revenue recognition principles, disaggregation of revenues and other matters.

As a result of the adoption of ASC 606, estimated uncollectible amounts from patients that were previously presented as the provision for bad debts in the consolidated statements of operations are now considered implicit price concessions (as defined in ASC 606), and are therefore, included in net patient service revenue. Such implicit price concessions reflected in net patient service revenue in the accompanying consolidated financial statements for the year ended June 30, 2019 and 2018 were \$11,071,017 and \$8,512,803, respectively. Prior to July 1, 2018, the provision for bad debts was presented consistent with the previous revenue recognition standards separately as a component of patient service revenue. Upon adoption of ASC 606, the allowances for doubtful accounts and contractual adjustments of \$15,467,115 and \$17,942,460 at June 30, 2019 and 2018, respectively, were reclassified as a direct reduction of patient accounts receivable. Such implicit price concessions continue to be presented as a direct reduction of patient accounts receivable.

Management has determined that the Company has an unconditional right to payment only subject to the passage of time for services provided to date based on just the need to either finalize billing for such services (i.e., charge lag) or to discharge the patient and bill for such services for patients who are still receiving inpatient care in the Company's facilities at the balance sheet date. Accordingly, the Company accrues revenues and the related accounts receivable for services performed but not yet billed at the balance sheet date for in-house patients. Thus, management has determined that the Company does not have any amounts that should be reflected separately as contract assets.

As part of the adoption of ASC 606, the Company elected certain available practical expedients under the standard. First, the Company elected the practical expedient that allows nonrecognition of the promised amount of consideration from patients and third-party payers for the effects of a significant financing component due to the Company's expectation that the period between the time the service is provided to a patient and the time that the patient or a third-party payer pays for that service will be one year or less. However, the Company does, in certain instances, enter into payment agreements with patients that allow payments in excess of one year. For those cases, the financing component is not deemed to be significant to the respective contracts. Additionally, the Company has applied the practical expedient whereby all incremental customer contract acquisition costs are expensed as they are incurred, as the amortization period of the asset that the Company otherwise would have recognized is one year or less in duration.

Patient service revenue is reported at the amount that reflects the consideration to which the Company expects to be entitled in exchange for providing patient care. These amounts are due from patients, third-party payers (including health insurers and government programs) and others. Generally, the Company bills patients and third-party payers several days after services are performed or the patient is discharged from the facility. Revenue is recognized as performance obligations are satisfied.

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Performance obligations are determined based on the nature of the services provided by the Company. Revenue for performance obligations satisfied over time is recognized based on actual charges incurred in relation to total expected charges. The Company believes that this method provides a faithful depiction of the transfer of services over the term of the performance obligation based on the inputs needed to satisfy the obligations. Generally, performance obligations satisfied over time relate to patients in the Hospital. The Company measures the performance obligation from admission to the facility to the point when the facility is no longer required to provide services to that patient, which is generally the time of discharge. Revenue for performance obligations satisfied at a point in time generally relate to patients receiving outpatient services or patients and customers in a retail setting and the Company does not believe it is required to provide additional goods or services.

Because all of its performance obligations relate to contracts with a duration of less than one year, the Company has elected to apply the optional exemption provided in current applicable accounting standards and, therefore, is not required to disclose the aggregate amount of the transaction price allocated to performance obligations that are unsatisfied or partially unsatisfied at the end of the reporting period. Any unsatisfied or partially unsatisfied performance obligations are primarily related to inpatient acute care services at the end of the reporting period. The performance obligations for these contracts are generally completed when patients are discharged, which generally occurs within days or weeks of the end of the reporting period.

As discussed in Note 11, the Hospital charges are based on rates established by the Commission, which are subsequently reduced by contractual discounts provided to third-party payers and discounts provided to uninsured patients (i.e., explicit price concessions) in accordance with the Company policy, as well as any applicable implicit price concessions that are estimated by management based on a number of factors including historical collection experience. For non-Hospital services provided by the Company, management generally determines the transaction price based on standard charges for goods and services provided, reduced by explicit price concession in the form of contractual adjustments provided to third-party payers, discounts provided to uninsured patients in accordance with internal policy, and implicit price concessions provided to uninsured patients. The Company determines its estimate of implicit price concessions based on historical collection experience with each class of patients using a portfolio approach as a practical expedient to account for patient contracts as collective groups rather than individually. Management believes that the financial effects of using this practical expedient are not materially different from an individual contract approach.

Laws and regulations concerning government programs, including Medicare and Medicaid, are complex and subject to varying interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. As a result of investigations by governmental agencies, various healthcare organizations have received requests for information and notices regarding alleged noncompliance with those laws and regulations, which in some instances have resulted in organizations entering into significant settlement agreements. Compliance with such laws and regulations may also be subject to future government review and interpretation, as well as significant regulatory action, including fines, penalties, and potential exclusion from the related programs. There can be no assurance that regulatory authorities will not challenge compliance of the Company with these laws and regulations, and it is not possible to determine the impact (if any) such claims or penalties would have upon the Company. The results of such governmental review could include fines, penalties and exclusion from participation in the Medicare and Medicaid programs. In addition, the contracts the Company has with commercial payers also provide for retroactive audit and review of claims.

Generally, patients who are covered by third-party payers are responsible for related deductibles and coinsurance, which vary in amount. The Company also provides services to uninsured patients, and offers those uninsured patients a discount, either by policy or law, from standard charges. The Company estimates the transaction price for patients with deductibles and coinsurance and from those who are uninsured based on historical experience and current market conditions. The initial estimate of the transaction price is determined by reducing the standard charge by any discounts and price concessions. Subsequent changes to the estimate of the transaction price are generally recorded as adjustments to patient service revenue in the period of the change. Subsequent changes that are determined to be the result of an adverse change in the patient's ability to pay are recorded as bad debt expense.

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Consistent with mission of the Company, care is provided to patients regardless of their ability to pay. Therefore, the Company provides implicit price concessions to uninsured patients and patients with other uninsured balances (for example, copays and deductibles). The implicit price concessions included in estimating the transaction price represent the difference between amounts billed to patients and the amounts the Company expects to collect based on its collection history with those patients and other factors.

Net patient service revenue from third-party payers and others (including uninsured patients) for the years ended June 30, 2019 and 2018 are summarized in the following tables:

	2019		2018	
Medicare	\$ 118,346,517	49%	\$ 123,310,433	51%
Medicaid	31,514,613	13%	32,318,698	13%
Blue Cross Blue Shield	55,852,375	23%	43,909,366	18%
Other third-party payers	32,822,956	13%	38,565,238	16%
Self-pay patients	4,820,620	2%	1,413,034	2%
	<u>\$ 243,357,081</u>		<u>\$ 239,516,769</u>	

Revenue from deductibles and coinsurance are included in the categories presented above based on the primary payer.

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

	2019	2018
Medicare	24%	27%
Medicaid	27%	24%
Blue Cross Blue Shield	12%	9%
Other third-party payers	23%	24%
Self-pay patients	<u>14%</u>	<u>16%</u>
	<u>100%</u>	<u>100%</u>

3. Investments

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

	2019	2018
Marketable securities:		
Cash and cash equivalents		
Money market and CD funds	\$ 2,204,303	\$ 4,115,593
Equity		
Stock and mutual funds	16,053,481	13,692,092
	<u>\$ 18,257,784</u>	<u>\$ 17,807,685</u>

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

	2019		
	Other Operating Revenue	Nonoperating Gains	Total
Interest and dividend income	\$ 406,889	\$ 0	\$ 406,889
Net realized loss	(214,951)	0	(214,951)
Net unrealized gain	0	145,630	145,630
Investment fees	(33,385)	0	(33,385)
	<u>\$ 158,553</u>	<u>\$ 145,630</u>	<u>\$ 304,183</u>

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

Doctors Community Hospital and Subsidiaries
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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 income securities (corporate debt and federal government obligations) are based on prices provided by its investment managers and its custodian bank. 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, 2019:

	<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	\$ 2,204,303	\$ 0	\$ 2,204,303
Fixed income				
U.S. government agency bonds/notes	0	11,747,496	0	11,747,496
Equity securities				
Premier supply chain investment	654,710	0	0	654,710
Mutual funds				
Short-term bond	1,337,600	0	0	1,337,600
Intermediate government	0	0	0	0
Merger arbitrage	0	0	0	0
World bond	154,845	0	0	154,845
Floating rate bonds	780,355	0	0	780,355
High-yield bond	339,981	0	0	339,981
Intermediate-term bond	441,749	0	0	441,749
Equity large blend	819,463	0	0	819,463
Long/short equity	902,573	0	0	902,573
Moderate allocation	1,140,189	0	0	1,140,189
Mid-cap growth	376,140	0	0	376,140
Real estate	292,544	0	0	292,544
Foreign large blend	917,601	0	0	917,601
Large blend	187,824	0	0	187,824
Diversified emerging markets	342,357	0	0	342,357
Large growth	201,323	0	0	201,323
Small growth	-	0	0	0
Total assets	<u>\$ 8,889,254</u>	<u>\$ 13,951,799</u>	<u>\$ 0</u>	<u>\$ 22,841,053</u>
Plus deposits in transit				38,327
Total				\$ 22,879,380
Less investments included in other assets				4,621,596
Total investments per consolidated balance sheet				<u>\$ 18,257,784</u>

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The total investment of \$22,879,380 includes deposits in transit of \$38,327 plus financial instruments of \$22,841,053. The above table includes financial instruments of \$4,621,596 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, 2018:

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

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

There were no significant transfers between fair value hierarchy levels for the years ended June 30, 2019 and 2018.

4. Joint Ventures and Equity Investments

Health Ventures and ASC invest in businesses consistent with the mission and strategic plan of the Company. Unconsolidated investments are carried at cost or at equity depending on the percentage of ownership and control. Investment in Magnolia Gardens LLC represents a 51% interest and 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 net assets without donor restrictions.

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These investments, which are reported as noncurrent assets in the accompanying consolidated financial statements, are summarized as follows as of June 30:

Name	2019	2018
Magnolia Gardens LLC	\$ 5,210,175	\$ 5,347,172
University Center for Ambulatory Surgery	(922,539)	(675,494)
Maui	0	34,562
Diagnostic Imaging, LLC	732,290	691,859
	\$ 5,019,926	\$ 5,398,099

5. 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 MMS. Since MMS is wholly owned by Health Ventures, the amounts loaned to MMS have been eliminated in consolidation.

The Medical Director of Radiology for the Hospital is an investor in DI, which is an unconsolidated subsidiary of Health Ventures. The Medical Director of DCP, who is also a Foundation board member, leases property to the Hospital and CHP.

6. Land, Buildings, and Equipment

Land, buildings, and equipment are summarized as follows:

Name	Useful Life	June 30	
		2019	2018
Land improvements	2-40 Years	\$ 4,525,777	\$ 4,525,777
Buildings	4-40 Years	137,331,411	137,331,414
Leasehold improvements	4-40 Years	5,130,560	5,130,560
Furniture and equipment	2-20 Years	105,396,278	99,559,406
Equipment under capital lease obligations	2-20 Years	190,000	190,000
		252,574,026	246,737,157
Less accumulated depreciation		(157,091,894)	(148,156,738)
		95,482,132	98,580,419
Construction in progress		730,289	2,541,396
Land		6,138,502	6,138,502
		\$ 102,350,923	\$ 107,260,317

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Accumulated depreciation includes accumulated amortization of capital leased equipment in the amount of \$276,150 and \$207,017 as of June 30, 2019 and 2018, respectively. Depreciation expense related to capital leased equipment was \$69,133 and \$61,350 for fiscal year 2019 and 2018, respectively.

7. Long-Term Debt

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

	<u>2019</u>	<u>2018</u>
Maryland Health and Higher Education Facilities Authority Revenue Bonds, Series 2017B Bond 2.180% term bonds due October 1, 2024	\$ 28,570,000	\$ 33,510,000
Maryland Health and Higher Education Facilities Authority Revenue Bonds, Series 2016 Bond Series 2016A Tax-Exempt Private Placement 2007 Refunding 2.567% term bonds due July 1, 2030	16,795,000	16,795,000
Series 2016A Tax-Exempt Private Placement 2010 Partial Refunding 2.567% term bonds due July 1, 2030	15,150,000	15,150,000
Maryland Health and Higher Education Facilities Authority Revenue Bonds, Series 2017A: 5.00% term bonds due July 1, 2031	6,720,000	6,720,000
5.00% term bonds due July 1, 2032	7,055,000	7,055,000
5.00% term bonds due July 1, 2033	7,410,000	7,410,000
5.00% term bonds due July 1, 2034	7,780,000	7,780,000
5.00% term bonds due July 1, 2038	35,200,000	35,200,000
Capital leases	77,255	118,945
	<u>\$ 124,757,255</u>	<u>\$ 129,738,945</u>
Current portion of long-term debt	(4,448,457)	(4,981,689)
Financing costs, net of accumulated amortization	(1,514,133)	(1,701,053)
Original issue premium, net of accumulated amortization	3,599,400	3,832,791
	<u>\$ 122,394,065</u>	<u>\$ 126,888,994</u>

The fair value of the Company's Series 2018A bonds, based on quoted market prices, was \$72,482,555 and \$70,428,072 for fiscal year 2019 and 2018, respectively. Remaining bonds are private placement bonds. Fair value of the private placement bonds approximate carrying value.

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

Doctors Community Hospital and Subsidiaries Notes to Consolidated Financial Statements

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

2020	\$4,448,457
2021	4,978,798
2022	5,070,000
2023	5,195,000
2024	5,265,000
2025 and after	99,800,000
	<u>\$ 124,757,255</u>

Total interest paid for the years ended June 30, 2019 and 2018 was \$4,768,000 and \$4,648,000, 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.

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.

Other debt

During 2008, DRCC obtained a \$4,000,000 revolving line of credit from a commercial lender to finance the acquisition of certain medical equipment. The line of credit was converted to a capital lease during 2009. Beginning in October 2009, monthly payments of principal and interest at 6.8% per annum become due. In July 2012, DRCC modified the capital equipment lease to obtain an interest rate of 3.6%. This lease ended January 2019.

During 2018, the Hospital obtained a \$155,672 capital lease for surgical equipment. Beginning in August 2017, monthly payments of principal and interest at 4.16% per annum commenced. The outstanding principal balance is \$77,255 as of June 30, 2019.

8. Professional and General Liabilities, Workers Compensation, and Employee Health Coverages

The Hospital has coverage for professional and general liabilities 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, 2019 and 2018. Premiums

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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, 2019. 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 by the captive for all claims in excess of \$1,000,000 to a limit of \$6,000,000 effective March 1, 2006, \$10,000,000 effective March 1, 2012, and \$15,000,000 March 1, 2019. The estimated unpaid loss liability reserved by the captive for the Hospital was \$10,656,429 and \$10,679,655 at June 30, 2019 and 2018, 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 \$1,066,000 and \$1,351,000 at June 30, 2019 and 2018, respectively. The discount rate for unpaid losses is 3.5% for years ending June 30, 2019 and 2018. The Hospital engages a consulting actuary to assist in the determination of all professional liability claims incurred but not reported.

The Company is self-insured against workers' compensation claims up to a per-claim limit of \$500,000 with an annual limitation of approximately \$1,000,000. A liability has been recorded for all known claims and an estimate for claims incurred but not reported in the amount of \$1,080,971 and \$1,138,752 at June 30, 2019 and 2018, respectively. These amounts are included in accounts payable and accrued expenses in the accompanying consolidated balance sheets.

The Company is self-insured against employee health medical claims up to a per-claim limit of \$200,000 and no maximum aggregate benefit. A liability has been recorded for all known claims and an estimate for claims incurred but not reported in the amount of \$621,000 and \$590,000 at June 30, 2019 and 2018, respectively. These amounts are included in accounts payable and accrued expenses in the accompanying consolidated balance sheets.

9. Leases

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

Future minimum lease payments as of June 30, 2019 are as follows:

	Capital Leases	Operating Leases	Total
2020	\$ 43,457	\$ 3,730,681	\$ 3,774,138
2021	33,798	3,207,274	3,241,072
2022	0	1,122,836	1,122,836
2023	0	846,883	846,883
Total minimum lease payments	<u>77,255</u>	<u>\$ 8,907,674</u>	<u>\$ 8,984,929</u>
Current portion of capital leases	(43,457)		
Capital lease obligations, less current portion	<u>\$ 33,798</u>		

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Total rental expense reported in the accompanying consolidated statements of operations and other changes in net assets without donor restrictions for the years ended June 30, 2019 and 2018 was \$4,520,459 and \$4,590,269, respectively.

10. Retirement Plans

The Company has a 403b defined contribution plan (the “contribution plan”) covering substantially all its employees. The contribution plan is employee and employer contributory. The Company contributed a match of \$0.50 for every \$1.00 of elective deferrals for a plan year for eligible employees up to 4% of base compensation. Defined contribution plan expense amounted to \$1,422,542 and \$1,358,026 for 2019 and 2018, respectively.

The Company froze the defined benefit pension plan that it sponsors (the Plan) in 2011, which covered substantially all employees. The decision to terminate the Plan has not been made by the board of directors. The benefits are based on years of service and employee compensation during years of employment. The Company’s funding policy is to make sufficient contributions to the Plan to comply with the minimum funding provisions of the Employee Retirement Income Security Act of 1974 (ERISA). The Company expects to contribute \$731,210 to the Plan during 2019 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:

	For the Year Ended	
	2019	2018
Accumulated Benefit Obligation		
Change in Benefit Obligation		
Benefit Obligation at beginning of year	\$ 22,871,105	\$ 23,860,808
Interest cost	796,893	767,879
Settlement loss/(gain)	(14,800)	59,434
Actuarial loss/(gain)	1,234,497	(848,735)
Settlement payments	(3,136,449)	(884,944)
Benefits paid	(89,780)	(83,337)
Benefit Obligation at End of Year	\$ 21,661,466	\$ 22,871,105
Change in Plan Assets		
Fair value of plan assets at beginning of year	\$ 18,711,547	\$ 18,094,964
Actual return on plan assets	525,639	777,090
Employer contributions	649,116	807,774
Settlement payments	(3,136,449)	(884,944)
Benefits paid	(89,780)	(83,337)
Fair Value of Plan Assets at End of Year	\$ 16,660,073	\$ 18,711,547
Funded Status (Pension Obligation)	\$ (5,001,393)	\$ (4,159,558)
Components of Net Periodic Benefit Costs		
Interest cost	796,893	767,879
Expected return on plan assets	(942,470)	(1,019,667)
Settlement	1,181,733	315,334
Recognition of loss from change in measurement date	497,360	571,181
Net Period Pension Costs	\$ 1,533,516	\$ 634,727

Doctors Community Hospital and Subsidiaries
Notes to Consolidated Financial Statements

The total amount recognized in net assets without donor restrictions in the accompanying consolidated financial statements for the years ended June 30:

	<u>2019</u>	<u>2018</u>
Net actuarial loss	\$ 8,107,158	\$ 8,149,723

During 2018, lump sum distributions exceeded the Plan's interest cost triggering a settlement event. As a result, a settlement loss of \$1,181,733 and \$315,334 was recognized for 2019 and 2018, respectively.

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, 2019.

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

2020	\$ 2,289,270
2021	1,404,901
2022	1,291,287
2023	1,270,877
2024	1,291,441
2025 - 2029	6,743,826
Total	\$ 14,291,602

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>2019</u>	<u>2018</u>
Discount rate	3.10%	3.90%
Expected return on Plan assets	6.00%	6.00%

Doctors Community Hospital and Subsidiaries
Notes to Consolidated 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, 2019:

	Level 1	Level 2	Level 3	Total Fair Value
Equity Securities				
Mutual Funds				
Diversified Emerging Mkts	\$ 412,261	\$ 0	\$ 0	\$ 412,261
Foreign Large Blend	333,347	0	0	333,347
Foreign Small/Mid Growth	84,096	0	0	84,096
High Yield Bond	1,658,239	0	0	1,658,239
Inflation-Protected Bond	1,691,182	0	0	1,691,182
Intermediate Government	1,689,794	0	0	1,689,794
Intermediate-Term Bond	3,215,307	0	0	3,215,307
Large Growth	1,324,825	0	0	1,324,825
Large Value	1,175,464	0	0	1,175,464
Mid-Cap Growth	823,906	0	0	823,906
Mid-Cap Value	850,896	0	0	850,896
Multisector Bond	2,537,735	0	0	2,537,735
Small Growth	358,485	0	0	358,485
Small Value	504,536	0	0	504,536
Total assets	\$ 16,660,073	\$ 0	\$ 0	\$ 16,660,073

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

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

There were no significant transfers between fair value hierarchy levels for the years ended June 30, 2019 and 2018.

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

Doctors Community Hospital and Subsidiaries Notes to the Consolidated Financial Statements

balance sheets. The liability recorded regarding the deferred compensation was \$4,253,265 and \$3,949,258 as of June 30, 2019 and 2018, respectively. During 2019 and 2018, distributions of \$85,329 and \$30,870 were made to participants in the deferred compensation plan, respectively.

The Hospital is the beneficiary of split dollar life insurance policies in place for certain executives. The amounts that could be realized by the Hospital under the insurance contracts are approximately \$9,000,000 as of both June 30, 2019 and 2018 and are included in other assets in the consolidated balance sheets.

11. 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.

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.

This was a new global budget arrangement which set a fixed revenue amount for the upcoming year, without fluctuation due to utilization or case mix. This was a five-year demonstration where Maryland successfully made significant progress toward reducing costs inside and outside of the hospital as well as improving patient care. Beginning January 2019 the new "Total Cost of Care Model" (the "Model") was approved and builds upon the successes of the All-Payer Model. The Model encourages continued clinical redesign and provides tools to providers to treat complex and chronic conditions and is built on the same global budget arrangement mechanics for revenue setting as the predecessor model. This is approved for a 10-year term provided Maryland meets the Model performance requirements.

Management believes that the waiver program will remain in effect at least through June 2020. The Hospital undercharged its revenue target by \$928,478 and \$1,747,735 as of June 30, 2019 and 2018, 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.

12. 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.

Doctors Community Hospital and Subsidiaries

Notes to Consolidated Financial Statements

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.

The Joint Commission, a non-governmental privately owned entity, provides accreditation status to hospitals and other health care organizations in the United States. Such accreditation is based upon a number of requirements such as undergoing periodic surveys conducted by Joint Commission personnel. Certain managed care payers require hospitals to have appropriate Joint Commission accreditation in order to participate in those programs. In addition, the CMS, the agency with oversight of the Medicare and Medicaid programs, provides "deemed status" for facilities having Joint Commission accreditation. By being Joint Commission accredited, facilities are "deemed" to be in compliance with the Medicare and Medicaid conditions of participation. Termination as a Medicare provider or exclusion from any or all of these programs/payers would have a materially negative impact on the future financial position, operating results and cash flows of the Hospital. In February 2019 the Hospital was surveyed by Joint Commission and received a full three-year Joint Commission accreditation through February 2022.

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.

Doctors Community Hospital and Subsidiaries
Notes to Consolidated Financial Statements

13. 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>2019</u>	<u>2018</u>
Cancer center, DRCC	\$ 1,062,531	\$ 1,062,531
Orthopedic practice	376,316	376,316
Nursing home	767,285	767,285
Surgery center	20,416	20,416
Cancer center, MRCC	646,975	646,975
Physician practices	197,375	197,375
	<u>\$ 3,070,898</u>	<u>\$ 3,070,898</u>

14. Liquidity and Availability

Financial assets available for general expenditure within one year of the consolidated balance sheet date, consist the following at June 30, 2019:

	<u>2019</u>
Cash and cash equivalents	\$ 34,168,164
Patient accounts receivable, net	38,839,947
Pledges receivable, net	201,332
Other receivables	5,418,525
Investments with daily and weekly liquidity	17,436,369
Total	<u>\$ 96,064,337</u>

Doctors Community Hospital and Subsidiaries
Notes to Consolidated Financial Statements

15. Net Assets With Donor Restrictions

Net assets with donor restrictions are available as of June 30 for the following programs and projects:

	2019	2018
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	7,389	20,088
Pulmonary Rehab Scholarship Fund	38,832	13,685
Borden Breast Center	20,000	20,000
Women's Health	119,015	94,304
Koman Grant	50,000	307,471
Diabetes Center	0	31,895
Lymphedema Center	7,826	7,826
Smoking Grant	14,755	14,755
Community Outreach	38,045	56,977
Behavioral Health	22,572	22,572
MHA HPP Disaster Grant	2,196	20,954
Health fair Screening	2,891	2,891
So. Md. Transitional Care Partnership	104,979	138,420
DHMH Biosense Grant	4,575	4,575
Population Health: Mobile Clinic	20,282	15,000
Volunteers	403	3,099
Multi-Faith Worship Center	1,999	33,357
	<u>\$ 486,810</u>	<u>\$ 838,920</u>

16. Subsequent Event

On July 1, 2019, the Company completed a transaction that resulted in the Company becoming a wholly-controlled subsidiary of Anne Arundel Health System (AAHS). The new combined entity will change its name in the interim to Luminis Health, pending selection of an appropriate name for the new combined health system. This transaction will be accounted for as an acquisition under current accounting standards during the year ending June 30, 2020. No consideration was exchanged in the transaction; however, AAHS has committed to investing \$138 million into the Company over a period of 5 years.

Supplementary Information

Doctors Community Hospital and Subsidiaries
Consolidating Balance Sheet
June 30, 2019

	Hospital	Healthcare Programs	Foundation	Health Ventures	Sleep Center	Eliminations	Obligated Group	DRCC	Magnolia Gardens, MAUI, DI, UCAS	STM, ACO	Eliminations	Total
ASSETS												
CURRENT ASSETS												
Cash and cash equivalents	\$ 27,810,649	\$ 1,358,722	\$ 866,179	\$ 573,044	\$ 0	\$ 0	\$ 30,608,594	\$ 3,516,526	\$ 0	\$ 43,044	\$ 0	\$ 34,168,164
Gross patient accounts receivable	43,275,906	7,869,147	0	758,116	0	0	51,903,169	2,379,259	0	24,634	0	54,307,062
Less: allowance for implicit price concessions	(5,684,147)	(5,579)	0	(28,840)	0	0	(5,718,566)	(404,090)	0	0	0	(6,122,656)
Less: allowance for explicit price concessions	(4,282,270)	(3,136,320)	0	(543,550)	0	0	(7,962,140)	(1,382,487)	0	168	0	(9,344,459)
Patient accounts receivable, net	33,309,489	4,727,248	0	185,726	0	0	38,222,463	592,682	0	24,802	0	38,839,947
Other amounts receivable	2,867,703	(103,337)	434,983	271,571	0	0	3,470,920	268,000	0	1,880,937	0	5,619,857
Inventories	4,223,973	0	0	19,383	0	0	4,243,356	0	0	0	0	4,243,356
Prepaid expenses	3,361,481	233,476	0	169,699	0	0	3,764,656	213,161	0	3,227	0	3,981,044
TOTAL CURRENT ASSETS	71,573,295	6,216,109	1,301,162	1,219,423	0	0	80,309,989	4,590,369	0	1,952,010	0	86,852,368
INVESTMENTS												
Marketable securities	17,436,369	0	0	0	0	0	17,436,369	821,415	0	0	0	18,257,784
Investment in Doctors Regional Cancer Center	4,353,115	0	0	0	0	(4,353,115)	0	0	0	0	0	0
Joint ventures and equity investments	0	0	0	5,019,926	0	(5,019,926)	0	0	5,019,926	0	0	5,019,926
	21,789,484	0	0	5,019,926	0	(9,373,041)	17,436,369	821,415	5,019,926	0	0	23,277,710
DUE TO DCH	89,225,468	0	0	0	7,540,701	(85,372,301)	11,393,868	0	0	0	(11,393,868)	0
LAND, BUILDING AND EQUIPMENT												
Land and land improvements	10,664,279	0	0	0	0	0	10,664,279	0	0	0	0	10,664,279
Building and fixed equipment	129,239,762	2,362,564	0	0	0	0	131,602,326	0	0	0	0	131,602,326
Medical office building	8,091,651	0	0	0	0	0	8,091,651	0	0	0	0	8,091,651
Major movable equipment	96,578,450	0	0	1,496,709	0	0	98,075,159	10,279,113	0	0	0	108,354,272
Construction in progress	730,289	0	0	0	0	0	730,289	0	0	0	0	730,289
Accumulated depreciation	(146,702,849)	(1,113,389)	0	(915,267)	0	0	(148,731,505)	(8,360,389)	0	0	0	(157,091,894)
	98,601,582	1,249,175	0	581,442	0	0	100,432,199	1,918,724	0	0	0	102,350,923
GOODWILL	1,439,847	197,375	0	786,701	0	0	2,423,923	646,975	0	0	0	3,070,898
OTHER ASSETS	27,650,211	12,271	0	911,539	0	(2,485,069)	26,088,952	0	0	3,903	0	26,092,855
TOTAL ASSETS	\$310,279,887	\$ 7,674,930	\$ 1,301,162	\$ 8,519,031	\$ 7,540,701	\$(97,230,411)	\$238,085,300	\$ 7,977,483	\$ 5,019,926	\$ 1,955,913	\$(11,393,868)	\$241,644,754

See independent auditors' report.

Doctors Community Hospital and Subsidiaries
Consolidating Balance Sheet
June 30, 2019

(Continued)

	Hospital	Healthcare Programs	Foundation	Health Ventures	Sleep Center	Eliminations	Obligated Group	DRCC	Magnolia Gardens, MAUI, DI, UCAS	STM ACO	Eliminations	Total
LIABILITIES AND NET ASSETS												
CURRENT LIABILITIES												
Accounts payable and accrued expenses	\$ 14,064,991	\$ 683,369	\$ 23,721	\$ 267,592	\$ 67,217	\$ 0	15,106,890	\$ 582,381	\$ 0	\$ 139,214	\$ 0	\$ 15,828,485
Due to DCH	7,540,701	42,808,018	952,380	2,922,460	0	(53,149,226)	1,074,333	139,910	0	10,179,625	(11,393,868)	0
Salaries, wages, and related items	15,711,508	331,562	0	3,046	0	0	16,046,116	0	0	0	0	16,046,116
Advances from third party payers	7,765,308	0	0	0	0	0	7,765,308	0	0	0	0	7,765,308
Current portion of long-term obligations	4,448,457	0	0	0	0	0	4,448,457	0	0	0	0	4,448,457
TOTAL CURRENT LIABILITIES	49,530,965	43,822,949	976,101	3,193,098	67,217	(53,149,226)	44,441,104	722,291	0	10,318,839	(11,393,868)	44,088,366
NONCURRENT LIABILITIES												
Deferred compensation and claims incurred but not reported	16,005,694	0	0	0	0	0	16,005,694	0	0	0	0	16,005,694
Pension obligation	5,001,393	0	0	0	0	0	5,001,393	0	0	0	0	5,001,393
Long-term obligation, net of current portion	122,394,065	0	0	32,223,076	0	(32,223,076)	122,394,065	0	0	0	0	122,394,065
TOTAL LIABILITIES	192,932,117	43,822,949	976,101	35,416,174	67,217	(85,372,302)	187,842,256	722,291	0	10,318,839	(11,393,868)	187,489,518
NET ASSETS AND MEMBERS' EQUITY												
Without donor restrictions	117,186,021	(36,148,019)	0	0	7,473,484	(41,020,637)	47,490,849	0	0	(2,110,280)	5,385,779	50,766,348
Members' equity	0	0	0	(26,897,143)	0	26,897,142	(1)	7,255,192	5,019,926	(6,252,646)	(5,385,779)	636,692
With donor restrictions	161,749	0	325,061	0	0	0	486,810	0	0	0	0	486,810
Noncontrolling interest	0	0	0	0	0	2,265,386	2,265,386	0	0	0	0	2,265,386
	<u>117,347,770</u>	<u>(36,148,019)</u>	<u>325,061</u>	<u>(26,897,143)</u>	<u>7,473,484</u>	<u>(11,858,109)</u>	<u>50,243,044</u>	<u>7,255,192</u>	<u>5,019,926</u>	<u>(8,362,926)</u>	<u>0</u>	<u>54,155,236</u>
TOTAL LIABILITIES AND NET ASSETS	\$310,279,887	\$ 7,674,930	\$ 1,301,162	\$ 8,519,031	\$ 7,540,701	\$(97,230,411)	\$238,085,300	\$ 7,977,483	\$ 5,019,926	\$ 1,955,913	\$(11,393,868)	\$241,644,754

See independent auditors' report.

Doctors Community Hospital and Subsidiaries
Consolidating Statement of Operations and Changes in Net Assets
June 30, 2019

	Hospital	Healthcare Programs	Foundation	Health Ventures	Sleep Center	Eliminations	Obligated Group	DRCC	Magnolia Gardens, MAUI, DI, UCAS	STM, ACO	Total
UNRESTRICTED NET ASSETS											
OPERATING REVENUE											
Inpatient revenue	\$ 146,114,701	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 146,114,701	\$ 0	\$ 0	\$ 0	\$ 146,114,701
Outpatient revenue	108,258,073	44,607,426	0	10,461,290	2,958,798	0	166,285,587	23,576,893	0	(1,755)	189,860,725
Less: explicit price concessions	(32,809,444)	(28,605,627)	0	(5,289,022)	0	0	(66,704,093)	(14,843,235)	0	0	(81,547,328)
Patient service revenue, net of explicit price concessions	221,563,330	16,001,799	0	5,172,268	2,958,798	0	245,696,195	8,733,658	0	(1,755)	254,428,098
Less: implicit price concessions	(10,220,973)	(892,639)	0	0	0	0	(11,113,612)	42,595	0	0	(11,071,017)
Net patient service revenue	211,342,357	15,109,160	0	5,172,268	2,958,798	0	234,582,583	8,776,253	0	(1,755)	243,357,081
Other operating revenue	3,315,472	489,200	11,180	(28,315)	0	0	3,787,537	0	0	1,800,049	5,587,586
Contributions	0	0	195,528	0	0	0	195,528	0	0	0	195,528
Net assets released from restrictions	385,403	608,160	0	0	0	0	993,563	0	0	0	993,563
TOTAL OPERATING REVENUE	215,043,232	16,206,520	206,708	5,143,953	2,958,798	0	239,559,211	8,776,253	0	1,798,294	250,133,758
EXPENSES											
Salaries and wages	86,409,582	14,772,330	350,558	3,563,049	0	0	105,095,519	1,352,100	0	0	106,447,619
Employee benefits	13,775,855	2,240,008	84,415	686,073	0	0	16,786,351	147,899	0	0	16,934,250
Purchased services	30,963,044	2,588,968	14,355	448,215	936,384	0	34,950,966	4,603,350	0	995,534	40,549,850
Supplies	35,591,254	660,884	7,839	397,643	3,917	0	36,661,537	82,770	0	0	36,744,307
Other expenses	20,541,604	2,134,690	7,680	2,304,264	152,489	0	25,140,727	905,461	0	4,635	26,050,823
Depreciation	7,997,413	249,234	0	32,119	0	0	8,278,766	700,750	0	0	8,979,516
Amortization	186,921	0	0	0	0	0	186,921	0	0	0	186,921
Fundraising	0	0	80,994	0	0	0	80,994	0	0	0	80,994
Interest	4,766,953	0	0	0	0	0	4,766,953	1,300	0	0	4,768,253
TOTAL EXPENSES	200,232,626	22,646,114	545,841	7,431,363	1,092,790	0	231,948,734	7,793,630	0	1,000,169	240,742,533
INCOME (LOSS) FROM OPERATIONS	14,810,606	(6,439,594)	(339,133)	(2,287,410)	1,866,008	0	7,610,477	982,623	0	798,125	9,391,225
NONOPERATING GAINS (LOSSES)											
Gain from sale of property	(12,747)	0	0	1,500	0	0	(11,247)	0	0	0	(11,247)
Pension costs	(1,533,516)	0	0	0	0	0	(1,533,516)	0	0	0	(1,533,516)
Unrealized gain on trading securities	145,630	0	0	0	0	0	145,630	0	0	0	145,630
Equity in joint ventures	589,574	0	0	311,435	0	(901,009)	0	0	311,435	0	311,435
EXCESS OF REVENUE OVER EXPENSES (EXPENSES OVER REVENUE)	13,999,547	(6,439,594)	(339,133)	(1,974,475)	1,866,008	(901,009)	6,211,344	982,623	311,435	798,125	8,303,527
Net asset transfer	(339,134)	0	339,134	1,379,216	0	(689,608)	689,608	0	(689,608)	0	0
Contributions	379,987	0	600,103	0	0	0	980,090	0	0	0	980,090
Net assets released from restrictions for use in operations	(382,187)	0	(611,376)	0	0	0	(993,563)	0	0	0	(993,563)
Net assets released from restrictions for capital acquisitions	338,639	0	(338,639)	0	0	0	0	0	0	0	0
Pension - related changes other than net periodic pension cost	42,565	0	0	0	0	0	42,565	0	0	0	42,565
Increase (decrease) in net assets	14,039,417	(6,439,594)	(349,911)	(595,259)	1,866,008	(1,590,617)	6,930,044	982,623	(378,173)	798,125	8,332,619
Net assets, beginning of year	103,308,353	(29,708,425)	674,972	(30,320,767)	5,607,476	(6,248,609)	43,313,000	6,272,569	5,398,099	(9,161,051)	45,822,617
Net assets, end of year	\$ 117,347,770	\$ (36,148,019)	\$ 325,061	\$ (30,916,026)	\$ 7,473,484	\$ (7,839,226)	\$ 50,243,044	\$ 7,255,192	\$ 5,019,926	\$ (8,362,926)	\$ 54,155,236

See independent auditors' report.